UNIT 3 THE RISE OF COMPETING NATIONS, EXPORT OF CAPITAL AND THE FIRST WORLD WAR (1870-1914)

Structure

3.0 OBJECTIVES

After going through this unit, you should be able to:

- discuss how competitive capitalism based on a large number of small firms in the industrial sector gave way to a gradual concentration of economic power in a few firms giving rise to what is known as monopoly capitalism;
- analyse the reasons behind the relative decline of Britain's industrial hegemony and the rise of competing nations;
- explain the sectoral change in Britain's industrial output in the second half of the nineteenth century and Britain's direct foreign investment; and
- describe the underlying factors behind colonial expansion of the advanced capitalist countries.

3.1 INTRODUCTION

By the middle of the nineteenth century, Britain had established itself as the leading industrial power of the World. Its emergence as the "workshop of the world" arose from the fact that starting with "textile industrialisation" (Unit 2), growth was soon diversified to producers goods, and growth was preserved through dominance over international trade, both with the underdeveloped colonies and the developing countries. This dominance in trade was, in turn, reinforced by the monopoly of Britain as an industrialised nation as well as through a colonial pattern of trade.

The importance of international trade for British industrialisation cannot be overstated. It was critical for industrial expansion because of

- Britain's poor agricultural raw material base
- inadequacy of domestic food production and
- relatively small size of the home market for industrial output of mass consumption, arising from a low ratio of wages in national income.

3.2 RISE OF MONOPOLY CAPITAL AND EMERGENCE OF COMPETING NATIONS

industrial power, posed by the newly industrialising countries — France, Germany and U.S.A. These countries required imports of machinery, technical expertise and of finance from Britain to build up their own industries. In order to protect their infant industries from the competition of initially lower-cost British manufactured goods, they erected tariff and other trade barriers to the import of these goods, such as, textiles. Once their own industrial base was strong, they could dismantle tariffs and emerged as competitors to Britain, both in their own markets and in the international arena, particularly Germany and the USA. Thus, Britain no longer enjoyed undisputed industrial dominance by the end of the 19th century.

This period was characterised by the concentration of production into very large units especially in the late industrialising countries like Germany. This concentration was reflected in both the employment of workers and the means of production. In Germany in 1882, 0.9% of the enterprises employed 39.4% of the work force and 75% of steam and electric power. In the USA in 1904, 0.9% of the industrial enterprises employed 25.6% of the workforce and produced 38% of the total industrial output. This kind of concentration would itself lead to the monopoly in production of the handful of the big enterprises.

Apart from the concentration of capital because of the increasing size of enterprises, combination or integration of the production process was also taking place. In other words, if earlier different branches of industry were located in different production units, they were now carried on under the same roof as an integrated process.

Cartels or syndicates, which are mainly marketing organisations of a number of large firms, also rose to dominance in this period. These organisations decided on fixation of prices to maintain monopoly profits, restricted output and shared out the market among firms. The concentration and combination of capital as well as the formation of cartels implied the end of competition amongst a large number of small producers and distributors. It signalled the beginning of the era of monopoly capital, where a small number of cartels and business houses held almost complete sway over production and distribution.

The challenge to Britain's industrial hegemony gave rise to a competition amongst the advanced countries in national and international markets. Monopoly capital further sharpened this rivalry because of the need to find new and ever expanding avenues for the profitable investment of capital as well as markets for industrial output. This rivalry between industrial nations eventually expressed itself as imperialism — accumulation on a world scale leading to a struggle for control over and economic conquest of the underdeveloped regions of the world.

3.3 TRENDS OF GROWTH PRECEDING THE AGE OF IMPERIALISM

The period between 1840 and 1870 saw a rapid increase in the pace of industrialisation in Britain. Growth shifted from the textile industry to the capital goods industry. So did exports, as you can see in Table 3.1.

Table 3.1: Principal Exports as a Proportion of total Domestic Exports 1830-70

	1830	1850	1870
Cotton yarn and goods	50.8	39.6	35.8
Other textiles	19.5	22.4	18.9
Iron, Steel, Machinery, Vehicles	10.7	13.1	16.8
Coal, Coke	0.5	1.8	2.8
Others	18.5	23.1	25.7
	100.0	100.0	100.0

Source: E.J. Hobsbawm (1968) *Industry and Empire*, p. 10.

The reason for the expansion of the capital goods industries were two fold. The first was the demand from rapidly industrialising advanced countries like USA and Germany.

profitable investment, which found an outlet in the application of the steam engine to goods and passenger traction on a large scale, namely, the railway boom.

The railway boom (1830-1850) was most important in this second phase of industrial expansion. The railway construction took place in two spurts, a small one in 1835-7, and a big one during 1845-7 within Britain. By 1850, £ 240 millions were invested in the railways alone. This expansion of railway construction, apart from being a new means to mobilise capital accumulation, had other very important consequences owing to the strong **linkages** both of the backward (stimulating the materials production required for railways) and forward (opening up new raw material sources and markets) kind.

The railways were responsible for the increased demand for, and thus domestic production of, iron, steel and coal, (Table 3.2) This, in turn, implied an industrial revolution in these heavy industries, and both a deepening and a widening of the base of industrialisation.

Table 3.2: U.K.'s Output of iron, steel and coal (in million tonnes)

	Pig-iron	Steel	Coal
1850	2.25	0.049	49.0
1880	7.75	1.440	147.0

Source: E.J. Hobsbawm (*ibid*) p. 116.

The railway boom went a long way in diffusing social upheaval through its direct and indirect impact on employment and wages. At the peak of construction, the direct employment was of at least 200,000 people. The number of coal miners increased from 200,000, in 1850, to half a million, in 1880. Thus, there was an increase in jobs available for the unskilled workers, who were drawn off the rural surplus labour force.

The employment of the skilled labour in engineering goods and machine building industries also doubled between 1850 and 1881. Though wages in general did not increase to any significant extent, there was respite to be gained from a greater availability of both skilled and unskilled jobs.

The stimulus given to production by the railway boom would have petered out quite soon, had the railway construction remained confined to Britain. But it did not: Europe and N. America saw a positive expansion of the railways in the three decades after 1850, followed to a lesser extent by other countries.

The growth of the railways abroad provided a continuing outlet for the export of capital from Britain for financing the foreign railway construction (on which the Governments borrowing from Britain usually guaranteed a return). Additionally, the export of steel rails, locomotives and rolling stock, made in Britain, was greatly stimulated.

Table 3.3: World Railway mileage opened per decade (to nearest thousand mile)

Year	United Kingdom (UK)	Europe (including UK)	America	Rest of the World
1840-50	6000	13000	7000	—
1850-60	4000	17000	24000	1000
1860-70	5000	31000	24000	7000
1870-80	2000	39000	51000	12000

Source: E.J. Hobsbawm, (*ibid*), p. 115.

The world railway mileage rose from around 20,000 in the decade 1840-50, to over 100,000 three decades later. This huge mileage of the railways was built largely with British finance, using British materials and British contractors and engineers. It is hardly surprising that a small nation of barely 30 m. in the mid-19th century continued to dominate the world. Its economy was continuing to expand rapidly and ever larger interest earnings started flowing in on the capital invested abroad.

The export of capital was thus given a strong impetus by the expansion of the railway construction abroad. By 1870, over £700 million was invested abroad, a fourth of which was in USA alone. This capital export also encouraged investment in industrial shares and, hence, resulted in the transformation of the capital market.

3.4 CHARACTER OF MONOPOLY CAPITAL

As we have seen, the distinguishing feature of capital in the late nineteenth century was the emergence of the monopoly capital. This was not restricted to industry and trade, but came to dominate banking as well. The emergence of the financial oligarchy can be illustrated from the experience of Germany.

Table 3.4: Percentage of Total Deposits in German Banks

	In 9 big Berlin Banks	In 48 banks with a capital of more than 10 million marks	In 115 banks with a capital of 1 to 10 million marks	In the small banks (with a capital of less than 1 million marks)
1907-08	47	32.5	16.3	4
1912-13	49	36	12	3

Source: V.I. Lenin (1952) *Imperialism, the Highest Stage of Capitalism*, p. 32.

Thus, nine banks controlled about half the deposits of the banking system. But this is only part of the story. The big banks had two other ways of mopping up banking finance. One was the opening up of branches all over the country. The second was to control the smaller banks through credit and ownership of shares of the small/medium joint companies. Thus, the big branches controlled a large number of affiliated banks.

Germany is but one example of the phenomena of concentration and monopoly in banking, which was echoed in the USA and Britain. Increasingly, the few large banks began to enter into monopolistic agreements with each other, and behaved like cartels and syndicates.

We have discussed above the concentration and centralisation of banking finance in the late nineteenth century. Though interesting in itself, this phenomenon assumes special significance when seen in the light of the transformation of banking finance to finance for industry, i.e., finance capital. The fusion between industrial and finance capital was the hallmark of monopoly capital. The coalescence between industrial capital and finance capital can be gauged from the following — the six big German banks were represented by their directors and board members in 751 industrial companies. Further, fifty one of the biggest German industrialists were on the board of these six big banks.

Therefore, three processes happened simultaneously and were inter related — the concentration in industry, the concentration in banking, and the fusion and domination of the industrial and financial oligarchy as Finance Capital.

Check Your Progress 1

1) What are the factors that led to a monopoly in production in a few enterprises?

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2) Why is a cartel antagonistic to the tenets of perfect competition?

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3) Why was the railway boom so important in the second phase of industrialisation?

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4) What is monopoly capital?

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3.5 DRAMATIC RISE IN BRITAIN'S FOREIGN INVESTMENT

The other remarkable feature of the period after 1870 is the massive jump in investments abroad, or the export of capital. Export of commodities was always important for Britain, but the overseas investment increased at an unprecedented scale in the age of Monopoly Capital (Table 3.5).

Table 3.5: European Countries' Foreign Investment Stock, 1854-1913 ($m)

Year	Britain	France	Germany	Others	Total (approx.)
1854	1100	—	—	—	1200
1862	1900	—	—	—	2000
1874	5000	1000	—	—	6500
1885	7000	3500	—	—	12000
1900	10000	5600	1450	4000	22000
1913	18300	8700	5600	11400	44000

Source: M.B. Brown (1978) *Economics of Imperialism*, p. 171.

The increase in capital exports was not restricted to UK alone. In fact, while in 1874 Britain accounted for almost 75% of the total capital exports of the world, by 1913 her share fell to 40% owing to the emergence of rival industrial nations as international investors.

Not only was there an increase in the capital accumulated abroad, but its direction in terms of geographical location also changed. It moved away from the advanced world to colonies, independent dominions and areas, where Britain exercised significant and effective control, like Latin America (especially Argentina).

Europe declined in absolute importance, its absorption of British capital falling by 50% between 1875 and 1913. After 1870, over 75% of foreign investment from Britain was in regions of recent settlement i.e. regions developed by the European immigrants, like Australia and South America. By 1913, 47% of the investment was in the British Dominions like India, Canada, etc., and this was the most crucial geographical shift.

Even in those periods when domestic investment was more than foreign investment, the quantum and share of foreign capital formation was very high between 1870-1913.

Table 3.6: Britain's domestic and foreign investment in relation to National Income

	National Income (£m)	Investment as Percentage of National Income		
		Foreign	Home	Total
1865-69	845	4.5	6.2	10.7
1870-74	1060	6.9	6.4	13.4
1875-79	1080	2.4	7.7	10.2
1880-84	1140	5.0	5.7	10.8
1885-89	1215	6.5	3.8	10.3
1890-94	1360	4.7	4.2	8.9
1895-99	1560	2.7	5.9	8.6
1900-1904	1720	2.2	8.2	10.4
1905-1909	1880	6.7	5.2	11.9
1910-1913	2120	9.3	4.1	13.4

Source: M.B. Brown (1974). *The Economics of Imperialism*, p. 176.

This massive investment of capital abroad was made possible, upto the 1820s, by a favourable balance of trade in commodities and in services such as insurance and shipping. After the 1870s, however, the very large increase in income from abroad, by way of interest and dividend on previously exported capital, financed further foreign investment.

The story of the financing of capital exports from Britain is, in fact, quite complex. In international trade and investment, the balance of payments must always balance. Country B (Britain) can invest in country A (America) usually only if country B has a surplus on current account vis a vis country A (because investing abroad would be a debit item on B's balance of payments and this must be financed through a corresponding extent of credit on the current account). Otherwise, there would be problems of balancing the balance of payments. In reality, however, Britain invested heavily in America, (N. America and Argentina in particular) despite not having a current account surplus with America or with Europe most of the time. Conversely, Britain invested very little in colonies like India and Malaya despite a large current account surplus with them. This is because Britain found it profitable to use the foreign exchange earned by countries like India and Malaya (through their export surplus to America or to Europe) to pay for her own trade deficit with N. America and Europe and thus be free to export capital to America. The colonies played a crucial **balancing role**, enabling Britain to carry on a smooth process of profitable capital exports to the fast-growing developing areas like America, without the process being disrupted by balance of payments problems. Similarly Britain invested heavily in Europe despite not having a current account surplus, with no problems, because of the large Indian export surplus to Europe the proceeds which were under British control. In 1913, it is estimated that India had a surplus of £45 million vis a vis Europe, whereas Britain was running a balance of payments deficit of £60 million with Europe. A very large share of this deficit was thus financed by India's export surplus earnings alone, over which Britain had absolute control. (See S.B. Saul, *Studies in British Overseas Trade* in this connection).

The question of why Britain chose to invest much more in the temperate developing areas rather than in her own tropical colonies is related to the fact that the former were

- politically independent,
- growing fast and were
- settled by emigrants from Britain with a permanent stake in the development of these areas.

All these factors raised profitability in these regions, compared to low levels of economic expansion in the colonies which had to remit a hefty share of their tax revenues to Britain through unilateral transfers in the form of export surplus.

Table 3.7 : Foreign Investment

	Current account balance of trade (Lm)	Incomes from Overseas Investment (Lm)
1870-79	50	53
1880-89	75	75
1890-99	99	97
1900-13	90	145
1911-13	206	188

Source : D. Aldcroft & H.W. Richardson, *The British Economy : 1870-1939*, p. 64.

To sum up the discussion uptil now, there was a massive spurt after 1870 in the export of capital from Britain, both in absolute amount and as a proportion of total capital formation. This was increasingly financed by earnings on previously invested capital abroad and towards the end of the century was redirected geographically from the industrialised world to the temperate British dominions which were settled by Britons, such as Canada, Australia and S. Africa; and also to Argentina in Latin America.

The export of capital was directed towards arcasoflow risk and secured returns - loans to governments or mixed public and private ventures. In fact, 50% of foreign investment was so directed. Of this, 70% went into areas of social overhead capital i.e. public utilities and infrastructure. Finally, the return on this investment was usually guaranteed by the local government. Therefore, the high surpluses accumulated due to Britain's monopolistic position as the first industrialiser in the earlier period were directed to developing non-industrial countries.

The advantage from the export of capital were essentially four :

i) a reduction in cost of imports due to improved infrastructure in the colonies and hence improvement in the relative price of British exports;

ii) Access to valuable minerals, forest products and agricultural raw materials in the hinterland of the three continents (Asia, Africa and Latin America.

iii) Access to new markets with infrastructure investment.

iv) increasing invisible earnings by way of interest and dividends on capital accumulation overseas.

Table 3.8: Gross Domestic Capital Formation (GDCF) and Foreign Investment

	GDCF as per cent of GNP	Foreign Investment as per cent of GDCF	Total CF as per cent of GNP
1870-9	10.5	44.0	15.1
1880-9	9.2	62.1	14.9
1890-9	9.7	36.7	13.3
1900-9	10.6	41.6	15.0
1904-13	9.4	75.6	16.6

Source: Aldcroft and Richardson (1969) *ibid*, p. 120.

As has been shown in Table 3.8, there is a clear statistical evidence of a long run inverse relationship between foreign and domestic investment. Foreign investment was high in the early 1870s, 1880s, early 1890s and 1910s. Domestic investment was high in the middle and late 1870s and late 1890s, and 1900s. Further, foreign investment as a proportion of gross domestic capital formation was high and rising in the first set of periods.

Additionally, a large part of the domestic investment, especially fluctuation or net additions was in public services and utilities floated by local authorities.

Therefore, a pertinent question arises with reference to British economic development in this phase. Was domestic industry, especially new industry, growing slowly because it was starved of fundsw as a result of capital exports? Or alternatively, was the export of capital an outcome, of failing opportunities for domestic investment? If the latter was true, then foreign investment would be complementary to, rather than at the expense of, domestic investment. It would then play a stabilising role for British economic growth.

It is important to note that domestic and foreign investment need not be viewed entirely as alternatives. In other words, if capital exports had been halted, it does not follow that capital would have been invested alternatively within the economy. Surpluses may simply be consumed unproductively in the absence of profitable opportunities for investment. Domestic investment need not go into industry unless there is domestic demand for investment in the industrial sector.

That foreign investment was a "sink" for accumulated surpluses in the absence of profitable domestic opportunities can be argued more convincingly. As will be discussed later, the British economy had become extremely sluggish in this period, and was not innovating and adopting productivity raising and competitive technology in industry. Whenever this did happen, as in the bicycle boom in 1893-5, large amounts of capital was invested domestically. In fact, extremely risky investment in hotels and "single strip companies" were also undertaken at home. A study of the automobile industry also indicates that the paucity of funds was not the cause of its slow progress. Thus, the slow pace of development in new industry resulted in very few avenues of profitable domestic investment. When it did occur, it was in the local authorities sponsored utilities rather than industry. Given the existence of non-industrial colonies and dominions, capital flowed overseas. Colonies thus provided an opportunity for profitable investment of capital that lacked investible opportunities within Britain.

Check Your Progress 2

1) Name the countries which exported capital overseas. Also name the countries which were importers of capital.

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2) Normally exporters of capital are those countries which run a surplus in their current account in the balance of payments. Then, while Britain had a current account deficit in the balance of payments with the American countries, how could it invest (i.e. export capital) in those countries?

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3) Why did Britain invest more in temperate countries like the USA than in tropical countries like India?

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4) Discuss the economic advantages accruing to the exporters of capital.

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5) Account for the 'push' and 'pull' factors that led to a dramatic rise in Britain's foreign investment in the late nineteenth century.

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3.6 TERRITORIAL EXPANSION OF THE GREAT POWERS

The period between 1876 and 1914 witnessed a rapid spurt in the acquisition of colonial territory by the advanced countries. At the end of this period, no significant areas of the world were left unconquered, and any further gains could be made only through repartition. In other words, the division of the world into regions of control was complee and only redivision was possible.

Table 3.9: Colonial Possessions of the Great Powers
(million square kilometers and million inhabitants)

Country	Colonies				Metropolitan		Total	
	Area 1876	Popin 1876	Area 1914	Popln. 1914	Area 1914	Popln. 1914	Area 1914	Popln. 1914
Great Britain	22.5	251.9	33.5	393.5	0.3	46.5	33.8	440.0
Russia	17.0	15.9	17.4	33.2	5.4	136.2	22.8	169.4
France	0.9	6.0	10.4	55.5	0.5	39.6	11.1	95.1
Germany	–	–	2.9	12.3	0.5	64.9	3.4	77.2
USA	–	–	0.3	9.7	9.4	97.0	9.7	106.7
Japan	–	–	0.3	19.2	0.4	53.0	0.7	72.2
Total for 6 Great Powers	40.4	273.8	65.0	523.4	16.5	437.2	81.7	960.6
Colonies of other Powers (Belgium, Holland, etc.)							9.9	45.3
Semi-colonial Countries (Persia, China, Turkey)							14.5	361.2
Other countries							28.0	289.9
Total for whole World							133.9	1657.0

Source: V.I. Lenin (*Ibid*), p. 95

From this table, a few notable trends emerge.

a) The increase in colonies in terms of area was 50% after 1876 upto the eve of the first World War, for the six big powers. This area of colonial possessions was one and a half times the area of the six colonies.

b) The young capitalist countries, i.e. USA, Germany and Japan began with no colonial possessions in 1876. By 1914, they had acquired about 15% of the newly colonised territories.

c) Of the older powers, France had industrialised in this period and was under the dominance of monopoly capital. It had acquired about 40% of the increase in colonial possessions between 1876-1914. Russia's colonial territory was more or less unchanged in this period.

d) The most obvious areas for redivision in the initial stages were the possessions of the small states like Belgium etc., as well as the territories with a semi-colonial status.

Upto now, the focus has been on control over colonial territory or political subjugation of a large part of the world to a few great powers. But there is yet another method of economic and commercial subjugation which gives rise to positions of intermediate dependence on the metropolitan countries. The semi-colony is one such example, and China was the typical example with all major European countries as well as Japan, carving out their spheres of economic concessions.

Another striking case is South America, especially Argentina. The investment by British finance capital was estimated to be of the order of 8.75 billion francs in 1909. A contemporary commentator chose to characterise Argentina as a 'British Commercial colony', despite its political independence. Portugal, in return for being a British Protectorate, had granted Britain several commercial and trade privileges in its former S. American empire, and Brazil was another important sphere of commercial influence for Britain.

However, even excluding such dependencies from the total, by the beginning of the first World War, 80% of the world's area was accounted for by colonial possessions and metropolitan countries. Thus, at the end of the rapid territorial expansion in the period of monopoly capital, the desire for further acquisition could only be realized through a redivision of the world.

3.7 EMERGING TECHNICAL BACKWARDNESS OF BRITAIN

In a world of competing industrial nations, and the threat to British hegemony over industrial production, some loss of ground for her industry was to be expected. But the story of the period between 1870-1914 is not only of the emergence of effective contenders to British industrial prowess, but also one of economic stagnation or even retardation within Britain.

Table 3.10: Average Annual Rates of Growth of Selected Economic Indices of the UK

	Net National Income	Real Income per head	Output per man hour	Industrial Production	Industrial Productivity
1860-70	3.0	2.5	—	2.9	1.1
1870-80	1.9	0.8	0.9	2.4	1.2
1880-90	4.2	3.5	3.8	1.6	0.5
1890-1900	2.1	1.2	1.3	2.8	0.2
1900-1913	1.1	0.4	0.6	1.6	0.2
1870-1913	2.3	1.3	1.5	2.1	0.6

Source: Aldcroft and Richardson (1969) *ibid*. Compiled from Tables on p. 4 and p. 126.

From the above table it is evident there was a slowing down of growth in this period, despite some years of transitory spurts. When compared with other countries, Britain's performance was one of the poorest amongst the big powers (Table 3.11).

Table 3.11: Average Annual Rates of Growth of Domestic Output and Output per man hour 1870/71-1913

	Output	Output per man hour
France	1.6	1.8
Germany	2.9	2.1
USA	4.3	2.4
Canada	3.8	2.1
Sweden	3.0	2.7
UK	2.2	1.5

Source: Aldcroft & Richardson (*ibid*) p. 7.

If manufacturing is taken separately, the relative position of Britain is even more dismal (Table 3.12).

Table 3.12: Average Annual Rate of Growth in Manufacturing (percentage)

	UK	USA	Germany	France	World
1900-13	1.7	5.3	4.7	2.5	3.0

Source: Aldcroft and Richardson (*ibid*) p. 105.

Thus, it can be safely concluded that both in terms of intertemporal rates of change within Britain, and in comparison to the total as well as manufacturing experiences of other industrialising countries, the performance of the British economy was very poor.

The growth in industrial and economic activity in this period can be traced to essentially four factors.

a) While the early phase of industrialisation was based on simple inventions which were the outcome of practical skill and experience, after 1870 the importance of scientific knowledge, experimentation and technology became critical. The two high growth industries of this period, namely the electrical and chemical industries were based entirely on the development of Science and Technology. The Germans were world leaders in both these industries. The development of the internal combustion engine was yet another example of the application of science and technology to industry. In all three cases, the USA followed Germany very closely.

b) The extension of the factory system to areas left untouched in the earlier round was yet another change. This was accompanied by the mechanisation of machine making. The latter was first done in armaments, and effected a revolution in metallurgy.

   Along with the extension of the factory system and automation, the scientific management of labour on the work floor was pioneered by the USA, a labour scarce economy.

c) Industrial mass production increasingly aimed itself at the potential market of the working people in advanced countries. This was particularly true for the USA with its large domestic market for mass consumption goods, partly owing to its size and partly owing to a relatively more egalitarian distribution of personal incomes in a new settler economy compared to the European economies. The share of wages in national income in the USA was around 60 per cent, while in most European countries it was closer to 50 per cent in the inter-war period, for example.

d) As discussed earlier, the USA and Germany displayed a very high degree of concentration and centralisation of capital and the emergence of monopolies, cartels etc.

Britain continued to have a rapid expansion in those industries where there was no need for technology upgradation or reorganisation of the production process. A prime example of this was ship building. The initial impetus for this came not from technical or quality advantages (French and American ships had an edge over British), but from growing production and trade, and the demand from her colonies.

When it came to those industries where large scale production and scientific technology were important, Britain's performance was often poor. This was the case even in areas where Britain was the pioneer as regards invention; commercial application of the invention however often took place faster in Germany or the U.S.A.

In the chemical industry, although Britain invented synthetic dyes, by 1913 she accounted for only 11% of world output, whereas the corresponding shares of USA and Germany were 34% and 24% respectively. In fact, Germany supplied 90% of the synthetic dyes to Britain.

Electricity is another case in point. From being world leaders till the 1840s, by 1913 the British electrical industry produced a third of Germany's output. The finance and expertise for the electrification of England's first underground train system in 1905 was American. was American.

The iron and steel industry is a very telling example. All the technical advances that were made between 1850 and 1880 were British in origin. Yet except for the Bessemer converter (1856) which made the mass production of steel possible, British industry failed to adopt most of the other inventions. In fact, Britain's industrial rivals, Germany and the USA benefited more from British inventions than did British industry. By the early 1890s, British production and productivity were lower than in USA and Germany, and by 1910 the US production of basic steel was almost twice Britain's total steel production.

The international position of Britain altered significantly in this period. As world industrialisation proceeded at a rapid pace, it was expected that British exports would face competition. However, Britain found herself outcompeted in manufacturing, trade and other exports.

Table 3.13: United Kingdom's Share in world trade (percentage)

	World Exports	World Imports	World trade in manufacturing	World manufacturing
1885	16.7	21.0	37.1	31.8
1913	13.9	15.8	25.4	19.5

Source: Aldcroft and Richardson (*ibid*), p. 65.

There was thus a decline in Britain's share of foreign trade. But there were also significant changes in the pattern of trade. Though the share of textiles declined, it was still high at 36.5% in 1913. Moreover, the decline of Britain's share in world exports was faster for the new industries than in textiles and coal.

Table 3.14: United Kingdom's Share in world production of selected industries (percentage)

	Machinery	Chemicals	Vehicles	Textiles
1900	39.7	28.0	48.0	47.6
1913	29.2	22.9	37.0	44.5

Source: Aldcroft and Richardson (*ibid*) p. 72.

Further, Britain was not able to even retain its superiority in old established products except perhaps for cotton textiles. Given its inability to compete effectively in the new industrial products, as well as preserve existing advantages, Britain had to turn increasingly to captive colonial markets to absorb its products.

Check Your Progress 3

1) Study Table 3.10 carefully. What conclusions can you draw?

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2) What are the different types of subjugation carried out by the Great Powers? Briefly explain each of them citing examples.

3) Briefly highlight the nature of growth of industrial activity in Britain in the late nineteenth and early twentieth century and account for its relative decline as compared to the newly industrialising countries of this period

3.8 LET US SUM UP

In this unit, you have read that Britain's second phase of industrialisation was based largely on the expansion of her capital goods industries. The railway boom — with its backward and forward linkages — facilitated the expansion of capital goods industries like pig iron, steel and coal. When Britain's domestic investment slackened, her surplus capital found a ready outlet through direct foreign investment initially, in the then newly industrialising countries like Germany and USA and later in her colonies located in the temperate latitudes with a mere trickle flowing into the tropical colonies. Indeed, imperialist Britain's exploitation of the tropical colonies leading to their drain of wealth was the prime source of capital which Britain invested overseas.

There was a marked change in the industrial capitalism in Britain, in the second half of the nineteenth century coinciding with her second phase of industrialisation. The first phase was marked by a large number of small firms providing a semblance of capitalism characterised by perfect competition. In the second phase however, this gave way to monopoly capitalism with the rise of cartels and syndicates, a few large firms taking control over production and distribution of industrial output and a fusion between finance (banking) capital and industrial capital. This phase also marked the zenith of imperialism when the Great Powers brought under their hegemony by political, economic and commercial subjugation almost the entire globe (which is now known as the third world).

UK, as you have read in Block 1, was the first country to undergo the industrial Revolution. However, soon other countries like France, Germany and USA, rapidly industrialised and not only threatened Britain's industrial hegemony but also tended to outcompete her. UK gradually lost ground to USA, Germany, and France in the late nineteenth and early twentieth century in terms of productivity (output per man hour), rate of growth of manufacturing output, automation, industrial management and in areas where scientific knowledge was crucial for technological upgradation e.g.

where she was the pioneer in invention — e.g. iron and steel industry. No wonder that Britain's share in international trade and in industrial production declined although these continued to grow in absolute terms. Unable to compete with the then newly industrialising (and today's advanced) countries, Britain increasingly turned to the protected colonies to market her products.

3.9 KEY WORDS

Cartel: A marketing organisation of large firms that decide on fixation of prices to maintain monopoly profits, restrict output and share the market among them.

Monopoly capitalism: Capitalism characterised by a small number of cartels and business houses holding almost complete sway over production and distribution. Fusion between industrial and finance capital is the hall mark of monopoly capital. In Britain, monopoly capital dominated trade, industry and banking sectors, since the late nineteenth century.

Imperialism: A policy of acquiring dependent territories or colonising through trade, diplomacy and military conquest. Countries like Britain, France, Belgium, Germany and Italy were imperialists in the late nineteenth and early twentieth centuries.

3.10 SOME USEFUL BOOKS

Aldcroft, Derek H. and Harry W. Richardson, 1969. *The British Economy 1870-1939*. Macmillan and Co. Ltd., London.

Brown, Michael Barratt, 1974. *The Economics of Imperialism*, Penguin Books, London.

Hobsbawm, E., 1968, *Industry and Empire*, Penguin Books, London, Chapters 6, 7 and 8.

Hobson, J.A., 1988. *Imperialism: A Study*, Unwin Hyman, London.

Huberman, Leo 1981 *Man's worldly goods: The Story of the Wealth of Nations*, People's Publishing House, New Delhi.

Lenin, V.I. 1975. *Imperialism, the Highest Stage of Capitalism*, Foreign Languages Press, Peking.

3.11 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Read Section 3.2 and answer
2) Read Section 3.2 and answer
3) Read Sections 3.2 and 3.4 and answer

Check Your Progress 2

Read Section 3.5 and answer all the questions.

Check Your Progress 3

1) Read Section 3.6 and answer
2) Read Section 3.6 and answer
3) Read Section 3.7 and answer