UNIT 15 COLONIAL TRADE AND TRANSFER FROM THE 16TH TO THE 18TH CENTURY

Structure

15.0 OBJECTIVES

This unit will give you an idea of :

- The historical origins of the system of colonial domination exercised by Britain before the Industrial Revolution
- The economic theory corresponding to these conditions, known as Mercantilism
- The part played by transfers from the colonies in financing Industrial Revolution and later, capital exports from Britain.

15.1 INTRODUCTION

The industrialisation of Britain, which pioneered the Industrial Revolution, was preceded and accompanied by a rapid development of trade with other nations and territories; an increasing part of this trade in the course of the period being considered, was with colonised countries. The question of the relationship of this fast-growing network of trade relations, to British industrialisation, has been of great interest to economic historians and to development theorists alike. There is a general consensus that the plunder and loot of today's developing countries since the 16th century contributed substantially to the early accumulation of capital in Britain and in the other W. European countries; but there is more controversy regarding the continuing contribution of unequal exchange and of transfers from the colonies to industrial revolution from the end of the 18th century. We will confine ourselves below to a discussion of the Mercantilist period of early capital accumulation from the 16th to the 18th centuries and also take up the question of the extent of transfer from the colonies during the Industrial Revolution.

15.2 THE COLONIAL SYSTEM

In this section we will draw upon the work of not only British economic historians but also that of scholars from other, including colonised countries on the colonial system.

15.2.1 The Historical and Continuing Necessity of Trade for European Nations

The search for new trade routes to Asia during the 15th century in Europe arose in essence from the high degree of dependence for the preservation of basic food, on spices which could not be grown in the cold European climate. As we have seen earlier in Unit 1, the productivity of late medieval agriculture in Europe was extremely low owing to a combination of factors:

a) one-third to one-half of land had to be left fallow to recover fertility because there was a shortage of organic manures, which arose from

b) the inability to produce enough fodder to maintain livestock through the winter months, hence slaughtering of a part of the livestock was necessary and the meat had to be preserved by the copious use of salt and spices. Further,

c) the problem of low yields was compounded by the high seed-yield ratio, such that a quarter and even up to one-third of the grain harvest had to be set aside for the next season's seed (compared to only one-tenth in tropical areas) which in turn meant that the competition between foodgrains for human consumption and feedgrains or fodder crops, remained acute and was resolved in favour of foodgrains, thus completing the vicious circle.

In such a situation of low productivity, and the need to preserve meat, spices were a necessity, not a luxury for Europeans at that time. Lacking any access to tropical bio-diversity, their consumption basket was severely limited. The diet was high in calories but without variety and very monotonous. B.H. Slicher van Bath, an authority on medieval agriculture, gives us data on the diet of both the nobility and of serfs in 16th century Sweden and Germany. The data shows the consumption of large quantities of meat, over 90% of it in dried and salted form, bread and highly salted butter which was often rancid, and a beer consumption per head which was 40 times higher than today, required to wash down the saline food. (*The Agrarian History of Western Europe, A.D. 650-1800*). The absence of fresh vegetables and fruit during the winter months produced vitamin deficiency diseases. In contrast both the nobility and the ordinary people had access to a far more diversified basket of consumption in semi-tropical and tropical countries. In 16th century India, Abu'l Fazl's *Ain—i—Akbari,* part of the *Akbarnama,* gives us in *Ain* 27 and 28 the prices of certain essential commodities, including as many as 26 common varieties of vegetables and 35 of fruits, the list being by no means exhaustive.

The diet and standards of life of the West Europeans have been transformed during the last 400 years. This is partly owing to improvements in their domestic agriculture permitting the maintenance of livestock through winter and hot-house cultivation of semi-tropical and tropical countries. In 16th century India, Abu'l Fazl's *Ain—*
improvement owing to their increasing access through trade, to the bio-diversity of the semi-tropical and tropical areas of the world. This access was historically secured through the monopolisation of trade routes and the conquest of colonies, which we will briefly discuss below in the context of Britain, the earliest and most successful colonising European country. It was consolidated through the large-scale dispersal of commercially valuable tropical plants (rubber, coffee, tea, sugarcane, tobacco, cotton etc.) from their regions of origin to other parts of the colonised world for production on a plantation basis. These products were exported to the benefit of the industrialising European countries. Trade was thus extremely important for the latter

countries in a way that it was not for the larger Asian nations in particular such as India and China, which could grow everything that Europe could and in addition enjoyed tropical bio-diversity. Indeed trade continues to be extremely important for W. Europe and North America which are to this day heavily import dependent on the much poorer developing countries for the consumption goods which are the material expression of their high living standards. If all trade were to cease today, these high living standards would collapse to near-medieval levels. The products of tropical imported origin which every W. European and N. American household uses daily, would then no longer be available: beverages like tea, coffee, cocoa, fruit juices; vegetables and fruit in fresh, processed and frozen form; sea-food; sugar, chocolate and sugar-based alcoholic beverages; spices and flavourings; nuts and cereals; cotton, mixed fabrics and silk; goods using rubber; tropical furniture hardwoods; and many luxuries like decorative plants, cut flowers and ornamental fish. The characteristic of these primary products is that no domestic production and hence import substitution within W. Europe is possible because the cold climate does not permit these to be grown. (Chemical substitutes for some, like aniline dyes for indigo, have been tried but they have long-run toxicity problems.)

When this factual background is borne in mind you will find it easier to understand the single-minded and often ruthless pursuit of control over the tropical areas of the world in particular, and the consistent efforts to obtain valuable tropical commodities on the best terms to themselves, which has been displayed historically by the W. European nations. The countries of E. Europe in contrast persisted longer with feudal economic and social structures, never had colonies or access on easy terms to tropical bio-diversity; this is reflected in their continuing poorer average consumption basket. Of course, the motivations for pursuing colonial policies were not limited to securing access to tropical bio-diversity and forest and mineral resources alone but also included other objectives such as access to captive markets and to the means of trading and investing in the then developing countries of the Continent and N. America.

15.2.2 The Price-Inflation in the 16th Century

The tremendous expansion of trade which took place after the accidental discovery of the Americas by Europeans and the circumnavigation of the earth, was qualitatively different from earlier trade. For, it was characterised by colonisation and the growth of the slave-labour based plantation system for the production of tropical commodities in increasing demand in Europe. The bitter wars which were fought by the W. European nations for control over the lucrative new trade in tropical goods and in the slaves for producing those goods, resulted in the eventual domination of England. She followed a consistent national policy of Mercantilism which led to England's success over her rivals. We will discuss the content of mercantilist policies a little later. Let us first see what the main economic developments in the 16th century were which stimulated capitalist activities both in production and in trade.

A number of trading companies were formed in each W. European country in the course of the 16th century on the basis of royal charter conferring exclusive monopoly of trade with the company concerned, in the relevant region. In England the year 1553 saw the formation of both the **Russia Co.** and the **Africa Co.**, the former giving the exclusive monopoly of trade in Russian grain and f rs while the Africa Co. was to grow into one of the most lucrative enterprises of all time with its trade in human merchandise. In 1577 the **Levant Co.** was given by charter the monopoly of trade with the countries bordering the Eastern Mediterranean. In 1578, the **Eastland Co.** was granted a similar monopoly of trade with the Baltic countries. The **Spanish Co.** was formed in 1592, and the **East India Co.** in 1600. The last is of special importance for us since India's fortunes for the next three centuries were to be affected by it.

The 16th century is dominated by the price-inflation, which is termed the 16th century 'price-revolution' by economic historians. The basic reason for the secular trend of rise in Europe in the prices of necessities and in the general price level, was the cheapening of the precious metals as a result of a fall in their cost of production after regular mining of gold and silver was started in S. America. When the Spanish and Portuguese **conquistadores** overran the civilisation of the Aztec in central America and the Inca in Peru and Bolivia, they initially looted the hoards of precious metals in royal exchequers, and proceeded on a campaign of killing those who offered resistance. The surviving labour force was enslaved and put to work in the gold and silver mines in Potosi and elsewhere. The regular supply of precious metals which started flowing back to Iberia was partly diverted to other parts of Europe by the pirates who intercepted the returning galleons. The then queen of England, Elizabeth 1, had shares in Drake and Hawkins' piratical expeditions and it is estimated that these yielded as much as a sixth of the total earnings England had from her exports at that time.

The cheapening of the precious metals owing to a fall in their cost of production was the same as the rise in the ratios in which metallic money exchanged for goods, that is it meant a rise in prices. Between 1500 and 1600 the price of grain trebled in Europe and doubled again in the next 50 years. This may seem a low rate of inflation compared to modern rates; but compared to the great stability in trends in economic variables in the medieval period, it was indeed a revolution. Keynes refers to it as one of the earliest examples of a '**profit inflation**', by which is meant a situation where final output prices rise faster than the wages of labourers producing those products, thus increasing the share of profits out of the value of net output. J.M. Keynes discussed the concept of profit inflation in his book, **Treatise on Money**. This stimulated the growth of capitalist production. Real wages of the workers in the nascent manufactories were halved during the 16th century, because at this early date no trade unions of workers existed. In fact legislation put maximum limits to money wages while there were no minimum limits. This increased the distress of the labouring poor for with inflation the earlier maximum limits on money wages became quite unrealistic if a worker was to get enough to eat. The supply of hired labour itself was increasing in this period because the 16th century 'enclosures' in England got under way with the relatively faster rise for a time in the price of wool compared to other products, leading to the eviction of small tenants and conversion of grain-land to sheep pastures.

15.2.3 The Civil War and the Navigation Acts

England underwent a Cvil War from 1640 to 1660, whose importance is underestimated inconventionalhistorical sources. In effect, the Civil War in England brought about a far reaching destruction of feudal political power; it initiated a new era of aggressively nationalist economic policies of pursuing wars for control over trade routes and overseas territories. In view of the fact that this took place more than a century **before** the justly famed Revolution of 1789 in France, it is perhaps understandable why England got a head-start over France in the race for colonies. The only serious rival England had in the 17th century was the Dutch Republic, which before 1650 was forging ahead both as a woollen textile manufacturing and financial centre and in the lucrative control over trade routes to the Baltic, the Americas and the East Indies.

The Civil War in England was fought essentially by the rising classes of merchant-manufacturers, small capitalists and profit-minded landed squires, against feudal absolutism. Initially the aim was only a reformed monarchy, but the monarch insisted on the 'divine right of Kings', refused to be accountable to Parliament and sought military support from abroad. This led to the civil war, with the King and aristocracy, known as the Royalist side, fighting a hastily formed but highly motivated 'New Model Army' under the leadership of Cromwell for the Parliamentary side. Victory lay with the progressive side, and the King was tried and executed along with his leading Ministers. For a period of 11 years, from 1649 to 1660, England was a republic of sorts, and the term 'Commonwealth' was coined to describe the state. Even though the monarchy was nominally restored after 1660, it no longer had even a fraction of the powers it had exercised earlier. Parliament, dominated by the increasingly capitalist-minded gentry, decided economic and other policy.

During the Commonwealth under Cromwell, an aggressively nationalist policy of overseas expansionism and centralised control over colonies, was formulated and put into effect. The **Navigation Act of 1651,** amended in 1655, was a much more comprehensive economic policy measure than its name indicates. It laid down that all colonies were to be subordinated to Parliament and all trade to and from the colonies was to be monopolised by English shipping. It also gave the colonies the monopoly of access to England for particular goods. It represented for the first time the expression of a coherent **national imperial policy** as opposed to the scattered and separate interests of the various monopoly trading companies (see Christopher Hill, *Reformation to Industrial Revolution.* The Navigation Acts were to remain the cornerstone of the colonial system for more than a century. As regards expansion, Ireland was conquered and its land passed to English landlords whose tenants the Irish farmers became. Millions of pounds of rent extracted from the Irish tenants flowed to England in the form of an export surplus of corn and dairy products. Under an Act of 1696, Ireland was forbidden to export cattle and dairy products to any other country than England, and she was forbidden to manufacture woollen textiles for herself, being obliged to rely on imports from England. The traditional industry all but ceased to exist; linen however was not subject to the ban and linen manufacturing developed with English capital. These restrictions on Irish trade were strictly enforced through naval blockade.

The wars fought successfully by England against the Dutch between 1672 to 1684, served to breach in England's favour the Dutch monopoly over the lucrative Baltic trade in furs and fish, as well as breaking the Dutch monopoly over the slave trade from the W. African coast and the spice trade from the E. Indies. This was preceded by the capture of Dunkirk (strategically located for shipping passing through the English channel), and the seizure of Jamaica in the W. Indies. Domination over Portugal was secured with victory in the War of the Spanish Succession, and England both gained access to the vast Iberian Empire in S. America and obtained the highly coveted **Asiento,** or monopoly right of supplying slaves from W. Africa to the S. American colonies of Spain and Portugal. A marriage of convenience between Charles the Second of England and Catherine of Braganza of Portugal brought Bombay, a Portuguese Colony, as part of the dowry. As Christopher Hill puts it, 'the nucleus of all the future colonies was in place by 1696'.

The colonies including the N. American colonies, were subjected to the same set of regulations as Ireland, regulations which forbade the manufacture of all goods competing with English products and which ensured England's monopoly access to colonial markets for these goods. This meant that even if a commodity could be produced much more cheaply in the colony because both local raw materials and labour were available, the colony was instead obliged to import it from England, many thousands of miles away. Moreover, they had to pay for the shipping and insurance charges which were, under the Navigation Acts, a monopoly of England alone. N. America was forbidden to manufacture woollen textiles, iron, even hats and pins. The Caribbean slave population despite the warm climate was obliged to wear English wool until the reexport of Asian textiles to them from England provided some respite. Although the slave plantations of the Caribbean colonies produced sugarcane, the refining of the molasses to produce sugar was done in England, as was the case with rum distilling, in the initial decades. (Eric Williams, *Capitalism and Slavery*). It will be clear from the examples given that the basic objective of these policies was to encourage manufacturing production within England, regardless of whether it was at a relatively higher cost (and hence less efficient) than elsewhere, in order to generate domestic output and employment. The domestic landlords were also protected against cheaper agricultural products from the Continent.

Check Your Progress 1

1) What were the economic reasons that prompted England to colonise the tropical countries ?

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2) What were the main economic developments in the sixteenth century which stimulated capitalist activities in production and trade ?

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3) What were the economic implication of the Seventeenth Century Civil War that England went through ?

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15.3 MERCANTILIST THOUGHT, TRIANGULAR TRADE AND TRANSFER

In this section, we will see how the mercantilists—the leading group of 17th-18th century British economists—played a major role in policy making towards the colonies. Then, we shall present an overview of the triangular pattern of trade that characterised Britains's trade with her colonies. Finally, you will read about the extent to which the extraction from colonies by Britain provided capital to finance the first industrial revolution.

15.3.1 The Economic Ideas of the Mercantilists

You will already have gained some idea of the content of Mercantilist policies from the above description. The mercantilists initially tended to think of the act of trading itself as a source of wealth; whereas in fact, the wealth concerned was produced by the pre-capitalist communities with which England traded in Asia, to whom payment was made below the value of their product, or was created by the labour of slaves maintained at bare subsistence level during the short span of their lives. Much of the very high profits, apparently obtained by the act of trading, in fact arose from two factors: the widespread use of coercion to force producers abroad to part with their goods at prices below their cost of production, and the exercise of monopoly backed by armed state power. This may be defined as the essence of **'unequal exchange'**.

The slave trade was in a special category by itself because, considered as a commodity like any other (as from the Europeans' viewpoint at that time), this human 'commodity' was actually obtained at zero 'production cost' and only the cost of transport had to be paid. This is because the cost of raising these persons to adulthood was borne by their rural communities in West Africa, from which they were forcibly kidnapped by the Arab slave traders who supplied the European slavers against payment in weapons, cloth and spirits. This payment need have been only sufficient to compensate for the cost of the raiding expeditions. Packed into the holds of English ships where many died, they were transported to the W. Indies, Brazil and the Southern states of the N. American colonies. There a slave could be sold for, on average, five times what the slaver had paid at the W. African ports, that is, at a profit rate of 400% on the initial outlay, and the over 350% if the shipping cost per slave is included (see Eric Williams *Capitalsm and Slavery*)] Now these very high profit rates reflected precisely the fact that the economic worth to the purchaser of the slave-commodity, embodying so many years of labouring capacity, far exceeded the mere transport costs which had been paid by the trader; he had paid nothing to the W. African communities and had obtained their manpower and womanpower free through the exercise of force. We have defined unequal exchange as payment below the cost of production to the subordinated agent; the slave trade represented the extreme limiting case of zero payment towards the cost of production, and involved only the cost of transport. From the economic point of view this explains the high degree of lucrativeness of the slave trade, which in the words of Adam Smith, 'raised the Mercantilist system to its full pinnacle of glory' *(The Wealth of Nations)*.

The early Mercantilist writers, known as the Bullionists, thought of the inflow of gold into their country as being a desirable end in itself. Later the emphasis shifted more towards the desirability of having an export surplus and increasing this export surplus as much as possible, while the consequent inflow of bullion (from other countries paying for their import surplus with Britain) became secondary. The regulations forbidding colonial manufactures were designed to increase England's exports to the colonies which as we have seen, had to use English goods even if potential domestic production capacity existed.

The Mercantilists also laid stress on the need to raise exportables' prices compared to importables' prices as much as possible, that is, they advocated turning the terms of trade against the countries from which they imported and in their own favour. This objective of raising relative prices of exportables might seem to be in contradiction with the other declared objective of increasing the export surplus. For, under conditions of normal trade, the importing countries could be expected to reduce their purchases of English exportables as their prices rose. Then English export earnings would fall. In modern times the suggested policy for raising exports from a country relative to imports, i.e. of increasing the export surplus is to **lower** the price of exportables relative to that of importables through devaluation of the currency (and even so trade balance will improve only if demand abroad for the country's exports is price elastic and demand within the country for imports is similarly price-elastic). How can we explain, then, the fact that the Mercantilists advocated a precisely opposite policy of **raising,** not lowering, relative price of exportables and still saw no conflict with, at the same time, improving the trade balance?

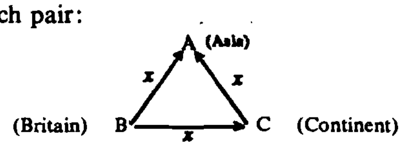
The answer lies in the fact that the Mercantilists took it for granted that much of the trade they were talking about was colonial trade where the countries concerned had no choice about whether they wished to import English goods or not, but had to import regardless of the price. Foreign (i.e. non-English) demand in short was assumed to be inelastic, in the extreme case to have zero price elasticity, and was expected to be kept that way through the use of force. This brings us to the last important feature of Mercantilist thinking, namely the idea that there should be a large degree of State intervention in and regulation of the economy in the interests of maintaining national economic hegemony and high rates of profit. This was the opposite of Adam Smith's idea of the 'invisible hand' of the market which would take care of the allocation of resources. The idea of a marginal role for the state, was totally antithetical to Mercantilist thought. In fact such ideas could not arise until economic growth on the basis of M[illegible] had itself gone far enough such that the myriad small capitalists thrown up by that growth, began to feel constrained by the existing monopolies and restrictions on trade, to demand a change in the policy regime.

Many of the Mercantilist writers were closely associated themselves with the monopoly trading companies.

15.3.2 Triangular Trade in the 18th Century

The trade network encompassing Britain and the world which developed during the 18th century prior to the Industrial Revolution, was characterised by the absence of bilateral balancing. Instead there were a number of trilateral trade patterns. By 'bilateral balancing' is meant the typical situation depicted in textbook two-country models of trade, in which country A, trading with country B, must necessarily balance its balance of payments with it. For example if country A has a trade deficit or more generally a current account deficit vis-a-vis country B, it must necessarily either have a matching bullion outflow to B to pay for this, or it must borrow from B, or have a combination of the two. In reality however Britain, call it country B, operated a more complex set of trade flows in which she had surpluses vis-vis some regions A which were used to pay for her deficits vis-a vis other regions C, given that region A had surplus vis-a-vis C. In these trilateral trade patterns, the control over colonial economic surpluses was of crucial importance.

To clarify the above let us consider Asia as region A, denote Britain as country B, and the European Continent as region C. Then, the triangular pattern of trade balancing would look as follows, with the arrow pointing to the country with the trade surplus in each pair:



In the diagram above, Asia has a trade surplus of x million pounds with the Continent, while the Continent has a trade surplus of x million pounds with Britain. The latter country can pay off the Continent provided it has a trade surplus of the same amount with Asia, thus completing the trade and payments triangle. The basic problem for England during the 17th and upto the middle of the 18th century was that the direction of the arrow denoting its trade relation with Asia was in fact the other way around, namely England had a trade deficit with Asia, not a trade surplus. Neither China nor India could be induced to absorb English goods in sufficient quantity to offset the increasing demand in England for tea, cotton and silk textiles, porcelain, saltpetre and other goods. (Not all of this was consumed directly in England; a large part was reexported against essential imports from the Continent, as we will see below). The East India Co. tried to minimise the value of the trade deficit by underpaying the artisans from whom they bought these goods, exercising force in securing goods, and refusing to pay local customs duties. Nevertheless the deficit remained and had to be settled by bullion outflow from England to Asia.

This situation was changed drastically when the right of collecting the land revenue and other revenues was acquired by the East India Co. in 1765 after the defeat of the Nawab of Bengal in the 1757 Battle of Plassey. From being a mere trading company, the East India Co. now obtained the rights of sove reignty. It continued to trade in the same goods as before, but the economic content of its activities had changed drastically. On average, during the last quarter of the 18th century, one-third of the net revenues of Bengal, was used to purchase the goods in which the Company traded. (Net revenue was the gross revenue collections minus the costs of salaries and commissions to the revenue collecting agents and the **nazrana** to the Mughal emperor). This meant that the East India Co. no longer had to advance any funds out of its own trading profits to purchase exportables (as in any normal trading) but got these goods free, since the very same people from whom it bought these goods, paid the taxes to the Company out of which the goods were purchased.

There were two other important trade triangles in the 18th century: the W. Indies—Britain—N. America trade triangle, and the Britain—W. Africa—W. Indies & S. America trade triangle. In the first of these, the W. Indies were obliged to specialise in the slave-based plantation production of valuable tropical crops in growing demand in developing Europe, such as sugarcane, cotton, tobacco, mahogany etc. These islands were thus deficit in food production; foodgrains were imported from the N. American colonies, which in turn were obliged to import their manufactured goods from England. In the second trade triangle, slaves were kidnapped at no cost and sold to the European traders against payment, as earlier described, from the W. African hinterland against payment in English spirits, weapons and cloth. hen they were transported and sold in the W. Indies and in Brazil where the surplus product of their labour went as an export surplus to England, while the required manufactures in the Caribbean and S. America (cloth, chains, handcuffs and fetters) were imported mandatorily from England.

15.3.3 The Contribution of Colonial Transfers to Capital Formation

Most economic historians of Britain would readily concede that there was an early phase of 'plunder and loot' of the colonies, especially of India. Since the English Parliament itself under Burke's leadership, impeached Warren Hastings for the wrongful oppression of and plundering the treasuries of local rulers, and for oppressing the peasants, there is little scope for denial of this phase of 'plunder and loot'. Clive amassed a huge personal fortune by similar means and on returning to England, purchased landed estates and a seat in Parliament. These wealthy employees of the East India Co. came to be called 'The Nabobs'.

These incidents of 'plunder and loot' were however episodic and once-for all affairs. Of far greater importance was the systematic transfer year after year, of a part of the taxation revenues of India to Britain in the form of an unrequited export surplus of goods. In the case of the plantation system of the W. Indies, however the main mechanism was not collection of revenue from peasants but the appropriation of slave-rent. The entire gross output value less production costs including the bare-subsistence maintenance of slaves constituted the slave-rent. The slavers remitted this slave-rent to Britain similarly through an export surplus of goods. The economic historians of Britain have totally neglected the transfer from India and from the W. Indies, and its contribution to British industrialisation. The magnitude of the annual transfer was in fact very large compared to the British Gross Domestic Product and Gross Domestic Capital Formation at that time. The neglect of the role of the transfer arises from a conceptual failure on the part of the historians to recognise the transfer **as transfer** and to treat it erroneously instead as 'normal trade'. A typical example of a cursory and theoretically incorrect treatement of the question may be found in a standard textbook read by British students (Ch. 5 on 'Overseas Trade and empire', in R. Floud and D. McCloskey eds., *The Economic History of Britain since 1700*).

If indeed the import surplus into Britain from the tropical colonies had been normal trade, this import surplus would have had to be paid for by Britain either through a matching-Outflow of bullion, or a positive balance on account of invisibles earnings, or borrowing from the colonies—or a combination of these. Otherwise, the balance of payments would not have balanced. In fact however none of these happened, because it was transfer and not normal trade that the import surplus represented. In the modern world if any country, such as Britain today, was to pile up an increasing trade deficit amounting to 3% to 4% of its GDP, against any set of countries, this would be a cause for great concern and strenuous efforts would be undertaken to reduce the deficit. The increasing import surplus of this magnitude from the colonies, on the contrary, was taken (rightly) as an indicator of increasing prosperity in Britain, and economists at that time were not at all worried about the question of financing this deficit.

They were quite right not to be worried because as we have seen, after 1765, when the taxation collection rights in Bengal were acquired by Clive from the Mughal Emperor, England no longer needed bullion outflow to pay for her import surplus from this region because she used a part of the colonial tax revenue to purchase directly the goods she traded in from Bengal. This meant that a part of the tax revenue was being transferred to Britain in the form of an export surplus of goods from India. In effect Britain did not have to pay for this import surplus: the Indian tax-payers financed it. All Britain incurred by way of cost was the transport charges. These goods were sold, of course, at their full value to the final purchasers. It is incorrect to argue that only the East India Co., or only the Africa Co., benefited. What Britain gained thereby has two sides to it. First, from the point of view of the national economy, she obtained a virtually costless supply of valuable tropical wage-goods and raw materials most of which she could not ever have produced domestically owing to her climate: among wage-goods, sugar, tea, foodgrains and tobacco were the most important; cheap rum became an essential consumption item for sailors. Among raw materials, cotton, indigo, jute and timbers were prominent. The leading sector of the Industrial Revolution, cotton textiles, could scarcely have got off the ground without a plentiful supply of the entirely imported raw material, which could not be grown in Britain. Secondly, Britain's own domestically produced exportables were in inelastic demand on the European Continent which was her most important equal trading partner , whereas British demand for strategic materials from the Continent like bar iron, naval supplies like hemp for ropes, pitch and tar, timber for shipbuilding, and other goods, was increasing and tended to move her trade balance in increasing deficit. Here the reexport of tropical goods embodying the transfer, came to the rescue since these goods were in elastic demand on the Continent (see Phyllis Deane 1969). The high proportion of reexports to total imports, will be clear from the following table :

Table 15.1 : Annual average Imports and reexports, 1765-99, Million Pounds(Official values in Constant 1700 Prices)

Period	Imports M	Re-exports R	Percentage R/M
1765-69	11.671	4.580	39.2
1770-74	12.600	5.627	44.7
1775-79	12.464	5.086	40.8
1780-84	12.635	4.110	32.5
1785-89	17.143	4.949	28.9
1790-94	20.001	6.842	34.2
1795-99	20.326	12.008	59.1
1800-04	30.400	15.930	52.4
Total	137.240	59.132	43.1

Source: Mitchell and Deane 1962 '*Abstract of British Historical Statistics*, pp. 280-281. Calculated from annua series.

From Table 15.1 it can be seen that re-exports (which were almost entirely of tropical goods) made up on average two-fifths of total imports; it would be a much higher proportion of tropical imports. According to the data in Deane 1969, at least 85% of all reexports went to the Continent throughout the 18th century for purchasing strategic raw materials and for importing foodgrains

An interesting estimate has been made by Sayera Habib of the proportion of transfer from Asia and W Indies, to capital formation in Britain (*Colonial Exploitation and Capital Formation in England in the Early Stages of the Industrial Revolution*). She finds that in the year 1801, it amounted to as high as 5% of British GDP and 71% of domestic capital formation. Taking the annual time-series data on British trade from Mitchell and Deane's *Abstract of British Historical Statistics,* the following five-yearly averages are obtained of the annual import surplus into Britain from Asia and the W. Indies:

Table 15.2: Import surplus into Britain from Asia and the W. Indies
(Five-year average, constant 1700 prices, million pounds)

Period	Asia	W.Indies	Combined
	(M - X)	(M -X)	M - X)
1780-84	0.762	1.211	1.973
1785-89	1.552	2.348	3.900
1790-94	0.948	1.411	2.359
1795-99	2.872	0.797	3.688
1800-04	2.898	3.821	6.719
1805-09	2.777	2.889	5.666

Source: Mitchell and Deane (1962) p. 311

Your will observe that there is a large jump in the import surplus from India after the Permanent Settlement of Bengal in 1793. The estimates of British Gross Domestic Product (GDP) are available only from 1801, in current prices. To estimate the transfer as measured by the combined import surplus from the W. Indies and

Asia and to express it as a percentage of the GDP, the transfer first has to be expressed in 1801 prices. The per capita GDP in 1801 was 25 pounds and the total GDP was 232 million pounds. The value of the combined transfer for the period 1795-1804 works out to an annual average of 5.77 m. pounds, which S. Habib adjusts for price rise (upto 1797) and for smuggling, obtaining a current value of 11.54 m. pounds. **This works out to 4.97% of the GDP of 1801.** Deane estimated that domestic capital formation was at most 7% of GDP. Hence the value of the combined transfer works out to **71% of domestic capital formation at that date.**

Thus the magnitude of the transfer was very substantial when compared to British income and capital formation. This should not surprise us for Britain was then demographically speaking, a very small country (the population in 1801 was only 9 million). We have seen that Britain had acquired many decades earlier control over the

- highly lucrative slave trade,
- the surpluses generated from the immensely profitable plantation production in the Carribean of tropical products in elastic demand in the European world,
- the revenue collecting rights of an agriculturally prosperous region in India (Bengal and the Northern circars) which was at least five times more populous than England.

Even if we assume that the per capita income in this colonised region of India was only one-tenth of that in Britain, this implies that Britain had acquired the tax-collection rights of an economy whose rural sector alone was half as large as the entire British economy in income-generating capacity.

As Sayera Habib puts it, 'What the British economy gained from colonial wealth was....not landed estates nor even luxuries for aristocratic consumption, but an immense supply of raw materials and wage-goods — a supply inconceivable if Britain did not have colonial tribute to finance it.' In effect, the actual rate of capital formation in Britain was nearly double the recorded rate once the inflow of transfer is taken into account. This is bound to make you wonder whether the 'Industrial Revolution' in Britain would have been such a revolution at all, without the colonial transfer. It might rather have been a process of industrial evolution rather than revolution.

Check Your Progress 2

1) What was the 'cost of production' of African slaves as far as the Europeans were concerned ? Why ?

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2) How did the British conquest of India enable Britain to finance its investment inspite of maintaining a balance of trade deficit vis-a-vis India ?

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3) Analyse the contribution of tropical countries in the making of the first Industrial Revolution.

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4) What are the main tenets of mercantilism ? In what ways is it different from the laissez faire doctrine of Adam Smith?

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5) What is 'unequal exchange' ? Briefly write a note on the colonial pattern of trade.

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6) What is triangular trade ? How is it different from bilateral trade ?

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15.4 LET US SUM UP

By reading this Unit you have gained some idea of the importance of access to tropical bio-diversity for the Europeans, owing to the climatic limitations of their own lands which could grow only a restricted range of products. To this day, high living standards in the industrially advanced countries is heavily dependent on their access to our bio-diversity and that of other poor tropical countries. This access was secured by the European nations led by England (which was the first country to undergo a political revolution towards capitalism — the 1640-1660 civil war) through the use of armed force. Tropical areas were colonised, and England was the most successful coloniser of the European nations owing to her ability to mobilise very early, the entire weight of state power to this end.

The extent of transfer from the tropical colonies was very substantial compared to Britain's national income and capital formation during the period of Industrial Revolution. According to a careful estimate, it was as high as 71% of the domestic capital formation in 1801. Since domestic capital formation was 7% of the gross domestic product, the transfer was 4.97% of the British GDP at this date.

15.5 KEY WORDS

Mercantilism: An economic doctrine emphasising active state intervention, maintenance of an export surplus to promote inflow of bullion through economic and extra-economic measures and believing that military strength and bullion are the source of economic and political power.

Nazrana: Urdu for gift

Unequal exchange: Payment below the cost of production, slavery being the extreme form of unequal exchange where no payment is incurred to meet the cost of production.

15.6 SOME USEFUL BOOKS

Hill, C., 1969. *From Reformation to Industrial Revolution,* 1530-1780, Penguin, Harmonds Worth (Pelican Economic History of Britain Vol. 2).

Williams, E., 1966. *Capitalism and* Slavery. Revised Edition, Capricorn Books, New York.

Habib, S., 1975. *Colonial Exploitation and Capital Formation in the Early Stages of the Industrial Revolution.*

Deane, P., 1969. *The First Industrial Revolution,* Cambridge University Press, London.

15.7 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) Read Sub-Section 15.2.1 and answer.
2) Read Sub-Section 15.2.2 and answer.
3) Read Sub-Section 15.2.3 and answer.

Check Your Progress 2

1) Read Sub-Section 15.3.1 and answer.
2) Read Sub-Section 15.3.2 and answer.
3) Read Section 15.3 and answer.
4) Read Sub-Sections 15.3.1 and 15.3.2 and answer.
5) Read Sub-Section 15.3.1 and answer.
6) Read Sub-Section 15.3.2 and answer.