The Overextension of the British Empire and its Subsequent Demise

North Callahan Essay Prize Submission

Joseph Warpinski

Joseph-warpinski@utc.edu

1720 Ashmore Ave., Chattanooga, TN 37415

History 3310: History of England, 1688 to the Present

Dr. White

Completed: April 13, 2012

Submitted: January 28, 2013

> Far better is it to dare mighty things, to win glorious triumphs, even though checkered by failure... than to rank with those poor spirits who neither enjoy nor suffer much, because they live in a gray twilight that knows not victory nor defeat - *Theodore Roosevelt.*[1]

These words spoken by United States President Theodore Roosevelt reflect an overtone of melancholy which would ring eerily prophetic for the British Empire at the bittersweet end of World War II. Following World War II, Britain's role on the world stage diminished as the nation reeled from massive infrastructural and financial losses as well as damaging colonial independence movements. Arguably the British Empire was hardly an Empire at all upon entering World War II.[2] At that point Britain still suffered from a lack of confidence in the British pound, the lingering effects of the Great Depression, weakened British finances and, thus, weakened imperial control over their global empire. With Britain struggling financially, the simultaneous effect of infrastructural destruction from bombing during World War II, debts incurred as a result of the American Lend-Lease Act of 1941 and Anglo-American Loan of 1946, and post-war movements for independence in India and other dominions proved to be a culminating final blow to a once hegemonic British Empire.

The aftermath of World War I witnessed international discontent with the British Empire, both due to the negative financial pressure placed on world markets because of British war debt and also the perceived loss of Britain's century-long status as the world's hegemonic power. Prior to World War I, Britain was the world's largest overseas investor, following the war, conversely, it became one of its biggest debtors with interest payments forming around 40

---

[1] Theodore Roosevelt, *Strenuous Life* (New York: Applewood Books, 1900), 30.
[2] A. Thompson & G. McGee, "A Soft Touch? British Industry, Empire Markets, and the Self-Governing Dominions, c. 1870-1914" (*The Economic History Review*, 2003), 689-717.

percent of all government spending.[3] Between 1914 and 1920 inflation more than doubled while total consumer expenditure fell by 61.2 percent.[4] Meanwhile optimism in the American dollar grew throughout the war period partially as a result of the instability shown by the increased inflation of the British pound. During the war, the British were able to raise £550 million from the sale of some investments abroad; however, £250 million of new overseas investment took place during World War I. The net financial loss to British investment was approximately £300 million.[5] Increasing losses in investment in British controlled territories as well as the impending global financial crisis thrust the Empire into a long period of economic decline following the War.

With a worsening socio-economic climate in early interwar Britain, the Empire found itself in political limbo on the eve of an even greater downturn that would affect world trade and society deeply, and one that would underlie a façade of remaining British imperial pride. The Great Depression of 1929-32 set in while the United Kingdom was still attempting to recover both economically and psychologically from the effects of World War I. With German World War I reparations of coal, fewer British workers were needed to suffice domestic demand for coal – thus adding to growing unemployment and social discontent, particularly in the North.[6] Economist Lee Ohanain showed that British economic output fell by 25 percent between 1918 and 1921 and did not reach the pre-war level until 1934, arguing that the United Kingdom

[3] R. Twigger, *Inflation: the Value of the Pound 1750-1998* (London: House of Commons Library, 1999), 244.
[4] *Ibid.,* 245.
[5] A.J.P. Taylor, *English History 1914-1945 (the Oxford History of England)*(New York: Oxford University Press, 2001), 218.
[6] David Linehan, "Regional Survey and the Economic Geographies of Britain 1930-1939," *Transactions of the Institute of British Geographers,* vol. 28 (March 2003), 96-122.

suffered a near twenty-year depression beginning in 1918.[7] During this period, unemployment stayed relatively high and fluctuated little as domestic industrial production in northern England fell. The financial downturn saw investment move south to London or overseas to other dominions and British territories.[8] With other industrialized and newly developing nations alike reeling from the depression investment opportunities in the United States seemed safer than available British investments at the time. Furthermore, demand for British-made goods fell as demand for American-made and German-made goods increased.[9] With the scene set for further British demise, the ingredients for disaster culminated in the form of World War II – a war Britain was hardly prepared for.

As we shall see British debts during World War II would prove the deciding blow to its already faltering Empire. During the war, industrial focus shifted towards military needs and away from civilian needs so that war production made up for 55 percent of GDP during the war.[10] In the 1940s, British companies operating in the colonies faced successive increases in tax rates, and, in many areas of the dependent empire, escalating local tax rates. "In Britain, British firms were liable for both a standard rate of income tax and a tax on retained profits introduced in 1947 after the repeal of the wartime excess profits tax", notes Sarah Stockwell.[11] The double taxation made it more difficult for businesses to expand, and helped to slow Britain's economy following the war and further polluted Britain's already troubled investment markets.

---

[7] Harold L. Cole and Lee E. Ohanian, "The Great U.K. Depression a Puzzle and a Possible Resolution" in T.J. Kehoe and E.C. Prescott, *Great Depressions of the Twentieth Century* (Minneapolis: Federal Reserve Bank of Minneapolis).
[8] Linehan, "Regional Surveys and the Economic Geographies of Britain 1930-1939*",* 96-122.
[9] *Ibid.,* 104.
[10] R.J. Evans, *The Third Reich at War* (London: Allen Lane, 2008), 137.
[11] S. Stockwell, "Trade, Empire, and the Fiscal Context of Imperial Business During Decolonization," *The Economic History Review,* vol. 57 (Feb. 2004), 142-160.

Throughout the war Britain relied heavily on foreign aid from the United States and Canada via the Lend-Lease Act of 1941 and later the Anglo-American Loan of 1946. The Lend-Lease Act saw $31.4 billion worth of supplies shipped from the United States to the United Kingdom and the commonwealth, with a long-term repayment plan spanning more than fifty years as stipulated later in the Anglo-American Loan of 1946.[12] The Lend-Lease Act showed the British Empire that their limited resources were stretched far too thin to adequately govern a quarter of the globe's population. As a result, British dreams of empire building and trade opportunities turned inwards during World War II. At the same time, the appeal of a welfare state was growing, and pride over British imperialism was becoming less glamorous. The day to day barrage of German bombings made any notions or desires of imperialism or conquest seem callus with the number of civilian war casualties growing daily.

German bombing on the British home front put further strain on British society and industrial production. Over one million homes in London were bombed and destroyed, and an estimated 40,000 civilians were killed, with over half of them perishing in London.[13] The seaport city of Hull was also heavily bombed by the Luftwaffe, as were the industrial centers of Birmingham, Coventry, and Manchester, among others.[14] Admittedly, the *blitzkrieg* – as the German aggressors named it - failed to demoralize the British into submission or to significantly damage Britain's wartime economy, historian Matthew Cooper argues.[15] However, it should be noted that the bombing acted to further weaken Britain and its already failing empire. Rather than pursuing further expansion and imperialism, for example, the British were forced to rebuild

---

[12] A.J.P. Taylor, *English History 1914-1945,* 219.
[13] Denis Richards, *Royal Air Force 1939–1945: Volume I The Fight at Odds* (London: HMSO, 1953), 217.
[14] Matthew Cooper, *The German Air Force 1933–1945: An Anatomy of Failure* (New York: Jane's, 1981), 174.
[15] *Ibid., 175.*

widespread infrastructural damage. Although, as Cooper notes, the eight months of bombing hardly hampered British production and a majority of domestic war industries remained in operation and expanded.[16] However, these numbers may be misleading as the British government under Churchill made it a priority to expand war production, despite lost production of civilian goods which were imported (as planned) en-mass and on credit from the United States and Canada.

Meanwhile, the Japanese bombardment of British stations in Eastern Asia further weakened any notions of imperial strength or British prestige there.[17] Attacks on British stations in Hong Kong, Malaya, Burma, and the Dutch East Indies proved to further diminish British naval superiority in the region. The attacks also did much to disrupt attempts to service the stations with fresh resources and rations to further defend against the unrelenting Japanese aerial assault. The dissolution of any notions of British sea power in the Indian Ocean were essentially stomped out with the surrenders at Hong Kong and Singapore. Indeed, the surrender of Singapore stands out as the largest military surrender in British History – nearly 80,000 British, Indian, and Australian soldiers were taken as prisoners of war, joining nearly 50,000 other that were taken in the preceding Malayan campaign.[18]

As the war dragged on, British resources were stretched even further as the home front was battered near daily by German bombs, and American and Russian industrial growth marginalized the British Empire's perceived power. It was evident by the end of World War II -- and in the years immediately following the war leading up to the formation of the British

---

[16] *Ibid., 173.*
[17] W.D. McIntyre, *The Commonwealth of Nations* (Minneapolis: University of Minnesota Press, 1977), 341.
[18] Colin Smith, *Singapore Burning: Heroism and Surrender in World War II* (New York: Penguin, 2005).

welfare state – that Britain was no longer the hegemonic power in the world. The combined costs of repeated balance of payments deficits and public infrastructure costs helped to push the national debt up to an unsustainable 200% of GDP in 1945.[19] Merely two years later the British national debt was 250% of GDP.[20] As S. Pitruzzello writes, Britain, under the impulses of the industrial revolution, colonization, global trade and finance developed the largest and most open economy the world had seen.[21] Prior to World War I, as the paramount military power in a system of interstate hegemony, Britain also enforced its preferred rules of free trade and the gold standard by maintaining freedom of the seas. However, World War I and World War II did so much to strain the British military so that resources were redirected from the priority of naval dominance and toward competing on the European continent. Prior to World War I, Pax Britannica had ensured an international order of relative peace and security.[22] By 1945 Britain no longer stood as the main vehicle of international sea-based trade, with most of the industrialized world developing trade networks that were increasingly independent of British influence. Other nations were no longer forced into British ports, thus avoiding further contributions to already diminishing British naval power. By the end of World War II, Britain was outclassed by more productive industries and intuitive networks in the United States.

Following the official ending of World War II, Britain began to rebuild; yet, the British found themselves in a far different place compared to where it had been at the beginning of the war. Lacking many necessary civilian goods and food items, British economist John Maynard

[19] S. Stockwell, "Trade, Empire, and the Fiscal Context of Imperial Business During Decolonization," *The Economic History Review,* 158.
[20] *Ibid.,* 158.
[21] S. Pitruzello, "Trade Globalization, Economic Performance, and Social Protection: Nineteenth-Century British Laissez-Faire and Post-World War II U.S.-Embedded Liberalism," *International Organization,* vol. 58 (Autumn 2004), 716.
[22] *Ibid.*, 717.

Keynes organized the Anglo-American Loan in 1946 which further indebted Britain to the United States. According to the stipulations of the loan, Lend-lease items were sold to Britain at 10% of their nominal value, giving an initial loan value of £1.075 billion for the Lend-Lease portion of the post-war loans. Payment was to be stretched out over 50 annual payments, starting in 1951 and with five years of deferred payments, at two percent interest and was fully repaid in 2006. [23] As the financial hole grew deeper with further debt and the British image faded, decolonization of the largest maritime empire the world had ever seen became a reality rather than the proverbial 'elephant in the room.'

Intensifying independence movements in British India, Africa, and other dominions threatened the already weak Empire with the loss of major investments in capital and population.[24] During the interwar years the British government almost entirely depended on tariffs and income tax for any significant increase in revenue. Customs duties throughout the Empire were raised repeatedly, for indirect taxes were much easier to collect and were also politically more popular. Over the same period, the government found it increasingly difficult to keep its military establishment up to strength, especially territories like India where taxes were viewed as oppressive, and hence added to growing anti-imperial sentiment.[25] British India's service in World War II would come at a price - ultimately India wanted self-governance. In the great crisis of imperial defense from 1939 onwards, as in 1914-1918, the British government was forced to take over financial responsibility for much of India's war effort. As B.R. Tomlinson notes, the failure of British administration over the Indian economy during the war and in the

---

[23] C.P. Kindleberger, *A Financial History of Western Europe* (New York: Oxford University Press, 1993), 415.
[24] B.R. Tomlinson, "The Political Economy of the Raj: The Decline of Colonialism," *The Journal of Economic History,* vol. 42, 133-137.
[25] *Ibid.,* 137.

immediate post-war period (1945-1947) intensified the nationalistic passions that were already pointing towards India's independence.[26] In 1947, Britain repaid India's service in World War II by offering them self-governance. Following the partition of India and the exit of the British Empire in 1947, Britain had lost its most populous territory and had begun the process of liquidating its massive Empire.[27] This effectively spelled the end of the Empire for all intents and purposes.

Ultimately, as the historical evidence shows, the debts incurred from World War II dealt the British Empire its final 'knockout' blow as it reeled from rising national debt and decreased investment following World War I and the subsequent twenty year-long economic depression. Infrastructural destruction from World War II, debts from the Lend-Lease Act and the Anglo-American Loan, as well as colonial post-war cries for independence from imperial Britain critically marginalized the powers of the British government, and ushered in a new era in British foreign and domestic policy. Though many would argue that the external circumstances culminating in the demise of the British Empire were beyond the control of the government itself, it must be noted that Victorian British policies helped to create the climate for their own demise. Debts were incurred quickly and shortsightedly prior to World War I as the British sat comfortably upon a bubble of overextended economic policy and naïve foreign policy. The British Empire was not prepared for World War I, but perhaps more austere fiscal policy and protective foreign policy could have helped to lessen such a severe post-World War I economic

---

[26] *Ibid.,* 135.

[27] Notable British territories liquidated (those which gained independence or developed their own constitution independent of British rule) during or following World War II include: Australia in 1942 (via the Statute of Westminster), India and Pakistan in 1947, New Zealand in 1947 (via the Statute of Westminster), Ceylon (Sri Lanka) in 1948, Cyprus in 1960, Nigeria in 1960, Sierra Leone in 1961, South Africa in 1961, Uganda in 1962, Jamaica in 1962, Kenya in 1963, Malaya in 1963, Malta in 1964, and Singapore in 1965, *via* S. Stockwell, "Trade, Empire, and the Fiscal Context of Imperial Business During Decolonization," *The Economic History Review,* 165-170.

decline. The British Empire was built to last in a socio-economic environment which it had exported to the world; perhaps it would have served the British government and indeed the Empire to develop a ‘Plan B.’

Bibliography

Books

Cooper, Matthew. *The German Air Force 1933–1945: An Anatomy of Failure*. New York: Jane's. 1981.

Evans, Richard J. *The Third Reich at war.* London: Allen Lane, 2008.

Kindleberger, Charles Poor. *A financial history of western Europe.* New York: Oxford University Press, 1993.

McIntyre, W. Donald. *The Commonwealth of Nations.* Minneapolis: University of Minnesota Press, 1977.

Richards, Denis. *Royal Air Force 1939–1945: Volume I The Fight at Odds*. London: HMSO, 1953.

Roosevelt, Theodore. *Strenuous Life.* New York: Applewood Books, 1900.

Smith, Colin. *Singapore Burning: Heroism and Surrender in World War II.* Penguin Group, 2005.

Taylor, A. J. P. *English History 1914–1945 (The Oxford History of England).* New York: Oxford University Press, 2001.

Twigger, Robert. *Inflation: the Value of the Pound 1750-1998.* London: House of Commons Library, 1999.

Articles

Glaisyer, Natasha. "Networking: Trade and Exchange in the Eighteenth-Century British Empire." *The Historical Journal* 27, no. 2 (June 2004): 451-476.

Hilde, Ravlo, Gleditsch Petter Nils, and Han Dorussen. "Colonial War and the Democratic Peace." *The Journal of Conflict Resolution* 47, no. 4 (August 2003): 520-548.

Ingham, Geoffrey. "British Capitalism: Empire, Merchants and Decline." *Social History* (Taylor & Francis, Ltd.) 20, no. 3 (October 1995): 339-354 .

Kehoe, Timothy J., and Edward C. Prescott. *Great Depressions of the Twentieth Century.* Minneapolis: Federal Reserve Bank of Minneapolis, 2007.

Linehan, Denis. "Regional Survey and the Economic Geographies of Britain 1930-1939." *Transactions of the Institute of British Geographers* (Blackwell Publishing) 28, no. 1 (March 2003): 96-122.

Moul, William. "Power Parity, Preponderance, and War between Great Powers, 1816-1989." *The Journal of Conflict Resolution* 47, no. 4 (August 2003): 468-489.

Offer, Avner. "The British Empire, 1870-1914: A Waste of Money?" *The Economic History Review* (Blackwell Publishing) 46, no. 2 (May 1993): 215-238.

Pitruzzello, Salvatore. "Trade Globalization, Economic Performance, and Social Protection: Nineteenth-Century British Laissez-Faire and Post-World War II U.S.-Embedded Liberalism." *International Organization* (The MIT Press) 58, no. 4 (Autumn 2004): 705-744.

Rooth, Tim, and Peter Scott. "Public Policy and Foreign-Based Enterprises in Britain Prior to the Second World War." *The Historical Journal* (Cambridge University Press) 42, no. 2 (June 1999): 495-515 .

Stockwell, Sarah. "Trade, Empire, and the Fiscal Context of Imperial Business during Decolonization." *The Economic History Review* (Blackwell Publishing) 57, no. 1 (February 2004): 142-160.

Taylor, Miles. "The 1848 Revolutions and the British Empire." *Past & Present* (Oxford University Press), no. 166 (February 2000): 146-180.

Thompson, Andrew, and Gary McGee. "A Soft Touch? British Industry, Empire Markets, and the Self-Governing Dominions, c. 1870-1914." *The Economic History Review* (Blackwell Publishing) 56, no. 4 (Nov. 2003): 689-717.

Tomlinson, B. R. "The Political Economy of the Raj: The Decline of Colonialism." *The Journal of Economic History* (Cambridge University Press) 42, no. 1 (March 1982): 133-137.

Williamson, Arthur H. "An Empire to End Empire: The Dynamic of Early Modern British Expansion." *Huntington Library Quarterly* (University of California Press) 68, no. 1-2 (March 2005): 227-256.