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Keukentafel Economics and the History of British Imperialism

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I visited South Africa for the first time in September of 2006, thanks to Grietjie Verhoef and a great number of hosts around the country, for nearly two and a half weeks.[1] In that time I watched some South African TV in English, and when English subtitles were provided I could follow the Afrikaans soap operas, too, noting the interesting contrasts with Dutch. I spoke at some length about the country with a couple of dozen South Africans. I read hurriedly most of Robert Ross' *Concise History of South Africa* and some of Leonard Thompson's *A History of South Africa*, as well as certain relevant parts of the Lonely Planet's travel guide to South Africa. On Professor Verhoef's recommendation I bought and read Robert Guest's *The Shackled Continent*. And I have least *bought* Nelson Mandella's autobiography, and some poetry in Afrikaans.

You can add to this impressive scholarly activity a long acquaintance with certain Africanists, such as with Ralph Austen at the University of Chicago, who was a colleague of mine for twelve years, and with Phil Curtin at Johns Hopkins, whose former wife was an opera singer with my mother. I attended in 1974 a famous conference on the slave trade at Colby College in which the only black person in attendance, a Nigerian historian, was roundly attacked by Phil. Add up all this and you can see that I have speedily become a world renowned expert on African history and economy. That is surely why I have been invited to write for this journal.

Well . . . surely not. It would absurd for me to presume to lecture you on the economy or the economic history of Africa. I am an economist, subspecies Chicago School, and an economic historian, subspecies British. Besides that, on account of my interest in the rhetoric of science, I also teach English and communication. I have as we rhetoricians say the "ethos," the standing, to speak

[1] A version of the paper was delivered to the Durban meetings of the Economic Society of South Africa, September 7, 2005.

a little on these subjects. I could speak to you at length on the rhetorical idiocy, prevalent in modern economics, of confusing statistical fit with economic significance. I have a book on that with Stephen Ziliak coming out in 2007. Alternatively I could speak to you at even greater length—I plan four fat volumes, the first of which was published in 2006 by the University of Chicago Press—on the more humanistic obsession of mine these days, the history and philosophy of the "bourgeois virtues."

But so far as economic history is concerned I can pose as an expert chiefly on Britain. As someone remarked to me at dinner one night in Johannesburg—I think he had had a bit more wine than he could handle, and was in the candid stage of tipsiness—just because I know a little about the economic history of Britain doesn't mean I know much of anything about economic history elsewhere. Just because Britain was the first industrial nation does not, emphatically does not, make its history the key to every other economic history.

That's right. It's just what was wrong with stage theories, popular in our youths, the last one being Walt Rostow's. The first was Hume's back in the 18th century. The 19th century was especially fertile in them, such as Marxism, and then the racial theories of the development of *Het Volk*. They all said that human societies are like growing trees. This means that each society will have to go through the stages of seed, sprout, sapling, young tree, mature tree, aged tree. It means you cannot skip or accelerate stages. Thus the Marxists before late 1917 were convinced that the Revolution would come in Germany, not in backward Russia, of all places. Thus the Dutch in Indonesia around the same time comforted themselves by imagining that it would take the Indonesians, so obviously primitive, at least two centuries of tutoring by the Nederlanders to reach the stage of maturity that would justify allowing the Indonesians to run their own affairs. A similar theory, it says in my two books on South African history, was once accepted here. Certainly in my own country the same story of stages of development was long thought to justify scientific and other racism.

I detect a similarly grim yet unrealistic economics in the present generation of so-called growth models. Maybe, come to think of it, stage theories are not merely something out of our remote youths. Some years ago, when the International Economic History Association met in Milan, someone told me that he thought his own country of Uruguay would take—according to the latest model from Lucas or Barro—three hundred years to catch up. Three hundred years. This is stage theory as despair.

What I can offer you as a British economic historian, a Chicago-School economist, and a rhetorician of science is what I call kitchen-table—*keukentafel*—economics about our past and present and maybe our future. I can offer you in particular freedom from the anti-economics of stage theories.

What I mean by "kitchen-table economics" is the kind of disciplined common sense we use as policy advisors in economics, that is, if we are responsible and are not mere ideologues or mere mechanics. As Alec Cairncross used to say, the test is whether you would "take it to the Riyadh." The discipline over the common sense is quantitative. I have often noted that the master discipline of economics is not mathematics—as much as I love mathematics—but accounting.[2] Getting the accounts right and getting the sums right within the accounts is the way that most economic questions are answered.

Let me give you some examples. Over my career I have rather specialized in such examples, so I could go on giving one after another, as we say, until the cows come home.

1. A high-brow example is Bob Barro's old and important point that the promises of governments to pay pensions might well be treated by the people promised them as among their assets. It's an accounting point.[3]

2. Another high-brow example is the old demonstration, independently by Milton Friedman and I. M. D. Little, that it is not true, as the then just-mastered technique of indifference curves in economics seemed to imply, that taxes on income as a whole are always better than taxes on liquor, cigarettes, and the like. If you get the social accounting right you see that this cannot be so, that it implies a free lunch.[4]

3. Still another high-brow example is Paul Samuelson's old demonstration that although consumers prefer fluctuating prices, the society as a whole does not, unless, as he put it, there is "an outside Santa Claus."[5] Accounting again.

4. A case with which I like to torture journalists is that Japan's surplus of trade, like China's now, is *good* for the West. We Westerners get Toyotas and hammers. The mercantilist Easterners get pieces of paper inscribed with Western national symbols, which cost pennies of real resources to print. It's accounting.

5. A more startling case, perhaps, is that central bankers such as our own American Alan Greenspan and now Ben Bernanke do not matter. The reason? Do the accounting right, and then look at the magnitudes. How would Bernanke affect the American interest rate, which is by arbitrage the same as the world interest rate? By open market operations out of his portfolio. How large is his portfolio relative to the world supply of loanable funds? Trivial. Perhaps one or two percent. Would anyone with one or two percent of the world's oil supply call a press conference to announce the price he is setting for the world's oil? The journalists would laugh. But they don't laugh at the chairman of the Federal Reserve Bank. I say they should. You can call the argument price "theory" if

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[2] [with Arjo Klamer] "Accounting as the Master Metaphor of Economics," *European Accounting Review* 1 (1, May, 1992): 145-160.

[3] Robert J. Barro, "Perceived Wealth in Bonds and Social Security," *Journal of Political Economy*, 1976, vol. 84, issue 2, pages 343-49.

[4] Milton Friedman, "The 'Welfare' Aspects of an Income Tax and an Excise Tax, *Journal of Political Economy* 60 (1952): 25-33; I. M. D. Little, "Direct Versus Indirect Taxes," *Economic Journal* 61 (1951): 577-84.

[5] CITE to be provided [*it can be found in my textbook,* The Applied Theory of Price]

you want. But it's really just getting the accounting right and then thinking about the magnitudes.[6]

But let's get down to examples that I judge from my immensely deep knowledge of South Africa to be important for its economic development, past and present and future.

6. An example that probably matters for South African economic growth is Hernando de Soto's point that if the government would give modern property rights to poor people in squatter slums they would have the capital to start small businesses. Not everyone believes de Soto, but any economist can at least see his point. The economics viewed as behavioral predictions or mathematical models in de Soto's argument is of course trivial. What matters is that he gets the accounting framework right. Even poor people, he realized, do have balance sheets. A little plot of land on the hillside in the slums of Durban can be quite a valuable asset, if the poor person comes to own it outright and legally. It's land reform for city dwellers.[7]

And then de Sota tries to get the sums right, too. He looks into what the rough magnitudes of the dead capital in poor countries like Egypt and Peru is, and finds it quite large. In Africa the dead capital in informal urban dwelling places and in communally owned agricultural land is said to be three times annual African income.

7. An important, simple case that I myself worked on a lot in the 1970s is "trade as an engine of economic growth." The point applies to a good deal of historical and modern policy thinking, both of which are foreign-trade obsessed. Foreign trade, I believe, *cannot* be an engine of growth, at any rate on static considerations. (Once you move to dynamic consideration all bets are off. But then *any* part of the economy, the chewing gum sector, for example, or the domestic service sector, can be the engine. Which does not seem very helpful.)

Therefore the exclusive focus on external economic relations that you sometimes find in development economics is mistaken. Non-economists, and sometimes economists, and especially some development economists and some economic historians, will talk as if they believe that foreign trade is a net gain to income, a vent for surplus. But this is of course bad, mistaken, mercantilist accounting. Trade is merely one way, often a good way, of getting importables in exchange for exportables. It is so to speak an industry making imported Japanese cameras out of exported South African gold or maize. The size of the industry is the share of imports in national income, which for any large country, like South Africa (and unlike, for example, Luxembourg), is pretty small. The trade "engine" is therefore a matter of a sector sized, say, 10% of national income experiencing an improvement in the terms of trade of, say, 30%, which yields a

[6] McCloskey, "Alan Greenspan Doesn't Influence Interest Rates," *Eastern Economic Journal*, 26 (1, Winter 2000): 99-102.

[7] Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

grand total for the one-time increase relative to national income of 10% times 30%—or a mere 3%. One time, I said.

The really big increases in national income—the 200% or 400% increases, of the sort that South Africa will achieve in ten or twenty years if it will but abandon its irrational employment controls, and that Korea and Thailand have already achieved by doing just that, and which now India is achieving the same way, or ultimately the 1000% increases as South African income converges on the OECD average—cannot be caused by a 3% gain from trade, statically viewed.[8]

8. In fact, I have concluded on the same *keukentafel* grounds that nothing of a merely *allocative* sort can explain modern economic growth.[9] Let me draw you a diagram, at least in your head. Imagine the production possibility curve of Food and All Other Goods per capita of, say, Britain in 1700. Imagine distortions in the allocation of labor and capital reducing the actual, achieved income to something inside this production possibility curve. Or alternatively imagine the opening of foreign trade permitting the economy to get a little outside its existing production possibility curve. So there is something to be gained by getting to the production possibility curve by removing distortions or getting outside it by engaging in foreign trade. Note in the diagram you have constructed in your head the size of the change of income achieved by removing the distortions or engaging in the foreign trade. Keep these absolute magnitudes of increase in mind for the next step. Note that on the grounds I explained they are going to be merely 5% or 10% of the low income in 1700.

Now imagine within the same axes Britain's production possibility curve per capita nowadays. Conservatively it is 20 times further out than the one of 1700. It probably would be much further out if the high quality of modern goods could be fully accounted. Consider food supplies alone. Or educational opportunity. Or travel. Or books.

Can you now believe that the mere reallocations from the 1700 situation—removing the internal distortions, or opening up foreign trade, or the enclosures of open fields, or any other such reallocation—can explain such a change, of 1900% (the 20-times figure)? Can you believe that events of the magnitude of 5% or 10% of 1700 income can explain modern economic growth? If like me you cannot, then like me you are half-way to throwing off your mercantilist instincts or your neoclassical academic training and becoming instead an Austrian economist.

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[8] For many more such calculations see my old book, *Enterprise and Trade in Victorian Britain: Essays in Historical Economics.* Allen and Unwin, 1981; reprinted 1993 by Gregg Revivals (Godstone, Surrey, England).

[9] McCloskey, "The Industrial Revolution, 1780-1860: A Survey," Chapter 6 in R. C. Floud and McCloskey eds., *The Economic History of Britain, 1700-Present* (1981), Vol. 1, pp. 103-127, reprinted in J. Mokyr, ed. *Economic History and the Industrial Revolution* (Rowman and Littlefield, 1985); and "The Industrial Revolution: A Survey," a new essay, in Floud and McCloskey, eds., *The Economic History of Britain, 1700-Present,* 2nd ed., 1994.

9. And now the final example, the one of my title, namely: that imperialism did not help the British, or the First World generally. The modern corollary is that the prosperity of the West depends not at all, or at worst very little, on exploiting the Third World. I know this runs against the grain of much post-imperialist thinking. Thus André Comte-Sponville, a teacher of philosophy at the Sorbonne, who doesn't claim to know much about economics, feels nonetheless confident in declaring without argument that "Western prosperity depends, directly or indirectly, on Third World poverty, which the West in some cases merely takes advantage of and in others actually causes."[10]

Look at the accounting and then look at the numbers.

British imperialism was about protecting the sea routes to India. *But India itself, I claim, was of no use to the average person in Britain*. By the time Victoria became Empress of India the thieving nabobs, Clive of India and all that, were long gone. In 1877 there no more straightforward opportunities left for thievery by the British. In fact by then the British East India Company (and likewise about the same time the older Dutch East India Company) had gone, losing its police powers after the First War of Indian Independence in 1857, and closing entirely in 1871. A company is presumably a more focused institution for thievery than a responsible government. The directors of the Company would have liked to have known of opportunities for super-profits through Company rule in India during the late 19th century. They themselves had not been able to find them in time.

Britain in 1877 traded with India. But trade is trade, not thievery. Bombay sent jute to Dundee and Manchester sent dhotis to Calcutta. Such trade could have been achieved on more or less the same terms had India been independent or, a more plausible counterfactual, considering the military technology of the European powers in the 18th century, and the disorders of the late Mughal Empire, had become a French rather than a British colony. And even if the trade with India contained some element of exploitation, which is unlikely, and has certainly never been proven, the trade was tiny by comparison with Britain's trade with rich countries like France or the German Empire or the United States. Therefore whatever Britain-favoring exploitation there might possibly have been needs to be discounted by the low share of the India trade in the total.

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[10] André Comte-Sponville, *A Small Treatise on the Great Virtues* (1996), trans. Catherine Temerson; New York: Henry Holt, Metropolitan / Owl Books, 2001), p. 89. The fount of such views in France is said to be the philosopher Maurice Merleau-Ponty. Raymond Aron complains in his *Memoirs* (1983, trans. George Holoch, abridged edition; New York: Holmes and Meier, 1990, p. 216) that when Merleau-Ponty writes in 1947 "as though it were an obvious truth, that 'the moral and material civilization of England presupposes the exploitation of colonies,' he flippantly resolves a still open question."

In short, the average person in Britain got little or nothing out of the British Empire. Yet Queen Victoria loved being an Empress and Disraeli loved making her one, so imperial India happened.

Acquiring Kaapstad was an important part of protecting the sea routes to India, of course, as was messing about in Egypt and so forth. But these ventures were no more "profitable" than India itself. True, some British investors, and Rhodes himself, made money out of South Africa. But that does not mean that the great British public did.

The cost of protecting the Empire devolved almost entirely on the British people. (A century earlier the British had likewise paid for the defense of the first empire, in what is now the United States; the colonials refused to pay as little as a small tax on tea for imperial defense.) British taxpayers 1877-1948 paid for the half of naval expenditure that was for imperial defense, a by no means negligible part of total British national income each year.[11] They paid for the Boer War. They paid for the imperial portions of World Wars I and especially II. They paid for protection of Jamaican sugar in the 18th century and protection for British engineering firms in India in the 19th. They paid and paid and paid.

What were the vaunted benefits to the British people? Essentially nothing of material worth. Bananas on their kitchen tables that they would have got anyway by free trade. Employment for unemployable twits from minor public schools. The joy of seeing a quarter of the land area on world maps and globes printed in red.

Economically, it did not matter. Public education mattered a great deal more to British economic growth, as did a tradition of industrial and financial innovation, and a free society in which to prosper.

Look at the accounting and the magnitudes. Most of British national income was and is domestic. The foreign income was largely a matter of mutually advantageous trade having nothing to do with empire—Britain invested as much in places like the United States and Argentina as in the Empire, and there is no evidence in any case that returns to investment in the Empire were especially high. British imperialism was not, except in its earliest stages, mere thievery. The British worried in 1776-1783 and in 1899-1902 and in 1947 about the loss of their various pieces of empire. But is the average British person worse off now than when Britain ruled the waves? By no means. British national income per capita is higher than ever, and is among the very highest in the world. Did acquisition of Empire, then, cause spurts in British growth? By no means. Indeed, at the climax of imperial pretension, in the 1890s and 1900s, the growth of British real income per head notably slowed.

The same accounting and magnitudes apply to other imperialisms. The King of Belgium was a notably ruthless thief in the Congo. But to what benefit to

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[11] The *locus classicus* for these calculations is Lance E. Davis and R. A. Huttenback, *Mammon and the Pursuit of Empire: The Economics of British Imperialism* (Cambridge: Cambridge University Press, 1988).

the ordinary Belgian? Did Belgian growth depend on Belgium's little empire? Not at all. In depended on brain and brawn in coal mines and steel mills at home. Individual Dutch people, as Multatuli explains in his amazingly early anti-imperialist novel, *Max Havelaar* (1860)—compare *Uncle Tom's Cabin*—got rich trading spices from the Dutch East Indies. But the ordinary Dutch seaman or farmer earned what such work earned in Europe in 1860. Would anyone claim that owning Greenland and Iceland and a few scattered islands elsewhere was what made the Danish farmers the butter merchants of Europe? Did the French as a whole get great benefits from lording it over poor Moslems in Africa and poor Buddhists in Vietnam? One doubts it. French economic success, like European economic success generally, depended on French education, French ingenuity, French banking, French style, French labor, French law, French openness to ideas.

Sic transit, I am arguing, all manner of claims that Western wealth is founded on the despoilment of the East or the South. Rich countries are rich mainly because of what they do at home, not because of foreign trade, foreign investment, foreign empire, past or present. If the Third World moved tomorrow to another planet, the economies of the First World would scarcely notice it. So too in the 20th century: when after World War II the Europeans lost their empires their incomes per head went sharply up, not down. The one exception to the loss of empire, Russia, grew more slowly enchained to its Eastern European possessions than it would have had it adopted Western capitalism in 1945. Look at East vs. West Germany.

Keukentafel economics, that is, shows that we cannot account for the riches of rich countries by reference to exploitation of poor people. This ought to be obvious from the history of South Africa. Keeping the blacks uneducated and the coloreds excluded from certain professions did *not* benefit white South Africans on the whole, no more than Arab men on the whole are made better off by keeping Arab women illiterate and refusing to allow them to drive. Exploiting people is bad. *And commonly* (if not always) *it hurts the ordinary people alleged to benefit from the exploitation*. It makes *some* of the exploiters better off. But these turn out to be mainly a tiny minority, the unusually well-connected or the unusually violent. American slavery, which was profitable for those who owned slaves, did nothing good for the poor whites of the Confederacy, though, alas, they thought it did, and therefore flocked to the colors under the command of plantation owners. That people *think* they are better off by being associated with an empire or apartheid or slaves does not mean they actually are, says the *keukentafel* economist.

What comes out of the kitchen table of economics, in other words, is that on the whole, and time and again, the attempt to live off poor people has not been a wise idea. Even the rich in former times, who did live off poor people, were poor by the standard of modern economic growth. As Adam Smith memorably put it at the end of the first chapter of *The Wealth of Nations*, "the accommodation . . . of an industrious and frugal peasant . . . exceeds that of many an African king." For 1776 this may in fact be doubted. But now, imagining the riches in health and wealth of a working person in a modern economy, and comparing these to the riches extracted in olden times from the poor, it cannot.

If contrary to fact poor people were rich, not poor, and if the exploitation was all a matter of pass laws and violence, not mutually advantageous exchange, then some societies could possibly benefit from imperialism. But that's not what the accounting and the magnitudes suggest about the British empire, or about apartheid. And even exploiting *rich* people is not such a wonderfully enriching idea, as Hermann Göring's program of European enslavement showed. Trading with them turns out to be better, and in fact the more rich countries trade with each other (as they mainly do) the richer they become. We are made better off by having fellow citizens who are well-educated and well-trained and fully employed, even though we will then have to sacrifice having plentiful maids and drivers. If exploiting *poor* people had been such a good idea for the rich people, then white South Africans would now be—or at any rate would have been on February 1, 1990—a lot better off than whites in Australia or Holland. They are not, and were not.

It is in ourselves, not in our stars or in our foreign relations, that we are underlings. The mass of overlings that modern economic promises does not come from the zero-sum taking of riches from other people. It comes from inside. It can come very quickly, as the 8-10% rates of economic growth in China and now India show, leaping over stages in disdain for the old theories, doubling real income per head every 9 or 7 years, increasing by a factor of 4 or 8 in a generation. Let's get on with it, then: honest courts, good schooling, non-extractive governments, property rights for squatters, free international and internal trade, employment laws that do not protect only the presently employed.