Land Policy and the Economics of Colonial Exploitation

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From the time that David Ricardo introduced the concept of comparative advantage into international trade there has been strong support for the theory that nations can derive mutual benefit from specializing their production in those goods which they can produce at the lowest opportunity cost. In practice, however, international trade seems very often to have benefited some nations while impoverishing others. The major thesis of this paper is that this failure to derive mutual benefit has occurred, not because the theory of comparative advantage is invalid, but because in many cases it was inoperative. International trade based on comparative advantage will be mutually beneficial to the trading countries when the goods are traded at prices to which both countries freely consent. But under colonialism prices are effectively distorted so that the gains of specialization are captured by the metropolitan power.

The mechanism by which prices are distorted involves the limitation of the native population’s access to land, often through the creation of private property rights in the land of the colonized country. Title to large portions of land is given to the citizens of the metropolitan power, and the native inhabitants then become rent paying tenants. The real price that the native population then receives for the product of its labor is the nominal price less the rent they must pay for the use of the land. In the extreme case the net income received by the tenant is a bare subsistence. This is the mechanism as it existed in Ireland. A variant of this method was used in parts of Africa, where the native population, instead of being tenants, were employed as hired laborers on the land that had been given to the
European settlers. The nominal wage was then reduced by taxes that were imposed on the native population, taxes for which the native population received no benefits. In either case the native population was compelled to work on land that they did not own, and the surplus created by their labor was expatriated to the metropolitan power.

The next two sections of this paper provide a brief review of the theory of comparative advantage and a discussion of the price boundaries that must be observed as a necessary condition for mutually beneficial free trade. After this we will discuss colonialism as a violation of these boundaries and examine the colonial experience in Ireland and in Africa.

The Theory of Comparative Advantage

The increases in production that could be gained from the specialization of labor were described by Adam Smith, and his tribute to a pin factory is one of the most often quoted passages from *The Wealth of Nations*. David Ricardo extended the analysis of specialization into the international sphere with his recognition of the importance of the comparative advantage that different nations might have in the production of different goods.

It is quite important to the happiness of mankind that our own enjoyment should be increased by the better distribution of labor, by each country producing those commodities for which by its situation, its climate and its natural or artificial advantages, it is adapted, and by their exchanging them for the commodities of other countries ...¹

The theory of comparative advantage is based upon one of the most fundamental concepts in economics, the concept of opportunity cost. The relationship between opportunity cost, comparative advantage, and total output is readily illustrated by an example of the sort that commonly appears in textbooks of economics. Suppose that two countries, let us call them England and Ireland, are each capable of producing food and manufactured goods. England, if it produces only food, can produce 75 million tons of food per year; while, if it produces only manufactured goods, it can produce 150 million tons of manufactured goods per year. For simplicity of
calculation we will make the tradeoff in production constant within England, so that whenever England produces one ton less of food it releases resources that can be used to produce two more tons of manufactured goods.

For Ireland the maximum possible amount of food production is 50 million tons per year, and the maximum possible amount of manufactured goods production is also 50 million tons per year. We will make the same assumption regarding a constant rate of tradeoff in internal production in Ireland, so that whenever Ireland produces one ton less of food it releases resources that can be used to produce one more ton of manufactured goods.

These countries have a choice between autarky and international trade. More precisely, if there are only these two countries, then they can engage in trade only if both countries agree to trade, but if one country chooses autarky then the other country must also be autarkic.

In the autarkic situation each country can consume only what it produces internally. Suppose that the preferences of the population in each country are such that they wish to consume food and manufactured goods in equal amounts, that is, one ton of food with each one ton of manufactured goods. Then England will produce and consume 50 million tons of each good per year, and Ireland will produce and consume 25 million tons of each good per year. The total output is 75 million tons of each good per year.

Now let the two countries abandon autarky and engage in trade. The possibilities for production will be expanded. With the same preferred consumption pattern, one ton of food for each ton of manufactured goods, total production can be as large as \(83\frac{1}{3}\) million tons of each good per year, an increase of \(8\frac{1}{3}\) million tons per year in the production and consumption of each good. Ireland will have become specialized in the production of food, producing 50 million tons of food per year. In England the resources will become more specialized toward the production of manufactured goods, so that English production will be \(83\frac{1}{3}\) tons of manufactured goods and \(33\frac{1}{3}\) tons of food.

This increase in production was made possible by a more efficient use of available resources. Although England is the superior producer of both food and clothing, being able to produce a larger amount of
each good than can Ireland, the latter has a *comparative advantage* in
the production of food. In England the opportunity cost of pro-
ducing a ton of food is two tons of manufactured goods, while in
Ireland the opportunity cost of producing a ton of food is only one
ton of manufactured goods. Whatever amount of food the two
countries wish to produce, it is most efficient to have it produced at
the lowest possible opportunity cost, and this is accomplished by
having Ireland specialize in the production of food.

**Prices and the Distribution of Output**

The preceding argument for the advantages of specialization and
trade requires only the reasonable assumption that the opportunity
cost of producing a good is not the same in every country. (There is,
of course, also the condition that the gains in production resulting
from specialization must be greater than the transaction and trans-
portation costs of trade.) However, although this argument demon-
strates the increase of production that will result from the use of
comparative advantage, it does not say how that increase in pro-
duction will be divided between the two countries.

Each country's share in the gains from specialization will be
determined by the prices at which the goods are traded. But the price
at which the marginal unit of a good is traded will be the price at
which all the units of that good are traded. Hence, the introduction
of trade not only makes specialization possible, it also introduces a
mechanism that determines the shares of the two countries in their
*total* output.

To continue with our example, if Ireland could buy manufactured
goods from England at a price of one-half ton of food for a ton of
manufactured goods, then it could consume $33\frac{1}{3}$ million tons of each
good, clearly better off than it had been under autarky. But, by
selling manufactured goods to Ireland at this price, and therefore
buying food from Ireland at the price of two tons of manufactured
goods per ton of food, England emerges from the trading with 50
million tons of each good, no better off than she had been under
autarky. Hence, there would be no reason for England to engage in
trade, and without a trading partner Ireland must remain autarkic.
To induce England to trade Ireland must be willing to pay a price for
manufactured goods higher than one-half ton of food for a ton of manufactured goods.

Conversely, if England could buy food from Ireland at a price of one ton of manufactured goods for one ton of food, then England could expand its annual consumption to 58½ million tons of each good. But in trading at this price Ireland would be buying manufactured goods from England at a price of one ton of food per ton of manufactured goods, the opportunity cost of producing the goods herself. At this price Ireland would be no better off than under autarky, and would have no incentive to engage in trade.

For both countries to engage freely in trade each must gain from trade. In our example this would require that the price of food be within the boundaries just described:

\[
\begin{align*}
1 \text{ ton of manufactured goods} &< \text{Price per ton of food} < 2 \text{ tons of manufactured goods} \\
\end{align*}
\]

which is the same as:

\[
\frac{1}{2} \text{ ton of food} < \text{Price per ton of manufactured goods} < 1 \text{ ton of food}
\]

Any prices within these boundaries will assure that both parties will gain from trade, for each party will be buying its imported good at a price below the opportunity cost of producing that good itself, and each party will be selling its export at a price higher than it could get for the good in its own domestic market.

To illustrate what would happen if these boundaries were to be violated, let us imagine a situation where England is able to impose on Ireland’s export a price of one-half ton of manufactured goods per ton of food. This price would have to be imposed on Ireland because, as we have seen, Ireland would never freely consent to trade at such a low price for its produce. At this low price England would purchase 33½ million tons of food, paying for it with 16½ million tons of manufactured goods. As a consequence, Ireland would be left with 16½ million tons of each good, an income one-third less than it had enjoyed under autarky.
The Essence of Colonialism

The mechanism that will guarantee that prices will be within the boundaries for mutual benefit is the ability of each country to refuse to engage in trade unless the price of its import is below the opportunity cost of producing that good domestically (and the price of its export is above the price of that good in its domestic market). Suppose, however, that one country can impose upon the other's export a price that is below the second country's internal price. Then the first country will capture all the gains from specialization. Beyond this, the first country will capture some of the output that the second country would have produced under autarky. For the second country, then, specialization and trade become not a way to increase the amount of goods available for its own consumption, but a way to lose some of the goods it would have had if it had never engaged in trade at all. The second country will find that instead of being enriched by trade, it is impoverished by trade.

No country would freely consent to engage in trade that impoverishes it. Yet in a very large number of cases of international trade one country was able to impose a price structure that benefited itself and impoverished the other country. This is the essence of colonialism, and the imposition of such a price structure invariably involves the use of physical force.

Some writers have made a distinction between imperialism and colonialism. Walter Rodney states that 'Imperialism is essentially an economic phenomenon, and it does not necessarily lead to direct political contact or colonization.' Imperialism is the establishment of a metropolitan-peripheral relationship, where production in the peripheral country is structured so as to serve the interests of and enrich the metropolitan country. All the examples of imperialism discussed in this paper were also cases of colonialism, and 'Colonialism was first and foremost a political phenomenon.' Direct political, and military, contact was the indispensable condition for restructuring property rights in land, so that there are few examples of an imperial relationship that did not involve direct political contact. As Rodney himself continues, 'Africa was the victim of colonization.'

It is worthwhile to distinguish further between two types of colonialism. In the first type the imperial power encountered an
The indigenous hunter-gatherer culture which it either exterminated or pushed aside, as in the North American colonies of England and France. In this type of colonization the now vacant land was given to settler-colonists from the imperial power. These settler-colonists were given *title* to the land, which they worked themselves, without imported slaves. Hence they could work it as they would; and all the produce of the land and their labor was theirs to do with as they wished.

In colonization of the second type the imperial or metropolitan power encountered an indigenous *agricultural* population. In these cases the major economic consequence was often the substitution of the imperial power's system of real property law for the property law system of the native population and the transfer of land titles to citizens of the metropolitan power. Raymond Crotty has called this second type 'capitalist colonialism,' the forceful imposition of a capitalist culture on an indigenous, collectivist non-capitalist society of food producers, and has pointed out that '... every one of the 138 or so countries that were colonies of the capitalist system has failed to develop economically.'

The first type of colonialism results in the establishment of a generally prosperous population of colonists who are citizens of the imperial country. The prosperity and strength that follows from the land ownership under the first type of colonialism is evidenced by the later history of this type of colony. In Canada, the United States, New Zealand, and Australia the descendants of the original colonists, having control of their economic affairs, soon gained political independence as well, frequently without recourse to war, as in three of the four countries just mentioned, and then continued to develop economically.

In the second type of colonialism, Crotty's capitalist colonialism, there is an enclave of colonists from the metropolitan power who are given title to the best land, as in Northern Ireland and in Kenya, and who are subsidized by the imperial power and allowed to keep the profit from the land. But the indigenous population, having been pushed on to the inferior land, is then compelled to export the surplus produce of that land and the produce of their labor for the benefit of the imperial power.

To secure over the long run a share of the produce of the
conquered nation, the metropolitan power must establish a system that encourages production in the conquered nation, and which causes the export of a significant share of that production to the metropolitan country. The colonial land system was extremely effective in accomplishing this. In Ireland the native population became tenants of the new landlords. Rent payment was the mechanism used to impose a price structure that allowed the metropolitan power, England, to expropriate all the gains from trade and some of the 'pre-trade' level of output as well. An alternative mechanism to rent payments, but one which has very much the same results, was alienation of the land coupled with the employment of native labor compelled by taxation to work the alienated land for virtually no payment. With the 'development' of international markets the control of import and export prices could be further assured by monopoly over trade.

We shall review the mechanism of rents as it functioned in eighteenth and nineteenth century Ireland. Then we shall review the alternative but equivalent mechanisms as they were used in Africa in the twentieth century. In all cases the result was the same, the distortion of effective prices so that the metropolitan power gained not only all the benefits of trade, but captured enough of an additional portion of the output of the peripheral country, so that the latter became impoverished and underdeveloped.

Colonialism in Ireland

Ireland was the first of England's colonies. The substitution of English land law for Irish land law took place over the four and a quarter centuries that were required to subdue Ireland.6 The confiscations of land in the seventeenth century left less than five percent of the land of Ireland in the hands of the Catholic natives who comprised ninety percent of the population. The result of these confiscations was an almost complete separation between those who owned the land and those who tilled it, a separation of race, religion, language, traditions, and national loyalties. The enactment of the Penal Laws in the 1690s outlawed Catholicism, making it illegal for a Catholic to own land.

In the first chapter of The Land Question Henry George argued
The 'unpalatable truth' that the land system of Ireland was essentially the same as that which prevailed in most other places. In the early chapters of the same work he pointed out the frequency of famine in other countries and the distress of the laboring classes even in the United States.

The way in which the land system in Ireland did differ from that in the United States and England was not in the system of laws establishing private property in land, but in the nature of the gulf that separated landlord and tenant; and this gulf contributed to the distress in Ireland as it did in every other colonized country. Judge Mountifort Longfield described the relation of landlord and tenant in Ireland:

In both countries (England and Ireland) the law is based on the feudal system, which gave the landlord a certain superiority over his tenants. But the feudal relation, with its reciprocal rights and duties, never existed in Ireland. Here the landlord never led his tenants into battle; if they fought on the same field, it was on different sides. They had no tradition of common victories or common defeats. The relation that existed between them was hostile.

There was as well very often a geographical separation of landlord and tenant. Richard Barry O'Brien wrote that, 'The Anglo-Irish landlord was an absentee then (in the reign of Elizabeth). He is, in the main, an absentee today (in the reign of Victoria)." Regarding absenteeism, George had argued in The Land Question,

And it is further to be remarked that too much stress is laid upon absenteeism, and that it might be prevented without much of the evil often attributed to it being cured. That is to say, that to his tenantry and neighborhood the owner of land in Galway or Kilkenny would be as much an absentee if he lived in Dublin as if he lived in London, and that, if Irish landlords were compelled to live in Ireland, all that the Irish people would gain would be, metaphorically speaking, the crumbs that fell from the landlords' tables. For if the butter and eggs, the pigs and the poultry, of the Irish peasant must be taken from him and exported to pay for his landlord's wine and cigars, what difference does it make to him where the wine is drunk or the cigars are smoked?

This is the point exactly. Although it does not matter where the wine and cigars are consumed, it might matter where they are produced, whether the expenditures on those products return to
Ireland as income for native producers. This is the sense in which national boundaries affect the definition of the problem. George argued rightly that we should not limit our observations to national units, but should look inside national boundaries as well, where we will find some portions of the population in as great a distress as is the majority of the population of any colonized country, and from the same cause. That cause is the expropriation of the fruits of the laborer through monopolization of land and control of the prices of the products of the land and labor.

The problem addressed in this paper is the identification of the mechanism by which the metropolitan power uses the colonial land system to capture excessive gains from trade with the colonized nation. If our units of analysis are two separate countries, then the fact that the inhabitants of the one country are tenants on their own native land, paying rent that is exported to landlords in the second country, makes absenteeism a matter of importance.

A further consequence of the gulf between landlord and tenant was rack renting. Largely because of that gulf the Irish tenant had little security of tenure (in contrast to the status of Protestant tenants in Northern Ireland, where the commonality of religion and nationality among landlord and tenant afforded the tenant the set of protections known as 'The Ulster Custom'). As a consequence of the lack of security of tenure among the rapidly growing Catholic population the competition for land in the early nineteenth century bid rents up to levels where only a subsistence income was left for large numbers of the tenants. The rent had to be paid in money, and the only way to obtain such an amount of money was by producing goods for the export market. Thus, rack renting functioned as a mechanism effectively to adjust the prices of the goods that the Irish sold. No matter what the price of Irish exports might be in trade, rent could adjust so that exports were worth little more than the amount of the rent. In a bad year, the value of output would be less than the amount of the rent, and the arrears of rent would hang over a tenant's head, threatening him with instant eviction at the landlord's whim.

With rent functioning in this way, England could allow the prices of the goods that it traded with Ireland to be established on a world market. The rent payments to the metropolitan power, for which the
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colony received nothing in return, had the effect of causing Ireland to sell its goods for less than their internal opportunity cost.

The argument might be made that the competition for land had the beneficial effect of insuring that only those tenants who would cultivate the land most intensively would be able to acquire the use of it. But the competition bid rents to such a level that however hard the tenant might work he himself would realize little benefit from his labors. The rents were captured by a small group of landowners and were exported out of the country.

Colonialism in Africa

At the beginning of the twentieth century the British completed construction of a rail line from Mombasa, on the coast of Africa, to Lake Victoria. The line ran through large expanses of highlands that were the collective domain of several tribes that used the lands as seasonal pastures for their herds. After completion of the railroad the colonial administration ‘alienated’ these lands to European settlers. That is, the lands were declared ‘Crown Lands’ and then sold to European settlers at nominal prices. ‘Lord Delamere,’ for example, ‘purchased 100,000 acres of the best land for a penny per acre,’ and there were other estates of several times that size. (Nor were such bargains in land unique to Kenya or to British administration. In 1926, the Firestone Rubber Company acquired one million acres of supposedly independent Liberia for six cents an acre and one percent of the value of the exported rubber.

It was not only that so much of the best land was alienated to the European settlers, but the productivity of the European held land was enhanced by access to capital, placement of roads (largely paid for by taxes on the native population), favorable tax treatment, and monopoly of the most profitable commercial crops. The result was that the land the Europeans held was capable of being farmed profitably, while the Africans' land, even if it had better soil or more reliable rainfall, was not.

But these plantations, even when they were not the size of Lord Delamere's, were useless to the European unless he could get the native to work for him. The African, of course, had no reason to work for the Europeans,
... unless the Europeans had been willing to pay in wages more than the Africans could earn from farming on their own account. But such wages would have meant little or no profit for the Europeans. Therefore Africans had to be compelled to work, partly by force, partly by taxation, and partly by preventing them from having access to enough land for profitable crops to enable them to pay taxes without working for wages.¹⁵ [emphasis added]

What was meant by the phrase, ‘partly by force,’ was described graphically by Leonard Woolf as a system of forced labor not far removed from slavery.¹⁶ In brief, it consisted of allowing to remain on the reserved (for Africans) lands only that part of the labor force in excess of what was required to work the European plantations. Those workers who were selected to work on the European plantations were assigned a legal status that made their situation worse than that of a serf.

Very shortly, however, a rapid population growth, similar to that which had occurred in Ireland in the early nineteenth century, occurred in Kenya in the early twentieth century, so that it became less necessary to use direct force. Population pressure and taxation were sufficient to assure an adequate supply of African labor on the European lands.

The movement of the population into paid labor and the level of taxation were such, Colin Leys reports, that, 'by the mid-1920s more than half the able-bodied men in the two largest tribes were estimated to be working for Europeans. Within the space of a generation they had effectively been converted from independent peasants producing cash crops for the new markets, into peasants dependent on agricultural wage-labour.'¹⁷

By Leys’ estimates, these laborers were paying seventy-five percent of their wages in taxes. And the tax structure was one that was clearly designed both to enhance the economic condition of the European plantation owner and to further the exploitation of the native population. The only property tax in Kenya at this time was the hut tax, to which Africans were liable whether or not they worked for money wages. There was no property tax at all for the European plantation owners. The latter were subject to the poll tax at the insignificant rate of £1 per year. Likewise, import duties were negligible on consumer goods for the luxury end of the European
market, but were a significant part of the price of the few import goods that the Africans could buy. 'Africans paid the bulk of taxation, while the Europeans received virtually the entire benefit of government services — railways, roads, schools, hospitals, extension services, and so forth.' Roads in the European areas were financed by central government grants, while in the African areas they were financed by taxes on local produce.

What had occurred in Kenya had its counterpart in Ghana, on the other side of the African continent. The colonial era saw the transformation of the Ghanaian economy from production for the benefit of the native population to production for the benefit of the metropolitan powers. 'Ghana's peripheral status during the colonial period was characterized specifically by its heavy reliance on the import-export trade.' As it had in Kenya, colonialism brought increased integration into the international economy but underdevelopment in the domestic economy. Ghanaian cloth was replaced by British cloth. 'By the 1890s gold mining in Ghana was an exclusively expatriate enterprise.' Before the First World War cocoa for export had become the predominant agricultural crop, its production often involving the destruction of plants that might have been used for domestic consumption. Since cocoa is a consumer good, and not a necessity, Ghana's economy became highly dependent on fluctuations in the world market for cocoa, which was, moreover, dominated by a few large buyers.

In Ghana, as in Kenya, the African peasant was allowed to own land. But as in Kenya, taxation and the control of trade allowed the imperial power to expatriate the surplus of the African worker.

The mechanisms that were a part of colonialism in Kenya or in Ghana operated in other countries as well. 'Good examples of Africans literally being forced to grow cash crops by gun and whip were to be found in Tanganyika under German rule, in Portuguese colonies, and in French Equatorial Africa and the French Sudan in the 1930s.' But even where, as in Kenya, the African peasant was allowed to own his land in the reserved areas, the surplus which his labor produced on that land was expatriated.

Cash-crop peasants never had any capital of their own. They existed from one crop to another, depending on good harvests and good prices. Any bad harvest or fall of prices caused the peasants to borrow in order to
pay taxes and buy certain necessities. As security they mortgaged their future crops to moneylenders in the middleman category. Non-payment of debts could and did lead to their farms’ being taken away by the moneylenders. The rate of interest on loans was always fantastically high. \(^{22}\)

Replace the word ‘taxes’ by the word ‘rent’, and this passage might be describing Ireland in the nineteenth century rather than Africa in the twentieth. These moneylenders were only one link in the long chain of individuals and organizations that in concert expatriated the surplus of the African peasant. Perhaps the largest share of the surplus was taken by the European trading companies. By controlling exports and imports these companies controlled both the price which the African peasant received for his product and the price which he paid for imports. Where physical force was not used, the presence of taxation assured that the African peasant would continue to produce for export.

This expatriation of the African peasant’s surplus is not far removed from the actual trade in slavery that preceded it. Thus, again from Walter Rodney,

In Britain, the notorious slave trading port of Liverpool was the first to switch to palm oil early in the nineteenth century when the trade in slaves became difficult or impossible. This meant that Liverpool firms were no longer exploiting Africa by removing its labor physically to another part of the world. Instead, they were exploiting the labor and raw materials of Africa inside Africa. \(^{23}\)

That the colonial powers thought this an improvement is indicated by a speech given by Joseph Chamberlain in the British House of Commons in 1903, as reported by Leonard Woolf.

He said that the capitalists in Africa who asked for taxation to compel the native to work for them at a wage were very much hurt at its being said that they wanted forced labour. Mr. Chamberlain sympathized with them. He explained that it was wrong to call this “forced labour.” Forced labour was labour forced to work by physical means; but if you compelled a native to work by taxing him so much that he was compelled to work for the European and the wage offered by the European, this was not forced labour, but moral suasion. \(^{24}\)

There is a striking similarity between this method of taxation and the rent paid by Irish tenants in the 18th and 19th centuries. The similarity becomes more apparent, when one reviews the requests
made by European settlers for increases in taxes on Africans in order to increase the supply of labor to the plantations. Chamberlain may have been semantically correct in saying that African workers were not forced to work on European plantations. They were merely forced to pay taxes, and they could obtain the money to pay taxes only by working on the European plantations. Likewise in Ireland, the native population was not forced to work on the land. Force had to be used only to enforce the property rights of the landlord. This was done through eviction of tenants who did not pay the rent. Of course an evicted tenant faced the very real prospect of starvation.

The Aftermath of Colonialism
The purpose of this paper was to describe how the mechanisms of rents and taxation could be used to turn the promise of gains from comparative advantage into the reality of impoverishment for one of the countries engaged in trade. But this impoverishment would last long after direct political and military contact had ceased. Even after gaining political independence, countries that were the victims of capitalist colonialism remain impoverished and fail to develop economically. The failure to develop that Crotty described in the countries that had been colonies is a direct result of the expatriation of wealth that occurred in the colonial period. With so much of their domestic product being exported in the form of rents, the specialization in agriculture in the peripheral countries became exaggerated. With little or no income available for investment in the colonial economy other forms of industry withered away. Likewise, there was an enormous destruction of human capital in Africa. As the African population was separated from its traditional methods of production, the knowledge required for those methods was not passed on. Within one or two generations that knowledge is lost. The end of the colonial era saw the countries less developed, relative to the metropolitan powers, than they had been at the beginning of the period, and their role as peripheral members of the international economy continued.
NOTES


4. Rodney, loc. cit.


10. ibid., page 28.


12. ‘The Ulster Custom’ guaranteed the tenant a fair rent, fixity of tenure as long as the rent was paid, and free sale of his improvements to the land. The Ulster Custom was a form of dual ownership.


17. Leys, p. 31.

18. ibid.


20. ibid.


23. Rodney, p. 156.