

THE ORIGINS OF FOREIGN AID
Colonial Development and Welfare Funds in the Late
British Empire

Didac Queralt

Yale

IPES 2023

Imperial Aid

- ▶ Modern-day foreign aid (i.e., intergovernmental grants and subsidized loans in cash or kind) originates with the **1929 Colonial Development Act**
 - First time that metropole commits to spend British taxpayer's money in developmental projects
 - Limited to non-self government (or Crown) colonies
- ▶ In 1945, the CD program is expanded into **Colonial Development and Welfare**, treating education and health care as core aspects of development.
- ▶ The program lasted 40 years (0.34% of British GDP); all 58 Crown colonies participated; and funds represented on average of 11% of colonial revenue.

Historiography

- ▶ CD&W was studied by contemporary scholars
[Abbott 1971, Dosser 1957, Stammer 1967, Wicker 1958]
- ▶ It is addressed in passing by economic historians
[Cooper 1986, Gardner 2012, Hopkins 1973]
- ▶ Two exhaustive accounts focus on motivations and inner workings of the program, offering rich but descriptive statistics
[Havinden and Meredith 1993, Morgan 1980]
- ▶ Existing work do not systematically study CD&W fund allocation and performance.

Contribution

- ▶ In this book-project I show that the CD&W program
 1. Was designed to support British industry in times of globalization retreat
 2. Targeted poorer colonies, suggesting an equalizing motivation
 3. Expanded colonial state capacity [preliminary results]
 4. Empowered nationalist movements by expanding native education and trade unionism [expected]
- ▶ Today I'll focus on 1 & 2

Why Imperial Aid?

- ▶ The 1929 Act is a compromise between two political families: the *Britain-First* (Tories + Trade Unionists in Labor Party) vs. the Internationalist (Fabians within Labor + Liberals).

- ▶ The 1929 bill chased a dual mandate:

“The Bill is to develop the Colonies agriculturally and industrially and to provide employment in this country”

(Sir Oswald Mosley, H of C, Colonial Development Bill considered in Committee, Vol. 230, July 18, 1929)

- ▶ Initial considerations did not contemplate fears of colonial independence.
- ▶ Protests in West Indies and the Copperbelt (Northern Rhodesia) in the 1930s raised the alarm.

The Program Expands

- ▶ 1940 Colonial Development and Welfare Act
 - Education now included
 - Multi-year development plans
 - From 50-50 grant-loan split to 95% grant-in-aid
 - 5X original funds
- ▶ Program expanded again in 1945
 - 2X 1940 funds
 - Recipients can keep unspent balance

The Program Expands

- ▶ 1940 Colonial Development and Welfare Act
 - Education now included
 - Multi-year development plans
 - From 50-50 grant-loan split to 95% grant-in-aid
 - 5X original funds
- ▶ Program expanded again in 1945
 - 2X 1940 funds
 - Recipients can keep unspent balance
- ▶ Additional expansions: 1949, 1950, 1955, 1959, 1963, and 1965.

The Program Expands

- ▶ 1940 Colonial Development **and Welfare** Act
 - Education now included
 - Multi-year development plans
 - From 50-50 grant-loan split to 95% grant-in-aid
 - 5X original funds
- ▶ Program expanded again in 1945
 - 2X 1940 funds
 - Recipients can keep unspent balance
- ▶ Additional expansions: 1949, 1950, 1955, 1959, 1963, and 1965.
- ▶ Program **terminates** in 1969 (earlier if independence)
 - Bilateral aid continued after 1969 \rightsquigarrow legacies [Alesina & Dollar]
 - After 1969, \downarrow funds, \uparrow loans-in-aid.
- ▶ CD&W represented on average **11% of local revenue** in the colonies, comparable to modern-day foreign aid flows.

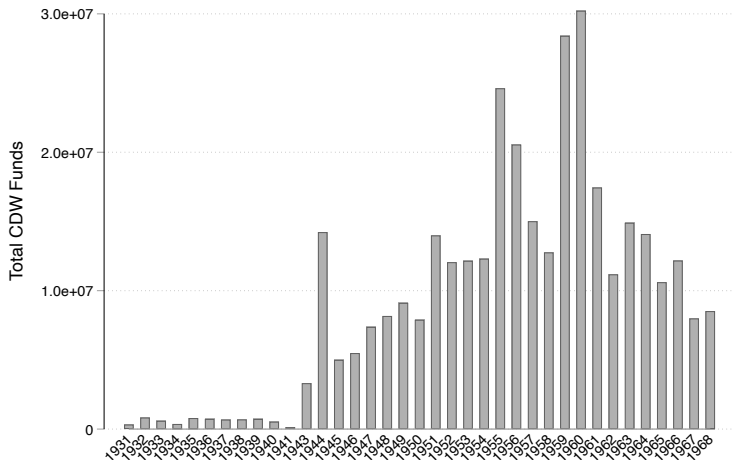
Geographic Distribution

Region	Colonies	Colony-Year	%
Africa	15	571	35.6
West Indies	18	513	32.0
Middle East/Mediterranean	6	157	9.8
South-East Asia	7	140	8.7
Indian Ocean/Pacific	7	131	8.2
Atlantic	5	90	5.6
Total	58	1,602	100

Africa: Basutoland, Bechuanaland, Gambia, Gold Coast, Kenya, Mauritius, Nigeria, North Rhodesia, Nyasaland, Seychelles, Sierra Leone, Somaliland, Swaziland, Tanganyika, Uganda, Zanzibar. **South-East Asia:** Ceylon, Hong Kong, Malaysia, North Borneo, Sarawak, Singapore, Strait Settlements. **Indian Ocean/Pacific:** Solomon Islands, Fiji, Gilbert and Ellice Islands, New Hebrides, Pitcairn Island, Tonga. **Middle East/Mediterranean:** Aden, Cyprus, Gibraltar, Jordan, Malta, Palestine. **West Indies:** Antigua, Bahamas, Barbados, Bermuda, British Guiana, British Honduras, Cayman Islands, Dominica, Grenada, Jamaica, Leeward Islands, Montserrat, St. Kitts, Nevis and Anguilla, St. Lucia, St. Vincent, Trinidad, Turks and Caicos Islands, Virgin Islands. **Atlantic:** Ascension Islands, Falkland Islands, Newfoundland, St. Helena, Tristan da Cunha.

Overtime Distribution

Yearly CD&W Issues, 1929–1969



Source: Data compiled from Annual Returns of Schemes made under the Colonial Development Act and Colonial Development and Welfare Acts, 1929–1969

Sectoral Distribution

Sector	Total (mil.£)	%
Education and Culture	77	23.8
Civil infrastructure	75	23.1
Agricultural and Industrial Development	74	22.9
Public Health and Welfare	67	20.8
Administration, Cadaster, Surveys	22	6.7
Miscellaneous	9	2.7
Total	325	100

Note: The list includes all territorial schemes to all participant colonies. The data excludes research and centrally managed schemes. Data source: Author's calculation based on CD&W Review (1971).

Sectoral Distribution

Sector	Total (mil.£)	%
Education and Culture	77	23.8
Civil infrastructure	75	23.1
Agricultural and Industrial Development	74	22.9
Public Health and Welfare	67	20.8
Administration, Cadaster, Surveys	22	6.7
Miscellaneous	9	2.7
Total	325	100

Note: The list includes all territorial schemes to all participant colonies. The data excludes research and centrally managed schemes. Data source: Author's calculation based on CD&W Review (1971).

Sectoral Distribution

Sector	Total (mil.£)	%
Education and Culture	77	23.8
Civil infrastructure	75	23.1
Agricultural and Industrial Development	74	22.9
Public Health and Welfare	67	20.8
Administration, Cadaster, Surveys	22	6.7
Miscellaneous	9	2.7
Total	325	100

Note: The list includes all territorial schemes to all participant colonies. The data excludes research and centrally managed schemes. Data source: Author's calculation based on CD&W Review (1971).

Allocation

In this chapter, I examine whether “allocations” of CDW funds were based on the **Recipients’ or Donor’s interest**.

Allocation

In this chapter, I examine whether “allocations” of CDW funds were based on the **Recipients’ or Donor’s interest**.

- ▶ In 1940, CD&W Act requests Colonies to elaborate long-term development programs
- ▶ To help with planning, each colony was “allocated” a share of total CD&W funds by the metropole for a prespecified number of years
- ▶ **Data:** Drawing on archival work, I reconstruct the **6 allocations** of the program (1940, 1945, 1955, 1959, 1963, 1965) for the universe of Crown colonies.

Which Allocation Criteria

I study **now-declassified** correspondence between the Colonial Office and Treasury preceding the 1945 allocation:

- ▶ Discussions consider **recipients' characteristics only**.
- ▶ Colony population takes prominence.
- ▶ Deviations from population criterion required justification.
 - **Allocation ↓**: Revenue, Fiscal Surplus, Public Debt, and Unspent Balance.
 - **Allocation ↑**: Small Area and Weak “Machinery.”

▶ Excerpt Archive

Analysis 1

- ▶ **Were the staff's recommendations followed by the Secretary of State for the Colonies?**

Analysis 1

- ▶ **Were the staff's recommendations followed by the Secretary of State for the Colonies?**
- ▶ For all 6 allocations, I gather data on Revenue, Fiscal Surplus, Debt, Outstanding Balance, Population, and Area for every Crown colony.
- ▶ Two-way fixed effect models with colony-clustered s.e.
- ▶ **Results:**

Analysis 1

- ▶ **Were the staff's recommendations followed by the Secretary of State for the Colonies?**
- ▶ For all 6 allocations, I gather data on Revenue, Fiscal Surplus, Debt, Outstanding Balance, Population, and Area for every Crown colony.
- ▶ Two-way fixed effect models with colony-clustered s.e.
- ▶ **Results:** Recipient characteristics carry a lot of weight
 - i. Colony population explains 57% of allocation variation.
 - ii. Revenue and Public Debt per capita add 15%.

▶ Regression Table

Donor's Interests

1. British Industrial Interest

- ▶ Helping British industry is prominent in 1929's parliamentary debates [Abbott 1971]
- ▶ Colonies supplied industrial input
- ▶ **Original data:** Bilateral trade between colonies and the island [$H_1 : \beta_1 > 0$]

Donor's Interests

1. British Industrial Interest

- ▶ Helping British industry is prominent in 1929's parliamentary debates [Abbott 1971]
- ▶ Colonies supplied industrial input
- ▶ **Original data:** Bilateral trade between colonies and the island [$H_1 : \beta_1 > 0$]

2. Sterling Balances

- ▶ UK's USD-denominated debt after WW2 \approx 1/3 of GDP
- ▶ London controlled exports/imports of colonies, keeping their foreign reserves (aka *sterling balances*) to maintain the £'s value
- ▶ UK encouraged exports to Dollar Area to amass USD in sterling balances to repay debt, and compensated colonies with CD&W funds [Cooper 1994]

Donor's Interests

1. British Industrial Interest

- ▶ Helping British industry is prominent in 1929's parliamentary debates [Abbott 1971]
- ▶ Colonies supplied industrial input
- ▶ **Original data:** Bilateral trade between colonies and the island [$H_1 : \beta_1 > 0$]

2. Sterling Balances

- ▶ UK's USD-denominated debt after WW2 \approx 1/3 of GDP
- ▶ London controlled exports/imports of colonies, keeping their foreign reserves (aka *sterling balances*) to maintain the £'s value
- ▶ UK encouraged exports to Dollar Area to amass USD in sterling balances to repay debt, and compensated colonies with CD&W funds [Cooper 1994]
- ▶ Detailed sterling balances were never published [Schenk 1994]
- ▶ **Original data:** Bilateral trade between colonies and USA ($H_2 : \beta_2 > 0$)

Analysis

- ▶ H1 ✓: Colony's trade surplus with metropole \uparrow CD&W
- ▶ H2 ✗: Colony's trade surplus with USA \downarrow CD&W
 - ↳ Wealthier colonies (Gold Coast, Nigeria, Malaya, Singapore) were the ones with trade surplus with USA
 - ↳ And wealthier colonies were discriminated in CD&W allocations

▶ Regression Table

Preliminary Conclusions

- ▶ **Combination of motives in CD&W:**
 - i. Some equalizing ambition in targeting poorer colonies with weak fiscal capacity
 - ii. Transform colonies into suppliers of inputs to British industry
- ▶ **Next stages of this chapter:**
 - i. Measures of local unrest
 - ii Measure of FDI
- ▶ **Relevance:**
 - i. *Time-varying* colonial effect
 - ii. History as a laboratory to study big-push aid [Sachs 2004]
 - iii. Address selection issues in the study of CD&W's effects

Excerpt of Statistical Table prepared to draft the final recommendation to the Secretary of the State for the Colonies for the 1945 Allocation. Source: CO 852/589/11.

I AREA	II POPULATION THOUS.	III REVENUE		IV RUBLES	V CORPUS	VI AGRICULTURAL LANDS THOUS.	VII AGRICULTURAL LANDS (a) x 10	VIII INDUSTRIAL LANDS THOUS.	IX FURNACE THOUS.	X COMPLEMENTARY PLAN			XI FOREIGN CURRENCY THOUS.	XII INDICATED ALLOCATION													
		£ PER SQU.MILE	£ PER HEAD							£ '000	£ '000	£ '000			£ '000	£ '000	£ '000										
West Africa																											
Gambia	4	188	187	89	2	58	196	30	130	800		1,410(8)	1,410(8)	0.5	1,000,000												
Nigeria	38	1,799	1,944	55	1	1,070	718	207	418	1,300				2.7	2,000,000												
Gold Coast	88	3,880	4,888	54	1	10,400	2,788	98	187	2,300		8,000(8)	1,000(8)	6.0	2,000,000												
Sierra Leone	273	11,861	9,887	36	0.8	24,768	2,880	432	7,090	8,800		40,000	37,000	28.6	2,000,000												
Margin for Readjustments														£	2,000,000												
Total West Africa														487	27,820	18,718	34	0.8	26,876	5,914	781	7,782	12,800			41.6	20,000,000
East Africa																											
Somaland	68	247	178(1)	3	0.5	330	nll	nll	318	380				0.8	750,000												
Kenya	250	2,861	4,818	20	1	17,881	2,800	278	750	2,300		17,000	8,000	5.8	1,000,000												
Uganda	80	2,861	2,888	48	0.6	2,880	2,880	25	1,285	2,800		4,800(8)	2,800(8)	2,800(8)	2.0	2,000,000											
Tanganyika	338	8,418	2,801	10	0.6	7,888	800	285	-	2,800		12,000	9,800	8.0	2,000,000												
Zanzibar	1	180	477	477	1	nll	nll	-14	88	380				0.4	750,000												
Margin for Readjustments															1,800,000												
Total East Africa														708	12,807	12,828	18	0.8	18,828	6,880	678	2,441	8,800			21.8	17,000,000
Central Africa																											
Nyasaland	28	1,078	801	28	0.6	2,810	480	28	308	1,000				2.8	2,000,000												
Northern Rhodesia	180	1,888	2,888	10	2	2,247	2,000	19	80	1,000				2.1	2,000,000												
Margin for Readjustments															800,000												
Total Central Africa														208	2,966	2,819	13	1	2,697	1,480	47	388	2,000			4.7	2,000,000
South Africa																											
D. S. S. C. (Gen.)																											
Northern Protectorate	273	388	382	1	1	nll	144							0.4													
Northern	7	158	200	30	1	nll	8					1,800	2,000	0.8	2,000,000												
Northern	12	862	818	48	1	nll	408						218(8)	0.9													
Total South Africa														194	546	597	2	1	nll	552						1.5	

(a) These totals are too low in some instances, as the previous column shows, payments made under C.D.F. schemes, totalling 2261,000

(1) 1529 Revenue

CD&W Allocations 1940–1965: Recipients' Characteristics

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Population	0.46*** (0.02)	0.46*** (0.02)	0.45*** (0.02)	0.45*** (0.02)	0.46*** (0.02)	0.45*** (0.02)	-0.33*** (0.12)	-1.15*** (0.15)	
Revenue/Cap			-14.44*** (4.02)	-14.45*** (4.05)	-11.99*** (3.89)	-9.74*** (3.53)	-18.09*** (5.91)	-25.63*** (10.39)	
Fiscal Surplus				0.01 (0.13)	-0.02 (0.13)	-0.01 (0.13)	0.03 (0.15)	0.11 (0.16)	
Public Debt/Cap					15.56 (12.63)	15.14 (12.44)	-39.27*** (13.91)	-53.89** (21.27)	
Pop. Density						-0.06 (0.05)	-0.09 (0.14)	0.09 (0.12)	
Outstanding Balance									9.23* (5.12)
Constant	881.09*** (123.05)	303.63** (146.21)	372.88** (147.80)	374.67** (148.78)	318.14** (140.65)	345.59** (143.04)	1,368.39*** (203.13)	3,397.89*** (219.02)	1,897.75*** (621.73)
Allocation FE		✓	✓	✓	✓	✓	✓	✓	✓
Colony FE							✓	✓	✓
Deflated values								✓	
# Allocations	6	6	6	6	6	6	6	6	5
# Colonies	48	48	48	48	47	47	47	47	34
Mean Allocation (£000)	1,582	1,582	1,582	1,582	1,582	1,582	1,582	1,939	1,582
Observations	209	209	209	209	199	199	199	199	134
Adjusted R-squared	0.57	0.58	0.59	0.59	0.61	0.61	0.73	0.80	0.71

Note: See text for sources. Standard errors clustered at colony in parentheses. *** p<0.01, ** p<0.05, * p<0.1

CD&W Allocations 1940–1965: Donor's Interests

	(1)	(2)	(3)	(4)	(5)	(6)
Trade with the UK	0.14** (0.05)	0.17** (0.07)			0.18*** (0.05)	0.23*** (0.06)
Trade with USA			-0.09*** (0.02)	-0.06* (0.03)	-0.11*** (0.03)	-0.08*** (0.02)
Controls	No	Yes	No	Yes	No	Yes
Colony FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	112	112	98	98	95	95
Adjusted R-squared	0.63	0.78	0.60	0.74	0.62	0.77

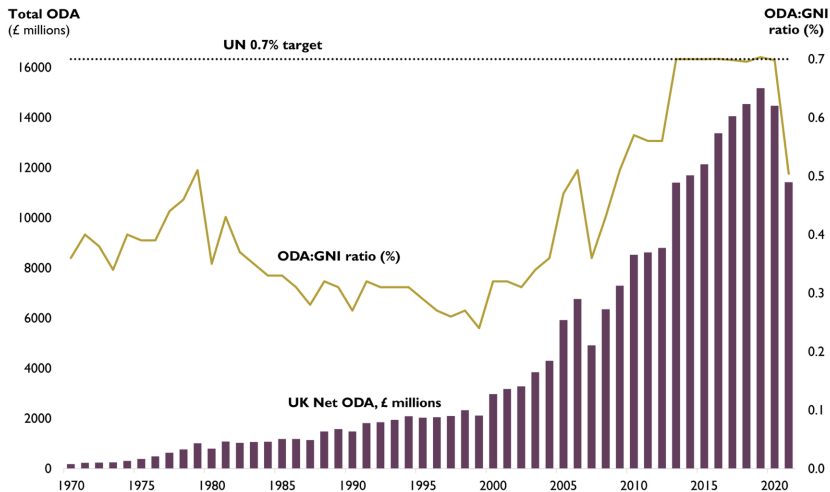
Note: All values are deflated. Positive values of the trade variables indicate trade surplus, and negative values Trade deficits. Intercept not reported. Controls: Population and Density. Colony cluster standard errors in parentheses *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

[◀ Return](#)

Geo-strategic interest?

- ▶ Communist aid to Asia and Africa starts in 1954 [Goldman 1967]
- ▶ Chinese aid to Africa starts in 1956 [Bartke 1989]
- ▶ US aid did not flow to British colonies
- ▶ Military aid is a different story, but concentrated in Middle East and Far East.

Figure 1: UK aid spend since 1970



UK Aid in the Long-Run (House of Lords)