ABSTRACT: ‘Military Railways in India 1875-1914: Globalization and Guns’

Indian railways represented by far the largest single item of British foreign direct investment during the period of empire. Over £200 million was invested by an amalgam of state, private, and government guaranteed companies up to the outbreak of the First World War. Private rail promoters and financiers had the advantage of being able to point to commercial, famine protective, and military rationales for this investment programme, so that the British government often failed to scrutinise the business propositions closely. They assumed that the benefits overall would justify the outlay of Indian taxpayer’s money. WJ Macpherson, who looked at an earlier period of Indian rail investment, viewed the military/strategic rationale, after the Indian Mutiny, and in the face of mounting Anglo Russian tension, as the main driving force behind government support. In the period after 1875 these tensions mounted, and a new generation of guaranteed Indian rail companies, based in London, were able to press the links between trade and peace.

The links between railway building in India, and military security were not actively debated. There was a tendency amongst officials in London and Calcutta to see troop mobility as the key to defending the North West Frontier, and other vulnerable points. The lessons of the American Civil War and Franco Prussian Wars had been partly absorbed, though the importance of railways in those conflicts was much exaggerated. Railway building became driven by a Russophile reaction amongst British policy makers to the substantial Trans Caspian and Orenburg Tashkent Railways, which linked Moscow/St Petersburg to the new Russian territories of Central Asia. The British strategic railway budget reached 47% of total railway spending by 1885, as the Russians defeated Afghan tribesman at Pendjeh. In the years after the second Afghan War of 1878, railways became the second largest expense item in Indian military budgeting. This enormous financial burden was held to necessitate methods of ‘creative accounting’ by the Government of India (GOI). The Indian budget debate at Westminster was the only one which attracted any attention from MP’s, in an era of Gladstonian balanced budgets. The early Indian railway companies, set up after Viceroy Dalhousie’s ‘railway minute’ of 1853, had attracted generous government guarantees, which became discredited as the companies spent ostentatiously on their networks, constructing at an average of £20,000 per mile. This was a multiple of that
spent in other less developed economies like Russia and Argentina. A period of pure state finance followed from 1869 to 1881. By the early 1880s guarantees were again offered to companies straddling the strategic, commercial, and famine protective aspects. When the financial returns of these companies disappointed, the India Office officials in London facilitated improved revenues, in a covert manner, through subsidies, regional monopolies, land gifts, and off market acquisitions. This maintained financial integrity while allowing the companies to maintain a public persona of ‘laissez faire’ capitalism. In the process, the principal amounts of government guaranteed borrowings were kept off the fiscal deficit of the Indian and British Governments, although investors bought the securities solely on the basis of this credit enhancement. To suit the London ‘gentlemanly capitalist’ audience, all guaranteed and state funding was denominated in sterling, which appreciated painfully for the railway companies against the silver linked rupee. The British used public accounting practices not unlike modern ‘off balance sheet’ approaches to dealing with Eurostat and EU/Maastricht guidelines.

One guaranteed railway, the Sind and Punjab was chaired by the so called ‘railway statesman’ WP Andrew, and promised to combine troop transport to the North West Frontier, with grain distribution from the burgeoning ‘bread basket’ of Punjab. Instead, the company became the subject of minor financial scandals, and charged uneconomic rates for grain transportation. Andrew’s fellow board member, Sir Douglas Forsyth had developed a ruthless reputation in the Punjab, punishing sixty five Sikh rebels by launching them as human cannon balls. He combined Sind and Punjab, and East Indian Railway (EIR) directorships, with a network of chairmanships in the South. In Goa, he used British diplomats and civil servants to orchestrate a railway financing which sought to undermine Portuguese hegemony, and provide famine relief to hard pressed famine regions. Meanwhile, in the North West of India, Sir Richard Strachey was able to attract guaranteed funding for his Assam Bengal Railway, which could transport troops to the Burmese border, and avoid further insurgency in bordering native states. Assam Bengal was budgeted at £4 million but cost £9 million and generated negligible returns. This was connected with the infrastructure of the massive EIR, which Strachey also chaired. That railway had been subject to a partial ‘nationalisation’ at 1880, where generous repurchase terms were paid across to shareholders, who were also given attractive ‘annuity’ securities
in exchange. Nationalisations and privatisations occurred at the same time, with little regard for consistency. The EIR annuitants (including Strachey) benefited from monopoly transportation rights into the dominant port of Calcutta, and provided rapid troop connections through Eastern India and Bengal. Strachey was placed in an impossible conflict of interest with his EIR supporting Calcutta trade, and his Assam Bengal intended to support the rival port of Chittagong. In Upper Burma, the lands annexed in 1885 would be connected with Indian ports for trade and commerce via a number of railways companies, so strengthening the defence against French and Russian forces in South East Asia. Lord Rothschild’s Burma Railway company, one of a number of guaranteed companies floated by NM Rothschild in the 1880s/90s, promised to facilitate strategic defence, and exploitation of mineral rights which seemed to promise the imperial riches of the Transvaal. However, Burma’s ruby mines failed to match South Africa’s gold reserves, and the Rothschild group sold their railway shares.

Meanwhile, the railways, both on and off balance sheet, were intended to encourage rapid exports of Indian primary product from internal areas to ports, to be traded for British manufactures, so helping to facilitate the first period of ‘globalization’. India became the most important Empire trading partner of Britain’s by the eve of the First World War, in a period when world trade reached 12% of global GNP. Trade would not return to those levels until the 1970s. However, behind these large commitments lay the Indian taxpayer as ‘lender of last resort’. Nationalist writers like Nairoji, Dutt and Wacha began to point to the extravagance of military railways, and the lack of investment elsewhere, in manufacturing, education, and irrigation. Railways elsewhere promoted growth through the standard accelerator and multiplier effects, but in India the ‘Buy British’ approach negated these benefits. This model of ‘secure globalization’, pursued by the British through the railways, met the impediment of Indian poverty. This could no longer be ignored as catastrophic famines occurred and the Russian strategic menace appeared to wane after their disastrous defeat to Japan. At the same time, the guaranteed companies which had been set up to carry some of the burden of ‘globalization and guns’, continued to provide annuity returns to shareholders and generous retirement packages for ex Indian Civil Servants.