

Empire Defence Payments in WWII by David Gray

Many parts of the British Empire and Commonwealth contributed significantly to Britain's defence costs during World War II, though the structure of these payments was complex, often taking the form of loans, "gifts," and deferred debts rather than a direct "tax" imposed by London. While Britain technically bankrupted itself, the financial support of the Empire was vital to its survival.

Key Ways Countries Contributed to Empire Defence

- The Sterling Area Debts ("Sterling Balances"): Britain bought vast amounts of raw materials, food, and munitions from nations like India, Egypt, and Australia on credit. These accumulated debts were known as "sterling balances," which reached over £3.4 billion by 1945—with India alone holding over £1.3 billion of this debt. Britain essentially borrowed from the Empire to fight the war, with promises to repay later.
- Colonial "Gifts" and Loans: Many colonies and protectorates provided funds directly to the British Treasury. For example, West African colonies gave £1.5 million to war charities and provided £1 million in interest-free loans. Mauritius contributed to purchasing a Spitfire squadron.
- Canadian Support: Canada provided immense support, including a \$1 billion "gift" (about 1 billion Canadian dollars) to Britain, alongside other mutual aid and low-interest loans, reducing the need for Britain to pay for supplies manufactured in Canada.
- India's Financial Role: India not only paid for its own 2.5 million troops in uniform but also for the white British officers stationed there, as part of its defense contribution.
- Reverse Lend-Lease: While the US provided Lend-Lease to Britain, Britain and its Commonwealth (especially Australia and India) provided \$7.8 billion in "Reverse Lend-Lease" to the US (e.g., covering costs for US troops in British territories).

Key Contextual Points



According to the 1931 Statute of Westminster, self-governing Dominions (Canada, Australia, New Zealand, South Africa) were autonomous, and their participation in funding was a choice, though they largely did so voluntarily. These contributions created massive postwar debt for Britain. The "sterling balances" were treated as long-term, interest-free loans that Britain struggled to pay back for years, with some WWII debts only finally settled in 2006. The financial contributions were significant, particularly when considering the high rates of poverty in many colonies and the fact that basic services like schools were underfunded.

While there was no single "Empire Defence tax" that countries were forced to pay to Britain, the British Empire and Commonwealth were the primary financial and material engines that sustained the British war effort.

The financial relationship between Britain and its territories was complex and depended on whether a country was a self-governing Dominion or a Colony governed from London.

1. The Dominions: Voluntary Aid and "Gifts"

Dominions like Canada, Australia, and New Zealand had the autonomy to decide their level of involvement. Rather than paying a fee to Britain, they largely funded their own massive military expansions and provided direct financial relief to the UK.

Canada famously provided over \$4 billion in direct financial aid to the UK through the "Billion Dollar Gift" and "Mutual Aid" programs, which were never repaid. These nations generally bore the full cost of raising, equipping, and maintaining their own armed forces.

2. The Colonies: Mandatory Support and Loans

Colonies governed directly from London (like those in Africa, the West Indies, and Southeast Asia) had less choice. Their resources and finances were often subordinated to the British war machinery.

- **India's Massive Contribution:** India initially contributed £100 million to the war effort and provided a further £20 million to £30 million annually. By the end of the war, Britain actually owed India over £1.3 billion for goods and services.
- **Taxation and Loans:** Colonial governments (such as those in West Africa) granted Britain over £1 million in interest-free loans and imposed extra taxes on local populations to fund war charities and equipment.
- **Total Colonial Giving:** The collective contribution of the colonial empire amounted to approximately £23.3 million in gifts and £24.7 million in various loans.

3. Sterling Balances: Britain's Massive Debt



By 1945, Britain was virtually bankrupt and relied on borrowing from the "Sterling Area" (the Empire and Commonwealth) to pay for munitions and food. Britain finished the war with £3.4 billion in "sterling balances"—essentially IOUs to its colonies and dominions. Unlike typical loans, Britain treated these as long-term, interest-free debts with no fixed repayment date, effectively using the Empire's

wealth to float its own economy during the crisis.

4. Direct Public Contributions

There was also a significant culture of "voluntary" giving across the Empire.

- **Crowdfunding Weapons:** In places like Mauritius and Bechuana (modern-day Botswana), local populations raised thousands of pounds to buy entire Spitfire squadrons for the RAF.

- **Raw Materials:** Colonies were required to prioritise the production of vital materials (rubber, tin, oil, and food) for Britain, often at the expense of their own domestic needs.

The massive financial strain of WWII acted as a catalyst for the end of the British Empire. By 1945, the power dynamic had flipped: Britain was no longer the wealthy protector, but a global debtor to its own colonies.

Here is how those wartime contributions and debts accelerated decolonisation:

1. The "Sterling Balances" Leverage

Britain ended the war owing billions to its territories (particularly India and Egypt).

- **The Debt Trap:** Britain couldn't afford to pay these debts back in cash. Instead, it tried to force colonies to buy British goods, which angered local leaders who wanted to trade globally.
- **Political Bargaining:** Nationalist movements used these debts as leverage. In India, leaders argued that if Britain couldn't even pay its bills, it had no business remaining as a colonial ruler.

2. The Myth of "Imperial Protection"

The primary justification for British rule was that the Empire provided Defence.

- **Military Failure:** The rapid fall of British strongholds like Singapore to Japan in 1942 shattered the illusion of British military invincibility.
- **Self-Reliance:** Since countries like Australia and India had largely funded and manned their own defence during the crisis, they realised they no longer needed—or could rely on—London for security.

3. Britain's Economic Exhaustion

Britain was so broke by 1945 that it could no longer afford the "cost of empire."

- **The Marshall Plan:** Britain became dependent on American loans. The U.S., generally anti-colonial, pressured Britain to open up its imperial markets, further weakening the economic "glue" of the Empire.
- **Cutting Losses:** Maintaining a military presence to suppress independence movements (like those in Palestine or India) became a financial impossibility. It was simply cheaper to leave.

4. The Rise of Armed Veterans

Millions of colonial troops (over 2.5 million from India alone) returned home after fighting for "freedom" and "democracy" in Europe and Asia. These veterans had been trained in modern warfare and expected political rewards for their sacrifice. When Britain tried to return to the pre-war status quo, these veterans often became the backbone of independence militias and political parties.

5. Shift in Global Power

The war shifted the world's "centre of gravity" away from London. The USA and USSR emerged as the new dominant powers, both of whom (for different reasons) encouraged the dismantling of European empires. The founding of the UN in 1945 promoted the idea of self-determination, making the old colonial model diplomatically "toxic" on the world stage.

The transition from wartime contribution to independence is best seen in India and Ghana, where the specific treatment of veterans and the financial fallout of the war turned the tide against British rule.



India: The "Jewel" Becomes a Debtor

India’s contribution was the largest of any colony, with over 2.5 million volunteers serving across Europe, Africa, and Asia. By 1945, Britain’s war debt to India reached £1.25 billion. This massive "sterling balance" meant Britain was financially beholden to its own colony, making it nearly impossible to fund the military force needed to maintain control.

- The INA Trials: During the war, the Indian National Army (INA)—composed of Indian POWs—had fought alongside Japan to "liberate" India. When Britain tried to court-martial INA officers for treason in 1945, it sparked nationwide riots and a mutiny in the Royal Indian Navy (1946). British officials realised they could no longer rely on Indian troops to suppress their own people.
- Independence: Exhausted and facing a population that was no longer "governable," Britain granted independence in August 1947.

Ghana (The Gold Coast): The Veteran Catalyst

In West Africa, the Gold Coast Regiment provided 65,000 troops who fought for Britain, particularly in the Burma campaign. Returning veterans expected the pensions and economic opportunities they had been promised. Instead, they faced high inflation and a lack of jobs. On 28 February 1948, unarmed veterans marched to Christianborg Castle to petition the Governor for their benefits. British police opened fire, killing three leaders: Sergeant Adjetey, Corporal Attipoe, and Private Lamptey.

This massacre ignited widespread riots and led to the arrest of the "Big Six" nationalist leaders, including future president Kwame Nkrumah. This event is cited as "the straw that broke the camel’s back," leading Ghana to become the first sub-Saharan colony to gain independence in 1957.

Summary Table: Wartime Impact on Independence

Feature	India (1947)	Ghana (1957)
Troops Contributed	2.5 million (volunteer)	65,000

Financial Factor	Massive £1.25B debt owed by UK	Post-war economic hardship/inflation
Turning Point	1946 Naval Mutiny / INA Trials	1948 Shooting of veterans in Accra
Primary Driver	Loss of military/financial control	Veteran-led social & political unrest

Sources

- BBC
- Imperial War Museum
- Wikipedia
- ISJ.ORG.UK
- Broadsheet Blog