

WAS IT WORTH HAVING? THE BRITISH EMPIRE 1850-1950¹

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The question of whether the possession of an empire under a regime of free trade was beneficial or not to Britain has become a serious matter of dispute in recent years amongst British and American economic historians. Nonetheless, as some of them recognise, the question they are asking is hardly a novel one: they are often consciously reviving, in a more sophisticated form, a controversy which was already dividing contemporaries in Britain at the time the Corn Laws and the Navigation Acts were repealed in the late 1840s and which only lost its relevance when decolonisation began in earnest in the late 1950s. O'Brien and Davis and Huttenback are on the side of those who traditionally disparaged the economic value of empire and saw it as the preserve of special interests: Edelstein and Offer, though careful not to justify empire, are more willing to accept that the nation as a whole might have benefited materially from its possession even if the benefits were very unevenly spread. The discussion, though ingenious and highly informative has, however, been somewhat narrowly focused. So, in the latter part of the paper, it is suggested that a full assessment of the value of the empire to Britain depends upon taking account of a wider set of circumstances than has usually been evident in the current debate. In this respect, present day historians may have something to learn from the contemporary controversy where the question of the material costs and benefits of empire was always considered in the context of the social and political trajectory of the British nation.

I

Throughout the period under review a long line of liberals, radicals and socialists, of whom Cobden, Gladstone and J. A. Hobson were among

¹ I would like to thank Michael Edelstein for taking the trouble to read and criticise a draft of this paper and all the participants in the conference held in Madrid in February 1997, especially Stan Engerman and Patrick O'Brien, for their helpful comments and encouragement.

the most famous early examples, insisted that the possession of empire not only brought no material benefits to the nation as a whole but actively harmed its growth prospects. The Victorian and Edwardian critics of imperialism had in mind a distinction between what Herbert Spencer called «militant» and «industrial» societies². The former were those dominated by a territorial aristocracy whose rule was authoritarian and whose rationale was war and conquest: the latter were societies based on liberal institutions and on peaceful market activity. Imperialism was a natural outcome of militant societies but was inimical to industrial ones which, through the international division of labour, encouraged world economic development, interdependence and mutual understanding. Radicals feared imperial expansion as a throwback to militancy: they claimed that it encouraged high levels of defence spending and warfare and thus increased taxes, lowered savings and investment, made a return to protection more likely and undermined the standard of living of the «industrious classes» in the interests of the traditionally privileged. Not only were the costs of imperialism higher than the benefits: the benefits went to the few, the nation paid the costs³. In J. A. Hobson's analysis, corrupt financiers supervising a diseased capitalist system replaced the landed aristocracy as the chief motivators of imperialism but the thrust of the argument did not change. He fervently believed that the source of Britain's wealth and strength was the free domestic market and that the key to prosperity was to improve and extend it. Imperialism and colonialism were simply costly diversions which, by maldistributing income and wealth, posed a threat to the long term economic stability and to the values of liberal society. Implicit in both Cobden's and J. A. Hobson's stance was the belief that a properly functioning market society would always guarantee full employment of resources⁴.

On the other side was an equally long line of apologists for empire of whom Disraeli, Rosebery and Joseph Chamberlain were amongst the most prominent. Put in Spencerian terms, their argument was that some of the features identified as militant were necessary to the functioning of British economy and society. Implicitly rejecting the radical assumption that full employment was an automatic outcome of free markets, they claimed that the empire was a positive source of strength to the nation

² Spencer (1902), pp. 568-642. See also Cain (1979).

³ For a famous statement see Gladstone (1878a).

⁴ J. A. Hobson (1988). There is an excellent summary of the main argument in J. A. Hobson (1898).

in terms both of the markets it provided and the openings for investment it created and fully justified whatever defence costs were necessary to preserve or extend it. Imperialists attacked the Cobdenite assumption that British and world trade would be unaffected if empire was abolished and the Hobsonian one which claimed that a redistribution of income and wealth in Britain would boost domestic demand to such an extent as to make foreign or imperial trade less necessary. Abandoning the empire, or failing to extend it when the occasion arose, would mean either that large tracts of territory would disappear from the world economy or that, at the least, they would be occupied by Britain's rivals and subjected to tariffs which would harm British trade. Either way, the result would be less output, investment and employment in Britain. Also, since imperialists thought of international society as basically anarchic and unpredictable they valued empire as a resource which could be called upon to defend Britain in times of crisis or war⁵. Again, while radicals saw empire as a threat to a liberal society, the apologists for empire candidly accepted that it brought economic benefits which helped to preserve the economic and social status quo, with its peculiar mix of traditional and modern elements, and because it gave the nation a galvanising sense of mission⁶. Some imperialists, such as the leader of the Liberal Imperialists, Lord Rosebery, argued that all the essential benefits of empire could be captured within the free trade framework. Others, Joseph Chamberlain most obviously, became convinced that empire was of such significance that it should be given privileged economic status either within a *Zollverein* or through a system of preferences.

II

Implicit in this radical-imperialist debate are what we would now recognise as counterfactual assertions. Leaving aside the question of psychic benefits or disabilities⁷, radicals were arguing that, if Britain had not possessed an empire, then the nation as a whole would have been either no worse off or better off in material terms while imperialists were asserting the opposite. What modern economic historians have done recently is to

⁵ Hence Disraeli's flamboyant use of Indian troops during the Middle Eastern Crisis of 1877-8. See Eldridge (1973), pp. 223-4.

⁶ See the extracts from Disraeli's famous Crystal Palace speech of 1872 in Bennett (1962), pp. 257-9. For a more extended treatment a good source is Dicey (1877).

⁷ Offer thinks that the psychic benefits of empire were significant. See Offer (1993), p. 232.

try to specify these counterfactuals rigorously and to quantify as precisely as possible (within the limits set by data constraints) what the benefits and the costs of the empire were. A number of «back-of-the-envelope» calculations have been attempted over the years, but the modern discussion really began with Michael Edelstein's elegant formulation in 1981 which covered the period 1870-1914 and which he has recently extensively revised to take account of criticism and new data ⁸.

Aware that for a world bereft of the British empire there are an infinity of possible outcomes, he offers two plausible standards of comparison to measure against what actually occurred. The first, the «marginal standard», is a world without empire in which the level of global economic development is assumed to have been the same throughout the 1870-1914 period. Here, the only change faced by Britain would be tariffs or, in the case of the white settled colonies or Dominions, possibly higher tariffs than actually existed. On this basis, Edelstein tests what the outcome would have been assuming the general adoption of a tariff level equivalent to that of the United States which rose from about 20 per cent to 40 per cent *ad valorem* between 1870 and 1914. In order to estimate benefits on the marginal standard he then has to make rough estimates of the price elasticity of British demand for colonial goods and vice versa, and of the empire's marginal propensity to import. The second, or «strong standard» of comparison is one where Britain's withdrawal from empire meant that these territories were less integrated into the world economy. In this case, Edelstein assumes that the white colonies would have probably reached the Argentinian standard of development with a level of per capita exports at about 70 per cent of the actual. For the dependent empire like India, he uses countries such as China as a yardstick and argues that they might have taken one quarter of their actual level of British exports if independent.

After reminding his readers that «the numbers which follow are to be taken as conjectures of direction and order, not precise magnitudes», Edelstein concludes that, on the marginal standard, Britain's possession of empire brought benefits in terms of visible and invisible trade worth 1.6 per cent of GNP in 1870 and 4.9 per cent in 1913 when the empire's share of British exports was 26 per cent and 36 per cent respectively. However, on the plausible assumption that white colonial tariffs were in practice set independently of Britain and would have been no higher in

⁸ Edelstein (1994a).

a non-empire world, he then reduces the marginal standard gains of 1913 to 3.8 per cent. In comparison, using the strong standard, he claims gains from empire of almost 4 per cent of GNP in 1870 and 6.5 per cent in 1913⁹. Edelstein's calculations thus offer a certain amount of support for the case made by imperialists and also suggest that the benefits of trading with the empire increased over time.

The assumptions lying behind Edelstein's calculations on trade can certainly be attacked. For instance, in discussing the «marginal» standard, Edelstein discounts the possibility that, by stimulating world industrial growth, increased tariffs in ex-empire countries could have increased the demand for British exports in the long run. As for the «strong» standard, his argument that countries such as India would have cut their contacts with the world economy drastically can also be challenged¹⁰. In support of the Edelstein position, Paul Kennedy has reiterated the view, expressed most forcibly by Charles Dilke in 1868, that India's place in the world economy depended upon imperial control¹¹ and that, since Britain's trade with India was vital to the system of multilateral payments based on sterling, imperial trade also helped to keep the international economy afloat. O'Brien however, believes that even if Britain had done much less trade with India the transfer problem could have been settled by Britain abandoning unilateral free trade, taking an active role in tariff bargaining with America and Europe, reducing its deficits with them and stimulating world trade in the process¹². Whatever one's views on this particular issue, the assumptions underlying the «strong» standard may be too rigid. For example, one possible outcome of a British withdrawal from empire was the absorption of India and similar tropical or semi-tropical colonies by other European imperial powers. In those circumstances, even if Britain faced higher tariffs, tropical development could have produced levels of trade with Britain significantly higher than Edelstein assumes.

O'Brien also claims that, if foreign tariffs did affect trade or empire markets were lost, any such loss could have been made up either by finding new markets abroad or in Britain itself: he goes further than McCloskey who offers a simple Say's Law perspective¹³ and agrees with J. A. Hobson that there was an underconsumption problem in Britain and that a judicious

⁹ Edelstein (1994a), pp. 202-4.

¹⁰ O'Brien (1988), pp. 167-70.

¹¹ For Dilke's statement see Bennett (1962), p. 240.

¹² P. M. Kennedy (1989), pp. 186-7; O'Brien (1989), pp. 192-4.

¹³ McCloskey (1970).

redistribution of income would have increased employment, stimulated the domestic economy and reduced the need for foreign markets. O'Brien then goes on to suggest that empire was not only unnecessary but was also a positive hindrance to growth since, in providing safe outlets for Britain's older staple exports, it retarded the rate of economic change in Britain and aggravated the problem of relative industrial decline¹⁴. There are problems with the O'Brien approach because his counterfactual world is based on an inherently implausible mix of factors and policies: as we shall see, the combination of domestic demand stimuli and a pragmatic tariff policy which he suggests was not politically possible before 1939. Nonetheless, his critique highlights the fact that Edelstein's calculations probably indicate the upper bounds of possible gains from trading with empire before 1914 and that, if underconsumption is taken seriously, the empire may even have had a negative impact on British growth¹⁵.

III

Calculating the gains from investment in the empire is a trickier process. Even the absolute amount of British capital abroad has been questioned in recent years¹⁶. However, the consensus now appears to be that the traditional figure of around £4bn. of accumulated assets abroad in 1913 is roughly correct and that about 60 per cent was portfolio investment—that is, investment in foreign-owned companies—and the rest direct investment¹⁷. There is also general agreement that British investors preferred social overhead capital, mainly in railways, in countries of white settlement and that investment in empire represented only about two-fifths of the total, with the white colonies providing a much more important outlet than India or the dependencies¹⁸.

Agreement on rates of return is harder to come by. The most comprehensive evidence has been compiled by Davis and Huttenback, based on a survey of the published accounts and records of 482 British firms operating between 1860 and 1912 and assessing *ex post* realised rates of return. They come to the rather startling conclusion that, before the

¹⁴ O'Brien (1988), pp. 170, 184.

¹⁵ It should be noted that, in his earlier work, Edelstein also showed some sympathy with underconsumptionist arguments. See Edelstein (1982), ch. 8.

¹⁶ Platt (1986).

¹⁷ Feinstein (1990), Corley (1994).

¹⁸ Davis and Huttenback (1986), ch. 2.

mid-1880s, investments in empire brought better returns than either domestic or foreign but that from 1884 to 1913 the position was reversed¹⁹. Davis and Huttenback's sample of firms has been criticised as unrepresentative and their results are also questionable because they take no account of risk and because of their reliance on company statements and records which are notoriously flawed and easy to falsify. Their data also has an in-built bias in that it ignores government bonds, one of the most important forms of empire investment and one in which returns on imperial investments were impressively higher than on similar domestic securities²⁰. The main alternative to Davis and Huttenback is Edelstein's earlier study of the financial market rate of return of 566 stocks, culled from the financial press²¹. This presents methodological difficulties of its own²²; but the data is adjusted for risk, the list of securities is more comprehensive in scope and, it has been claimed, Edelstein's measure captures the «constant review of expectations and prospects [which] is the essence of economic life»²³. Edelstein does not separate out imperial from foreign investment in any systematic way but an arrangement of his original data on railway investment does show that returns in the empire were on average 0.7 per cent per annum higher than in the domestic market and that there were similar differentials on government and other social overhead investments in the empire.²⁴ On the other hand, although returns on imperial investments were significantly higher on average over the whole period 1870-1913, Edelstein demonstrates that domestic securities were a better bet than either comparable foreign or empire ones between 1870-6, 1887-96 and 1910-1913²⁵. Imperial exploitation at levels imagined by Marxists and other critics of empire did not exist except in a few spectacular and unrepresentative cases.

In assessing gains from investment in empire it is necessary to take into account the fact that members of the empire paid less than foreigners on their borrowings. Legal enactments such as the Colonial Stocks Acts²⁶, and British confidence that standards of law and justice in the empire would be similar to those at home, made it possible for the empire to

¹⁹ Davis and Huttenback (1986), ch. 3, esp. pp. 106-10.

²⁰ Offer (1993), pp. 216-20. On this issue see also Hopkins (1988) and Alford (1988).

²¹ Edelstein (1976). See also Edelstein (1982), ch. 4.

²² O'Brien (1988), pp. 177-8, and Pollard (1989), pp. 77-81.

²³ Offer (1993), p. 219.

²⁴ Davis and Huttenback (1986), p. 81, and Edelstein (1994a) p. 206.

²⁵ M. Edelstein (1994b), pp. 182-5.

²⁶ Jessop (1976). Some colonial investments had been given trustee status in the 1870s.

borrow more cheaply. To that extent imperial investments were subsidised and were a cost to the British nation, the subsidy being measured by the difference in borrowing rates offered to foreign countries at similar levels of development²⁷. Taking this into account, Edelstein concludes that, on the marginal standard described, the loss to Britain of cheaper empire borrowing was about 0.2 per cent of GNP in 1870 rising to 0.94 per cent in 1913. On the strong standard of measurement, the higher interest rates paid by independent white colonials would have been offset by their borrowing less. However, although an independent underdeveloped empire would probably have paid twice as much for the privilege of borrowing, it might also, using countries like China and Turkey as a measure, have borrowed only one-fifth of the actual total. On that basis he concludes that the investment gain to Britain from possessing an empire under strong standard assumptions was about 0.3 per cent of GNP in 1870 and 0.5 per cent in 1913²⁸.

Clearly, the gains from investment in empire were small at best and, on Edelstein's marginal standard, may have been non-existent or even negative. Moreover, as in the case of trade, Edelstein's calculations are based on the assumption that the resources sent abroad were surplus to domestic requirements. There is now a considerable literature which argues strongly that foreign and imperial investments were frequently a misallocation of resources²⁹. On this reading of the evidence market failure and segmentation based on traditional divides between City and provincial industry, and aggravated by inadequate company law and accounting practices which perpetuated ignorance, meant that Britain had two distinct capital markets with traditional elites dominating the City and overseas investment³⁰. W. P. Kennedy in particular has persistently pointed out that the average rate of return on industrial investment in Britain as a whole was considerably higher than on overseas investment. A better distribution of income and more efficient capital markets would, he believes, have produced more investment in domestic equities and less in safe imperial and foreign bonds; and this, in turn, would have meant much more domestic investment, a stemming of the flow of emigration and a rate of growth far higher than that actually achieved between 1870 and 1914³¹.

²⁷ Davis and Huttenback (1986), pp. 171-4.

²⁸ Edelstein (1994a), pp. 207-10.

²⁹ O'Brien (1988), pp. 181-6, and W. P. Kennedy (1987).

³⁰ Davis and Huttenback, ch. 7.

³¹ W. P. Kennedy (1987), pp. 152-3.

W. P. Kennedy's stance is highly controversial. The fact that two-fifths of British overseas investment was direct suggests that it is wrong to characterise all overseas investment as low risk: the rise of the so-called «free standing company» after 1870 is an example of innovative foreign investment³². On the domestic front, some historians have questioned whether the traditionally successful part of British industry could or would have responded to new opportunities had the City of London offered them since there is strong evidence that the time-honoured and local methods of raising funds was quite sufficient for the needs of most entrepreneurs³³. There is also evidence that inept state and local government controls hobbled profits and investment in key areas of new technology such as electricals and motor vehicles and this, rather than unresponsive City institutions, made it difficult to raise money for these industries in London³⁴. However, there remains a possibility that some innovatory entrepreneurs, those at the frontiers of technological and organisational change, were seriously disadvantaged by the existing structures of capital markets in Britain. The traditional financial institutions which serviced industry, such as the clearing banks, sometimes failed to adapt to their needs because of their emphasis on liquidity; while the funds they wanted to raise were, in amount and in form, outside the purview of the City of London which was geared mainly to providing large loans for governments and public utilities at home and abroad³⁵. Although Edelstein is sceptical of arguments such as Bill Kennedy's³⁶, he does recognise that *if* resources were diverted abroad by some kind of market failure then imperial and foreign investment could have been harmful to the economy³⁷. Indeed, if there was misallocation of resources affecting trade as well as investment the gains from empire, even under the strong standard, would have been low or even negative. In that case, the whole imperial exercise was actually a burden on the economy even if it was beneficial to some sectional interests such as traditional elites³⁸.

³² Wilkins (1988).

³³ Davis (1966) and Cain and Hopkins (1993a), pp. 190-5.

³⁴ Michie (1988).

³⁵ Capie and Collins (1996).

³⁶ Edelstein (1994b), pp. 187-92.

³⁷ This question of the relationship between financial institutions and British industry is far too complex to be treated adequately here. For further information see the excellent surveys of the evidence from both sides of the argument in Pollard (1988), ch. 2; Kynaston (1995), pp. 449-72, and J. M. Wilson (1995), pp. 119-31.

³⁸ Edelstein (1994a), p. 214.

IV

The possibility that the empire was indeed an albatross around the neck of the nation appears to be increased when defence costs are taken into consideration. Davis and Huttenback stirred renewed interest in this aspect of British imperialism when they argued that, between 1860-1912, Britons paid £2.4 per head per annum in tax, £1.14 of which was spent on defence and a further £0.7 was payment on debt accumulated in previous imperial wars, and that these burdens were much greater than those borne by foreign states. While admitting that India paid its own defence costs, Davis and Huttenback also point out that the Dominions paid virtually nothing. Without this imperial burden, taxes could have been much lower with beneficial effects on savings and investment. In reality, governing elites of «peers and gents» and their financial and professional associates got the benefits not only of investment in empire but also the cream of the naval, military, political and administrative jobs associated with it, while the rest of the population bore the tax burden ³⁹.

Davis and Huttenback's statistics, and the inferences they and O'Brien have made from them, have both been seriously questioned. Comparing Britain's defence costs with a ragbag of «foreign countries» is a pointless exercise: the obvious comparison is with the expenditure of other great powers including the United States while keeping in mind that defence costs had also to be assessed in relation to the risks each nation faced ⁴⁰. As far as the contribution of the Dominions is concerned, Offer has argued strongly that, in an alliance with Britain where the latter was much larger and also more immediately vulnerable in war, the bulk of defence costs were bound to fall on the mother country ⁴¹. Again, it has been claimed that comparing defence spending on a per capita basis is misleading because it is capacity to pay that counts and a better measure of that is the share of defence spending in national income ⁴². Using the latter criterion, J. M. Hobson has recently compared expenditure by the great powers between 1870 and 1914 and shown that only the United States had a lower ratio of defence spending to NNP at factor cost than Britain and that, in 1913 for example, the latter's expenditure was 22 per cent lower than Germany's

³⁹ Davis and Huttenback (1986), chs. 5, 7, 8, and O'Brien (1988), pp. 186-95.

⁴⁰ Offer (1993), p. 226.

⁴¹ Offer (1993), 229-31.

⁴² P. M. Kennedy (1989), pp. 190-1.

and 49 per cent and 60 per cent lower than that of France and Russia respectively⁴³. Moreover, he believes that the figures underestimate the gap between Britain and the European great powers because they do not capture the hidden costs of the conscription system⁴⁴. O'Brien argues that British foreign and defence strategy was ultimately a failure because it did not confront the German threat early enough and deter it and the reason for this was that Britain was obsessed with imperial defence⁴⁵. J. M. Hobson agrees that Britain failed to deter Germany but counterclaims that this was the outcome of a deliberate choice to keep defence expenditure down rather than a consequence of imperial overstretch. An additional expenditure of 2 per cent of NNP per annum, easily affordable especially with a tariff, would have given Britain an army of 1.3m men in 1914 and put her on a par with Continental forces⁴⁶. Moreover, he disputes the implicit assumption of Davis and Huttenback that defence was a dead-weight loss to the economy and points to the possibilities of technological spin-offs⁴⁷.

Nonetheless, historians who are already dubious about the trade and investment benefits of empire could easily infer that even a defence cost as low as 3 per cent of national income was sufficient to wipe out any other gains and that the nation would have been better off without formal empire at all. And, although no serious attempt has yet been made to assess gains and losses in a systematic way for the interwar period, it seems likely that despite additions to territory as a result of the First World War the empire was, at best, a shrinking economic asset before 1939. A rough calculation, using Edelstein's strong standard (which, as we have seen, expresses the outer limits of possible gains from empire) on data for 1937 yields a gain of 3.3 per cent of GNP from trade with the empire and an additional gain of between roughly 0.5 and 0.7 per cent from investment at a time when current defence costs were 3.8 per cent of GNP. (See Appendix.)

At this point in the discussion, however, it is vital to remember that the empire was a part, and not the most significant part, of a truly global

⁴³ J. M. Hobson (1993), pp. 464-5, 478-80.

⁴⁴ J. M. Hobson (1993), p. 493, and Offer (1993), pp. 225-6. Hobson and Offer assume that conscription diverted labour from producing output: but if there was heavy unemployment or underemployment in countries where conscription was practised this would not necessarily be true. I owe this point to Patrick O'Brien.

⁴⁵ O'Brien (1988), p. 195.

⁴⁶ J. M. Hobson (1993), pp. 494-9.

⁴⁷ J. M. Hobson (1993), p. 471.

system of trade and investment. Both British economic policy and defence strategy had a cosmopolitan focus rather than a mere imperial one. The abandonment of the «old colonial system» of preferences and of the Navigation Acts by 1850, and the stout maintenance of free trade in the face of mounting European and American tariffs after 1880, is proof enough of this. As Gallagher and Robinson classically demonstrated many years ago, Britain's interest was seen to lie in maximising trade and investment flows world-wide and, insofar as it acquired influence abroad, Britain was happier with «informal» control and resorted to «formal» empire only when informality proved impossible⁴⁸. Whether, as Gallagher and Robinson claimed, extension of the formal empire were due mainly to the collapse of informal arrangements on the periphery or whether, as others contend, the main source of the growth of empire was economic change in the metropolis⁴⁹, there is little doubt that it was only one outcome of an ever-widening complex of British economic influence and strategic interests. Despite the enormous growth of imperial acreage between 1850 and 1914, at the outbreak of the First World War Britain still sold two-thirds of its exports outside the empire, took three-quarters of its imports from non-empire sources and sent three-fifths of its migrants and its foreign investments to foreign parts⁵⁰. The empire's share of trade, investment and migration rose rapidly in the 1920s and again under the Ottawa preferential system after 1932: by 1937 it accounted for around 45 per cent of Britain's total overseas trade. However, this rising share occurred in a context where international trade and factor movement as a whole were much reduced by war and by global depression so that the empire's contribution to Britain's economy shrank in absolute terms compared with pre-1914. Nor is there much doubt that, in an ideal world, British governments preferred free trade cosmopolitanism to imperial strategies since they resorted to the latter only when the international economy broke down.

It is precisely because empire was acquired as a bye-product of an internationalist policy that it remained, as O'Brien reminds us in invoking the famous words of Adam Smith about the thirteen American colonies, a «project of an empire» rather than a finished and fully articulated

⁴⁸ Gallagher and Robinson (1953-4).

⁴⁹ For this approach to imperial expansion, see Cain and Hopkins (1993a, 1993b).

⁵⁰ Cain (forthcoming).

system⁵¹. Formal empire may, or may not, have provided Britain with benefits on the Edelstein calculus but its worth can only be fully assessed in this broader context taking into account the possibility of gains from informal empire and the fact that formal empire was acquired in pursuit of wider international goals. Highlighting Britain's far-reaching interests affects perceptions of costs as well as gains. Britain's defence costs were not incurred simply to defend an empire but to protect a global network of trade and communication: some historians have inferred from this that, even if the empire had not existed, Britain would have found it necessary to pay most of its actual level of defence expenditure, especially that for naval defence which were regarded as the key to its global security. On this reading, even if the benefits attributable to formal empire were small the costs were also low⁵². This, however, is rather an extreme view and much further research and analysis is required before the share of defence costs directly attributable to empire can be assessed with any confidence⁵³.

Besides recognising that many defence costs were independent of empire it is also important to assess the role of empire in war in order to arrive at a proper understanding of its value to Britain. For example, Offer has denied that it is possible to capture the benefits brought by the empire unless its part in the 1914-18 war is taken into account. He claims that, whatever the verdict on the empire's place in Britain's economy before 1914, it is evident that between 1914-18 the contribution of the empire, and of the Dominions in particular, in terms of men and supplies helped provide Britain with a crucial margin of superiority over Germany. The empire provided one-fifth of the fighting forces and the troops were of a higher average quality. It was also a source of loans and of vital supplies: in 1917, for instance, Canada provided between a quarter and a third of Britain's shell-fire on the western front⁵⁴. Moreover, Offer's argument

⁵¹ O'Brien (1988), p. 199. In a moment of exasperation, the protectionist imperialist, Joseph Chamberlain, once called the empire a «loose bundle of sticks, bound together... by a thin tie of sentiment and sympathy». Boyd (1914), II, pp. 295-6.

⁵² Porter (1988), pp. 693-5, and Offer (1993), pp. 232-4.

⁵³ Edelstein is aware of the problem and suggests that roughly half of defence expenditure should be allocated to empire: Edelstein (1994a) p. 212. It is interesting to note that a Liberal Imperialist politician, Herbert Samuel, once argued that while the navy was necessary to preserve Britain's international position in general, a large part of the army bill should be debited to empire. See Samuel (1902), pp. 302-3. O'Brien accepts that only half of defence costs might be attributable to empire but from his perspective even that is too high a figure. See O'Brien (1989), p. 198.

⁵⁴ Offer (1993), pp. 234-6. These insights arose from Offer (1989). See also Edelstein (1994a), pp. 215-6.

can be extended to the Second World War when, for example, besides providing large numbers of fighting troops, Canada alone contributed \$3.5bn. in unrequited exports and aid: the rest of the empire allowed Britain over \$11bn. of credits held in the form of sterling balances⁵⁵.

From this perspective even if, as radical critics suggest, the empire was a «net loss» in peacetime it definitely paid in wartime, not only contributing vital resources but helping to preserve Britain's very existence as an independent nation. In assessing the contribution of the Dominions in particular, it may be the case that it was precisely because Britain had allowed them such independence during peacetime, leaving them to devise their own tariffs and allowing them a «free ride» on defence, that the «kith and kin» factor operated so powerfully in Britain's favour in wartime. Besides its influence in world wars, it could be argued that the empire was especially important to Britain in two other periods of crisis, the depression of the 1930s and the post-Second World War reconstruction phase. The Ottawa preference system had severe drawbacks: it was trade-diverting rather than trade-creating and did far more for the empire's exports to Britain than vice versa. Generous preferences for the empire were, however, essential to prevent debt defaults and to maintain confidence in sterling and in the emerging sterling area, thus helping British exports to recover more quickly and contributing to recovery⁵⁶. Similarly, a case could be made that the empire played a critical part in helping to finance the dollar gap for Britain after the Second World War when the war-time sterling area controls were kept in place. These arrangements allowed Britain to recycle dollar earnings made by South Africa and by the Malayan and West African colonies for its own purposes and thus helped the country to recover much more quickly after the war⁵⁷.

The empire's contribution to Britain's economic and military crises needs to be kept in perspective. The total war expenditure of Britain in 1914-18 is estimated at \$43.8bn. while the whole of the empire contributed \$5.8bn. The United States made a much bigger contribution to Britain's economy than the Dominions —its total war expenditure was \$36.2bn.— and its military intervention in 1917 was probably decisive in bringing the war to an end quickly⁵⁸. In the second world war, the American

⁵⁵ Sayers (1956), ch. 11.

⁵⁶ Cain and Hopkins (1993b), pp. 83-93.

⁵⁷ Krosewski (1993).

⁵⁸ Hardach (1977), p. 153. Offer (1993), recognises that American intervention was significant but does not give it quite the weight it deserves (p. 235). It must of course

contribution was even more decisive. It is difficult to see how Britain could have carried on fighting without Lend-Lease after 1941 and the total amount of aid given by the USA (\$30 bn.) was three times the level of support received from the empire⁵⁹. Moreover, although the creation of an imperial system was important to Britain's well-being in the 1930s when there were no obvious alternatives on offer, its extension into the post-1945 period was probably harmful since it committed Britain to international trading and financial structures that rapidly became outdated and delayed its commitment to the new Europe emerging in the 1950s⁶⁰.

V

These reflections on the political and geo-political ramifications of the empire's wartime contribution suggest that a true perspective on its role can only be obtained by looking beyond the confines of the cost-benefit analysis usually adopted by economists and economic historians. Most of them recognise this to some extent. They are aware, for example, that the distribution of wealth and of income in Britain in this period favoured elites largely cut off from British industry and industrial culture for whom foreign and imperial investments were an ideal outlet for their savings and whose gains from their overseas connections helped to maintain their position in society. With an alternative distribution of wealth a different set of investment choices involving different risk strategies could have been made⁶¹. However, such shifts in wealth holding would have meant not only the remodelling of economic institutions but would also have involved widespread social and political restructuring and marked changes in economic philosophy and policy. This is less well recognised. For example, as already noted, J. M. Hobson has claimed that if Britain had spent the same share of annual income on defence as that of leading Continental powers and had adopted a tariff it could have had an army of 1.3m. men in 1914. He does not, however, acknowledge that in creating such an army Britain would probably have had to abandon some cherished features of its liberal society in favour of a *Kriegsverein* which would also have had

be remembered that if the empire's contribution was much smaller it was much more certain and immediate than that from the USA.

⁵⁹ Sayers (1956), pp. 375, 529-31.

⁶⁰ I would like to thank Larry Neal for reminding me of this.

⁶¹ O'Brien (1988), pp. 181-6, and Offer (1993), p. 222.

immense consequences for the empire and for the wider world. This implies that, to assess the value of empire, it is necessary to place it in the context of the structure of the society in Britain which it supported and to measure that society's performance against alternatives. In other words, rather than simply looking at the effects of possessing or relinquishing empire on the economic system *per se*, it would be more helpful to set up a broader counterfactual enquiry and to ask how a British society with a different distribution of income and wealth, and matching economic and political structures and strategies, might have coped with the imperial problem. This would take the debate back towards the more loosely structured discussion of alternatives and outcomes between the radicals and the imperialists with which this paper began. In order to make the comparisons effective it is essential both to sketch in the main outlines of the system as it existed before 1914 (and which was still broadly in place in 1939) and to set it against some *plausible* alternatives, that is those which were actively canvassed in Britain at the time.

In the late nineteenth and early twentieth centuries, Britain was a society in which a complex of non-industrial forces arising out of land, the professions, City finance and other services (which, for the sake of convenience, Tony Hopkins and I have labelled «gentlemanly capitalist») still had a prominent place in the economy and in positions of power⁶². Both as what Veblen called «gentleman investors»⁶³ and as governing elites they were leading beneficiaries of free trade cosmopolitanism and of the imperial system which grew up within it. The system received powerful support from a broad phalanx of commercial interests and also from large sections of industry, including cotton textiles the most important export interest in the country, which supported free trade because of its raw material import needs and because it benefited from the special conditions which applied within the empire. For example, India, the most important market for textiles was forced to accept free trade; and the British government in many parts of the dependent empire used its influence to «buy British»⁶⁴. Besides that, there was support from the majority of the working class for what we might call the «open imperial economy» in that it provided jobs through export markets, cheap food and outlets for migration for those who found British society too constraining. It was this broad cross-class economic consensus arising out of the open imperial

⁶² See Cain and Hopkins (1993a, 1993b) for this argument.

⁶³ Veblen (1994b), p. 249.

⁶⁴ Edelstein (1994a), pp. 200-1.

economy which allowed traditional elites to survive and prosper and which made it possible for them to gain differential advantages from the possession of empire.

Many long term consequences flowed from maintaining the open imperial economy. The return income from foreign investment boosted elite fortunes and also gave a fillip to the development of the service economy in the South of England and, in particular, to the City and financial services⁶⁵. At the same time, it probably slowed down the development of industry in Britain by providing easy markets for traditional staples while subjecting new industry to the disabling impact of unilateral free trade. It also reinforced the traditional dichotomy between industrial sources of finance in the provinces and City money, a dichotomy which may have been harmful to the development of new technology in Britain; and it perpetuated the power of governing elites who knew little about industry and did not care to learn more⁶⁶. The income and the careers made by gentlemanly capitalists in the empire gave them good reason to extend it and defend it vigorously: but there were also great constraints on these elites in matters of imperial and foreign policy and defence. The support for free trade, the hostility to big government which economic success had bred and the long acclimatisation to free markets experienced at all levels of society in Britain, muted the militant side of imperialism as Schumpeter claimed at the time⁶⁷. It also put grave limits on state budgets which is why Britain spent comparatively little on defence, why it was not fully prepared to defend its place in the world and its empire against Germany in 1914 or 1939 and why appeasement had such large part to play in British foreign policy⁶⁸. Cobdenism may not have succeeded in Britain but it had a serious impact at this level: and, while gentlemanly capitalist imperialism aroused German hostility to Britain, the reluctance to spend on defence encouraged Germany to believe that it could win a war in 1914. On the other hand, the open imperial economy had a wide range of imperial resources to call on when war broke out. Of greater significance was the fact that the liberal system Britain defended was attractive enough to bring in the United States on the Allied side in both wars despite the latter's distaste for colonialism.

⁶⁵ The service sector has now begun to receive the attention it deserves. See Lee (1986).

⁶⁶ Pollard (1989), ch. 4. Edelstein believes that one consequence of this was the neglect of scientific and technical education. See Edelstein (1994b), p. 196. However, Pollard (1989), ch. 3, disagrees.

⁶⁷ Schumpeter (1991).

⁶⁸ P. M. Kennedy (1983), chs. 1, 3.

Against this thumbnail sketch of the *actualite* there is only space to describe two alternatives, widely canvassed at the time: the radical policy of Cobdenism, or its later Hobsonian version, which O'Brien has invoked; and the scheme of «social» or «constructive» imperialism associated with Joseph Chamberlain and Lord Milner which developed out of the Disraelian concern with the need to unite the empire against foreign rivals. In a Cobdenite Britain with less tax and much less economic privilege, economic resources would have been distributed more favourably to industry and this would have boosted industrial investment and growth especially since, in lieu of imperial outlets, the City would have been forced to adapt itself to domestic circumstances more readily. Technical and business education would have received more resources: yet there is still the possibility that, even without comfortable imperial markets to fall back on, industrial sclerosis might eventually have afflicted society since it did not disappear when empire was finally lost after 1950⁶⁹. Also, because Cobdenism meant dogmatic support for free trade the bad effects of unilateralism on industry after 1880, when foreign competition became a serious concern, would have been just as strongly felt. The coming of a Hobsonian government in Edwardian times would have boosted domestic demand and domestic industry: but the effects would have been undermined by its own determination to maintain free trade. Such a government would also have lacked flexibility in dealing with the crisis of the 1930s. Its welfare measures would have promoted education and social cohesion: in contrast, its tax regime and its regulation of industry would probably have discouraged entrepreneurial initiative.

Under a radical government, less emigrants and capital would have gone to the white colonies and it is possible that Canada would have been allowed to fall under the informal influence of the United States before 1914 rather than after. However, it is doubtful if a radical government could have avoided some form of colonial empire. Cobdenism encouraged dependence on the international economy and this would have involved extensive trade and possibly investment links with underdeveloped parts of the world which might easily have led to imperialist control. Gladstone recognised in the 1870s that the economic dominance of the United States in the twentieth century was inevitable and did not want to speed up the process by assuming further imperial burdens⁷⁰. Yet he was the leader

⁶⁹ This important point is made by Offer (forthcoming).

⁷⁰ Gladstone (1878b), p. 204.

of the government which reluctantly occupied Egypt in 1882 and, once in, he found it impossible to get out⁷¹. With these difficulties in mind, J. A. Hobson hoped that a radical redistribution of income would not only boost domestic output and investment but would do away with the need for many foreign markets⁷². Even allowing for the fact that there may have been underconsumption in Britain, this solution to the problem of imperialism was an unrealistic one and did not meet with the approval of other anti-imperial liberals who referred back to Cobden's confidence in the international division of labour. Interestingly enough, J. A. Hobson himself later adopted a more Cobdenite position and, in doing so, also suggested that imperialism might be an inevitable phase, albeit a passing one, in the development of the world economy⁷³. In addition, and despite Cobden's deep misgivings, most liberals were committed to the idea of imperial trusteeship and urged the better government of acquired territory rather than its abandonment. Many, J. A. Hobson included, were fervent supporter of the post-Versailles mandate system for colonies. Radicals would have been imperialists, albeit reluctantly and on a smaller scale than the gentlemanly capitalists.

Governments of a radical persuasion would also have run into serious difficulties about paying for the defence of Britain's global network of trade. They would have been tempted into very low levels of expenditure which might have exposed trade and investment to danger from foreign powers. They would have been less prepared to fight Germany in 1914 and 1939: Cobdenism in a non-Cobdenite world was always problematic and may have encouraged aggression rather than deterred it. Moreover, since the rest of the world would have been less British, there would have been fewer resources to call on from abroad during war. Support from the United States might be expected but greater reliance on them would have established American dominance over the world more rapidly than happened in practice. However, this hypothesis rests on the assumption that German aggression was a given factor. If, instead, we accept the argument that Germany was aggressive towards Britain because of the empire and believe that Britain's own hostility to Germany was determined

⁷¹ Cain and Hopkins (1993a), pp. 362-9.

⁷² J. A. Hobson (1988), Pt. I, ch. 2.

⁷³ J. A. Hobson (1911).

by its imperial possessions and the need to defend them⁷⁴, then it is plausible to assume that a radical government would have given less offence in this regard and might have avoided war in 1914 and the knock-on effects which led to Hitler in the 1930s. In this case, American hegemony would have come more slowly than in fact occurred and, when it came, it would have been accepted without rancour. Radicals had no interest in hegemony: a radical government would also have been more willing to look the European option in the face in the 1950s as a result.

The other plausible alternative, most strongly urged after 1900, was that proposed by Joseph Chamberlain and Milner under the heading of «social imperialism» or «constructive imperialism»⁷⁵. In their ideal world, the empire would have been the central concern of economic policy. Free trade would have been abolished and replaced by an imperial tariff union, increasing domestic investment and encouraging a much greater proportion of overseas capital and migrants to go to the empire. More resources would have been devoted to developing the economic potential of the dependent empire with spin-off effects on British trade and industry. Tariff protection would have offered the chance to give infant industry support to new technology and to create cartels with scale economies. Running counter to all this, the empire would have become an even bigger funk hole for the uncompetitive parts of British industry and tariffs would have been distributed through political power rather than for any ostensible scientific reason⁷⁶, with a stifling effect on growth: and, because of the imperative of empire unity, it is unlikely that tariffs would have been used effectively as bargaining devices to free up world trade. Moreover, the regime would have been designed to produce an anti-German (and anti-American) *Kriegsverein* with much greater emphasis on defence. Under a constructive imperialist government, an army big enough to match Germany's might have come about and a tariff would have helped to raise the revenue for it and for welfare reforms. This could have encouraged industry to some degree, depending upon where the increased tax burden for defence fell: but as a result, Britain would probably have become a less liberal and more aggressive society and would have begun in some ways to resemble

⁷⁴ For an argument that Britain found itself in opposition to Germany before 1914 because this was the inevitable price to be paid for Britain's need to settle imperial quarrels with France and Russia who were «natural» enemies of Germany, see K. M. Wilson (1987).

⁷⁵ See Green (1995) and Cain (1996).

⁷⁶ For a detailed account of the vain search by Tariff Reformers for a «scientific tariff» see Marrison (1996), pp. 33-7, 118-27, 140-71, 176-86, 194-207.

the Germany so vividly described by Veblen at the time⁷⁷. The chances that a war with Germany would have broken out sooner rather than later are pronounced, especially since in 1909 the German ambassador said that Germany would regard any imperial tariff as a *casus belli*⁷⁸; and, despite Chamberlain's own original pro-German sympathies, the tariff campaign developed a strong anti-German bias. Moreover an imperially aggressive Britain would have found it more difficult to forge alliances with Germany's other enemies. The resources of the empire could have been called on in war but the support of the United States —vital in 1917-18 and after 1940— might not have been forthcoming and an imperially aggressive Britain might not have been able to agree with possible allies against Germany such as France and Russia. Constructive imperialism would have united the empire⁷⁹ but it would not necessarily have done much for the economy and its defence and tax regimes could have been oppressive. Moreover, since even under a constructive imperialist regime the empire could not have been anywhere near self-sufficient, Britain would still have been heavily dependent on foreign trade while, because of its tariff and defence policies, having less friends to call on in its hour of need.

VI

As we have seen, the question «was the empire economically beneficial to the nation?» is not easy to answer. However, there seems little doubt that empires provided benefits for governing elites and this is as true of Britain between 1850 and 1950 as it was for Spain and Portugal in earlier times. In providing such benefits, empires thus served to perpetuate traditional elites, whether they were British gentlemanly capitalists or Iberian aristocracies. In so doing, they undoubtedly slowed down the rate of social and political change. They may also have retarded economic progress to some degree though, as we have seen, this is a more contentious issue. To revert to the distinction with which the paper began, it seems that the neat Spencerian antithesis between «militant» and «industrial» societies is hard to sustain. Empire did indeed encourage the survival of militant elements in British society but it is not self-evident that this was

⁷⁷ Veblen (1994a).

⁷⁸ Hoffman (1964), pp. 290-1.

⁷⁹ Though constructive imperialists persistently underrated the difficulties involved in forging a common economic policy with the Dominions.

harmful to the industrial core within it. Neither the radical nor the constructive imperialist alternatives would necessarily have produced a more vibrant economy, a more cohesive society or one more capable of defending itself against its enemies than the actual one presided over by gentlemanly capitalists before the 1950s. Both alternatives discussed are flawed in some major particulars, though the radical option appears to have greater possibilities for successful realisation than constructive imperialism. One thing, however, is certain: in steering a compromise course between these alternatives, Britain remained a stable society and survived the great economic and political upheavals of the first part of the twentieth century relatively unscathed. Empire played its part in maintaining such a stable society and in preserving its independence. In that sense it «paid» handsomely⁸⁰.

APPENDIX. THE COSTS AND BENEFITS OF THE BRITISH EMPIRE IN 1937

The calculation in the text is based on Edelstein's strong standard which assumes that Britain would have sent 70 per cent of its actual level of exports, re- exports, service (invisible) exports and foreign investment to free Dominions while the corresponding figure for a free dependent empire would be 25 per cent of exports, re-exports and service exports and 20 per cent of foreign investment.

i) TRADE AND SERVICES

The *Statistical Abstract of the United Kingdom* gives exports and re-exports to the empire as £264.1m. Trade with the Dominions was £131.1m. and with the dependent empire was £133m which, on the above assumptions, would produce income under the strong standard of £91.7m. + £33.3m. = £125m. Total income from service exports in 1937 was £84m⁸¹. The empire took 45.4 per cent of exports and re-exports in 1937 but the share of the empire in service exports was probably higher

⁸⁰ Whether it «paid» to be a member of this empire rather than its leader is, of course, an entirely different question. All we can say for sure here is that this is not a zero sum game: the fact that Britain benefited from empire does not necessarily mean that the rest of the empire lost and vice versa.

⁸¹ Feinstein (1972a), Table 38.

given their financial dependence on Britain. Assuming that empire accounted for 50 per cent of service exports (£42m.) divided equally between Dominions and dependent empire gives an income on the strong standard of £14.3m. + £5.3m. = £19.6m. Actual visible and invisible trade in 1937 was therefore £264.1m. + £42m. = £306.1m.: the same trade on the strong standard would be £125m. + 19.6m. + £144.6m. The gain from the empire on trade is then £306.1m. - £144.6m. = £161.5m. This was 3.3 per cent of GNP which has been estimated at £4,193m.⁸²

ii) FOREIGN INVESTMENT

As in Edelstein's pre-1914 calculation, it is assumed that a fall in investment in the Dominions would be compensated by rises in interest rates so that the effects cancel out. Investment in the dependent empire is reported at £639m. in 1937 out of a total invested abroad of £3,240m.⁸³ which, on the assumption of a 6 per cent annual return⁸⁴, gives an income of £38m. Under strong standard assumptions, investments would be one fifth (£128m) but the returns would be twice as high (12 per cent) giving an income of £15.4m. The loss of actual income would be £38m. — £15.4m. or £22.6m. which was 0.54 per cent of GNP. As Balogh admitted, the reported figures do not account for a great deal of direct investment overseas. Assuming that total foreign investment in 1937 was about £5.1bn.⁸⁵ rather than the 3.24bn. reported by Balogh, and that the share of the dependent empire was commensurately higher, total British investment there would have been £1020m. Assuming a 12 per cent return, the investment gain from the dependent empire on this basis would have been 0.72 per cent of GNP and the overall benefits of both trade and investment with the empire would sum to approximately 4 per cent of GNP. It should be noted that, given the poor quality of the data on overseas investment, these figures are even more problematic than those for pre-1914 discussed in the text. The statistics of British foreign investment in the 1930s are in urgent need of the attention already applied to the pre-war period.

⁸² National Income figures are from Mitchell (1988).

⁸³ Balogh (1947), p. 254.

⁸⁴ Barnes (1939), p.74.

⁸⁵ Figures from Feinstein (1972b).

iii) DEFENCE COSTS

In 1937 defence expenditure was: army and ordnance, £54.8m; navy, £81.1m; air force, £50.1m, giving a total of £186m or 3.8 per cent of GNP⁸⁶.

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