

The Tax-Seeking State: Protectionism, Taxation and State Structures  
in Germany, Russia, Britain and America 1870-1914

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## Abstract

The twin processes of "economic development" and "state behaviour" are explained by the major paradigms through reference to economically "reductionist" methodologies. In particular Marxist and Late Development theories have helped perpetuate this methodology. This thesis provides an alternative framework for understanding the above-mentioned processes. In particular, the "autonomous powers" of the state will form a central approach throughout each chapter. Not only do states have multiple powers, but these vary across different political regime forms.

These powers are revealed through an empirical examination of the determination of tariff protectionism as it emerged in Europe in the late 1870' s. The argument will focus on a multi-causal approach. Thus the causal input of economic interest groups will be examined. Although these will form a part of the explanation offered here, they will have less salience than is commonly found in the social science literature. The interests of the state are mainly those connected to the demands of "fiscal accumulation". Overall "state interests" are neither monolithic nor unified. Thus it will not be possible to speak of the state as an "actor". States are not so rational as the term would imply. Moreover, "the state" turns out to be a complex political arena of struggling factions, all vying for exclusivist political power.

These autonomous state struggles impacted upon economic development; in this case, tariff protectionism. As well as explaining the rise of protectionism in Germany and Russia, as well as America (chapter 2, 3 and 5), the maintenance of British free trade will be also be explained through the model presented here. In addition, industrialisation in Russia will be explained, also from the approach of statist-economy. This approach will be developed more fully in the final chapter.

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CHAPTER 1  
THE PROBLEM STATED  
SECTION 1

Establishing the "Economistic Consensus" Theories of Free Trade and  
Protection

This thesis is concerned to provide an alternative analysis of economic development to those currently on offer. Specifically, it will focus on the rise of protectionism in Europe (and America) as it emerged in the late nineteenth century. Central to the analysis will be a redefinition of "power" in order to explain economic development. This will involve a structural (rather than conjunctural) examination of the "autonomous powers of the state". Before going on to lay down the parameters of such an analysis, the first section of this chapter will unravel the conception of causal power focussed on by past and present theories of economic development/tariff protectionism. In addition, the Statist-Economy approach adopted here will advance a non-reductionist approach to the polity. This involves a two-way process of analysis. To understand protectionism, we will need to examine the effects of the state upon the process of economic development. In doing so, we shall simultaneously be able to conceptualise the autonomous powers of the state and political processes.

Most theories of protectionism and free trade focus at the explanative level upon a country's level or stage of economic development. Three fundamental stages require different trade regimes;

(1) When industrialisation is in its infancy, industries "require" protection in order to be able to initially develop, (for example Russia 1870-1914, United States 1790-1840s).

(2) However when the economy has reached a stable and advanced stage of development and the "infant" industries have grown up, protection is no longer "required". Such a level of development, (especially if a country has some claim to economic dominance over its competitors), will "require" free trade. That is, free trade will ensure maximum economic gains. (For example, British industry post 1840, German agriculture upto 1879, and increasingly German industry post-1890.

(3) When the economy eventually declines, tariffs are once again "required" in order to protect the weakening economic sphere which can no longer fend off foreign competition, (for example British industry post-1880/1914, German agriculture post-1879).

In this schema various trading regimes are determined by the "requirements" of economic interest groups. This is essentially an economically functionalist causal statement, reducing state policies of protectionism/free trade to the requirements of the economy. The above formula finds its classical expression in the works of Friedrich List and Alexander Hamilton. List pointed out pace Smith and Ricardo, that the British policy of free trade after 1846 did not accord the status of a collective public good in the international arena, since it clearly benefited Britain at the expense of her competitors. Before true freedom of trade could be attained this imbalance would have to be made good.

"...in order to allow freedom of trade to operate naturally, the less advanced nations must first be raised by artificial measures to that stage of cultivation to which the English nation has been artificially elevated" (List 1885: 131).

This was therefore backed up by the fact that Britain had grown up with protectionism (List 1885: 119-127,147). In fact List turned Smith, Ricardo and "cosmopolitical economy" on its head;

"The system of protection, in as much as it forms the only means of placing those nations which are far behind in civilisation on equal terms with the one predominating nation..the system of protection

regarded from this point of view appears to be the most efficient means of furthering the final union of nations and hence also of promoting true freedom of trade" (1885: 127).

List rejects the methodological individualism of classical political economy at the domestic level, which is transposed to a laissez-faire doctrine of international relations (1885: 163-172, 262). Instead he advocated a "nationalist" solution to acquire the international public good of future long term economic growth and development;

"It is the task of national economy to accomplish the economical development of the nation, and to prepare it for admission into the universal society of the future" (1885: 175).

The short term policy of national economy involves the use of selective tariffs in order to protect infant industries, so that the long term goal of growth for all nations can be achieved (1885: 127, 131, 164-165).

Following on from this classical position is the advancement of the Neo-Listian school, represented in the first instance by Alexander Gerschenkron (1962; 1963; 1970). Protectionism is fundamental for the successful laying down of a broad based industrialisation programme by industrial latecomers. This is classically represented by Russia 1885-1913, (to be critically evaluated in Chapter 3). Dieter Senghaas has made a general case for the advantages of protection for late starters (as well as early starters). Like List before him he states that;

"Free trade is a doctrine which caters for the interests of highly productive economies" (1985: 218).

Thus the Listian position clearly covers the first two stages of development as outlined above. However as we shall see shortly, the "infant industries" argument, which consciously inverts the classical political economy approach, is common to most if not all theories with the obvious exception of the Theory of Hegemonic Stability, as well as Public Choice theory..

A summary of what shall be termed the "basic-force" model of hegemonic stability (HST hereafter), is as follows. Market systems

are inherently unstable, or nonhomeostatic. The effective running of the international economy "requires" the active involvement of a hegemon. A hegemon is defined primarily by its economic potential. More specifically, economic potential is defined by; "relative efficiency" (Gilpin 1975); "relative size and level of economic development of the state" (Krasner 1987: 48, 1976: 323); "relative size - small, medium or large" (Kindleberger 1981: 22; or relative size and relative labour productivity (Lake 1988: 29-44). Despite the "realist" foundations of this approach, political and military power are as explanatory variables downplayed. Hence Krasner argues that military force is not likely to create compliance and in any event, it is "unlikely to be employed against medium states" (1976/1987: 52).

Indeed the HST model, especially in the works of Stephen Krasner and Robert Gilpin return us to the status quo ante. That is they invert the "national-economy" approach, by arguing that the international market is subject to disruptions due to the actions of states pursuing their own short term national interests at the expense of long term economic growth. A far-sighted hegemon is required to circumvent the self destruction of the international, and hence ultimately, the national economy, by individual states. For Gilpin and Kindleberger in particular, the hegemon must be willing to bear the costs of providing the collective public good through self-less leadership. Already we have returned to the economic functionalism already encountered in the nationalist school. With the HST model, this problem becomes particularly acute, as is revealed by its explanation of free trade and protection.

Essentially the theory states that free trade regimes, (1846-1879 in Europe, and post 1945), were the creation of hegemonic leadership, (Britain and America respectively). Britain in the nineteenth century favoured free trade and thus spread it throughout the international system. It is also assumed that various institutions and methods (bribes/side-payments - Kindleberger; side payments and coercion - Lake (1988: 50), or positive economic incentives and at the margin, coercion - Krasner 1976/1987: 52), are instigated by the hegemon to ensure the spreading of the free trade system. However

these assumptions are empirically incorrect, on many if not all counts, particularly for the nineteenth century.

However, hegemonic regimes are also nonhomeostatic and thus ultimately unstable (Kindleberger 1981: 251; Gilpin 1987: 78), or as John A Hall and G. J. Ikenberry characterise this formulation, "...the exercise of hegemony is necessarily self-liquidating" (1989: 84. See also Hall 1990: 117). The result of this "long term" decline is the return to conflictual national "beggar-thy-neighbour" policies. Thus protectionism is returned to when hegemony declines. Hence the rise and fall of protectionist/free trade regimes is premised upon the condition of hegemony, measured in economic terms. The theory however, is particularly weak in explaining the rise and fall of free trade and protectionism (T. J. McKeown 1983: 73-91; A. A. Stein 1984: 357), and indeed the rise of hegemony in the first place. The basic force HST model assumes that the correlation between hegemony and free trade can be couched in causal terms. Claiming that a hegemon has a clear interest in free trade is not synonymous to explaining the emergence of the latter, just as in the same way the assertion that liberal capitalism requires hegemony does not explain the latter's emergence. Nevertheless, noting the crude economic-functional approach to causality does not undermine the essential explanatory base of the HST model. That is, both free trade and protectionism (as well as hegemony), are explained in accordance with the long term requirements of international capitalism, as the Listian problematic ultimately argues, (though the "long term" has proved to be empirically something of a misnomer).

For Gilpin in particular, tariffs are the result of interest groups within individual nation states seeking to protect their own domestic markets (1987: 48; see also Krasner 1976/1987: 48). The rent-seeking literature forms a complete theoretical approach to explaining tariff protectionism. Bruno Frey has recently lamented that the public choice approach to explaining protectionism has been "almost totally disregarded" (1984: 200). One reason for this is the lack of the theory's application to historical analysis. Indeed there is barely any public choice literature on nineteenth century protectionism. Nevertheless, the theory is certainly worthy of review.



Public choice theorists work essentially within a normative framework which stipulates the primacy of economic efficiency through competition within the free market system. Rents, handed down by governmental interference, produce artificial blockages to the free flow of the market. Tariffs for example distort prices in favour of those monopolist groups which can capture them (Tullock 1967). Stigler (1971) classically argued that economic regulation/tariff protectionism serves the private interests of politically effective groups, (also Wilson 1980). For the most part this approach focuses on the competing struggles of various interest groups - or "special interests" as Mancur Olson (1965) has classically argued (see especially A. O. Krueger 1974; J. J. Pincus 1977; R. E. Caves 1976; R. E. Baldwin 1986). It is important to note that these interest groups are highly differentiated. To the extent that small and powerful interests can win tariff policies is a function of their superior capacity to organise. That is consumers as a whole are too unwieldy and disparate to effectively organise to win exclusive policies from the state. This in effect rests on certain pluralistic assumptions about the composition of interest groups and the multiple notions of the distribution of power within society. This aspect above all differentiates this approach from Marxism.

Though operationalising a more narrow definition of the composition and distribution of power within society, Marxist theories to a certain extent overlap with the "capture" approach. Karl Marx, argued that protection was for the most part an obstacle to economic progress, though he did state that tariffs could aid capitalists in the early stages of industrialisation. At this stage of economic development protectionism would "...serve the bourgeoisie..as a means for the concentration of its own powers" Poverty of Philosophy (in McClellan 1977: 250). In general however, Marx believed, somewhat naively according to Anthony Brewer (1980: 86), - as did his mentor David Ricardo - that free trade was the most efficient system in the spreading of capitalist social relations around the globe. Thus he stated that;

"...the free trade system is destructive. It breaks up old nationalities and pushes the antagonism of the proletariat and the

bourgeoisie to the extreme point. In a word, the free trade system hastens the social revolution. It is in this revolutionary sense alone...that I vote in favour of free trade" (Poverty of Philosophy in McClellan 1977 : 270).

Rudolf Hilferding similarly argued that free trade maximised British industrial supremacy (1981: 310). He subscribed to the "3 stage economic model" whereby educative tariffs for infant industries "would accelerate the emergence of industry within the protected borders" (1981: 310). But once protection had fulfilled its role, free trade facilitates exports. Before decline sets in Hilferding, like many other theorists, recognised a further stage or scenario. That is even under conditions of economic supremacy, cartels can rationally maximise their gains through protectionism. In this instance cartels use tariffs to increase their gains at the expense of other indigenous producers (1981: 311-314). This clearly overlaps with the theories of economic regulation, and in particular the Public Choice approach.

The classical belief in the long term good in the spreading of capitalism around the globe, preferably through free trade, has been largely discounted by the various guises that modern Marxism has adopted. First and foremost is the "Dependency School" which in common with Immanuel Wallerstein claims that the spreading of capitalism leads to an ever increasing gap between first and third world countries. Underdevelopment becomes intensified to "underdevelopment" through the extraction of peripheral profits by the metropolitan countries (as classically stated by A.G. Frank 1967, 1972; O. Sunkel 1969; C. Furtado 1971, 1973; Dos Santos 1970/1973). In this formulation therefore withdrawal from the capitalist system is necessary if an autonomous and sustained industrialisation is to take place (Sutcliffe 1972; S. Amin 1974, 1976; Cardoso & Faletto 1979; Wallerstein 1974). The trade regime prescription therefore is an inversion of the classical position. Thus the rational course of action for third world countries is the adoption of Import Substitution Industrialisation .

A return to the classical liberal (and indeed Marxist) terrain is witnessed with the widespread adoption of the theory of "Free Trade Imperialism" (originally expressed by J. Gallagher and R. Robinson

1953: 1-15). Thus Britain adopted free trade after 1846 in accordance with the desires of the industrial class through which it would achieve international supremacy (A. Brewer 1980: 95-96; Gamble 1985; B. Semmel 1970). In addition a common Marxist position has been established in the case of nineteenth century Germany (see Chapter 2). Indeed a spate of works have been produced, which explain agricultural protectionism after 1879 as a function of the exclusive power of the landowning Junker class. Thus being able to capture the state they were able to extract a policy of protectionism at the expense of the consuming population (H. Rosenberg 1943, 1985; F. Fischer 1975; H. U. Wehler 1985a, 1985b; V. Berghahn 1973, 1982, 1985). Such an analysis is not unique to Marxism. Indeed this theory has found its strongest expression in the liberal analysis of Alexander Gerschenkron (1943).

Whilst these approaches focus on the exclusive ability of the dominant economic class to appropriate state policies for itself, the neo-classical theory invokes a "factors of production" analysis following the Stolper-Samuelson and Heckscher-Ohlin theorems. This envisages a wider conception of economic interests than that of Marxism, when focussing on the causes of free trade and protectionism. Rogowski (1989) has provided an exhaustive analysis of free trade and protectionism particularly for the nineteenth and twentieth centuries for much of the world. Rogowski notes three possible combinations of the three factors of production; land, labour and capital. These are located for two types of economy - advanced and backward. In turn these are analysed in terms of a country's insertion into the world economy under conditions of either expanding or declining trade. Under conditions of expanding trade, abundant factors of production will favour free trade, as they will under conditions of declining free trade. Scarce factors will favour protectionism under either set of trade conditions. This theory has the advantage over Marxism in that it can explain why factors or classes other than the dominant class can come to secure and indeed benefit, from protectionism.

By way of a summary it should be clear by now that all these major theories of free trade and protectionism rest upon an essential

"economistic base". Trade regimes are explained through recourse to the outcome of economic group preferences (variously defined), within civil society. The effects of the various trade regimes are considered only in terms of the economic benefits provided. The HST explanation of trade regimes also has recourse to economic factors; namely the economic distribution of power within the international system. This economistic base is also prevalent in current theories of the state, particularly those which emanate from the above mentioned theories of economic development.

## SECTION 2.

### Establishing the Economistic Consensus Theories of the State

#### Economic reductionism in Marxist and Liberal Political theory

Either implicitly or explicitly, these analyses of free trade and protection are bound up with a theory of the state. For the most part such theories assume the state to be a passive intermediary (trager); that is a bearer of external economic requisites within civil society, whether these be the wishes of the dominant class, or, any one of a mixture of factors of production/economic interest groups. Thus the major paradigms - Marxist, Neo Classical, Liberal and Pluralist - all reduce the state to economic externalities.

Modern Marxists have claimed that there are two theories of the state in the works of classical Marxism. The first position - which is usually discounted on the grounds of its crude reductionism - is found in the Communist Manifesto, where it is claimed that,

"The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie" (Marx 1848/1977: 35).

Thus the bourgeoisie has "conquered for itself... exclusive political sway" (1848/1977: 35. For a similar position see also; Critique of the Gotha Programme 1875/1972: 26-33, Engels; Anti-Duhring 1894/1955: 386). The second position involves a "nominal" and an "actual" theory. Focussing on The Eighteenth Brumaire of Louis Napoleon, Neo-Marxists have claimed that Marx conceived a position where the state had acquired a degree of independence or autonomy. However, this is the nominal or "bourgeois" view, to which we shall return. The anomaly between these two formulations was quickly and formally resolved by Marx in this latter work. Marx wrote time and again that a strong state such as Bonaparte's was necessary so that capital may defeat and achieve hegemony over the proletariat. Thus in The Eighteenth Brumaire of Louis Napoleon, Marx wrote;

"Bonaparte feels it to be his mission to safeguard Bourgeois order... by protecting its material power, he generates its political power anew" (quoted in McClellan 1977: 322).

This was reinforced by Engels;

"From the moment when it was no longer a question of protecting the nobility against the onrush of the bourgeoisie, but of protecting all propertied classes against the onrush of the working class, the old absolutist monarchy had to go over completely to the form of state expressly devised for this purpose: the Bonapartist Monarchy" (The Peasant War in Germany 1850/1957: 27).

Thus Marx argued that whilst the state appeared to be autonomous, in reality, "...state power is not suspended in mid air. Bonaparte represents a class..." (Marx The Eighteenth Brumaire of Louis Napoleon quoted in McClellan 1977: 317)

Thus the key words in this analysis are "appearance" and "reality". These words lead us to the very core - the rational kernel - of the Marxist method. Marx's critique of the Physiocrats - such as Turgot and Quesnay; of classical political economy - Adam Smith and David Ricardo; of "vulgar" economy - James Mill and Nassau Senior; of anarchism - notably, Proudhon; and also of German philosophy - notably Feuerbach, was that they had analysed only the superficial, phenomenal or "apparent" features of social life and had failed to penetrate them for their "real" underlying essence (Capital I,

1867/1954: 14-16, 66, 94-96, 155-157, 159-160, 290-291, 412-421, 504; Capital III, 1867/1966: 168, 392-393, 817-818, 827; 1868a/1983: 148-149; Theories of Surplus Value Vol. 3 1862/1972: 454-523). For Marx, and in contrast to Althusser, this method is central to his "mature" as well as the "early" works and forms the rational kernel of his specifically "scientific" principles. "All Science would be superfluous if the outward appearance and the essence of things did not coincide" (Capital III: 817). This was central to his notion of "fetishism".

Fetishism arises when a phenomenon, for example a commodity, appears to have a value or power inherent within itself; that is, independent of the social relations which had produced it. Indeed for Marx it was fetishism (rather than simply the media, religion or the state, as neo-Marxists have tended to argue), that constituted the major form of "bourgeois mystification". Commodity fetishism "has its origins...in the peculiar character of the labour that produces them" (Capital I: 77). Thus a "...definite social relation between men...assumes in their eyes the fantastic form of a relation between things" (Capital I: 77. Also, 54-88; Capital III: 172, 826-827; A Contribution to A Critique of Political Economy 1859/1976: 31, 51-52).

However, it is not just commodities that give rise to fetishism. Thus Marx discerned "capital" fetishism, which refers to industrial capital. This refers to the illusion of capital as productive, whereas it is in fact merely derived from labour (Grundrisse 1857/1971: 267, 297, 308, 528-9, 585, 684, 700-2, 745, 758, 759, 822; Capital I: 366, 483, 567-570; Capital II: 385; Capital III: 45, 47-48, 168, 392, 827; Theories of Surplus Value 305, 389-392). Marx also referred to the fetishism that occurred through "interest-bearing" capital, or, commercial capital (Capital I: 529-530). "The relations of capital assume their most externalised and most fetish-like form in interest bearing capital" (Capital III: 391. Also, 392-399, 829-831; Theories of Surplus Value Vol. 3: 453-468).

In addition money creates the illusion of an independent power, particularly as the effective realisation of "exchange value". Money however cannot impart value to a commodity (Capital I: 95-96;

Grundrisse: 59-69, 160; Critique of Political Economy: 31, 51-52; Theories of Surplus Value: Vol. 1: 204-209). This is also found in the money form of wages which appear as the "fair" remuneration of labour (Capital I: 501-507, 532-533; Capital III: 826-827).

The separation of the commodity, and in particular money, as a power independent of the social relations of production is mirrored in the bourgeois distinction between "exchange" and "use" value. Exchange value is specifically the fetishised realisation of the exploitation of labour (Contribution to a Critique: 30-31, 51-52; Grundrisse 1857/1973: 59-69). It is the outward "market" expression of an inner social contradiction lying within the "productive" sphere. Thus we have returned to our starting point - commodity fetishism.

In sum we can observe a general feedback loop within the "economic sphere", This is represented by the "bourgeois" notion of the "Trinity Formula" (see Capital III: 814-831; Theories of Surplus Value, Vol. 3: 454-523). The exploitation of labour (or specifically) labour power gives rise to a product which appears to embody an "exchange value" independent of the exploitative productive sphere. This value - unique to the capitalist system - entails fetishism through the apparent belief that the commodity has its own unique value and that capital embodies productive power. Money merely adds to the confusion. However the Marxist "scientific" method penetrates through these illusions to reveal the essence of reality - contradictory social relations of production.

Marx applied this method not only to the economy but also to all non-economic phenomena, or the "superstructure" (Preface to a Contribution to A Contribution to a Critique). In the fourth thesis on Feuerbach, Marx argues that Feuerbach resolves "the religious world into its secular basis". However this secular basis fails to recognise the contradictory nature of social reality which still remains. The Sixth thesis argues that reducing religion to man still leaves the problem intact. Marx also applied this method to the state. This was done through a two-fold theoretical movement. Firstly he invoked Rousseau's argument, whereby citizenship within a liberal parliamentary system is seen to be a sham. That is, "citizenship"

must be penetrated to its political essence where the masses have no real say in politics due to the inadequacies of the system which involves voting for so-called representatives once every five years; (as Marx stated in his Introduction to A Critique of Hegel's Philosophy of Right, individuals may be equal in the "heaven" of their political world, they are most certainly unequal in the earthly existence of society (see McClellan 1977: 63-74). However, to go beyond the liberal paradigm of Rousseau involves the "scientific" economic penetration of citizenship to show that the state itself is merely the outward expression of the dominant economic class (See especially The Civil War in France; The Critique of the Gotha Programme). We can now return to Marx's original project in The Eighteenth Brumaire.

Thus for Marx, whilst the state power 'apparently' soared high above society, in reality it served merely to renew the conditions and means 'for the enslavement of labour by capital'. That is, the appearance of autonomy is in fact a "bourgeois" sham, which must be penetrated for its real underlying essence; its "bourgeois/class" basis. Clearly therefore, Marxist "science" specifically embraces the method by which all phenomena - religious, political, ethnic and certain economic phenomena - exchange value, capital, money etc, - are reduced to an essential reality; namely the exploitation of one class by another. Fetishism ultimately rests upon the Labour theory of Value as it is expressed within capitalism (as opposed to communism). To fail to reduce these phenomena in this way is to fall into the "trap" that the "bourgeois" theorists such as James Mill, Adam Smith, David Ricardo, Feuerbach and a later Max Weber fell into. That is they failed to realise that Capitalism embodied the dialectical seeds of its own destruction and was therefore only a transitory phenomenon. Thus classical as well as neo-classical economics merely "eternalised" capitalism, by giving the laws of supply and demand, prices, wages, rent and profit a natural character (Capital I: 23-24, 85, 483, 504, 528; Capital II: 229; Theories of Surplus Value Vol. 1: 49; The Holy Family quoted in McClennan 1977: 132-133). In doing so, they contributed to the process of "bourgeois mystification".



Shunning the "crude reductionism" of the Communist Manifesto, many neo-Marxists have focussed exclusively on the "nominal", or "bourgeois" position advocated in The Eighteenth Brumaire and have attempted to conceptualise the notion of an autonomous state. In line with the original problematic of Louis Althusser, Etienne Balibar and Nicos Poulantzas, (the French "Eurocommunist" School), they have argued that the state is not simply a passive agent of the dominant economic class (something which those in the Weberian camp have been arguing for decades) but has rather a degree of independence expressed as "relative autonomy". That is, the state often intervenes in the economy against the short term interests of individual capitals. However the reason for this is simple. The state must be far enough removed from the economic arena so as to be able to ensure the "long term" reproduction of the capitalist class (J. O'Connor 1973: 6; R. Miliband 1973: 85,88; 1975: 316; 1977: 31,66-74; G. Therborn 1980: 219-244, 1982: 242-244; C. Offe 1974; Offe & Ronge 1982: 249-257; S. Hall 1984: 22-23. S. Clarke 1988: 131; E. Mandel 1975: Ch. 15, 16, 18; E. O. Wright 1978; I. Gough 1979; 1983: 157-158; N. Poulantzas 1973: 44-56, 187-189, 255-321, 1978: 25-27; L. Althusser 1971: 131-132).

It should be immediately apparent that we have re-entered the economic-functionalist problematic. The state is understood only in so far as it is required by capitalism and the dominant economic class. That is it functions merely to maintain not the short term but the long run interests of the bourgeoisie. All that these analyses have done is to substitute the phrase "long term" for "short term"; the content of economic reductionism of the original statement in the Communist Manifesto however remains. The conclusion is simple. As far as state power is involved, "relative autonomy" is a sham. Indeed this has been recognised within Marxist circles. Laclau has correctly pointed out that "determination in the last instance" (a logical consequence of "relative autonomy"), lacks a precise theoretical content (1979: 73-79. See also A. Glucksman 1972). Laclau goes on to argue however that these Althusserian non-reductionist raw materials can be upgraded into truly theoretical concepts. Unfortunately in doing so he would have returned us to a bourgeois status quo ante.

These "relatively autonomous" theories are in fact synonymous in content with the "actual" position found in Marx. That is the state in itself has no real or effective power. In practice, these versions are synonymous to the explicitly reductionist theories of the state, which include; the State Monopoly Capitalist School - Fine and Harris (1979); Corporatist - Mandel (1975); more generally - Glyn and Sutcliffe (1972). All such Marxists in practice have remained true to the reductionist cause, even though many continue - at least at the rhetorical level - to discount such a simplistic approach. Sadly it would seem that such Marxists have ignored the analytical logic of their methodological approaches in favour of espousing self-contradictory rhetoric.

An equally reductionist methodology is found in more overtly liberal analyses of the state. Typical in this respect is Alexander Gerschenkron, whose understanding of the state is barely distinguishable from the Marxist position. This is classically expressed in his analysis of the nineteenth century Kaiserreich. In Bread and Democracy (1943) he argued that the Junker class was able to secure protectionism on wheat, rye and oats by virtue of its monopolist position within the state and bureaucracy (see also; F. B. Tipton 1976: 120; Berghahn 1973: 9-10, 12 - see also Ch. 2 in this thesis). In common with the Marxist position, this is an "exclusivist" version of the "capture" theory of the state. This is due to the fact that the landlords were able to secure protection at the expense of the welfare of small producers and peasants. The parallel is continued further for he argues that the landlords effectively duped the peasants into siding with them, [hence the peasants suffered from false class consciousness] (see also Kindleberger 1978a: 34). This analysis mirrors the majority of the Marxist approaches to the German state, utilising an instrumentalist view of the state. That is owing to the strong personal ties between the state and the Junker class the former acts in the interest of the latter.

A differing liberal position is found in the neo-classical position. The Heckscher-Ohlin and Stolper-Samuelson models have clear implications for state policy. In this vein Ron Rogowski's recent

book invokes an explicit and unashamedly reductionist approach. As we have seen, protectionist or free trade policies are invoked by the state as it responds to the imperatives of the differing strengths of the various factors of production as they in turn face up to the constraints of expanding or contracting trade. He takes this a stage further by arguing that major political movements have an explicitly economistic base.

American populism he argues is the result of an urban conflict where the only abundant factor - land - fights against the defensive (protectionist) coalition of labour and capital. "Neither E. E. Schattschneider nor Walter Dean Burnham could have described more succinctly the history of the populist movement or of the election of 1896" (1989: 9). Under conditions of declining trade in advanced economies, where land is assertive (scarce) and labour and capital defensive (abundant), Western European Fascism occurs. Under the same trading conditions, where land and capital are defensive and labour assertive, we can observe the foundation of the U.S. New Deal (1989: 7-13). He also claims that the model can explain not least Socialism, South American Populism, Asian and East European Fascism.

Public Choice theorists invoke a similarly reductionist view of the state and political processes. As with Poulantzas, the state is viewed as nothing more than a locus of struggle between competing societal groups. This clearly overlaps with the pluralistic view of the political process. Bruno Frey has summarised this conception as follows. "Protection is demanded by particular groups of voters, firms, and associated interest groups and parties, and supplied by politicians and public bureaucracies" (1984: 209). Once again, the state acts as nothing more than the supplier of interest groups' needs

This thesis will attempt to go beyond the analytical assumptions of the "economistic consensus", to provide an alternative theory. The first point to make is that the economistic consensus is only partially correct. Groups within civil society can gain advantages from the state. However, why is that these are only ever viewed as "concessions"? In contrast this thesis will advance an alternative

formulation, whereby the state will be seen to determine policies of protection in accordance with its own autonomous political interests. Far from functioning as an input-output mechanism meeting the needs of society (pluralism) or the capitalist class (Marxism), or the needs of special interest groups (public choice), or the needs of certain factors of production (neo-classical), the state will be conceptualised in this thesis not as a passive bearer of societal agents, but as an active autonomous agent shaping economic policy and society according to its own interests.

Specifying the autonomous powers of the state will be done by examining the determination of the twin processes of fiscal (tax) and trade regimes. This will require a fiscal-sociological approach which links in a fundamental way, the state, taxation and the economy.

### SECTION 3

#### The Fiscal Sociological Origins of the Statist-Economy approach to Protection and Economic Development

Peter Christian Witt, a major pioneering force in the field of taxation, made the important point, that fiscal sociology has lamentably become "yet another specialised branch of historiography" simply to be added to "existing approaches such as social and economic history, constitutional history, administrative history or business history" (1987a: 1). This thesis will free fiscal sociology from its narrow shackles by using it as part of an overall approach to understanding political and economic development. In sympathetic agreement with Witt, it seems a mystery as to why a general analysis of taxation has been so fundamentally neglected within political, social and economic theory. The development of states and economies have been indissolubly linked to taxation policies. The connection between social turmoil, state power and tax policies is illustrated in numerous historical uprisings. The obvious and uncontentious example that springs to mind is the 1381 peasants' revolt, mirrored

by what has euphemistically been called the "Battle of Trafalgar" in London, March 31, 1990 (The Poll Tax riots). But much of history's struggles have been witnessed in the form of tax revolts. Furthermore such revolts have been conducted against the state rather than the dominant economic class.

An important underlying theme to this thesis is the notion of taxation as an exploitative mechanism. An integral assumption of this notion is the differentiation between political struggles and economic/class conflict. The two are not synonymous. Indeed most of the "working class struggles" conducted in the late nineteenth and early twentieth centuries were conducted to extract political concessions from the state (political, economic and social citizenship to use T.H. Marshall's terms). It can be clearly seen that there is an almost perfect correlation between "class struggle" and state regime types. Put simply, those authoritarian and autocratic states which repressed the working classes (Germany and Russia respectively), witnessed the growth of militant labour movements. Those liberal regimes such as Britain and America which granted the working classes political, social and varying degrees of economic (and fiscal) citizenship witnessed more reformist, non-Marxist labour movements (for similar discussions see S.M. Lipset 1985; J.M. Mann 1987, 1988a; J.A. Hall 1988a, 1988b, 1989; T. McDaniel 1989; I. Katznelson 1985, 1986; A. Zolberg 1986). Historically there is only a very weak correlation between capitalism and revolution (especially of the Socialist variant) at the empirical level. There is however overwhelming evidence to support the connection between authoritarian state regimes and revolution.

From the angle of this thesis, it is also important to note that one vital aspect which led to the political alienation of the labour movements (in Germany and Russia), was the application by the state of highly regressive (indirect) as well as highly oppressive tax bases (in contrast with the U.S. and particularly with Britain). The revolts of 1917 in Russia, and 1918-1919 in Germany were to a certain extent tax struggles (which became particularly evident in the German Weimar period). One aim of this thesis will be to analyse the fiscal origins of the post war revolutions in Germany and Russia. In sum it

is being argued that revolutions and reformism, liberalism, authoritarianism and autocracy are inseparably linked to central issues of states and taxation policies.

A further area for which fiscal sociology is important, is an analysis of the historical development of state building. This is recognised by a host of modern writers (see especially J. M. Mann 1980b, 1986, 1988, 1992; J. Brewer 1988; M. Levi 1988; C. Tilly 1975, 1985, 1990; G. Ardant 1975; R. Braun 1975; S. Finer 1975; J. A. Hall and G. J. Ikenberry 1989, and classically by M. Weber 1922/1978). The relative neglect of the discipline of "fiscal sociology" has been lamented by such historians. As Margaret Levi has pointed out, for the most part political analysts have given scant attention to the process whereby states acquire revenues. Where there is a recognition of this process, such work has been either empirically thin, or lacking at the explanatory level (Levi 1988: 6-7).

A study of the state itself must begin with an analysis of government revenues and expenditures. Analysing expenditures allows us to understand exactly what the state does. The comparative work of Michael Mann shows that certainly upto the late nineteenth century states - both authoritarian and liberal - were primarily occupied with achieving a strong military capacity (Mann 1986; 1992). For a similar analysis applied to the British state see J. Brewer 1989; P. K. O'Brien 1989; P. Mathias and P. O'Brien 1976; M. Levi 1988). Each chapter in this thesis will examine the expenditures of the various states. This will provide the backdrop (or rather the demand side to states' budgets) for the analysis of taxation and tariff policies.

Historically, as states sought to develop their military capacities so they were forced to develop more lucrative and efficient systems of revenue extraction. Skocpol states that "...with recurrent warfare within the European states system, monarchs and statesmen looked to centralise, regiment, and technologically upgrade fiscal administration and armies" (1979: 21). As was often the case, states came up against a major obstacle to tax maximisation collection. Because they lacked sufficient infrastructural power or reach into civil society they became dependent upon the landed classes, since

only they could extract taxes from the peasantry owing to their close proximity. Naturally the landowners were anxious to minimise tax extraction from the peasantry since this would diminish the surplus peasant product available for exploitation. Thus for their own selfish reasons, landowners tended to shield their peasants from the tax-seeking activities of the state. As a result an extremely tense relationship developed between landlords and state. To circumvent this problem the state sought to expand its own infrastructural reach by developing a bureaucracy, which could replace the landlords as collector of taxes. And even if the landowners joined the bureaucracy they would then be under legal-bureaucratic obligation to hand over the revenues. Thus as states sought to extract revenue, they simultaneously became bureaucratized. Taxation lies at the heart of state building.

The fiscal sociology of the state also enables us to understand better the process of economic development. Historically the extraction of revenues to fund military activities impacted directly on the development of capitalism. Between 1485 and 1688, as changes in military technologies made warfare more expensive (the First Military Revolution), and monarchs consequently set about increasing revenues, so they became more dependent on trade to finance warfare. They protected merchants in return for financial resources. Thus customs and excise became important as a means to fund the state's military activities (Mann 1980b, 1986a; Giddens 1985). Whilst this stimulated the emergence of the centralised nation state, it also led to the development of capitalism. Hence states established bureaucracies to collect and administer taxes, which in turn promoted increasing commercialisation and the emergence of national markets for capital, labour, goods and services, corresponding to political boundaries. As Otto Hintze put it,

"The rise and development of capitalism remains unintelligible without insight into how they (states) were conditioned by the course of national formation" (1975: 427).

Hence the state, through its military and fiscal activities played a central part in the development of capitalism. Such an approach will form the lynchpin of this thesis, for as we shall see it was the

process by which the state, in following "its" own multiple political, military and fiscal interests, that led ultimately to the choice of protectionist or free trade regimes after 1870. In the late nineteenth century, Europe underwent the second military revolution. The fusion of the military and industrial revolutions [which were inextricably linked], in the climate of increasingly unstable international political relations, led to rapidly rising government costs. To cover these rapidly rising government expenditures, great power states looked for new sources of fiscal revenue. This provided a vital impetus to the rise of the late nineteenth century phenomenon of "neo-mercantilism". Indeed as in the original mercantilist era, customs and excise became important in the funding of certain states' military activities. Hence chapter 2 will focus on the shift to protection by the German (authoritarian) state regime . In chapter 3, such an analysis will be used to explain the process of autocratic Russian tariff policy and industrialisation. Chapter 4 will focus on the alternative free trading formula in liberal Britain. Chapter 5 will explain tariff policy in Liberal (federal) America from 1789-1913. Such an analysis rests ultimately upon the complex area of the "autonomous powers of the state". These must be carefully analysed if we are to be able to explain the process of protectionism, free trade and economic development, (see the final chapter for a comparative theory).

As a final point, it is important to point out that, we need to be careful of the term 'the state'; for in reality there is no such thing as "the state" with a single set of interests, which enacts a long term rational plan of economic policy. "The state" is rather a highly differentiated forcefield of competing bureaucratic elements. Policy is often the outcome of the clash of various logics that are specific to the state as an arena of competing power actors. Moreover, state power is not a singular phenomenon. Thus we will be able to differentiate various aspects of the autonomous powers of the state. These will be central to the analysis of protectionism and taxation developed in the following chapters.



## The Tax Premise

All this may be summarised through recourse to the "tax premise". That is, before the state can operate it must first be able to extract revenue. Or to paraphrase Marx's "labour premise" (German Ideology: quoted in McClellan 1977: 165),

We must begin by stating the first premise of political existence, namely that states must be in a position to live in order to be able to "make history". But political life involves before everything else revenue collection, sovereignty, coercion and legitimacy and many other things. The first historical act is thus the production of tax revenue itself. And indeed this is an historical act, a fundamental condition of all history.

As Rudolf Goldscheid poignantly put it;

"The budget is the skeleton of the state stripped of all misleading ideologies" (quoted in Schumpeter 1918/1954: 6).

Equally as pertinent are Schumpeter's own comments;

"the public finances are one of the best starting points for an investigation of society... The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare - all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to the message here discerns the thunder of world history more clearly than anywhere else" (1918/1954: 7).

Thus tax revenues are the lifeblood or the sinews of the state. (See M. Levi 1988). The connection between taxation and state power are nicely captured by John Brewer's title to his book The Sinews of Power 1989). Indeed, just as capitalists accumulate capital, so states seek to accumulate revenue. Any theory which purports to understand the state therefore, must begin with (or at the very least address) the issue of taxation (see G. Ardant 1975: 164-242; R. Braun 1975: 243-327; F. K. Mann 1943: 225-235). To understand the state, we shall develop the concept of the mode of taxation. In turn, the imperatives of fiscal accumulation led in the period 1870-1914 to fundamental trade regime changes in several European states. In addition, the relations of extraction (upon which group the tax

burden lies) also affected the political choice of both tax and trade regimes.

This thesis will explain the so-called "switch to protectionism" between 1870-1914. In doing so we shall utilise an activist theory of the state, which shapes economic development through the unintended and intended consequences of its multiple actions. Such an analysis builds on the neo-Weberian approach developed by the likes of Michael Mann (1986; 1988; 1992), John A Hall (1985; 1988; 1989), G John Ikenberry (1986; 1988a; 1988b; 1989), Theda Skocpol (1979; 1985a; 1985b;), Linda Weiss (1988), Anthony Giddens (1985), Charles Tilly (1975a, 1975b, 1985, 1990), Peter Katzenstein (1985), Stephen Krasner (1978), Tim McDaniel (1988), and Randall Collins (1986).

## CHAPTER 2

### THE STATE AND TARIFF PROTECTIONISM IN FEDERAL (AUTHORITARIAN) GERMANY 1875-1913

#### Section 1

#### The 1879 Tariff

#### The Economic Argument

In 1862, the Franco-Prussian commercial treaty substantially lowered the import duties of the Zollverein. In 1871, the first year of the Reich, Germany had a free trade tariff similar to that of Britain. In 1873 her last main protective import duties - those on pig-iron, steel ingots and ships, were abolished. The remaining iron duties were to be repealed in 1877. Up to 1876 protection had very little support, both in the Reichstag and in the Prussian Parliament. Free trade gained an overwhelming majority at the highest levels of government. However, in the late 1870's, the grain of the "virgin" lands, Russia and America, began to exert serious pressure on the unprotected German grain production, intensifying the crisis of German agriculture, (in addition to the bad European weather). American wheat production in 1870 stood at 235,884,700 bushels rising to 448,755,100 bushels in 1879, whilst exports went from 52,774,111 bushels in 1870 to 150,502,506 in 1879 (Lambi 1963: 132). Not only had grain production vastly increased, but in Russia and especially the U.S, the railways had opened up the plains, leading to a vast decrease in prices (Kindleberger 1978a: 19-21). Furthermore the cost to transport a bushel of grain from Chicago to New York decreased from 21.1 to 11.8 cents in 1879 (see table 2.1).

Table 2.1 The Reduction in Transport Costs per bushel of Grain (to  
Liverpool)  
(expressed in cents)

	From New York Actual	Base	From Odessa Actual	Base
1870	16.7	100	26.3	100
1875	15.1	90	19.3	73
1880	8.8	53	14.0	53
1885	6.3	38	10.5	40
1890	5.0	37	9.4	36

Source: H. C. Farnsworth (1934: 294-296)

Between 1873 and 1879 wheat prices fell from 171 to 127 cents per bushel (Farnsworth 1934: 347). Expressed in German currency, the freight rate for a ton of wheat from New York to Liverpool fell from 33 marks in 1873 to 19.3 marks in 1879 (K. W. Hardach 1967: 74-75). According to W. G. Hoffman wheat prices fell from 231 marks per ton in 1871 to 204 marks in 1879, whilst rye fell from 156 to 138 marks per ton (1965: 552-554; see Appendix 2 in this thesis; also Tirrell 1951: 25; cf. Lambi 1963: 133). With the expansion of cheap imports, Germany's trade balance in grain became unfavourable. After 1873 the imports of rye increased considerably. From 1876-9 the surplus of rye imports over exports averaged more than 1 million tons per annum, as compared to the 0.5 million tons per annum in the first part of the decade. After 1876 the trade balance of wheat similarly became unfavourable, running a deficit of 272,000 tons per annum, up to 1879. Germany like Britain, was now becoming a grain importing country (Lambi 1963: 132). Though the bulk of the grain came from Russia (between 1880-4, 56% of rye and 35% of wheat) and the Danube basin, North American and Austrian grain had an equally crippling effect upon German agriculture. By 1880 Germany's wheat imports were provided as follows; Austria-Hungary 37%, Russia 24%, United States 39%, whilst Russia provided 62% of Germany's rye imports (Tirrell 1951: 20)

The economic argument states that in 1879 as a "response", Germany reintroduced tariffs to protect the manufacturing and especially, the Junker classes [East-Elbian/Prussian landowners] (Bohme 1967: : 231-236; Gourevitch 1977: 285-291; Puhle 1986: 81-89;; Krasner 1976/ 1987: 61; Rogowski 1989: 38-40; Calleo 1978: 13-15; Lambi 1963: 134-147; Peck 1978: 7-10; Clough and Cole 1952: 610-612; Stolper 1967: 35-37). The general argument may be summarised as follows. This radical turning point was accomplished by the switch of the Junkers from alliance with the commercial interests of the northern cities to alliance with heavy industry. With the onset of agricultural depression, the Junker landlords of East Prussia came to favour protection, in order to shore up their declining share of domestic grain markets. According to Alexander Gerschenkron, the troubled Junkers were able to gain protectionist concessions from the state owing to their dominant political power base. (1943: 26-27, 72-76 ). Gerschenkron's liberal position is entirely congruent with Marxist analyses as well as non-Marxist. The similarity is continued by his claim that the Junkers gained in effect a monopolistic and privileged economic position, by virtue of the negative protection accorded the peasantry and the proletariat (Gerschenkron 1943: 16, 26-27, 57-58, 74-76, 85, 87; see also, F. B. Tipton 1976: 120; H. Holborn 1969: 371; R. Rogowski 1989: 38-40; H. U. Wehler 1985a: 36-39; V. R. Berghahn 1973: 12; F. Fischer 1975: 6; D. W. Urwin 1980: 96-97).

Such an analysis has become widely accepted. Furthermore, it has provided the theoretical base for a comparative explanation of protection and free trade. Thus Kindleberger argues that the ultimate cause of protection was the loss of export markets for grain and the threat of imports. Kindleberger also argues that in Britain , the decrease in wheat prices led to the final liquidation of the feudal landowners, and wholly benefited the bourgeoisie (1978a: 22, 27). He counterposes the case of "bourgeois" Britain to those of "feudal" Germany, France and Italy, where in each of the latter countries, the farmer was protected by the imposition of tariffs (1978a: 19-30; see also Calleo 1978: 67-69; Malenbaum 1953: 34-36).

In similar vein, Kenneth Barkin argues that it was those countries with strong agrarian classes that caused a return to protection;

"...is it not ingenuous to expect a semi-feudal agrarian elite with enormous political clout to sacrifice their existence on the altar of a bourgeois economic philosophy, that the bourgeoisie of France and the U.S., I might add, shed without a tear? In every major grain importing nation strong protectionist movements developed and in several, the tariffs were higher than in Germany" (Barkin 1987: 231; see also, Pollard 1981:257-260; Rostow 1978: 165-166).

Simon Clarke has extended the notion of the Second Founding of the Reich by arguing that,

"...the call of the landowners for protection was closely connected with the resurgence of a conservative desire to restore social order by restoring patriarchal social relations in the countryside. It was this political threat that was the decisive factor in the turn to protectionism in Europe" (1988: 183-184).

So the critical variable that separated Britain (representative of the "Free Trade response") from Germany, Italy and France was the weakness or strength of the agrarian landed class, (weak in the former and strong in the latter). This economically reductionist argument stands as the consensus in explaining the 1879 tariff, (and indeed all later tariffs). It will be argued here, that there was indeed an economic input in the determination of the tariff. However in 1879 it focuses only minimally upon the protective side of the tariff. Rather, emphasis is accorded the factor of tax relief for the agrarians. Furthermore, this economic input, is only a partial determinant of the tariff. As we are about to show, the agrarian economic input in 1879 was only very weak. Indeed had it not been for Bismarck's intervention, the 1879 tariff might never have been instigated. Bismarck's reasons for instigating the tariff in 1879 were prompted largely by reasons of state; principally to establish a firm financial footing for the Reich. We shall begin therefore by examining the motives for Bismarck's "switch to protection".

## Bismarck's Switch from Free Trade

In 1850, Bismarck was unequivocally in favour of free trade though not as a doctrinaire free trader. He told the Reichstag in that year:

"The Deputy for Crefeld regards the protective duty as a protection of the manufactories against foreign countries, while I, on the other hand, regard it as a protection against the liberty of the native population to buy where it may appear cheapest and most convenient, in other words, the protection of the home country against the home country. Protective duties and compulsory guilds impose a sacrifice upon a part of the population for the benefit of the other part, especially the obligation to buy goods at a higher price than would otherwise be the case, in order that this other part of the population maybe ensured bread and be protected. But protective duties have also the disadvantage that in the main they only enrich a few factory proprietors. This is their sole result for I have never seen that factory operatives have put away large savings or become rich. On the contrary I have known rural labourers, on manors of the Eastern Provinces thoroughly familiar to me, who have been able after working during their best years to buy settlements or small peasant holdings. I know of no poor on the manors of the Eastern Provinces, but I wish I could say the same of the Western factory districts" (quoted in Dawson 1904: 41-42).

Although this was partially inspired by Bismarck "the agriculturalist" speaking up against the town and industry, it is nevertheless clear that he disliked protection as it favoured the minority industrial ruling class, (or so he argued) as against the labouring masses. He argued against protection therefore, on egalitarian grounds.

Throughout the 1860's he remained pro free trade, concluding in 1862 a free trade treaty with France. Indeed in 1873 he agreed to the abolition of the remaining iron duties and they did in fact disappear in 1877. In 1875 he advocated the restriction of the tariff to ten or twelve articles, with a view to the retention of merely fiscal duties.

Nevertheless Bismarck was never a "free trader". As he stated in the Reichstag in 1881:

"...never in my life have I been a doctrinaire: all systems by which parties are divided and bound together are of secondary importance for me. The first place I give to the nation, its position abroad, its independence, the organisation necessary in order that we as a nation may breathe freely in the world" (quoted in Dawson 1904: 46).

This statement is entirely borne out by Bismarck's actions. Holding theory so lightly and insisting that practical considerations as he recognised them must be the sole determinant of his action, it was not difficult for him to come forward as a protectionist. Indeed he had never missed the opportunity to renounce the idealism of the left wing parties in the Reichstag, which included the National Liberals. Furthermore, since Bismarck's advocacy of free trade in the 1860's was strongly influenced by politics, it was therefore perfectly natural that when at last he resorted to protection, it was under the spur of financial necessity rather than any pure economic conviction.

The reform of Imperial taxation was perhaps the most significant underlying motive impelling the tariff. This reform of taxation was primarily undertaken with the object of providing the Empire with a sufficient independent revenue, so that it need no longer rely on the states and their legislatures. In the forefront of domestic needs Bismarck had for many years placed fiscal reform. "The entire reform of taxation, inclusive of the customs duties - who does not wish it?" (Reichstag speech: November 1875, quoted in Dawson 1904: 46).

#### The Fiscal Crisis of the Late 1870's

The Constitution adopted in 1871 had provided that in so far as the expenditure of the Empire was not covered by revenue set apart for its special use, the deficit should be made up by matricular contributions from the federal states according to population, (Matrikularbeiträge). Article 70 states that:

"The surplus of the previous year, the common revenues derived from customs duties, from the common excise duties and from the postal and the telegraph services shall be applied to the defrayal of all general expenditures. In so far as these expenditures are not covered by the receipts they shall be provided for, as long as no taxes of



the Empire shall have been established, by assessing the several states of the Empire according to their population (matricular contributions); the amount of the assessment to be fixed by the Chancellor in accordance with the budget agreed upon" (quoted in Ashley 1909: 1, my additions).

The problem as it emerged after 1875 was that the "common revenues" were diminishing. In 1873, customs revenues declined from 122.6m marks to 100.0m marks in 1877 - 12m marks of which were lost upon liquidation of the iron tariffs (Pflanze 1990a: 446). In addition the reduced supply side of the Imperial budget (revenues) was antagonised further by the increased demand side (expenditures). These comprised the state owned telegraph network and in particular the army and navy. Upto 1875 the Reich had been financially buoyant. However, the French war indemnity of approximately 5 billion francs (4,207 marks) played only a very small part in this buoyancy. Much of this sum went to the federal states. Thus 1480m marks went to the sinking fund of the North German Federation, and 890m went straight to the federal states. In addition, much of the money was put aside for future spending. Thus 560m marks were put aside for the war pension fund, (spent upto 1904); 216m was put aside for the fund for fortress building (spent upto 1891); 129m went to building fortresses in Alsace-Lorraine, and 109m went to the fund building railways in Alsace-Lorraine. Of the total 4,207m marks supplied, only 1826m went to the Reich, and this was earmarked not for current expenditures, but rather for the sinking fund for short term loans (Witt 1970). However their ending in that year coincided with the beginning of a fiscal depression at all levels of government. By 1878 this depression had developed into a fully blown fiscal crisis. Without a new, independent and healthy source of revenue, Bismarck felt, the Reich would become fiscally paralysed. As a result of the revenue shortfall, the Chancellor - in accordance with Article 70 - resorted to increasing the matricular contributions of the federal states. All states felt the impact of the impending crisis..

Table 2.2 Fiscal Crisis at Staat level (Matricular Contributions)

(in millions of marks)

Year (a)	Total Staat Contributions	Prussia	Bavaria
1873	73.9	33.3	16.7
1874	67.1	32.9	14.7
1875	69.0	32.1	15.3
1876	89.2	31.7	20.1
1877/1878	81.1	44.4	19.7
1878/1879	87.3	41.6	19.7
1879/1880	89.4	43.6	18.9

Source: W. Gerloff (1913: 40ff, 106, 526); S. Cohn (1972: 206-207)

(a) Upto 1876, the fiscal year went from 1 January to 31 December; in 1877, the budget year went from 1 January 1877 to 31 March 1878 (15 months); thereafter the budget year went from 1 April to 31 March.

The increase in the matricular contributions led to an increase in the direct tax burden, which in the 1870's was an important means of state and local government finance. Between 1871 and 1879, direct taxes increased by approximately 20% (from 133m marks to 160m), whilst indirect taxes decreased by as much as 28% in the same period (Prochnow 1977: 40-41). Furthermore, in Prussia the surplus of 73.9m marks in 1873 had turned into a treasury deficit of 30.1m by 1878/9 (Gerloff 1913: 524-525) and 73.2m in 1879/80 (Pflanze 1990a: 446), though the 1878/9 deficit was partly induced by Bismarck, who as Prussian Prime Minister, manipulated the budget in order to exert pressure on the Reichstag to grant his various proposed fiscal reforms (particularly government monopolies).

Table 2.3 The Balance of Payments of the Prussian Budget

(in millions of marks)

Year	Budget Surplus/Deficit	Total expenditures
1872	64.5	583
1873	73.9	664
1874	22.2	696
1875	-3.0	674
1876	17.7	672
1877/1878	38.3	826
1878/1879	-30.1	695

Source; Gerloff (1913: 524-525)

The problem was compounded by several factors. Firstly, the onset of economic depression after 1873 led to reduced revenues from state owned forests, mines and railways. In addition the depression meant a lower level of direct tax revenues (H. Rosenberg 1943: 67-68; Von Kreudener 1987: 115). Upto 1875 the states had used their treasury surpluses to abolish taxes and retire debts. Thus between 1869 and 1875 the Prussian state's consolidated debt was reduced from 1,334m marks to 919m, or, by 415m marks (Gerloff 1913: 106). Some states, for example Prussia, had devolved fiscal responsibility (especially education) to the City and Village governments. Their response was to impose surtaxes on the class and classified income tax, as well as on the land and building tax. This had the effect of disproportionately increasing the tax burden of urban property owners, and village landowners. Not surprisingly, this proved to be a major cause of agrarian resentment in the face of the developing fiscal crisis, (though it is important to note that many Junkers were absolved of this fiscal burden, owing to the fact that they came outside the jurisdiction of the village government (Witt 1970). Many property owners however were burdened further by the increases in direct tax imposed at state government level.

Even more serious was the position of the poorest income groups, who were disproportionately affected, as evidenced by the substantial numbers of tax executions imposed upon defaulters. Between 1878-1881 the average number of defaulters subject to attachments was; 24.6% for Class 1; 25.8% for Class 2; 18.6% for Class 3; 10.2% for Class 4. The rate of default in the cities was even higher. In Berlin, the average number of defaulters was a staggering; 70% for Class 1; 65.6% for Class 2; 41.9% for Class 3; and 14.3% for Class 4 (Pflanze 1990a: 448). Equally as important was the fact that the lower to lower-middle income groups paid in real terms higher direct tax rates than the upper earners (to be explained later).

Bismarck aimed to find a new and bountiful source of revenue which would enable him to firstly, liquidate the entire class tax and the lower brackets of the classified income tax (thus relieving all

earners). Secondly, he aimed to transfer the remainder of the classified income tax and the Land and Building tax to local government. This would have the double advantage of ending the fiscal crisis in the cities and would simultaneously enable the Junkers (who controlled the county and village governments) to fiscally relieve themselves further. The main Bismarckian strategy was to effect tax relief to the upper income earners, by a two-fold method. Firstly, by seeking to abolish matricular contributions he hoped to effect a healthy fiscal situation within the staats, which would then allow them to reduce direct taxes. This was linked to a secondary method, by which he hoped to produce sufficient regressive revenues (from indirect taxes/tariffs) at central level, which would then be reallocated to the staats, and later on, the gemeinde. This regressive fiscal subsidy would allow a relief to the upper income earners at local, though not at central level. Indeed in preparation for the 1878 Heidelberg Conference (5-8 August), Bismarck stated that fiscal policy,

"should provide the Reich with such an amount of own income derived from indirect taxation, that the pressure on the federal states' budgets would be lowered to such an extent, that the states would be put into a position to abolish or reduce taxes, which they regarded to be oppressive, and to transfer such taxes in part or totally to the local authorities which the states regarded appropriate for that purpose" (quoted in Gerloff 1913: 134).

However the main aim was to provide the empire with enough revenue so as to make it fiscally independent of the federal states; in other words to abolish the matrikularbeitrage. This was important in reducing the Reichstag's parliamentary limitations upon the executive.

Bismarck's two-fold strategy of upper income tax relief struck a chord particularly at the agrarian level. In the period upto 1879, State dissent over taxes was evidenced by the increasing calls to the Bundesrat for a decrease in the tax burden. Ironically this opened up the way for Bismarck to attack the matrikularbeitrage, (which had hitherto represented the political preserve of the local states in their fight to maintain their autonomy vis-a-vis the Reich). Not surprisingly therefore, Bismarck agreed that the revenue from local taxes should not be referred to the Imperial Treasury, but rather,

should be kept at home for welfare purposes. If the Empire secured a source of plentiful revenue from an independent source, local social services would be better provided for and more significantly, it would allow farmers and landowners to be relieved of the hateful burden of the land tax (Lambi 1963: 170). However, it should be noted that the burden of the land tax fell heaviest upon the middle to small, rather than large estates. It was likely therefore, that a substitution of indirect for direct taxes would enable significant tax relief for the small and middle-sized estates (to be discussed further in chapter 6). But most importantly, it would open up the way for the Reich to achieve financial independence from the federal states.

Finance is the first prerogative of the state (the tax premise). However, establishing the tax premise in the Second Reich proved to be a source of political controversy. This was imparted upon German politics by virtue of the fact that it was not a unitary state. The federal system provided a political contradiction at the heart of the system. Indeed it would be fair to conceptualise a dialectical relationship between the Reich and the states, as both struggled to gain power over the other. This contradiction impacted most clearly upon the system of government finance. In providing revenue for the Reich, there were two obvious courses - either the separate states could be required to contribute proportionate quotas, each state being left free to raise the necessary amounts in the most convenient way, or, certain specified sources of revenue could be assigned to the federal government, the states being excluded from the use thereof. In practice though, the constitution allowed for a compromise, since the states were determined to keep a strong political check over the Reich. Hence a power struggle between central and local government was born. In the run up to 1879, Bismarck's hostility to the states was most visible in his attacks on direct taxes, which of course constituted their fundamental politico-fiscal preserve. His constant calling for indirect taxes, with the simultaneous reduction of direct taxes was primarily precipitated by his desire for financial independence and a weakening of the states' power (in relation to the Reich), and secondly, to effect tax relief

for the upper earning groups, particularly those of the agricultural variant.

### The Political Struggle between the Reich and the States

In 1872, Bismarck stated in the Reichstag:

"...I regard the Empire's independent revenues so important that I do not believe a Chancellor conscious of his responsibility and actuated by a proper concern for the stability and development of the Empire could consent to the diminution of these revenues [ie. salt tax], unless an adequate substitute were provided. Dependence upon other contributions I cannot accept at all. The great cement of a strong common financial system is lacking to the Empire so long as it is founded only on matricular contributions. That these contributions fall unequally is a question of justice, but to diminish them is in my opinion the task of a well considered policy." (quoted in Dawson 1904: 51; also Lambi 1963: 169; Henderson 1975: 219).

In 1875 he stated:

"To give the German Empire a solid unshakeable financial basis which will give it a dominant position and yet bring it into an organic relation with all public interests in state, province, county and community, that would be a worthy task which could stimulate me to devote the last breath of my failing strength to it" (quoted in Craig 1981: 90).

In November 1875 he told the Reichstag:

"Speaking entirely from the standpoint of the Empire I seek as great a reduction as possible if not the complete abolition of the matricular contributions..." (quoted in Dawson 1904: 50).

On still another occasion he stated:

"The Imperial Contribution presupposes that the condition of matricular contributions will be a transitional one, lasting only until Imperial taxes shall have been introduced...The consolidation of the Empire will be promoted when the matricular contributions are replaced by Imperial taxes; it would not lose if these taxes were so

prohibitive that the individual states received from the Empire instead of their having to give in a way that is not always computable and is for them inconvenient" (quoted in Dawson 1904: 52).

Bismarck's attack on the states was also made through his constant criticism of direct taxes, [ie. the preserve of the federal states] and through his approval of indirect taxes. [ie. the preserve of the Reich]. For example in November 1875 he told the Reichstag;

"I declare myself as essentially favourable to the raising of all possible revenue by indirect taxes, and I hold direct taxes to be an onerous and awkward makeshift... Indirect taxes, whatever may be said against them theoretically are in fact less felt. It is difficult for the individual to calculate how much he pays and how much falls upon his neighbours, but he knows how much income tax he pays... With direct taxes a man is not asked - can you on a pinch do without your beer: can you smokeless: can you use less light [petrol] of an evening? No he must pay the direct tax whether he has money or not, whether in debt or not; and what is worse distraint follows, and nothing has a greater effect on a man's disposition than execution on account of a few pence which cannot at the moment be extorted from the one who owes them" (quoted in Dawson 1904: 54).

But since Bismarck cared little for the plight of the commoner, it seems clear that this argument served merely as an ideological gloss to sell his own political desire; the need for an independent fiscal revenue, through indirect taxes. Indeed it contradicts his 1860's stance, where he criticised indirect taxes on the grounds that these were prejudicial to the interests of the minority against the majority.

#### Bismarck, Protection and Indirect Taxation

As yet Bismarck had made little advance into the explicit advocacy of protection. However, in 1876 Delbruck resigned. Once freed from his economic mentor's tutelage, Bismarck, who had never subscribed to free trade as a theory began to formulate his own views on the increasingly important question of tariff policy. Protectionist influences gained hold of him. The Emperor favoured protection, (though on industrial goods; he remained in favour of free trade for foodstuffs). Many of Bismarck's closest associates were also protectionist, notably Wilhelm von Kardorff and Christopher Tiedemann

(the Imperial secretary). They helped Bismarck to take a strong interest in retaliatory tariffs. On October 27, 1876 Bismarck justified tariffs against France on the grounds that "We should obtain through our own legislation those securities for German production which we cannot find in the benevolence of foreign governments".

In 1877, his "year of leisure", Bismarck studied the tariff question more fully, reading the memoranda of various protectionist organisations. By February 1878, he began to take the initiative in the controversy between free trade and protection. By now he was clearly linking his advocacy of indirect taxes with his desire for protection.

"Indirect taxes are preferable to direct not merely because of the advantages in the mode of raising them, the superfluity of executions and distrains, and the fact that the tax payer fixes both the time and measure of his tax...as for taxed articles imported from abroad the producing country wholly or partially bears the tax since the indirect tax is, as a rule, incorporated with the other competing factors which go to the formation of price as one of the less important elements of a now indivisible whole, its burdensome effect upon the individual not apparently, but to a great measure, actually disappears...The financial capacity of the individual tax payer is not always expressed in his income, apart from the general impossibility of calculating that income even approximately. Family position, health and local and other circumstances which direct tax disregards, and must disregard create the greater diversity in the actual financial position even among persons of equal income" (Reichstag speech, February 1878, quoted in Dawson 1904: 55-56).

The taking of a protectionist course was facilitated by Camphausen and Achenbach's resignations in February 1878 over the fiscal issue. Hobrecht, from whom Bismarck served the promise of support for his fiscal plans and the introduction of some protectionist duties, became the new Minister of Finance, while Maybach succeeded Achenbach in the Ministry of Commerce. On April 5, 1878 Bismarck raised the question of the restoration of the iron tariffs in the Prussian ministerial council - his first practical move towards protection. He had also decided to include agricultural tariffs in his protectionist plans. The advocacy was due in part to the influence of Kardorff's arguments for an all-embracing protectionist system, and in part, due to his personal association with agriculture.



It was at the beginning of 1878 that Bismarck's plan to reform the tariff came to be linked closely with fiscal and political considerations. He told Kardorff that he wanted a tariff system, "based on our own needs", which would differ greatly from the previous principles of German tariff policy.

"My plan is to present a bill to the Bundesrat before the end of this session of the Reichstag which would be known in the country before its dissolution..I want tariffs on tobacco, spirits, sugar, if possible coffee, and shall not flinch from imposing duties on grain which might be useful in our dealing with Russia and Austria" (quoted in Lambi 1963: 166; also Pflanze 1990a: 454-455).

On March 29 Bismarck told the South German protectionist Professor von Mayr to work out a memorandum connecting the protectionist system with the fiscal plan. These fiscal and political plans encompassed some of the most vital problems of the recently founded nation state. The outstanding problem that faced his internal policy, apart from the fiscal aspect, was the management of the political parties along lines as to secure a pliable right wing government majority in the Reichstag, with which he would aim to increase his executive power. This went hand in hand with Bismarck's attack on his former associates, the National Liberals.

#### **The Tariff, Party Coalitions and the "Problem of Parliamentarianism"**

Since the early years of the Empire, the major political parties in the Reichstag had been divided on two main issues - the question of German unification and the problem of parliamentary government. There were five main political groups in the Reichstag, firstly, the Catholic Centrum and secondly, the Prussian Conservative party. They were both unhappy with Bismarck's policy of unification. Furthermore, they both felt isolated, for Bismarck had allied himself firmly with the National Liberals throughout the 1870's. In addition Bismarck had waged a "holy war" against the Catholics. However the Kulturkampf had forced their different premises into an entente that opposed Bismarck's religious policy. On the other hand there were the Free

Conservatives, National Liberals and the Progressives, who all wholeheartedly accepted the creation of the Bismarckian Empire, but disagreed among themselves on the relationship between the Imperial government and the Reichstag.

The Free Conservatives were closest to Bismarck on this question agreeing to the preservation of the monarchy and the maximum independence of the executive from the Reichstag. The Progressives agreed with Bismarck and the Empire but distrusted Bismarck's halfway constitutionalism. They remained as isolated from Bismarck on the question of monarchical power as the Centrum was on the issue of German unity. The National Liberals held an intermediary position between the Progressives and the Free Conservatives - "Freiheit und Einheit". For on the one hand they favoured individual liberties and the development of full ministerial responsibility to the Reichstag and on the other, they favoured the consolidation of the Empire (Lambi 1963: 167).

Until the mid 1870's Bismarck was close to the National Liberals, who had provided him with essential support in consolidating the Empire. However, this relationship became strained towards the end of the decade due to firstly, the intransigence of the left wing of the party under Lasker; secondly, over the opposition of the party to the Chancellor's financial plans, and thirdly, linked to the second point, was the desire of the party for a strengthened parliamentarism vis-a-vis the executive. After the Austro-Prussian war the majority of the National Liberals had been willing to shelve temporarily the concept of the "Reichstaat" on the condition that a unified empire ("Einheitsstaat") would be created. By 1871, with the creation of the latter, the former requisite was increasingly favoured by the party. This principle would shortly call for parliamentarism, or more specifically, ministerial responsibility. This lay at the foundation of their opposition to Bismarck's tax proposals.

Bismarck's tax proposals were aimed in part to by-pass the "checks" of the federal states and the Reichstag. Indeed, increasing executive power over the legislative and increasing the power of the Reich over the federal states was fundamental to his fiscal project. Not

surprisingly, the National Liberals rejected these proposals. Clearly, if Bismarck was to secure these objectives, he would have to marginalise the National Liberal Party. In 1877 the elections offered him some hope in doing precisely this. The outcome had weakened Lasker's left wing and had strengthened the position of the moderate Bennigsen, who had shown in his speech of April 13, 1877 that he at least realised the importance of regulating the finances.

Then in 1878, a measure of devolution, known as the Substitute Law was passed with the object of relieving Bismarck of such work as did not require his own immediate attention. This law allowed the Chancellor to appoint a deputy for his office or any part of it, and its result was the creation of secretaries of State, for the direction of various branches of Imperial administration, subject still to the Chancellor, who was entitled to resume at any time the delegated functions. In the interest of "unity of policy" the more important of these offices were all filled by ministers holding the corresponding portfolios in the Prussian cabinet.

The National Liberals then demanded that the Imperial Chancellor, should be replaced by a collective ministry, in which he should be only one member amongst many, and subject like the rest, to the bidding of the legislative assembly, which meant in reality of the party or parties, which might happen to form a majority. Bismarck had only overcome strong opposition to the bill in the federal council by giving the assurance that it was not intended to pave the way for an Imperial Cabinet and should not have that result. In the Diet he refused point-blank to consider such a 'degradation' of his position, and referring his critics to the constitution, told them that though constitutional questions were for him questions of expediency, he was quite prepared to respect the status quo, "if the advocates of parliamentary government would agree to do the same" (quoted in Dawson 1967: 72). Clearly on this issue, this man was not for turning.

So by February 1878, the National Liberal Party made ministerial responsibility the sine qua non for their approval of the Bismarckian tax project (Lambi 1963: 171). Bismarck had tried to court Bennigsen

by offering him a post as the Prussian Minister of the Interior but revoked the offer when Bennigsen insisted that he be joined by Forckenbeck and Stauffenberg. This of course was out of the question, for with three National Liberal politicians in the government the door would have been opened to ministerial responsibility. In any case, it was Bennigsen who eventually declined the offer, as he was only too well aware that Bismarck had made preparations "which would allow him to topple his new colleague at any moment by discrediting him on purely personal grounds. In the last analysis, this and nothing else motivated Bennigsen to decline such an offer" (Max Weber 1922/1978: 1388-1389). On February 20, 1878 Bismarck broke off negotiations with Bennigsen, and set about to split the National Liberals once and for all. His aim was to eliminate the threat of ministerial responsibility which would continue to stand over him, while the National Liberals continued to exist.

#### **Bismarck's Attack on the National Liberals**

As long ago as 1875, Bismarck had contemplated effecting a shift among the political parties in the Reichstag. He remarked that he had no sympathy for the liberal parties and collaborated with them only because he had been, "deserted by the Conservatives". In 1875 the Prussian Conservatives had made it clear that they wanted to come out of the wilderness. However, the Chancellor realised that it would be difficult to come to a permanent agreement with them unless concessions were made to the Centrum. In February 1878, when Bismarck terminated his negotiations with Bennigsen, the irreconcilable Pius IX died and Cardinal Pecci was elected as Leo XIII. Just before his election Pecci had expressed hope for the improvement of relations between Berlin and the Vatican. Bismarck's opportunity to build a new government majority was thereby handed to him (Henderson 1975: 219). He moved immediately towards the Centrum. However, it was not a party which would come to an agreement on his own terms, and as events turned out, by May 1880 Bismarck was denouncing them as the "common

enemy" (Reichsfeinde). He thought only of immediate conciliation, for if he was to form a new government coalition with the Conservatives and Free Conservatives, the Centre party would hold the balance of power in the Reichstag. This would allow him to push through the tariff proposals, and of course free him from his hated dependence on the National Liberals.

The issue of protection was the one important tie between Bismarck and those parties he was drawing closer to. For, the industrial tariffs were favoured by the Free Conservatives and the right wing of the National Liberals. Agricultural tariffs were favoured by the majority of the reorganised Conservatives. The Centrum combined both industrial and agrarian protectionist sentiment. The Progressives and the left wing of the National Liberals however, were the only forces in the Reichstag that were solidly against protection. Hence through the tariff, Bismarck could crystallise the political alignments that he wished to achieve.

He therefore determined to split the National Liberals and at the same time to marginalise the Progressives who not only wanted ministerial responsibility but also posed a threat to Bismarck's newly founded Empire. This is where we find, though in partial form, the origins of the strong anti-Liberal ethos that was so predominant from 1879 onwards; a theme which many authors have picked up on, espoused in its clearest form through the concept of "The Second Founding of the Reich", (Die Zweite Reichsgründung). In contrast, we may note that a partial determining factor to the anti-Liberalism of 1879 and beyond is not economic but rather political, derived from the "regime structure" of the polity - that of an authoritarian mode of domination. In May 1878 an attempt was made to assassinate the Emperor. Bismarck thought his chance had come and tried to put through an anti-Socialist bill in the Reichstag. However, the National Liberals and Progressives combined to defeat it. Then on June 2nd there was a second attempt on the life of the Emperor, this time by Karl Nobiling. When the news of the attempted assassination reached Bismarck he exclaimed,

"Now I have got them". "The Social Democrats?" he was asked. "No, the National Liberals!" (quoted in J. Sheehan 1978: 183).

Bismarck saw in this a perfect "opportunity to destroy the only powerful party of the time" (Max Weber 1922/1978: 1390). He promptly dissolved the Reichstag, and another election was held on June 30. During the campaign the Conservatives strongly attacked the National Liberals and the Progressives for voting against the anti-Socialist bill. Furthermore the Chancellor's instructions to local officials for the conduct of the elections were aimed more against the National Liberals than the Social Democrats. The officials were told that, "no government can accept the tutelage of a faction which does not possess a majority" and that they should secure the election of men who had a "practical attitude towards economy, and who were not mere theorists or idealists". The policy of Free Trade was blamed heavily for the Depression by the Press, and although the government did not set up a protectionist electoral programme, the fact that most Free Traders came from liberal ranks directly connected the campaign against liberalism.

In this aim Bismarck was entirely successful. It precipitated mass hysteria against the "Socialist spectre" and thereby undermined the National Liberals, whose rejection of the first anti-Socialist bill was held responsible for the second attempt on the Emperor's life. The elections saw a clear swing to the right:

Table 2.4                      The Shifting Balance of the Reichstag before and after the 1878 Election

Party	1877 Seats	1878 Seats	Difference 1878/1877
National Liberals & Liberals	141	109	-32
Progressives (a)	39	29	-10
Social Democrats	12	9	-3
Free Conservatives	38	57	+19
Conservatives	40	59	+19
Centrum	93	94	+1
Others (b)	34	40	+6
Total	397	397	

Source Sheehan 1978: 184)

(a) This category includes; Liberale Vereinigung, Deutsche ,Deutsche Volkspartei [Left Liberals]

(b) Poles, Danes, Guelphs & Alsace-Lorraine

## The Tariff, Taxation, Class and Economy

The tariff as a fiscal resource was upto a point linked to considerations of class interests. This link became accentuated from mid-1878 onwards. On 5 May, Bismarck instructed Hoffman and Hobrecht to work out a programme that combined the establishment of fiscal tariffs with the restoration of the iron duties. Detailing the "first stage" of his fiscal package "to shift from the false track of indirect taxes", Bismarck wished to raise enough revenue to completely abolish state assessments, whilst also being able to distribute revenues to the states in order to provide further tax relief. He wished to abolish direct taxes on individual incomes upto 6,000 marks, which would benefit working, lower and upper middle class groups, and to a lesser extent, the Junkers (Pflanze 1990a: 463-464). It would only be at a later date that he would attempt to relieve village and local governments, (and hence the Junker landowners).

In July , Hoffman and Hobrecht reported. The Imperial revenue, they stated, should be increased by 245 million marks, to be obtained by tariffs. These proposals received strong backing from each federal state. A convention inviting all states to discuss their problems was held in Heidelberg between 5-8 August. There it became explicitly clear that all states faced serious fiscal problems. General agreement was secured on the proposed tax bill; to liquidate state assessments; to relieve state and local budgets; and to avoid further imposition of direct taxation. Indeed the invitation to the Convention stated that the meeting would attempt to make possible the, "relief of the budgets of the individual states over the course of time, so that it would be feasible for them to eliminate or reduce oppressive taxes, or, if they considered it advisable, to give up certain appropriate taxes wholly or in part to the provinces, counties and municipalities" (cited in D.S.White 1976: 66). In October, a coalition of 204 Deputies (forming a majority of the

Chamber) declared their overwhelming support for protectionism. This body was known as the Free Economic Association of the Reichstag and was chaired by Friedrich von Varnbuler. Perhaps the most remarkable feature of this organisation was its political constituency; the main groups comprised 87 Centrists, 36 Conservatives, 36 Free Conservatives and 27 National Liberals (Lambi 1963: 207-208). This was grist to the mill for Bismarck who clearly saw in this the makings of a new right wing Kartell, which could be constructed around the tariff issue.

In November Bismarck formally proposed to the Bundesrat that a Tariff Commission be set up in order to prepare the tariff legislation. In the Reichstag the protectionists were by now in the majority. On 15 December Bismarck provided the Bundesrat with the guiding principle for the revision of the tariff (worked out between 28 October and 15 December).

"For myself the interests of financial reform take the first place, the diminution of the weight of direct tax by the increase of the revenue of the Empire, which is based on indirect taxes. How far Germany lags behind other states in the financial development of its customs system is shown by the accompanying comparison, and this comparison would show Germany in a still more unfavourable light if to the revenue from customs and duties credited to Austria, Hungary, France and Italy were added to the sums which these states levy in the form of a tobacco monopoly instead of a duty on foreign tobacco...It is no accident that other great states and especially those of a very advanced political and economic development seek by preference to cover their expenditure by the proceeds of duties and indirect taxes including the communal imposts, have reached a height which is oppressive and appears to be economically unjustifiable. The people who suffer most from them at present are those members of the middle class whose income ranges up to 6,000 marks ameliorations that reach this limit, it must begin with the revision of customs duties on a broad a base as possible. The more productive the customs system is made financially the greater can and must be the relief in direct taxes; for it is self evident that the increase of the indirect revenues of the Empire cannot imply an increase of the aggregate burden of taxation. Not in the increase of the burdens which are necessary for the purposes of the Empire and the States but in the transformation of a larger part of these unavoidable burdens into the less oppressive form of indirect taxes, consists of the financial reform which it is the purpose of the revision of the customs tariff to effect" (quoted in Dawson 1904: 63-64).

It is clear from this that Bismarck was strongly prompted in his fiscal policy by the imperatives of the farming producing community,



in general. His equation of an income of 6,000 marks with the "middle class" earners amounted to little more than an eloquent piece of demagoguery. In Prussia in 1878, 5.3 million paid income tax; of this 168,000 paid classified income tax and had an annual average income of 7,120 marks; but as many as 5.11m paid the class tax, on an average annual income of a mere 815 marks. Approximately 36m people had an income of 537 marks per annum (W. G. Hoffmann & J. H. Muller 1959: 68-72). Thus it is clear that those on 6,000 marks per annum were in the upper income bracket. In other words, Bismarck was keen to provide tax relief ultimately to the upper earning groups. Thus, if the aggregate amount of tax is to remain equal, should customs/indirect taxes rise, then the proportion of direct tax (especially the land tax) levied should, (*ceteris paribus*), necessarily fall. Through the tariff Bismarck could provide the "urgently" required tax relief to the farming community. Since indirect tariffs on essential items (eg bread) disproportionately hurt the working classes, Bismarck hoped that he could shift the tax burden from rich to poor. Bismarck hoped to diffuse working class resentment by simultaneously reducing its direct tax burden (through abolishing the class tax). Thus Bismarck's claim to effect tax relief for the lower earners - that a reduction or even abolition of the class tax (which was levied upon all income earners over 800 marks per annum) - was really little more than a political sleight of hand. This was reinforced by various statements made by Bismarck, for example;

"The minority of the nation which does not produce at all but exclusively consumes will apparently be injured by a customs system favouring the entire national product. Yet if by means of such a system the aggregate sum of the values produced in the country increases and thus the national wealth be on the whole enhanced, the non-producing parts of the population - especially the state and communal officials who are dependent upon a fixed money income - will eventually be benefited; for means of counterbalancing hardships will be at the command of the community in case the extension of customs liability to the entire imports should result in an increase of the prices of the necessaries of life. Yet with low duties such an increase will in all probability not take place to the extent which consumers are accustomed to apprehend, just as on the other hand the prices of bread and meat have not fallen to an appreciable degree in consequence of the abolition of the duties on corn-grinding and cattle-killing in the parishes where these used to exist" (quoted in Dawson 1904: 65-66).

Increasing indirect taxes (whilst simultaneously reducing direct taxes) had the added benefit of appearing to reduce the tax burden of the lower income groups, as was revealed in his February 22nd 1878 speech to the Reichstag, where he stated,

"Indirect taxes are preferable to direct not merely because of the advantages in the mode of raising them.. (But) since the indirect tax, is as a rule, incorporated with the other competing factors which go to the formation of price, as one of the less important elements of a now indivisible whole, its burdensome effect upon the individual, not apparently, but to a great measure actually disappears" (quoted in Dawson 1904: 55-56).

It seems most unlikely that the intended shift to indirect taxes embodied a notion of social-welfare optimality. As the above quote demonstrates, Bismarck's real intention was to relieve the average landowner's tax burden at the expense of the masses. An indirect tax had the distinct advantage over other fiscal weapons, in that its incidence is far less visible (particularly in relation to the direct tax). In addition, Bismarck's "concern for the masses" in the 1850's and 1860's had led him to argue that they would be better off under a system of free trade rather than protection. Now it seems he was contradicting himself by arguing the opposite.

### The 1870's Agricultural Depression Redefined

A full understanding of the tariff legislation after 1878 requires a precise analysis of the agricultural depression. As noted earlier the economic consensus posits that the agricultural depression comprised a flooding of cheap foreign grain imports into Germany principally from the United States and Russia. There are several problems with this formulation. The most glaring inconsistency is that the Junkers (usually taken to be the independent causal variable in the construction of the tariff), were in fact in support of free trade for their agricultural economic/business interests, though many favoured industrial tariffs for their non-agricultural business interests. We shall see that there was no such thing as "the Junkers" in the terms ascribed by modern historiography.

In January 1879, the German Council on Agriculture (Der Deutsche Landwirtschaftsrat) voted for fiscal against protectionist tariffs; that is they rejected grain tariffs. However according to Lambi, this body was not representative owing to the fact that it had been elected in 1877. This date marks a watershed for Lambi in that agricultural prices fell only after that year, in turn according to him, the reason for the landowners' "switch to protection" (1963: 133-134). Thus he argues that the Council did not reflect the changed climate of agricultural opinion (1963: 148). Such an argument however, is not convincing. If agriculture had been free trading upto 1877 and had moved over to protection in the two years following - as Lambi argues - there is reason to suppose that the German Council on Agriculture would similarly have shifted to protection. After all, the council was elected in order to represent the interests of agriculture rather than protect the cause of free trade per se. In any case, Lambi's argument was wide of the mark because this council voted against protection right upto 1885 (cf. BA [Bundesarchiv der Bundesrepublik Deutschlands] Abt Potsdam, Reichskanzlei Nr. 1108, "Promemoria des Deutschen Landwirtschaftsrat, 25/12/1893). In addition, there was the major agrarian interest group, the Association for the Reform of Taxation and Economy. This was founded in 1876 with only 500 members, 450 of whom were owners of a Rittergut (a special privileged large estate). As will be discussed later, this association was founded in part to maintain agricultural free trade. With their considerable industrial interests, they came to favour tariffs in industrial goods, rather than on foodstuffs. However, in 1879, it was clearly recognised that the maintenance of authoritarian state policies could be best maintained by an alliance of "iron and rye". As we shall see later, the major agricultural interests favoured tariffs mainly for political reasons.

There was still a strong commitment to free trade among many Prussian landowners, since as Karl Hardach (1967) classically argued, many continued to benefit from grain exports. Furthermore, although rye and oats weighed more heavily than wheat in terms of overall production (Webb 1982: 311; also Broomhall 1904: 77; Hoffmann 1965: 284-289), the fact remains that German wheat (which was soft) had to be mixed with imported (Russian) hard wheat before it could be

exported (Broomhall 1904: 75; Jasny 1936: 75-76, 81; Hardach 1967: 73-77; Pflanze 1990a: 283). The lower prices of 1878/9, though not particularly significant, would have aided rather than hindered much of Prussian agriculture, through the enabling of higher export earnings, and would have therefore been warmly welcomed. Thus German wheat producers, (particularly in Prussia), were dependent on cheap imported wheat. Therefore, a tariff on such wheat would merely increase the cost of the German export product, and would therefore significantly harm the economic/trading interests of the Prussian landlords. However it is true that the law of 1879 stipulated a refund of the import duty paid on foreign grain if it was to be re-exported. Would this therefore, have persuaded the agrarians to favour protection?

The problem with the 1879 law in this respect was that for the German exporter to obtain the refund, it was necessary for him to prove by means of a certificate of origin that he was exporting the very same imported wheat. In other words, German grain could not be substituted for the imported Russian. This affected the producers of East Prussia; specifically, Danzig, Königsberg, Memel and Stettin. These areas therefore lost a vital means of disposing of their grain in large quantities (Tirrell 1951: 270-271). Before the introduction of the certificate of identity, the agricultural export trade of Danzig and Stettin were dependent upon the export of German and Russian grain in a mixture known as the "Danzig" or "Stettin" mix. This feature of the tariff adversely affected the needs of Prussian agriculture such that in the 1880's much effort was made to have the certificates abolished; (even on the part of shipowners, grain dealers and brokers), though it would not be until 1894 before the much needed relief (that is, the abolition of the certificates) was granted to agriculture (Jasny 1936: 81; Farnsworth 1934: 320; Tirrell 1951: 271-272). It was likely that this 1894 concession to agriculture embodied an implicit recognition on the part of the chancellor, that hitherto, German wheat producers had lost out as a result of the 1879 Tariff statute.

In addition, as the chart below shows, German wheat exports increased after 1877, in turn necessitating an increase of cheap wheat imports, particularly from Russia.

Table 2.5 Wheat Imports and Exports in the Late 1870's  
(in quarters - 480lbs)

	Imports	Exports
1875	2, 292, 200	1, 805, 300
1876	3, 146, 400	2, 618, 300
1877	4, 317, 700	1, 782, 300
1878	4, 069, 100	3, 376, 300
1879	4, 209, 280	3, 606, 000

Source: The Corn Trade Year Book (1904: 78; figures taken from Statistisches Jahrbuch fur das Deutsche Reich)

The 1870's decadal averages were as follows; wheat exports, 2,417,979, wheat imports - 2,605,728. Taking the average as a base (100), wheat exports for the years 1878 and 1879 were 140 and 149. If we take the 1877 figure as base 100 (the critical year as identified by Lambi), then we find an even bigger increase; 189 for 1878, and 202 for 1879. Either way these were substantial export increases; significant enough to warrant anti-protectionist sentiment in large areas of German agriculture, especially in Prussia. Furthermore, these were just below the average decadal import increases. Taking the decadal average (2,605,728) as base 100, 1878 was 156, whilst 1879 was 162. But compared to 1877 (base 100), the increase for the years 1878 and 1879 stood at 94 and 97 respectively. These were well below the export increases. Thus wheat farmers would have benefited from the lower import prices (under conditions of free trade).

There was a further reason why the "price-reductions" after 1877 would not have prompted a change in agriculture's calling for free trade. The high price of grain in 1877 was prompted by a poor harvest which sent prices upwards. Then in 1878, a good harvest brought prices down (Pflanze 1990a: 284). That is, grain prices were determined to a large extent by the exigencies of the harvest. But

most importantly, the "low" price of 1878 led to the maintenance of farmers' incomes because the increased yield absorbed the lower price. Similarly the effect on farmers' incomes of the high 1877 price was offset by the poor harvest yield. That is, farmers were no better or worse off in 1878 than in 1877.

In addition to this fact, there were several other factors involved that led to the maintenance of the desire for free trade, particularly amongst rye producers. Rye producers were not as market-orientated as their wheat producing counterparts. This was because only 20% of total rye production was destined for the internal market; the remaining 80% went to feeding animals. An important agrarian faction involved in rye production were the non-Junker large landowners. In particular, those who owned a rittergut, tended to have many of their estates abroad and sought to import their produce into Germany. Thus the largest and most powerful landowners unequivocally favoured free trade in rye. A further important factor was that, given the low market orientation of rye producers, a reduction in prices in 1878 would not have been sufficient to inaugurate a shift away from free trade. It would take considerably more than just one or even two years of low prices to stimulate such a shift.

Not surprisingly therefore, was the fact that early in 1879 the provincial diets of East and West Prussia, Oldenburg and Lippe rejected protectionism; so too the Farmers' Associations of Brandenburg, Königsberg and Silesia (Pflanze 1990a: 474; Lambi 1963: 147). In addition, the Prussian minister to Weimar reported in March 1879, that many farmers who had signed petitions in favour of protection had done so only half-heartedly. In addition, the tariff manifesto in the Reichstag received the signature of 87% of Centre Party members (predominantly peasant based), whereas it received only 60% of sitting Conservatives (Barkin 1987: 227). Furthermore, not only did the Junker dominated Deutsche Landwirtschaftsrat oppose protection, but the provincial agricultural councils of East Prussia, Mecklenburg and other Junker dominated areas remained staunchly opposed until the mid 1880's, when the depression in agriculture had

continued without respite. Grain prices did not collapse until after 1881.

By 1886, wheat prices stood at 162 marks per ton, compared to 225 for 1881, and 204 for 1879 (Hoffmann 1965: 552-554, see Appendix 2 in this thesis; cf. Timoshenko 1928: 99; Lambi 1963: 133). The 1886 price represented a 21% fall on the 1879 figure, a fall of 28% on the 1870's decadal average, and a considerable 31% fall on the 1877 price. This dwarfed any decrease in grain prices in the 1870's. More significantly, wheat exports dried up only after 1880, thus making protection more favourable to farmers. Thus clearly the Junkers, as well as much of agriculture, would not have felt the full force of this until the early 1880's (as opposed to 1878/9).

However Hardach was wrong to state that protectionism was in the interests of no farmer in Germany. It is of some irony to state that if we are to understand tariffs not as purely protectionist but rather as fiscal, we can gain a more sophisticated insight into the condition of German agriculture. For example, the Prussian conservatives in 1876 formed the Association for the Reform of Taxation (a body that is commonly heralded as an embryonic manifestation of the growing protectionist identity of the Junkers). They had two main aims; firstly to strengthen the political position of the conservatives; and secondly, to adjust their policy to the achievement of national unity. Niendorf argued that because the Imperial Constitution stipulated that indirect taxes and tariffs were to be the main source of Reich revenue, absolute free trade was therefore impracticable. While courting Bismarck, their own materialistic aims were clearly apparent. An increase in indirect taxes could lead to a reduction in matricular contributions (and hence direct taxes), which particularly aggrieved the agrarians. In fact the large landowners had founded the Association with the aim of propagating "ideas and principles of a generally useful political economy based on Christian principles (Bueck, quoted in Bohme 1967: 231-232). To the Association, "Christian" principles meant tax relief for their own estates and "the most extensive reform in all aspects of economic legislation" (Thungen-Rosbach, quoted in Bohme 1967: 232). After 1876, when the Reich began to rapidly increase state

assessments, Conservatives began to talk about tax relief. Agrarian resentment developed rapidly and was often focussed or aimed at the rising urban capitalist/entrepreneurial class. Thus Wilhelm von Rauchhaupt (Junker landlord) characteristically stated that;

"For about thirty years our entire system of production has been skewed so significantly toward the capitalistic side that the early foundation of our tax system, under which landownership was regarded as the base for our whole tax system, has likewise been skewed. Today the power of capital has become so great and has surpassed that of landownership by such a margin that landowners have even fallen into a considerable dependency upon capital. As a consequence it would in fact constitute an utter misunderstanding of the taxpaying capacity of individual classes of the population in this country, if we tried to continue the present system, under which everything is in the final analysis based on landownership" (quoted in Pflanze 1990a: 448).

However, as will be shortly discussed, not all large landowners nor all Junkers were reliant on purely agricultural income. Many relied to a large extent on industrial income - a fact that led to a major division within the "Junker class". Nevertheless all over Germany landowners could unite on the issue of tax relief, with initial differences expressed only over the source of the fiscal bounty. In particular the income tax (introduced in 1868), was particularly resented. The tax was based in part upon the old poll tax, and in part upon the rental cost of an individual's residence. This was in effect an extension of the land and building tax, which merely intensified agrarian resentment. However, it should be noted that the rental value of a house was estimated by the tax-payer. Thus even in the 1910's many large landowners valued their homes at less than 300 marks per annum [roughly the equivalent of the rent paid by an industrial labourer for a flat with 2-3 rooms of less than 50 square metres] (Witt 1970). The fact is that the largest landlords as well as the Junkers managed to escape much direct taxation through a system of corrupt income reporting. Nevertheless, particular resentment was felt at the Junker level, as well as at the lower and middle segments of the agrarian community. Much of this resentment was aimed at the urban entrepreneurs, who, or so many of the agrarians believed, chose to live in houses which did not reflect their large purchasing power. Or as Dan White aptly expressed it, a belief was developing that "visible objects by no means provided the best indication of how much



a man earned. The frugal first generation of capitalist entrepreneurs did not live in palaces" (1976: 63). Finally there was discontent at the fact that such entrepreneurs paid no tax on income from stock dividends and interest, (though this benefited the large landowners and many of the "Junkers"). Thus even as early as 1873, Johannes Mollinger argued in the Landtag that farmers in the Grand Duchy paid three times the amount of the income tax through the land tax, while businessmen paid only once over.

Beginning in the 1870's, the situation in agriculture worsened as mortgage indebtedness rose sharply. This impacted profoundly upon agriculture owing to the fact that in the past twenty years many landowners had jumped on the mortgage bandwagon. In Prussia, it was the eastern provinces which were most heavily indebted, affecting large and Junker landowners much more heavily than small proprietors and peasants (Tirrell 1951: 28-29). Mortgages of 80 to 90% of the purchase price were not uncommon (Pflanze 1990a: 284). Beginning in the 1870's the problem intensified such that by 1896, of the large allodial estates, 42.9% were mortgaged at more than 60% of their value (Pflanze 1990b: 11. See also Dawson 1904: 205; Dawson 1967: 245-247; Tirrell 1951: 28). The Junker, observed Friedrich Engels, had the same problem as Mr. Micawber: "how to have an annual income of say 20,000 marks, an annual expenditure of 30,000 marks and not make any debts" (quoted in Pflanze 1990b: 11; Gerschenkron 1943: 45-46). This aptly summed up the position of the Junkers. For the rising mortgage indebtedness had several origins.

One cause of this debt problem was the expensive lifestyle of the Junker. In particular, the cost of paying for his sons' military training created a huge strain. A further cause was the steeply rising land prices, which had increased rapidly throughout the 1860's and 1870's. In order to be able to purchase new land, particularly for their sons, landowners' mortgages rose sharply. This was antagonised further, because the lack of savings in Germany after the 1860's led to higher rates of interest being charged on the debt.

Owing to the lack of any mortgage tax relief, increased tax payments and surtaxes merely fuelled further agrarian resentment. As a result

tax relief was becoming for many farmers (particularly of middle and small-sized estates) not just a luxury, but rather a matter of survival (D. S. White 1976: 65). After 1876 many farmers were blaming the increased matricular contributions as a major source of their problems. The Heidelberg Convention of 5-8 August 1878, specifically aimed to solve this financial crisis. It was the issue of tax relief which led many German farmers down the path of tariffs. Many farmers preferred an increase in tariffs on "non-essential" items. In Hessen for example, few farmers favoured tariffs for protection until mid-1878 when it became clear that it was the only method by which their desired tax reform could be implemented (owing to the fact that Bismarck was unable to bring the tobacco industry under government control). Indeed it was this fact that had to a large extent prompted elements within agriculture to support protection in late 1878. Thus on 26 February 1879, the central board of the Hessian Agricultural Association decided to support the chancellor "as a result of (financial) necessity". They argued that the proposed tariffs would not aid agriculture directly, but that;

"The indirect advantage...consisting in the fact that as a result of increases in the Reich's own revenues, the states will be put in a position to lower their direct taxes, would be achieved in a far more productive manner if a certain number of articles not considered everyday necessities of life but as superfluous luxuries would be subjected to substantial increases of the tariffs levied upon them..and even the (tobacco) monopoly would be preferable to the introduction of a general tariff on all imported articles" (cited in D. S. White 1976: 67).

Prussian Junker farmers were resentful of increased direct taxes, though as we shall see later, they probably paid less tax than middle sized farms (as a proportion of their total income). Thus whilst tax relief was canvassed by the Junkers, tariffs for protection were only ambivalently expressed. Still dependent on exports and on foreign (hard) grain and cheap industrial (machinery) imports, the Prussian landlords had to weigh up the advantages and disadvantages of tariffs. The factor of tax relief pushed them down the tariff road while their economic/agricultural (trading) imperatives tended to pull them back. As already discussed, the 1879 wheat tariff would damage their economic interests. The rye tariff was also economically problematic. It is usually argued that the tariff on iron goods

penalised agriculture )which had hitherto relied on cheap imports. The argument that iron tariffs were antithetical to Junker and high agriculture's interests is only in part correct. At this point, we need to analyse the actual foundations of the category known as the "Junkers".

### Junkers Divided; The false dichotomy between "Junkers" and "Industrial Capital"

Much of modern historiography of the Kaiserreich perceives the "Junker" class as a monolithic category; the epitome of agrarian feudal power, particularly vis-a-vis the state. However, in reality the Junkers were divided along several lines of cleavage, mainly social and economic. The first demarcation to be drawn was between the Junkers and the "large" agrarians landowners. The Junker was an aristocrat ennobled at the lowest grade (the German "von"). This group tended to own no more than two or perhaps three "guter" (properties), which comprised no more than 1,000 hectares (ha). However, the large landholders owned a minimum of between 1,000-2,000 ha and a maximum of about 10,000 ha (though a few exceeded this).

These large owners were both socially and economically differentiated from the Junkers. It was the case that the vast majority of this group would have been deeply offended had they been confused with the "lowly" Junker. This group comprised the individuals of the highest status. Thus it comprised mainly Barone (barons), Grafen (counts), Fursten (princes) and Herzoge-Mark (dukes). The highest echelons in agriculture were therefore differentiated from the Junkers along lines of stand (status). In this respect, it is not possible to speak of a single economic/status feudal dominant class.

Furthermore the "high" landowners were not "feudal" in the sense that the term implies. The majority of these landowners (1219, or 65% of

the total) had estates between 1,000-2,000 ha. Of these, 418 (34%) were bourgeois. Of the 505 landholders owning between 2,000-5,000 ha, 88 (17%) were bourgeois; of the 113 landholders owning between 5,000-10,000 ha, 8 (7%) were bourgeois; whilst of the top 44 who owned over 10,000 ha, 2 (4.5%) were bourgeois (K Hess 1990: 56-97). Of the main category (1,000-2,000 ha) 65% were bourgeois; of the total, 27% were bourgeois. However, not only were much of this faction of bourgeois stock; most had important linkages with industry, particularly through the ownership of stocks and shares, as well as government bonds. Indeed the same was true of the highest echelons within the so-called Russian "feudal dominant class" (cf. Becker 1985). Furthermore, for most of the high agrarians, industrial revenues/income were more important than the wealth created on their estates. Thus whilst they favoured free trade on foodstuffs, most welcomed tariffs on industrial goods, which in turn enhanced their personal incomes.

There were important lines of division and indeed harmony between the "haute" feudal class and the Junkers. It has been noted that there was a clear line of cleavage along status lines. The industrial origins and interests of the high landowners both complemented and antagonised various sections within the Junker category. According to Hess, between 1879/1885, of the approximate 31,900 Prussian landowners, with estates of nearly 290 ha (approx. 715 acres) over 50% were of bourgeois stock. More significantly, of the important 16,400 estates of East Prussia with over 100 ha, more than half (7,850) were owned by bourgeois industrialists, while 7,160 were owned by aristocrats. However, the bourgeois estates comprised as many as 7,071 individuals, whilst the 7,160 aristocratic estates comprised only 3,641 individual owners (Hess 1990: 56-97). Thus of the East Elbian landowners, over 65 % were of bourgeois stock. The Junker class therefore was no monolith, but was split down the middle between aristocracy and bourgeoisie. Thus, approximately two thirds of the Junker class had much (economically) in common with the high landlords, while just about one-third would have clashed with their economic and social superiors, (as well as with fellow Junkers).

This analysis complicates the social divisions that modern historiography has claimed to revolve around the tariff question. The all too common notion of the "alliance between iron and rye" is a problematic concept for several reasons. Firstly, it assumes that the two actors were economically antithetical. This however, is too simplistic. There was both conflict and harmony in economic terms. Secondly, it assumes a co-existence of pure ideal type monolithic opposites. Neither "group" was purely constituted in economic terms. Much of Junker and high agriculture had important linkages with industry (for want of a better term - the capitalisation of feudalism), whilst much of the latter had important linkages with aristocratic feudalism (the "feudalisation of capitalism"). The significance of the 1879 tariff was not in any alliance between industry and rye, but rather between bourgeois and feudal Junkers (the main cleavage within the Junker category), working with heavy industry and High agriculture (where the latter had more in common with industry than its aristocratic feudal Junker counterpart). Thus much of the Junker class were against industrial tariffs, whilst many ( probably a majority) supported them, alongside high agriculture.

This was clearly reflected by (selected) Junker ambivalence to unite with the iron industrialists for tariffs in 1879. The minority of feudal Junkers' deep suspicion of the industrialists was not determined by any fear of them being let down should they form an alliance. How could it have been when the agrarians held the upper hand politically, (the reason why the industrialists had approached the agrarians to support protectionist tariffs in the first place!) Their "suspicion" was entirely rational, for they valued cheap agricultural machinery which would be jeopardised by an iron tariff. David Calleo typically asks the question, "how were the Junkers strong enough to impose agricultural protection upon the German bourgeois commercial and industrial interests?" The short answer is that they weren't. It was the Junkers who had displayed ambivalence toward protection, especially of the industrial variant, as even Lambi admits (1963: Ch. 9). Furthermore, it was the industrialists who had approached the Junkers for the support of protectionism, and not vice-versa. Indeed the industrialists had been marshalling their

protectionist campaign even before 1875 (see Lambi 1963: Ch. 8, though this point is acknowledged by Calleo, 1978: 68).

If the Junkers had really desired tariffs for protection, why was the process of uniting with the industrialists in order to call for protection so half-hearted? Ironically, the fact of substantial bourgeois interests both within the Junkers and particularly within High agriculture provided the basis of a reconciliation of agriculture with industry. However, such an alliance could only be completed with the help of an external co-ordinating body. Such a body was at hand in the shape of the Bismarckian state. For the fact is, that had it not been for Bismarck's moulding of these two groups under the protectionist umbrella, the tariff of 1879 may never have been legislated; certainly not in the form that it actually took. Thus Bismarck took to persuading the Junkers that grain tariffs would be in their interests. He did this by a two-fold strategy, which brought the doubting Junkers round to protection on both grain and heavy industrial goods.

**The Bismarckian strategy of creating a Tariff coalition: Forging Unity  
between Junker factions, and an Alliance between the Junker class,  
Haute Agriculture and Heavy Industry**

Bismarck made much of the factor of tax relief that the tariff would provide the agrarians. Thus on 21 May 1879, Bismarck stated,

"If cheap corn is the goal at which we have to aim we ought long ago to have abolished the land tax, since it burdens the corn-growing industry at home, which produces 400 million cwts., against the 27 or 30 millions which we import. But no one has ever thought of such a thing: on the contrary the tax has been gradually increased throughout all Germany, so far as I know, and in Prussia it has increased 30 per cent since 1861, viz, from 30 to 40 millions" (quoted in Dawson 1904: 72; see also Henderson 1961: 49-50).

Through emphasising tax relief he was able to manipulate much of German agriculture (especially the smaller farming estates). Indeed if the protectionist versus free trading element of the Junkers was ambivalent, upon the factor of tax relief all agrarians could

unequivocally unite. Bismarck reinforced the agrarian complaints. He claimed that estate owners paid excess taxation (though there is plenty of evidence to show that this was categorically not the case, since the Junkers in particular were able to hide much of their gross income from the taxing authorities). Capitalists, Bismarck argued, were subject only to the personal income tax, and he reckoned that they paid approximately 3% of their incomes on taxation. In contrast he argued, the estate owner paid an extra 6%-7.5% through real estate taxes, while the surtaxes added a further 10%-20% to their total tax bill (Pflanze 1990b: 47). Furthermore there was much resentment over the taxation of mortgaged estates, where the whole amount borrowed was subject to land tax as well as surtax. Much to Bismarck's annoyance, there was no MIRAS scheme (mortgage income tax relief at source) for the agrarians!

To co-opt the Junkers into protectionism, Bismarck therefore emphasised the tax relief available upon their support. However, whilst this strategy was important in shifting much of agriculture away from free trade, it was not alone sufficient to convert many of the Junkers, who paid only small amounts of direct taxes, and thus were not so dependent upon possible tax relief. Instead, Bismarck emphasised the political benefits that would accrue to the Junkers, should they support grain tariffs. This revolved around the creation of a rightward shift in politics, which would ultimately benefit the Junkers (as well as the industrialists). Through the tariff, Bismarck would create a new right-wing government coalition, whilst at the same time, he would attempt to split the National Liberals.

On 5 May 1879, the Reichstag debates revealed the rift in the National Liberal party and the final estrangement of the left wing under Lasker from the right, under Bennigsen, as was intended by Bismarck. Bennigsen had finally taken a conciliatory stand towards the government's tariff bill. While he stated that both he and many of his party friends were neither Free Traders nor Protectionists, most of his speeches nevertheless served as a refutation of free trade arguments. He argued that, foreign states had not responded favourably to German free trade policy and that, German industry would benefit if it sold its goods at home rather than abroad, (as

Varnbuler had argued). Nor did he object to the low agricultural duties. He also approved of Bismarck's intention of substituting indirect taxes and tariffs, for direct taxes. Nevertheless, he was vehemently opposed to any attempt to limit the Reichstag's control over revenue.

On 8 May, Eduard Lasker publicly denounced Bennigsen and the majority of the party. He bitterly attacked the protectionists and saw agricultural tariffs as a construct to maintain the high standard of living of the Junkers. It was at this point that Bismarck attacked Lasker unleashing perhaps the most passionate speech he had ever made in the Reichstag. He referred to Lasker and the Socialists in general as, "those gentlemen whom our sun does not warm, whom our rain does not wet, unless perhaps they forget their umbrellas at home..." (quoted in Sheehan 1978: 183). On 28 May, von Ballhausen noted in his diary that Bismarck was mostly interested in the fiscal question - how to dispose of the revenue that the new tariff would provide and yet satisfy the constitutional scruples of the parliamentarians. The Conservatives and Free Conservatives would have supported almost any solution, but those parties could not give him a majority since the Progressives and the left National Liberals were utterly intractable. The support of another group was needed and Bismarck's choice lay between the Centrum and the moderate National Liberals. He was to choose the Centrum for he knew that with them he could create a new government coalition which was not pro-parliamentary. It would also allow him to oust the National Liberals from the policy-making arena. In doing this, Bismarck was to pay a price (the Franckenstein clause), though in practice, it proved only to be nominal.

Bennigsen had suggested subjecting the revenue from the tariffs to the Reich, though with the added provision of its annual approval by the Reichstag. This would of course have allowed the abolition of the matrikularbeitrage which Bismarck had so desperately wanted. Furthermore, doubts had arisen in the Centrum, lest its support of the Bismarckian tariff project would lead to the undermining of the federal structure of the Empire, and hence strengthen unitary tendencies. It was of course, this aspect of the tariff that had been central to Bismarck's plan.



Accordingly on 8 May, Windthorst suggested that a certain amount of revenue from the tariff should be set aside to cover the needs of the Empire, and that the rest should be turned over to the individual states. If the Empire was to incur any extraordinary expenses, the funds that were referred to the states should be returned to the Imperial Treasury through 'contributions' that were to be approved by the Reichstag. This proposal lent itself to the subscription by the Centrum to the Clausula Frankenstein, which initially proposed reserving 105 million marks of the revenue from the tariff for the use of the Imperial government, with the remainder going back to the states, which could in case of need make further contributions to the Empire. Initially the Centrum also insisted upon the annual approval of the tariff by the Reichstag, but the Conservatives and Free Conservatives rejected this, and the party thereby dropped this requirement.

Furthermore, the Centrum, to please Bismarck raised the direct Imperial share of the tariff to 130 million marks. Bismarck accepted the Centre and not the National Liberals' proposal, in spite of the fact that it retained the objectionable matrikularbeitrage (Article 7 in the final tariff act) This would now allow him to form a new coalition around the parties of the Free Conservatives, Conservatives and Centrum. As noted, the essence of this coalition lay in its indifference to parliamentarianism, which lay in stark contrast to his previous coalition with the National Liberals. With the announcement of the Franckenstein amendment, the National Liberals immediately attempted to do a final deal with Bismarck. But the parliamentary rights that were desired by the party were vehemently rejected by the chancellor, who clearly preferred the lesser evil, namely the maintenance of the matrikularbeitrage (L. Gall 1986: 109; M. Weber 1922/1978: 1390, 1464) With the formation of this new right wing coalition the stage was thereby set for an increase in executive power. Furthermore, the tariff had not only allowed Bismarck to form a new politically desirable coalition, but had also split the National Liberal party.

It was this strengthening of the executive, with the creation of a right wing government cartel that had attracted the Junkers into joining with the industrialists in favour of tariffs. The marginalisation of the left wing parties and the split of the National Liberals was an important Bismarckian political strategy in co-opting much of Prussian agriculture into tariff protectionism, as well as increasing the power of the executive. The "alliance of Iron and Rye", which was so fundamental in creating a tariff platform was not determined by autonomous economic processes. In late 1878, whilst Bismarck had found the industrial protectionists fully organised, he simultaneously found the agricultural interests still mobilised around free trade. Over the next six months, he applied his fiscal and political strategies to forging an alliance between bourgeois and feudal Junkers, and between feudal Junkers and haute agricultural interests. Ironically, it was probably easier to unite those bourgeois Junkers and high nobles with the industrialists, than it was uniting the more feudal Junkers with their fellow class members.

The Tariff bill received Imperial assent by a vote of 217 to 117, on 9 July 1879, part of it coming into operation on 15 July, part of it on 1 October, and the remainder on 1 January 1880. All the duties were intended to be revenue producing, though some articles were singled out for special taxation on account of their proven fiscal productiveness, such as colonial goods and coffee, tea, petrol, tobacco, and wines and spirits (Dawson 1904: Ch.5). Finally to complete the analysis of the 1879 tariff and to probe into subsequent protectionist legislation, an examination of the expenditures and revenues of the Reich will be necessary.

## SECTION 2 1879-1890: The Fiscal Politics of Military Expenditures

Army bills and other measures relating to national defence played from the first a prominent part in the proceedings of the Imperial Diet. As Bismarck argued, by force the Reich had been created, and by force it would be maintained. Moltke argued that Germany was to have a force so large and efficient that she should be able at all times to keep the peace of Europe and if need be, impose it upon her terms.

The consolidation of the nation state through geopolitics provided a certain boost to the maintenance and indeed future growth of the military. This was reinforced by the constant Prussian fear of a war on two fronts. As Bismarck had claimed, Germany was an exposed armed camp in the middle of the plains. A military build up was seen as a sure answer to the problem. In order to ensure this, constant additions to Germany's fighting forces were made, first to the land, and then to the sea. This however, led to constant fiscal problems for the Reich.

Up to 1874 both peace-time army strength and expenditure had been approved for definite time periods. In 1874 the government sought to arrive at an understanding with the Diet, wanting to instil a more permanent solution to army and military budget increases, until a new law to the contrary should be passed, the total duration of service to remain at twelve years. This provoked a great controversy in the Reichstag, with the Conservatives being the only party in favour. The other groups objected to the retention of the peace strength at a figure which in 1871 was seen as excessive, and they still more objected to its permanency. Moltke made an emotional speech to the Reichstag but failed to impress. It took Bismarck's intervention from his sick bed to win the Diet over. Finally a compromise was proposed by Bennigsen. The peace strength was to be as the government wanted but would be fixed for seven year periods, (known as the military "Septennate"). From the standpoint both of numbers and finance, the military authorities won a victory; though as Craig points out, it was in fact a somewhat hollow victory, because as soon as the bill had become legislation, it was felt to be inadequate (1964: 242). Nevertheless, the issue at stake was not just the establishment of the peacetime strength of the army, but equally as important for Bismarck, was the keeping of parliament out of military affairs.

In 1881 the Septennate agreement was renewed giving an increase of 26,000 men to the army, (1% of the population of 1875). Before the second Septennial act had expired, the government in 1886 demanded its renewal on the basis of 1% of the population in 1875, giving a new total of 468,409 men. This time the Diet refused to renounce financial control for seven years but offered to bind itself for

three. Typically, Bismarck then turned to the nation. The elections of February 1887 led to the formation of a 'cartel' of parties consisting of the two Conservative groups and the National Liberals, pledged to the support of the bill. Effectively assisted by the government and the electioneering machinery at its disposal, as well as by the never-failing cry of "the Fatherland", these parties between them captured sixty-three seats at the expense of the Radicals and Social Democrats, with the result that they formed alone a large majority in the Diet. The army bill was passed. Furthermore, because these numbers were felt to be inadequate, a new bill was drawn up and placed before the Reichstag in December 1887, followed by a further request in 1890, taking the army size upto 486,983 (Craig 1964: 242-243).

The rise of the navy escalated after 1896. Up till then, expenditure had been relatively modest. Indeed at the beginning of the 1880's naval estimates were still below £2 million per annum. The early additions to the Imperial Navy were made by the help of the French indemnity, but from 1875 onwards that source of revenue was exhausted and loans were resorted to. (Note that though the figures were low in comparison to post 1896, they were nevertheless relatively high by 1880 since there had been virtually no navy before 1871). Up to 1875 therefore, the Empire had by painful effort paid its way, but then came the need to borrow. Accordingly, matricular contributions were vastly increased. Each state faced huge financial difficulties. During the Fiscal Depression from 1875 onwards, all states found it especially difficult to pay the "contributions". Between 1875 and 1879 the amount paid in contributions was 90 million marks less than that requested by the Reich. As an emergency procedure, the larger states were forced to increase their contributions, (see Table 2.2 for the Prussian and Bavarian figures).

With such a heavy burden on the states, and with the Reich accruing loans each year from 1876 onwards, the need for increased revenue was growing acute. As a consequence, in 1879 the reform of the fiscal system was made by introducing customs duties. This was thought to have cleared the way and given the Empire a new start as had been intended. But owing to the Franckenstein Clause and, though to a

lesser extent the desire of the Reichstag to retain parliamentary control, Bismarck's bid it seemed, had been hampered. The Franckenstein Clause, which constituted the Centre party's quid pro quo for voting with the government on the tariff, stipulated that any surplus revenue above 130m marks (£6.5m) acquired from customs duties was to be redistributed to the states on a population basis. It seemed therefore, that the Reich had limited itself through conciliation with the Centrum, to a self-defeating policy which would prevent it from acquiring future revenue through increased customs duties. In practice however, the opposite was true. As the chart (2,5) below reveals, whilst the states received substantially higher amounts of revenue from central government, they repaid much of this back to the Reich.

As Ashley points out, the net demands, that is the matricular contributions in excess of payments to them by the Reich (from the customs revenue) rapidly diminished until they became insignificant from 1882 until 1898. Given the substantial hike in the matricular payments in the late 1880's it was clear that the states were in receipt of a vital tax subsidy. This subsidy was the surplus of indirect revenues (tariffs) in excess of the stipulated 130m marks (£6.5m). Put more simply, the Reich which gained increasing revenue from customs channelled the surplus (ie. everything in excess of £6.5 million) to the states. Though a small amount was kept by the states, the vast majority of this was returned to the Reich through a commensurate increase in the matricular contributions. The net fiscal subsidy (received from the Reich) was equivalent to an average annual injection of 31.6m marks (that is, after the payment of the matricular contributions had been made), covering the period 1883-1898

Table 2.6 Net Gains and Losses to the States from Imperial Levies  
and Tax Distributions, 1880-1914 (a)  
(in Millions of Marks)

Year	Levies (b) on States	Distri- butions to States	Diff- erence	Year	Levies on States	Distri- butions to States	Diff- erence
1880	64	38	-26	1898	455	468	+13
1881	85	68(c)	-17	1899	490	477	-13
1882	85	84	-1	1900	528	509	-19
1883	74	85	+11	1901	571	556	-15
1884	64	105	+41	1902	580	556	-24
1885	103	116	+13	1903	566	542	-24
1886	119	137	+18	1904	220	196(e)	-24
1887	171	176(d)	+5	1905	213	189	-24
1888	208	278	+70	1906	230	206	-24
1889	215	355	+140	1907	227	195	-32
1890	301	379	+78	1908	220	195	-25
1891	316	383	+67	1909	169	121(f)	-48
1892	316	353	+37	1910	228	180	-48
1893	369	339	-30	1911	212	164	-48
1894	385	382	-3	1912	247	195	-52
1895	383	400	+17	1913	255	203	-52
1896	399	414	+15	1914	246(g)	194(h)	-52
1897	420	433	+13				

(a) 1880 to 1911, from W. Gerloff 1913: 522; 1912 to 1914 from Statistisches Jahrbuch für das deutsche Reich; both sources quoted in M. Newcomer 1937: 23. [Staat levies also presented in S. Cohn 1972: 206-207]. (b) These figures do not include the special payments by the Southern states for the privilege of retaining beer and spirits taxes and the postal and telegraph service.

(c) Stamp taxes added.

(d) Spirits tax added.

(e) Distribution of Customs and Tobacco tax discontinued.

(f) Distribution of stamp taxes discontinued.

(g) Discontinued 14 August, 1919.

(h) Spirits tax distribution fixed.

Thus, the Reich in effect, managed to retain almost all of the revenue acquired from customs (Newcomer 1937: 21-22). Hence the

Franckenstein provision proved to be only a nominal constraint. In practice rather, not only did it give the Empire more independence from the states, but also allowed it to accrue far more revenue. This was the most significant aspect of what von Kruedener (1987: 111-123) has aptly termed the "Franckenstein Paradox". The 1879 tariff proved to be the first step towards the goal of complete financial autonomy of the Reich from the states.

### The Run Up to the 1885 Tariff

Whilst accumulating new revenues from the 1879 tariff, Bismarck's hopes to provide tax relief to the states remained largely unfulfilled. The main problem was that the Reich required increased sources of revenue over and above that acquired from the tariff. Increased expenditures on the military under the new septennate, meant that additional levies had to be extracted from the states. Prussia's contribution was to be approximately 15m marks, which wiped out the surplus earmarked for the tax cut (Pflanze 1990b: 46). Bismarck feared that unless tax relief was forthcoming, rural voters would desert the government in the approaching 1881 Imperial elections. Thus in October 1880 he introduced two new tax bills in the Prussian Landtag. These were aimed to suspend the four lowest brackets of the class tax (incomes upto 1200 marks), as well as to reallocate direct taxes to the local governments. However both were rejected; the second bill by the National Liberals, who feared its anti-parliamentary nature. Also in 1880 a bill was introduced to extend the stamp duties. However, only the Conservatives were in favour and it failed to secure assent. Another novel tax was then proposed - a national defence tax. But since military service was regarded by most people as one of the highest duties of citizenship, it was quickly rejected. Bismarck was no more successful with his proposals to increase the taxation of beer, having to face the jealousy and opposition of most of the federal states, especially in the south. Indeed as the southern states raised a large proportion of

their revenue from the taxation of beer, (of which Bavarians drank four times as much as North Germans), any suggestion of a larger contribution to the Imperial Treasury from this source was vehemently opposed.

Then in November 1881 a bill was introduced to create an Imperial tobacco monopoly, with which Bismarck hoped to produce between 130m-150m marks. Initially this was dressed up by earmarking the revenues for a programme of old age pensions and disability insurance aimed for workers' benefit. But as finally drafted this was dropped. In any case the bill was rejected by the Chamber of Deputies, where the unpopularity of the measure was clearly perceived. On 6 May 1882 the bill was withdrawn. However Bismarck achieved moderate success in 1883 when a statute which suspended the lowest two brackets of the class tax was passed. Nevertheless it had little political or fiscal importance.

Thus by 1883 Bismarck had achieved little success in his desire to liquidate direct taxes at staat level. In desperate need for new revenues, and having completely failed to instigate some kind of Imperial monopoly, once again he would turn to increasing indirect taxes. A further factor had by now come into play. By 1883 the growing agricultural depression was becoming increasingly based upon lower grain prices, engendered by the flood of cheap imports from Russia and the United States. As a result the government was flooded with petitions from agricultural communities in search of protectionist tariffs for their goods. Finally, Bismarck hoped to secure a new government bloc around the Centre, National Liberals and the Conservatives. An agricultural tariff could secure these three objectives in one fall swoop. Accordingly, in 1885 Bismarck saw to the raising of grain tariffs from 10 to 30 marks per ton.

As Table 2.6 below shows, the new tariff enhanced the fiscal position of the government. In 1886 tariff revenues were 238m marks, compared to 139m in 1879 (Witt 1970: 56). However, this still did not enable significant tax reductions at state levels - a project which had become an important political objective of the Reich chancellor. The hindrance was of a somewhat complex nature. In the



first instance the "Lex Huene" had been passed in the Prussian Landtag on 14 May 1885. Introduced by Huene, this law permitted the Prussian Treasury to retain only 15m marks of the surplus revenues received from the Reich after payment of the matricular contributions; the rest was to be distributed to the city and county governments. This in itself however was not a problem and indeed harmonised in intent with Bismarck's strategy of agrarian tax relief. The problem was that whilst the majority of the sums distributed (42.5m out of 49.5m marks between 1886 and 1889) indeed went to rural circles, a large increase in local expenditures offset any tax reductions intended. As Mabel Newcomer put it, "thus any gains which may have accrued to the owners of agricultural land came in the form of increased governmental services rather than in tax reductions" (1937: 38. See also Von Kruedener 1987: 119).

Thus by 1886 Bismarck was doubly frustrated in his long term fiscal project. Having failed to inaugurate the desired tax relief to the agrarians, he was additionally faced with an increase in Reich expenditures which were leading to annual deficits. The taking out of loans (upto 410m marks annually) to cover the deficits merely intensified the fiscal problem, since it led to higher interest and amortisation payments. It was not feasible to increase the matricular contributions. In any case, the balance of payments between the Reich and states, which had favoured the latter after 1882, was rapidly diminishing. The balance of payments had slipped from 41m in 1884 to 13m in 1885, and finally to only 5m marks in 1887 (see chart above).

With fiscal crisis staring him in the face, Bismarck attempted to initiate yet another government monopoly, this time on liquor. However on 27 March 1886 the bill was thrown out of the Reichstag by a clear majority. With the agrarians still calling out for higher tariffs even after the 1885 increase, the way was open for Bismarck to gain the urgently needed revenues through yet another tariff increase in 1887(see chart 2.7).

Table 2.7 Net Tariff Revenues at Reich level 1879-1890

<u>Years</u>	<u>Revenues</u>
1879	139.9
1880	169.9
1881	185.3
1882	191.4
1883	195.0
1884	213.3
1885	220.6
1886	237.9
1887	257.8
1888	285.1
1889	349.9
1890	368.9

Source P. C. Witt 1970: 56 (Table 5, column 4)

(1) These revenue figures have had various administrative costs deducted. The gross figures were approximately 50m marks higher per annum.

#### **The Application of the Economic Variable in Tariff Policy, 1879-1887**

The 1879 German tariff met with some success in offsetting the decreased prices. However it served the fiscal needs of the Reich far more than the protective "needs" (assuming their unequivocal existence) of agriculture or industry. Indeed this factor provides further evidence of the lack of a clear protectionist will (in terms of protecting agriculture), on the part of the agrarians and the government in 1879. This point can be quantified by an examination of wheat and rye prices in the 1870's decade. (calculated from Appendix 2).

The tariff was well below 10% ad valorem, whether calculated on an "effective" or "nominal" basis. General estimates of tariff rates on grain are between 5-7% ad valorem (Lambi 1963: 226; Pollard 1981: 258). In 1879, the nominal specific tariff rate calculated on an ad valorem basis, stood at 5% for wheat and 7.5% for rye. Even if we assume that the price of grain would increase by the whole amount of the tariff, then the "dip" in prices after 1877 by 13% on wheat and

16% on rye would not be made good. Nor could the 5% tariff be "rationalised" by arguing that it would restore wheat prices to the average for the period 1871-1879. Since the average price was 224 marks per ton for wheat, the 1879 price (204 marks), represented a 9% reduction. The 1878 and 1879 rye prices were 135 and 138 marks per ton respectively, which signified an approximate 13% reduction on the decadal average. Thus a concomitant tariff of between 9%-13%, (based on the price reductions on the average decadal price) or by about 13%-16% (based on the price reductions witnessed post-1877) was required to "compensate" grain producers. As far as the rye producers were concerned the 7.5% tariff was clearly inadequate to restore prices when the economic crunch occurred after 1882; a point that Bismarck openly conceded in 1885. Rather a tariff of over double this was required. Equally as problematic is the impact of the industrial tariff. As explained earlier, much of agriculture had been dependent on low tariffed industrial iron and steel imports, which had supplied it with cheap machinery. The fact that industry received protection (particularly given its much higher rates), had contributed to various sections of agriculture's ambivalence over the tariff. After the legislation had been passed, it became apparent that agriculture's worst fears had been realised. Thus whilst tariff rates were 5% on wheat and 7.5% on rye, the rates for iron and steel stood on average, at between 15%-25% (S. B. Webb 1980: 310). The differential meant that the (limited) gains that rye producers felt were at the very least partially offset by the substantially higher industrial rates (though much of haute agriculture and large elements within the Junker class would have benefited from industrial tariffs)..

More importantly, the low foreign wheat prices would have been a considerable boon for farmers, especially in Prussia, whose propensity to export was high and who were dependent on cheap foreign importation of hard wheat. As noted earlier, the import increases were matched by the growth of exports. It is likely that the importation of cheap hard wheat was highly beneficial for German producers as it enabled them to increase their exports. Thus from 1870-1876 wheat imports averaged 1.976m quarters, whilst from 1877-1879 they averaged 4.199m quarters, (representing a growth rate of over 100%). Meanwhile for the period 1871-1876, exports averaged

2.107m quarters, whilst between 1877 and 1879 they increased to an average of 2.922m (though for 1878-1879 inclusive, they averaged 3.491m quarters, this representing a 66% increase on the 1871-1876 average). This being so, it is therefore problematic to conclude that wheat producers were desperately clamouring for protection which was granted them in 1879.

It is at this point that we can finally appraise the 1879 tariff in terms of the so-called benefits accrued to German agriculture. To return to a point made earlier, the 1879 tariff introduced a clause which enabled German wheat producers to obtain a refund on the taxed import if it was to be re-exported. This was necessary if the German producer was to ensure that his exportable produce was to remain competitive. However such a refund was only permissible with the presentation of a certificate of origin, to be produced by the German farmer. However, the refund could only be obtained if the foreign wheat to be re-exported was not mixed with the home produced good. And yet German wheat exports were dependent on precisely such a mixture - the Stettin/Danzig mix. That is, the soft German wheat could only be exported (or sold in the domestic market) once it had been mixed with the foreign (Russian) hard wheat. In practice this meant that if the Stettin mix was to be exported, no refund would be forthcoming.

Thus the German wheat producer was less competitive, (to the tune of 5% of the price per ton) in the foreign and domestic arenas than before the tariff was implemented. In other words, the 1879 wheat tariff, in conjunction with the refund statute led to a less commercially efficient German product. As a partial result, German wheat exports dropped dramatically from 3.6m quarters in 1879 to 0.8m in 1881 and to a mere 0.004m in 1890. Thus whilst average wheat exports stood at 2.4m quarters in the 1870's, (and a substantial 3.5m average, 1878 and 1879) they fell to a mere 0.5m in the 1880's (Broomhall 1904: 77). In sum, one of the major sources of income for Prussian agriculture had dried up as a result of the 1879 tariff. The wheat tariffs benefited the state's fiscal needs largely at the expense of Prussian/German agriculture.

This leads onto a further necessary revision of the 1879 tariff legislation as it affected German agriculture. For it means that the tariff could only benefit rye producers. But as already pointed out, a tariff of approximately 13-16% was "required" on rye imports in order to make good the price reductions of the late 1870's. In this vein the 7.5% tariff for rye producers was clearly insufficient. In any case, rye producers (particularly of the haute agricultural interests) favoured free trade in 1879. The picture to emerge in the post 1879 era reflects this fact. Thus although the tariff contributed to raising prices in the years 1880 and 1881, thereafter, prices plummeted. In contrast to the picture painted by the economic consensus, (most notably Lambi), agricultural prices only significantly dropped in the years after 1881, rather than after 1877. By 1886 wheat had dropped to 162 marks per ton, which represented a 21% reduction on the 1879 figure and a 28% reduction on the average figure for the previous decade, and a considerable 31% on the 1877 price.

Furthermore, the price reductions in themselves were not solely responsible for the agricultural switch to protectionist tariffs by the mid-1880's. One of the main reasons for the vast reductions in wheat exports in the 1880's was the shift in consumer preference toward wheat bread [away from rye] (H. J. Teuteberg and G. Wiegmann 1972: 133-145). This meant that much of German wheat production became orientated to the domestic market. Cheap wheat imports had less benefit for the German producer, although they were still required to mix the soft German with hard foreign wheat for domestic consumption. But with the drastic reduction in wheat exports, coupled with the low prices in the years 1883-1886 [and even upto 1890] the cause of tariff protection became much more attractive. For those wheat producers who had never exported, the attraction was even stronger.

The main problem that German farmers (wheat or rye, large or small) faced was that of rising mortgage indebtedness. This began in the mid 1870's and was felt particularly from the early 1880's through to the beginning of the 1890's. The problem stemmed from the huge rises in the price of land that took off in the 1860's. The mortgage problems

were exacerbated by the rise in interest rates, which had risen as a function of Germany lack of savings. All this impacted upon farmers mainly in the 1880's. Indeed the estates that were sold due to mortgage indebtedness peaked in the late 1880's and early 1890's. Thus between 1886-1895, 21,247 estates comprising some 738,625 ha were sold; between 1896-1905, 12,485 estates comprising some 384,575 ha were sold; whilst between 1906-1914, only 6,165 estates comprising some 150,347 were sold (K Hess 1990: 262-279). These substantial problems were further exacerbated by the rising cost of agricultural labour; in turn a function of labour scarcity due to the rural vacation of the land in favour of urban centres.

These problems which were felt particularly at the beginning to mid-1880's, when coupled with the sustained reductions in grain prices led to a shift toward protectionism. Not surprisingly, mass based agricultural calls for protection were only heard after 1882/3. Petitions for protection accumulated rapidly after 1882 such that by 1885, tariffs were urgently required at all levels of agricultural production. Such was the clamour, that Bismarck chose to meet its demands. The duties were raised from 10 marks per ton in 1879 to 30 marks per ton in 1885. However, these increased duties were still not high enough to offset falling prices and the Junkers soon demanded further increases. This economic factor was a crucial variable to the further raising of the duties two years later in 1887 to 50 marks per ton. Gerschenkron (1943: 47), argues that agricultural tariffs were enacted by the state purely for the selfish interests of the Junker class. Similarly Hans Rosenberg sees the tariff as unleashing selfish interest group politics in contrast to the more, "elevated constitutional and political issues that prevailed in the 1860's and 1870's". However, it was precisely these "elevated constitutional and (fiscal) political issues" that were so fundamental to the creation of the tariff increases in 1879, 1885 and 1887. We shall reveal this by an examination of the political realm involved.

Owing to these various reforms in taxation always for the purpose of higher revenue, the Empire enjoyed a short period of financial prosperity after 1888. For while the average yields of customs and excise during the years 1872-1880 was about £12.5m (280m marks) per

annum, during the second decade, it was as much as £22m (493m marks) per annum (Ashley 1909: 10). This was crucial for Bismarck, in that it allowed him to fiscally by-pass the federal states (see tables 2.5 and 2.18). After 1885, and in particular after 1887, the increase in customs duties led to a growth spurt in Reich revenues. The surplus remaining after matricular payments went to the states (due to the Frankenstein clause), and the local communities (via the Lex Huene), as was congruent with Bismarck's project of effecting tax relief through central government tariffs. Bismarck was also content with the vast new sums of revenue which entered the Reich's coffers.

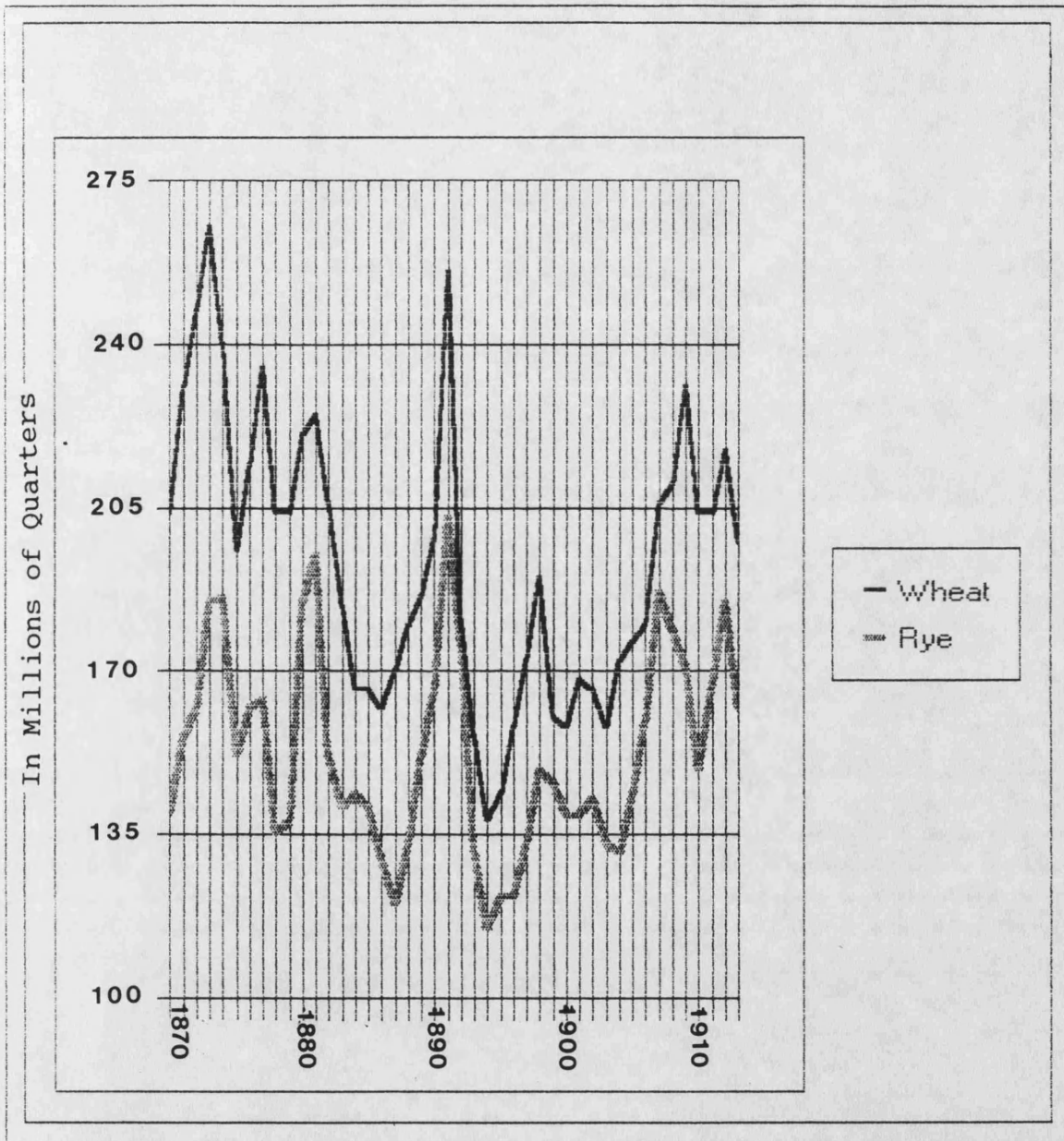
### Section 3

#### State Autonomy and Class Power post-1890; Establishing the Causal Mix

##### The New Course and the 1890's Agricultural Crisis

The downward tendency of grain prices in the 1880's continued and indeed intensified after 1890. According to Dade, between 1860-1879 the annual average price of wheat in Prussia fell below 180 marks per ton twice; between 1880-1889 it fell five times, and six times in the following decade (quoted in Tirrell 1951: 195). In December 1891, wheat sold at 255m marks and rye at 203 marks per ton. These were healthy prices. But by January 1893, wheat sold at 156 marks and rye at 131 marks per ton (Tirrell 1951: 27-28; also Timoshenko 1928: 99 - see appendix 2 in this thesis). This represented a 39% reduction on the 1891 position, a 24% reduction in wheat prices over 1879, and a 34% reduction on the 1877 figure. The extent of the 1890's agricultural crisis can be gauged by comparing post 1892 prices with those of the previous two decades. These are tabled in graph form below (Table 2.8).

Table 2.8. The Decline and Recovery of Grain Prices (Wheat and Rye),  
1870-1913



Source: See Appendix 2



The 1890's agricultural crisis was a transnational phenomenon. From the period 1873-1900, world prices of wheat have been estimated as follows: 1900 = 100, 1873 = 244, 1894 = 84. The world price averaged a mere 106.5 marks per ton in the 1890's (Pollard 1981: 266; Rostow 1978: 164-165). In Germany the effects of the depression were similarly felt. Indeed the price reductions after 1891 had not been witnessed since the period from 1820 to 1840. These reductions were dramatic even when we compare the 1890's with the average prices for the previous two decades. From 1870-8 the average price per quarter stood at 48s 11d. This dropped to 44s 7d from 1879-1884, and fell further to 35s 1d from 1885-7. There was a recovery after the 1887 tariff to 42s but then occurred a massive drop to a mere 34s 8d in the period from 1892-1900 (Broomhall 1904: 78). Expressed in German currency, the average price of wheat 1870-1878 was 226 marks per ton; for 1879-1884 it stood at 201 marks; for 1885-1887 it was a mere 166 marks; for 1887-1891 it was 195 marks, whilst between 1892-1900 it dropped to 162 marks. This reduction had been felt immediately after 1892. In addition by the 1890's, the agricultural depression had reached all parts of the empire, most notably Bavaria which had hitherto been relatively prosperous. The depression also affected small and peasant farmers, mainly through substantial mortgage indebtedness. This was substantially worsened by the large price reductions of the 1890's agrarian crisis (Schissler 1986: 34; Puhle 1986: 96). Finally, according to Dade, it cost between 170 and 200 marks to produce 1 ton of wheat, and between 140-170 marks for 1 ton of rye. The average cost of 1 ton of wheat and rye was approximately 185 and 155 marks respectively. These figures coincided with the estimates quoted by Count Kanitz in various Reichstag speeches, made between 1890 and 1894. According to Dade's figures in 1891, farmers enjoyed profits of approximately 20-25% per ton of wheat, and approximately 50% on rye, but by late 1893 they were making substantial losses (see Tirrell 1951: 27-28). However, these figures were subject to exaggeration since Dade was one of the leading agrarian figures interested in protectionism. Nevertheless, it was certainly the case that farmers' profit margins had narrowed at the

beginning of the 1890's. Thus after 1892 the rationale for tariff protection in agriculture had never been so great. If the Junker class was so powerful and could supposedly dictate government policy, as much of the economic consensus claims, then now would be the time for tariff rates to be substantially increased at the behest of the Junkers.

In 1892-3 through a series of trade treaties Caprivi, the new Reich chancellor, significantly reduced grain tariffs on wheat and rye from 50 - 35 marks and on oats from 40 - 28 marks per ton. However, it is important to note that these were specific tariffs, calculated on a fixed rate rather than on an ad valorem basis. Thus whilst the specific rate was substantially reduced by 30% (over the 1887 rate), the actual reduction in ad valorem rates was only minimal. Stephen Webb has estimated that between 1889-1890 the ad valorem rate for rye was between 46%-49% and for wheat between 33%-34%. By 1894-1896 rye tariffs stood at between 42%-46%, and for wheat between 32%-33%. These changes were therefore only very minimal. However, by 1900-1902 rye ad valorem rates stood between 33%-37% and wheat, between 27%-28% (Webb 1982: 314).

The reason for these seeming anomalies stems from the impact of declining and rising grain prices. Thus after 1890, as the price of grain declined substantially, the specific rates led to the effective maintenance of the ad valorem rates. But by the early twentieth century, as world grain prices began to rise again, so the specific tariff rates led to a large reduction in the overall ad valorem rates. Up to a certain point, this fact offsets the argument made above. Thus the Caprivi trade treaties did not lead to a substantial reduction in the tariff rates experienced by agriculture. J. A. Nichols has argued that the reduction of the wheat and rye tariffs still represented " a sacrifice made for agriculture by the whole nation" (1958: 147) This is indeed the case. However the implication is that agriculture was profiting at the expense of the nation. Whilst the state enjoyed the high tariff revenues, it is not the case that German agriculture was profiting to the extent implied by Nichols. Indeed the fact remains that at a time when German agriculture was facing upto the lowest prices witnessed for half a century,

particularly in the face of substantial mortgage indebtedness, the government was actually reducing tariffs when we would expect a so-called "pre-capitalist state" to be substantially increasing protectionist rates.

Seen from this perspective, Lambi's words seem most apposite; "Caprivi's commercial policy...sacrificed the interests of agriculture to the conclusion of commercial treaties advantageous to industry" (1963: 231). Equally as apt are Tipton's words, "By 1894...declining world grain prices and increasing indebtedness made the reduction of duties on Russian grain seem the culmination of an unspeakable betrayal" (1974: 965). What had caused this unprecedented attack upon the Junkers?

Politically, Caprivi had sought a very different strategy to the problem of the Reichstag and its increasingly parliamentaristic tendency to limit the power of the executive. Unlike Bismarck, Caprivi sought to reduce working class militancy through appeasement rather than repression; "The government can subjugate and suppress, but that is not the end of the matter; the injuries with which we are confronted can only be healed from within" (Caprivi, quoted in Pflanze 1990b: 390-391). Caprivi's more "reformist" approach was witnessed in a variety of fields, not least in the sphere of taxation. In this respect he sought to produce a somewhat less regressive tax base than the one created by his predecessor. To this end he presided over several tax and tariff bills.

In November 1890, Caprivi presented to the Prussian Chamber of Deputies, three tax bills. These sought to convert the Class and Classified Income Taxes into a single progressive Income Tax; to reform the Inheritance Tax by eliminating the duties on small estates under 1000 marks, abolishing tax exemptions on larger estates and inaugurating a new tax on invested capital; to transfer the Land and Building Taxes from the Prussian state to Communal Governments (Pflanze 1990b: 390). In 1891, the Class tax was indeed abolished and the Income tax was made somewhat more progressive. According to E. R. A. Seliman (1908: 46-47), incomes below 900 marks (approximately £44), were henceforth exempt, whilst incomes from 900-1050 marks

(approximately £44-£51), would pay 6 marks rising to 4% on incomes over 100,000 marks (approximately £4,460). Through the Law of 14 July 1893, local payments of the income tax decreased from 143 to 105 million marks between 1894 and 1895, whilst direct taxes at the Prussian state level were reduced from 202m marks in 1894 to 161m in 1895 (Prochnow 1977: 6). In the same period, land and building taxes increased from 28 to 82 million marks, thus increasing local revenues from direct taxes (Newcomer 1937: 35). This fiscal manoeuvre was a necessary remedy to the problem of the Lex Huene. Thus not only was there little fiscal relief engendered as a result of the Prussian income tax, but the land and building taxes remained in existence, having been merely transferred from staat to local level. Nevertheless, many Junkers and large landowners obtained a hidden benefit from this fiscal manoeuvre. Since many did not belong to a village, they were able to avoid much direct taxation. Indeed as many as 17,000 large landowners and Junkers directly benefited (Witt 1970).

As part and parcel of his progressive tax package, Caprivi also sought to lower the extremely high (regressive) indirect taxes, most notably the tariff on grain. This was given a strong impetus by the 1891 harvest failure which had sent the price of corn to an alarming height. "Hunger stalked the streets gaunt and menacing" (Dawson 1904: 93). In Berlin for example, 1kg of rye bread had cost 21.2 pfennigs in 1888. By 1890 this had risen to 27.2 pf and to 31.6pf in 1891, with a high of 40.7pf in September (Nichols 1958: 141). As Nichols points out, these prices provoked agitation amongst the free trade radicals and especially amongst the working class social democrats. In direct response, Caprivi lowered the tariff on wheat, rye and oats, thus engendering some relief for the consumer at the landowners' expense. The Prussian farmer had been doubly hit through Caprivi's tax package, via reduced grain tariffs and by having to pay slightly higher rates of progressive taxation.

A second causal factor lay with the international system of protection. At this time Germany was rapidly industrialising, and her need to secure access to foreign markets for her manufacturing goods began to press. Looking predominantly within the First World, German

industrial exports had been hampered by the excessively high grain tariffs, (which had stimulated foreign retaliation against German imports). Caprivi therefore saw, that some tariff concessions, mainly on agricultural goods would have to be made to foreign countries in order to persuade them to lower their tariff barriers. Caprivi told the Reichstag: "We must export. Either we export goods or we export men. The home market is no longer adequate" (quoted in Henderson 1975: 221).

However, the lowering of the grain tariffs however did not hinder the fiscal needs of the Reich. Thus whilst the rates were reduced, grain imports significantly increased, thus enhancing revenues (Chart 2.10). This had been anticipated by the Prussian Finance Minister, Miquel (Tirrell 1951: 220). As the figures below show (Table 2.9), customs revenue very nearly doubled between 1887 and 1902, and increased by over 40% between 1892 and 1902.

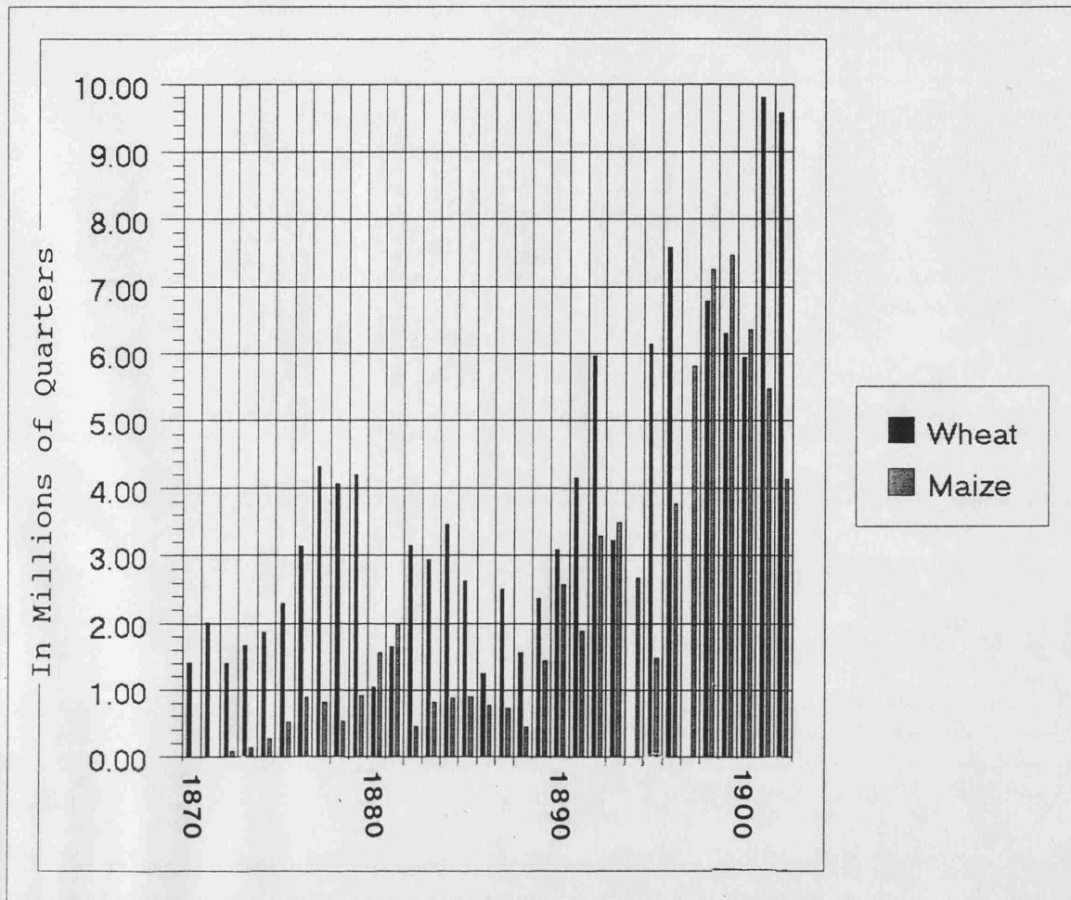
Table 2.9 Tariff Revenue Yield 1887-1902

Year	Total Tariff Yield	Grain Tariff Yield
1887	257.8	-
1888	285.1	-
1889	349.9	114.1
1890	368.9	139.4
1891	378.5	135.9
1892	360.0	133.5
1893	341.1	95.4
1894	349.7	128.9
1895	382.2	138.6
1896	433.7	175.1
1897	441.0	170.5
1898	475.8	194.5
1899	461.8	173.3
1900	465.8	171.9
1901	479.0	200.2
1902	497.6	200.1

Source: P. C. Witt 1970: 56. Table 5,

(1) These figures are the net yield (after administration costs have been deducted). The gross figures are higher by approximately 40-50m marks per annum.

Table 2.10 Graphic Representation of Grain Imports 1870-1902



(Source: see Appendix 3)

Thus although the fiscal position of the Reich was enhanced by Caprivi's tariff programme, the lowering of the grain tariffs clearly flew in the face of the Junkers. This provoked the formation of the agrarian Bund der Landwirte, which was established solely with the intention to pressurise the government for concessions. To this end, the agrarians advanced the Kanitz Motion, which proposed to increase tariffs on grain by approximately 60%, attaching immediately a surcharge of 7% to the nation's foodbill (see Dawson 1904: 136-137). Essentially the motion was an attempt to guarantee a minimum price for grain; 215 marks for wheat and 165 marks for rye (Tirrell 1959: 302). It is interesting to note that these projected prices were not much higher than the averages of the 1870-1880 decade, representing a mere 5% increase on the 1879 price for wheat, though a 19% increase on the 1879 rye price. Despite having the full support of the Farmers' League, the motion was not turned into legislation.

The Caprivi Treaties affected the agrarians not only economically but also politically. According to Ploetz (Farmers' League), the German farmer no longer viewed the Radical but rather the Kaiser, as his enemy. In particular the Junkers blamed the emperor, whose absolute power had been used against them. Thus according to Ploetz, the Junkers favoured constitutional monarchy, but considered the growth of absolutism to be a serious danger to the state. "An absolute Empire we do not have and we do not want" (Ploetz, in Korrespondenz des Bundes der Landwirte, quoted in Tirrell 1951: 313). At the political level the Conservatives seemed to invoke a spirit of independence from the government which had hitherto been unthinkable (Dawson 1904: 138-139). Furthermore the treaties had been passed in the face of vehement agitation on the part of the agrarians. Even when the treaties had been ratified the agrarians intensified their agitation; "We must tear up the treaties with Austria and Italy" announced the Kreuzzeitung. Later on, when the Russian treaty came into operation, the Kreuzzeitung stated, "the German farmer will now be inclined to regard the Emperor as his political enemy" (quoted in Dawson 1904: 131). In this formulation the link between authoritarianism and Junkertum was far looser than that suggested by economic theory.

At this point it is worth pointing out various benefits that the state granted the agrarians. Firstly in 1894, a new import certificate scheme was adopted, which henceforth enabled the agrarians to mix foreign with domestic wheat for export whilst gaining a refund - something which the farmers had fought over a period of 15 years. Secondly and most importantly, the most substantial benefit that accrued to the large landowners as a result of government policy were the subsidies paid from the alcohol tax. As a result of the sugar excise, 3,900 large landholders received large subsidies from the state (see Witt 1970: table 2, pp.47, table 3, pp.48). Nevertheless, most landowners - small and large - felt aggrieved at the Caprivi treaties.

Thus throughout the 1890's agrarian opposition against both the government and the emperor continued. Thus for example, in 1899 the Bund der Landwirte pressurised Conservative members in the Prussian Landtag to vote against the construction of a canal connecting east with west Germany, since the East Elbian landowners recognised the subsidising effect that this waterway would have for western landowners (owing to its cheapening of transport costs of grain to eastern markets). However this violated the Imperial sovereign who had explicitly commanded the canal's construction. As a result, Wilhelm expelled twenty of them from government administrative posts as punishment. Whilst it would be wrong to conclude from this treatment of agriculture that the state could dispense with the agrarians simply as it pleased, it would be equally as incorrect to argue that the state acted simply as the political embodiment of the Junkers. Indeed it is the case that once again, the agricultural interests had been sacrificed not only at the altar of the Reich's fiscal requirements, but simultaneously at the altar of the industrialists.



## Tariffs and Taxation in the era of Weltpolitik

By the very early years of the twentieth century the Reich was facing the onset of fiscal crisis, both at the Reich and state levels. Up to 1892 the surplus of federal states' receipts over their matricular contributions was large - the maximum being 140m marks (approximately £6.2m in 1889). The two years 1893 and 1894 saw the first years of deficits but a recovery was quickly made. However, by 1899 it was evident that the era in which the states received more from the Empire than they had contributed, had at last come to an end. This was in part due to the fact that Imperial expenditure on the army and navy was rapidly expanding particularly after 1896 with the turn to Weltpolitik, (world power), in turn placing an excessive fiscal burden upon the states.

In 1893 the increase of the peace strength of the army threw the Empire to an increased degree upon the federal states. This led to the two years 1893 and 1894 of fiscal deficits for the states. By 1899 they were now facing an institutionalised deficit which would last right up to 1914 [see table 2.5]. In other words, the states were paying back to the Reich everything they received from it plus an additional sum which would come from their levying of direct taxes and various state property levies ( for example railways). Nevertheless this compares not unfavourably to the situation they faced between 1872 and 1875. For the fact was that in relative terms they were paying very little of their 'own' revenue to the Reich. The additional sums required by the Reich did not constitute the sole source of the problem.

The problem that the states faced was that for many years between 1879-1899, they had endured financial prosperity (in contrast to 1875-1879) through their receipt of large sums from the Empire, secured through customs. Indeed in the twenty years following the tax legislation of 1879, the states received a net contribution from the Reich in fourteen years and made a net contribution to the Reich in only six years. The gain to the states was 448m marks, or approximately £20m (Gerloff 1913: 522). On the strength of this, they

launched into a programme of heavy expenditure. After 1899 however, not only had these surplus receipts declined, but the states had to simultaneously pay larger contributions. "Accordingly they have had to devise means for meeting both a positive loss of revenue and an actual increase in expenditure" (Ashley 1909: 11). The Reich was therefore indirectly stimulating expenditure on the states' part and at the same time rendering it more and more difficult for them to give help in time of difficulty. Furthermore, the Reich did this at the cost of rapidly increasing its own indebtedness - for it was forced to take out loans since the states would not pay the whole deficit (Ashley 1909: 18, 20; P. C. Witt 1970: 386).

The Reich policy of recourse to loans was also in part premised on the political motive of maintaining the financial independence of the Reich over the federal states. The states were extremely dissatisfied for they all found it difficult to impose fresh direct tax to meet the demands of the Empire, in addition to that necessary for their own purposes. So in 1903 the Imperial government commenced a reform of Article 70. From now on the whole net receipts from the customs would be retained by the Empire - hence formally doing away with the Frankenstein clause. This was however, nothing more than a mere book-keeping arrangement, since whilst on the one hand the Reich reduced the matricular contributions, on the other it reduced to a corresponding extent the amount which the states received. These "postponed" contributions (by three year periods) continued to increase. State deficits to be made up by postponed matricular contributions after 1900 (in £) were as follows; 1900 - 0.86m; 1901 - 0.76m; 1902 - 1.22m; 1903 - 1.22m; 1904 - 1,185m; 1905 - 1.21m; 1906 - 1.575m [all figures in marks] (Ashley 1909: 10) These three year delays on payment of the contributions led the government even further into debt.

The Empire only began to indulge in the luxury of being in debt in 1876. In 1877, loans stood at 16.3m marks [approximately £727,000]. By 1890 they were at 1118m marks [£50m], whilst in 1900 they stood at a colossal 2299m [£103m]. By 1910 the total debt would more than double to 4844m marks [£216] (P. C. Witt 1970: 386). With heavy expenditure on the military, and particularly through the new Naval

Programme after 1897, the need for fresh revenue became acute. In the five years upto 1896, average annual defence expenditures were 718m marks [£32m]. From 1897-1902 military expenditures increased to an annual average of 889m marks[£40m] (Andic and Veverka 1964: 262). What was therefore required, was a tax to be levied at central level which could help relieve the states, as well as the Reich. To this end the tariff had hitherto proved itself to be extremely efficient. With the agrarians also calling for further protection, the way was open for a renewed round of tariff increases.

The Caprivi trade treaties were due to finish in December 1903 and their prolongation was discussed in the Reichstag as early as 1897. The agrarians were adamant for a return to high protection. Caprivi had resisted the agrarians' demands in favour of the industrialists. When Hohenlohe succeeded Caprivi, the treaties of commerce were in full operation. Impotent to undo Caprivi's policy the agrarians were compelled to bide their time. On von Bulow becoming Chancellor in October 1900 the agitation of pressure re-doubled in intensity. Thus, desperate for more revenue, and under intense pressure from the landowners, von Bulow legislated new protectionist duties. Von Bulow calculated that these would add 17% to agricultural goods and 6% to industrial goods (Dawson 1904: 147). The Treasury expected to accrue over 100m marks[approximately £5m] as a result of the increased corn duties alone.

The 1906 grain tariff led to a price differential between Germany and England of approximately 32 cents per bushel in favour of the former (For a fuller analysis, see Broomhall 1904: 78-79). After 1906 German agriculture became once more a going concern. This was reflected both in the increase in land values (Jasny 1936: 82), as well as to the reduction in forced sales of land through mortgage indebtedness (see Hess 1990: 262-279). The pre-war tariff stood at approximately 32% for wheat and 37% for rye. The specific rate was increased from 3.5 marks per ton to 5.5 marks for wheat, and from 3.5 to 5.0 marks for rye (Jasny 1936: 133). This represented the conversion to relatively high protection in agriculture. (That is, it was high relative to the European averages in the era 1879-1913, but was only moderate when compared to the tariff levels in the post war period). Nevertheless,

the fact remains that German agriculture which had suffered terribly throughout the 1890's, saw little protectionist relief until 1906 - a full fourteen years after the Caprivi tariff!

SECTION 4. The Fiscal-Military, Political and Economic Origins of  
Tariff Protectionism 1879-1913: A Summary

The Fiscal Origins of the Tariff

Table 2.11 Reich ordinary income

Year	(1) Indirect	(2) Direct	(3) NET State Property	(4) NET Matricular Contributions	(5) Total
1872	168	-	8	-	179
1875	247	-	0	-	258
1880	290	-	0	26	324
1885	346	-	47	-	381
1890	626	-	64	-	702
1895	660	-	83	-	764
1900	808	-	108	19	969
1905	952	-	252	24	1296
1910	1212	43	495	48	1874
1911	1347	45	481	48	1988
1912	1344	41	488	52	2002
1913	1339	46	485	52	2015

Source P. C. Witt 1970: 56, Table 5, pp378-379, Table 13; Gerloff 1913: 522

(1) Indirect taxes: Excises include, Tobacco, sugar, salt, beer, spirits, vinegar, sparkling wine, lighting provision, gun tax. Tariffs include Grain, coffee, cocoa, wine, fruit and petrol

(2) Inheritance tax

(3) State Property revenues include Railways, banking, post and telegraph, bonds, stamps, playing cards, fees, administrative income, growth tax. Note that these figures are net. That is, state property expenditures have been deducted

(4) Matricular Contributions. These are net. That is, the years of surpluses in favour of the Reich have been included. However, the years of deficits have not been subtracted.

(5) The total figure includes gross state property revenues.

Table 2.12 Proportions of the major Reich income categories in percentages

Year	Indirect	Direct	State Property	Total
1872	94	-	4	179
1875	96	-	-	258
1880	90	-	-	324
1885	91	-	12	381
1890	89	-	9	702
1895	86	-	11	764
1900	83	-	11	969
1905	73	-	19	1296
1910	65	2	26	1874
1911	68	2	24	1988
1912	67	2	24	2002
1913	66	2	24	2015

Source: see Table 2.

(1) Note that these figures will not consistently add up to exactly 100% because the total comprises gross state property revenues, whilst the category of state property revenues (col. 3) are net.

**Table 2.12A**

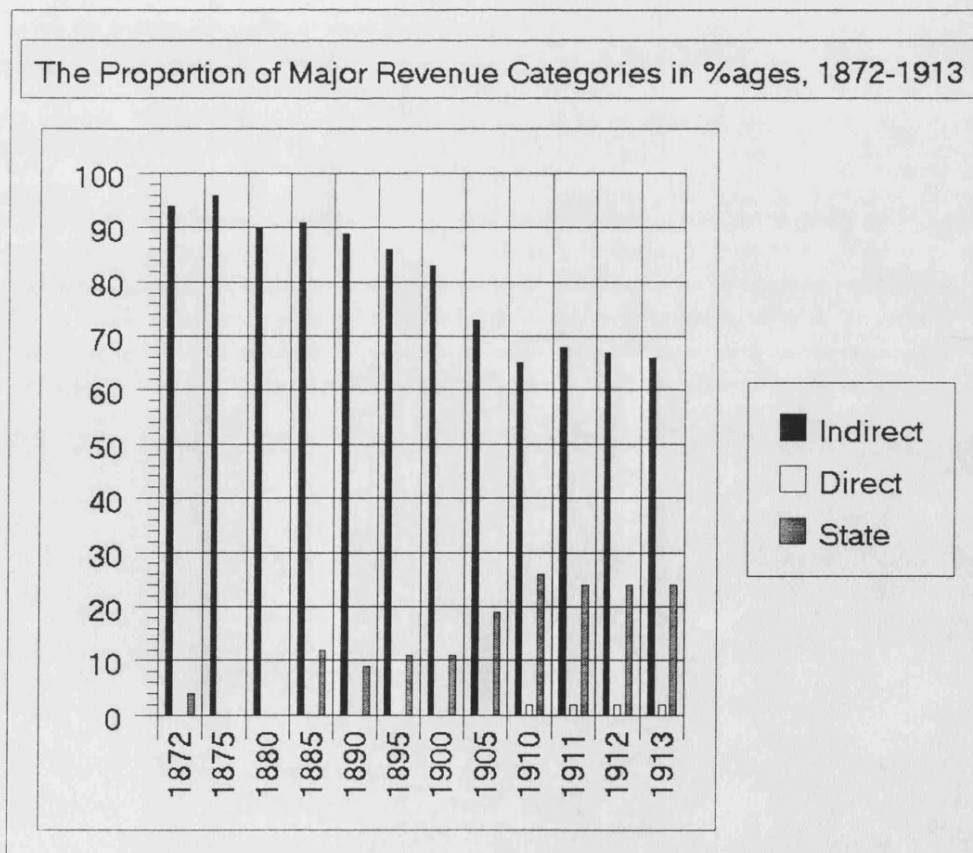


Table 2.13 Reich Tariff Income 1872-1913 in absolute terms (millions of marks), and relative to total indirect and total tax revenues in percent

Year	(1) Tariff	(2) Total Indirect	(3) (1) as % of (2)	(4) Total Revenue	(5) (1) as % of (4)
1872	97	168	58%	179	54%
1875	114	247	46%	258	44%
1880	170	290	59%	324	52%
1885	221	346	64%	381	58%
1890	369	626	59%	702	53%
1895	383	660	58%	764	50%
1900	466	808	58%	969	48%
1905	626	952	66%	1296	48%
1910	663	1212	55%	1874	35%
1913	679	1339	51%	2015	34%

Source; See Table 2.11 & 2.12

As tables 2.11 , 2.12 and especially 2.13 show, the tariff (and indirect taxes) provided the mainstay of central government finance from 1879 through to 1913, and indeed right up to 1918/19. To this end the tariff was remarkably successful. Broadly speaking there were three periods in the financial history of the Kaiserreich. In the period 1872-1878, the Empire's ordinary revenue was small and the French War indemnity enabled much to be done which otherwise would have necessitated loans, and/or new central taxes. Nevertheless the Empire was compelled, in order to meet ordinary expenditure to call upon the states for increased matricular contributions. After the indemnity payments ceased in 1875, and since for political reasons it was undesirable to charge the states heavily, the Reich took recourse to loans. In the seven years to 1879, the total deficit met out of loans or carried forward, amounted to rather more than 800 million marks (about £36m). With the tariff of 1879, and with subsequent increases at later dates, the immediate fiscal problems were solved.

Thus between 1879-1899, the demands on the states (Länder) disappeared as they more or less returned the money given to them by the Reich from increased customs takings. From 1883 onwards, except in three separate years, the states received more from the Empire than it received in contributions. In spite of this, the accumulated deficit and indebtedness continued to grow. This was due partly to the increasing military expenditures, and partly to the Reich's political desire of remaining fiscally independent from the states. Finally from 1900-1913 Imperial expenditure rose to enormous proportions, (more than doubling in nominal terms), the character of which is revealed in the charts 2.14 and 2.15 below. Clearly, income was falling more and more short. The surplus payments to the states were replaced by a renewed demand for contributions wholly derived from the states' own sources (mainly direct tax and railways). Thus in 1901, matricular contributions stood at a mere 15.2m marks. From 1902-1906 they stood at approximately 24m marks. In 1907 they were at 31.6m marks rising to 48.5m in 1909, reaching 51.9m marks in 1912/1913 (Witt 1970: 378-379, Table 13). The 1906 grain tariff had gone some way to alleviating the problem, but the military demands of the state led by 1913, to a severe fiscal strain. Whilst tariffs and excise provided the mainstay of war finance, the state preferred to resort to loans as opposed to increasing direct taxes. In sum, the tariff had a solid fiscal core

#### The Military Origins of the Tariff

The constant causal variable in the state's switch to protection, which commenced in 1879, was the Reich's fiscal needs. These fiscal needs were in turn derived from another major political source; namely military requisites. Below are presented two charts revealing this fact. Table 2.14 presents actual expenditures in millions of marks. Table 2.15 separates out these figures further into the major expenditure categories. These are expressed as percentages of total expenditures.

Table 2.14 Reich Expenditures, 1872-1913 in millions of marks)

Year	(1) ADMIN	(2) DEF (a) (295) (434)	(3) ECO SERV	(4) DEBT	(5) TOTAL
1872	51	295 [b]	2	-	349
1875	43	434 [b]	21	-	498
1880	57	426	24	8	515
1885	53	442	6	17	518
1890	84	778	12	45	919
1895	99	710	21	71	901
1900	109	882	34	78	1103
1905	149	1059	68	117	1393
1910	225	1399	75	182	1881
1913	241	1909	93	182	2425

Source; Andic and Veverka 1964: 262

(a) Since the major source of indebtedness was military expenditures, a more accurate figure would be derived from aggregating columns 2 and 4. This figure is presented in the brackets in column 2.

(b) Andic and Veverka included expenditure out of war reparations, which exaggerated the defence expenditure figure for 1872 and 1875. These have been omitted here. The Total figure has been amended accordingly.

(1) Administration and Law

(2) Military expenditure

(3) Trading services

(4) Debt repayment

(5) Total. This does not include social expenditure, since these were not paid for by the Reich.



Table 2.15 The Proportions of the Main Categories of Reich Expenditures, expressed in Per Centage of Total Expenditure

	(1)	(2)	(3)
Year	Civil	Economic Services	Defence
1872	15	1	85 (85)
1875	9	4	87 (87)
1880	11	5	83 (84)
1885	10	1	85 (89)
1890	9	1	85 (90)
1895	11	2	79 (87)
1900	10	3	80 (87)
1905	11	5	76 (84)
1910	12	4	74 (84)
1913	10	4	79 (86)

CIVIL = Col. 1 from Table 2.14 (col. 1)

ECONOMIC SERVICES = Col. 2 from Table 2.14 (col. 3)

DEFENCE = Col. 3 from Table 2.14 (col. 2). The bracketed figures are military expenditures + debt service.

Focussing on these charts, it is clear that the increase in expenditures of the 1870's was primarily generated by defence requisites. Indeed as the table above shows, the military comprised in many years, over 85% of total Reich expenditure. This military demand was met by the Reich's switch to tariffs as the main source of government revenue from 1879 onwards. Throughout the 1880's defence continued to comprise over 85% of total expenditures. In actual (nominal) terms, military expenditures had almost doubled between 1880 and 1890. It is interesting to note that military expenditures were to a large extent increased by the constantly rising costs of military hardware and equipment. As the table below shows, in the era of *weltpolitik*, the rise in costs of military shipping were striking.

Table 2.16 The rising Military costs of naval building (in Millions of marks)

Years	Regular Service Shipping	Large Cruiser	Small Cruiser	Torpedo Boat Division	U-Boat
1905	24.0	21.3	5.6	7.1	1.9
Est 1906	31.0	24.0	6.0	-	-
Est1906	36.5	27.5	6.5	-	-
1906	36.5	27.5	6.5	8.9	-
Est1907	38.5	29.5	7.1	-	-
Est1907	38.5	37.5	7.1	-	-
1907'	37.2	37.0	7.1	-	-
1908	43.0	41.0	8.4	10.8	2.6
Est1909	47.1	44.0	8.5	11.0	-
1909	47.1	44.0	8.5	11.0	2.6
Est1910	49.0	44.0	8.5	11.5	3.3
1913	49.0	44.0	8.5	11.5	3.8

Source P. C. Witt 1970: 143 (Table 8)

(Est = Estimates)

Thus it would be safe to conclude that tariffs were increased in 1879, 1885 and 1887 in order to meet the military requisites of the state. For most of the 1890's not only did military expenditures remain remarkably stable, but by 1895 they had actually been reduced by some 9%. This factor complemented the maintenance of the lower tariffs inaugurated in 1892-1894, (even though these actually led to increased revenues.

However, with the turn to Weltpolitik after 1897, military expenditures began to "take-off", in turn necessitating an increase in taxes at the Reich level. In addition to taking out new loans and increasing local payments to the Reich (matrikularbeiträge), the state also increased tariffs (mainly on grain) to foot the military bill. . The tariff therefore, had a solid military core.

## The Political-Fiscal Origins of Tariff Protectionism

The principal factor that pushed the state into tariff protectionism, was the desire to acquire executive fiscal (and hence political) independence from the federal states. Thus whilst the Reich had been dependent upon the federal states in the period upto 1879, thereafter, and particularly after 1882 through to 1899, the situation was reversed, with the states becoming wholly dependent upon the Reich. This can be approximately quantified, as shown in the graph below. This chart shows the net balance of the Prussian state vis-a-vis the balance of matricular contributions.

Table 2.17 Graphic representation of the Fiscal Balance of Payments (net matricular contributions) of the Prussian State vis-a-vis the Reich expressed in percentage of total Prussian Income

See Appendix 4

We can discern three clear periods; 1871-1880, 1881-1903, 1904-1913. In the first period, Prussia paid an annual average of approximately 14% of its total income to the Reich (in the form of matricular contributions). In the second period, Prussia received approximately 3% of her total income in the form of Reich tax redistribution, incurred from the 1879, 1885 and 1887 tariffs. Finally after 1903 (despite the 1906 tariff), Prussia paid an annual average of approximately 2% of her total income to the Reich.

The 1879 tariff (and the subsequent two tariff acts) turned an annual average Prussian fiscal balance of payments deficit (vis-a-vis the Reich) from 14%, into an annual average surplus of 3% in the period 1882-1903. However the actual subsidy received by Prussia from the Reich in this second period, can only be calculated by estimating the difference between the Prussian contribution deficit in the 1870's and the subsequent surpluses, 1881-1903. Thus the Prussian state received approximately 17% of total net income from the Reich. This

was in fact a considerable subsidy. After 1903, the Prussian state returned to a period of deficits vis-a-vis the Reich, though these would have been considerably larger, had there been no tariff levied by the Reich. Thus after 1879, the Reich enjoyed considerable political autonomy over the federal states as a result of its shift to tariff protectionism. Thus the tariff had a solid (executive) political-fiscal core

### The Economic Origins of Tariff Protectionism

The economic origins have a dual nature. Firstly, there is the factor of tax relief for various social groups and secondly, there is the aspect of protection for agricultural producers within the domestic market place. The potential for a Reich redistribution of income through taxes (the displacement factor - see chapter 6), was only limited in Wilhelmine Germany (in contrast to Britain) This was largely due to the federal nature of the German state. Thus tax sources were demarcated between political levels. That is, the Reich relied on indirect taxes, whilst the Staats and Gemeinde more or less monopolised direct taxes. Whilst the central British state was able to replace (regressive) indirect with (progressive) direct taxes, thus enabling tax relief to the lower income groups, such a system of income reallocation through taxation was not possible in Germany to anything like the same extent. Instead of shifting the tax base from progressive to regressive taxes (or vice-versa), the only means available of reallocating income was by abolishing or lowering the staats' matricular contributions and subsidising them with regressive indirect taxes. As shown above this is precisely what happened after 1879 as a direct consequence of the tariff. The question to be answered therefore, is to what extent did this political-fiscal manoeuvre reallocate incomes, and which groups benefited?

The conclusion found in the common literature is that the use of indirect taxes by the Reich benefited the Junkers at the expense of the peasants and particularly the working classes. To estimate the

factor of tax relief available at staat level as a result of the tariff, requires a brief analysis of direct taxes (to be done at the Prussian staat level). Between 1871 and 1880, direct taxes represented on average 50% of total net Prussian income (or 151m marks per annum). With a subsidy of approximately 17% of total net Prussian income, received from the Reich (or 55m marks per annum), Prussia could have reduced her direct tax bill in this period by as much as 36%. This was certainly a significant amount. This was not surprisingly, an influential factor in the calling of various groups for tariff protection in the late 1870's. Establishing the beneficiaries of such a reallocation of resources through taxation however, is problematic. Certainly, the highest income groups would be expected to gain from such a fiscal manoeuvre, as the consensus stipulates.

However, this expectation is grounded in the assumption that the largest income earners paid the most taxation. But there is much archiveal documentary evidence to show that the Junkers were able to conceal much, though not all, of their income for the purposes of taxation (Witt 1985: 137-154; 1987b: 144). Since only a small proportion of their income was subject to direct taxation, any relief granted by the lowering of this tax would have represented only a small saving as a proportion of their total (taxable plus non-taxable) income. Nevertheless, the Junkers would have certainly welcomed the tax relief that would have been enabled by the reallocation of indirect taxes from central to staat level. The major beneficiaries of this system of tax relief would have been the middle income earners, particularly of the agricultural variant (owing to the high proportion of the land taxes in the personal total direct tax package). As will be shown in chapter 6, Table 6.8 (col. 2) direct taxes weighed most heavily upon the middle-low/middle income groups; (the high burden upon the lowest class was determined by the impact of regressive indirect taxes, rather than direct taxes). And it was the middle and smaller sized farmers who favoured grain tariffs in order to provide them with tax relief. Thus the Bismarckian system of tax relief (through abolition of staat matricular contributions via the tariff/indirect tax injection) benefited the small and

particularly the middle sized farmers and, to a lesser extent, the Junkers.

The second economic causal variable, involves the trading advantages that the tariff would bring to domestic producers. In the first place it is probably the case that wheat tariffs would have actually hurt producers, particularly in 1879. By taxing particularly Russian (hard) grain, which formed an essential input cost for German farmers wishing to export their own produce, the final exportable product was less competitive than that prior to 1879. Thus the Reich effectively taxed the German wheat producers out of their hitherto lucrative export markets. Rye producers fared a little better. By 1879 rye prices per ton were 16% lower than the 1877 price. Thus the effective tariff rate of 7.5% was not enough to recoup the reduced price. In any case most farmers would not have been adversely affected by this price reduction since most rye was internally consumed (animal fodder); moreover the 1878 price reduction was reflective of a good harvest, thus helping farmers to maintain their incomes. Only after 1883 did conditions arise leading to the desire for protectionism amongst rye farmers. Added to this was the fact that many (though not all) farmers relied on cheap industrial goods in order to supply them with the necessary agricultural machinery. The substantially higher industrial tariff to a large extent would have offset the protectionist benefit accrued to rye producers between 1883 and 1885, since it would have considerably added to the cost of farm machinery, (an important reason for the free-trading preference of the farmers ever since the 1860's). Of the position of agriculture on the passing of the 1879 tariff, we may conclude that wheat producers were sacrificed on the Reich's fiscal altar, whilst many rye farmers were to a certain extent sacrificed on an industrial altar.

Not until 1887 did the German farmer receive adequate protection for his goods. Meanwhile the wheat producers were still being punished by the 1879 refund statute, which had seen their exports drop from a healthy 3.6m quarters in 1879, to a mere 0.004m in 1890. It was not until 1894 that this law was revoked; by which time nominal grain prices had sunk to their lowest level for over half a century, (and real prices considerably more so). Furthermore, it was at this point

that Caprivi lowered tariff rates, precisely when farmers were desperate for higher levels of protection. Farmers then had to wait as long as 14 years before the rates went back up.

However, there can be no doubting the fact that the economic variable played some part in the determination of tariff policy. Certainly the 1885 and 1887 acts were in part premised on the economic trading needs of agriculture. Benefits were also acquired from the 1902/1906 tariff. In addition there was the fiscal relief that the tariff would bring to all landowners' tax bills. As noted above, from 1887-1899, the Lander enjoyed high inflows of revenue from the Reich, which allowed them (albeit to a limited extent) to reduce their own taxes (mainly direct).

Nevertheless, as pointed out above, the factor of Junker tax relief in the determination of the tariff should not be overplayed (though it still predominated over the issue of Junker "trading" imperatives for protection in 1879). In this respect, the smaller sized estates stood to gain more from tariff tax relief. In addition, the fact is that in federal Germany, there existed only a very limited fiscal displacement factor. That is, there was only a limited potential for the central state to shift the tax burden between different income groups, by replacing one tax with another [in particular contrast to the British central state] (to be expanded upon in the final chapter).

In conclusion, the analysis presented here shows that the common emphasis on the trading requirements of the Junker class as forming the major determinant in the rise of German protectionism 1879-1913 has been subject to exaggeration. The Junker class was not some anthropomorphic (nor monolithic/unified) entity which simply dictated government policy, whether this be conceived on an instrumental or structural basis. Rather the state had its own autonomous political, military and fiscal interests in raising or even lowering tariffs. Sometimes these interests harmonised with those of the Junker class, whilst at other times the state's fiscal interests clashed with those of high agriculture. Overall we may conclude that the state's fiscal interest were more constant than that of the Junker economic

imperatives (fiscal or trading), and must therefore be given slightly more weighting in the determination of German tariff policy (1879-1913).



CHAPTER 3  
INDUSTRIALISATION AND TARIFF PROTECTIONISM IN AUTOCRATIC (UNITARY)  
RUSSIA 1860-1914.

SECTION 1  
Introduction

The central theme to this chapter is the relationship between economics and politics. Dominant theories envisage a causal relationship where the latter is derived by the former. In each case an economic functionalism can be detected. That is, the state intervenes on behalf of or at the behest of, either the economy or dominant economic groupings. The tables below conceptualise five different paths to economic development/industrialisation. Dominant theories are represented by the first path. (Note that the Marxist model presented in the chart 3.1 is irrelevant to Russian development 1860- 1914 and has only been included for easing comparison). The dominant model employed has been termed here "neo-Listian" (development path 1). Indeed it has come to play a dominant role in the general discussion of backward countries which have developed late (in comparison to the first developers - Switzerland, Belgium and especially Britain).

Following Friedrich List, such writers have observed a "late development" (or, "forced development") strategy embodying a rational long term plan for wide-ranging economic growth. In the case of Russia this theory's strongest advocates are Alexander Gerchenkron (1962,1963) and Theodore H von Laue (1960,1963,). This theory has been adopted by most authors on the subject (for example, D. Senghaas 1985, T. Skocpol 1979, P.M.Kennedy 1988). Whilst this theory has the advantage of recognising the state, it does so in an inadequate way.

Moreover, the theory overlaps considerably with the dominant reductionist Marxian model. The lowest common denominator is the advocacy of an intended strategy embodying a long-term economic rationality. All neo-Marxist models which centre upon the notion of the "relative autonomy" of the state are founded upon such a perfect economic rationality. Such theories view the state as an ideal intelligence far enough removed from the economic arena to be able to calculate and ensure the long-term reproduction of the dominant class. This provides the basis of the vast majority of neo-Marxist theories of the state (see chapter 1). This view of the state as embodying a long-term rationality is also typical of realist theories, (albeit of a political rather than economic nature).

All three major theories - "late development", "neo-Marxist" and "realist" envisage the state as a single homogeneous actor or rather as a "monolith". Late development theories in particular focus exclusively on the Finance Ministry as the embodiment of Tsarist state policy. However, it will be argued here that the state not only inaugurates a multitude of different strategies - economic, fiscal, political and military - but will be seen to act in the short as well as the long term. This is referred to in the charts below under the heading of "strategic status". Michael Mann has examined the state's role in German industrialisation and refers to development in terms of "strategy" and "drift". A "strategy" indicates "considered choice (by the state) of the means appropriate to the goal of economic profit". A "drift" indicates that "those choices were being subtly changed by power processes emanating outside economic rationality itself" [1989a: 2]. In the model presented here, development paths 2, 3, 4 and 5 represent such a "drift" in contrast to the neo-Listian "strategy" (path 1) of stimulating economic development.

The essence of the model presented here is that all four development paths are enacted in no set order. Often they occur simultaneously. Furthermore economic development does not occur in a linear fashion. Rather it chops and changes, progresses and retards, often simultaneously as different political, military and economic logics interact, to produce intended and unintended consequences for economic development.

Thus in strong contrast to Marxian, Late Development and Realist theories, the state will be seen to be highly fractionated with a multitude of competing factions clashing over a wide range of political, fiscal, military and economic policies. This "centralised bureaucratic struggle" - totally ignored by the major theories due to their "monolithic" conceptions of the state - will be seen to constitute an important motor of Tsarist economic development, 1860-1914. The argument will focus on what is termed the patrimonial-bureaucratic state and its inter-relationship with the economy. This patrimonial state was essentially what John A Hall has termed "capstone government" (see 1985: 51-53). Tsarism prevented the rise of powerful economic and political groupings within civil society, which it feared, may ultimately challenge its rule. The state therefore wished to mobilise only a limited form of social energy. In contrast to liberal Britain and America, Russian autocracy was of an isolated or abrasive nature. It stands above society, autonomous from dominant groupings, and consistently limits their formation and consolidation. This is in contrast to the connected or adhesive British state, which harnesses and mobilises dominant economic groupings within civil society, from which it derives political, social and military benefits.

Table 3.1 The Conceptualisation of the Tsarist State's Relationship  
with the Economy 1860-1914

Path of Development	Propensity for Eco. Dev	Strategic Status
<p>Marxian (Class path)</p> <p>The state intervenes in the economy in order to secure the rule of the dominant economic class</p>	<p>POSITIVE (ENABLING)</p>	<p>ECONOMIC STRATEGY</p>
<p><u>(1) Neo-Listian</u> (Late Development path)</p> <p>The state intervenes in order to develop the economy on a broad basis</p>	<p>Positive (ENABLING)</p>	<p>POLITICO- ECONOMIC STRATEGY</p>
<p><u>(2) Military Path</u> (Military Multiplier)</p> <p>The state in following its own military imperatives creates unintended consequences for positive economic development</p>	<p>POSITIVE (ENABLING)</p>	<p>POLITICO- MILITARY STRATEGY</p>
<p><u>(3) Fiscal Path</u> (Fiscal-Military Multiplier)</p> <p>The state in following its own fiscal imperatives - largely for military purposes - creates unintended consequences for positive economic development</p>	<p>POSITIVE (ENABLING)</p>	<p>POLITICAL STRATEGY</p>
<p><u>(4) Military Path</u> (Downward Military Multiplier)</p> <p>The state in following its own military imperatives unintentionally "blocks" economic development</p>	<p>Negative (BLOCKING)</p>	<p>POLITICO- MILI- TARY STRATEGY</p>
<p><u>(5) Patrimonial- Bureaucratic Path</u> (Downward Political Multiplier)</p> <p>The state in seeking supreme despotic power attempts to prevent the rise of autonomous economic &amp; political groups from emerging within civil society</p>	<p>NEGATIVE (BLOCKING)</p>	<p>POLITICAL STRATEGY</p>

Table 3.2 The Causal Relationship between Economics and Politics in the Determination of Tsarist Industrial and Tariff Policies

Development Path	Causal Rel between Economics & Politics	Strategic Status
(1) Neo-Listian [Late Dev]	Eco → Pol	Eco Strategy
(2) Military Path [Military Multiplier]	Pol → Eco	Eco. Drift
(3) Fiscal Path [Fiscal-Military Multiplier]	Pol → Eco	Eco. Drift
(4) Military Path [Downward Military Multiplier]	Pol → Eco	Eco. Drift
(5) Patrimonial Path [Downward Political Multiplier]	Pol → Eco	Eco. Drift

The notion of "autonomy" is a most ambiguous term. Autonomy is usually linked to "power", (if it is accepted to exist at all). However this term provides us with yet another paradox, or irony; namely that the isolated "autonomous" Tsarist state was founded upon a fundamental weakness. Because it was suspended in a void and had accumulated a certain amount of despotic power, it became alienated from civil society. This fundamental precariousness was heightened by the fact that in remaining autonomous and therefore failing to fully mobilise social and economic groupings, its military capacity was severely undermined. As we shall see later this weakness would be found out by its German rival in the international political/military arena after 1914 such, that by 1917 the autocratic state would cease to exist. In contrast, the British state was "connected" to civil society, and consciously "adhered" both to "dominant" and "lower" economic groupings. It may not have been "autonomous" in the despotic sense but it accrued vital political and military powers, which would especially allow it to weather the storm of 1914-18.

Although the Russian state has been defined as "capstone government", there was however a modicum of economic development and social energy stimulated by the state. A principal problem therefore, lies with explaining this seeming paradox of Russian economic

development. For as Alain Besancon brilliantly put it, "why was it radically impossible for capitalism to be born in Russia?" and yet, "why was it born all the same in spite of this impossibility - a birth that constitutes a sort of Russian 'miracle'..." (1988: 160). Thus the twin paradoxes of the Russian state and economy, namely those of state "autonomy" and its accompanying military and political weakness, and of "capstone government" enabling a modicum of economic development, form an essential problematic to be explained in this chapter.

We shall see that Russia only "partially" industrialised and that furthermore the state never intended to fully industrialise. A major theme to be examined is the contradiction between full-scale industrialisation/capitalism and autocracy. That is, patrimonial autocracy sought to prevent the economy from "taking-off" into a stage of high mass consumption (Development Path 5). Industrial development (that actually occurred) was in part the unintended consequences of the state following its own fiscal and military imperatives. It will be concluded that Russia was not in fact a "late developer" in the sense ascribed by modern social theory. This then is in strong contrast to Rostow, Gerschenkron, Von Laue and a growing consensus of opinion in the field of international relations, which assumes that the state either inaugurates a "full industrialisation" programme in order to "catch up" with the first comers or, the state inaugurates a "full industrialisation" in order to be able to compete in the international military system (for the latter argument see especially P.M. Kennedy 1988).

#### The "Witte System" as "Economic"

In his classic conception of Witte's policies 1892-1903, T. H. von Laue envisages a perfect long-term economic rationality. So much so that he has defined these policies as the "Witte System" (1963: 71). This "system" was based upon Friedrich List's national system of

political economy, which sought to found political power upon a broad industrialised base, the ultimate purpose of which was to catch up with the first developers particularly Britain. This has given rise to the theory of "late development", proposed originally by Gerschenkron (1962). In this conception the state's intentions were abundantly clear. It would intervene in the economy with a long-term programme of full industrialisation to such an extent that after 1907 Russia would take off into sustained autonomous development (represented by the neo-Listian Development Path 1).

The Witte System revolved around the immediate creation of a vast railway network. This would lead to a strong demand for iron and steel so the argument goes, and would lead on through the state's use of tariff policy, to the development of such industries. Simultaneously once in place the railways would extend forward, enabling the exploitation of the vast but idle resources of Russia which had lain dormant for so long (von Laue 1963: 76-79). In addition to tariffs the government would guarantee railway construction and also provide subsidies to heavy industry. Thus the first years of the Witte System were conceptualised by von Laue as "Railroad construction plus capitalism equals industrialisation" (1963: 99).

Furthermore, Witte sought to attract foreign capital into Russia so as to further her own industrial base. This had been prevented in the past by the weakness and volatility of the rouble. Accordingly Witte immediately set about the stabilisation of the currency and through a mixture of tariffs and heavy taxation managed to convert Russia onto the gold standard in 1897. Now, foreign capital could at last be attracted. Conversion to gold revised the formula of the Witte system to read: "Railroad construction plus capitalism plus the gold standard equals rapid industrialisation" (von Laue 1963: 113-114). This project would lead to an overall prosperity, for railway construction would provide the "fly-wheel" by promoting heavy industry which in turn would help the growth of light industry finally leading to the stimulation of rural production and prosperity (1963: 77). Gerschenkron develops this idea through his notion of the "Great Spurt". The great spurt in industrial growth that occurred in

the 1890's was, he argues, the result of an intended industrial strategy enacted by Sergei Witte (the finance minister). Gerschenkron claimed that this growth spurt laid the foundations for a second growth phase (1907-1914), which was based on an autonomous based consumer demand rather than the actions of the state (1962: 119-142; 1970: 122-124).

A parallel argument is that Witte favoured the stimulation of a broad based consumer led industrialisation, as this would inturn enable him to extract higher taxes. Indeed Witte legitimised his project in terms of an increase in tax revenues which would accrue to the state from a general increase in wealth. Such an argument has been made into a normative prescription by Ardant along the lines that "it behoves the state and is in fact vital to its existence to bring its powers to bear upon the economic structure and to shape it into a structure better able to support taxation" (1975: 196). However, whilst there was a rudimentary growth in peasant purchasing power after 1860, it was more the result of the unintended consequence of the state's (military) actions, as opposed to the effects of an intended economically rational wealth-making strategy.

In sum, the "Witte system" as envisaged by late development theory, embodies the central notion that the state consciously intervened in the economy in order to industrialise on a broad basis. Tariff protectionism was envisaged as a function of this specific economic requirement. We shall now examine this "system", but before doing so we shall need to locate Witte's policies in the immediate context of the late nineteenth century. Central to this was the second military revolution, and the process of military competition which affected most European states, and had a particularly significant effect upon the Russian polity..



## SECTION 2

### War, the fiscal Crisis of the State and the Downward Military Multiplier

Most authors note the severe blow that the defeat dealt the Russian state. With this we shall concur.

"Russia's position in Europe was changed. In 1815 Russia appeared the strongest single power on the Continent...after 1848 she seemed far to have outdistanced the other land powers: Russian primacy had turned into Russian domination. The Crimean War reduced Russia to one among several Great Powers" (Seton-Watson 1988: 331).

Even this appraisal underestimates the blow. Far from Russia as "primus inter pares" in the European state system, it was clear to everybody that the military power of Russia was now inferior to her competitors. Indeed, the autocracy that had been founded and had even predicated its very existence and being on its military and great power status in the European system, had come undone. The clue to the post-1861 period in terms of economic development lies not only in the loss of great power status (as most theories contend) but more importantly, in the actual nature of this defeat.

One of the major reasons for the Crimean defeat was the financial weakness of the Russian state. As so often had been the case in the past, the state had insufficient resources to pay for the war. Military expenditures which even in peace time could swallow up as much as 80% of revenue, rose from 190m roubles in 1853 to about 300m in 1854 and 380m in 1855 (Kennedy 1988: 176 - figures from "Correlates of War" print out data, I. U. C. P. S. R, University of Michigan. These figures however are presented in sterling, and have been converted into roubles using Bidwell's pre-war parity conversion figures. As a result the figures presented above are only approximate.). The state was forced to resort to foreign borrowing, mainly in Berlin and Amsterdam. However, even this measure was

insufficient to cover these vast military expenditures. As a result, the state turned to the printing press (Pintner 1959: 85; Pintner 1967: 184; Miller 1926: 117). This in turn created a downward spiral of economic decline (Dev. Path 4).

The monetary problems that the war had induced were not new - they had become a precedent especially since 1815. In the nineteenth century paper money was relatively new to Russia. It was first issued in 1769 by Catherine the Great but was not used much until the reigns of Paul and Alexander I, at the turn of the century. Crisp explains the monetary problem in a nutshell: "ever since Russia had attained the status of a great power in the eighteenth century the military requirements for the maintenance of that position imposed on the Russian Treasury a task of magnitude disproportionate to the largely natural economy of the country and the poverty of its people" (1953: 156).

With the onset of budget deficits despite increases in taxation, recourse to the printing press and foreign loans became a common course of financial policy (foreign borrowing was not always possible nor sufficient, and thus increasing recourse to the printing press occurred). Since the first issue of the rouble- assignat in 1768, in connection with the first Turkish War, the volume of assignats had swollen. After the wars with Sweden, Poland, and Persia under Catherine II, the Italian campaign under Paul I and the Napoleonic Wars under Alexander I, the rouble had effectively been devalued by 80% (Crisp 1953: 156. Pintner 1959: 85-87. 1967: 188. Miller 1926: 112-117). The restoration of the paper rouble, or assigned, to its face value was one of Speranski's major goals in his financial plan of 1810. Though he managed to promote the value of the rouble in 1811, it came to no avail, for in 1812, Napoleon's invasion forced the government to stop the programme and issue additional paper roubles (Pintner 1967: 188) As Russia became involved in the European wars that followed the French Revolution, more and more paper money was issued to meet the military expenses and its face value declined further. Count Kankrin (the finance minister to Alexander I) managed to peg the rouble to silver, thus according a momentary semblance of

monetary stability. However, this was soon disrupted by war, this time the Crimean.

Like many of its predecessors the Crimean War created a downward spiral of economic decline. In 1854 Russia was forced to abolish the prevailing silver standard, adopted a decade earlier, in order to print more paper money (Pintner 1967: 184). Immediately the paper rouble was worth between 91 and 93 kopecks by the late 1850's. In addition to this devaluation the rouble had become de-stabilised and the climate to attract foreign loans was adversely affected - this happening at a time when such loans were needed more than ever (i. e. during the war). This meant that the state had to resort on a renewed scale to the printing press, which in turn led to the further decrease in the value of the rouble, in turn rendering it more difficult to secure the desperately needed foreign loans. The result, therefore, was the dominance of the "downward military multiplier" creating a vicious circle of economic decline. For it meant an increasing insolvency of the state, recurring bouts of inflation, but most importantly of all, a severe lack of surplus to invest in the economy and a highly volatile and weak currency which prevented the influx of foreign capital needed to shore up the impoverished economy. Indeed it significantly contributed to Russia's intractable backwardness. This downward military multiplier is represented by Development Path 4 where the state, in following its own military imperatives creates an unintended block to economic development.

"The earlier brave attempts of the Finance Ministry to create a silver-based rouble to ban all promissory notes - which had been the ruination of 'sound finance' during the Napoleonic Wars and campaigns against Persia, Turkey and the Polish rebels - were now completely wrecked by the Crimean War. If Russia persisted in its fruitless struggle the Crown Council was warned on January 15, 1856, the state would go bankrupt" (Kennedy 1988: 176. See also Seton-Watson 1988: 248. Pintner 1959: 85-87).

Between 1851-1853 there were approximately 311m rouble notes in circulation. This had increased to 599 in 1856, and stood at 713m in 1857 (Pintner 1959: 85). Thus in the space of just four years, the volume of notes in circulation had risen by as much as 130%. The message was clear: "the extension of Tsarist international commitments thus seemed to emphasise the vulnerable and unstable

financial health of the country" (Gatrell 1986: 215. See also Crisp 1953: 156-157, 1976: 155; Kipp 1975: 442-444). Faced with a potential bankruptcy, the "fiscal crisis" of the Russian state - brought on by its own military over-extension, gave Alexander no choice, but to call off the war.

The loans and paper currency that the state resorted to during the Crimean war, though granting short term benefits to the government had, as a consequence, adversely affected the economy.

"The mounting deposits in the state banks were the very proof of this: capital instead of seeking private investments had, thanks to the government's guarantee of these deposits with specie, accumulated in these institutions where it covered the state deficit. While the government now recognised the advantages of private enterprise, it continued a banking system which deliberately stifled the very initiative that in the long run might have increased productivity as well as state revenues." (Kipp 1975: 444).

Indeed, like many of his successors, Reutern complained that,

"the dimensions of state loans which are repeated every year on such a large scale divert all the free capital away from private enterprise and industry, and give rise to entrepreneurial complaints about shortage of credit" (quoted in Gatrell 1986: 209).

In addition to loans funding the military budget (and thus diverting resources away from capital), the problem was exacerbated by the allocation of the ordinary budget which also went largely to the military. During the 1850's, about 40% of central government expenditure went on defence whilst the other main outlays were debt charges (incurred through loans for war) and politico-administrative costs. Ordinary revenue alone was not enough to cover these expenditures. In short, there was not enough for the military let alone for economic development.

Thus the state was faced with a dual problem. Firstly, the devaluation of the ruble through wars jeopardised the potential of the state to maintain itself in future conflicts. Secondly, warfare had negative linkages with the economy, by undermining the currency and reducing the pool (potential and actual) of credit available for economic development. The problems of monetary devaluation and the

lack of an available surplus to fund possible investments - two important legacies of the war - provided the policy agendas for post 1860 finance ministers. Thus Reutern called for a reduction in military expenditures, so as to release funds for private investment. Indeed from 1874 onwards, he theoretically managed to cap the growth of the army budget, through the imposition of absolute, maximum appropriations.. He also managed to arrest the violent fluctuations of the currency initiated by the Crimean War. budget. However just as the economy was beginning to pick up, the Turkish War of 1877 broke out.

"In 1876 the choice between Alexander II and his ministers was to either let Slav peasants in the Balkans be butchered by the infidel Turk and preserve the modicum of economic stability which Reutern had accomplished or, to go to war...and accept the financial chaos. Inevitably, power politics took precedence over financial (economic) soundness; the government moved towards war" (von Laue 1963: 17, my addition).

The Turkish War, furthermore, in addition to ruining Reutern's hitherto monetary policies caused a breakdown in the application of maximum appropriations imposed on the army budgets by the finance ministry, and in December 1878 the War Ministry secured the right to appeal for additional credits (above any such imposed maximum). Reutern had violently opposed hostilities with Turkey. As he had correctly foreseen the war which had begun in April in 1877 had severely damaged both Russia's financial and monetary position. The value of the credit rouble in relation to gold declined by 7.8% from September to November 1876 alone. The ruble fell to about 92 kopecks following the Crimean war; to about 80-85 kopecks in the following decade; and to a mere 67 gold kopecks after the Turkish war (Gatrell 1986: 215). Expenditure both on war preparation and war itself from 1876-1877 totalled a massive 888m roubles (Fuller 1985: 60).

The resulting military-induced inflation and indebtedness undid all Reutern's monetary achievements which had formed the basis of his long-term development project. The circulation of notes had increased by over 400m and about 1.5 billion roubles were borrowed during the war (Crisp 1953: 156. Von Laue 1963: 80). Both Kankrin and Reutern's work at the finance ministry had been undone by the war ministry in alliance with the militaristic autocracy. That is Development Path 4

(military block) had taken precedence over Development Path 1 (long-term "enabling" economic rationality - "neo-Listian"). In 1877 Reutern decreed that all payments of customs duties be collected in gold. This would have several benefits. Firstly, it would increase the revenue collected at the ports of entry (to be discussed in section 4). Secondly, it allowed the treasury to increase its gold reserve, which would be enhanced further by the construction of a positive balance of payments. This was the lynchpin of successive Finance Ministers' policy of tariff protectionism. The 1877 tariff enacted in effect between a 30-50% increase in rates.

Reutern was followed by another liberal, N. Kh. Bunge. Like most finance ministers before and indeed after him, Bunge sought to impose a long-term development programme, initially based upon the stabilisation of the rouble which had been undermined by the Turkish War. Having failed to withdraw paper currency from circulation he sought to permit transactions in gold. Like his predecessor and indeed successor, this was vetoed by the state council. The rouble could only therefore be stabilised by the attainment of the gold standard to which Bunge set his sights. In order to build up the gold reserve he required a favourable balance of payments. This was in part why he turned to increasing the tariff.

His monetary policy, as Reutern had found, ultimately rested on a general curtailment of expenditures. Certainly it could not withstand any escalation of expenditures which would occur should Russia go to war. Like his predecessor he too argued that the cause of the country's budgetary difficulties lay in the cost of the war and naval ministries, (over 32% of annual expenditure on the ordinary account alone and the service of the public debt which had increased by 50% since the Turkish War in 1877). According to Migulin, the public debt had risen to over 6,000 million rubles between 1877 and 1881 (quoted in Gatrell 1986: 223). The debt was also increased, though not to a significant extent by Reutern, in an attempt to maintain the bullion reserve. Thus he borrowed bullion from foreign markets to augment the gold reserve (Von Laue 1963: 16). It was a painful way to progress; for every three steps forward, he took in effect two steps back. In a memorandum of March 1884, Bunge addressed to Alexander II this very

problem stating that he had resisted the supplemental appropriations that the War, Naval and Transport Ministries had asked for, justifying it by citing the need for bringing public expenditure and income into balance. He argued that the monarchy would be served best by making the peasants better producers of crops and wealth as well as better consumers (see Rogger 1983: 101). His central economic weapon was the tariff, which would help both create a positive balance of payments and would supply the additional funds urgently required to overcome the deficit on the government's current account.

Bunge's attempts were to be unsuccessful, with his last year ending in little short of disaster. The government's financial condition, already strained by annual deficits was further weakened by tension over Afghanistan, thereby endangering Russian bonds in the London stockmarket, and then exacerbated by the formidable Bulgarian Crisis. In addition, the danger of war with Austria-Hungary called for an increase in Russian armaments which Bunge's budgets simply could not sustain. With the subsequent military campaigns in central Asia (1882-1884) and the Bulgarian crisis of 1886, the paper rouble sank to an all-time low. "...his broader policies of economic development could not be satisfied in the face of rampant military costs and inadequate revenues" (Trebilcock 1981: 226). In short, Bunge's hands were tied by the autocracy's geo-political ambition to maintain both an army and to compete in the international military arena in the manner worthy of a great power. As von Laue noted, the tragedy of Russian welfare was that the military ambitions of the autocracy vitiated all efforts to build up the country's economic strength for the future. "No straining at the bootstraps could raise Russia above her backwardness, particularly if her government became involved in costly military expenditures" (von Laue 1963: 23). Once again therefore Development Path 4 was adopted by the autocracy, flying in the face of the finance ministry. Such economic development that had occurred was undone by the autocracy's resort to its favoured preference of short-run military preoccupation which in turn led to an intractable backwardness.

Bunge's successor Vyshnegradsky also aimed to set Russia on the gold standard. Having had his request to admit transactions in metallic

currency vetoed by the state council, he also chose to create a favourable balance of payments. To this end all was directed. An important part of his policy was the tariff which would allow him to increase exports and decrease imports thereby attracting gold into the country (P. Lyaschenko 1970: 561). In this vein he instigated the Mendelejev Tariff of 1891 which secured a general level of protection of 32% ad valorem. In addition Vyshnegradsky set about the collection of tax arrears from peasants, which had the effect of forcing them to market their grain (Crisp 1953: 160). The tariff was successful in achieving surpluses on the balance of trade, which averaged 311.2 million gold rubles annually between 1887-1891, compared to a mere 68m, 1882-1886 (Crisp 1953: 161). Vyshnegradsky managed to considerably increase revenues mainly from indirect taxation, state owned railways, Crown lands and forests (Crisp 1953: 161; Trebilcock 1981: 228; Lyaschenko 1970: 561; see chart 3.8 below), which also improved his ability to purchase gold bills from abroad.

In addition he managed to reduce external expenditure on foreign debt by replacing the 5% Mendelsohn bonds of 1897 by a 4% loans of 500m francs issued on the Paris stock market at the end of 1888. This marked the beginning of a vast conversion operation onto the French market which opened up a new era in the history of both the Russian state and her foreign credit, (though the debt in sum was a little higher, annual repayments represented a saving of some 12.5m gold roubles). It should be noted however that events had somewhat played into Vyshnegradsky's hands. For when the German credit market was closed to Russia in the late 1880's, France who was at the time looking for a new military ally, found this in Russia. She thereby extended the golden handshake and France became Russia's main lender on the basis of this military alliance (see Feis 1930: 212-229).

However, he did little for the economy in other spheres. Hardly any state funds were ploughed back into the national economy for a future increased yield. In general, "it was a policy concerned with budgetary indicators rather than productive power, maximising the extraction of current resources rather than the creation of new ones" (Trebilcock 1981: 228. See also, von Laue 1963: 25).



## Summary of Economic Development 1861-1892; A Case of Centralised Bureaucratic Struggle

The main successive finance ministries of Reutern (1862 -1878), Bunge (1881-1886), Vyshnegradsky (1887-1892) all aimed at developing the economy and to establish Russia's foreign credit position (particularly for geopolitical reasons), mainly by attempting to achieve monetary stability. One of the most fundamental paradoxes of Russian policy was that this project was defeated time and again by the military requisites of the autocracy. Echoing previous complaints finance minister Abaza cautioned Alexander II in 1881,

"The natural increase of state revenues has certain limits. In the course of the last twenty years total revenue has more than doubled yet it has invariably been swallowed up by expenses. Even though our foreign policy has resumed its peaceable direction, about a third of the budget is still put at the disposal of the Minister of War. In these conditions the Minister of Finance believes himself to express his conviction that it is urgent to take measures to reduce the sacrifices of the country for her armed forces" (quoted in Fuller 1985: 61).

This belief was shared widely within the Financial Chancellery as witnessed by the official historian of the Finance Ministry in the reigns of Nicholas II and Alexander III.

"A special danger to the successful application of measures to reduce deficits threatened from size of expenses generated by the demands of state defence. Expenses of this kind attained huge sums that even a comparatively insignificant increase in them occasioned by an increase in a number of troops, the perfection of armaments or higher food prices (the army was the single largest purchaser of grain in Russia), might immediately render nugatory all efforts directed to the attainment of parity between revenues and expenses" (Obzor Ministerstva Finansov, quoted in Fuller 1985: 61, my addition).

Thus the Russian economy was constantly undermined by warfare and the downward military multiplier (Dev. Path 4). The nineteenth century presents a picture of constant fiscal crises of the state, brought on by geo-political over-extension. These constant fiscal crises wreaked havoc with the economy leading to an institutionalised backwardness. In addition, the skimming off of fiscal surpluses and the undermining of the currency prevented the formation of a stable

government credit (so vital for the development of military capacity as well as industrialisation). This makes clear not only that the military (Dev.Path 4) was continually preferred to the neo-Listian path but is reflective of an important rift/struggle between the Finance Ministry on the one hand and the Autocracy and War Ministry on the other. This was one part of a multitude of political conflicts between different ministries. These conflicts were vital to the generation of economic development throughout the period and will be examined later.

### Geopolitics, Industrialisation and the Acquisition of the Gold Standard

As with his predecessors at the Finance Ministry, most of Witte's industrialisation programme was subject to fiscal-military constraints and imperatives. The move to convert the currency onto gold was no different. Von Laue has argued that Witte adopted the gold standard to stabilise the currency in order to attract foreign capital. However, this was only a part of Witte's intention. As we have seen, the principal problem for Finance Ministries throughout the nineteenth century was the acquisition of foreign loans. They were essential in times of war as 1855, 1877 and 1888 had all testified. Indeed loans for military expenditure had been sought ever since the eighteenth century and had become a time honoured constancy in Russia's fiscal policy. Witte was only too aware of the destructive effects that war had placed upon the economy, having witnessed the demise of Reutern and Bunge before him. In his memoirs, Witte wrote,

"As we had lived under the regime of paper currency since the Crimean War the very notion of metallic currency had become obscured in the press and in the minds of educated people generally. We had grown accustomed to paper currency as one gets used to chronic disease in spite of the fact that gradually it ruins the economy" (1921: 59).

Witte showed a fundamental understanding of the historical role that war had played upon the economy.

"The economic wealth and consequently the political strength of a country depends upon three factors, natural resources, capital and labour, physical and intellectual. In capital...she is poor for the reason that the history of the country is a continuous chain of wars" (1921: 72)

So clear were the deleterious effects of war upon the economy to Witte, that he was led to put aside approximately 400m roubles in case of just such a happening. As he himself stated, this was prompted

"...by the feeling that never left me after the ascension of Emperor Nicholas to the throne that sooner or later a bloody drama would be staged in this or that part of the country." (1921: 78).

If the state was to remain solvent and the economy in some sort of equilibrium, it was clearly essential to be able to secure loans particularly in times of war. To this end it was crucial to stabilise the rouble since its violent fluctuations naturally frightened off potential lenders.

There was also a further military factor involved leading to the need for foreign loans. Witte had carefully manipulated the budget so that he could ostensibly present a fiscal surplus. This was done by simply switching major expenditures from the ordinary to the extra-ordinary account. The latter constituted not only railway expenditure but huge military and debt repayments, accrued from both railway and military charges (See Trebilcock 1981: 238). The extra-ordinary account was funded mainly by foreign loans. Thus Witte, who more than any other finance minister had relied upon the extra-ordinary budget, was forced to increasingly resort to the foreign loan system. As Drage put it,

"the major advantage of the possession of a gold reserve is an element of power within a country. It is a guarantee of solvency in arranging for loans and affords the possibility of reverting to a paper currency during a time of financial pressure, for example in war" (quoted in Miller 1926: 107).

For the most part loans were sought after by Witte for both peace and war-time military expenditures. To be able to attract such foreign loans it was essential to have not only a stable currency but

in addition an adequate supply of gold. The gold standard therefore was the perfect solution. This military cause to the adoption of the gold standard by Witte complemented the additional need to attract foreign capital, as indeed von Laue argued. The fluctuations in the rouble prior to conversion in 1897, had indeed hindered commercial transactions with foreign companies.

On the attainment of the gold standard and with the arrest of monetary fluctuations 226 foreign companies immediately set up in Russia. However, it should be pointed out that this influx of capital was premised also upon a number of other factors. There was firstly the lure of hard profits on government contracts especially for railway equipment at inflated prices. Secondly, there was the lure of high tariffs mainly for heavy industries. Thirdly, the low level of world interest rates, (at least until 1900). Finally, the favourable publicity abroad intensified by the formation of the political alliance with France prior to any such conversion (Falkus 1972: 61, 72; Kahan 1967: 71-73; Crisp 1988: 13).

In sum, the gold standard was adopted for a variety of reasons; of commercial viability, the desire for foreign capital and perhaps most importantly of all, for the politico-military reason of securing loans for both peace and wartime military expenditures. That military requisites also played an important role in Witte's move to gold is reflected in his memoirs in which he stated that,

"the establishment of the gold standard definitely established Russia's credit and put her financially on an equal footing with the other European powers. Owing to it we weathered the Japanese war and the subsequent revolutionary movement. Without it, economic and financial collapse would have occurred at the beginning of the war and all the economic achievements of recent decades would have been annihilated" (1921: 59).

To this end tariff protectionist policies were aimed. From Bunge's term in office through to Witte, exports were increased and imports curtailed. Indeed tariff policy was successful in achieving a positive balance of trade. As the chart below shows, in the crucial years leading upto gold conversion (1897), Russia enjoyed a positive balance of trade.

Table 3.3 Russian Balance of Trade, 1885-1897

Year	Exports	Imports	Balance of Trade
1885	541	439	+102
1886	486	432	+ 54
1887	620	404	+216
1888	792	397	+395
1889	754	441	+313
1890	696	414	+282
1891	712	383	+329
1892	480	409	+ 71
1893	606	468	+138
1894	676	576	+100
1895	690	540	+150
1896	691	619	+ 72
1897	732	607	+152

Source P. R. Gregory 1982: 314;

Thus the first objective of tariff policy was to enhance the fiscal-military position of the state, as well as to provide the future groundwork for long-term economic growth. The causal chain of economics and politics is therefore extremely complex. The military requisites (Development paths 2 and 3) had positive benefits for economic development. In addition, the aim of long term economic growth (development path 1) was also strongly premised on developing the future military capacity of the state. This will now be explored further.

### SECTION 3

#### Protectionism and the Militarisation of Industry

The desire to stimulate industrialisation, which late development theory assumes to be determined by the intended, long term economic actions of the finance minister, Sergei Witte, was to a large extent premised on narrow state-military requisites. The shift to industrialisation policies occurred mainly after the Crimean war. For in 1815 Russia had emerged as the greayest land power on the continent. Her army was by far the largest, and her navy was third in the European "league table". Even as late as 1853 it was believed that the naval differential was not large, as the dramatic destruction of the Turkish at Sinope attested (McNeill 1982: 230). But then came the Crimea, which tested Russia's military capacity to the full. Once again, it was the specific nature of this defeat which stimulated state leaders to develop their military infrastructure in the post 1860 period.

The biggest problem Russia faced was a severe logistical weakness. In the event, this proved crucial, as the war was ultimately decided by the outcome of a siege on Sevastopol whose maintenance was premised upon Russia's supply capability. Since there were no railways south of Moscow, the horse-drawn supply wagons had to cross hundreds of miles of Steppes, which were a sea of mud during the spring thaw and the autumn rains (Kennedy 1988: 174). Though about 125,000 peasant carts were requisitioned, deliveries of supply proved hopelessly inadequate. The means of transport (the animals) needed to eat. However to sustain the animals meant that the payloads dropped to almost nothing (McNeill 1982: 230; Kennedy 1988: 174). An enormous logistical effort therefore produced disproportionately small results. It took a mere three weeks for supplies and reinforcements to be sent from France and England by sea to the Crimea whereas Russian troops from Moscow sometimes took three months to reach the

front. In addition, the stocks of guns, powder and shot were also reduced due to the poor supply capability (Kennedy 1988: 174; Seton-Watson 1988: 319; Blackwell 1968: 183; McNeill 1982: 230). At the beginning of the war, approximately 1 million guns had been stockpiled. But by 1855 a mere 90,000 remained. Of the 1,656 original field guns, only 235 remained (Baumgart 1981: 68-80)

In addition to chronic problems of supply, the Russian navy also proved hopelessly inadequate. Not only did the allies have many more steam driven ships with superior armaments technology, but they also had the industrial capacity to continue the building of new vessels as the war progressed (see Pushkarev 1963). Furthermore, the inadequacy of her navy was matched by the inferior arms technology of the land army. As McNeill put it,

"... the three initial battles of Alma, Balaclava and Inkerman which cooped the Russians up in Sevastopol were rehearsals for the Prussian victory over Austria at Konnigratz (1866) in the sense that superior rifled hand guns, newly issued to French and British infantry gave them a decisive edge over the Russians who still carried old-fashioned muskets. The difference boiled down to this: the new rifles had an effective range of about 1000 yards as against the 200 yards within which smooth-bore muskets could fire effectively" (1982: 231. See also Gerschenkron 1965: 708; Skocpol 1979: 84; Kennedy 1988: 173).

This meant that the allies could effectively avoid Russian fire whilst keeping the enemy within range. As a result the allies were able to inflict terrible damage.

### The State, War and Industrialisation

The defeat was thus caused by a multiplicity of factors; inadequate supply modes, poor armaments, a backward navy, and above all the state's hopelessly insufficient fiscal base. These military problems became central to Russia's developmental policies after 1861. Indeed a,

"...substantial connection grew up between the experience of defeat and the delineation of new objectives. For it was precisely the superior armaments and transportation of the western allies which

demonstrated to the Tsar that Russia's deficiencies in railways, steam-engines, iron foundries and machine shops could impose costs in a currency which the empire respected" (Miliutin 1959, quoted in Trebilcock 1981: 220).

Typical of most theories and central to Gerschenkron's is the way in which the period following the Crimean war is conceptualised in economically teleological terms. Viewing the 1890-1900 period as one embodying a "Great Spurt", and the subsequent "take-off" into autonomous industrial development, the previous period (1861-1890) is accordingly viewed as "necessary" for the setting up of the required preconditions for such a leap. In such a way Gerschenkron explains the growth of the railways "...Before industrialisation could really take off an improvement in communications was crucial", and furthermore, "railroads were indispensable to sustain a level of exports, consonant with the needs of an industrialising economy" (1962: 124). All this may have been true. But it cannot simply be used to explain the reasons for railway development in the first place.

As the Crimean war demonstrated (to be reinforced by the onset of the Second Military Revolution), the needs of railways for military strategic requirements had become imperative if the state was to remain competitive in the international military system (Kipp 1975: 446; Ellison 1965: 535; Miller 1926: 183).. Indeed during the great debate within the government over sponsorship of railway building, the supporters of state action were motivated by either military considerations or by fiscal concerns (state revenue implications). "While neither group ignored the long-term economic effects, neither considered them primary" (Rieber 1966: 38). Accordingly the government wasted no time in setting about this project. In 1855 there were only 850 miles of railways, but by 1875 there were some 17,000 miles which had been built since 1860 (see Gatrell 1986: 150-154; Miller 1926: 182-201; Seton-Watson 1988: 405-406). Crisp has correctly pointed out that modern scholarship has neglected the significant economic growth derived in particular from the rapid first spurt of the railway construction (1988: 13).

However it is true that successive Finance Ministers beginning with M. Kh. Reutern (1862-1878), determined to create an economic



regeneration (Dev. Path 2). This complemented the Tsar's desire for military railways. Thus whilst helping to provide a military infrastructure, they also aided the economy through the various forward and backward linkages. They extended backwards by creating a strong demand for iron and steel production and extended forwards by allowing the much needed transportation of goods (especially in the form of Siberian grain) both internally and externally. However, the economic benefits of this programme were only in part derived from the neo-Listian path implemented by the Finance Ministry. To a degree, economic benefits were derived from the unintended consequences of the state following its own military imperatives, mainly through the building of strategic railways, (which also had important backward and in some cases vital forward linkages; for example, the Trans-Siberian) .

This path has been referred to by Michael Mann as a form of "Military Keynesianism". This refers to a military development embodying growth-inducing qualities for the economy. More specifically the military multiplier may be defined as: the state, in following its own military imperatives provides unintended consequences for positive economic development (similarly, the "Downward Military Multiplier" refers to the situation whereby the state follows its own military imperatives and in doing so provides unintended consequences for negative economic development). The positive multiplier is represented by Development Path 2 and 3, and its negative version by Development Path 4.

### **The Second Military Revolution**

In addition to the effects of the Crimean defeat, the desire not only for railways, but also a military- industrial infrastructure were greatly reinforced by the impact of the Second Military Revolution.

The immediate origins of this phenomenon were found with the Prussian military revolution of the 1860's which soon produced what Disraeli termed "the German revolution in European affairs" (see Kennedy 1988: 184). Part of this revolution was founded upon the level of industrial attainment from which accrued certain military advantages. Her strong iron and steel industries enabled her to supply an increasingly important set of armaments industries, naval shipyards and in addition a vital network of strategic railways.

The problems of supplying and deploying large forces via the strategic railway network was now made part of an increasingly rational calculative method adopted by the General Staff. Indeed the whole system was increasingly made a matter of precise scientific calculation, administrative planning and professional expertise. This "administrative revolution" was accompanied by a technological revolution with the creation and adoption of new guns and artillery. The Prussian needle-gun proved far superior to the muzzle-loader, which allowed the soldiers to lie down whilst firing hence providing less of a target to the enemy (Howard 1976: 101; McNeill 1982: 236; Stone 1984: 72).

All this was put to the test in 1871 in the Franco-Prussian war. The result was defeat of the French much to the latter's humiliation. This humiliation would soon ferment into a national bitterness which would play a vital part in future Franco-Russian relations. The Prussian way of war turned into the "German" method and with it, a new age was born. The epicentre of Europe from 1871-1914 was now fixed firmly upon a geographical area that lay between the great powers of France and Russia. If European diplomacy centred upon this area known as Germany, so too did European military methods. It was in this dual sense that the phrase "all roads now led to Berlin" must be understood.

In addition to the effects that German unification, as well as the German way of war had upon the military policies of the Great Powers, there is also the impact of the rapid progress of military technologies to be taken into account. Upto the 1860's, military power received a revolutionary technological boost. Hitherto, technological advances

had progressed slowly. But by 1880, this was disrupted by the advancement of the Parsons turbine, which gave navies greater scope and range. Improvements in metal shell casing, as well as the invention of smokeless powder [cordite], as well as the development of the revolutionary method of steel-making through the Thomas-Bessemer converter [itself developed under the pressures of war - see Gautam Sen 1984] significantly shifted forward the military production possibility frontier of war-waging. These revolutionary military developments had two specific effects upon the various national-economic policies of the Great Powers. Firstly, they led to a rapid increase in the military budgets of the great powers (dealt with here, in section 4). Secondly, they had specific consequences for the industrial policies of these states.

Thus states sought to improve their industrial bases; for the 1871 Franco-Prussian war showed the necessity for a military-industrial infrastructure to provide superior arms, navies and strategic railroads, if these states were to remain in existence within the European system. This combined with the already acute problem of supply-logistics in Russia, to provide a vital impetus for a certain amount of railway and industrial development, in order to satisfy the military exigencies of the Russian autocracy. It is in this context that we need to relate Russia's industrial policy of the 1890's under Witte. Indeed the impact of this revolution was exacerbated in Russia, owing to the already-existing profound Crimean war legacy. Thus the need for a military infrastructure in Russia had by 1880 become overwhelming.

#### **The Witte System as politico-military and politico-economic**

Not surprisingly, the selection of Witte as finance minister in 1892 by Alexander III was premised on the desire for an increased strategic railway network. The immediate task at hand was the building of the Trans-Siberian Railway which would allow Alexander to fulfil his long held dream of geo-political conquest in the Far East.

Who better to appoint therefore than the brilliant transport minister, Sergei Witte?

Indeed Witte's record prior to 1892 was impressive, and was only surpassed by his activities during his time as finance minister. Whilst most of the early railway lines built after 1855 were done on a private basis, by the early 1880's this pattern began to change. The 44 private rail companies in existence in 1871 were reduced to a mere 6 by 1900. More specifically, in 1889 only 23.5% of the network was publicly owned. By 1900 this figure had increased to 60.5% (Miller 1926: 184; also Ellison 1965: 535). In addition, whereas between 1876-1880, 767 km. of track were laid per annum, and 914 km. per annum were laid between 1886-1890 (though certainly not insignificant) were dwarfed by the construction of 2820 km per annum between 1896-1900 (Gatrell 1986: 150). In aggregate terms, between 1890-1901 the track increased from 30,600 to 56,500 km (Gatrell 1986: 151; Crisp 1988: 13; Miller 1926: 188,208, Falkus 1972: 54).

As von Laue has made clear, Witte sought the construction of railways as part of a wide industrialisation programme. Witte was particularly adamant to build railways specifically of "economic value" (i.e. non-strategic). However, such a requirement ran counter to the desires of the War Ministry and ultimately the autocracy. There also came into play additional factions, who sought the construction of strategic railways, namely, the Russian General Staff in collusion with both the French Foreign Office and General Staff.

Due to the allocation of railway expenditure to the extra-ordinary budget, they were to be funded primarily therefore through foreign loans. Russia's main lender became France who had entered into the alliance through fear of the newly formed German nation state. This financial alliance was explicitly premised on France's desire for a military counterweight to Germany and to this end, Russia was the obvious candidate (Feis 1930: 140-141; Rostow 1978: 173). This complemented Russia's situation. For, since Bismarck had alienated Russia in the 1880's she was now forced to seek financial aid outside of Berlin, hitherto her chief source of funds. France immediately extended the golden handshake and an alliance was drawn up officially

in December 1893, on the basis that she would lend money to Russia in exchange for military and political support.

"The experience of the Franco-Prussian War had demonstrated that railways, in facilitating the rapid transportation and provisioning of large numbers of men had initiated a complete transformation in the conduct of war. The French General Staff having suffered once from railway-borne German attacks were especially keen to ensure a swift mobilisation of troops in case of war with Germany. This was foreshadowed in the 1891 Franco-Russian agreement according to which any move against Germany must be 'general and as swift as possible' and though the alliance was seen by politicians as essentially defensive in nature, French military circles envisaged any hostilities as leading to the total destruction of Germany" (D. N. Collins 1973: 778, quoting from French state archives).

This could only be accomplished if Russia and France had railway resources roughly equal to those of Germany. The French were only too aware of Russian deficiencies in mobilisation due to the lack of a sufficient network of strategic railways. As a result, the much needed French loans came at a price: that money lent to Russia for railways should be spent on strategic purposes. This of course conflicted with Witte's desires to implement a pure economic rationale through railway construction.

The French determined to overcome this obstacle presented by Witte, and in doing so sought the use of the Russian military lobby. The latter were in favour of a strategic network and more often than not held favour with the Tsar. As a result, the French managed through the help of the Russian General Staff and the War Ministry to secure the construction of several major military railways - for example, the Orenburg-Tashkent, the Trans-Caspian and the Bologoe-Siedlce, "which were understood to be without economic value for the moment" (D. N. Collins 1973: 781; Feis 1930: 217-219). Witte provided testimony to this in his memoirs.

"After the Turkish War of the 1870's, railroad construction was suspended, and it fell to my lot to resume the building of railroads. In this respect, I have succeeded in achieving a good deal for during my administration I doubled the railroad mileage. It is noteworthy that the Ministry of War was constantly thwarting my efforts. This ministry supported me only when I proposed to build railroads of strategic importance. Often strategic railroads were built counter to my recommendation. Besides the direction of non-strategic railroads was often distorted to suit the purposes of the War Ministry. In this respect, General Kuropatkin, and especially the former Chief of Staff

Obruchev, did a great deal of harm. The latter was a gifted and well-educated man, but strategic railroads were his monomania... Thus I strained every effort to develop a railroad network. Military considerations with which his majesty often naturally sided, prevented me from building the lines most productive economically" (1921: 75).

Furthermore, he goes on to state that,

"the country will be best off if in building railroads it is guided by purely economic considerations. On the whole such railroads would also meet the strategic needs. It is my opinion that this should become a basic principle of railroad construction. For 30 years we were building railroads with a view to a war in the West and we have wasted no end of energy in that section. In the end the war broke out in the Far East" (1921: 75-76).

It is perhaps of greater irony however that the war in the Far East was enabled by Witte's very own construction of the Trans-Siberian Railway, built supposedly for "narrow economic" reasons (as von Laue had claimed). Alexander had commissioned its building with precisely such geo-political considerations in mind and it is of further irony that it was the need for the construction of this railway line that had led to the choosing of Witte as finance minister in the first place! However it was also true that there were pure economic benefits engendered by the railways. Undeniably, they linked for the most part forward into the economy, not least by opening the vast grain resources of Siberia. The thrust of Witte's complaint was that there were no economic benefits from the military-strategic railway lines. Such a complaint was entirely unfounded.

We return to the military multiplier (Dev. Path 2). It was noted above the strong linkages to the economy that the railways produced particularly by the demand that they created for coal, iron, and steel production. Between 1895-1899 (the height of the second railway boom), the percentages of domestically produced iron and steel supplied to the railways were as follows; 57% in 1895; 59% in 1896; 58% in 1897; 53% in 1898; and 64% in 1899 (see Gatrell 1986: 153). Investment in rails and rolling stock generated sufficient demand to sustain the new iron and steel industries in South Russia. Thus railways had strong backward linkages to industry. If approximately 30% of railway construction was undertaken for strategic purposes (see section 4), it is clear that military impulses were responsible

for considerable heavy industrial development. Thus economic development was being generated by a mixture of political-military and political-economic rationalities (Dev. Paths 1 and 2). What was becoming obvious was that Witte's "industrial programme" was being subtly informed by a politico-military agenda aided and abetted by the rival factions of the General Staff and War Ministry in collusion with the Tsar. This agenda however extended beyond railway building and into the very heart of Witte's programme - namely the sphere of heavy industry.

Late development theory conceptualises Witte's emphasis on heavy industry within a broad economic, neo-Listian framework. Gerschenkron for example argues that as a result of the "substitutive process" (of the state substituting for the lack of an indigenous bourgeoisie), the state must concentrate its primary attention on the group of heavy industries - coal, iron, steel, machinery, transport and general engineering (1962: 20,126,360-361). These industries it is argued are attained because they are "strategic" in an economic sense. That is they have strong forward and backward linkages inducing both economies of scale and a high growth performance. However, as Gautam Sen points out, this set of industries are also "strategic" in a military sense (1984: 7). The importance of military railways to the development of the economy has already been emphasised above. The arms industries and naval shipyards simultaneously provided an essential input to the capital goods industries as well as providing a strong boost to the iron and steel industries, and stimulating a vital demand for coal (1984: 106-9). Not only did specific military policies have a direct impact in the Witte period, but they continued to do so in the 1907-1914 period. Peter Gatrell has disaggregated various industrial output data in order to establish the specific linkages between the state's armaments/military policies and economic growth. He shows that the state's military policies underlay the substantial industrial growth rates witnessed in the years upto the Great War (1982: 99-110; see also Falkus 1968: 52; Kemp 1983: 146; Trebilcock 1981: 281-284).

The second military revolution set a precedent for states to acquire an autonomous industrial system for national defence. That is,

dependence on foreign industries had to be avoided since otherwise it could prove fatal in the event of war. Therefore the Russian state sought these industries for reasons of national defence. "Only the perception of external threat from the prior presence of already industrialised countries prompted considerably enhanced involvement with industrialisation and explain the rapidity of progress" (Sen 1984: 79). Furthermore in Russia this external threat not only acted as a "catalyst" to increased involvement in industrialisation - rather it constituted a fundamental reason for the actual acquisition of these industries in the first place.

Tariff policy was aimed to a significant degree at securing a military strategic base of heavy industries. Thus in 1877, the state imposed higher tariffs on locomotives and wagons, as well as restricting the importation of rails. Prior to then, rails were supplied to the tune of 50% by foreign supplies of iron. In 1870 only two factories in the Ural produced rails (though not without difficulty). Below are presented those articles which incurred such prohibitive tariff duties.

Table 3.4 Tariffs rates as they affected Heavy Industry, 1868-1891  
(Duties in kopecks per pood)

Product	1868	1891
Pig Iron	5	25-53
Iron	20-50	90-150
Rails	20	90
Machines	30	250
Locomotive	75	300
Engines		

Source: Hoffding 1912: 78; see also Lyaschenko 1970: 558

These industries were in fact the core of Russia's heavy industrial base, and constituted the vital inputs to her military production, namely railway, armaments factories and ship-building industries. In addition to these highly protectionist tariffs, the government guaranteed the sale of their products by the direct placing of supply contracts. The state injected nearly 70m rubles between 1868-1878



into rolling stock factories (representing orders for 900 locomotives and 32,000 wagons). This was an essential part of the government's programme which sought to achieve a self-sufficient military-industrial base (Gatrell 1986: 151). As Feis points out, in particular,

"the metallurgical works were dependent upon the Russian government for armament and railroad equipment orders..." (1930: 222).

The supply contracts themselves embodied a hidden subsidy. Apart from guaranteeing sales, government contracts were also favourable to industries, in that domestic prices were often fixed well above those of foreign products. Thus in 1897, the price for rails was fixed at 1.1-1.25 roubles, whereas the cost of production at the best five Russian plants was 77-89 kopecks. On the free market these rails sold at 85-89 kopecks and foreign rails cost a mere 60-65 kopecks. For the construction of the massive Trans-Siberian railway, the state was offered a price of 75 kopecks for the rail, by various British firms. In the end the contract went to Russian producers at the staggering cost of 2 roubles. In other words it is clear that the treasury was subsidising domestic producers through orders at vastly inflated prices. As an approximate estimate, this subsidy amounted to some 15m roubles per year, which was distributed to a dozen "favourite" plants (Lyaschenko 1970: 560). Thus with a combination of high (and genuinely) protective tariffs, and favourable supply contracts the Russian state created an autonomous "state-led" military-industrial base, the achievement of which was sought after by many European states in the late nineteenth century, as they responded to the second military revolution.

These military-required industries could played a dual purpose since they had strong economic growth inducing qualities (the military multiplier). Crisp and Gatrell have argued that the railways provided the basis for Russian industrialisation (Crisp 1976; Crisp 1988: 13 ). According to Gatrell between 1895-1900, railway investments represented 25% of total net investment, though he goes onto state that if investment in transport equipment was included, the figure would be nearer 30% (Gatrell 1986: 152-153). This clearly exceeded

Fremdling's (1977) 25% estimate necessary for German industrialisation

Once again it was becoming clear that Witte's "economic" agenda of industrialisation and tariff policy was being set to an appreciable (though not exclusive) extent by the military impulses of the autocracy. Although Witte disliked the military foundation and direction of many of his policies, Military Keynesianism allowed considerable amounts of economic growth. Thus these benefits ultimately complemented Witte's desire for higher rates of such growth.

#### SECTION 4

##### The Fiscal Origins of Tariff Protection

Von Laue has argued that tariff policy was essentially determined by the needs of industry, which was in turn a vital factor to Witte's industrialisation programme. Thus he stated that, "it is doubtful whether Witte... ever clearly understood the fiscal character of the tariff. To him it appeared as the government's chief instrument for the promotion of a rapid industrial advance" (1963). However, we have seen how Russian "industrialisation" was conditioned by the state's response to both the defeat in the Crimea and, in particular, the second military revolution (section 3). In section 2 it was argued that the state's military requirements played an important role in the shaping of tariff protectionism, necessary to create a positive balance of payments. The fiscal base of the tariff had a further dimension; to provide revenues for the state.

With the military revolution there was a concomitant escalation of military costs and thus a need for vast increases in state revenues. Russian government expenditure doubled between 1860 and 1885, doubled again between 1885 and 1900, and doubled again between 1900 and 1913 (see Table 3.10). The major expenditures were derived mainly for military purposes, though the state budget also contained a significant amount of economically productive expenditures (see Tables 3.10 - 3.15).

The problem of finding new sources of revenue became acute and the quest for the necessary increases became a central preoccupation not only for the Tsarist but for many other states in Europe. This quest became inextricably entwined with the rise of tariffs in the late nineteenth century.

From the late 1850's to the 1870's Europe had undergone an era of free trade. Upon this principle both liberal and authoritarian states harmonised and the Cobdenite dream it seemed was becoming a reality. But then in the late 1870's the dream began to slip with the onset of tariff protection and was finally turned into a nightmare by a wave of sustained and aggressive tariff wars. The principal wars were conducted between France and Italy, 1887-98 (see Ashley 1920: 323-327; Pollard 1981: 261), Germany and Russia, 1880-1894 (see Ashley 1920: 69-74; Henderson 1967: 49; Pollard 1981: 261-262), France and Switzerland 1893-95, (see Ashley 1920: 334-336). The immediate occasion of this shift to protection was the flooding of industrial goods, raw materials and particularly grain into the European markets from both America and with reference to the latter from Russia. This occurred at a time when European governments were feeling the effects of their increased military spending and were searching desperately for an accompanying boost in revenues. With the massive increase in imports secured in the late 1870's the answer to their problem lay right under the statesmen's noses. Tariffs secured on this tidal wave of imports would prove to be most lucrative. As did Germany, Russia similarly turned to protectionism, the major tariffs being secured in the years 1878, 1880, 1885, 1887, 1891 and 1903. The table below shows the breakdown of tariff duties for the three main branches of production.

Table 3.5 Customs Duties and their Incidence 1855-1912 (in percentages)

Year	Foodstuffs	Raw Materials & Semi-Manufactured	Manufacture Goods	All Items
1855	33.1	7.0	24.3	23.7
1860	38.9	8.5	22.5	19.0
1865	35.1	9.0	13.8	16.3
1870	31.8	7.7	11.8	12.9
1875	25.6	7.9	12.6	11.7
1880	33.1	11.7	16.6	17.2
1885	41.1	13.8	24.9	23.7
1890	59.6	18.3	26.0	28.7
1895	63.9	24.5	24.1	31.9
1896	65.0	25.8	24.7	32.1
1897	67.8	29.5	26.5	35.2
1898	69.4	31.8	25.8	36.2
1899	68.8	28.8	25.6	34.1
1900	81.0	25.0	25.0	33.0
1901	92.0	32.0	27.0	-
1902	96.0	31.0	28.0	40.0
1903	89.0	30.0	26.0	38.0
1904	91.0	28.0	26.0	37.0
1905	95.0	27.0	26.0	38.0
1906	91.0	25.0	29.0	38.0
1907	76.0	25.0	30.0	35.0
1908	69.0	27.0	29.0	35.0
1909	75.0	24.0	26.0	33.0
1910	77.0	22.0	26.0	30.0
1911	69.0	23.0	26.0	30.0
1912	67.0	22.0	27.0	30.0

Source: 1855-1899: P. A. Khromov (1950: 484-485).

1900-1909: H. Hoffding (1912: 86). See also V. P. Litvinov-Falinsky (1908: 75).

1909-1912: Miller (1926: 71; figures taken from Messenger of Finance No. 10, 1914

The most striking feature of these rates is the high incidence of duties applied to raw materials and semi-manufactures in relation to finished manufactured goods. In addition, from 1898 onwards there were many occasions where raw materials and semi-manufactured goods actually incurred a higher duty than the finished product. This had an adverse effect for Russian manufacturers. Tariffs levied on raw-materials and semi-manufactured goods (as well as on foodstuffs) had very little protectionist function. For the main part they were purely revenue producing since in the vast majority of cases where such tariffs were levied, there were no indigenous producers. As with Germany, Russia required increased sources of revenue to fund her

expanding expenditures, particularly for the military budget. As Russia turned to industrialisation, she imported large amounts of raw-materials and semi-manufactured goods (see Table 3.6). Upon this increase, tariffs levied proved to be a lucrative source of revenue (see Table 3.7).

Table 3.6 The proportions of the values of the major categories of imports (as a percentage of the total)

Years	Foodstuffs	Raw materials & Semi-manufactures	Manufactures
1905	16.5	54.9	28.3
1906	16.9	54.1	28.8
1907	17.0	53.6	29.3
1908	16.6	54.0	29.2
1909	14.9	52.3	32.6
1910	12.7	54.0	32.8
1911	13.1	50.6	36.0
1912	13.5	49.9	36.3
1913	13.3	49.0	37.4

Source Figures derived from Miller (1926: 76, Table K, originally taken from Foreign Trade on the European Frontier for 1905-1910, and from Messenger of Finance No. 8, 1914: 342; see also Khromov 1950: 476-479)

Table 3.7 The significant tariff revenue yielding items

Item	%age total	of Yield in roubles (millions)
Tea of every kind	15.0	44.4
Raw cotton	12.0	35.4
Machines and parts	10.6	31.5
Herrings	3.9	11.4
Unworked metals	3.7	11.0
Wool and down unworked	2.2	6.3
Woollen manufactures	2.0	5.9
Coal and coke	2.0	5.8
Chemicals	2.0	5.8
Oranges and Lemons	1.9	5.6
Iron and steel manufactures	1.8	5.3
Combed wool	1.8	5.3

Source: Miller (1926: 71, from Messenger of Finance, No. 10, 1914).

Furthermore, if we examine the state revenue accounts more closely we may note a specific relationship between customs revenue and excise tax. For if we aggregate the two (in order to derive total indirect tax), we note that in most years there is a constant 30:70 ratio in favour of excise taxes. That this ratio should remain constant particularly in the years of the major tariff increases suggests that these two taxes were being calculated by the finance ministry in a highly rational way. This would give further evidence to the view that tariff policy had an important fiscal function.

It may be objected however, that surely it is a well established principle of public finance that the way of extracting the largest possible proceeds from tariff duties is to tax at a moderate rate a few articles of general consumption. Why Russia did not follow this prescription is shown by the following characteristic quotation from a memorandum presented in 1882 to the Imperial Council by the then Minister of Finance, N. Kh. Bunge;

"the revision of certain clauses of the tariff arises from the need of strengthening the resources of the Imperial treasury. A higher customs revenue can in some cases be secured by a lowering of the tariff rates, if an increase in consumption can be expected; whereas in other cases it may be secured by a moderate rise in the duties if an increase in consumption is not to be expected, but it can yet be assumed that the trade can bear the higher duty" (quoted in Hoffding 1912: 83).

Clearly Bunge preferred the second method since, as he went on to argue;

"a lowering of the tariff rate promises an increase of the customs revenue only in the more or less distant future and on the condition of a sufficiently high standard of material well-being in the population. But the present condition of the Treasury cannot be improved by an increase of revenue which is only to be expected some years hence, and the great mass of our people are not so well off that the increase of consumption could make up for the lowering of duties. It appears therefore, necessary to have recourse to the increase of duties only providing that this increase should not make the duty of all articles inaccessible to the people and diminish the consumption" (Bunge, quoted in Hoffding 1912: 84).

This reasoning was to be found amongst most European powers. It was so because states operate fiscally with regard to short or very short

run calculations. Since Europe had undergone a period of free trade it was fiscally profitable for these states to raise tariffs even to a considerable degree (since the tariff rates began from a very low base). With the onset of imports on a vast scale into Europe any increase of tariffs tended to bring in more revenue particularly on grain, which Bismarck had found to his delight!

#### The Establishment of a Non-Tax and Indirect Tax Regime

Table 3.8 Government Revenue 1860-1913 (millions of roubles)

Year	(1) Direct	(2) Indirect	(3) State Property	(4) Total
1860	53	170	0	330
1865	69	165	0	356
1870	98	230	0	460
1875	119	287	29	558
1880	112	352	29	628
1885	151	361	68	759
1890	115	474	110	940
1895	133	587	157	1256
1900	229	662	365	1704
1905	182	850	397	2024
1910	216	1172	673	2781
1913	274	1372	938	3417

Source: P. A. Khromov 1950: 494, 495, 498-513

(1) Direct tax includes; redemption payments, land taxes, taxes on industry and tax from money capital. (2) Indirect tax includes excises on spirits, tobacco, cigarettes, sugar, petrol, salt (upto 1886) and matches, as well as tariffs on foodstuffs and on industrial materials. (3) State property includes stamp duties, property transfer, goods and ships in ports, railway duties, fire insurance of properties, mining, mint, post, telegraph and telephone, licenses, forests, state railways, state factories and treasury income

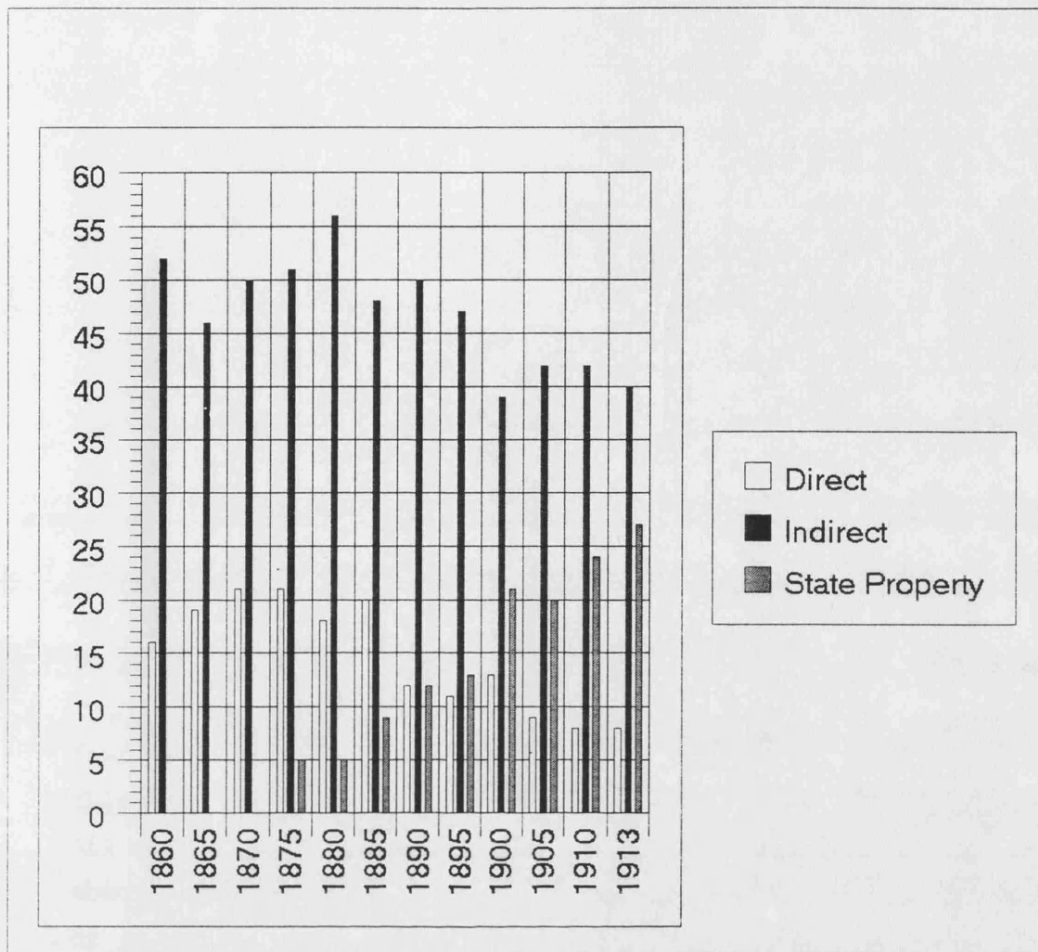
Table 3.9 The Major Categories of Tsarist Revenues, 1860-1913 (in percentages)

Year	(1) Direct	(2) Indirect	(3) State Property
1860	16	52	-
1865	19	46	-
1870	21	50	-
1875	21	51	5
1880	18	56	5
1885	20	48	9
1890	12	50	12
1895	11	47	13
1900	13	39	21
1905	9	42	20
1910	8	42	24
1913	8	40	27

After 1860 and particularly after the 1880's, the government moved over to an indirect tax and state property tax base (as did Germany). Between 1860 and 1880 receipts from customs revenue rose threefold, whilst total indirect taxes more than doubled (in nominal terms. Note that all tax growth rates have been calculated here in nominal terms). By 1913, customs revenue had almost quadrupled, and had increased by over 1000% since 1860. If we take national income growth into account, the growth rate is still striking (4.7% in 1885 and 7.2% in 1913). Conversely direct taxes, which represented over 20% of tax revenues in the 1870's, contributed a mere 8% in 1913. In addition, revenue from government property and in particular from state-owned railways increased more rapidly than revenues from other sources such, that by 1913 they accounted for almost 30% of total ordinary revenue (See also Gatrell 1986: 218 and A. Babkov 1912: 175). Thus from 1875-1913, nominal state property revenues had increased by over 3200%. When these growth rates are calculated against national income, there was a five fold increase between 1885 and 1913.



Table 3.9A The Major Categories of Government Expenditure, in Percentages



Many authors have observed this shift, (see for example Crisp 1976: 27; Crisp 1988: 9; Gerschenkron 1965: 781; Gatrell 1986: 218; Yaney 1973: 288-290; Robinson 1973), though few explanations have been forthcoming. It will be argued here that there was a network of overlapping multiple power logics involved in the shift to an indirect and non-tax regime. These will now be traced.

After 1861, part of the fiscal obligation that the peasants incurred in the *Obschina* was the payment of the state for the land. The peasantry had to pay a fixed sum of money over a 49 year period in order to redeem the land. This was known as redemption payment. This was levied in order to compensate the state for the money it had in turn given to the landlords in compensation for their lost land. In the late 1870's these were required in cash and as this commodity was still rare, large arrears began to appear. In addition to problems of

liquidity the peasants bitterly resented such payments for the land, which they believed was and had always been rightfully their own. As a result arrears began to appear. The accumulation of such arrears went unchecked and became a constant fiscal thorn in the side of the state.

From 1876-1880 tax arrears for the country as a whole amounted to 22% of the budgeted revenue from direct taxes (Gerschenkron 1967: 768; Rogger 1983: 77). However, this figure hides extreme disparities in terms of regional indebtedness. Thus by 1881 arrears stood at 5m roubles in Yaroslavl and Tula, but as much as 158m in Moscow, 249m in Smolensk and 146 in Orenburg (P. W. Gatrell 1986: 197; cited originally in N. M. Druzhinin 1978: 76-77; Table 5). In 1880 the arrears amounted to an average of 27% (Robinson 1973: 95). As a result the government began to decrease the direct tax burden of the peasantry, partly for fear of civil unrest and partly also from the plain realisation that this form of taxation was in no way lucrative. Accordingly in 1881 on his accession to the throne, Alexander reduced the redemption debt by about 10% of the arrears (27% of average annual payments) as a sign of good gesture (Gatrell 1986: 196). Again this concealed massive regional variations; thus it represented a mere 16% in Kherson, but a staggering 90% in Olonets (Gatrell 1986: 267; Robinson 1973: 95-96). Furthermore in 1886 the hated salt and poll taxes were abolished. A further reduction in the redemption payments was made in 1884. However, the aggregate reduction amounted only to a modest 9.2% of the total outstanding debt (Gerschenkron 1967: 769). Despite the decrease in the sum of state and zemstvo (provincial) dues from an annual average of one rouble and 44 kopecks per desiatin (1871-1875) to an annual average of one rouble and twelve kopecks (1896-1900), the accumulation of arrears in the payments assessed by the state amounting in 1875 to 22% had increased by 1900 to a massive 119% of the average annual assessment of the period 1896-1900. Thus, the total accumulation of arrears (119m roubles) in payment due to the state had finally come to exceed by a substantial margin the average amount of the current assessments - being 99.3m roubles per year 1896-1900 (Robinson 1973: 96). By 1903 the amount in arrears stood at 130 million roubles, which represented 138% of the budgeted revenue for that year (Robinson 1973: 96). Throughout the 1890's the

government had been concerned with the redemption payments especially after 1891, when the famine in conjunction with Vyshnegradsky's forced export drive, had led to a doubling of tax arrears, raising them from 51.1m in 1890 to 102.8m in 1892 (Gerschenkron 1967: 779). Although Nicholas II forgave a certain amount of the arrears their escalation to new heights went unabated. In the 1890's redemption debt was reduced by approximately 25% (Rogger 1983: 77). It had become clear by the 1890's that this tax was more of a liability than an asset. As a result, much of the redemption debt was written off in 1904. In addition, Stolypin's land reform of 1907 was probably little more than an official realisation of the unpopularity of redemption payments; it is also probably the case that the land reform was merely formal confirmation of the informal practice of frequent peasant movement away from (and usually back to) the *obshchina*.

The capacity of this tax to produce arrears was greater than that of any other. On top of this the striking fact, that the cost of administering this tax was about five times higher than that of all others. Furthermore, it provided only 6.4% of the total net tax revenue. As direct taxation was proving to be ineffective, the finance ministry's first prerogative was to find a more lucrative source of revenue. As we noted above, the vast increase of imports, derived from both American exports and as a concomitant to industrialisation in Russia, meant that tariffs could provide an efficient and effective source of revenue. It was also far less expensive to administer, since tariff revenue could be collected at fixed customs houses through which imports passed on their way to the Russian market place. The first reason then for the move to indirect taxation was its superior fiscal yield to current sources of taxation.

The question arises, that if the prevailing form of direct taxation proved a hindrance rather than a help, why then was it not abolished? The reasons turned out to be political, revolving around the factors of centralised bureaucratic struggle and the patrimonial impulses of the autocracy. Firstly, if this tax was abolished it would effectively lead to the removal of the legal ties, holding the *Obshchina* together. As we noted above, the commune was created in

order to freeze the vast bulk of the population to the land to ensure tax and military requirements and in addition, for the patrimonial imperative of preventing the formation of a landless proletariat. The Obschina therefore, as far as the authorities had intended, was set up to block peasant emancipation.

In addition, the Obschina was also created to a large degree under the imperatives of the Ministry of the Interior (MVD) which managed to acquire an increased measure of power vis-a-vis its rival ministries within the bureaucracy. Thus the autocracy and the MVD both had a vested interest in the Obschina's maintenance, and consequently therefore, the maintenance of redemption payments at whatever the fiscal cost. For these payments were the essential mechanism by which the peasantry were frozen to the Obschina. (As will be explained later, there was a gap between theory and practice in this respect. That is, in practice the peasants were able to move around relatively freely, as it was not feasible logistically to constantly police such movements). It was clear therefore that if the Finance Ministry wished to increase its power over its main rival the MVD, it would need to undermine the latter's source of power - that is, its tax collection function and the Obschina. This could be done by reducing the redemption payments to such a level that the MVD's fiscal role would be reduced. What better way to ensure this than by replacing direct with indirect taxes? What is central to this shift in tax regime is then a powerful conflict between the two main ministries, the finance ministry (FM) and the MVD, and represents an important way in which centralised bureaucratic struggle had direct repercussions for the determination of economic and fiscal policy.

#### **The History of the "Centralised Bureaucratic Struggle" between the FM and the MVD**

In 1802 the system of Ministerial government was set up, with the creation of eight ministries followed by an additional four more in

1811. This remained the basic structure of the Russian government for over a century. After 1905, there were in all, fourteen ministries. The FM and MVD were the only ministries universally involved in government and society. All ministries were vitally dependent upon them and thus from the beginning their potential for bureaucratic aggrandisement vis-a-vis the other ministries was secured. The conflict between the FM and the MVD did not explicitly emerge until the latter part of the nineteenth century and manifested itself over a broad area of policies. Until the 1880's, the MVD was highly favoured by the Tsar and held enormous power within the bureaucracy, especially with its much expanded role in the interior after the emancipation.

In the very early years however, the MVD had remained weak. In 1810 its preserve was extended to the caring of the interior to the "care of the spreading and stimulation of agriculture and industry" (Orlovsky 1981:24). So as to preserve his freedom of manoeuvre the Tsar's tactics of divide and rule ensured that no workable division of labour should be installed between the various ministries. This was in strong contrast to Prussia and France, which had separate ministries for agriculture and industry from the early nineteenth century. In Russia as the century developed, ministerial jurisdictions came to increasingly overlap, with the result that as there was little cooperation or communication between ministries, a unified policy became increasingly difficult to obtain. Consequently, there emerged from the mid-century onwards an increasing paralysis in government intensifying as the twentieth century began.

In the second phase of MVD history (1819-1837) there were changes, but an overall political weakness still remained. In 1819 the Ministry of Police was abolished and its departments went back to the MVD, thus considerably increasing the latter's administrative- power base. In addition the MVD relinquished its economic sphere with its Manufacturing and Internal trade section being transferred to the FM, (where it stayed). Nevertheless it was not to be cut off from trade matters entirely. The specific section of the Department of Trade and Manufacturing which administered Russia's trade fairs was however regained from the FM in 1820. The MVD now had a vital role to play in

a series of economic areas, for instance; credit institutions, railways, taxation, joint stock companies and factories (in addition to its considerable role in the interior). In all these areas the MVD would have to be consulted for future legislation. [As we shall see, tension would mount as the FM in the late nineteenth century attempted to appropriate control over many of these economic areas].

Then in 1837 with a reform of provincial administration, the MVD's hold was extended further into the provinces. The Governor-Generals who had been created by Catherine II in 1775 and had jealously guarded their power against encroachments from the bureaucracy were now abolished and replaced with a governor who was directly responsible to the MVD, thus greatly enhancing the latter's power. As the MVD extended its hold over the interior, it simultaneously increased its power within the bureaucracy. (The expansion of a ministry's power/administrative base enabled it to gain more influence with the tsar, over other ministries). From the 1830's and especially after 1857, it played a central role in preparing for the emancipation of the peasantry from the landlords (see Emmons 1968: 209-318; Orlovsky 1981: 61-62; Field 1976: 173-232; Rieber 1966; Yaney 1973). Its sole aim was to replace the landed gentry as owners of the serfs with its own institutions. Pushing the Tsars Nicholas I and Alexander II towards emancipation, it could clearly envisage a quantum leap in its power, which it would accumulate at the direct expense of the landowners.

Sure enough, after 1861 there was indeed such a quantum leap. Rural society was now split into two provincial spheres. Firstly, there was the creation of the *Obschina*, which was liable for tax and military conscription (to be administered by the MVD). In addition the MVD played a vital policing role in the *Obschina*. Secondly, there was the creation of the *zemstvo*, which was monopolised by the landed gentry (see Manning 1982, for the breakdown of constituents within the *obschina*). Nevertheless this body remained more or less impotent vis-a-vis the autocracy and central state, gaining at best a foothold in localised social and cultural activities; for example, the setting up of food stores, charity work and public health. They could not compete for political resources vital to the autocracy, as the

landlords had done prior to 1861. This institution could not therefore challenge the state.

As Skocpol put it, the zemstvos

"... grew up alongside not within the hierarchy of societal political power. For the imperial authorities retained a monopoly of administration and coercion... and the zemstvos were tolerated by the imperial bureaucracy only to the extent that they did not challenge central controls and policy-making prerogatives" (1979: 89-90).

In practice, autocracy did not surrender any of its functions since it simply authorised these bodies to perform politically uncontentious tasks with which the state was not traditionally concerned (Vucinich 1960: 197; Orlovsky 1981; Skocpol 1979: 90; Yaney 1973: 237-239).

Furthermore, since the peasants were now dominated by the MVD, there was no possibility of a resurgence of the "party power" of the landed gentry on the Prussian model (see Robinson 1973: 79-80). This class, had been broken economically, and had been left unprotected from the harsh winds of the economy. Their role as agents of the peasantry had been terminated in 1861. The MVD under P. A. Valuev (1861-1868) began a trend which increasingly restricted zemstvo activities by depriving them of what little executive and financial means they had necessary to fulfil their already meagre functions (Orlovsky 1981: 76). Even the judicial reforms of the 1860's were attacked by the MVD, and the judiciary that came into existence was subordinated by the MVD's jurisconsult section. This allowed it to increase its political powers by dispensing "political justice" for "state crimes", without interference from the prosecutors or regular courts. The MVD's role in the police state that came to dominate Russia in the late nineteenth century grew to be immense.

So by the late 1880's the MVD had grown to an extremely powerful position within the bureaucracy due to its vastly expanded administrative base - so much so that it had come to constitute the Tsar's right hand ministry. Alexander II's most important criterion to be fulfilled by his ministers particularly within the MVD, was personal loyalty and submission to his desires. This was typical of

patrimonial relations of domination within the bureaucracy (see section 5). Indeed, in three of his five appointments he ignored their political skills and was quick to eliminate or isolate those who infringed upon his personal power. Hence in 1868, Valuev was seen to be overstepping his mark, and was accordingly dismissed. Similarly when Shuvalov had grown too powerful he was sent off as Ambassador to London (see Orlovsky 1981: 101-102). For the most part however, the MVD's leaders enjoyed a distinguished position of prestige within the bureaucracy. By the 1880's this was at an all-time high.

But with the onset of industrialisation from the 1880's onwards, the FM began to increase in power, with an expanding administrative role to play in the direction of economic matters. From a logistical viewpoint it was perhaps inevitable that the FM would attempt to takeover many of the economic functions of the MVD. As the industrialisation process advanced so the FM's challenge intensified. Finally, conflict became overt between these two ministries occurring in a number of areas, most notably labour policy (see T. McDaniel 1988 for an account of this particular conflict), and also in the area of taxation. We have noted above, that the MVD's tax collection function was an essential ingredient to its administrative base and hence its power position within the bureaucracy. Consequently, if the FM could undermine this role it could therefore simultaneously undermine the power of the MVD. And this it sought to do, by initially muscling in on the MVD's role in these matters of tax collection in the countryside. The MVD could be further weakened by vastly reducing the amounts of redemption payments to be collected. The FM sought this by engendering a shift away from direct to indirect taxation. As Gerschenkron pointed out "the shift to indirect taxes that was taking place inevitably reduced the role of the police (MVD) in matters of tax collection". (1965: 781). Thus by increasing indirect taxes at the expense of direct taxes, the MVD was not only undermined but had to concede to the FM's desire of muscling in on the actual process of rural tax collection. Thus the FM used specific increases in excise taxes and tariffs as a power tool with which to force concessions from the MVD. This political strategy was begun by N. Kh. Bunge.



In 1885 he increased the tariff in addition to increases in excise duties, at a time when redemption arrears were beginning to spiral upwards and simultaneously legislated a further reduction in direct taxes. Having forced the MVD's hand, the FM was able to create an institution of tax inspectors in that very year. From 1885 onwards, there was a tax inspector from the FM in each uezd (region) to check up on financial operations, much to the disgust of the MVD (Gerschenkron 1965: 781; Yaney 1973: 364). Then in 1891, Vyshnegradsky's New Mendelejev tariff increased further the indirect tax base. the reduction in direct taxes was extended because of the sudden quantum leap in redemption tax arrears. Once again the MVD was forced to admit some cooperation with the FM's tax inspectors over the process of tax collection. Again in 1903, a further increase in the tariff coupled with an increase in indirect taxes, and with the subsequent decrease in direct taxes (at a time when arrears on redemption payments had reached an all time high), allowed the FM's inspectors to assume additional responsibilities in tax collection. Finally by 1905 the elected village tax-collector, formerly subordinated to the MVD came under the effective jurisdiction of the FM (von Laue 1963: 176; Yaney 1973: 364).

In sum, successive FM's invoked a shift to an indirect tax regime to undermine the hegemonic power of the MVD within the central bureaucracy. This centralised bureaucratic struggle between the two ministries therefore had direct repercussions on tariff policy. For as tariffs were increased, and additional revenue obtained, so the power of the FM was increased at the direct expense of the MVD, within the bureaucracy.

#### **The Impact of Ruling Class Strategies on the Relations of Extraction**

A further reason for this shift away from direct to indirect taxes was premised on a set of autonomous political preferences. The autocratic state chose to repress the lower orders as part of its strategy to maintain its despotic autonomy over society. This strategy was reflected in the state's tax policies. The 1861

Emancipation Act relocated the peasantry into state-dominated locales, where an increased rate of fiscal extraction could be achieved. That is, the state could now freely tax the peasantry, since the landlords could no longer mediate this relationship (between state and peasantry). Successive finance ministries increased the rate of fiscal extraction from the lower classes. Witte had intensified the extraction of taxation from the lower orders, increasing it by over 40% above the already high 1885 level (cf. 6.41 roubles per capita in 1885 to 8.83 roubles per capita in 1900 - Kahan 1967: 462-464).

As will be shown in the final chapter, in relation to Britain, Germany and America, the Russian tax system was by far the most regressive. Indirect taxes (which were for the most part extremely regressive owing to the high incidence applied to essential, price-inelastic goods) represented over 7% of national income. This was over double the rate of its authoritarian and liberal counterparts. Direct taxes constituted approximately 8% of total tax revenues and only 1% of national income. (In addition, these direct taxes were not progressive). Not only was the nature of the tax base highly regressive, but it was also highly oppressive. That is, total taxation represented approximately 20% of national income (50% higher than in Britain and over 100% higher than in America).

In terms of the incidence of taxation, it is likely that the peasantry were to some extent able to substitute non-taxed goods for those which were subject to high tariffs and excises. As Crisp puts it,

"The very size of the rural population would suggest that it must have contributed substantially to the total revenue raised by indirect taxation, though evidence suggests that peasants consumed a lower proportion of the items taxed relative to their share in the total population" (1988: 9).

Given that the relative rate of extraction (taxes as a proportion of national income) had increased throughout the post-Crimean war period, and given that the peasantry had managed to increase their incomes net of taxes, it was likely that they were able to avoid some of the increased taxation. In the towns it was much harder to

substitute for taxed goods than it was in the countryside. Those towns which were in close proximity to the countryside may have enabled urban workers to accumulate to some extent substitutable goods. However, in the urban-industrial areas it would have been very difficult to engage in such activities. It was therefore likely that urban workers paid considerably higher taxes than their rural peasant counterparts. It is also likely that urban rates were very high; considerably higher than the average figure would suggest (20% of national income). Undoubtedly this would have been a source of strong urban discontent, and would certainly have contributed to the development of proletarian revolutionary consciousness.

By 1913 the average Russian had 50% more of his income appropriated by the state for current defence than did the average Englishman even though the Russian's income was only 27% that of his British contemporary (Rogger 1983: 77; P.M. Kennedy 1988: 236; Miller 1926: 137). This oppressive level of taxation upon the lower orders proved increasingly unacceptable. Tension rose until it finally exploded in 1905. The state ultimately came to feel the repercussions of its fiscal policies. Though it managed to weather the storm, the seeds of its eventual downfall had been sown. Thus in 1917, when a revolution took off, the state finally paid the price for its oppressive policies.

Thus just as the state had enacted repressive labour policies, so it similarly levied highly regressive taxes. These hit the peasantry and in particular, the urban proletariat. No progressive income tax was forthcoming in such a political climate. Nevertheless, it would be incorrect to explain the regressive indirect mode of taxation through exclusively emphasising the nature of the state regime (mode of domination). Equally as important was the fact that average incomes were too low to support a progressive income tax. That is, revenue yields would have been insignificant. Furthermore, there was simply not available the sort of infrastructural capacity necessary to implement such a system. However, the fact remains that taxes in Russia were perhaps the most regressive in Western Europe. Furthermore, the levying of such high levels of regressive taxes was simply not possible in liberal Britain and America, or even in

authoritarian Germany. In sum therefore, the mode of domination played an important, though certainly not exclusive part in the formation of Russia's regressive relations of extraction (and hence its resort to indirect taxes and tariffs).

### Patrimonial and Military Impulses in the Creation of a "Partial" Industrialisation of Russia

At this point it is worth briefly examining the linkage between government fiscal policies and economic development, before going onto appraise the nature of the tax base in terms of its regressive quality. Late development theory argues that Russian fiscal policy had a strong economic bias. As von Laue put it;

"How much the government spent for its various economic activities in these years may come as a surprise. Roughly totalled the appropriations for all economic ministries (finance, agriculture, communications) and the service of the government debt (contracted largely for railroad construction) amounted to over 52% of the combined ordinary and extraordinary budgets in 1894 and 55% in the following year. The army and navy combined claimed about half as much, nearly 29% in 1894 but only 22.5% in 1895. What was left went to the administrative agencies, the Ministry of Interior with its extensive organisation and its police, diplomatic service, schools and universities, the church, the courts of law, the Ministry of Justice and the Imperial household. Obviously the economy rather than defence was the beneficiary of Witte's financial management" (1963: 100-101; see also Gerschenkron 1970: 102).

The subsequent revisionist swing has countered this by arguing that charges for administrative costs and debt repayments cannot be simply labelled as "economically productive expenditure". Furthermore debt charges were to a large extent accrued from pure military expenditures. Although railways contributed to the growth of government debt (approximately 30%), much of this was military-inspired. Thus Peter Gatrell has claimed that the outlays on government administration, defence and state debt suggests that it "would be idle to maintain that Tsarist expenditure had a productive purpose" (Gatrell 1986: 221. See also Kahan 1967: 461-466; Seton-

Watson 1952: 122; Falkus 1979: 10; Feis 1930: 210; Crisp 1976: 97).

Or, as Hans Rogger put it, industrial development,

"was not its (the state's) first priority - the claims of army and navy, of administration and internal security still took precedence as Witte's pleadings testified" (1983: 119).

To test these various claims will involve a detailed examination of Tsarist expenditure policy. It must be remembered that the state financed much of its peacetime expenditures through recourse to loans. Thus a complete examination can only be made if we include extra-ordinary with ordinary expenditures.

Table 3.10 The Major Outlays of Ordinary and Extra-ordinary Expenditures of Tsarist Russia 1860-1913. (in millions of Roubles)

Year	(1) ADMIN	(2) EDUC	(3) CHU	(4) MVD	(5) FM	(6) COM	(7) DEF	(8) DEBT	TOTAL
1860	28	4	5	14	94	12	140	51	414
1865	37	7	6	26	68	32	163	72	428
1870	45	10	9	42	91	78	165	86	564
1875	63	14	10	52	80	79	201	108	605
1880	68	17	10	63	113	57	293	174	793
1885	64	20	11	71	108	80	246	314	913
1890	70	23	12	76	109	170	282	315	1057
1895	84	24	14	86	141	428	342	409	1521
1900	118	34	24	88	280	504	485	317	1843
1905	136	43	29	114	380	528	1635	322	3205
1910	207	80	34	160	409	601	651	414	2597
1913	276	143	46	185	482	776	961	424	3383

Source: P. A. Khromov 1950:

- (1) Administration
- (2) Education
- (3) Church/clergy
- (4) Ministry of the Interior
- (5) Ministry of Finance
- (6) Ministry of Communications
- (7) Army and Navy
- (8) Debt repayment

Table 3.11 The Major Categories of Government Expenditure, (in millions of Roubles)

Year	(1) CIVIL	(2) ECONOMIC SERVICES	(3) MILITARY
1860	51	106	140
1870	106	169	165
1880	158	170	293
1890	181	279	282
1900	264	671(a)	485
1910	481	822	651
1913	650	1023	961

CIVIL = Administration, Education, Church, Interior  
 ECONOMIC SERVICES = Trade and Industry, Communications, Finance  
 MILITARY = Army, Navy

(a) After 1900, the Finance Ministry spent approximately 50% of its total expenditures on the spirit monopoly. These expenditures have therefore been deducted from the total "economic services".

Certainly on this set of figures, economic expenditures constituted the mainstay of Russian budgetary policy. However, this chart does not take into account hidden military expenditures. The first amendment involves the allocation of debt repayment. Von Laue has argued that most of the debt incurred was a function of railway expenditures. Thus he included debt repayment within his "economic" category. However, only approximately 33% of debt undertaken by the government was incurred for railway expenditure (Feis 1930: 211). The remaining 66% went on the military. Taking this into account provides us with the following estimation of the major categories of Tsarist expenditures.

Table 3.12 The Major Categories of Tsarist Expenditures (in millions of Roubles)

	(1)	(2)	(3)
Year	Civil	Economic Services	Military
1860	51	173	174
1870	106	197	222
1880	158	227	408
1890	181	383	490
1900	264	776	694
1910	481	959	924
1913	650	1163	1241

Table 3.13 The Major Categories of Expenditures (expressed in percentages)

	(1)	(2)	(3)
Year	Civil	Economic Services	Military
1860	9	42	42
1870	13	35	39
1880	20	29	51
1890	17	36	46
1900	14	42	38
1910	19	37	36
1913	19	34	37

Once again we find that substantial amounts went on both military and economic categories. However one final calculation can be made. This involves the allocation of railway expenditures. Witte complained in his memoirs that as much as 37% of railway expenditure was "diverted" into the construction of (unproductive) military-strategic lines. (Although there were few forward linkages, such lines nevertheless had considerable backward linkages, and were thus not unproductive). It should be noted that this figure of 37% is probably subject to some exaggeration. By complaining that much of his reforms were diverted from their intended "economic" destination, he hoped to imply that industrial growth rates could have been higher

had he gotten his way, at the time. Nevertheless, assuming the figure to be approximately 30%, the above chart would need to be accordingly amended. The result of such an amendment is expressed below (Charts 3. 14, 3. 15).

Table 3. 14 The Major Categories of Government Expenditures  
(in millions of roubles)

	(1)	(2)	(3)
Year	Civil	Economic Services	Military
1860	51	86	211
1870	106	138	281
1880	158	159	476
1890	181	268	604
1900	264	543	926
1910	481	671	1212
1913	650	814	1590

Table 3. 15 The Major Categories of Tsarist Expenditures  
(expressed in Percentages)

	(1)	(2)	(3)
Year	Civil	Economic Services	Military
1860	12	21	51
1870	19	25	50
1880	20	20	60
1890	17	25	57
1900	14	29	50
1910	19	26	47
1913	19	24	47

Only if by using this set of figures can we support the claims of Kahan, Gattrell and Gregory. These figures do indeed recast von Laue's claims. However even this set of figures show the "economic services" category to be well funded. This final chart gives us perhaps the best overall picture of the real intentions of Tsarist budgetary policy. Nevertheless, there is a strong case for referring to the previous method of calculation in order to finally appraise Tsarist budgetary policy, (expressed in Tables 3. 12, 3. 13), because it is



difficult to differentiate military from economic motives in railway construction. However, on either reading it is the case that the state spent large amounts on economic services. These were almost equal to that spent on military purposes, (not to mention the economically productive aspect of the latter category). It would be fair to say that the revisionist swing has gone too far. Thus Kahar's calculations have underestimated the growth inducing quality of the state's expenditure policies. In addition, a certain amount of the state's military policies had growth inducing qualities. The amount spent on economic services (on any reading) was vastly superior to that of any other state; particularly in relation to Germany, Britain or America (all with vastly superior levels of per capita national income). If Kahar's figure of 16.4% for 1903 is too low, von Laue's estimate of 52% is certainly too high.

Perhaps ironically, despite the upward revision of Kahar's "economic category" figure, the substantial downward revision of von Laue's figure leads onto a reappraisal of the late development model itself, (which propagates the idea that the state budget had to a large extent been responsible for the development of a broad based industrialisation). That there is some truth in this is not disputed here. However, von Laue has certainly exaggerated his claim that state spending on economic services was so large as to provide the foundation of Russian industrialisation. Overall, it is the case that Tsarist expenditures marginally favoured the military, and that the stimulation of a broad industrialisation programme was not intended within the ambit of the government's fiscal policy. Nevertheless a limited industrialisation was helped by the state's fiscal policies. In further contrast to Kahar's position, it was also the case that the state unwittingly laid the foundations for the rise of a limited consumer-based demand. In this connection, the point of departure must be the recognition of the existence and development of a consumer-based set of industries (Crisp 1976: Ch. 1; Gregory 1974).

Important recent research by Olga Crisp, Paul Gregory and Peter Gatrell has shown Gerschenkron's thesis of agricultural stagnation to be incorrect. In particular, it is argued that the "rigid" emancipation laws preventing peasant movement were in practice

frequently flouted. Crisp has analysed internal passport data and Gregory has examined data on industrial labour. Both argue that the peasant moved quite frequently between agriculture and industry (Crisp 1976: Ch. 3; Crisp 1978: 323-333; Crisp 1988: 11-12; Crisp 1989: 57; Gregory 1974; Gatrell 1986: Ch. 3). There is the additional fact of relatively rapid per capita growth of Russian agriculture from 1885-1913 (Goldsmith 1961; Gregory 1982: Ch. 6; Gregory 1984: Ch. 2; Gatrell 1986: Ch. 4; Crisp 1988: 4-7). Gregory concludes that the volume of retained cereal crops rose both in absolute terms as a proportion of net output between 1885-1889 and 1897-1901 (1982: 72-79). In contrast to late development theory, rural consumption actually increased. To an extent the reasons for this growth of peasant income were premised upon the unintended consequences of the state's fiscal policies.

After peasant emancipation, peasants found that they were able to retain the surplus that previously would have been handed over to the landowner. At the same time, the economy became increasingly monetised. In particular the state raised the rate of fiscal extraction. Since these dues were required in hard currency, peasants needed to either sell their crops at market for hard cash, and/or they could seek industrial employment (Falkus 1972: 56). Through such heightened economic activity, the peasants and even more so, the growing proletariat could meet these increasing fiscal payments. Furthermore according to Crisp, the peasant managed to retain a surplus after payment of taxes (1988: 4-10). This contrasts with the Gerschenkron position, which states that the peasantry were exhausted by high taxes (1962: 125-127, 130; see also This surplus played an important part in the stimulation of the consumer industries, which incidentally, formed a larger proportion of total industry than the heavy sector. That is, far from stifling peasant purchasing power as Gerschenkron had argued, state taxes had a positive economic multiplier effect (Development path 3). It is important to note that the development of consumer demand was stimulated in part by the unintended consequences of the state following its own fiscal-military impulses (development path 3), as opposed to any long term intended strategy (development path 1). The principal question to emerge from this discussion however is, did the creation of a

consumer demand combine with the growth of heavy industry to enable a full industrialisation (as argued by Gerschenkron (1962: 119-142, 1970: 122-124) and Walt Rostow (1971a: 87-88, 117, 1971b: 65-66, 93-94, 1978: 427-428; see also Lyaschenko 1970: 563-565; Pollard 1981: 242).

### The Russian Patrimonial-Bureaucratic Economy

The question posed above can be rephrased to read, what evidence is there that the economy had failed to "take-off" after 1907 into a modern form of sustained and autonomous development? In 1914 the economy suffered from a chronic dualism with a relatively modern industrial sector and a large (and relatively) backward agrarian sector, even though the latter had developed quitted considerably (Gregory 1972: 432). Indeed it is widely accepted, even by the revisionist historians, that Russia's worst-best sector - agriculture - remained huge and acted as a deadweight holding down the economy (Gregory 1972: 427; Rogger 1983: 127; Kemp 1983: 147). Furthermore, the country was predominantly agricultural. Estimates of the size of the industrial workforce vary from 3 million (P. M. Kennedy 1988: 233) to about 9 million (Rashin, quoted in Gatrell 1986: 85; also, Ellison 1965: 539), and finally to 14 million (P. R. Gregory 1972: 433). This dualism existed not only between sectors, but perhaps more importantly, within the industrial sphere itself. Businesses were divided between cartel and Kustar. Entrepreneurship was split between a modern sector of trained technologists opposed to a traditional sector of corruption and incompetence; markets were split between an urban demand and one of rural tastes; and finance was divided between a new set of industrial banks and the older Russian state banks (Trebilcock 1981: 275; Rogger 1983: 127). Furthermore, the horse power used in industry stood at 14.7 per 1000, which matched the British figure of the 1830's and the German, for the 1860's (Bairoch 1976a:)

According to Paul Gregory and Mark Falkus, by 1914 the autonomous preconditions for modern forms of growth had not emerged.

"One can say that Russia was obviously backward relative to its major European competitors both at the beginning of the 'modern period' (1861) and at the end of the tsarist era. This conclusion emerges unambiguously from the per capita figures and from social indicators" (Gregory 1982: 159; Gregory 1972: 422-423, 432).

Indeed per capita income remained abysmally low when compared to other European countries (see figures presented in chapter 4). According to Gregory actual Russian per capita income was 20% that of the British and a mere 11% that of the American levels (1982: 155-157). According to the calculations made in this thesis, per capita Russian national income was 24% that of the British, 31% that of the French, and 36% that of the German (see table 4.5).

"It did not take a passion for progress to feel that the vicinity of the 1914 level which stamped Tsarist Russia as the most backward of the great powers of the world was not an ideal resting place (Erlich, quoted in Falkus 1968: 62).

To add to these problems, Russia was severely in debt, to the tune of 8.8 billion roubles in 1914 (Crisp 1976: 202; Feis 1930: 210).

However this is not to preclude the fact that there was strong economic growth after 1870, and accelerating after 1885. As Gatrell argues,

"... any characterisation of the Russian economy which implies that the population in general was caught in a poverty trap fails to do justice to the record of economic growth, particularly in the period after 1885" (1986: 46).

Indeed this chapter has argued that there was indeed such strong growth. However the revisionist swing can only go so far. To reiterate Gregory, the fact remains that in 1913 per capita incomes were at the bottom of the European league.

Thus Gerschenkron's view of 1906 as constituting the first year of an industrial take-off into autonomous growth is wide of the mark. Logically, this also means that the "Great Spurt" of the 1890's was not as large or significant, as the concept would imply. Furthermore,

the high growth rates of the Witte period appeared large, given that growth rates upto that time had been generally fairly low. In addition the Russian economy was starting from a very low base after 1860, and thus almost any development would give rise to high growth rates. Using the figures presented in this thesis (Table 4.5 and Appendix 1) we can quantify the Great Spurt from a comparative perspective. On the basis of these figures, it is significant to note that the differential between Britain and Russia per capita income had by 1913 narrowed by no more than one half of one per cent. We need therefore to revise downwards Gerschenkron's central claim, that the great spurt "was truly a great one" (1962: 129).

A further problem is that the growth rates witnessed after 1906 were not derived from an autonomous societal based development. Far from dropping out of the development process, the state actually played a vital role in stimulating the economy from 1906-1914, mainly through the unintended consequences of its rearmament programme after the traumatic military defeat at the hands of the Japanese in 1905 (See especially Gatrell 1982: 99-110; Trebilcock 1981: 281-284; Kemp 1983: 146). As well as indirectly stimulating the economy through its substantial rearmaments programme, the state also intervened directly in a whole variety of ways. For example government guarantees against share capital were necessary so as to induce investment. The state budget maintained its not insignificant growth-inducing features (particularly through railways and communications). As Crisp points out,

"The need for the State Bank to undertake a programme of building grain elevators in 1911 is a measure of the weakness of the autonomous forces and a significant pointer to the still vital role of the public sector" (1976: 34; see also Falkus 1972: 81).

In sum, to answer the question posed above as to whether Russia fully industrialised, though it would be wrong to conclude as does Raymond Goldsmith, that Russia had fallen further behind its European competitors, we can agree with him when he states that Russia was still underdeveloped on the eve of Tsarist autocracy's demise in 1917 (Goldsmith 1961: 441,443; see also W.Nutter 1962; Pollard 1981: 243).

Most importantly, this conclusion stands even when we resort to Gregory's higher estimates of national income and net national product growth rates (1982: Ch. 3; see appendix 1). Indeed in the words of Paul Gregory,

"One can say that Russia was obviously backward relative to its major competitors both at the beginning of the 'modern period' (1861) and at the end of the tsarist era. This conclusion emerges unambiguously from the per capita figures and from social indicators" (1982: 159; 1972: 422-423, 432, my emphases).

In short, not only did Russia fail to enjoy either a "Great" Spurt (1890's), or a "take-off in consumer demand (1906-1914), but managed only to inaugurate a partial industrialisation

## SECTION 5

### Capitalist versus Autocratic Rationality: Patrimonial Impulses in the formulation of Industrial and Tariff Policies

#### Patrimonialism, Industrialisation and the Downward Political Multiplier

In the previous section it was argued that tariffs had an important revenue function. This meant predominantly the taxation of industrial raw materials and semi-manufactured goods (inputs to production). The chart (Table 3.5) shows that from the 1890's onwards, raw materials and semi-manufactures were taxed as highly as the finished product. Furthermore, in some years inputs were taxed at a higher rate than the finished article. This had an adverse effect whereby Russian manufacturers had to pay higher input prices (*ceteris paribus*) as a result of the tariff, than their foreign competitors (Hoffding 1912: 86; Crisp 1976: 29-30; Kahan 1967: 470-471; Gatrell 1986: 167). The net effect of this tariff system was to make domestic industry less competitive than its foreign rivals within the Russian market. In other words, Tsarist protectionist policy subsidised foreign

competitors with an export bounty at the expense of indigenous Russian producers.

It is widely argued that a tariff is applied for the rational economic reason of boosting domestic industry over foreign competition. Here is a clear example where domestic industry was to a certain extent sacrificed on the state's fiscal altar. That is, as was argued in the previous section, tariffs had been constantly increased on these inputs to production so as to provide the state with urgently required revenues. The taxation of these inputs to the levels witnessed in Russia provides a striking contrast with the British situation. Whilst the British state almost resorted to tariffs in the Edwardian era so as to provide revenues (to fund pensions and dreadnoughts), taxes on inputs to production were strictly ruled out on the grounds of economic rationality. This policy was itself the result of the liberal state's desire to maintain a competitive economy. Such a rationality contrasted with autocratic policy. (See the final chapter)

However it was not simply the desire for revenue that had produced such an economic irrationality; for, what this fails to explain is the state's willingness to accept such a position in the first place. The reason lies at a more fundamental level, and takes us to the heart of the industrialisation process itself. The policy was premised rather on a powerful set of political rationality preferences.

By the end of his term in office Witte began to pressurise the Tsar to remove some of the existing barriers to his proposed plan of full-scale industrialisation. As Max Weber has made clear, capitalism requires a system of law which facilitates the formation of private companies. Furthermore, capitalism requires a rule of law and a legal system conducive to the exchange of goods; "Predictability, continuity, trustworthiness and objectivity of legal order are all essential for industrial capitalism on a large scale" (Weber 1922/1978: 1095). Witte complained to Nicholas over the lack of such a legal system in an 1899 memorandum, combining it with a plea for a

greater influx of foreign capital (also important to his industrialisation programme).

"It must also be stated that the influx of foreign capital does not proceed as easily and freely as is necessary to assure its continuation until the demands of the country acquire the help of foreign savings. On the contrary there are in our country such obstacles to its influx as exist in no other civilised country. We do not have the corporation laws which are in effect in the majority of civilised countries. Under such laws, everyone who wishes can form a joint stock company by fulfilling certain conditions stipulated by law. In Russia a foreign company can be opened only by a special decree of the committee of ministers which requires the confirmation of Your Imperial Highness... In permitting the activities of foreign companies in Russia, the government retains the right to revoke at any time that permission and to demand the liquidation of any company. Obviously every detail of the influx of foreign capital into Russia is kept under the strictest control by the central and local authorities... Under these circumstances one should rather speak of an excess of government control of foreign capital which takes its chances from going to Russia, and of unnecessary limitations imposed upon its freedom of investment. Furthermore, because of the difficulties and tribulations which a foreign entrepreneur has to go through in Russia, because of all kinds of petitions and applications which he has to submit to provincial and central authorities and because of constant interference not only by the law but also by administrative regulations the influx of foreign capital into Russia is not yet copious enough" (quoted in von Laue 1963: 180-1).

Witte's industrialisation programme thus required more foreign capital and a more conducive legal system, in particular the establishment of property and contract law so that social groups would be able to act on the basis of expectations grounded in legal guarantees Raeff 1966; Pipes 1974: 183; Szamuely 1988: 50-51; Bendix 1978: 106-123, 504-508). The lack of such a rational-legal framework was a result of the patrimonial elements which remained strong throughout the nineteenth century. Predictability and property rights were consistently rejected in favour of Tsarist arbitrariness. Similarly the "distinction between law and administration so crucial in a liberal political system remained vague in practice and the autocracy refused to recognise the judicial norms that it had enacted itself" (McDaniel 1988: 20). The establishment of private property has historically been poorly developed in Russia. Property rights had been granted by the state and were linked to political status. Indeed the process by civil society is forced into state service is according to Max Weber. the essential regime strategy of patrimonialism (1922/1978: 1006-1069; see also Pipes 1974: Ch. 4; Blum



1968: Ch. 11). There were many ruling class strategies employed in the creation of a subordinate nobility. For example, landowners that held political office were constantly prevented from holding office in their localities (Raeff 1966: 47; Pipes 1974: 173). The weakness of property rights was intensified by the peculiar Russian law of inheritance, which prevented primogeniture. Thus through time there was a perpetual splitting up of estates (Szamuely 1988: 55; Raeff 1966: 16-17). As a result no rival power to autocracy could arise within civil society. This logic was imputed not only to "feudalism", but also the rise of "capitalist property relations in the late nineteenth century

Ruling class strategies were also an important factor in the prevention of the emergence of a rule of law, as well as conducive company law. The problem was that such a legal reform would involve a compromise of the autocracy's power. During the nineteenth century, autocratic power became decentralised within the central bureaucracy. For as this bureaucracy expanded so too did the number and complexity of the tasks to be performed. As a result, the Tsar lost his monopoly of policy making power in part, because he simply could not read each piece of legislation and in part because bureaucratic elements sought to implement their own political desires. To prevent the dilution of their power, successive Tsars in the nineteenth century turned to specific monarchical strategies, which would maintain their power preserve. These were numerous.

The first weapon was to prevent the formation of a rational-legal mode of calculation within the state bureaucracy. Historically, patrimonialism works "arbitrarily" and is not limited by abstract rules. The Emperors of the nineteenth century managed to maintain this very element of arbitrariness within the bureaucracy. As part of this process high ranking officials in the nineteenth century lacked the separation of the all important private and public spheres. For political administration was treated as a purely personal affair of the ruler. Personal discretion and favour or disfavour of the ruler remained central to the bureaucracy right into the early twentieth century. Decisions were made on an ad hoc basis and in strict contrast to "ideal type" bureaucracy, the position of an official in

late Imperial Russia derived from his personal submission to the ruler (on the general phenomenon of the patrimonial official, see Weber 1922/1978: 1028-1031, 1088-1090. In the Russian context see especially, M. Raeff 1957].

In contrast, in the states of Western Europe, as bureaucracies grew, they challenged the monopoly of political power held by the rulers. One important method of doing so was through the establishment of the rule of law. The "autonomous" legal order consisted of a theoretical separation of administration from adjudication and legislation and the growth of a method of legal reasoning independent of the mode of reasoning prevailing in the political sphere. But in Russia, however, throughout the nineteenth century, the Emperors ensured that the rule of law was prevented from emerging. As we noted above, since a rational-legal order was also prevented, the Tsar was able to maintain a sphere of political autonomy within the bureaucracy. Indeed the dynamics of royal defence constituted a political constancy up to 1917. Thus "although in some measure limited by the high bureaucracy, Alexander II successfully played factions off and never permitted individual ministers or groups of officials to institutionalise and therefore possibly perpetuate their fleeting victories" (Orlovsky 1981: 18). As the nineteenth century progressed and the ministries took on more roles, so the Tsars increasingly resorted to an ever stricter policy of "divide and rule", favouring one ministry and then another. In particular, the Tsar constantly played off the Finance ministry with the Ministry of Interior. As Yaney put it,

"The Tsar would support one of them against the other, so as to prevent their unification in to one massive political organisation, and it was this fact that led to the Tsar's personal favour continuing to play such a vital role in government 1880-1905" (Yaney 1973: 307)

In addition, as in the German Kaiserreich there was no ministry or person beyond the Emperor himself in whom decision-making was formally concentrated. Divide and rule had prevented it. The Russian Emperor had in common with his German counterpart the right of "immediatstellen" which enabled persons outside the government a private audience with the Tsar. This occurred frequently and was an

important factor in the undermining of a strict chain of authority both in the bureaucracy and in the army (see Mann 1989a: 13 for a similar presentation in the German context).

Indeed most of the Tsar's ministers readily sought the support of the emperor against their colleagues if they felt they had any hope of getting it. Given the highly unpredictable nature of the Tsar's whims, the high ranking officials became very insecure both in their tenure of office and in the support they could expect for their policies. To follow through a consistent line the official had not only to forestall opposition from his own colleagues in the administration but also had to contend with the highly influential counsel of the personal friends of the monarch, men without official status in the governments.

As Taranovsky put it,

"the Tsar was caught in a bind. No longer fully master of his house because of the growth of complexity of governments and the degree of institutionalisation that it entailed, the Tsar could stubbornly obstruct the development of those institutions while making certain that the personal power principle embedded in them was never extinguished" (quoted in Orlovsky 1981: 12).

As with the German state, policy making was the outcome of the interplay of numerous power actors whose relations had been left deliberately informal and factionalised so as to preserve monarchical freedom of action.

As a result, the government fluctuated from one direction to another and failed to achieve a unified and coherent policy. As the central bureaucracy split up into numerous competing ministries and factions each vying for the Tsar's favour, this "centralised bureaucratic struggle" became institutionalised into the policy making arena leading on to what shall be termed the "institutionalised paralysis of government".

Nowhere was this to have a more disastrous consequence than in the field of economic development and ultimately in the international

military arena. Speaking of the patrimonial state in general Weber argued that,

"as a rule the negative aspect of this arbitrariness is dominant because - and this is the major point - the patrimonial state lacks the political and procedural predictability indispensable for capitalist development which is provided by the rational rules of modern bureaucratic administration. Instead we find unpredictability and inconsistency on the part of court and local officials, and variously benevolence and disfavour on the part of the ruler and his servants" (1922/1978: 1094-95).

Tsarism's refusal to renege on its power principle ultimately undermined Witte's long-term industrialisation project. Witte's insistence on expanding the process of industrialisation clashed with autocracy's desire to remain autonomous of indigenous economic groupings. Autocracy was only interested in bourgeois elements in so far as they could satisfy its own military impulses. Beyond this sphere autocracy was not prepared to go, and capitalism remained blocked. With its historical disdain for rival sources of power, Tsarism did much to inhibit the organisation of the industrialists as an interest group fearing that they may overstep their state-designated mark by becoming independent of government control. They had the further disadvantage of tending to bring in their wake a proletariat which the autocracy believed had revolutionary potential. In inhibiting the growth of a bourgeoisie the autocracy was successful;

"Indeed if Western experience had given rise to the assumption that the capitalist bourgeoisie would fight for representative government and political liberty, then the conduct of Russia's business class belied that assumption" (Rogger 1983: 122).

It was not just that this class remained extremely small right up until 1914, but even Plekhanov, the great Russian revisionist, was forced to note the bourgeoisie's political inertness even though he continued to believe in its progressive role. Such "pragmatism" which had grown up as a counter-weight to Bolshevik "idealism" seemed in the light of the bourgeoisie's political ambitions to be as equally idealistically founded.

Indeed the bourgeoisie's essential conservatism and narrow social base kept them small and ineffective. Members of this class who actually sat in the Duma never made up more than 9% of its total membership. Furthermore, they often collaborated with the conservatives and rightists who now wished to strengthen the state and resist the democratisation of political institutions. Thus in agreement with Mann, constitutionalism reinforced the developments of an autonomous organic capitalist class, whereas autocracy tended to block it or cross cut it with other political divisions (1986: 479). Pipes estimates that the bourgeoisie comprised a mere 5.8% of Duma members. He goes on to state that such an amount is "...surely a pitiful share for the bourgeoisie in an institution supposed to have embodied 'bourgeois' rule in Russia" (1974: 219-220).

The state throughout the nineteenth century made it difficult for entrepreneurs to set up in business (Pipes 1974: 193-197; Owen 1982: 77). In addition to the almost prohibitive reams of bureaucratic red tape, entrepreneurs had to face a hostile climate in terms of business trust and confidence. Indeed according to Norman Stone, 'trust' simply did not exist (1984: 210; see also McDaniel 1988: 21-23). More importantly, the bureaucracy had imposed strict limitations on small businesses. Where there were partnerships (full or trust), the 1807 Imperial Manifesto decreed that such partnerships could only hold for one company and could not extend beyond this bare minimum. Most importantly, company liability was "unlimited". Most importantly, company liability was "unlimited". Consequently only a small amount of entrepreneurs dared to set up in business. Moreover, Russian businesses often remained small. There was as a result a dearth of middle-sized companies. Even the large industries operated under the terms of the restrictive law of 6 December 1836, which gave the bureaucracy immense authority over the establishment of such corporations, right down to 1917 (T.C. Owen 1982: 64-70).

In attempting to create favourable conditions for the rise of capitalism and a bourgeoisie, Witte was frustrated by the patrimonial impulses of the autocracy. This then was the nature of the fifth development path whereby the patrimonial element of the state was responsible for blocking full industrialisation in a manner

representative of capstone government, (the downward political multiplier).

Through a combination of geopolitics, adverse personal intrigues, centralised bureaucratic struggle with several other important ministries and the Tsar's total loss of confidence in his finance minister for a host of reasons, not least his desire to go beyond autocracy's desire for a partial industrialisation, Witte was dismissed in 1903.

## SECTION 6

### Conclusion

According to Gerschenkron and von Laue, the state consciously intended to industrialise through a wide-ranging economic programme. In this chapter it has been argued that industrialisation was determined to a large extent by the unintended consequences of the state following its own autonomous fiscal, political, economic and military interests. Some of these imperatives complemented and stimulated industrial development (Development Paths 1, 2 and 3), whilst others blocked development (paths 4 and 5). Sometimes this was intended (Path 5). At other times the economy was retarded as an unintended consequence of the fiscal-military policies of the state (Path 4). However, there were significant moments, as Gerschenkron argued, when the state intervened to set up a broad-based industrial programme (Path 1). These formed only a part of the story, and were criss - crossed by the multiple actions of the state as it followed its own goals. As a result, the economy had only partially industrialised before the onset of the First World War.

Tsarist tariff policy reflected this complicated industrial process. Thus tariffs were used, particularly upto 1897 to provide a positive balance of payments, in order to set up the conditions for gold conversion, in turn necessary to attract foreign investors. This was

certainly part of a long term, intended industrial programme (Path 1). However, overlapping this logic was the state's programme of attaining a stable currency in order to attract war-time loans (Path 2). In addition, as the state sought to promote heavy industry in order to shore up its military capacity, so high tariffs were granted (to a small group of producers) in order to stimulate their development (Path 2). However, as the state increased its expenditure on defence requisites, so it looked for new sources of revenues. To this end the state increased tariffs on industrial inputs, which had the unintended result of reducing the competitiveness of the final Russian product in the home market (Path 4). However, this was only in part the unintended consequence of Tsarist budgetary policy. In addition this was enabled by the patrimonial impulse of autocracy, which sought to prevent the emergence of a strong capitalist and proletarian class, in order that it may maintain its despotic autonomy (Path 5).

In addition, both industrial and tariff policy were stimulated in part by the process of "centralised bureaucratic struggle". These areas of policy were pushed in different directions by various political struggles that occurred at the heart of the state itself. Such major struggles occurred between the ministries of Finance and Interior, Finance and War and lastly, Finance and Autocracy. This means that we must refine the monolithic conceptions of the state as presented by the major theories; notably, Late Development, Realist, neo-Marxist and neo-Classical.

We may conclude that there is a clear sense in which there is no state, since that body is little more than an agglomeration of numerous agencies or satrapies, each vying for favours and power. Accordingly, there is little sign of an overall coherent industrial or tariff policy since these were not subject to the rational designs of one ministry (notably the FM, as Late Development theory claims), but were determined by the multiple interactions of different agencies which implemented their own various fiscal, military, political and economic imperatives.

## CHAPTER 4

### The Politics of Free Trade and Protectionism in Liberal (Unitary) Britain 1870-1910

#### SECTION 1: THE ECONOMIC FOUNDATIONS OF TARIFF PROTECTIONISM AND IMPERIAL PREFERENCE

##### Tracing the Export (Economic) Origins

From 1880-1910 the Conservative party moved from a belief in free trade to an embrace of the protectionist ideal. This occurred in approximately three phases, the periods spanning 1880-1897, 1897-1906, 1907-1910. These have been separated out for analytical purposes. This allows us to analytically locate two essential criteria which informed the shift to protection. Firstly, the Unionist embrace of protectionism intensified with the passing of each phase. And secondly, over time the fiscal aspect became more dominant. That is, whilst the initial calls for tariffs had an economic foundation, subsequently they emphasised the fiscal aspect until by 1908, the Unionist Party supported protectionism overwhelmingly for fiscal reasons. We shall begin therefore with the first historical phase of tariff reform which explicitly based its arguments upon an economic foundation. This will lead onto a discussion of the second phase and an analysis of the economic imperatives accorded to preference by the Chamberlainite movement.



After 1880, worries were expressed concerning Britain's export capacity. These were articulated for the most part by two institutional organisations - the National Fair Trade League and the Imperial Federation League, an offshoot of which was the United Empire Trade League. In 1881, the National Fair Trade League was created. It explicitly blamed the distressed conditions in British industry on the revived protectionism of various continental countries which were coupled with the British government's intransigence to fight for reciprocal trade opportunities via retaliatory duties (See B. H. Brown 1943; S. H. Zebel 1940: 161-168). (In fact these criticisms were very weak - European tariff levels were still very low in 1880. Furthermore, whilst the British state did not pursue retaliatory tariffs, it would not have been economically rational to have done so - see next section).

The League's proposed solution was for tariffs on manufactured goods and agricultural produce, with the latter being waived for those colonies prepared to accept British manufactured imports "in reasonably free exchange" (see Zebel 1940: 169). Specifically, they wanted a 10-15% duty upon manufactures. In addition, tariffs on foodstuffs should be accompanied by a compensatory reduction of duties on tea, coffee and sugar. (Two decades later, Joseph Chamberlain would call for a very similar strategy). Their calls for a parliamentary investigation into the causes of the Depression were unheeded by the Gladstone government. However the following Conservative government was more responsive, granting a royal commission to examine Britain's difficulties. The Northcote Commission reported that whilst there were difficulties, the remedy would be for trade to be maintained on a free basis. The Fair Trade League collapsed partly for the reason that the "official mind" was still committed to free trade and partly for party political reasons.

As noted already, in 1886 the Home Rule crisis had led to a major defection of members from the Liberal party. It was important that these new members were kept within the Conservative party. It was the need to appease the "Liberal-Unionist" faction that led Salisbury to reject any calls for protectionism (Simmel 1960: 84-85. B. H. Brown 1943: 63. Sykes 1978: 7. N. McCord 1970: 127). This was coupled with

the highly effective Liberal attack made at the time upon protection - the raising of the "dear food" cry. Such an attack rendered tariff reform - at that time - an electoral liability. Thus Salisbury's dismissal of tariff reform, coupled with an upswing in the business cycle led to the eclipse of the Fair Trade League.

In 1884 the Imperial Federation League was founded (see J.E. Tyler 1938: 107-115, 176-209). In response to its pressure, Salisbury called the first colonial conference in 1887. The League was initially founded "to combine on an equitable basis the resources of the empire for the maintenance of common interests and adequately provide for an organised defence of common rights" (quoted in Zebel 1967: 137). However the discussions were not fruitful. The colonies were clearly reluctant to share in Britain's military and financial burdens (see especially Lance Davis and Robert Huttenback 1988: ). It was however suggested by one conferencee - Jan Hofmeyr of the Cape Colony - that a 2% Imperial Customs tariff be implemented to meet the growing costs of the empire's defence (cf. D.Gordon 1965: 91-92). However this was contrary to the existing free trade principles of the mother country and was in any case prohibited by existing commercial treaties. Although the Fair Trade League brought considerable pressure to bear on the Federation League it was to no avail. The latter's directors rejected a uniform customs code on the grounds that it was impracticable due to the fundamental differences in local conditions. This led to fierce internal wrangling which when coupled with government intransigence caused the demise of the Imperial Federation League. Nevertheless the sentiment for closer links with the colonies had been born and would live on to reemerge through the Chamberlainite movement. (In the meantime this colonial sentiment was institutionalised through organisations such as the British Empire League).

The first phase of tariff reform was based fundamentally on the need to replenish the lost market opportunities of the late nineteenth century, as well as to provide the foundations for protecting domestic industry in an increasingly less open world economy. (Note that both these requisites were not necessarily mutually compatible, mainly because large elements of the Imperial Federation League were

hostile to the raising of British tariffs). To this end an expansion of colonial markets (through preference) was called for. Although there was a continuation of this "export-capacity" argument in the second phase, it became increasingly less significant. As we shall see in the next section the basic premise of a loss of export markets upto 1900 was empirically accurate (though it will be argued that this represented neither a structural reduction in Britain's ability to export, nor did it signify the "decline" of the economy).

The standard explanation of the rise of imperial preference argues that Chamberlain sought a closer link with the colonies so as to allow Britain to preserve its position as the pre-eminent world industrial power given the fact of her economic decline (See A.L. Friedberg 1989: 21. D.A. Lake 1988: 149-151). There is a very strong prima facie case for making this argument since Chamberlain himself explicitly articulated it on many occasions. The colonies, Chamberlain argued, could take an increased supply of imports from Britain in return for a preferential tariff on foodstuffs and raw materials to be levied by the mother country. However this "solution" to Britain's "export problems" was riddled with contradictions which rendered the whole project - in terms of this economic frame of reference - a self-defeating own goal.

#### **The Economic Contradictions of Imperial Preference 1**

Perhaps one of the most serious problems that closer imperial co-operation would pose was the loss of export markets in the "first world". This would be particularly damaging given the British dependence upon non-imperial markets. Significantly this was recognised at the time. Charles Ritchie pointed out to Chamberlain that "foreign countries...now take more than twice as much of our

exports as are sent to the colonies" (quoted in Sykes 1978: 34). Indeed the fact was that approximately 66% of Britain's trade was conducted within the first world (P.J. Cain 1979: 50; J.A. Hobson 1902: 34; S.B. Saul 1965: 6; F. Crouzet 1975: 223; T.J. McKeown 1983: 80). It should be pointed out that according to the Fiscal Blue Book (1903) this was true for 1890, but that in 1902 the colonies were absorbing 42.1% of British exports (Semmel 1960: 149). However the 1902 figure (quoted as 39% by O'Brien), represented a peak and that in general the share of British exports despatched to the colonies fluctuated between 25%-33% (P.K. O'Brien 1990: 16; see also Davis and Huttenback 1988: 161). Indeed most of Britain's exports were destined for the First World markets. Davis and Huttenback reckon that in 1860-2, 75% of British exports went to the First World, 65% in 1885-7 and 68% in 1910-12 (1988: 160; see also the figures in J.A. Hobson 1902: Ch. 2, and Saul 1960: 219). Saul points out that exports to the empire after 1900 actually declined and that furthermore, "but for the extraordinary rush of exports of cottons to India in 1912 and 1913, the statistics would have shown a marked decline in the empire's share of Britain's trade over this period (1960: 215). In addition, the extent of the colonies as sources of supply of foodstuffs and raw materials for the mother country was not especially significant. In 1860, 20% of imports to Britain came from the empire rising only to 25% before the First World War (O'Brien 1990: 15. See also J.A. Hobson 1902: 30-39; F. Crouzet 1975: 215, 219; W. Schlote 1952: 99). As O'Brien goes on to argue, those empire commodities could be obtained elsewhere and "British consumers paid competitive prices for imported primary produce regardless of its origins" (1990: 16). In addition, if we take British trade in its entirety with the colonies, (sum of exports, re-exports and imports), the 1909/'13 figure of 27.5% was only marginally greater than the figure of 25.4% for the period 1854/'7 (Crouzet 1979: 223).

Preference would have jeopardised Britain's export capacity vis-à-vis the all important "First-World" markets, since tariffs levied against these foreign countries would have led to retaliation. At the very least, Britain would have risked foregoing the benefits she acquired from her most favoured nation (MFN) status. The withdrawal of foreign MFN treaties would have seriously jeopardised her trading

capacity in these markets. This could only be remedied by the granting of extra markets with her colonies (as Chamberlain prescribed). However the extent to which the empire could absorb an increasing share of the mother country's exports was very limited (P.J.Cain 1979: 49). Indeed by 1900 British exports to the colonies were rapidly reaching saturation point. And even if the colonies could have absorbed a larger share of Britain's exports, they certainly could not have taken a 200% increase on the 1900 level (necessary to rid Britain of her reduced foreign markets in the first world). Admittedly Britain would still have been able to maintain exports within the first world after her swing to preferential tariffs. It was however very unlikely if not impossible, that the colonies could have absorbed even the trade that Britain would have lost in the first world through tariffs, let alone take any additional increments which was the essential basis of imperial preference in the first place. As Charles Ritchie pointed out to Chamberlain "...a slight differentiation of duties might easily diminish the trade of the U.K. with foreign countries by a much larger amount than could be counter-balanced by any possible increase of trade with the colonies whose markets this country already to a large extent commands" (quoted in Sykes 1978: 34). Even more problematic was the fact that Britain was the great entrepot for world trade. Accordingly, tariffs on foreign imports would have certainly involved a heavy sacrifice particularly on food and raw materials whose cheapness had been vital to Britain's competitive edge (Fraser 1966: 229). Thus Marshall correctly pointed out that,

"England is not in a strong position for reprisals against hostile tariffs, because there are no important exports of hers, which other countries need so urgently as to be willing to take them from her at a considerably increased cost; and because none of her rivals would suffer serious injury through the partial exclusion of any products of theirs with which England can afford to dispense" (quoted in Saul 1960: 135)

Imperial preference would have created further problems for the mother country. Through 1880-1914 although British exports to the colonies remained more or less constant, (see S.B.Saul 1965: 6) the empire however received larger proportions of textile, pig iron and iron manufactures from the mother country (see W.Scholte 1952: 166-167). The colonies were merely providing an outlet for Britain's most

old and backward industries (Cairncross 1975: 103-208, 222-246). Thus preference would almost certainly have served to shield inefficiency, the opportunity cost of which could have been the creation of new higher growth rate industries (see Platt 1972: 103-135). In addition, the empire allowed Britain to concentrate on the textile sector, where demand grew slowest. As a result, Britain paid less attention to the all important capital goods sector (Crouzet 1975: 224-5, 227; Lewis 1957: 583; Lewis 1978; Kindleberger 1978a; De Cecco 1975; for a general discussion of the nature of Britain's exports see Aldcroft and Richardson 1969: 72-74, where they argue that Britain's share of exports to the colonies merely added to the home economy's problems). Preference therefore, would have blunted incentives for Britain to adapt and remain competitive (Friedberg 1989: 84).

This backs up Hobsbawm's argument that in the decades up to 1914 imperial markets had led British firms to postpone adjustments necessary to meet the increased German and American competition (1969: 116-126). Patrick O'Brien has posed this argument in the form of a counterfactual where he states that an early "delinking of the economy from commerce with the empire, may have promoted faster productivity growth and the structural changes required by the British economy to meet the challenges of the twentieth century" (1990: 18, 1988: 184). Aldcroft and Richardson have disputed this line of argument, pointing out that Britain's exports to the empire were no greater in 1914 than in the mid nineteenth century. Rather, faster productivity growth could have been achieved through more innovative entrepreneurialism (1969: 154-156). However, this merely reinforces the Hobsbawm/O'Brien point; namely that the existence of fewer imperial markets open to Britain's outmoded older industries would have forced more innovative practices to have emerged. Furthermore, there would have been less opportunity to retreat behind imperial preference. Thus in sum, an extension of trading links with the empire would merely have undermined economic growth further

Perhaps most damaging of all was the foreign retaliation that Britain would incur if preference and tariffs were levied. America and Europe earned through their exports to Britain the vital surpluses necessary to pay for the imports from the primary producing

countries (Kirby 1981: 19; Aldcroft and Richardson 1969: 82). Since British protectionism would have led to a subsequent fall in these surpluses, Europe and America would have been forced to turn elsewhere. If Britain had granted imperial preference, it was likely that American and European competition would have extended to other markets important to Britain such as those in Latin America or the Far East (Cain 1979: 50. Also, Saul 1960: 45, 63-64, 228; F. Crouzet 1979: 226). An alternative scenario is presented by David Lake who argues that British preference could lead to an American strategy of freer trade, premised by her unwillingness to lose her substantial export markets of Britain and her colonies (Lake 1988: 48-56; 1989: 152-163. For a critique of this argument see Chapter 5).

The economic problems that imperial preference would give rise, would also be felt within the colonies themselves. Firstly many colonies had an "infant-industrial" base. Most would have been unwilling to have them exposed to the full force of British competition (which would have had to have happened if Britain was even to maintain her export capacity, let alone increase it). (Zebel 1967: 140. R. A. Rempel 1972: 17. P. J. Cain 1979; Tyler 1938: 167, 170) As Merriman pointed out at the time,

"...to colonists, the idea of union for the purpose of securing the manufacture monopoly of Great Britain by preserving the colonial markets does not in any respect strike a popular key note and is in fact more likely to make for discord than for union" (quoted in Tyler 1938: 171)

. Furthermore Green has argued that it was this fact that had led to the lukewarm reception that was granted preference by the colonies (E. H. H. Green 1985: 667). Nor would they have been willing to accept indefinitely the role of primary goods producers which this policy would imply (Freidberg 1989: 84-85). However, perhaps the most damaging effect that preference would have upon the colonies would be to suffocate her of government revenues.

As with Germany, Russia and America, tariff duties levied by the colonies on foreign imports were a vital source of government revenue, (the reasons for this to be examined later on). The contemporary, Merriman, argued that whereas customs as a proportion

of total tax revenue was 27%, in the colonies the figure was between 60%-90%. Furthermore, he argued that if Britain granted preference (mainly under zollverein conditions of imperial free trade), the colonies would be forced to turn [unwillingly] to increasing direct taxes (see J.E. Tyler 1938: 167-168). Granting zero tariffs on British imports would have meant foregoing large amounts of government revenue. If there was an increase of British imports - as was intended - the colonial governments would have lost even more revenue. In this respect it is interesting to note the position of Canada since it was this country which had spurred Chamberlain to up his campaign in 1902. Was Canada as Chamberlain believed, in favour of imperial preference?

On 12 May 1902, Robert Borden (Leader of the Canadian opposition) had stated to the British Prime Minister that if preference was granted on corn then "we are in a position to make offers to the imperial government which we could not make in 1897" (quoted in Rempel 1972: 18). The nature of this offer however was not compatible with Chamberlain's notion of an imperial zollverein. What it meant was that Canada would exempt Britain from further tariff increases. Indeed Canadian tariffs were not lowered in the period upto 1914. More damaging was the fact that many Canadian Conservatives had opposed the earlier preference and advocated making their country industrially self-sufficient. Furthermore, it was clear that the so-called "preference" already granted by Canada to the mother country were not done for imperial reasons. Rather it was given for domestic reasons; that is, the Liberal government had lowered tariffs in order to appease their own domestic supporters (Rempel 1972: 17-19).

In addition Britain's stance of unilateral free trade tended to invite protection abroad. Such a stance made it difficult for Britain to force tariff concessions. Reciprocity in tariff negotiations was required. Whilst Britain continued to adhere to unilateralism vis-a-vis the empire, it was unlikely that significant reciprocity between the mother country and her colonies could be achieved. In other words, under Imperial Preference there would have continued the condition of unequal exchange between Britain and her Empire, to the detriment of the former.



Even if the British public could have been persuaded to accept import duties and higher food costs (which it would not), "there is good reason to believe that plans for an "Imperial Zollverein" would have foundered on colonial resistance. Hence it was nonsensical" (Friedberg 1989: 84; R. Jebb 1911: 342; Saul 1960: 228). Or as Balfour put it,

"I question whether the people of this country will be sufficiently tolerant of the protective side of the schema, or the people of the colonies sufficiently tolerant of its free trade side" (Balfour to Devonshire, 4 June 1903, quoted in Friedberg 1988: 63).

As Sir Wilfrid Laurier explained at the Imperial Conference of 1907, free trade within the empire is ruled out for revenue reasons (see T. R. L. 1910: xv). However, this was clearly recognised by both Chamberlain and the Tariff Reform League (from whose handbook Laurier's comment was taken). As the League argued, there was a way of circumventing some of these problems whilst at the same time retaining imperial preference. This was for the colonies to continue to levy the same rates of tariff upon British imports, whilst at the same time increasing the duties on all other foreign imports. This would allow them to maintain their revenues whilst enabling preference to the mother country (see TRL 1910: xv-xvi, 3).

Whether this would have solved the revenue deficiency that the imperial zollverein concept entailed was not clear. Certainly it would have been an improvement. But it would have meant that tariffs levied on non-British imports would have been raised to very high levels. It is possible that in many cases such rates might have been prohibitive and thus not productive of revenue. Even if they were not quite that high they would still have led to a reduction in non-British goods entering the country regardless as to whether Britain had gained preference, which would have entailed a reduction in government revenues. This could only have been avoided if the shortfall in imports on foreign goods was made good by an increase in British products. This was possible and would certainly have met the criterion of imperial preference. However, in achieving this complicated fiscal balance, necessary to keep the colonial states in pocket, there would have been further adverse economic consequences.

An increase in tariffs on non-British imports, especially under conditions of preferential treatment to the mother country, would certainly have led to high, if not massive levels of foreign retaliation. Germany had already waged a tariff war with Canada. Thus the non-British markets open to the colonies would be substantially reduced, if not closed altogether. In addition there would be further retaliation because Britain's own system of tariffs would harm the export capacity of foreign nations (as noted above). Thus the problems that imperial preference gave rise to simply within the colonies were such that it rendered the whole concept dubious. However, the problems did not simply stop here. There was a further way in which the colonies made the notion of preference problematic. This was incurred through the problem of Britain's capacity to tax raw materials - in turn an essential aspect of preference.

Within Britain the taxation of raw materials was an extremely sensitive issue. One of the major reasons why free trade had been so dominant in British thinking was that the levying of tariffs on either raw materials or semi-manufactured goods was seen as economically self-defeating - especially given the export-orientated nature of the economy). Tariffs levied on inputs to production merely served to raise the price of the finished good, thus reducing its competitiveness. For an export orientated economy such an irrationality would clearly have adverse economic consequences. The problem that Chamberlain faced was that preference necessarily implied the taxation of raw materials since they constituted a major element of colonial exports. This was something which Chamberlain tried to downplay. It was an area full of lucrative political points to be gained by the liberal opposition.

Herbert Asquith (in a speech at Doncaster 21 May, 1903), was one of the first to suggest that preference implied the taxation of imported raw materials. This point was reiterated by Sir Charles Dilke in a House of Commons debate, adding semi-manufactures to the list. Naturally Chamberlain was reluctant to concede this since the advocacy of taxing inputs to production was effectively to commit political suicide. Indeed so damaging was this, that Chamberlain

initially replied, "if you are going to give a preference to the colonies...you must put a tax on food" (quoted in Marrison 1977). This was a revealing reply. Admitting the taxation of food was politically very dangerous since it would raise the "dear loaf" cry - something which had put paid to the earlier calls for preference upto 1900. In terms of weighting, Chamberlain - perhaps correctly - saw the admittance of taxation of food rather than raw materials as politically the lesser evil. When pushed further, he produced the very weak reply - "I must ask the right honourable gentleman not to quote me as committed to this, that, or any other proposition" (quoted in Marrison 1977: 217). Even as late as August 1903 Chamberlain still had not openly admitted to taxing raw materials (see J. Amery 1969a: 235).

Armed with a powerful weaponry, the free traders taunted Chamberlain with the resulting contradictions that this would create for imperial federation. The arguments of John Charlton (a member of the Canadian House of Commons) were published in *The Standard*. He pointed out that a preferential tariff on wheat alone would benefit only the North Western Province of Canada. In addition, in order to fully appease all Canadian producers, preference would have to be given on all grainstuffs, flour, butter, cheese, meats and timber, the latter being one of the industrial raw materials that Chamberlain had declined to openly include in his scheme. Asquith rhetorically asked, how would the Canadian lumber producer feel (already in bitter rivalry with Norway for the British market) when he found out that he was to be denied the preference accorded to his fellow wheat farmer (Marrison ).

More problematic still was the differential impact upon the various colonies that the exclusion of preferential tariffs on raw materials would have. South African food exports were negligible. Her main export to Britain was raw wool. As the Free Trader further pointed out, the only other exports of any significance to Britain were a host of other raw materials - skins, copper and hides. "The lesson was simple: either raw materials would have to be taxed or the result would be a scheme with huge inequalities of treatment between colonies and within colonies" (Marrison 1977). Chamberlain was on the

scissors. If he was to tax raw materials he would seriously damage the competitiveness of British exports - a suicidal political move. If he dropped this tax he would not only undermine the whole concept of preference, but most damaging of all, he would set up major conflicts not only between producers within each colony, but between the colonies themselves. In this scheme preference would serve to alienate rather than unify the colonies with the mother country. As if this was not bad enough, the issue of raw material taxation opened up a can of worms on the revenue side of the preferential scheme (as will be discussed in section 2).

Finally there was one further area of possible colonial discontent should preference and/or federation go ahead. It was of considerable colonial fear that such a scheme threatened a return "to the bad old days of centralisation" (Tyler 1938: 173). At stake was not just the colonial capacity to determine its own trade regime. More importantly, it was felt that colonial sovereignty in general was at stake. As Tyler concluded, " With the colonies already complaining that their interests were, as things stood, too much at the mercy of Downing Street, this essential feature of federation was probably itself a fatal obstacle" (1938: 173-174). It was also a colonial suspicion that federation was really just a British system, designed to extract fiscal and military manpower from the colonies to help fight any prospective European wars (whether true or not).

It was clear therefore, that there were many economic obstacles to the cause of imperial preference. At best it was a very clumsy scheme to rectify the loss of British export capacity. More likely it would have reduced export capacity by severely impeding Britain's access to the vital first world markets. In sum imperial preference was a system riddled with contradictions which, to all real intents and purposes rendered it, in terms of providing economic benefits (particularly for Britain) at best problematic, and at worst, simply impractical

The issue of the "Decline" of the British Economy and its relation to Imperial Preference. The Economic Contradictions of Tariff Reform

2

It is commonly argued that the Unionist shift to tariff reform after 1900 was a response to the "decline of the British economy" (Friedberg 1989. Lake 1989). This seemingly innocuous phrase however contains several inter-related aspects on the condition of the British economy in 1914, all of which need to be separated out and examined in turn. Firstly there is the problematic issue of whether the economy suffered any internal/absolute decline, to be termed here retardation. Most theorists have argued that there was a decline, though they have differed on its date and timing. On this point however, it will be argued that "Britain's decline" has been at best exaggerated, and at worst unfounded.

Most theorists have only differed on the starting date of retardation. One reason for this is that the choice of indicator will lead to different conclusions. For example, those who have emphasised the use of industrial production data such as D.J.Coppock (1956, 1961, 1964), as well as W.A.Lewis (1949, 1954, 1957, 1978) have argued that the starting date was in the early 1870s, whilst Aldcroft and Richardson (1969) have argued that the economy turned downward in the 1880s. [Such empirical analyses support major social theories, most notably those offered by P.M.Kennedy (1988) and R.Gilpin (1975, 1981, 1987)]. Coppock in particular argues that there was not simply a downturn but more emphatically, a "climacteric". This conclusion was derived from the use of an index of industrial output, [notably Hoffman (1955)]. However Coppock emphasised the problem that there was a divergence between national income and industrial output; "...between 1875 and 1900 the two series are quite contradictory" (1956: 4; see also Aldcroft and Richardson 1969: 101-106). A different scenario appears with the use of the national income data as representing the indicator of decline.

A second school of thought, which has used the national income data, argues that the decline in the economy began in the 1890s (Phelps-Brown and Handfield-Jones 1952. C.H. Wilson 1965). The use of the industrial production index has a known downward bias (Wilson 1965: 187-189; Saul 1985: 37). Jefferys and Walters argued that in a developing economy [as Britain was in the period 1870-1913] the ratio of input to net output will tend to fall. Thus Hoffman's raw material [input] "industrial production" index therefore tends to underestimate final output (1955: 11. But see Phelps-Brown and Handfield-Jones 1952: 276). Wilson returns us to the dilemma pointed out by Coppock, claiming that "the gap between the apparent slackening of growth and the better substantiated estimates of rising aggregate national income (is) a conundrum to which no really satisfactory answer has been given" (1965: 193. But see McCloskey 1970: 450-451). The differential growth rates between the two sets of data can be at least partially resolved. Whilst industrial production may have been slowing down, invisible earnings may have been increasing, thus leading to a higher national income growth rate. Indeed this was actually the case, as was in fact originally pointed out by Hoffman (1955: 216).

Returning to Coppock, we may cite several problems with his analysis. In addition to the fact of Hoffman's statistics having a known downward bias, his use of these statistics has been done in such a way as to exaggerate the deceleration during the years of the so-called "Great Depression". This is achieved by comparing the period between 1850-4 and 1870-4 (3.0% growth rate), with the period 1870-4 and 1893-7 (growth rate of 1.5%). However the years 1870-4 cover the era of a large boom whilst 1893-7 represent those of a slump period (Musson 1963: 530). In addition Coppock relies too heavily upon the notion of the Great Depression. The presence of a cyclical slump, however serious, is not necessarily equivalent to the notion of a permanent national decline. In general terms by that reckoning, the American economy was all but finished in the 1930s! Musson has quoted Lomax to the effect that between 1914 and 1950 British industrial growth increased at a rate higher than those witnessed before the Great War, [ a point also made by Aldcroft and Richardson (1969: 105). For a further critique see W.A. Cole (1958: 309-315)].

Yet more significant is the fact that many important indicators remained strong - certainly upto 1900. McCloskey (1970) argues that real national product growth is as striking upto 1900 as its deceleration is thereafter. In addition he argues that there was a well sustained growth rate of productivity upto 1900 though again falling back rapidly thereafter (1970: 458; see also A. Maddison 1964: 232; Phelps-Brown and Handfield-Jones 1952: 270-279, 294; Aldcroft and Richardson 1969: 126; Matthews, Feinstein and Odling-Smee 1982: 174-183). McCloskey argues that the case for Victorian failure is weak. Rather he sees the post 1900 Edwardian era as the point at which decline set in. This is also supported by S. B. Saul (1985), who argues that the notion of the "Great Depression" spanning the years 1873-1896 is a myth. Saul presents the Feinstein et al (1982: 175) data of gross domestic product growth rates (per annum) which are as follows; 1856-1873 - 2.2%; 1873-1899 - 2.1%; 1899-1913 - 1.4%. He argues that from 1882-1899 growth was well up to the longer run trend and that for the years 1873-1899 it was only marginally below the rates established for the previous 17 years. "Such results strongly reinforce the argument that the concept of the Great Depression is a myth" (1985: 57). But as these figures would indicate, he goes onto argue that there is a decline in the growth rate after 1899. Saul's analysis has the advantage over the two other "schools of decline" in that it does not rely solely on one indicator whether it be national product/income or industrial data alone.

Indeed with the exception of Saul and McCloskey most theorists focus either on industrial output or yearly growth rates of national income. The latter indicator is perhaps the most general standard by which decline has been analysed and measured. Certainly it forms the basis upon which most debates on decline are conducted. However, whilst the "post 1900 school of decline" has the advantage of using multiple indicators, thus preventing spurious indications of decline, it also jumps to premature conclusions. One of the most serious errors is revealed by a brief analysis of the post 1900 period.

Table 4.1 Annual Rates of Growth of G. D. P in %  
(By cycles)

	Lewis
1856-1865	2.0
1865-1874	2.1
1874-1883	1.7
1883-1890	1.8
1890-1901	1.8
1901-1907	1.4
1907-1913	2.2

Source: Lewis 1978: 260-264

Saul rejects those analyses which point to a slow-down after 1873, or after 1890 (see also H.L. Beales 1934). And yet, certainly as regards the growth of national income, Saul (and indeed McCloskey) have merely replaced one analysis resting on a cyclical downturn (1873-1896), with another (1901-1907). The striking fact to emerge is that the growth of British national income after 1907 was as large if not superior to the rates established in the boom years of the 1850s and 1860s. Furthermore the same is true for manufacturing production and mining (see Hilgerdt 1945: 132-134; Lewis 1978: 148-150) as well as industrial production (see Feinstein 1972: 24-25).

The problem stems from the fact that most theorists have treated the years 1900-1914 as a monolithic bloc, whereas in fact the slump of the early years of this period was replaced by high growth rates thereafter in many of the economic indicators. However it is true that some indicators had taken a downturn without recovering after 1907; for example, productivity. In agreement with the recent prognosis of Sidney Pollard it was clear that "too many factors intermingled and mostly worked to different rhythms. Thus it would be quite wrong to focus on any one in particular in order to show the decline of the British economy. In sum, even given the range of techniques available to us nowadays, it cannot be proved that the British economy was declining in any absolute way" (1990a: 17).

The second area of the "decline" debate focuses on cross-national comparisons. This area focuses on the notion of "relative decline."



It is worth at this point to broaden the debate by considering decline in terms of two separate ideal types. Hitherto we have analysed the process of internal decline or retardation. There is also to be considered the process of relative decline. However this is an altogether separate analysis to the one posed above, particularly when analysed in terms of ideal-typical categories.

The arguments for relative as opposed to retardation are more compelling. Once again the debate focuses on annual growth rates (particularly for national income). There is little doubt that Britain's lead was cut from its very high levels of the 1850s and 1860s. Indeed the world shares of Britain's exports, of output and other important indicators (measured in terms of absolute growth rates) show that she was being caught up. (For percentage shares of world pig iron and steel output see P.L. Payne 1968: 72. For percentage shares of world exports see the tables below. For percentages of world trade see Tyszynski 1951: 286. For industrial production growth rates see; Lewis 1978: 248-250, 269, 271, 273; and Hilgerdt 1945: 56, 132, for manufacturing growth rates. A major overview of these figures is presented in Pollard 1990a).

Table 4.2 Shares of World Manufactured Exports  
(IN PERCENT)

Years	Britain	Germany	U. S	France
1881-5	43.0	16.0	6.0	15.0
1899	34.5	16.6	12.1	14.9
1913	31.8	19.9	13.7	12.8

SOURCE Matthews, Feinstein and Odling-Smee (1982: 435, using data from Hilgerdt 1945)

TABLE 4.3 Shares of World Manufactured Exports, 1913

Country	(1)	(2)	(3)
Britain	31.8	27.3	29.9
Germany	19.9	24.2	26.5
U. S.	13.7	11.6	12.6
France	12.8	-	12.9

Col (1) Matthews, Feinstein and Odling-Smee (1982: 435).

Col (2) W. A. Lewis (1954: 3)

Col. (3) S. B. Saul (1960), amending Tyszynski (1951: 286)

However it comes as something of an irony to learn that the empirical evidence presented to support the "relative decline" of the economy provides us perhaps with the most compelling reason as to why Britain should have maintained free trade. For it is clear from the evidence that whilst Britain was losing the lead it was also true that she managed to maintain her European dominance right up to 1914. Certainly a focus on absolute growth rates would present a picture of relative decline especially given the vast increases in population witnessed on the continent. Thus whilst Russia's national product was rapidly nearing that of Britain, if we take population growth into account, Russia was no richer relative to Britain in 1914 than she had been in 1860! (see Table 4.5) Germany too witnessed a population explosion after 1890. In terms of per capita national income the fact remains that Britain was well ahead of her Great Power rivals in Europe.

Table 4.4 National Income compared on a Comparative National Basis,  
1885-1913 (in £m sterling)

Year	Russia	Germany	France	UK
1885	813	710	760	1115
1890	877	918	839	1385
1895	1096	971	823	1447
1900	1370	1287	994	1750
1905	1495	1530	1051	1776
1910	1826	1867	1253	1984
1913	2022	2176	1506	2265

Source: see Appendix 1A

(1) Note that these figures have been converted into £sterling by using Bidwell's pre-war parity conversion rates. Since therefore these figures were not converted into £ on a year to year basis, the final figures presented above are only approximate. The currency that was subject to particularly large swings was the ruble. Nevertheless, with gold conversion in 1897, the ruble was henceforth relatively stable.

These figures illustrate well the relative decline of Britain. However, they also point to the fact that in 1913 Britain was still in the lead (in Europe). Furthermore, it is the case that much of the increase witnessed for Britain's main rival (Germany) was derived from the fact of her large population, coupled with the larger demographic growth rates (rather than simply the function of greater productivity). Indeed in 1913 the German empire contained a population of 66.978m, compared to 45.6m in Britain (Flora 1987b). Furthermore, Germany's population growth rate was significantly higher. From 1885 to 1913, Germany witnessed a growth rate of 43% compared to that of 27% for Britain. Similarly Russia's large national income was to a large extent derived from her huge population [171m in 1913] (Khromov 1950: 452,454). Population growth rates were also large. Indeed Russia's population increased by 57% between 1885 and 1913. Thus to obtain a clearer picture we need to present per capita national incomes across the period.

Table 4.5 Per Capita National Income on a Cross National Basis.  
1885-1913 (in £ Sterling)

Year	Russia	Germany	France	UK
1885	7.5	15.2	19.9	31.0
1890	7.4	18.6	21.9	36.9
1895	8.8	18.7	21.4	36.9
1900	10.3	23.0	25.5	42.5
1905	10.4	25.4	26.8	41.4
1910	11.4	28.9	31.7	44.2
1913	11.8	32.5	37.9	49.7

Source: see Appendix 1A, 1B

In particular whilst many point to Britain's declining world share of exports and production of capital goods, the fact is that with the

exception of Germany's overtaking of Britain in percentage share of world manufacturing production (see Hilgerdt 1945: 13), by 1913 her share had been surpassed by no one. David Lake calculates that in terms of world trade (exports plus imports) the U.K. secured 14.1%; United States 11.1%; Germany 12.2%; France 7.5% (1989: 31; figures based on League of Nations data). In terms of aggregate shares in world manufacturing exports, in 1913 Britain remained the leader (Lewis 1957: 579; Kuznets: 53- 55; Saul 1965: 12; Hilgerdt 1945: 158-159; see also Kirby 1981: 139). Especially in view of her tiny population, compared to the likes of Russia, America and Germany, the fact that she continued "to hold the largest share of the world's manufacturing exports was a not inconsiderable achievement. Moreover because of the high levels of British exports, even her lower rate of increase yielded a higher absolute increase in manufactured exports right up to the outbreak of the first world war, when Britain was indeed still much the largest export economy among the leading three" (Pollard 1990a: 14). Britain's position has been well summarised by Saul who argues that the new industries in which Germany had a much publicised lead (iron and steel production) were still only very small by 1913, whilst in addition she had large low-productivity sectors. "In no way had the last forty years reduced Britain to a backwater - but the gap was closing" (Saul 1985: 72).

Thus overall Britain's absolute decline has at best been exaggerated. Interestingly, W.A. Lewis has argued that Britain's "decline" upto 1914 was premised not on endogenous factors, but rather the impact of exogenous continental (rapid) industrialisation, which led to less demand for British goods (1978: 117). Upto a point, this would reinforce the conclusion of this section; namely that there was little or no internal factors of decline undermining the British economy. In agreement with Pollard, whilst there had been set backs, in most areas Britain remained internally strong. The "relative" as opposed to the absolute decline issue however has more credence. Nevertheless it remains the case that in 1914 Britain was the most powerful economy in Europe ( and indeed in the world, bar America).

It is therefore not the case - even given the sophistication of techniques utilised in these modern debates - that the contemporary political and economic elites in the country, (in the period upto 1914) would have been aware of any structural or permanent problems to the economy. There is an additional reason why this would have been so. That is, even as late as the early twentieth century, techniques for calculating national income had not emerged. It is true that there had been individual attempts conducted in order to establish national income, but they were sporadic, unsustained for any reasonable time period and most of all, inaccurate. Even today it is a highly complicated area, subject to various operational and methodological differences (particularly when dealing with cross-national comparisons). Indeed as Amery put it,

"it is difficult in this over-documented age to realise how little statistical information was available even to government departments at the turn of the century. Export and Import figures were known from the Custom's returns. There was no statistical information at all, however, about production, investment, capital movements or even employment" (Amery Book 5: 1969a: 284).

Thus contemporary assessments of the condition of the British economy were based on a wholly different set of figures. Contemporaries focussed instead on the Custom's Department records of imports and exports. "These were used to assess the nation's condition as the indicator of Britain's economic performance" (Friedberg 1989: 44; See also Pollard 1990a: 3). And it was these figures that Joseph Chamberlain used in order to prove that the economy was declining.

Chamberlain correctly pointed out that from the 1870s onwards British exports were declining and in particular, from 1890-1900 they were stagnant. In 1905 he had stated "We have in the last twenty or thirty years lost our comparative position in the world's trade. We have found our proportion of it has become less while the proportion of our competitors has greatly increased" (Speech at Albert Hall 7 July 1905, in T.R.L 1910: 267). More significantly he pointed to the possibility of absolute decline when he stated that, "...it is not well today with British industry". He claimed that our export trade had been practically stagnant for thirty years (Speech at Glasgow 6/10/1903, quoted in Friedberg 1989: 70). This was supported by a

certain Customs Department memo in which it was argued that whilst British imports had grown in value by 50% in the preceding thirty years, exports had increased by a mere 10% (see Friedberg 1989: 79). Modern sources show this general assessment to be correct.

Table 4.6 Annual Growth Rates of U.K Exports in Percentages (By Cycles)

	Domestic Exports	Export Volume
1865-1874	3.12	4.5
1874-1883	0.56	3.3
1883-1890	0.89	2.1
1890-1901	1.08	1.3
1901-1907	5.50	4.8
1907-1913	4.96	3.8

Source: Pollard 1990a: 4. Domestic export increases calculated from current prices. Export Volume taken from A. H. Imlah and B. R. Mitchell.

It is clear that export increases were well down on the pre-1873 years. Furthermore Chamberlain's claim that exports had stagnated between 1890 and 1900 was reasonable. This then could support the claims that were made for protectionism and preference. As Pollard puts it, "Export growth rates, even when corrected for prices, show a clear dip in the 1880s and 1890s, calling forth the understandable concern for protectionism..of those periods" (1990a: 4). However we need to differentiate the two issues, of on the one hand declining exports and on the other, the decline of the economy. Bearing in mind that contemporaries had little clue as to the position of most indicators, it was only natural that they would therefore lean on the trade figures in order to assess the economy's condition. However this would give rise to several significant problems.

Firstly, the condition of the economy could not be derived simply from an exclusive use of the trade figures, particularly given the cyclical nature of capitalism. Secondly as an inter-related point, if the trade figures were to show an improvement, the whole case for the decline of the economy would be undermined. Furthermore, this would undermine the "economic" arguments for protectionism, whether

these were based on the decline of the economy or simply a reduced export capacity. If we extend the export growth figures through to 1913, we find a very different scenario to the one depicted by Chamberlain (see table 4.7 above)

Whilst concerns about Britain's export capacity were understandably giving rise to certain protectionist sentiment at the turn of the century, the position after 1901 rapidly changed. In addition to the figures shown above, Aldcroft and Richardson estimate the increase of exports to be at the staggering rate of 4.2% for the period 1900-1913, compared to 0.4% from 1890-1900 (1969: 4; see also A.H. Imlah 1958; M.W. Kirby 1981: 140). Furthermore, these increases were striking even on an international basis. Pollard puts the growth rate of exports at 6.1% for 1900-1913, compared to 4.1% for the U.S., 4.0% for France, 6.2% for Germany, 5.2% for Belgium, and 3.9% for Switzerland (1990a: 7). In addition, in constant prices the export of manufactures according to Hilgerdt from 1901/'5-1911/'13 increased at a rate that was double the 1891/'5 - 1901/'5 period, nine times the 1881/'5 - 1891/'5 period and almost double the 1871/'5 - 1881/'5 period. Lewis puts the increase for 1899-1913 as almost twice that of the 1873-1899 period. More significant still were the export figures compared to imports. Lewis shows a 2.92% increase of manufactures less manufactured imports (in constant prices), compared to a figure of a mere 0.38% for 1873-1899 (that is, an almost 800% increase). Semmel states that by 1913 exports had almost doubled on the 1900 figure (1960: 88).

Such strong export growth, particularly when compared to the weak import growth of manufactures was "a truly remarkable result for a country in the process of being caught up by other industrialising nations" (Pollard 1990a: 9; 1990b: 58). Thus if the case for decline was based on trade returns (as was the case), it was clear that if Britain had "declined" up to 1900, it was positively booming thereafter. On this reading therefore, Chamberlain had mistaken a cyclical downturn for retardation. Even Aaron Friedberg, who details a more pessimistic picture of the overall position of the economy upto 1914 than that presented here, is forced to admit that emphasis

on the trade returns would have lulled people into complacency (1989: 80).

The use of the trade figures by Chamberlain to base his arguments for protectionism had, certainly after 1906 - when the Conservative party really shifted to tariff reform - backfired. Indeed Winston Churchill was not wrong when he claimed as early as 1903 that from the point of view of the trade returns there was no case for tariff reform (see Churchill to Balfour, 25 May 1903, quoted in McCord 1970: 136-137). Thus Chamberlain's 1903 tactic had boomeranged, particularly in the eyes of the electorate. The ball was now in the Free Traders' court. If the economic arguments for protectionism were problematic in 1906, by 1910 they would be weaker than ever. Churchill's comment would be vindicated in the 1910 elections. As he put it in 1908,

"It is one of Nature's revenges upon those who seek to violate economic harmonies, that the very period which had been predicted for our downfall and disaster should have witnessed the most surprising manifestation of our industrial productivity" (quoted in Kennedy 1980: 301).

Thus in 1909 the Research Office of the Conservative party stated that in the 1910 elections,

"It was difficult to respond to the argument 'vote for what the foreign "dumper" dreads...when exports (and indeed total trade), had just reached a new record" (quoted in P. M. Kennedy 1989: 301)

Indeed, this was reflected at the time by the position of British industry.



## The Position of the Grass-Roots Interests on the Frontline of the Economy

With the exception of elements within the iron and steel industries, the vast majority of economic interest groups favoured free trade right up to 1913. The laissez faire attitude of the cotton industry in Lancashire was well known (see P. F. Clarke 1971). As Clarke points out, Lancashire provided the "pivotal importance to the outcome of elections - as both parties recognised" (1971: 7). Lancashire was not only significant in terms of electoral strategies, but was also strategic in terms of the contribution that cotton made to Britain's exports. Cotton accounted for approximately 30% of all exports and employed 600,000 workers. Ramsay MacDonald argued that in 1903, that if Britain shifted to protection, "nine-tenths of the people of Lancashire would then live on American sufferance" (quoted in Rempel 1972: 97). Clearly this electorally significant county was not to be won over to tariff reform.

The coal industry was equally strong in its commitment to free trade as was the vast shipping industry which employed 1 million men in shipbuilding and a further 200,000 as seamen (Rempel 1972: 98). The shipping industry (as well as coal) was, like cotton, vital to Britain's economy, since the profits of the carrying trade contributed significantly to the maintenance of the balance of payments (P. M. Kennedy 1981: 24). Bowley stated that shipping services accounted for £ 90m (1903: 120 - a figure also provided at the time by Asquith 1903: 21 Trade and the Empire London, Methuen). In addition many manufacturers benefited from German dumping which supplied them with a glut of cheap steel. In particular shipbuilders reaped this benefit through free trade (Simmel 1960: 146; Ingham 1984: 161). With the 1.25m workers in transport industries also favouring free trade, the barriers to protection were clearly substantial (see Semmel 1960: 150).

At the level of the Labour movement tariff reform (as an economic strategy) had even less appeal. Not only was the Trade Union Tariff

Reform Association a rank failure, "it never won the support of any major labour leader or any major union" (K. D. Brown 1970: 153). The "organised" working class remained loyal to free trade. The Labour Representation Committee published a policy statement in 1906 which unequivocally endorsed free trade (quoted in N. McCord 1970: 139-142). Furthermore, the industries committed to free trade contained the vast bulk of the working class (Semmel 1960: 146). Indeed as Neal Blewett has shown, one major reason for the defeat of tariff reform in 1910 was the free trade identity of the working class. The demise of the Trade Union Tariff Reform Association was testimony to this fact. According to Robert Gilpin, under conditions of declining hegemony, labour becomes highly protectionist (1987: 115). However, apart from the fact that there is little evidence of such a decline, and that labour was actually in abundance [as a factor of production] (Rogowski 1989: 8-10, 34-36), it remains the case that this particular factor of production favoured free trade for the beneficial tax provisions that this entailed, namely, the introduction of a progressive income tax, as well as the employment opportunities that free trade created. Indeed the vast majority of workingmen were hostile to any modification of free trade (McKibbin 1984: 322)

The upturn in trading activities after 1900 merely consolidated this free trade tendency. Whilst the Chamberlainites had reckoned (even hoped) for a period of depression after 1903, the years 1904 and 1905 had been very prosperous. The following year was even better, with a 7.6% increase in exports compared to a massive 13% in exports (Halevy 1952: 14). Indeed "the complaints of the tariff reformers found no echo in the world of industry" (Halevy 1952: 14). At the official level it was recognised that the vast majority of industrialists favoured free trade (Report of the Tariff Commission, Vols. 1 and 2, London 1904). It is however true that some industries favoured a measure of protection, notably iron and steel, though even here we must tread carefully. The 100,000 workers employed here were simply dwarfed by other those in other industries, and even within the iron industry there was no overall solidarity for Chamberlain (see Rempel 1972: 97).

To reiterate the conclusion of Halevy, it was only too apparent that the Unionist calls for protection had little or no grounding in the sphere which they claimed to represent, namely the economy, and that the "major reason for the failure of Chamberlain's campaign was that apart from iron and steel, the major industries...still prospered under free trade" (Rempel 1972: 97). This had been anticipated by Lord Lansdowne as early as 1903. In a letter to Devonshire, Lansdowne pointed out the dilemma that the tariff reformers faced. He pointed out that the possibility of tariff reform would depend on three factors; (a) the attitude of people connected with commerce in this country; (b) the attitude of the colonies; and, (c) the readiness of the working class. His impression was that "even if Chamberlain succeeds in 'educating' the working classes as to (c) we are unlikely to come to terms with those most concerned as to (a) and (b)" (Lansdowne to Devonshire, 1 June 1903, in Fraser 1966: 237). According to Lansdowne's logic, the 1910 election revealed that in terms of favouring tariff reform, the working class would remain "uneducated".

Furthermore, many "Whole Hoggers" had focussed their ideological campaign for tariff reform on its supposed "employment function". But in the Edwardian era, unemployment though a problem, was not understood by the electorate as something which could be abolished or even reduced by tariff reform. Nor was tariff reform seen in public in terms of its employment opportunities, given the high levels of unemployment in Germany and America (J. Harris 1972: 366). And as was recognised by the electorate in 1910, protection would probably only have led to increased unemployment. Not surprisingly there was a great deal of unease at the highest levels within the Conservative party over the link between protection and employment.

Balfour in 1909 argued that "neither now nor on any other occasion, in private or in public, tell any of my countrymen that the whole difficulty in unemployment is going to be solved by tariff reform" (The Times 31 December 1909, quoted in Murray 1980: 251). Hewins had noticed this as early as 1903, reporting that Balfour had been irritated by the Tariff Reform League slogan "Tariff Reform means work for all" on the grounds that he had felt that there was no real

basis for this claim (see W. A. S. Hewins I: 187). This was a major blow for those who had premised their arguments for tariff reform on the unemployment issue. It was the case that Garvin's passionate calls that protectionism must more than ever be linked to unemployment as the main weapon with which to fight the Budget were to go unheeded (see Garvin, The Observer 3 October 1909, reprinted in Tariff or Budget). Indeed as Jose Harris points out, in the 1910 elections, Unionist leaders had to restrain their party members from making rash promises about the abolition of unemployment under a system of protection (1972: 319; see also Balfour's comments in Parliament, in Hansard 5th Series, Vol. 14, Col. 417, 1910). So adamant was Balfour on this point that he deliberately toned down the Conservative Manifesto to read that tariff reform would only "lessen unemployment". This however represented a major climb-down, for it was the employment issue that had formed the carrot in the Unionist attempt to attract the working classes, and was the last remaining economic argument, behind which the Conservative party would hide its real intentions.

#### Summary of the "Economic Imperatives" for Tariff Reform

The general "economistic" argument stipulates that the choice of free trade or protection can be determined by a country's phase or level of development. A country in the initial phases of industrialisation can benefit from tariffs which can protect her "infant-industries" (eg. German industry 1840 onwards; Russian industry 1880 onwards, American industry 1815 onwards). However in the intermediate phase of development, when the economy is developed and stable, free trade is beneficial, allowing the country to maximise its strength (eg. British industry post 1846, America post 1945). The final stage involves the decline of the economy, where protection is once again the rational course of action (German agriculture post 1879). The general economistic argument states that Britain maximised her trading opportunities through free trade after 1846. Then with the "onset of decline" in the late nineteenth century, tariffs were prescribed as "rational".

However many authors within this broad school have confused two separate axes around which "decline" revolves. That is they have failed to adequately differentiate retardation and relative decline. There is in some cases good reason for this, in the works of some authors. The classic analysis of W.A. Lewis stipulates that a major reason for British decline/retardation was the impact of the exogenous factor of rapid foreign industrialisation (see page 202 above). Meyer and Coppock have both argued that the decline in industrial production was due not so much to internal economic problems, but rather due to a slow-down in export growth, in turn a function of the various rapid industrialisations occurring on the continent (Coppock 1956; Meyer 1955: 17-18). From this angle, it could be argued that Lewis and others have argued for the case of "relative decline" rather than retardation. This would also allow a relaxation of the hitherto ideal-typical analysis of decline conducted here. The interesting point to emerge from this, is that in the works of several analyses of retardation, British decline is conceptualised not in absolute but only relative terms, which is the central conclusion of the analysis presented here.

Specifying the exact nature of British decline is essential, since the different forms of decline entail differing trade regime prescriptions, which are as follows.

(1) If a country suffers endogenous absolute decline, (retardation), then tariff protectionism can be effective in order to prop up the weakening economic structure.

(2) If a country suffers absolute and hence (inevitably) relative decline and vice-versa, protectionism is once again rational.

(3) If a country suffers "relative" but not "absolute" decline, then according to its own premises the theory will prescribe the trading regime equivalent to that which was adopted when the economy was at its zenith - notably free trade.

The third position matches the 1873-1914 period for Britain. That is, Britain suffered little or no absolute decline/retardation, (though it did suffer to a significant extent from relative decline). Thus, with her dominant position within Europe still very much in place, even by 1914, within the bounds of the economic theory itself, free trade would be prescribed in order to create maximum economic returns, whilst protection would only deny such gains. Whilst the economic theory could therefore argue that Britain remained free trading upto 1914 for rational economic reasons, it could not however adequately explain why the Conservative Party chose to adopt protectionism, which would make little or no sense economically - the real problem at hand!

One thing was certain; economic causes did not supply the real motives for the Conservative party's shift to protection after 1906, though they may have had some pertinence in the 1902-1906 period. One by one the economic arguments - the "employment" carrot, the issues of the decline of Britain and/or her export capacity, had fallen by the wayside and the real motive for the Unionist adoption of tariff reform, as the Liberals had effectively demonstrated to the public, was open for all to see. Tariff reform was embraced so that the Conservatives could maintain and even extend the fiscal privileges to the upper income groups (which formed a strong constituency within the party). Thus the whole debate over protection versus free trade was exposed for the real issue that it was; a conflict over autonomous electoral-fiscal strategies. In addition, trade strategies were for the Conservatives (though not so much for the Liberals) almost entirely subordinated to tax strategies. Philip Snowden gave testimony to this in 1910, when he stated that "the real inwardness of the Tariff Reform programme was not a question of protecting British industries, but was the alternative to a democratic budget" (Snowden, Northern Daily Telegraph, 30 November, 1910, quoted in P. F. Clarke 1969: 327). For the most part therefore, particularly after 1906, the economic reasons given in terms of protecting British industries provided a smoke-screen behind which lay the Conservative tax strategy of maintaining fiscal privileges to the upper income groups.

In sum, there were two choices of tax regimes after 1907; the Conservative avenue of indirect taxes (and hence protectionism), or, the Liberal avenue of direct taxes (and hence free trade). The choice was clarified by Asquith in 1908, "if it could not be proved that social reform (not socialism) can be financed on free trade lines, a return to protection is a moral certainty" (Asquith to Strachey, 4 May 1908, quoted in Clarke 1971: 358). Or, as The Economist put it, "If Free Trade were to be preserved..the onus was upon the government to prove that the financial burdens of the modern state could be carried without recourse to Tariff Reform" (23 January 1909, pp150-151, quoted in Murray 1973: 556).

## Section 2.

### The Emergence of the Fiscal Origins of Tariff Reform: The Second Phase. Imperial Preference

#### Chamberlain's Revenue Equation

The second phase covered the initial Chamberlainite thrust of 1897-1903. This movement spanned several moments of the late Victorian and early Edwardian eras. Firstly, it built on the first phase of the tariff reform campaign which was developed between 1880-1897 by the Imperial Federation League and the Fair Trade League. As we have seen these movements set the groundwork for Chamberlain, even though they petred out, mainly for party political reasons (see pages ---- in this chapter) though also because of various internal problems that divided these organisations

Secondly and more importantly, the Edwardian era was dominated by the political effects of the extension of the franchise in 1884. Within the domestic Liberal-Parliamentary electoral system, the parties fought to attract this large mass of newly emergent voters. Joseph Chamberlain, a "radical" who had left the Liberal party over

the question of Home Rule for Ireland, joined the Conservative (Unionist) Party. It was essential he believed, to attract the working classes into the party so as to prevent them from joining either the Liberal or the "socialist" Labour party.

The rise of the political face of labour led to extreme responses within the Conservative party. "We are in a state of bloodless civil war... To loot somebody or something is the common object under a thick varnish of pious phrases" (Salisbury to Smith, 5 February 1889, quoted in Sykes 1978: 12). The sentiment was expressed aptly by W. H. Smith;

"It has made the extreme radicals masters of the Liberal Party, and men support a policy now from which they would have shrunk with horror ten years ago... Men who are strictly honest in their transactions with their neighbours have come to regard Parliament as an instrument by which a transfer of rights and property may equitably be made from the few to the many" (Smith to Salisbury, 3 February 1889, quoted in Sykes 1978: 12).

By 1888 Salisbury had realised that something over and above a bare minimum of concessions was necessary not only to appease the working classes, but also to maintain the existence of the party. This was due to the constituency of the party. The Home Rule crisis had led to a large defection of members from the Liberal party to the Unionist Party. These "Liberal-Unionists" as they were known had a more radical nature than the traditional Conservative hierarchy. Chamberlain, the main defector, soon began to upset not only the hierarchical nature of the party, but also its actual political agenda. If these Unionists were to be appeased, the leadership would need to move towards a more radical programme than hitherto.

Joseph Chamberlain however, forced the issue of social reform upon the party. He claimed that the party had a natural claim to social reform due to its tradition of state intervention. This was contrasted with the Liberal tradition of Cobdenite laissez-faire. Through social reform he argued, the working classes could be brought into the party. At the same time, "predatory socialism" could be defeated whilst property rights could be defended. It was this "radical" brand of Conservatism which Chamberlain stood for, and was to a large extent the subject of the split within the party.



The second moment which informed the Chamberlainite cause was linked to the third - the position of taxation in the late Victorian era. As will be developed later, since 1842 there had been a very gradual shift by the state to raise revenues from direct rather than indirect taxes. Linked to this was the fact that the current sources of revenue were becoming insufficient to meet the needs of fiscal accumulation. As early as 1887, Goschen had emphasised that the basis of taxation was too narrow. The Unionist party saw direct taxes as a redistributive evil which would need to be redressed. Whilst there was an overwhelming consensus within the party for a shift back to indirect taxes, there was a growing split over the issue of government expenditure. A small minority led by Joseph Chamberlain wanted expenditures to grow whilst the majority preferred the time honoured expedient of "retrenchment". In the short term the majority would predominate though after 1906 however, the Chamberlainite view of expenditures would rapidly gain the ascendancy. From its inception Chamberlain's tariff reform package was inextricably linked to the creation of government revenue.

### The Fiscal Origins of Industrial Protectionism

Thus far we have dealt only with the concept of imperial preference. It is important to differentiate Imperial Preference from "industrial protectionism". That is, preference implies tariffs only on agricultural goods, as well as on raw materials. Preference does not require tariffs on foreign manufactured goods. Whilst the two areas were quite separate, they could however be linked in an explanation. As will be argued, industrial protectionism was derived indirectly from preference through the need for tax revenues.

When Chamberlain announced his programme of Imperial Preference on 15 May 1903 in the House of Commons, the opposition's reply revolved principally around the old notion of the "dear loaf". In the contemporary setting a sharp controversy rapidly developed over how

Chamberlain could overcome this problem. "A Revenue Official" in The Times brought the problem into the open. The official found that a 5% tax on imports on foreign foodstuffs (as was prescribed by Chamberlain) would yield £ 7.5m to the Exchequer. As the Free Trader immediately pointed out, this would yield some £5.8m in revenue, but calculated that the real cost to the consumer would be between £14-£15m, (owing to the increased cost of the bread). Thus if the family food budget was to remain the same after the tariff was applied, the existing food taxes (some £13.6m in 1902) would have to be taken off in their entirety, leaving a residual amount of £0.4 - £ 1.4m which could be taken off the tobacco duty ("The Proposed Gamble in Food" The Free Trader, 7 August, 1903: 10-11, quoted in Marrison 1977: 219-220 ). Whether the "Revenue Official" agreed with the consumer cost of £ 14-15m quoted by The Free Trader was not stated. However it was effectively implied (bar approximately £ 1m) by the fact that the official advocated the removal of the existing £ 13.6m revenue duties on food imports.

As pointed out by the free trade opposition, the implication of this scheme was thus far to leave an Exchequer shortfall of between £ 6.1m -(ie. 13.6 minus 7.5) under a revenue official's calculations and £8.7m (14.5 minus 5.8) under the free traders' calculations. The solution to the deficit incurred through preferential tariffs on food lay with the taxing of foreign manufactures. He proposed a 7% ad valorem tariff duty on imports of foreign manufactures which would he thought produce a slightly larger amount than that necessary to cover the shortfall (Marrison 1977: 220). Thus industrial protection was envisaged purely as a revenue earner.

Originally Chamberlain wanted to acquire revenues not only from industrial goods but also from food. In the first instance there were to be no compensatory duties (that is, no relief to the consumer would be made as a response to the tariff on bread). He reckoned on providing through tariffs between £ 9-16m. This would then be added to the anticipated £6m derived from the wheat tariffs, which would constitute a considerable revenue pool from which pensions could be adequately financed. This was essential to fund Chamberlain's desire for old age pensions. Indeed it was this that has led many historians

to argue that social reform was central to Chamberlain's project (See E. H. H. Green 1985). It is true that Chamberlain was keen to make inroads toward social reform. Indeed this was an essential part of his liberal "radicalism". However it became rapidly apparent that the whole reform scheme was jeopardised both by the problem of revenue production, and in particular by the need for compensatory duties to be made in order to appease the working classes. Firstly, there was the problem of the revenue calculations, which Chamberlain had incorrectly exaggerated. Since the revenue calculations which Chamberlain made were similar to those of the "revenue official", an examination of this latter set of estimates will allow us to scrutinise the overall Chamberlainite social-fiscal project.

Firstly, The Times criticised the revenue official for failing to mention that of the £37.8m of Britain's food imports already subject to revenue duties approximately 30% came from the empire. These would through preference therefore, not be subject to duties. Thus the official had considerably over-estimated the revenue to be gained to make good the damage inflicted by the corn tariffs. In other words, the abolition of so-called "compensatory" duties on other non-colonial food imports would be insufficient to redress the fiscal deficit incurred from tariffs on colonial produce.

Secondly, almost half the existing revenues on food goods were derived from sugar. This measure had been only temporary, having been imposed under the emergency conditions of the Boer War. Indeed the Conservative government had already pledged the sugar duty for immediate repeal after the war. This then reduced further the leeway for "compensatory" tariffs to make good the deficit.

However one fiscal advantage accrued to Chamberlain that had not been available to the revenue official. That is, the revenue official had calculated the revenue to be remitted as a function of compensation on the basis of complete abolition of the revenue tariffs. Chamberlain however as part of his compensatory package, had called for only 75% of the tea duty and 50% of the sugar duty, with corresponding reductions on cocoa and coffee. This meant that Chamberlain's projected deficit at the Exchequer would have been

considerably less than that of the official's, thus giving him more leeway.

Thirdly, Chamberlain's proposal of an average duty of 10% on manufactured goods in order to raise between £9-15m was also subject to over-estimation. It was pointed out at the time that this calculation was based on the Board of Trade estimates of manufactured imports. Indeed Robert Giffen pointed out that Chamberlain's use of Table 1 of the Fiscal Blue Book was misleading since it included semi-manufactures with the finished articles in one total. As a result, he reckoned on an approximate 70% error! (Giffen in The Times, 24 October and 29 October 1903, quoted in Marrison 1977: 226) - something which Chamberlain had acknowledged in his Glasgow speech in 1903. Whilst the free traders argued that semi-manufactured goods were in fact raw materials - a somewhat exaggerated claim - the principle was correct. Certainly semi-manufactures, like raw materials, constituted an input to the production of the finished article. Indeed the minimisation of the costs of production argument was too powerful for Chamberlain either to run rough shod over, or even to ignore. In any case, Chamberlain indirectly admitted defeat on this point by conceding that semi-manufactures should be subject to a lower rate of duty.

Furthermore, it was pointed out that Chamberlain's assessment of a 10% tariff yielding £9-15m assumed that there would be no reduction in the volume of manufactures imported. Thus Chamberlain, according to his calculations had significantly overestimated the revenue to be obtained from a 10% tariff on (finished) manufactures (For a further critique, see The Free Trader, 7 August 1903, quoted in Marrison 1977: 226). Finally, one of Chamberlain's stated objects of tariff reform was to put a stop to the dumping of cheap, over-produced continental manufactures. W. J. Ashley had pointed out that duties of between 50-75% were necessary to stop dumping. Similarly, the other stated desire for tariff reform was to effect "retaliation" against foreign protected markets. As Balfour was only too aware, retaliatory tariffs needed to start high, and would then come down as foreign states reduced their tariffs on British exports. To start low could probably

lead to costly tariff wars, which as it was correctly recognised at the time, tended to hurt the instigator more than the recipient.

For these economic reasons, but especially for the fiscal reasons pointed out above, it was clear that a 10% tariff would not be sufficient to provide enough revenue to fund welfare reforms - in particular old age pensions, and that Chamberlain's estimate of £9-15m was almost certainly too high. Chamberlain once again found himself on a knife edge. Either duties on manufactures would have to be high, or taxation would have to include raw materials and semi-manufactured goods. Both these options would have produced uproar within the industrial and financial circles within the economy. However, there was another way of providing the revenues for social reforms. Chamberlain could simply drop the compensatory tariff reductions. As Sir William Harcourt informed Chamberlain in the press, the funding of pensions would require tariffs on wheat as well as on manufactured goods, assuming the remaining food taxes to remain in tact" (Marrison 1977: 218-219, my emphases). The above analysis demonstrates two points as regards the revenue options of protectionism, which can be reduced to two simple equations. Tariffs on:

(1) Wheat + Manufactures + Existing food duties = Maximum Revenue  
(Hence, Social Reforms).

(2) Wheat - Compensatory duties + Manufactures = Minimum Revenue  
(Hence NO Social Reforms)

In May 1903 Chamberlain put social reform high on the preferential agenda. On 22 May in the House of Commons, he linked tariff reform to old age pensions emphasising that "in tariff reform lay the solution to the revenue problem which has hitherto held up social reform" (see Sykes 1978: 37). Initially therefore, Chamberlain adhered to the maximum tariff revenue scenario (equation 1). However the "dear loaf" cry caused Chamberlain to tactically retreat. He then adopted the position whereby the working class could choose between old age pensions or, compensation of dearer food with similar reductions on other duties such as tea, coffee and sugar (a prevarication between

equations 1 and 2). However, it became rapidly apparent which choice the working class would make.

As a result Chamberlain wrote Devonshire;

"If as I originally hoped, the proposal that I made for discussion had been accepted on both sides and had not been made a party question, we might have stood to what was my original idea and have treated the small taxation that will be necessary to give a preference to the colonies as a revenue tax and have used the profits for the promotion of those social reforms which are certain to come in the future, and which ought in my opinion to be provided for by indirect and not by an increase in direct taxation" (J. Amery, Book 5, 1969a: 265; ).

However, the opposition's cry of "free food" was politically so powerful that he went onto argue;

"...They (the opposition) have raised the free food cry and we must meet them on their own ground. I am therefore prepared to accept the responsibility of treating the change so far as preferential rates are concerned as a redistribution of taxation and not as an imposition of increased burdens" (Chamberlain to Devonshire, 25 August, 1903, in Sykes 1978: 41-42, my emphases).

Thus by late August, Chamberlain had decided to circumvent the "dear loaf" cry in the only way he knew how. He therefore favoured the "compensatory" duties so as to relieve the tax burden of the consumer which would increase as a result of the preferential wheat tariff. Thus he stated,

"I am not asking you to impose further burdens upon the people of this country. I am not asking you to raise the amount of taxation in this country. I am asking you to transfer taxation from one article to another" (Speech at Newcastle, 20 October 1903, quoted in T. R. L. 1910: 266).

Accordingly, having decided to reduce existing food duties in order to effect "compensation" to the average family food budget, Chamberlain took a slightly different course to the one anticipated both by the Free Trader and the Revenue Official. These two alternative estimates of the Exchequer shortfall ranged from £8.7m and £6.1m respectively, and were derived on the basis of 100% abolition of existing food duties. As pointed out above, Chamberlain had advocated only a 75% reduction on tea, and 50% on sugar, coffee

and cocoa. This would have reduced the revenue to be accrued at the Exchequer by some £8m rather than the £14m anticipated by the Free Trader and the official. However, perhaps ironically this meant that the average family food budget would not be fully compensated for the increase in the preferential food tariffs; thus the term "compensation" was something of a misnomer. However the up-side for Chamberlain was that the eventual Exchequer deficit would be only £2.8m, rather than the £ 8.7m or £6.1m (Marrison 1977: 225). Thus industrial tariffs were important for Chamberlain so that he could make good the Exchequer deficit, in order to provide funds for pensions.

However, as was shown above, the estimate of £9-15m on a 10% tariff on industrial (finished) goods, was subject to exaggeration. A 10% tariff on industrial manufactures would have done well to have produced £8-9m. Having made good the £2.8m exchequer shortfall, the actual surplus to be received by the government would have been approximately £5-6m. With the general increases in expenditures (especially on defence), such a surplus would have been quickly absorbed. It was therefore highly unlikely that the revenue acquired from industrial tariffs would have been sufficient to finance social reforms. In fact, the only means by which pensions could be financed was by retaining current food taxes (rather than partially or even completely abolishing them), and simultaneously levying tariffs on industrial goods, as well as instigating imperial preference (wheat tariffs) [the "maximum" revenue formula; equation 1 above]. This maximum revenue scenario would only come into play in Unionist party strategy after 1906.

Thus with this decision, Chamberlain effectively dropped the potential surplus revenue of the original scheme. He had therefore moved to the "minimum revenue" scenario (expressed in equation 2, above). From now on, pensions would be dropped from the preference agenda. They would however wait in the wings ready to reemerge after 1906. Far from dead, social reforms became the "reserve engine" of tariff reform, which would dominate the third phase of the protectionist movement, when the "maximum revenue" scenario would be adopted.

The Chamberlainite project as it appeared in late 1903 therefore did not embrace social reform, though this is not to downplay its future potential, nor to diminish the importance that taxation played in the overall project. Rather, the position from 1903-1906 adopted a "minimum revenue" scenario, where revenue would be derived only from the tariff on industrial manufactures, (and ofcourse as an unintended consequence of the tariff on colonial produce). Indeed industrial tariffs played no part in the imperial preferential schema, other than to overcome the exchequer's deficit, acquired from the difference between the revenue produced from the wheat tariff and the additional cost to the consumer that it entailed, after Chamberlain's partial compensatory reductions had been made.

The minimum revenue scenario was however an important aspect of the project, for it allowed a commutation of indirect for direct taxes. This constituted the backbone of the Conservative party's long term fiscal project, which had begun to emerge at the end of the last century. On many occasions Chamberlain had stated his desire to reduce direct taxes, (see the above quotation). This could only be done effectively by increasing indirect taxes. To this end he levied a tariff on industrial goods.

In sum, the second phase of imperial preference introduced the notion of tariffs (on industrial tariffs) as a revenue producer. However, wheat tariffs could not be seen in this fiscal light, for the simple reason that any revenues gained from preference were nullified by the compensatory reductions in existing food duties. Chamberlain's desire for preference (1902-1906, though not thereafter) lay in areas other than social reform. Establishing the exact reasons for preference as construed by Chamberlain are highly problematic. Various theories have been proposed. R.J. Scally (1975) has argued that imperial preference was the means by which Chamberlain attempted to woo the masses by whipping up nationalist sentiment. Others have argued that the empire would act as an extension of "little" England into a big state, or what Friedberg refers to as the desire for "gigantism" (1988: 30-33). A big state had an economic and a geopolitical input. In the nineteenth century Darwinian conception of the world, it was



perceived (correctly) that big states tended to swallow up their smaller neighbours. This geopolitical rationality was, according to Friedberg, later supplemented by the economic notion that big states tended to be strongest in industrial terms (though how Russia fitted into this schema is not explained). To what extent the empire was to act as a *kriegsverein* (military union) rather than a *zollverein* (tariff union) is an important question to be answered when evaluating the causes of preference. Furthermore as Tyler points out there were clear political benefits from the empire. The question of food and raw material supply in time of war was causing unease within the mother country. Firm imperial connections could allow these supplies to reach Britain after military activities had begun.

As was argued in Section 1, the economic arguments for preference had been considerably exaggerated by Chamberlain. As Tyler stated it was "not difficult to draw up a weighty case against preference, or any other form of commercial union, on purely commercial grounds" (1938: 171, my emphases). It seems more likely that Chamberlain wished to create an ideological climate that was favourable to the election chances of the Conservative party. Owing to the problem of compensation, the fiscal origins of preference were shelved, and would only fully emerge after 1906, though industrial protection had a clear fiscal core. In sum, establishing the exact reasons for Chamberlain's schema of imperial preference is not of primary significance here. In the context of this chapter, of more significance is the revealing of the fiscal seed that was planted by Chamberlain, and would develop in the third phase.

#### Conservatives Divided The Enigmatic Balfour and Protectionist Stagnation, 1903-1906

Although the question of free trade versus protection became a central issue within the Conservative party, a decision as to which policy would be chosen was not forthcoming. The party was divided into three struggling factions. At one end of the continuum were the

"Free Fooders" embracing the free trade position. This was the smallest faction, dominated by Cecilian Conservatives and Liberal Unionists. Their position was summarised by Hugh Cecil in a letter to Balfour, "We are passionately afraid of protection, we think that it will lead to corruption and class division, to a general Americanism of our politics...Protection seems to us an evil of the same class as Home Rule" (4 May, 1907, quoted in Blewett 1968: 95). At the other extreme were the "Whole Hoggers" led by Joseph Chamberlain, whose fight for imperial preference and tariff reform was relentless. (For an analysis of the campaign fought by these "confederates" see A. Sykes 1975; N. Blewett 1968, 1972; R. A. Rempel 1972). As Blewett aptly put it, "they became as doctrinaire as those who defended the faith of free trade" (1968: 96).

In the middle were the Balfourites. This was a janus-faced faction facing both ways and capable of joining either group depending on the political situation. It was the direction of the prevailing political wind that was as important (if not more so) than the saliency of the issues at stake. Only after 1906 would this important group become concerned with the issues at stake. In the meantime, the three groups reached only stalemate revealing an extraordinary incapacity to resolve the mounting confusion.

The irony to emerge from this confusion was that much of it was caused by Balfour's overriding concern for party unity. Clearly unable to come firmly to a decision, he not only prevaricated but at times jumped from one camp to the other. For example, in April 1905, Balfour called a small conference consisting of Chamberlain, Herbert Maxwell and himself and Landsdowne. To Chamberlain's amazement and delight, Balfour informed them that he accepted not only a general tariff but also preference as the first article of the party programme. But astonishingly, within ten days Balfour reneged on this informal agreement, having given way to the pressure exerted by the Free Fooders (see P. Fraser 1966: 263). This merely added to the confusion and resentment that each side felt for the other.

In fairness to Balfour, in this instance he was put in a no win situation. This was achieved by the fact that whilst the Free Fooders

could not put him in a minority in the House of Commons merely by abstention, they could however have done so by siding with the opposition. Not surprisingly, Balfour caved in. Perhaps he should have sounded out the free traders before imposing his decision upon them. However, given his overwhelming desire for unity, there was little he could do in the face of a party divided between two bitterly opposed factions, well dug in, and wedded perhaps more to fighting over dogma than real issues. Nevertheless, Balfour's inability to choose between the two options merely intensified the conflict and the confusion. It was not until 1907, when he took a firm stand (in favour of protection) that the party finally came into line.

Overlapping this "protection versus free trade" split was a conflict between two broad notions of Conservatism held within the party. The free traders favoured a laissez-faire approach, of which resistance to social reformism and the maintenance of free trade and retrenchment were central. The Whole Hoggers however preferred a more "progressive" Conservatism giving a pride of place to state intervention and hence favoured increased government expenditures, social reform and protectionism. Neal Blewett has even gone so far as to argue that it was these differing notions of party and Conservatism that informed the split, rather than simply tariff reform (1968: 100-102). Whilst this is overstating this aspect, it did nevertheless constitute a significant aspect to the party split.

### SECTION 3 THE ORIGINS OF THE FISCAL REVOLUTION 1906-1909

#### The Impact of Increasing Government Expenditures on Revenue Production

Much of the period's expenditure was covered by the natural rise of national income. However, this was only really true of the period upto 1885, given the remarkably stable nature of government expenditures. Even so from the late 1850s through to 1895 the rate of income tax rose gradually from 5d to 8d. However from the late 1880s and in particular through the 1890s expenditures began to rise rapidly. Although rises in national income offset some of this increase, economic growth was no longer sufficient as a fiscal weapon.

As the charts below show, from 1860-1875 expenditures remained remarkably stable. This was all the more remarkable given the fact that the continental Great Powers were increasing their expenditures, particularly on war preparation. From 1875-1895, expenditures increased at a fairly steady, rather than a pronounced rate. By 1900 however, expenditures rocketed with the onset of the Boer War. The war had in fact only a catalytic impact upon the worsening condition of the state's coffers. For if we project further beyond 1902, we find that military expenditures remained high relative to the amounts spent in the nineteenth century. In addition civil expenditures were on the increase as of the late nineteenth century, particularly those on education. Indeed in nominal terms, civil expenditures increased over fivefold between 1860 and 1913. Furthermore, such expenditures absorbed as much as 30% of total expenditures in 1913, compared to a mere 14% in 1860.

However, the cost-push effect of expenditures was only one aspect of the impending fiscal crisis. In addition there was the demand-pull effect; namely the popular will for the raising of certain taxes which were required to meet these costs. The fiscal crisis of the Edwardian era was as much about the nature of taxation and its linked political aspects, as it was about the need to supply the increased costs of government. These were connected to the relations of extraction (see final chapter) and the nature of the tax base.

Table 4.7 Government Expenditures 1860-1913 (in £.million)

Year	(1) Civil	(2) Economic Services	(3) Defence	(4) Debt	(5) Total
1860	10	5	25	29	70
1865	10	6	26	26	67
1870	11	6	22	27	67
1875	14	8	25	27	73
1880	17	8	25	28	82
1885	19	10	30	29	89
1890	17	11	33	25	91
1895	20	13	35	23	101
1900	24	16	70	23	144
1905	29	19	66	25	150
1910	41	22	63	21	157
1913	55	27	73	20	184

Source: B.R. Mitchell and P. Deane 1962: 397, 398. Public Finance tables. (1) CIVIL represents expenditures on Works and Buildings, Salaries of Public Departments, Law and Justice, Education, Art and Science, Colonial and Foreign Office. (2) ECONOMIC SERVICES represents expenditures on Post, Telegraph and Telephone. (3) DEFENCE represents expenditures on the Army and Navy (4) DEBT represents expenditures on debt repayment.

Table 4.8 Shares of the Major Categories of Central Government Expenditure (expressed in percentages)

Year	(1) Civil	(2) Economic Services	(3) Defence	(4) Debt
1860	14	7	36	41
1865	15	9	39	39
1870	16	9	33	40
1875	19	11	34	37
1880	21	10	30	34
1885	21	11	34	33
1890	19	12	36	27
1895	20	13	35	23
1900	17	11	49	16
1905	19	13	44	17
1910	26	14	40	13
1913	30	15	40	11

#### Reaching the Limits of the Old Mode of Taxation

By 1895 serious concerns were expressed concerning Britain's fiscal position. Indeed within only a month of the installation of the Salisbury government in 1895, the ever-nearing crisis was being anticipated within government circles. On 24 July Edward Hamilton of the Treasury Department circulated a memorandum in the cabinet stating that,

"A little more than twenty years ago we were in the days of 'leaps and bounds' of revenue, when Mr. Lowe declared that the chief difficulty of the chancellor of the exchequer was to know how to get rid of the money which persisted in pouring in upon him. We are now in days of 'leaps and bounds' of expenditure, when the chief difficulty of the Finance Minister of this country is, or soon will be, how to raise money sufficient to cover the demands which 'persist in pouring in upon him'" (Hamilton "Some Remarks on Public Finance" quoted in Friedberg 1989: 100).

He went on to warn that whilst national expenditure had increased to over £100m per annum by 1895, "...large as that sum is, there is every prospect of a still further increase and a very formidable

increase in the not very distant future". The reasons for this situation were summarised as follows.

"Some of the services which the state has undertaken are in their nature services of automatic growth, notably educational services; while the tendency of responsible as well as irresponsible persons is to saddle the state with further undertakings which must be accompanied with heavy cost to the tax-payer. Agriculturalists are pressing to be further relieved from the burden of local rates the working classes are claiming some provisions for old age - a claim which, if it be freely satisfied, may mean a boundless subsidy from the state... there is little hope that the War office and the Admiralty will be satisfied with smaller provisions...In view of these considerations the question of imperial finance may very possibly before long become a serious problem" (quoted in Friedberg 1989: 101).

Hamilton's claims reveal the seriousness that the government was viewing the financial situation in 1895. That it was more widely perceived was reflected by the memorable phrase of William Harcourt, that "...in the growth of the expenditure of the country you have very nearly reached the limits of tolerable taxation" (Harcourt in the Liberal Magazine, June 1895, quoted in H.V. Emy 1972: 109). As Hamilton put it the government was faced with a stark choice. Either it would have to cut spending, or new methods of finance would have to be found if the nation's accounts were to be balanced.

What were the options available for such a balancing act to take place? On the revenue side of the equation, there were several avenues to be explored. Firstly, the government could consider the avenue of suspending the sinking fund. Here, new funds could be accrued by the diversion of revenue for debt repayment to current expenditure. However, there was a clear consensus between both major parties on the treatment of loans to fund government expenditure. That is, loans were regarded as a vital reserve to fund wartime expenditures. Cross-party consensus was revealed by Austen Chamberlain who readily quoted Harcourt to the extent that the sinking fund "is...not to be tampered with in ordinary times and normal deficiency, but reserved for great emergency" (quoted in Emy 1972: 123). In peacetime, it was held both in theory and practice that all loans should be repaid through interest payments as well as reducing the dead weight debt itself.

There were essentially three reasons why peacetime loans were to be avoided. First and foremost, by not taking out peacetime loans and by repaying interest and dead weight debt, the state was able to raise new loans in wartime (what Emy has called the "first financial reserve). More importantly still, such loans could be raised at low rates of interest. Both these factors played a vital part in strengthening the military capacity of the state in wartime. Thus Selborne stated to the cabinet that "its Credit and its Navy seem to me to be the two main pillars on which the strength of this country rests and each is essential to the other" (quoted in Kennedy 1980: 325).

Secondly, constant recourse to loans, particularly in peacetime led to an increase of the rate of interest. Not only did this undermine the military capacity of the state in wartime, but it was widely held that it also weakened the economy. An influential contemporary F.W. Hirst put it to Campbell-Bannerman that high interest rates which had occurred as a result of the Boer War loans were the prime cause of reduced business confidence. He went further by arguing that the increase in dead weight debt from £640m to £800m had resulted in borrowed credit, less enterprise in business and manufacturing, reduced home demand and therefore reduced output to meet it, and reductions in wages, increases in unemployment and pauperism in general. Here Hirst was echoing the classical liberal view, that borrowing merely crowded out private investment, and thus undermined economic growth. In addition Hirst also pointed to a third reason why the state should not resort to the use of loans in peacetime. Loans enabled a government to avoid its formal financial and political constraint of going before parliament to explain its expenditure plans. Thus parliamentary accountability was an important reason as to why peacetime loans were seen as unfeasible. This was echoed by thirty four leading banking and financiers from the City who, in criticising the 1909 Budget proposal to invoke an annual appropriation for the reduction of fixed debt by £3m stated that this was;

"A dangerous innovation, and we are convinced that the established principle under which the surplus revenue of each year is automatically applied to the reduction of the debt is the only sound one. Any departure from the principle in the direction proposed would



inevitably tempt a government to underestimate expenditure for it would be comparatively easy to obtain the consent of parliament to the allocation of realised surpluses to purposes for which it would not have been prepared to raise fresh tax" (printed in The Economist 15 May 1909, quoted in Emy 1972: 123-124).

Hence to all intents and purposes this avenue was closed to the Conservative government. As will be discussed later, this attitude towards loans was very different to Continental practices, in particular Germany and Russia. Indeed the notion of "credit" was far more important to British statesmen than it was to German or Russian.

The second major avenue to be explored was the possibility of colonial burden sharing. As Chamberlain put it to the Colonial Conference in 1902, "The weary Titan staggers under the too vast orb of its fate... We have borne the burden long enough. We think it is time our children should assist us to support it" (quoted in Friedberg 1989: 116). Thus various attempts were made by the British government to secure contributions from the colonies. However, such efforts came to little or nothing (See O'Brien 1990: 35-39, 43. O'Brien 1989. Davis and Huttenback 1988: 112-129; Friedberg 1989: 116-117) [Note that India was a possible exception to this rule, but see B. R. Tomlinson (1979: 104-118)].

The third major avenue which was to be examined was the boosting of existing taxes. It was felt within government circles that indirect sources of taxation had for the most part reached the limits both of fiscal productivity and of political acceptability. Increases on already high rates of existing indirect taxes it was felt, would lead to a net reduction in revenue owing to the subsequent decrease in consumption. Even more problematic was the fact that increases in such taxes, which were levied predominantly on basic food items, would only serve to alienate the working classes upon whom such taxes were overwhelmingly borne. As H. W. Primrose at the Board of Customs wrote,

"Reviving the tax on sugar, possibly a tax on corn, are as much as can perhaps be contemplated in the present day. And even they... would bring into acute prominence the controversy... in regard to the relative rate of taxation of rich and poor" (quoted in Friedberg 1989: 103).

Increasing existing direct taxes was politically even more problematic for the government. Conservative voters were already alarmed at the "creeping" rates of direct tax rates. As Hamilton put it, "An income tax at 8d in the pound seemed already to be too high a rate for times of peace" (quoted in Friedberg 1989: 102). The argument was also made that direct taxes adversely affected the supply side of the economy. Although this had been a staple of the budgetary practices of the nineteenth century tax regime, the Conservatives invoked it largely as a means of masking the real reason for their hostility to direct taxes. This was to protect the hitherto fiscal privileges that the upper income groups had held under the old indirect tax regime. Thus for the most part, the "supply-side" arguments were a red herring. Furthermore, and equally as weak, was the argument that direct taxation should be reserved for wartime expenditure only (the "second" financial reserve).

Only the creation of a new indirect tax would be acceptable to the Conservatives. As the crisis unfolded, this option became increasingly popular within the party. Indeed it was this need for a new indirect tax, which would be reasonably undetectable by the electorate (or so the Conservatives believed) that led the party after 1900 increasingly towards the advocacy of tariff protectionism.

There was a final avenue open to the Conservatives in their attempts to find a solution to the rapidly approaching fiscal crisis of the state. This was to maintain the old practice of "retrenchment" - the time honoured expedient. However, it turned out that like most of the avenues "open" to the Conservatives, this one would lead to a cul-de-sac, thus leading them to favour - after 1906 - tariff duties in order to overcome the fiscal crisis.

The Onset of Fiscal Crisis, 1899-1905. The Fetters to the Development  
of Fiscal Accumulation

From 1896-1899 the government had a temporary reprieve from the mounting fiscal crisis owing to a large increase in the national income. Unfortunately for the Conservatives, the three years of budget surpluses proved merely to be a peaceful interlude between latent and realised fiscal crisis. The mounting crisis was boosted by the catalytic impulse of the Boer War after 1900. Though contributing to the fiscal problem through the vast amounts of expenditure that it entailed, it was however merely a catalyst rather than a cause of the crisis.

In this connection it is worth briefly examining the recent claim made by Davis and Huttenback (1988) and P.K. O'Brien (1988, 1990), that the empire was a costly burden upon the British tax-payer and the economy. As a prelude to the final chapter of this thesis, the fact is that British military expenditures when compared to the capacity of the economy to bear them, were very low. Indeed with the exception of America (which had only really become a military Great Power after 1898), British military expenditures as a proportion of national income were the lowest of the world's Great Powers. Furthermore, military expenditures on the colonies, as Davis and Huttenback indeed admit, only constituted approximately 50% of the total spent on the military. This then reduced further the tax revenues necessary to fund the "unproductive" colonial expenditures. Perhaps most damning of all was the fact that past military expenditures on the colonies actually allowed Britain to maintain the lowest rates of taxation from 1903 to 1914 of all the European Great Powers..

However, although British military expenditures (as a proportion of national income) were of the lowest levels of the Great Powers (with the exception of American), the increases that occurred particularly

after 1895 through to 1913 were of sufficient import to radically effect Edwardian politics. Thus despite the catalytic nature of the Boer War (and indeed the empire as a whole) upon the mounting fiscal crisis of the British state, the fact remains that government spending during this conflict rocketed from £143.7m in 1899 to £205.2m in 1901-'2 (Mitchell and Deane 1962: 398; Mallet 1913: 477). To meet these expenditures, increases in tea and tobacco duties were made whilst the sinking fund was suspended and new loans were resorted to. Significantly, new customs duties were brought in - particular a tariff on corn. At this stage however, the cause of free trade was still dominant over protectionism within the Conservative Party. As a result (and supplemented with a threat to Balfour of his resignation) Ritchie was able to revoke the 1902 corn tariff a year later, when Chamberlain departed for South Africa. As noted above, the government's attempt to develop a scheme of colonial burden-sharing failed in the face of colonial resistance.

The situation was increasingly leading the government towards the policy of protectionism as a means to solving the crisis. Edward Hamilton's statement of 1901 was even more impelling two years later: "...The conclusion to which I have with great reluctance come, is that it is necessary seriously to consider the question of enlarging our sources of revenue and of broadening the basis of our taxation system" (quoted in Friedberg 1989: 108, my emphases). Indeed in 1903 the fiscal "seed" of the broadening of the basis of taxation (through new indirect taxes) had been planted within the Conservative party. From 1903 through to late 1906 this fiscal "seed" grew - though very much in the background. From 1907 onwards the seed would grow openly and rapidly into a mighty oak, to form the backbone of the Unionist electoral campaign in 1910.

For the immediate period of 1903-1905 however, the seed would meet certain temporary obstacles. With a distinct lack of will to raise direct taxes, most Conservatives agreed with Hamilton's sentiment. Thus they favoured an increase of new indirect taxes. To this end an import duty on sugar and an export duty on coal had been levied in 1901-2. The following year a tariff on corn imports was adopted (this by a free trade chancellor - Michael Hicks-Beach!). But it was agreed

that further levies on wine and beer would yield little, and any additional increases on tea and tobacco were deemed politically unwise. A general tariff on all imports had been discounted in part, because free trade forces were still dominant within the party but also, because this would involve a tax on raw materials (which ofcourse would have had the adverse effect of raising the price of the finished British good). Chamberlain's alternative formulation - that of a moderate tariff to be levied on finished manufactured imports - would emerge only after 1906 as the preferred option.

The dilemma for the free trading faction within the party was presented as early as 1901 by Hicks-Beach;

"I cannot anticipate that the revenue of 1902-'3 including the war taxes, will do much more than meet the expenditure of the year...I see no hope at any rate of a sufficient surplus to take off even a penny of the income tax...This seems to me of the gravest importance if we examine the history of our expenditure during the past six years...There has been a total increase (in normal expenditure) of 40%...I cannot conceive it possible that such a rate of increase in time of peace can long continue. It has been met, so far, by the great increase in our general revenue due to prosperity, by death duties and by taxation imposed for war purposes. The first two are now beginning to fail us. The third, even if wholly continued, cannot in my judgement, be increased in peacetime. Heavier direct tax would not be borne; any attempt to increase the existing indirect taxes would be useless on a falling revenue, and the only possible new indirect taxes which would produce any important amount, without a complete return to protectionist policy would be small duties on corn, or meat or petroleum, on the political objections to which I need not dwell... For these reasons it seems to me absolutely essential that a real check should be imposed on the continued increase of ordinary expenditure for which we have been responsible since 1895-'6" (Beach to Salisbury, May 1901, quoted in Sykes 1978: 26)

The fiscal logic of taxation was beginning to weaken the case for free trade within the Conservative Party. For the moment however, with free trade forces still powerful within the party, (despite Austen Chamberlain's promotion to Chancellor of the Exchequer), the protectionist solution was not adopted. Hemmed in on all sides, the new chancellor had little choice but to fall back on the old policy of retrenchment. Attempts therefore at securing increased revenues had backfired. The withdrawal of the corn duty in 1903 had stimulated a full blown row over the issue of protectionism within the Conservative government. In the wake of this political crisis several

leading members of the cabinet - both free traders and protectionists - resigned in protest, including Joseph Chamberlain. Austen Chamberlain was made chancellor, and was faced with the daunting task of sorting out the growing political and financial problems that the government faced. Although Austen Chamberlain initially countenanced a programme of increased taxes, it was only too clear that all political avenues leading to this proposal were closed. Thus he informed his colleagues;

"However reluctant we may be to face the fact, the time has come when we must frankly admit that the financial resources of the United Kingdom are inadequate to do all that we should desire in the matter of imperial defence" (28 April 1904, quoted in Friedberg 1989: 89-90).

Thus with his hands effectively tied, he set about implementing reductions in government expenditures. He was especially keen to maintain the country's naval strength, whilst he accepted that military expenditures would have to be reduced. In October 1904, Selborne appointed Admiral Sir John Fisher to the post of First Sea Lord. Fisher set about to undertake a mini-revolution within the Admiralty. Under Fisher, the whole naval system was rationalised. In particular, old and inefficient armed vessels (of which there were plenty), were decommissioned, thus dispensing with much waste and inefficiency. (For a fuller discussion see P.M. Kennedy 1983: Ch. 8; A. Marder 1956: 22-38; A. Marder 1961: 23-46; A. Marder 1964: 483-514; A. L. Friedberg 1989: Ch. 4; R. F. MacKay 1973: 273-350). In 1905 rewards were reaped at the Exchequer. Naval expenditures went from £41m in 1904 to £37.2m in 1905. This was a striking development to occur given the escalation of foreign naval developments, (though the reduction was based on a more rationalised system rather than any real reduction in military power).

However, this so-called "solution" - that of reducing expenditures - which had dominated government fiscal policy from 1903-1905, represented nothing more than the death throes of a by now obsolete mode of taxation. Or put another way, the problem of rising expenditures had sounded the death-knell for retrenchment and old regime budgetary practices. Indeed the growing desire for a broadening of indirect taxes within the party came increasingly into

contradiction with the policy of retrenchment. By 1906 the strain could hold no more, and the contradiction enabled the fetters to the development of the mode of taxation to burst asunder.

By 1906 it was clear that the government had failed to fully resolve the fiscal question. The choice of retrenchment over taxation would very soon become impossible to maintain. As a result the Conservatives would be forced to choose their fiscal weapon with which they would fight the Liberals. The factor which would lead to this confrontation, and would simultaneously destroy old regime budgetary practices, lay partly on the military and partly on the social side of the expenditure equation. The overwhelming feature of Edwardian politics was the realisation of the Victorian development of the 1884 franchise extension to much of the working class. Armed with the vote, the working class began to push for major welfare reforms. It became imperative that if the two major parties were to remain electorally popular, inroads towards appeasing the working classes would have to be made. However it is worth pointing out that it would be quite incorrect to assume that such attempts as were made by the two parties were a simple response to the onslaught of "proletarian class struggle". Rather, the attempt by both parties to attract the working class masses was a function of ruling class strategies, in turn a function of the parliamentary democratic [as opposed to authoritarian or autocratic] nature of the British state [see chapter 6]. Thus as a response to the political rise of the working class, civil expenditures began to grow quite rapidly in the late nineteenth century. By 1906 both parties sought to increase further social reforms in order to attract the working class vote. Fiscal pressures were also mounting on the military side, particularly with the new Dreadnought programme which was soon to be initiated.

After 1906, the policy of retrenchment came more and more into contradiction with the requisites of fiscal accumulation. More specifically, the relations of extraction were coming increasingly into contradiction with the mode of taxation. The electoral rise of the working class masses in the context of parliamentary democracy meant that the hitherto regressive mode of taxation was increasingly

untenable. It was realised by the Liberal government that urgently required sources of revenue could not be extracted from the working class. The Unionist party had failed to foresee this, and as a result, went down in the Liberal wave of 1910. Thus current relations of extraction had to be overthrown before fiscal accumulation could take off from its stagnant position in 1905. This meant that the tax burden would have to shift away from the masses, and at the very least bring the onus of fiscal responsibility to the hitherto privileged upper income groups. This meant that a fiscal revolution had to be waged from above. In turn, this required a frontal attack upon the various "dominant" class groups by the state. Such an attack was left to the Liberal government, since the Conservatives had allied themselves to maintaining the old regime relations of extraction. Thus in the Edwardian era a major political rift developed between the two parties, growing rapidly after 1906. The specific nature of this rift lay not so much over welfare reforms but in the sphere of taxation.

#### Theoretical and Practical Development of Liberal Policies of "Radical" Taxation, 1890-1907

The Edwardian era witnessed a shift from an old fiscal regime to a new mode of taxation. In the Victorian era, the accumulation of government revenue and in particular the growth of expenditure had been strictly limited. This was the essence of the budgetary practices of the old fiscal regime. John Stuart Mill's Principles of Political Economy had provided a theoretical guide-line to fiscal practice right up to the last decades of the nineteenth century.

Government intervention in the economy was seen as harmful; capital accumulation could be checked and "excess" taxation could be "carried so far as to discourage industry by insufficiency of reward" (J. S. Mill 1891: 533). Direct taxation presented a particular problem for capital accumulation, especially in its effect on profits



(J. S. Mill 1891: Ch. 3, pp. 496-498). This was also due to the adverse consequences that it created for the "supply-side" of the economy through the fact that the taxation of savings could only reduce capital accumulation (1891 Book 5, Ch. 2 pp. 490-491, 499-501, 522-523; see also David Ricardo The Principles of Political Economy and Taxation 1817/1971, Ch. 8, pp. 168-172). David Ricardo summarised the classical position aptly; "There are no taxes which have not a tendency to lessen the power to accumulate" (1817/1971: 169). It was also central to the classical position, that taxation should weigh equally on all income groups. In this vein, progressive taxation was unjust. Thus revenue extraction would not be "progressive" but "proportionate" to the numbers of the population (see especially James Mill Elements of Political Economy 1891: Ch. 4, pp. 271-275). Thus indirect taxes would predominate as the major source of revenue, (even though they weighed disproportionately upon the lower income orders).. Indeed the indirect nature of the nineteenth century mode of taxation formed a major strand of old regime budgetary practices.

The view that the two major classes should contribute in proportion to their numbers (rather than in proportion to their income) was maintained by the Conservatives throughout the Edwardian era. The ostensible reason for this was stated by Lecky;

"Highly graduated taxation realises most completely the supreme danger of democracy, creating a state of things in which one class imposes on another burdens which it is not asked to share, and impels the state into schemes of extravagance under the belief that the whole costs will be thrown upon others" (quoted in Emy 1972: 109).

However if this had been a genuine principle of Conservative financial principle then the old tax regime would never have come into existence in the first place, owing to the fact that it penalised one class (the lowest income earners) over another (the higher income earners). The real reason for the Conservative distrust of progressive direct taxes was that they would hurt the party's supporters hardest owing to the high income nature of their constituents. Thus the system of taxation of the nineteenth century disproportionately benefited the highest income groups . Not surprisingly the Conservative party, which had come to represent such groups by the late nineteenth century, sought to maintain this strand

of old regime tax strategies when it came under threat, particularly after 1906.

The second major strand was the policy of "retrenchment", which stated that government expenditures (and hence revenues) should be kept to an absolute minimum. This had several strands, all of which were connected with old Liberalism. Mill's individualist philosophy had immediate implications for taxation; since the business of life is best performed by the individual (who knows best his interests), taxes (if excessive) only infringe upon this "sovereign" sphere. Excessive taxation therefore is anathema to the individualism of classical liberal political economy (see Mill 1891 Book 5, Ch. 11, pp. 567-591). Excessive taxation also effected the individual in terms of employment opportunities. As Gladstone put it,

"All taxation operated in the restraint of trade, and, therefore, in order to reduce prices, in order to secure full employment, it was necessary to keep taxation and public expenditure at a minimum" (quoted in Davis and Huttenback 1988: 276).

This implied two normative principles. Firstly that tax levels remain low and secondly, that governments should not intervene in the economy in order to effect a redistribution of incomes through taxation for welfare purposes. Retrenchment also linked up to the problem of direct taxation. As Gladstone put it, the income tax was particularly pernicious since, "it tempted statesmen to expansion", and "tempted tax-payers to fraudulent evasions" (quoted in Davis and Huttenback 1988: 276).

In addition, the Liberal Cobdenite view in particular held military expenditures to be necessary but unproductive. As will be discussed shortly, it was this view - rather than empirical reality - that led to the liberal belief that the empire was too costly, in turn giving rise to the somewhat disingenuous notion of the "white man's burden". Or put another way, it was the existence of liberal views emphasising the necessity of low taxation, that led to the belief that both military expenditures and imperialism were excessive in the context of British imperialism in the late nineteenth and early twentieth centuries. Thus successive British governments managed to either reduce peacetime military expenditures, or at least keep such

spending increases to a minimum. Thus from 1830-1850 military expenditures increased from £13.9m to £15.1m. From 1850-1890 military expenditures rose from £15.1m to only £32.7m. This increase would be much less if the latter figure was deflated for price increases. In addition total government expenditures were remarkably stable. In 1850 they stood at £ 55.5m; 1860, £ 69.6m; 1870, £ 67.1m; 1880, £ 81.5m (See Table 4.8). This was all the more striking for the fact that Great Power rivals were rapidly increasing their total levels of military expenditure throughout this period. The escalation of the relations of violence in the late nineteenth century, partly as a function of the second military revolution, impacted profoundly upon Britain, particularly in the naval and fiscal spheres.

The old fiscal regime of the nineteenth century which was founded upon the old Gladstonian liberal budgetary practices of retrenchment and low direct taxes - was increasingly rejected by the new brand of liberalism that was emerging in the last decade of the nineteenth century. Interestingly, it was the relationship between taxation and economic development which constituted the initial concern of the New Liberal attack upon old regime tax principles.

The first major breach with the old orthodoxy came with Harcourt's 1894 budget. The economic justification was given by Sidney Buxton who argued that the proposed death duties were not a tax on personal capital (pace the "supply-side" arguments), since personal wealth accumulation only indirectly impacted on productive investment. Most importantly the creation of the death duties had a double impact for the progressive tax cause. Not only did it raise the significance of progressive taxes in the pool of total revenue, but it also led to an absolute reduction in regressive taxes, namely indirect. Harcourt argued that the state had a perfect right to claim property of an individual "beyond the term of his life". This was yet another striking reversal of Liberal politics, which had hitherto held that the state must be prevented from imposing or intervening in the private sphere of the individual. Thus the sanctity of the private domain of the individual at least after his death was under attack. It would only be a matter of time before Liberalism would turn upon that individual during his lifetime. It is interesting to note that

J. S. Mill had favoured such a tax. Indeed it was "largely owing to Mill's support (that) the progressive inheritance tax became law in 1894" (U. K. Hicks 1967: 128).

The linkage between taxation and income redistribution, though not yet explicitly made, was being carefully prepared beneath the party level. A vital area of attack against any notion of progressive taxation would come mainly in the economic sphere. Principally it would be argued - as it had been for the majority of the nineteenth century - that any reduction in the supply side of taxation to the economy would have adverse consequences. That is, any reduction in the pool of savings - which direct taxation would imply - would reduce investment, and hence economic growth. However, this orthodoxy was radically challenged by John Atkinson Hobson.

Hobson argued that the high income (capitalist classes) appropriated an "unproductive" surplus due to their favourable monopolistic societal position. This "unproductive" surplus consisted industrial super profits and economic land rents. It was deemed unproductive owing to the fact that it was either relocated to stimulate over-production via the savings-investment linkage or it was simply "squandered" on unproductive "luxury" expenditures. Thus the basis of the supply-side conditions for direct taxation - namely the savings-investment linkage - was depicted by Hobson as the cause of certain economic failings. This argument was known as the "underconsumptionist theory".

In this theory, it was argued that a small oligarchy had effectively hijacked from the majority of society, the propensity to save, through its exclusive extraction of surplus income. This meant that there was a constant stream of savings which was directed to investment in industry. However whilst the supply side was well taken care of, the demand side to the economy was severely lagging behind. This was due to the fact that this minority had reduced the majority's income through its extraction of super profits. Thus the situation arises whereby industry produces too many goods, whilst society is starved of the necessary capacity to absorb them. Thus over-production is a function of under-consumption. The effective

solution to the problem - according to Hobson - was not the export of capital abroad (imperialism), which merely depressed money wages and led to a further restriction in demand (Imperialism 1902: 81-99). The solution lay rather with a boost to domestic purchasing power.

The principal weapon to smooth out this damaging cyclical nature of capitalism, was the introduction of progressive taxation. This would have the double effect of firstly reducing the pool of savings which would alleviate the problem of over-production in the first place, and secondly, a redistribution of income through such taxation would allow an effective absorption of all commodities. Whilst this would allow industry to maintain a steady rate of profit, it would have many other benefits, not least of all a widening of employment. (See J. A. Hobson 1900, 1902, 1909)

More specifically Hobson argued that unproductive surpluses accrued from land which had been "granted by society", should therefore be returned through welfare reforms.

"Then will devolve on (the state) the duty of taking as much of the public income as it can secure and of expending it most economically for the public welfare. Such a state...will no longer say 'what is the least revenue which is needed to fulfil the functions imposed upon me?' but 'what is the largest amount of useful work which I can do with the income that belongs to me?' (Hobson 1908, "The Taxation of Unearned Income," Transactions of the Political and Economic Circle of the National Liberal Club, Vol. 3, quoted in Emy 1972: 112; also Hobson 1902: Ch. 4).

Hobson not only favoured a shift towards progressive forms of taxation through income and land taxes, but clearly heralded the death-knell for retrenchment. Increased government expenditures would amongst other things allow for a stimulation of the economy.

This provided a radical departure from old regime principles. As Peacock and Wiseman argue, upto the 1880s the notion that "Expenditure determines Policy" predominated. In other words, as William Gladstone put it, "the cost of any policy would generally be about the sole element in deciding its desirability" (quoted in Peacock and Wiseman 1961: 64). This formula of retrenchment began to give way as of the late 1880s to the notion that "Expenditure depends upon policy". Thus if policies, especially of a social nature were

desired, then the necessary taxation would be extracted. Policies would be judged more on their electoral merits rather than solely on their costs. However this was not a carte blanche to spend limitless amounts of tax-payers' money. "While policy was becoming more generally regarded as the significant matter and expenditure its passive consequence, governments still had to take into account of what citizens would tolerate by way of taxation" (Peacock and Wiseman 1961: 66). Furthermore, certainly up until about 1906, the Liberal rather than the Conservative Party would favour increased expenditures, particularly for welfare purposes. The Conservatives would later come to grudgingly adopt this formula, but even then only up to a limited extent.

This new fiscal departure differentiated Conservative from Liberal thinking, not only in terms of taxation but also expenditure. As already discussed, the Conservatives responded to the fiscal crisis with a policy of retrenchment from 1903 to 1905. This enabled the party to keep direct taxes to a minimum; an imperative, given the increasing confrontation to direct taxes of Conservative party constituents. Indeed in 1903, when the government was forced to raise the income tax to 1s 3d in the pound for one year during the Boer War, many Conservative supporters openly withdrew support. As a result the government lowered the rate by 4d to 11d the following year. As Ritchie made clear in an address to the City on 17 July 1903, he remembered " years ago that the principle of taxation in this country was that direct taxation should only be half of indirect taxation, but as years had gone on that proportion had been reversed" (quoted in Emy 1972: 113). Clearly both he and his audience were displeased at the violation of this "principle".

The Liberals felt that direct and progressive taxes would benefit the "social" as well as the economic sphere. A clear foundation to the progressive principle had been developed by the Marginalist revolution of the 1870s. This established the principle that when "ability to pay" is defined, adequate account should be made of the declining marginal utility function of increased income levels. Thus an "equal sacrifice" could only be defined on a progressive rather than proportional basis (Hicks 1972: 130). The notion of "social

justice" had entered the political vocabulary. It was this aspect that dominated the Liberal aim of achieving progressive taxation. After the 1884 franchise extension, the party sought to attract the new working class vote. To this end welfare and progressive tax reforms would be aimed (to be realised in 1910). Thus the radical shift in the Liberal programme suited their new electoral strategy. Friedrich Engels had understood this when he wrote Bebel "The Liberals know full well that for them it is a question of catching the Labour vote if they intend to continue their existence as a party" (Engels to Bebel 5 July 1892, Marx and Engels On Britain, quoted in P. F. Clarke 1971).

By 1900 it was evident that there was a growing rift between Conservative and "new" Liberal views of taxation. The rift developed rapidly thereafter such that by 1906, the Liberal party's adoption of collectivism stood in strong contrast to the Conservative's continued attachment to more old style notions of individualism. The Liberals had by now reinterpreted Mill's views of taxation based on equality of sacrifice to justify progressive fiscal measures rather than the Conservative held view of proportional taxation (Murray 1980: 34). Thus what differentiated both parties - after 1906 - was not their commitment to social reform but rather the methods which each would employ to fund these initiatives.

#### SECTION 4.

##### THE FISCAL BASIS OF TARIFF REFORM 1906-1909. THE THIRD PHASE

##### "Socialist" Finance and the Emergence of Labour

Going into the 1906 election hopelessly divided, the Conservatives suffered a catastrophic defeat, securing a mere 25% of the seats in the House of Commons. Divisions however were not the sole cause of the defeat. In fact perhaps the most vital single issue in this

collapse was the organisation of the Labour vote. Indeed the Labour vote contributed heavily to the overall "radical" victory. Although the Conservatives actually managed to increase their vote to 2.46m in 1906 (over 1.67m in 1900), the radical (Liberal and Labour) vote went from 1.52m in 1900 to 3.11m in 1906. No one had been so wrong in their predictions as Joseph Chamberlain. On 13 January 1906 (forty days and forty nights after the fateful dissolution of the government), Chamberlain stated that

"...before the dissolution I reckoned the majority would be 140 with the Irish. After the dissolution, which improved our position and upto now, I put the majority against us at 80. I am curious to see how far these guesses prove correct" (quoted in Fraser 1966: 273).

The majority turned out to be a staggering 356. The election was the turning point for the Conservatives. And with it the third phase of tariff reform was rapidly entered into.

The 1906 election results were a shock to the Conservatives. Leo Maxse claimed that, "we may remain in opposition for half a generation" (Maxse to Bonar Law, 29 January 1906, quoted in E. H. H. Green 1985: 669). Indeed the election defeat produced a somewhat exaggerated reaction throughout the Conservative Party. "What is going on is a faint echo of the same movement which has produced massacres in St. Petersburg, riots in Vienna and Socialist processions in Berlin" (A. J. Balfour quoted in Sykes 1978: 115). The election was perceived by the Conservatives not so much as a great Liberal victory but the expression of the "solidarity of labour...the conviction for the first time born in the working classes, that their social salvation is in their own hands..." (Balfour to Joseph Chamberlain, 24 January 1906, quoted in J. Amery 1969 Vol. 6, pp. 791). It was not so much the Liberals but the socialist threat that worried the party. This was fuelled by the fact that the two opposition parties - Labour and Liberal - had formed a cohesive electoral pact in 1906 to defeat the Conservatives. As Chamberlain put it to Bonar Law on his election defeat, "You have gone down in the Labour wave" (Chamberlain to Law, 19 January, 1906, quoted in Green 1985: 682). As the Conservatives saw it, the political atmosphere was becoming increasingly saturated with "socialist" ideology.



However thus far, the Conservative programme had little or nothing with which to fight the "socialist menace". Indeed with the rise of labour and the shift of the Liberal party leftward, current Conservatism suddenly appeared redundant. Its poverty was summarised by Salisbury;

"The Labour Party have come forward in the consciousness of strength, and have formulated enormous demands. The radicals will attempt to meet them - so will Joe, I suppose. But we wretched Conservatives, if we are honest, can offer them very little. Into this is mixed Tariff Reform, and our position as a party and in the Lords trying to stem the current is to be this - We cannot give you old age pensions, land nationalisation, compulsory minimum wages etc, but this is what we will do, we will give you a tax on your bread. It is an impossible situation. The food tax was always a very heavy weight to carry but with a suspicious and importunate proletariat, it is a prohibitive handicap - for Conservatives" (Salisbury to Selborne, 12 February 1906, quoted in Sykes 1978: 107).

It was only too clear that the limits of the hitherto dominant policy programme of the Conservative party had been reached. This was recognised by Lord Malmesbury who stated that;

The necessity for new institutions and new movements in harmony with the changing spirit of the times has never been more imperative than at present; and just in proportion as the Unionist Party proves itself capable of this adjustment will be its owner of continued usefulness to the country" quoted in Green 1985: 690).

The rise of labour and the shift in the Liberal party had by 1906 rendered Conservatism to a large extent inoperative. The Conservative Party was in electoral crisis, holding no effective programme with which to regain executive power. As Garvin starkly put it;

The Spectator is right when it declares that how to combat Socialism is the practical question before all moderate men. It is sight when it says that there is no prospect for the Unionist Party upon the present programme" Garvin in The National Review, September 1907, reprinted in Garvin 1910: 106).

It would therefore take a minor political revolution within the party to remove the fetters which stifled its development and electoral chances. Thus the party would revert to the "reserve engine" of Chamberlain's tariff reform project. That is the party would embrace social reforms - in particular old age pensions - in

order to capture the working class vote. Furthermore, the adoption of social reform by the Conservative party meant that the "maximum revenue" scenario would come into play (see equation 2 above). As Parker Smith who lamented the loss of the working class vote to Labour in Scotland put it, tariff reform was now vital not for imperialist or preferentialist reasons, but as the

"only effective argument against the spoliatory schemes of taxation which will be put forward. Fresh sources of revenue are required by men of all parties for social schemes. In opposing confiscatory proposals, we must have an alternative policy of taxation" (Smith to Balfour 28 January 1907, quoted in Sykes 1978: 119).

The alternative method of revenue extraction therefore was an all-round moderate tariff. Would the Conservative party be willing to forego economic benefits to trade that free trade would bring, by levying protectionist tariffs in order to secure revenue? Such a sacrifice would be necessary in order to prevent the "socialist" policies of redistributive, punitive and anti-property tax measures proposed by the Liberal and Labour opposition.

Indeed pace Hobson, the constant depiction of the Liberal programme as "socialist" by the Conservatives was not an ideological smear campaign (see Hobson 1909 133). The growing "socialist menace" must have been quite terrifying for much of the Conservative party. The rise of egalitarianism coupled with what must have looked increasingly like the arrival of Robin Hood in the guise not as outlaw but state could in their eyes only have led to serfdom. Indeed to paraphrase Marx, picture to yourself the English "bourgeois", how in the throes of "socialist" panic his "trade-crazy" brain is tortured and confused, set in a whirl and stunned by rumours of socialist fiscal coup d'etat, by the seeming "communist" conspiracies of the radicals. Think of all this and you will comprehend why in this unspeakable, deafening chaos of confusion, conspiracy, usurpation and fiscal revolution, the bourgeois madly snorts at his parliamentary constituency, "Rather an end with Protectionism than socialist taxation without end". Arthur James Balfour understood this cry.

## Balfour's Switch to Protection

In the pre-1906 period, Balfour had managed to avoid coming to a decision over free trade or protectionism. He had never been convinced of the economic case for tariffs. He had ventured only so far as appearing in favour of a moderate tariff in order to provide retaliation against foreign protectionism - ultimately to achieve free trade. Accompanying the first draft of his Economic Notes on Insular Free Trade was a letter which he sent to Devonshire in which was stated,

"I do not think that... we ought to attempt to carry out a retaliatory policy by the continental method of starting with heavy duties against the world and relaxing them in favour of those countries which give us privileges" (Balfour to Devonshire 30 July, 1903, quoted in Sykes 1978: 45).

However as has been argued above, moderate tariff rates and retaliation had a certain incompatibility. Low or moderate rates were likely to lead to foreign retaliation, possibly spiralling upwards into a tariff war - the latter being a long term historical fear within the "official mind". The obvious trajectory for tariff rates to meet the goal of retaliation would be to start high and work downwards. Balfour's reluctance to support high tariff rates was symptomatic of the fact that he never really believed that protectionism had any economic benefits. Indeed Balfour had only favoured (low) tariffs for retaliation as it would allow him (or so he believed) to keep the peace between the free traders and the whole hoggish. Beyond this half heartedness Balfour did not tread, much to the anger and frustration of the Chamberlainite faction.

Yet the striking fact to emerge was that by 1907 Balfour had been converted to Tariff Reform. In addition, he had originally stated that retaliatory tariffs would have to be levied on a selective basis. But after 1907 it was clear that he had shunned the "selective" criterion in favour of an all round general tariff. What then had led him to change his mind? The year 1907 marked a vital turning point in the tariff reform campaign. Indeed events in that

year strengthened the Unionist shift towards adopting tariff reform. Not least was the appearance of Philip Snowden's The Socialist Budget, in which he wrote,

"The existence of a rich class whose riches are the cause of the poverty of the masses, is the justification for the socialist demand that the cost of bettering the conditions of the people must be met by the taxation of the rich" (quoted in Fraser 1966: 287).

He went on to argue that the poor should pay no taxes; all indirect taxes should be abolished. To make good the lost revenue (and to provide surplus funds), he proposed to add £72m to the income tax, most of which would be borne by the top thirtieth of the population (who he argued, owned 33% of national income). As the Conservatives saw it, socialist insurrection would come not at the barricades but through the insidious use of taxation ("in instalments"). "For the purposes of our time, what we shall have to grapple with is not the utopian creed but the budgetary method. Practical Socialism...is a system of finance" (Maxse, quoted in Fraser 1966: 287). Compared to Snowden's fiscal prescriptions, tariff reform appeared - even to the staunchest of free traders - to be infinitely preferable. This was expanded into popular form by the Observer editor, J. L. Garvin in his article "Free trade as a Socialist Policy" (in the National Review, September 1907, reprinted in Garvin 1910: 105-112).

In addition the Chamberlainites had already put the revenue arguments at the very forefront of their case. This case was built upon a three-fold political infrastructure. Firstly, it was argued that if the Conservatives were to attract the working class, they would need to offer significant social reforms. With their defeat at the 1906 election and the simultaneous rise of Labour, reformism it was argued was essential if the Conservatives were to regain electoral support.

Secondly, tariff reform would provide a more palliative alternative to income taxation for most, if not all Unionists. As Chamberlain had put it in the House of Commons in May 1906, the only alternative to revenue from tariffs was "confiscation". Only tariff reform could provide "without robbery or jobbery" the necessary financial basis for further social reform, (Chamberlain in Outlook, January 1907,

quoted in Murray 1980: 88). Thirdly, tariffs imposed for revenue purposes offered a backdoor to imperial preference (see Murray 1980: 87-88).

The rise of "socialist" taxation onto the political agenda meant that the Conservatives would now turn towards tariff reform as the alternative. This was accompanied by the resurrection of the original reserve engine of the tariff reform campaign - old age pensions. This had been assigned to the back-room of the tariff policy programme in 1903 owing to the fact that Chamberlain had been politically forced into adopting the "minimum-revenue scenario". However, in the eyes of the Conservatives, by 1906, creeping socialism had been jolted into a stampede, and with it, tariffs on food and manufactured goods became the only acceptable alternative.

All this impacted upon the Tory leadership. In the early months of 1907, Balfour entered into discussions with W.A.S. Hewins. Hewins pointed out that the system of taxation was rapidly reaching crisis point. With the increasing levels of government expenditure incurred after 1890 and (especially after 1900), revenues would need to similarly rise. A large war or an economic crisis Hewins argued would "smash the present system" (quoted in Fraser 1966: 284). In particular, he showed that since 1840 British governments had come to increasingly rely on direct taxes - a trend which had accelerated under the Unionist governments after 1895 (see tables 4.9 and 4.10 below).

Table 4.9 The Changing Proportions of the Main Categories of Central Government Revenues, 1860-1913  
(in Percentages)

Year	(1) Direct	(2) Indirect	(3) State Property
1860	18	64	9
1865	16	61	12
1870	26	59	4
1875	17	63	4
1880	25	61	5
1885	26	53	5
1890	26	50	6
1895	28	50	6
1900	31	47	7
1905	33	47	6
1910	27	47	7
1911	44	36	5
1912	38	39	6
1913	37	38	6

Source: B. R. Mitchell and P. Deane 1962: 393, 394. Public Finance Tables. See Appendix 5

(1) DIRECT represents, Land and Assessed taxes, Property and Income taxes, and Death Duties. (2) INDIRECT represents, Customs and Excises (3) STATE PROPERTY represents net revenues from Post, Telephone and Telegraph. That is, the figures above have had state property expenditures deducted.

With the "socialistic" plans to raise direct taxes further, it had become imperative for the Conservatives to find an alternate revenue base. Almost inevitably this meant an increase in indirect taxes (and hence tariff reform). Indeed, the issues of Britain's relative decline, the problem of dumping and unemployment were for Hewins of secondary importance. His primary objective, as it was to become Balfour's was the necessity of extracting revenues from non-direct sources (see especially A. Sykes 1978: 130). In particular, Balfour favoured indirect taxes to meet the increased costs of the Edwardian era. A memo on food taxes was sent to Balfour on 11 February in which

Hewins proposed food tariffs, not because they were essential for preference and imperial unity, but rather because they provided increased revenues which would allow a reduction in the income tax (this reason also being a major part of Chamberlain's project, encapsulated within both the "minimum" and "maximum" revenue scenarios).

Tariff reform as an alternative to socialist taxation was Balfour's primary concern. Thus there had been a change in emphasis over the original protectionist project of Joseph Chamberlain. Although Chamberlain had favoured a shift towards indirect taxes away from direct sources, this objective had been if anything secondary to his ultimate aim of unifying the empire. In his Savoy hotel speech in 1907 Balfour focussed primarily upon the revenue aspect of tariff reform, whilst the preferential aspects were at best only secondary. As he stated, "Some revision of our fiscal system and some broadening of the basis of taxation would be absolutely inevitable if we were the only commercial nation in the world, and if we had not got a single colony" (speech at a Central Conservative Association Meeting, Hull, 1 February 1907, quoted in T.R.L. 1910: v; my emphases).

The Savoy speech marked a turning point both for the Conservative party and the tariff reform campaign. Indeed after this "realigning" speech, Balfour - like Bismarck almost thirty years before him - emerged as a tariff reform leader. With Balfour at the helm, the Conservative party could - and would - unite upon the cause of protectionism. What had caused this fundamental change in Balfour was not Britain's export capacity, nor Britain's "decline", nor problems of unemployment, but rather the need to defeat the opposition policies of "socialist" taxation. The events of 1907 in particular had helped consolidate Balfour's switch to protection, crescendoing with the classic speech to the annual conference of the National Union in Birmingham on the 14 November. Here he reiterated his Savoy Hotel speech (which strangely had made only a limited impact upon his contemporaries). He boldly stated that broadening the basis of taxation through a general tariff would finance social reform. After all, he argued, "social reform has long been the work of the Unionist Party" (Balfour; The Times, 15 November, 1907). It should be pointed

out however, that there was a certain irreconcilability with this fiscal stance and his earlier stated "retaliatory" formula.

A tariff to provide revenue would have a certain permanency particularly within the framework of Edwardian politics. However, retaliation implies that tariffs are to be levied in order to effect a lowering of rates invoked by foreign countries. Such a trading strategy seeks explicitly to ultimately achieve a situation of more or less free trade between Britain and her trading partners. Retaliation therefore had very much a temporary, short term nature which contrasted markedly with the more permanent, longer term aspect of the tariff invoked by Balfour after 1907 as a revenue producer. In Balfour's mind, the tax strategy of protectionism occupied the prime position.

#### The Unionist Switch to Protection

It was by now clear that the conflict of "free trade versus protection" had been superseded by the fiscal issue of "direct versus indirect" taxation. This was neatly summarised by Cromer

...the more I see of the political situation, the more I am inclined to think that free trade versus protection is falling into the background and that the real fight before long will be socialist versus anti-socialist" (Cromer to Lord Robert Cecil, 28 May 1909).

Around this fiscal issue, and under the decisive leadership of Balfour, the party came to unite rapidly. This was most clearly reflected in the radical development of the Unionist Free Traders. After 1906 they had found themselves to be in a dilemma. Maintaining free trade meant accepting "socialist" income taxation. The alternative meant a complete reversal of their economic aspirations and going with protectionism. As Cromer classically put it,

"We are between the Devil and the Deep Sea. Shall we go to the Devil of protection with our friends or the deep sea of socialism with our political adversaries? (Cromer to Elliot, 19 July 1909, quoted in Sykes 1978: 183).



Whilst both options were problematic for the free trading Unionist faction, the choice as to whether to favour the "good" of the national economy as they and many others saw it, or the fiscal privileges of the upper income groups was quickly reconciled. According to Cromer it was,

"...almost certain that a very large number of shaky even perhaps some rather strong free traders will practically combine with the tariff reformers rather than bear any very heavy fresh burthens in the shape of direct taxation" (Cromer 1908, quoted in Murray 1980: 88).

Cromer was not wrong. In 1908 Lord Lansdowne announced to the annual meeting of the Liberal Unionist Council that,

"We shall be driven to it (tariff reform) by the exigencies of the financial situation" (Lansdowne, 20 November 1908, quoted in Murray 1973: 557).

The Duke of Northumberland who had hitherto resisted Chamberlain's protectionist campaign now turned to support Balfour. Thus he wrote Strachey, the

"only chance we have of success is to find a different way of raising the money to that proposed by the government, and as far as I know Tariff Reform is the only alternative".

And again,

"Protection cannot be worse than Socialism...And as...Tariff Reform or Socialism are the only possible alternatives at the moment, I am quite prepared to swallow the former" (Northumberland to Strachey, 7, 13, 21 September 1909, quoted in Blewett 1968: 121).

Perhaps more striking still was the conversion of Lord Hugh Cecil who wrote the Earl of Bessborough,

"Mr Lloyd George and Mr Winston Churchill seem to me to desire to plunge the country into Socialism, and if I have to choose between socialism and tariff reform I unhesitatingly choose the latter" (Cecil to Earl of Bessborough, 29 September 1909, quoted in P. F. Clarke 1969: 327).

The Unionist Free traders made it clear that the days when they would support the opposition in order to satisfy their trade strategies were over. From 1907 onwards, they would unite with the party to avoid the deep sea of socialism. When the 1909 Budget was announced the remaining Unionist free traders turned to protectionism. St. Aldwyn wrote Robert Cecil;

"This budget seems to me to have given the final shove to the movement of the Unionist party to tariff reform. A man may be a free trader by (economic) conviction and reason...but if he has anything to lose...he will certainly prefer an indefinite tariff reform policy to the fiscal policy which is initiated by the present budget" (St. Aldwyn to Cecil, 28 May 1909, quoted in Rempel 1972: 193).

The real issue by late 1907 around which the two parties would conflict was the raising of revenue. Certainly on the Conservative side, it was not trade but tax strategies which informed the conflict, to which the issue of free trade versus protection was to a very large degree epiphenomenal.

#### Indirect Versus Direct Taxation Escalation of the Conflict

Thus far the conflict between the alternative political approaches to the fiscal problem had to a large extent occurred on an intra rather than inter-party basis. However by 1908 this latent conflict reached the surface. In the Spectator, Strachey taunted the government that free trade finance would be unable to raise some £13m, necessary to fund next year's pensions. Asquith confidently replied that "I have secured an ample fund to meet them (pensions) without any extra taxation" (Asquith to Strachey, 9 May 1908, quoted in Murray 1980: 92). However by the year end it was clear that Asquith had been wrong. He had under-estimated pensions expenditure by over £2m. Thus in February 1909 a supplementary vote of £ 910,000 had to be provided just to make good the pensions deficit incurred in the last quarter of 1908 (Rowland 1968: 216). It was commonly recognised that Lloyd George would have to raise new and large sums

in taxation. The Conservatives goaded the Liberals arguing that free trade finance was virtually exhausted and tariff reform was therefore only a matter of time (Murray 1973: 556-557; 1980: 92).

Indeed in addition to formulating the budget so as to attract the working classes, Lloyd George also fully intended to prove the strength of free trade finance. The Liberal shift to income taxation was neither accidental nor unexpected. As Haldane put it;

"We have not stumbled into the introduction of an old age pension system, nor into the increase of the proportion which direct bears to indirect taxation. These two changes are reforms which the true spirit has called us for as definitely as it called for electoral reform in 1832" (Haldane to Asquith, 9 August 1908, quoted in Murray 1980: 93).

On a more specific basis, Lloyd George had to deal with a large fiscal deficit of 1908-1909. This issue was the subject of controversy, particularly within the Liberal cabinet. Walter Runciman claimed that Lloyd George had deliberately over-estimated the size of the deficit so that he would be allowed to keep all his proposed taxes in the Budget. Indeed several other Liberals suspected this motivation Lloyd George's projected deficit (see the Diary of John Burns). Such suspicions were not merely confined to the Liberal side of the House. Cromer wrote Strachey that whilst he himself had on occasion purposefully underestimated the prospective revenue for a certain year, he had however,

"never under-estimated the revenue with a view to making out a case for very burdensome taxation. That is what he appears to me to have done in this case" (Cromer to Strachey 14 May 1909, quoted in Murray 1973: 566).

Thus expenditures were liberally rounded up and revenue estimates consistently conservative. Simultaneously he determined to contain the real deficit, by resisting as far as possible the Admiralty's demands for an escalation of ship-building for fiscal 1909-1910. Thus whilst he sought to make generous allowances for old age pensions he attempted to resist the demands for six or even eight new dreadnoughts in the same year. As with the pensions, Asquith's

original estimate of £6m was at least £2m out. The final figure was revised from approximately £6m to £ 8,496,395, (which actually went out). The Admiralty had originally asked for only four new dreadnoughts. But by December it was clear that even this was not sufficient given Germany's escalating naval programme. Accordingly McKenna revised his request to six new ships, calling for an extra £3m. Then in January the Sea Lords urged that eight new ships be built, in order to keep ahead of Germany.

On 24 February, Asquith cleverly resolved the problem by agreeing to provide for the building of four new ships in fiscal 1909- 1910 and the remainder to be provided for in the following year.

"'And so' Austen Chamberlain snorted in disgust, 'Lloyd George's Budget was to be saved, the little Navy men were to be told of a programme of only four ships and the Big Navy men were to be assured that it was really eight'" (Murray 1980: 128).

In the event navy expenditures for the year 1909/1910 stood at £ 35.8m - an increase of £ 3.6m on the previous year (Mitchell and Deane 1962: 398. Mallet 1913: 476), of which new construction would cost £8,885,194 as against £7,545,202 for 1908/1909 (Murray 1980: 128). Despite the subtle fiscal manoeuvre enacted by the government, the fact was that free trade finance was on trial. In April 1909, the budget's trial would begin in earnest.

## SECTION 5    The Ungentlemanly State Versus "Capital". The Realisation                   of Fiscal Revolution

### The Budget Attack presented

On 29 April Lloyd George presented his budget to the House of Commons, stating that,

"This, Mr Emmott is a war budget. It is for raising money to wage implacable warfare against poverty and squalidness. I cannot help believing that before this generation has passed away, we shall have advanced a great step towards that good time when poverty, wretchedness and the human degradation which always followed in its

camp will be as remote to the people of this country as the wolves which once infested its forests" (quoted in Cross 1966: 102-103).

For the Conservatives, their nightmare scenario had been realised. The budget sought a sharp increase in the death duties by a third bringing the top rate on estates worth over £1m to 15%; the introduction of new land taxes which went upto a 20% tax on the unearned increment in value when the land was sold; the introduction of a super tax of 2d in the pound on incomes over £5000; an increase in the income tax from 1s to 1s.2d in the pound. In addition the Budget aimed to sweeten the middle classes by inaugurating child tax allowances, as well as introducing a lower rate of tax for earned than unearned income. Finally various excise taxes were increased (Cross 1966: 103. Also R. A. Rempel 1972: 192; Rowland 1968: 217).

But most intimidating of all for the Conservatives was the fact that the provisions for the income tax were designed to meet the future needs of "inevitable fiscal expansion for national defence and social reform" (Murray 1980: 172). Indeed Lloyd George told the House of Commons that the Budget was not a mere "temporary shift". Rather these new taxes were of "such an expansive character" that they would grow as the country's demands increased (Hansard, quoted in Murray 1973: 566). More than anything else, this aspect conjured up for the Conservatives a scenario where they could see themselves descending into the quagmire of a socialist hell. As The Times mildly put it,

"It (the Budget speech) struck almost exclusively at the fairly well-to-do; it raised and attempted to prejudice several controversial issues; and the Budget speech had opened up a number of questions which went beyond the proposals in the Budget and seemed 'rather to invite controversy'" (The Times, 30 April 1909, quoted in Murray 1980: 174).

In fact this proved to be a gross underestimation of the Unionist response. The Budget grew into "the most prolonged struggle over a single measure in the history of the House of Commons" involving no less than seventy days of parliamentary debate and 554 divisions (Cross 1966: 104). The Times summarised the Conservative sentiment; the doctrine of social ransom has never been carried quite so far" and, "the fundamental right of ownership was at stake" (30 April

1909, quoted in Emy 1972: 122). During the second reading on 10 June, they made three points absolutely clear.

Firstly, Austen Chamberlain stated that,

"We are told that it is the final triumph of free trade and the death blow to fiscal (tariff) reform. Sir, in the spirit in which it is offered I accept the challenge and I am ready to go to the country at any moment upon it" quoted in Murray 1973: 567 my addition).

The Conservatives saw the budget as oppressive, confiscatory and totally unacceptable. The sooner this budget could be put to the country, they felt, the better. Though a long time in the offing, the overt war against "socialism" was finally about to begin. One strategy that the Conservatives would use would be the recourse to constitutional law. Just as in the United States, the Republicans had on various occasions since 1895 attempted to block income tax legislation through recourse to an extra-legislative body - the Supreme Court - so the Conservatives in Britain sought to mobilise the oppositional power of the House of Lords in order to challenge the constitutionality of the budget, (which however was an unconstitutional position, in contrast to the American scenario).

The war spread rapidly at the grass roots level. Many organisations such as the Tariff Reform League, the Anti Socialist Union, the Liberty and Property Defence League, and the National Trade Defence Association were all mobilised. Attacking the license duties were the Brewers' Society, the Licensed Victuallers' Central Protection Society, the Licensed Victuallers' National Defence League. Mobilising against the land taxes were the Land Taxes Protest Committee and the Budget Protest League. Perhaps the most powerful group to mobilise against the Budget was the "City of London".

## The Ungentlemanly State Versus the City; The City Versus Free Trade

It was the financial interests in the "City" that were most vociferous in their opposition to the "Free Trade" Budget. On 24 June, Lord Rothschild chaired a meeting of one thousand City traders and merchants. Whilst the spokesmen accepted that they should bear a fair share of tax, they argued that the Budget would damage the nation's commerce and industry. Their strong resistance to the "Free Trade" budget seems strange given the prevailing consensus amongst theorists of all persuasions, that free trade was maintained at the policy level in order to appease the City. This argument is propagated in its most concentrated form amongst Marxist historians, as well as the recent works on "gentlemanly capitalism".

Thus Glynn and Sutcliffe argue that;

"At times finance has preferred free trade (because it co-existed with the free movement of capital) when protection would have been beneficial for industry. This was particularly true in the years between 1880 and 1913" (1972: 41).

More explicit still is M. Barratt-Brown who states that;

"What defeated Chamberlain in the last analysis was the City of London, which still dominated the British economy and whose wealth did not derive any longer from manufacturing at the time of the first decade of the twentieth century" (1963: 106)

Or as Sidney Pollard has recently put it,

"Manufacturing lost its bid for protection... commercial policy, in so far as it existed was meant to safeguard 'trade' and the City investor and banker" (1990a: 244)

This is echoed by a host of modern writers, who argue that the hegemony of the City predominated over the power of industry in the

setting of government policy. As E. H. H. Green characteristically put it,

"No matter the political colour of the government of the day, the British state demonstrated a consistent bias towards City opinion" (1988: 611; see also Cain and Hopkins 1986: 501-525; 1987: 1-26; P. A. Anderson 1964, 1987; Nairn 1981. The most sophisticated analysis of the relations between the City and the state has been provided by G. Ingham 1984, 1990).

Finally a softer version that has saturated the general literature is simply that free trade was antithetical to the "cosmopolitan" trading interests of the City (See for example, M. W. Kirby 1981: 21; B. Semmel 1960: 142; A. Thornton 1959: 99-100; K. Fielden 1969: 98; S. Newton and D. Porter 1988: Ch. 1). This position is summarised well by Frank Longstreth who stated that,

"The City... looked on protection as anathema, seeing the system of free trade based on the gold standard as the business of their world position and hence British prosperity" (1983: 47; 1979: 163).

The problem with this general formulation is that the City was overwhelmingly supportive of the Conservative Party. W. D. Rubinstein has pointed out that one of the "most important features of the 1886-1922 period, was the movement of commercial capital/wealth into the Conservative party" (1977a: 123). According to J. A. Thomas, by 1895 "finance capital" had replaced the landed class as the most important interest group in the party (1939: 25). This is perhaps overstating the case since the landed interest was at least numerically dominant. Alan Sykes is more accurate when he states that, "in the late nineteenth century, the Conservative party was becoming less and less exclusively the party of land and increasingly the party of property in general - in parliamentary and electoral terms" (1978: 8-9). Indeed the shift was striking, especially when compared to the composition of the Liberal party, where the industrialists and manufacturers were the major representatives of the "dominant economic classes".

This fact poses a problem for the orthodox explanation of free trade, in that after 1900, the City favoured the party of protection. This was recognised by Perry Anderson, who having argued that the City remained "naturally... and... resolutely loyal to free trade"



went onto wonder "why... the City nevertheless remain(ed) politically Conservative?" Part of his answer was that once the Conservatives had been voted in, the City could then perhaps have neutralised protection (1987: 43). However there were in fact wholly rational reasons as to why the City not only favoured the Conservatives but also protection over free trade. For the most part, it was clear that sooner or later, the Liberals would raise progressive income taxes. Indeed in 1909 the Liberal government brought in the "Red" Budget, (as Garvin (1909) named it. Significantly, the increase in direct taxes that it called for was the only available means at the time, to maintain Britain's policy of free trade. This was widely understood at the time. And yet the City was vehemently ranged against it. In 1910 City interests, through voting for the Conservative party declared their preference for protection and hence indirect taxes, over free trade and direct taxes. Why then, it must be asked, did "finance capital" favour a policy which would hinder its business activities? The first answer to this question is that the City and protection were not irreconcilable. According to a memorandum written by H. A. Gwynne for Joseph Chamberlain in December 1903, there were four broad categories that comprised the "city interests", all with varying trade preferences.

The first of these was the money dealers (bankers, finance houses and stock brokers). Of these, Gwynne reckoned that the stock brokers were "almost to a man in favour of protection (1903/1982: 393). The bankers who favoured free trade he argued, did so more out of "city" deference to the instincts of people such as Lord Goschen, Giffen and Harvey (of Barclays) rather than to a clearly defined set of preferences formulated from their own business experience. Other bankers such as Hambro and Gibbs (governors of the Bank of England), and several colonial bankers clearly favoured protection. Furthermore, the majority of those involved in banking and finance houses who favoured free trade did so more because they felt that Chamberlain's tariff reform campaign came at a singularly inopportune moment. In 1903 the money market in London was depleted due to the recent Boer War as well as the limited financial methods employed by the government.

Owing to the fact that much investment (approximately £50-60m) was held on the continent, there was a fear that should Britain adopt protection, Germany may retaliate by using these investments as a weapon. That is, if this money was to be called in, it could have severe financial repercussions given the temporary vulnerability of the London market. It was therefore the poor timing of the Tariff Reform campaign that had led many bankers to favour free trade. Thus by 1910, when conditions had improved it may well have been the case that such bankers would have favoured protection. In addition there were some bankers who had from the beginning been interested in protection, but had felt that Chamberlain's proposal was too vague to be convincing. Thus they very much supported the establishment of a judicial and expert commission to inquire into the question more fully. Finally there were many who would have supported Chamberlain had he added to his programme a scheme for securing for the people a sound commercial and technical education,

The second faction in the City comprised the shipping interests. The majority of these representatives favoured protection. Nevertheless there was a vocal minority which favoured free trade. The main motive for this free trade sentiment was based on the fact that preference taxed food and raw materials, which would make it harder for these interests to compete internationally as well as nationally. However there was a minority who favoured protection, comprising those who dealt with raw materials and colonial goods. in neutral markets (such as China and Japan). The third faction comprised "middlemen" and "large importers". This faction objected to tariff reform as it would increase the cost of raw materials, and hence undermine the competitiveness of the British product.

Finally the fourth category comprised colonial houses. They greatly favoured preference but felt that it would be impractical, owing to the fact that the colonies relied predominantly on tariffs for their source of government revenue. But practical realities aside, this group favoured preference (Gwynne 1903/1982: 393-397).

Thus it is clear that City interests were largely divided over free trade and protection in terms of their own day-to-day business

activities. A further major tenet of the "economistic consensus" is that "the City" favoured free trade whilst "industry" favoured protection. A strict line of demarcation has been drawn between these two capitalist interest groups firstly, along lines of policy preference and secondly, along lines of power and influence over the state. In this latter formulation the interests of the City predominated over those of industry at state policy level.

However, as the above analysis shows, "City interests" were not monolithic and unified. As well as the fact of conflict between "fractions of capital", ["Industry" versus "Finance"] (inter-capitalist conflict), there were also important divisions within these "blocs" (intra-capitalist conflict). Equally as important is the fact that there were also certain elements within these two blocs which overlapped in terms of their interests and policy desires. Indeed this was hardly surprising since there was considerable functional and business overlap between various City and Industrial groups (see especially M. J. Daunton 1989: 134-142).

Anthony Howe has recently argued that the select calls for protection from the 1870's onwards were echoed by various interests within the City. The Fair Trade movement, though spearheaded by various provincial industrialists, nevertheless attracted considerable City support. In addition, various free trading elements within industry and the City allied themselves in favour of a bimetallic standard in the 1880's and 1890's. Furthermore, the protectionist elements of heavy industry which supported Chamberlain, were supported by elements within the City. Interestingly, Howe argues further that if the "free trading" nature of the City cannot be assumed as a given in Edwardian era, nor can it be simply assumed for the period of the 1840's, when the original transition to free trade occurred. Howe shows that at the time of the transition, the City was far more interested in maintaining "ancien regime" monopolistic trading practices, rather than those of the free market (Howe 1991: 1-31).

It would therefore be incorrect to contrast these two groups in terms of unified monolithic alternatives. The rigid demarcation between finance and industry tends not only to obscure more than it reveals,

but also leads to a completely incorrect analysis of the "social-class" identity of the cause of free trade and protection (see M.J. Daunton 1989: 150-151; A. Howe 1990: 377-391). Thus it would be wrong to characterise these two groups in terms of "protectionist industry" versus the "free trading city". In reality, there were strong elements within both these groups which favoured either free trade or protection. Thus it was the case that various protectionist City elements had more in common with their heavy industrial "counterparts" than with fellow members who worked alongside them within the "square mile", as indeed those free trading City interests had more in common with much of Industry. Whilst it would be wrong to turn the economic consensus on its head by arguing that industry favoured free trade whilst the City favoured protection, it is nevertheless the case, that much of industry supported free trade, and crucially it was the industrial groups (as opposed to the City) who supported the Liberal government's decision to maintain free trade.

As mentioned above, the City interests voted almost unanimously in favour of the protectionist Conservative party. Why was this so if there were various financial groups who favoured free trade? The answer revolved around the politics of taxation. In short, such free trading "finance capital" favoured a protectionist policy which would hinder their business interests, in the interests of securing for themselves lower personal taxation (see P.J. Cain 1979: 57-58). Thus it was said of the meeting of 24 June, chaired by Lord Rothschild in which "finance capital" had expressed their opposition to the free trade budget, that it was "really a meeting of the rich men who won't pay for the Dreadnoughts they were clamouring for" (Lord Lansdowne, 25 June 1909, quoted in Murray 1980: 129).

Surely it may be argued, there was much free trade sentiment which came from the City. Whilst this was only in part true, it does not change the fact that the fiscal predicament around which the political debates raged, did not allow the free trading interests any room for manoeuvre, because the only practical alternative to income taxation was tariff reform - as principled by the party to which they gave their clear support. Indeed in 1906 Sir Edward Clarke, the free

trade MP who represented the City was driven out of Parliament by London tariff reformers. In the subsequent by-election Sir Frederick Banbury - one of the most doctrinaire right wing tariff reformers in British politics, won the constituency (R. A. Rempel 1972: 173-174). In addition, Garvin gleefully reported that "City" people such as "Sir Walter Gilbey who spent thousands of pounds to put [the Liberals] in, says he would spend six times as much to put them out" (Garvin to Northcliffe, 10 May 1909, quoted in P. M. Kennedy 1980: 333).

The dilemma that the free trade City factions faced was only too clear; vote Liberal to maintain free trade and "die" with the budget; or vote Conservative to inaugurate tariff reform and "die" with protection. In the 1910 general elections the City made its choice and gave its overwhelming support to the party of protection. As Cain put it, "The Unionist heartland was that part of England dominated by commercial and financial power - much of it centred on overseas trade and foreign investment..." (1979: 57). Indeed, City businessmen, together with country landowners and tariff crusaders, "had common cause to oppose a budget which not only hit their pockets but also seemed to prove that money could be raised for social reform without tariffs" (Cross 1966: 105, my emphases). In the end the free trade interests of the City madly snorted at their parliamentary constituency, "Rather an end with Protection than 'Socialist' (direct) taxation without end". Thus whilst they chose protection, in the last instance they "died" with the budget. Thus it is to be concluded that had the City got its way, Britain would have relinquished its hold on free trade and turned to protectionism.

It may however be argued that even if this is true, could it not be the case that the budget itself was "designed" to maintain the "business" interests of the City. There are several problems even with this softer formulation. Firstly, protectionism was favoured by much of the city interests in relation to its pure business

activities. Secondly, as Rubinstein points out, it was not the City that defeated tariff reform but rather "It was its rejection by the liberals and non-conformists - based in industrial areas or reliant upon heavy industry - which did so" (1977a: 123). In particular it was the Northern industrial areas which supported free trade and voted with the government. At a general level, free trade was favoured by the majority of industrialists (as described in section 1 above). Thirdly, the real issue at stake in 1909/1910 was not trade but tax strategies. Thus the extent to which the budget enabled the maintenance of free trade was to an extent, the unintended consequence of the Liberals' desire to increase direct taxation, in order to attract the working classes.

Hence the view that the City dictated or had a monopolistic influence on government policy formulation, is not only wrong, but also assumes an incorrect causal relationship between economics and politics. The British state and the various groups that comprised it, particularly those holding office, were never simply a function of the "dominant economic class" (however defined). Rather, there were autonomous political interests, non-reducible to "capital", that had an important influence on the determination of national policy. Finally we may conclude that City interests constituted neither the social foundation of the British liberal state, nor did they comprise an essential or "institutional" core in alliance with the Treasury and the Bank of England (as Geoffrey Ingham's highly influential thesis states).

#### **The Ungentlemanly State's Attack on the Landed Upper Classes**

In addition to the City's stated opposition, various groups mentioned above, attacked the land tax aspect of the budget. The subject of the land tax was a vital strand of the Liberal budget package. George and Hobson had argued that economic rents accruing to the landed interest were "unearned", since it was society that had

endowed the land its value. Thus they argued it was only right to return that increment from whence it came. This sentiment grew to form a mainstay of Liberal politics. By 1906 J.H. Whitley's Land Values Group had acquired 280 Liberal and Labour MP's (Murray 1980: 46). Upon the central importance of land taxation all Liberals united. (see M. Freedon 1978; H. Emy 1972).

In the King's Speech of 1908 the land tax issue had finally reached the policy agenda. This speech produced much excitement amongst Liberal MP's with Trevelyan stating that the backbench wanted "to have the Valuation Bill...promised in the King's Speech introduced at the earliest possible moment" (Trevelyan to Campbell-Bannerman, 4 February 1908, quoted in Murray 1980: 48). Throughout 1908, Liberal (and Labour) agitation for land taxation intensified. Then on 27 November the House of Lords rejected Lloyd George's Licensing Bill. In terms of its practical revenue consequences this rejection was insignificant. The ideological and political repercussions were however, enormous.

It was said that Lloyd George had organised a "thanksgiving service" at the Treasury. Churchill's reply was as belligerent. "We shall send them up such a budget in June as shall terrify them, they have started the class war, they had better be careful" (quoted in Murray 1980: 108). Indeed in private, Lloyd George even alarmed Churchill with his talk about setting up a guillotine in Trafalgar Square; though as Masterman points out, such a discussion was conducted by Lloyd George in jest which Churchill had failed to pick up (L. Masterman 1968: 139). Ironically it was the Liberal government that dragged the Lords into the conflict. This raises the traditional question as to whether the Budget was framed solely in order to nail the Lords.

Roy Jenkins was correct to argue that the Budget was not framed solely to break the Lords, as indeed Peter Rowland also argued (1969: 215-216).. However this was so for a very different reason to that supplied by Jenkins. Jenkins had argued that Lloyd George could not have anticipated a rejection of the Budget by the Lords, as such a move would only undermine the Second Chamber due to the fact that it

was not constitutionally allowed to tamper with House of Commons finance bills. Hence he argued that the budget could not have been framed simply to damage the Lords (1954: 40-42; 1978: 196). However the Lords had in 1908 already rejected the Licensing Duties, thus revealing their will to intervene in House of Commons finance bills. Jenkins was correct by default rather than design, owing to the fact that the budget would have been constructed even if there had never been a House of Lords. This was due to the fact that the budget was essentially an electoral strategy constructed by the Liberals in order to attract the working class vote, as well as a necessary means to pay for social reforms and Dreadnoughts. To this end, Lloyd George sought to smear the Lords with tariff reform

Jenkins was wrong to argue that there was no connection between the budget and the Lords. In fact the issue of the Lords formed a vital strand to the whole Liberal politico-fiscal strategy of securing their electoral hegemony. Thus Lloyd George's acclaimed joy on finding the Lords to be ranged against his finance bills, especially in 1908 and 1909, was not surprising. For it enabled him to rhetorically reduce the whole fiscal controversy to a simple conflict of "Landlords versus The People". That is, were old age pensions to be funded by the taxation of the "parasitic" landlords (through land taxes) or through the taxation of the stomachs of "the People"? Furthermore, in terms of revenue production the land taxes were insignificant. The real issue of the budget was the boosting of income taxation, which naturally would affect a far broader range of groups than simply the Lords. But by smearing the Income Tax proposals with the issue of the Lords, Lloyd George was able to considerably boost the popularity of the Budget, given the rife hostility that was felt up and down the country against this class of "unearned" privilege. However it is also the case that in order to effectively smear the Lords with the income tax, he would need to arouse their hostility to the budget. In doing so he could achieve a further political aim - to break the power of the House of Lords. This could only be done if the House of Lords were to reject his budget. This would lead to a constitutional crisis since the second chamber was not allowed to interfere with House of Commons supply



bills. These two aims - to smear the Lords with the budget, and to challenge their constitutional power became effectively one strategy.

Thus in 1908 Lloyd George began his attack on the Lords, almost willing them to reject his tax proposals, which he intended to place before Parliament the following year.

"They (the Conservatives) are going to tax your bread, they are going to tax meat (and) timber...and other foreign commodities...and if the Lords want to stake their privileges upon it by all means let them do it" (The Times, 22 December 1908, quoted in Murray 1973: 559-560).

This weapon was used most powerfully by Lloyd George in the war against the Unionists which developed rapidly after the 1910 election. In the July campaign, three months after the original budget speech, Lloyd George delivered his most damning attack. In his Limehouse speech he declared that the landlord was a gentleman who did not earn his own wealth. His income was produced by others, but squandered by him. Reiterating Hobson's argument, he stated that the value of their land was determined by the growth of the community. In addition he argued that even their mining royalties were derived on the backs of capitalists who had risked not only their own money, but more importantly, the lives of miners. Furthermore Lloyd George stated that,

"...When the Prime Minister and I knock at the door of these great landlords and say to them 'Here, you know these poor fellows have been digging up royalties at the risk of their lives, some of them are old, they have survived the perils of their trade, they are broken, they can earn no more...' we ask, 'Won't you give them something towards keeping them out of the workhouse?' However they simply "...scowl at you and we say, 'You thieves!' And then they turn their dogs onto us and every day you can hear their bark.. If this is an indication of the view taken by these great landlords of their responsibility to the people who, at the risk of their life, create their wealth, then I say their day of reckoning is at hand" (The Times, 31 July 1909, quoted in Murray 1980: 191).

This speech marked a watershed in the campaign. Lloyd George's attacks on the Lords continued unabated. He followed up the Limehouse speech - or "Slimehouse" speech as F.E. Smith called it - with an equally vicious attack made in Newcastle.

"The Peers may decree a revolution but the people will direct it. If they begin, issues will be raised they little dream of...It will be

asked why five hundred ordinary men, chosen accidentally from among the unemployed, should override the judgement - the deliberate judgement - of millions of people" (quoted in Cross 1966: 106).

The Government and Lloyd George in particular were now "deliberately challenging the Lords to do their worst" (Cross 1966: 106). The situation was developing whereby the Lords would have to defend themselves. Not surprisingly therefore the Lords rejected the Budget by 350:75 votes - the largest rejection of a House of Commons bill ever. On Friday, 3 December 1909, Parliament was prorogued. Lloyd George was delighted, for the Lords had fallen into his trap. Just as Bismarck had cornered the National Liberals in 1878 and had jubilantly proclaimed that he had now "got those fellows", so Lloyd George exclaimed of the Lords, "We have got them at last and we do not mean to let them go until all the accounts in the ledger have been settled" (The Times, 4 December 1909, quoted in Murray 1980: 235).

Lloyd George's Budget enabled the Liberals a double election victory in 1910. The smearing of tariff reform and the "dear loaf" with the lords was particularly effective. Indeed the cry of "Peers versus People" was institutionalised at the popular level through the labelling of Lloyd George's fiscal package "The People's Budget". However, the debate as to whether the Budget was framed so as to undermine the House of Lords is somewhat misplaced. Whether this was the case or not, is not significant in the context of this thesis. Of more salience, is the fact that the budget represented a fundamental attack upon the hitherto fiscal privilege of the landed upper class. To this end direct taxes were levied on earned and particularly on unearned income, (not to be confused with the land taxes, which proved to yield only very small amounts of revenue).

Defending the Dominant Class. The Conservative "Trading" Strategy  
revealed

The Liberals were able to maintain free trade whilst at the same time produce a tax package that had a positive affinity with the interests of the working classes. This stood in stark contrast to the alternative as proposed by the Unionists. Their adoption of tariff reform was essentially a means to defend the fiscal privileges of the high income groups. The adoption of indirect taxation meant that the Conservatives had no natural claim to the working classes. Given this disadvantage, the Conservatives needed to look elsewhere for measures that could attract the lower classes, if they were to ultimately maintain the fiscal privileges to the upper income groups.. As a result the Conservatives latched onto the issue of unemployment. Thus tariff reform would be sold to the working classes through the employment that it would produce (see Acland Hood The Times 11 December 1909). The Conservative argument for employment was cleverly - though incorrectly - linked to the tax problem. In this formulation, tariff reform would shift a large portion of the tax burden off the working class and onto the foreigner, (an incorrect - not to mention - absurd argument, deliberately designed to confuse those groups whom they sought to win over). The argument continued, that this would have the double bonus of giving fiscal relief to the working classes whilst also boosting domestic jobs and industry. Significantly this did not impress the working class electorate, which remained firmly wedded to free trade, for amongst other reasons, to maintain employment. Furthermore the Conservatives (incorrectly) argued that this tendency would be considerably strengthened by virtue of the "opportunity costs" to employment that the Budget would entail. That is they claimed that the budget would serve merely to add to unemployment by frightening capital away, (an equally dubious proposition, often cited by those groups who have the most to lose from the imposition of direct taxation - cf. the

Republicans in the United States post-1900). Finally tariff reform would provide ofcourse, the funds needed to supply the old age pensions programme (though this was not strictly an economic factor).

The problem with the Conservative propoganda campaign for tariff reform was that most of the economic arguments upon which it was based, were fatally flawed; so much so that it brings into question their real motives in adopting tariff reform (as discussed in Section 1 above). The poignancy of the tax issue which informed the conflict was reflected by the capitulation of the Unionist Free Traders. They had openly argued ever since the Tariff Reform campaign had begun back in 1903, that protectionism would undermine the economy. Their case had rested on the need for low production costs. Thus they had (correctly) argued that tariffs would only lead to a more uncompetitive finished British good - commercial suicide for such an export dependent country. The sentiment was aptly summarised by Ripon in a letter to Campbell-Bannerman;

"If I were an Imperialist, I would denounce Chamberlain as the worst enemy of Imperial unity...But that is not really the most important part of the matter. The abandonment of free trade, the taxation of food, if not of raw materials to which, whatever Chamberlain may say, his policy directly leads, the disorganisation of industry and the war of tariffs which are the inevitable features of this policy, render the present crisis by far the gravest in the last fifty years. It is the greatest political struggle even of my long life...Everything else sinks into insignificance. This battle must be fought to the end. We must be prepared to unite with anyone who will help and part company with anyone who will not" (30 May 1903, quoted in Sykes 1978: 64).

And yet by 1909 such sentiments had sunk into insignificance. By 1910 such free traders were denouncing free trade as evil and had to be defeated at all costs. What had changed their minds? Certainly economic conditions played no part whatsoever in this revolutionary U-turn. If anything, economic conditions in 1910 were even more conducive to free trade than they had been in 1903.

A new battle had surpassed that of "free trade versus protection". The new battle, that of "socialism versus anti-socialism" and "direct versus indirect taxation" would now be fought to the end.

Thus the Unionist free traders united with the "whole hoggers". In sum the Conservative free traders openly sacrificed what they saw to be the correct conditions to maintain the economy in favour of retaining the fiscal privileges to the upper income groups in the country. Thus all the outspoken words of the Free-Fooders against protection were quietly dropped. Hence in 1910 they willingly heralded the cause of tariff protectionism against the evil of "socialist" free trade taxation.

## SECTION 6 THE FISCAL REVOLUTION IN HISTORICAL PERSPECTIVE

### The Liberal Fiscal Hammer

Chart 4.10

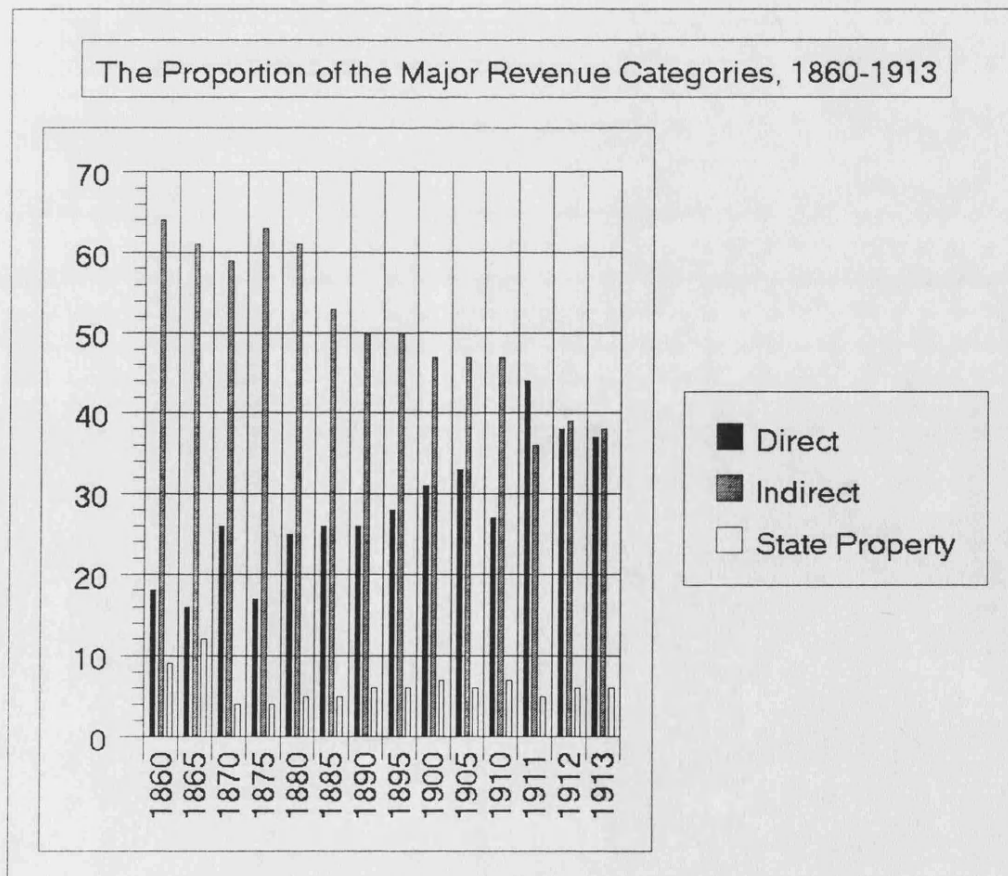


Table 4.11 Incidence of Tax Rates of Total Income, between all Income Groups in relation to the lowest income group (£50 = Base 100) before and after the Budget

Income in £	1903/1904		1913/1914	
	Earned	Unearned	Earned	Unearned
50	100	100	100	100
100	68	68	69	69
150	55	55	56	56
200	62	86	55	80
500	73	97	67	114
1000	81	113	76	140
2000	73	108	67	138
5000	62	106	78	143
10000	56	104	93	174
20000	54	110	95	184
50000	53	112	97	208

Source Samuel in Statistical Society of London Journal Lxxxii [1920: 176-177] (quoted in Murray 1980: 294; see also Colwyn Committee on National Debt and Taxation)

Table 4.12 A Comparison (in percentage) of the tax rates paid on all incomes in 1913/1914 over the period 1903/1904 in relation to those on £50 in 1903/1904

Income £	1913/1914 Earned
50	96
100	97
150	98
200	86
500	88
1000	89
2000	88
5000	121
10000	159
20000	169
50000	175

Source: See Table 4.11

It can be seen from Tables 4.9 and 4.10 above, that the gradual shift from indirect to direct taxes in the latter half of the nineteenth century greatly accelerated as a result of the Liberal budget of 1909. Table 4.11 shows the breakdown of the actual tax regime across all income bands before and after the budget. These figures show that the budget led to those on incomes over £ 5000 paying considerably more tax in 1913 than they had ten years previously. Table 4.12 shows the relative tax liability of all income groups in 1913/1914 compared to the pre-budget 1903/1904 position. This shows that those on incomes from £ 50-£150 received a very slight amount of tax relief. Those on incomes of between £ 200-£2,000 received a substantial amount of tax relief. However those on incomes of between £ 5,000-£50,000 paid considerably more tax as a result of the budget. As Table 4.11 also shows, the relative tax rates on unearned incomes of £ 500 and above, paid tax according to a clear progressive scale

Seen of course from the vantage point of the late twentieth century, the lowest income groups paid far more than current notions of social justice would lead an observer to conclude. Indeed even within the contemporary setting (as Samuel originally argued), the lowest income groups paid too much in relation to all other groups. However, when we compare the 1913 with the 1903 position, it is clear that the budget had initiated a substantial shift away from regression, particularly through equalising the burden between the lowest and highest income groups. In agreement with Davis and Huttenback, "overall there is clear evidence of declining regressivity, if not of increasing progressivity" (1988: 211, and this for the period prior to the 1909 Budget!) Furthermore, this was probably one of the most progressive (or least regressive) national tax regimes in the world at that time. In addition, the principle was established that higher incomes should not only pay at least as much as the lowest income groups, but should also pay for social reforms which would exclusively benefit the working classes. The Budget therefore laid the foundations for the modern concept of social redistribution, to be developed after 1945.

The Budget represented an historically unique attack by the state upon the "dominant economic classes". Thus the so-called "favoured" groups - the rich industrialists and perhaps to a greater extent, those "gentlemanly" capitalists in the City, as well as their "landed relatives" on their estates - came under the Liberal state's fiscal hammer. This was an example of clear and genuine autonomy on the part of the state as it responded not to the needs of capital, but to its own electoral and fiscal interests. Indeed capitalism was not under threat in the late Edwardian period, thus quashing the Marxist charge of "relative autonomy". In any case if there was any truth in this relatively autonomous approach, then we would surely expect the Conservative party to act in a similar manner to that of the Liberal government. However, given the party's choice of protection and regressive taxes, nothing could really be further from such a claim. In conclusion, the granting of progressive taxes had nothing to do with the long run maintenance of capitalism, but was rather premised upon the autonomous requisites of party government in the context of liberal parliamentarism. As a result, free trade was maintained and tariff protection avoided



## CHAPTER 5.

### THE STATE, TAXATION AND TARIFF PROTECTIONISM IN LIBERAL (FEDERAL) AMERICA 1789-1913

#### The Emergence of Tariff Protection

Tariff protectionism formed a mainstay of American economic policy from the end of the eighteenth to the first few decades of the twentieth century. Tariff policy was as much about taxation as it was about protection. Prior to the twentieth century the central government relied predominantly upon the tariff for its revenue. The tariff owed its predominance to the specific nature of the American state. In the first instance, the "state" was not unitary but rather, federal. We have already noted the link between federalism and tariffs as revenue instruments in the case of Imperial Germany. Alongside Germany stood Australia, Canada and Switzerland. America was no exception. Whilst the federalism of the U.S. played a vital part in the formation of tariff policy, the decentralised nature of the central state itself led to the maintenance of high protectionism right into the twentieth century. Finally, party government also impacted upon the formation of tariff policy. As with Britain, the politics of the tariff and the income tax became intertwined particularly after 1887. Furthermore, this chapter will allow us to envisage a multilayered conception of the state as it autonomously impacts upon the process of economic development, to be analysed further in the final chapter.

The problem of central provision in America has plagued the government ever since its inception. The early years of the continental Congress were marked by a profound political and fiscal struggle with the local states. Establishing the tax premise proved to be very difficult. The Articles of Confederation (1781) included no financial provisions. Thus the Congress was at the mercy of the thirteen independent legislatures (See Studenski and Kroos 1952: 25; Ratner 1967). Congress made various attempts at securing revenue

including the levying of tariffs. It took the occurrence of a war (for independence) before the resistance of the thirteen colonial governments could be broken down. The war left the Congress prostrate in the face of massive indebtedness. A convention was set up in 1787 to solve the fiscal crisis. The result was the granting of the Congress with an independent source of revenue (as well as expenditure).

Article 1, Section 8, No. 1 states that;

"The Congress shall have power to collect taxes, duties, imposts and excises to pay the debts and provide for the common defence and general welfare of the U.S.; but all duties, imposts and excises shall be uniform throughout the U.S.... to regulate commerce with foreign nations and among the several states and with the Indian tribes...to make all laws which shall be necessary and proper for carrying into execution the foregoing powers".

More specifically with regards to tariff policy, Article 1, Section 10, No. 2 states that;

"No state shall without the consent of Congress lay any imposts or exports, except what may be absolutely necessary for executing its inspection laws and the next produce of all duties and imposts and exports shall be for the use of the Treasury of the U.S.; and all such laws shall be subject to the revision and control of the Congress. No state shall without the consent of Congress lay any duty of tonnage".

The Constitution ensured that central and local government would be allowed their own unique and independent sources of taxation. That is the fiscal "instrumentalities of each were constitutionally immune from taxation by the other" (Studenski and Kroos 1952: 39-40). Up until 1787 the states had presided over the use of direct and indirect taxes. It was decided that the preserve of indirect taxes would be granted the central state, while the localities would maintain their monopolistic hold over direct taxes.

On 6 April 1789, the new Congress met with the initial purpose of providing a national revenue. Madison stated that;

"The deficiencies in our Treasury has been too notorious to make it necessary for me to animadvert upon that subject... a national revenue must be obtained, but the system must be such a one that, while it secures the object of revenue it shall not be oppressive to

our constituents. Happy it is for us that such a system is within our power; for I apprehend that both these objects may be obtained from an impost on articles imported into the United States" (quoted in Young 1872).

Thus the tariff Act of 4 July 1789 was adopted since "direct taxes could not be thought of; and even the excise would be unpopular" (House statement 15 June 1789, quoted in Young 1872: 13-14). At the same time, the preamble to the Act made clear its intentions; "Whereas it is necessary for the support of the government for the discharge of the debts of the U.S., and the encouragement and protection of manufactures, that duties be laid..." (quoted in Young 1872: 15).

#### Protectionism and Taxation 1790-1860

In 1789 Alexander Hamilton was appointed Secretary of the Treasury. The popular image of Hamilton, expressed in much of the literature, has been of a man who propagated an early version of Friedrich List's, National system of Protection. However, as Secretary of the Treasury, Hamilton's first prerogative was the securing of a "national system of revenue", in the face of severe financial crisis. Indeed his first report on the finances in January 1790 was devoted in large part to precisely this problem. To meet these fiscal requisites he favoured tariffs on luxury goods as well as raw materials and manufactured.

From 1789-1815 there were approximately 25 tariff acts. It is difficult to agree with Hill and Bowles who argue that these initial acts were made solely with protectionism in mind. The main object of these acts was to secure revenue (Taussig 1931: 14-16; Dewey 1968: 135). This is partly evidenced by the fact that purely revenue items such as tea, coffee, molasses, spirits, were predominantly favoured. In addition Hamilton's classic "Report on Manufactures" (1791), which called for a "high system of protection" was not borne out. Average tariff duties never rose above 10%. His protectionist views therefore had far less impact in this period than the popular literature has

portrayed (Keohane 1983: 53; Gilpin 1987: 181). So low was this actual "system of protection" that Keohane has termed it "associative" (1983: 52). Furthermore America was still predominantly agricultural, with industry barely having reached even the infant stage.

In 1816 a high protectionist tariff was brought in to enable a retirement of the war debt (J.F. Witte 1985: 67; Keohane 1983: 77). However, by 1816 revenue needs were matched by industry's desire to block the flood of foreign imports. With the rise of fiscal deficits in 1820, 1821 and 1824 the government increased tariffs, whilst at the same time enabling intended protectionist benefits to industry, (particularly the woollen interests). The average level of protection was increased further in 1828. This was one of the few acts which had no fiscal rationale, though there was a specific party logic involved (See Taussig 1931: 88-89, 98; Ashley 1920: 151; Keohane 1983: 78; Dewey 1968: 181). The 1828 Act was known as the "Tariff of Abominations" owing to its very high rates of duty (which were over 40% - Dewey 1968: 181; Studenski and Kroos 1952: 98).

In 1832 these abominable rates were lowered. This was a result of the over-accumulation of revenue derived from the 1828 Act. The surplus revenue problem was resolved by the 1832 and 1833 Tariff Acts whereby rates were reduced to average 33% ad valorem. The latter act was known as the "Compromise Tariff" as it appeased the Southern states by stipulating that rates would be reduced to 20% by 1842 (Studenski and Kroos 1952: 98-99). There then followed a series of annual surpluses though after 1836 (with the exception of 1839) these were transformed into deficits. Thus in 1840 President Harrison proposed to amend the tariff so as to meet the Treasury deficits. His death led to the election of President Tyler who continued this movement. With the maintenance of deficits "the only remedy which occurred to the statesmen of the United States was a revision of the tariff" (Ashley 1920: 167). As a result the 1842 Tariff Act was passed, significantly increasing the duties from approximately 20% to 30%. This ensured a series of healthy annual surpluses. These prompted the government to lower the rates once again in 1846. However this led not to a reduced but rather to a vastly increased

revenue, premised upon the booming economy which sucked in a large amount of imports, (in turn enabled by the lower tariff). Owing to the simultaneous increase in state expenditure, the need for a further revision of the tariff was not forthcoming.

However by 1857 the vast annual surpluses led to the desire for a reduced government revenue (and thus a revision of the tariff). Thus the government brought in a tariff in 1857 which lowered the average duty to 20% and increased the free list (I.M.Tarbell 1911: 2). Almost immediately however the government was faced with large deficits. This prompted Justin Morrill to argue that "... the government is living hand to mouth and it was obliged to go to bed without its supper every time the imports of the week fell short a million at the port of New York" (quoted in Dewey 1968: 265). In short the financial needs of the government demanded a rise in tariffs. Thus in the winter of 1859 Morrill introduced a tariff bill which stated that "no prohibitory duties have been aimed at...most of the highest duties have been so fixed more with a view to revenue than protection" (quoted in Dewey 1968: 265).

### Tariffs, 1861-1883

Almost as soon as the Morrill tariff had come into operation, Fort Sumter was fired upon and the Civil War had begun in earnest. Hitherto government taxation levels were dwarfed by the amounts spent during the war. As well as securing the union, the most immediate concern for the government lay with extracting the necessary taxation to meet the vastly increased expenditures. As part of the government's fiscal strategy, tariff duties were raised in 1861, 1862 and 1864.

On 16 July 1861, Stevens (Chairman of the House Ways and Means Committee) submitted a bill entitled "An Act to provide increased revenue from imports, to pay interest on the public debt, and for

other purposes" (quoted in Young 1872: cxii). With respect to the 1864 Tariff Act of 30 June, Justin Morrill pointed out;

"Its primary objective is to increase the revenue upon importations from abroad, and at the same time to shelter and nurse our domestic products... The Treasury requires a larger supply of means, and such sources of revenue as have not already yielded their maximum contributions must now be sought, so that we may fill the measure of our wants" (quoted in Young 1872: cxxxii-cxxxiii).

The 1864 Tariff had a particular significance in that it provided the basis for subsequent legislation (Taussig 1931: 174; Ashley 1920: 184; Dewey 1968: 302). In the aftermath of the war it was hoped by a majority of the population that the tariff rates would be reduced, since they had been established on a temporary emergency basis. However the desire to get rid of the internal taxes (excise and income), was so strong that it became necessary not only to maintain import duties, but to do so at a high rate in order to pay off the huge war debt (Studenski and Kroos 1952: 168-169). In addition, the industrialists' desire for protection led to the maintenance of the high rates.

In response to the government surplus of 1871, the Republicans enacted a 10% reduction in tariffs. However, this masked the protectionist intent of the Act. By abolishing or lowering the rates on "revenue" items (especially tea and coffee), the Republicans were able to maintain rates on items that afforded protection, such as iron and steel (Taussig 1931: 179-190; Ratner 1967: 133; Ashley 1920: 187-188). This process led to the closer linkage between tariff protection and government revenues. The deficits that followed the 1872 Tariff played a part in the repeal of the 10% reduction in the 1875 Act. Taussig has argued that in this case the revenue aspect was merely a smoke-screen for the high protectionists to get their own way (1931: 190).

The resulting series of treasury surpluses led to the usual pressure to reduce the tariff in order to balance the budget. Finally in 1883 a proposal to reduce the duties by as much as 20% was called for. The Secretary of the Treasury observed that times had changed since the law of 1789 which had established the Treasury Department;

"What now perplexes the Secretary is not where from he may get revenue and enough for the pressing needs of the government, but whereby he shall turn back into the flow of business the more than enough for those needs, that has been drawn from the people" (quoted in Dewey 1968: 415).

However all this would change after 1890, when the "country would never again be able to indulge in the luxury of regarding a surplus in the Treasury as an alarming matter demanding vigorous action" (H. U. Faulkner 1959: 109).

### The Tariff, Income Taxation and Party Divisions

In 1883 the Republicans feared they might lose power unless they made concessions to the growing popular discontent by way of reducing taxes through lowering tariff rates. By the 1880s a new rationale to tax policies began to emerge. A growing popular feeling which embraced the notion of fair taxation based on the ability to pay entered the political scene.

The Income tax first emerged in six states between 1840 and 1850, (Pennsylvania, Maryland, Virginia, Alabama, Florida and North Carolina). During the Civil War the Central government brought the income tax as a temporary war time expedient, which provided \$376 m in 1866 at its peak, (almost 25% of internal revenue collections - Webber and Wildavsky 1986: 418. For a discussion of the Civil War income tax see; J.F.Witte 1985: 67-70; Kennan 1910: 236-256). After the war pressure mounted for a reduction in the income tax, especially from bankers and manufacturers. The attack on the income tax was often premised (as it was in Britain) on the proclamations of John Stuart Mill. It was denounced as "socialistic" and more importantly "a tax imposed expressly on the rich". In 1871 the tax was abolished at the central level. However various interests were developing and indeed mobilising to make the income tax a permanent fiscal weapon.

In 1871 in the House vote, representatives from 14 Southern and Mid-Western states (which had contributed approximately 11% of the income tax during the war) cast 69 votes for its retention and only 5 against. In contrast the Republicans from California, New York, Connecticut, Massachusetts, New Jersey, Maryland, Pennsylvania and Rhode Island (which had contributed approximately 70% of the income tax), cast 61 votes against and 14 for its retention (Ratner 1967: 131. J. A. Hill 1894: 442-443). Rather than give way to the income tax demands of various states, the Republicans conceded only so far as a 10% reduction in the tariff (1872).

In the 1870's new parties consisting of farmers and workers emerged to fight the Republican party. These were small and numerous and variously called; the "Greenback Labour, Reform or Farmers' Party. Despite the introduction of 14 different income tax bills between 1873-1879, no such legislation was forthcoming (Baack and Ray 1985: 608; Ratner 1967: 148).

For several years after 1879 widespread prosperity followed in the wake of the huge exports of grain into Europe. This prompted large imports on the back of the higher incomes accrued from the export surpluses, which in turn led to a more fiscally productive tariff. Although this delayed the urgency for a popular income tax, it did not diminish the revulsion at the increase in regressive indirect taxation. Thus to stave off a tax revolt, the Republicans lowered the tariff duties in the Act of 1883. Nevertheless from 1887-1890 the government accrued annual surpluses of over \$100m. It was at this point when the two major parties divided over the issue of tariffs and taxation.

The Democrats wanted to decrease regressive taxation and hence move toward free trade and the income tax. The Republicans favoured protection and regressive taxes and thus wished to maintain the tariff. Furthermore the Republicans were keen to maintain relatively high regressive taxes in order to finance (military) pensions to soldiers.



Upon these fundamental issues President Cleveland (Dem) made a stand in 1887. Alarmed at the huge revenue surpluses he devoted his 1887 annual Congress message to an attack upon the high protectionist tariff which he described as "a vicious, unequitable and illogical source of unnecessary taxation," which "ought to be at once revised and amended" (quoted in Ratner 1967: 157; Studenski and Kroos 1952: 208). Tom Terill reports that this speech not only ushered in the "Great Tariff Debate" of 1888 but more significantly contributed to the near political annihilation of the small band of protectionist democrats (1973: 91). This speech galvanised the Democrat party to the immediate and future support of a low tariff as a means of reducing the tax burden of the masses (Webber and Wildavsky 1986: 419; Ratner 1967: 158). There is also little doubt that the Democrats also favoured an increase in U.S. exports (Terill 1973: 18; Lake 1983: 527; Lake 1989: 98).

However by the late 1880s the Republicans were back in office, and in 1890 had enacted the McKinley Tariff which extended the system of protection. Furthermore the huge annual surpluses of the 1880's were converted to large deficits in the 1890's. The Republicans presided over the depletion of the surpluses through several measures, not least; a massive increase in military pensions; the construction of a steel navy; the return to the Northern states of direct taxation collected during the civil war (Faulkner 1959: 109). Not surprisingly this merely strengthened the Populist revolt, which fought for a more equitable tax system (J. D. Hicks 1961: 223-229, 435-439). In addition, the massive growth of individual fortunes was grist to the mill of the Populist ideological and political campaign (Seligman 1908: 494).

The movement against the Republican system of regressive taxes also developed in the Democrat party. With the return of treasury deficits after 1892, the newly reinstated Democrats looked for ways to increase the revenue. To this end President Cleveland on 4 December 1893, expressed himself in favour of tariff reform, particularly on the necessities of life and industrial raw materials. Furthermore he pointed out that lower tariffs might produce more revenue, owing to the very high rates of the present McKinley tariff. Of the income tax he said,

"The Committee after full consideration and to provide against the temporary deficiency which may exist..have widely embraced in their plan a few additional internal revenue taxes, including a small tax upon incomes derived from certain corporate investments" (quoted in Kennan 1910: 257).

Increased revenue would, it was hoped, be accrue from the introduction of an income tax. In addition, Cleveland urged its introduction as an electoral strategy to steal the thunder of the Populists.

On 8 January 1894, Wilson proposed lower tariff duties on manufactured goods and raw materials, and the abolition of the sugar duty. On 29 January, McMillin moved for an income tax amendment to be added to the Wilson Tariff bill (Seligman 1908: 497-499; Kennan 1910: 257-258). As with their Conservative counterparts in Britain, the Republicans denounced the income tax as the "spectre of free trade"; that it would hamper business by reducing savings; and that it would be an unfair burden on the rich and thus constituted "class" legislation. For the high income earners, such legislation would be as an eastern senator put it, the first step on the road to Socialism (Webber and Wildavsky 1986: 419; J.F.Witte 1985: 71-73; Seligman 1908: 503- 505; Kennan 1910: 266-267).

Having been passed in the House, the bill proceeded to the Senate. However, it was at this point that the original bill was blocked, as would similar future tax legislation. In the Senate under the leadership of the Democrat Gorman the bill was radically altered with no less than 634 amendments attached. The defection by certain Democrats was a major factor in the defeat of the tariff bill. This was specifically linked to internal party wrangling and intrigue (For a full discussion, see Ratner 1967: 174-184; Terill 1973: Ch. 4). The net position was that tariff revision was not granted though the income tax provision remained in tact (Ratner 1967: 181-184).

The negation of the original Wilson Bill in the Senate was matched by the position adopted by the Supreme Court. In the case of Pollock Versus Farmers' Loan and Trust Company the tax was deemed to be of a direct nature and hence unconstitutional (Baack and Ray 1985: 610;

Seligman 1908: 531-589; Myers 1970: 237; Kennan 1910: 262-269). Thus the 1894 Income Tax was revoked a year later. This ruling merely served to polarise the issue of the income tax along party lines. So while the Republicans continued to favour the tariff, the Democrats adopted the Populist position. The Democrat party platform henceforth read;

"It is the duty of Congress to secure all the constitutional power which remains after that (income tax) decision, or which may come from its reversal by the Court as it hereafter be constituted, so that the burdens of the taxation may be equally and impartially laid, to the end that wealth may bare its due proportion of the expenses of the government: (quoted in Ratner 1967: 216).

By the end of its rein in office the Democrat party had been prevented from inaugurating the major fiscal measures that it had originally proposed. In 1897 the Republicans returned to office.

In the House, Nelson Dingley sought to lower the tariff in order to provide revenue to make good the treasury deficit. This was due to the fact that the very high rates of the present tariff had reduced imports and had subsequently stifled the revenue. This was also prompted by Republican leaders in the Senate who wanted an international bimetallic agreement with France and England, which could only be secured through a lower U.S. tariff as a concession to these two countries (D.A. Lake 1989: 138-139; S. Ratner 1967: 223). This latter initiative was stifled by the "free silver" Republican senators. When the bill emerged from the Senate, it had a staggering 872 amendments attached (Lake 1989 ; Taussig 1931; Ratner 1967: 224). The net result was an overall increase in the tariff, which contradicted the motivation of the original Dingley bill. The Dingley Act raised the tariff on dutiable imports from 41.2% (Wilson-Gorman Act), to 47.6% - only 0.8% below the rate of the McKinley Act (Lake 1983: 534; Lake 1989: 125-126).

Thus both the Wilson-Gorman and Dingley tariff acts had been prevented from realising their original purposes - namely the movement toward freer trade (and in the case of the former act - the income tax). The bills had been turned around into the maintenance of a high system of regressive taxation and protection. This was enabled

by the highly fragmented nature of the American central state. The autonomy of the legislative as well as the executive and, though to a lesser extent the judiciary in terms of real policy making power meant that tariffs and regressive taxes were maintained longer than if the central state had been more unitary (as in Britain, where the executive is to all intents and purposes the legislative).

However the problem of the deficits was not overcome. This coupled with the Spanish War of 1898, led to the renewal of Populist and Democratic pressure for a more progressive system of taxation. An inheritance and corporation tax bill was proposed in the House in 1898. With the rise of progressive tax sentiment in the country the republicans conceded an inheritance tax and also an income tax on the sugar and oil refining companies.

#### The Move Toward Freer Trade and the Income Tax

In 1900 President Roosevelt stated that a "graduated income tax of the proper type would be a desirable feature of federal taxation, and it is to be hoped that one may be devised which the Supreme Court will declare constitutional" (quoted in Seligman 1908: 591; Kennan 1910: 277). The Republican President sought to conciliate popular agitation for a more progressive tax structure. In June 1907 he told the people "most great countries have an income tax and an inheritance tax. In my judgement both should be part of our system of federal taxation" (quoted in Ratner 1967: 264). However he was aware of the difficulty of imposing an income tax owing to the Supreme Court's 1895 decision. The "Great Leveller" as he was known was, like Presidents before him, to be prevented from implementing his tax proposals.

In the election of 1908 William Jennings Bryan stood on a Democrat platform of an immediate revision of the tariff and the adoption of an income tax. Unfortunately for him the final electoral decision favoured the Republican, Taft. As a concession to popular opinion Taft also favoured a reduction of the tax burden through a lowering

of the tariff. With the rise in unemployment in 1907, when living costs were high, the need for a reduction in the tariff was felt more than ever. Thus the 1908 Republican platform declared "unequivocally for the revision of the tariff by a special session of Congress immediately following the inauguration of the next president" (quoted in Ratner 1967: 268). In addition Taft considered the adoption of an income tax stating that "it is not free from doubt how the Supreme Court with changed membership would view a new income tax law" (Cincinnati Times Star, 21 August 1907, quoted in Ratner 1967: 269).

In 1909 Sereno Payne (chairman of the House Ways and Means Committee), introduced a bill which involved a downward revision of the tariff and the resortion to the inheritance tax. This was an echo of Taft's inaugural speech in which he stated that should it be impossible to secure sufficient revenue "from import duties, new kinds of taxation must be adopted and among these, I recommend a graduated inheritance tax as correct in principle and as certain and easy of collection" (quoted in Kennan 1910: 277). The income tax was ignored to a large extent on the grounds of its declared unconstitutionality. Once again the decentralised nature of the American central state led to the watering down of the Payne bill. Although Cordell Hull had pushed for an income tax amendment in the House, it was blocked by the Speaker, Joseph Cannon. In the Senate, Nelson Aldrich drafted his own tariff bill which made far fewer concessions to tariff reform than the Payne bill. Aldrich was challenged not just by the Populists and Democrats but perhaps more significantly by a group of ten "insurgent" Republicans (mostly from the Mid-West), who wished to invoke tax reform as a means of lowering the cost of living for their constituencies (especially the farmers). Although they were defeated by Aldrich, they nevertheless paved the way for the upsurge of the Progressive movement in 1912. There was however a progressive legacy of the 1909 Act, which involved the introduction of a corporate income tax, enacted largely as a Republican concession to public sentiment in the face of the maintenance of high tariffs (Seligman 1908: 592-594).

The tariff bill emerged from the Senate with 847 amendments. It then went to a Conference Committee which Aldrich and Cannon had filled

with high protectionists. Despite fierce internal wrangling within the Republican party, with even the President becoming involved behind the scenes, the final act failed to significantly reduce the tariff. Nevertheless some advances were made toward the income tax. The Insurgents and Democrats worked together to push for an income tax amendment to the Aldrich bill. However through skilful political manipulation Aldrich managed to defer the income tax by introducing a substitute in the form of the corporation tax. "I shall vote for a corporation tax as a means to defeat the income tax". For him, the latter was "a tax which is sure in the end to destroy the protectionist system" (quoted in Ratner 1967: 288). Although the House was resentful of the 847 amendments as well as the substitution of the corporation for the income tax, the Payne-Aldrich tariff bill became law on 5 August 1909. The Republicans however enacted the Sixteenth Amendment which would effectively allow a future government to introduce the personal income tax. However the concession to progressivity did not appease the electorate, which duly re-elected the Democrats (Myers 1970: 265).

In 1913, with the Democrats back in power and the Sixteenth Amendment ratified, the scene was set for a move toward a more progressive tax regime. On 22 April, Oscar Underwood put forward a House bill which envisaged a sweeping downward revision of the tariff, the central aim of which was to ease the cost of living for the masses (Ratner 1967: 323). In addition to the lowering of indirect taxation, Cordell Hull drafted an income tax amendment. The federal income tax would levy a flat 1% rate on all incomes over \$3000 (for a single person), ranging to 6% on very high incomes, with a maximum effective rate of 7%. Since average personal income was \$621, only 2% of the population would pay the tax between 1913-1915. (Webber and Wildavsky 1986: 421). The Underwood tariff lowered average rates of duty on all imports to 8.8% and on dutiable imports to 26.8% (Lake 1983: 535; 1988: 51; 1989: 155). This represented a clear step toward free trade and a more equitable tax regime, given the 40.12% average rate of the Payne-Aldrich Act (Ratner 1967: 323). This was described as "the heaviest blow that has been aimed at the protective system since the British legislation of Sir Robert Peel

between 1842 and 1846" (The Economist 12 April 1913: 867 quoted in Lake 1988: 51).

### Summary of Tariff and Tax Legislation, 1789-1913

This chapter has argued that tariff legislation overlapped to a very considerable extent with tax policies. From 1789-1860, customs receipts constituted over 95% of total tax revenue (see United States 1949,1960). With the liberal state's desire for balanced budgets and low rates of taxation, it was almost inevitable that the existence of treasury surpluses/deficits would impact upon tariff legislation. Thus when the government revenue account was in surplus, tax rates were lowered and hence tariffs were reduced. This rationale affected the tariff acts of 1832, 1833, 1846, 1857, 1872, 1883. When deficits occurred, taxes were increased and hence the tariff was raised. This rationale affected the tariff acts of 1791-1801, 1841, 1842, 1861, 1862, 1864, 1875. The main exceptions to this were the tariff acts of 1828 and 1890, where rates were increased in the face of a treasury surplus, and had an unequivocal protectionist rationale.

Ida Tarbell summarised U.S. tax policy as follows. The nation intends "to raise money to carry out our business by putting a duty on certain raw and manufactured goods brought from foreign countries. If we find we are getting too large a revenue we will cut down the duty, if too small we will raise it" (1911: 1). In short the implicit government revenue formula for maintaining budget equilibrium was;

- (1) Fiscal deficit + higher tariff rates = increased revenue.
- (2) Fiscal surplus + lower tariff rates = decreased revenue.

However even if we except the acts of 1828 and 1890, this revenue formula is still not perfectly applicable. For example in 1846 whilst tariffs were lowered to reduce the revenue in the face of surpluses, the effect was to create new increased and sustained government revenues. To explain such an anomaly involves the adoption of an

additional explanatory variable; the trade cycle. Thus when the economy was booming and imports were bountiful tariff revenues would (*ceteris paribus*) naturally increase. Under such conditions lower tariff rates could actually lead to higher revenues (1832, 1833, 1846-1856, 1883,). When the economy is in depression and imports were curtailed, tariff revenues decreased and thus rates were increased, (1842, 1860, 1875,). However this trade variable for the most part worked in harmony with the "revenue formula" noted above. Thus when depressions occurred and tariff revenues dropped, the state would increase tariff rates in order to provide more revenue. Under boom conditions and an upturn in trade lower duties were entirely commensurate with higher revenues (see also T. J. McKeown 1983).

The politics of the tariff and the income tax became indissolubly linked, particularly after 1887. In addition the choice of taxes became split along party lines. The Democrats came to favour progressive taxes and thus reduced indirect revenues (hence freer trade) and the income tax. The Republicans defended regressive indirect taxes and favoured protection for industry - hence tariffs and resistance to the income tax. Mark Hansen has recently argued that the two major parties were split in their choice of trade regime throughout the nineteenth century. Thus he claims that tariffs went up under the Republicans and down under the Democrats (1990: 539, 543). He calculates that Democrat Presidents set tariff duties 9.51%age points lower than their Republican counterparts (1990: 544). Or as Gallarotti points out, four out of the five tariffs after 1880 support this idea; "both increases occur under Republican Presidents and two (1894 and 1913) of three reductions under Democrat presidents" (1985: 179). Whilst this is to be endorsed it will be qualified

Firstly, whilst this 9.51%age point difference was not insignificant, it can hardly be claimed that it was particularly significant. The minimum tariff rate on dutiable goods never once went below 20% in the period upto 1913. Mostly rates were pitched between 30% and 50%. At this level even a 15-20% difference in rates between the two parties would have struggled to attain significance in terms of strict free trade criteria, (the 1913 Underwood Act



excepted). Secondly, the Democrats, certainly upto 1887, were never free trading, as their Liberal counterparts in Britain had been. Rather they had accepted as part of political life that tariffs were the essential means through which the government accumulated its revenue. Indeed the Democrats fully endorsed the statement of the Free Trade Convention at Philadelphia in 1831 where it was stated that;

"...the people prefer in times of peace, duties raised on the importation of foreign merchandise to any internal tax, direct or indirect...Duties on imports amounting to an average to about 20% of the value appear necessary to the support of the government" (quoted in Ashley 1920: 149; see also the statement by Secretary Walker in 1846, in Young 1872: ).

Upto the 1880s, whilst the Republicans were the party of protection, the Democrats favoured freer trade. This was inextricably linked to party notions of taxation. Hence by the late 1880s the Democrats came to favour the replacement of the regressive tariff with the income tax and it was this feature which divided the two parties.

Certainly therefore by the early 1890's the system of party government played an important part in the setting of tariff rates. This divide became pronounced only after 1917 when the income tax became fiscally predominant. Relieved of tariffs for their revenue function, Republican administrations (Harding and Hoover), sought to boost protectionist duties whilst the Democrats (Wilson and F.D.Roosevelt), sought to lower tariffs. The presence of deficits or surpluses no longer affected their tariff calculations. Thus "despite surpluses, inter war Republicans thrice sent duties higher. Despite deficits, inter war Democrats thrice sent duties lower" (Hansen 1990: 547).

However this political formula is also too simplistic and cannot explain why tariffs remained so high upto 1913. Thus although the Democrats attempted after 1887 to lower tariffs and raise progressive taxes they were for the most part substantially blocked from doing so. Furthermore it was clear that at the presidential level the Republicans were also trying to implement a similar tax strategy. These initiatives were however blocked, particularly by grass-root

members within the Republican party, as well as the Judiciary. It was principally the highly decentralised nature of the central state, with its tripartite system of government which enabled the maintenance of protectionism upto 1913. Thus the Presidents, Cleveland (Dem), Roosevelt (Rep) and Taft (Rep), all attempted to secure lower tariffs alongside a shift to more progressive taxation but were all blocked. The splitting up of the executive from the legislative as well as the judiciary, meant that Presidents could be over-ruled at the policy level by members of the opposition or even those from within the government. Indeed this was an essential element in ensuring that the state would be responsive to the needs of society.

Thus the constitution expressly stipulated that all financial and tariff bills would be raised in Congress (to be initiated in the House). The close proximity of Congress to society enabled particularly politically mobilised groups to pervade the policy making process (Lake 1989: 84). However, tariff policy was also closely linked to taxation requirements. Thus there was a fusion of top-down (state-led) as well as a bottom-up (society-led) aspects in the determination of tariff policy.

In attempting to derive U.S. tariff policy from the international economic environment, David Lake tends to downplay party differences. Thus he argues that the Democrat Wilson-Gorman Tariff was no different to the Republican McKinley and Dingley Acts. Similarly the rates of the Underwood Act were half those of its Democrat predecessor, the Wilson-Gorman Act (1989: 162). Thus Lake is correct to point to limitations to the traditional "party" based argument. However, the reason for these occurrences lies not with the position of the U.S. in the international arena but rather with the capacity of the executive to convert its intentions into policy.

The movement toward free trade could not have occurred prior to the establishment of the income tax, (which occurred in 1913). When the income tax was brought in during that year, it was no short coincidence that tariff rates were radically lowered. However it should be noted that the income tax was not inaugurated as a means to

enable industry to benefit from free trade. All the evidence points to the fact that in 1913, industry was not ready for free trade, as the highly protectionist Fordney-McCumber (1922) and Smoot-Hawley (1930) tariff acts later confirmed. In addition as David Lake points out, in 1899/1900 approximately 57.5% of U.S. industry exported little more than 5% of its production and only one sector (chemicals) exported more than 10%. By 1909, the proportion of American manufacturers who exported 5% or more of their output had risen only to 63.6% and no sector exported more than 10% of its output. This remained the case upto 1913 (Lake 1988: 53; Lake 1989: 75-77, 162). In other words, in 1913 American industry was not ready for free trade. Indeed this was an important factor in the maintenance of protection. In turn, industrial interests found it relatively easy to penetrate the state (via the Republican party) due to the polity's embedded quality, (or its close proximity to civil society), where their protectionist interest was politically articulated.

This perspective allows us a critical insight into a major alternative theory propounded by David Lake. He argues that the nature of the international economic structure played an important (though not singular) role in America's shift toward freer trade in 1913, (particularly over the high protectionism of the 1909 Payne-Aldrich Act). Principally he refers to the growing protectionist sentiment emanating within the Conservative party in Britain, (in turn a function of the country's waning hegemonic power). He states that protectionist sentiment in the Conservative party was still only weak in 1909 and had failed to gain the "unequivocal" support of Arthur Balfour. This meant that America could continue to free-ride on British free trade which looked certain of being maintained for at least another few years (1988: 49; 1989: 146-147). Hence this explains the high rates of the Payne-Aldrich Act (1909). How then does he explain the substantial shift in America toward free trade in the 1913 Underwood tariff?

In 1912 he argues, Bonar Law replaced the "hesitant" Balfour as leader of the Conservative party, committing the latter to an unequivocal stance of protectionism (1988: 50; 1989: 151). With the prospect of "Britain's almost century-old commitment to free

trade...clearly in jeopardy... (the) United States could no longer free ride on Britain's leadership" (1988: 50; 1989: 151-152). Given America's position as the most productive nation state, the need for export expansion meant that domestic protection would have to be reduced; hence the 1913 Underwood Tariff Act (Lake 1983; Lake 1988: 48-56; Lake 1989: 152-163).

The problem with this formulation lies at the empirical level. Arthur Balfour became fully converted to protection in 1907. His hesitancy over the question of protectionism began in 1903 and ended four years later. By 1909 the Conservative party was in favour of tariffs (though as a means to counter the direct tax policy of the Liberals - as discussed here in chapter 4). In fact if anything, pre-war protectionist sentiment within the party was at its zenith in 1909/1910, waning thereafter (see Sykes 1978: Chapter 13; also Chapter 4 in this thesis). Thus exactly the conditions that Lake exposed as underlying the Underwood Tariff existed at the time of the Payne-Aldrich tariff. It would not therefore be unfair to conclude that the international economic structure (as defined by Lake) could not have led to the lower U.S tariff rates of the 1913 Act over 1909. More significant was the popular desire for a more progressive tax regime, which entailed low regressive taxes (freer trade) and the adoption of an income tax. The logic of the rise of the income tax (and hence ultimately of free trade) was therefore premised in politics as well as the condition of the country's economy. This perspective can be extended upto 1945.

After 1917 when revenue dependence on the tariff was significantly diminished Governments were able to adjust tariffs in a less constrained manner, as noted above. With the predominance of the income tax, the Democrats were able to extend freer trade whilst simultaneously increasing progressive taxes. (as noted above). As a result, the Republican Smoot-Hawley tariff was significantly revised downward in 1934. Furthermore, the establishment of the Reciprocal Trade Agreements Act (R.T.A.A.), lent the executive a considerable boost in its capacity to enact tariff legislation (see especially S. Haggard 1988. Also J. Goldstein 1988: 188. But see Lake 1989: 84-85). This was almost inevitable given the decentralised nature of the

central state, which made it difficult for Presidents to produce free trade legislation. The New Deal income tax provisions paved the way for the American policy of virtual free trade after the Second World War.

Finally however, the question of the extension of exports, especially after 1887, as evidenced by Cleveland's classic 1887 speech has not been fully explained by recourse to the above described fiscal analysis. In this respect Lake argues specifically that whilst the state wished to maintain protection at home it also sought free trade (and hence expanded exports) abroad. These two initiatives he argues were in no way irreconcilable or problematic, as they could be achieved by the use of selective reciprocity deals with individual countries, whilst America could remain protectionist at home through the fact of Britain's "hegemonic" commitment to free trade. Hence the U.S "free rode on free trade" (1983: 529; 1989: ). Commercial negotiations were required with foreign states as America's economic rise was leading to closed markets abroad. These negotiations gave way to the endorsement of maximum/minimum schedules being applied after 1909 (being replaced with a Most Favoured Nations Clause in the early 1920's). Certainly at the explanatory level this aspect of American foreign economic policy would require going outside the ambit of taxation issues. However, Lake's assertion that the international economic structure can explain tariff policy per se is problematic. Is it not possible that while the two main parties were attempting to expand exports abroad, they were hindered from repealing American protection owing to the high incidence of revenue dependence incurred by the state on the tariff in the first place?

CHAPTER 6  
THE STATIST-ECONOMY OF PROTECTIONISM AND ECONOMIC DEVELOPMENT 1870-  
1914.

Section 1 Establishing the Linkage between Trade and State Regimes  
1870-1914

This thesis has presented a statist economy approach to explaining protectionism in Germany, Russia, America and free trade in Britain in the late nineteenth and early twentieth centuries. This chapter will summarise the findings of the substantive chapters 2 through 5. It will also flesh out the basis of the autonomous powers of the state. In explaining the imposition of a trading regime by a particular state, we shall utilise four essential variables; political regime structure (mode of domination), the degree of state centralisation/concentration (federal/unitary nature), the mode of taxation, and the strength of agricultural and/or industrial elites (related to the mode of production). A central concept in the explanation of protectionism is the mode of taxation, which is determined by a series of overlapping autonomous power logics.

It should be noted that the mode of taxation is a multilayered concept, referring to a broad range of fiscal issues. Firstly the mode of taxation refers to the relations of extraction, as chosen by the central state. These refer to the income group upon which the tax burden lies heaviest. For the states dealt with in this thesis, it is the case that an indirect mode of taxation represents a regressive tax system which penalises the lower income groups. Consequently, a direct mode of taxation represents a progressive tax system, which penalises the upper income groups.

The mode of taxation also refers to the "forces of extraction", which are the means by which the "relations" are set in place. The forces of extraction are specific to each mode of taxation, are highly variable and embody a mixture of political, bureaucratic, fiscal and economic determinants, giving these "forces" a peculiarly

hybrid nature. It is important to note that this hybrid quality is also found to be central to the nature of the economic sphere. That is, economic processes such as tariff protectionism/free trade are determined by a mixture of political, fiscal, bureaucratic, military and economic inputs. Finally, the mode of taxation refers to the absolute and relative rates of extraction. This concept is central to the linkage between state and trade linkages, which will now be theorised

Alexander Gerschenkron originally argued that the German protectionist regime [post-1879] was created so as to maintain authoritarianism, [as opposed to stimulating democratic-constitutionalism] (Gerschenkron 1943). However, conceptualising the relationship between economics and politics from this statement requires care. Gerschenkron's formulation actually specified a linkage between state regime and class power. Here, politics was reduced to economics, since the Kaiserreich was conceptualised only in so far as it enabled the maintenance of Junker power (see also Kehr 1977; Rosenberg 1943,1985; Wehler 1985a,1985b; Berghahn 1973,1982,1985,). Thus the maintenance of Junker power was synonymous to the continuation of authoritarianism; and the form of state was derived from agrarian class power. This formulation is to be firmly rejected. The form of state has its own logic, which cannot be simply reduced to the "dominant" class, or any other mode of economic power for that matter. From this perspective it is important to ask the question that Weber asked,

"Will a certain type of... political power structure determine the creation of characteristic forms of revenue and tax systems? (Weber 1964, quoted in Braun 1975).

In the process, we can also appraise Montesquieu's claim that the nature of the tax system is subject to the specific political system or form of government (Montesquieu 1748/1989). This question will allow us to analyse the connections between state and trade regimes (for the period 1870-1914).

In the literature on protectionism, it is argued that there is no linkage between state and trade regimes. Adapting Gerschenkron's

above quoted formulation, a crude hypothesis has underlain such denials of linkage. This can be specified by presenting a two-part hypothesis.

- (1) Democracy = Free Trade
- (2) Authoritarianism/Autocracy = Protectionism

From this angle, the consensus has denied a linkage. For example, Peter Gourevitch concludes that,

"...the pattern of (trade) policy outcomes in those countries (Britain, America, Germany and France) was the same, suggesting that those aspects of the political system which were idiosyncratic to each country are not crucial in explaining the result" (1977: 307, my additions).

More commonly, Kenneth Barkin discounts the connection on the grounds that "the high tariff nation in the nineteenth century was the U.S" (1987: 230). However, not only can we explain the "exceptional" case of the United States, but we can draw up a more general theory of the linkage between state and trade regimes. This involves differentiating two aspects of state/political power;

- (1) The Degree of Concentration (Federal/Unitary nature of the state)
- (2) The Mode of Domination (the proximity of the executive to the population - liberalism/authoritarianism/autocracy)

With regard to the first aspect, it is the case that in the nineteenth century (especially after 1870) federal states utilised indirect taxes to support central government finances. Indeed in the federal regimes of America and Germany (as well as Switzerland, Canada and Australia) over 90% (if not 100%) of central government revenues were derived from indirect taxes. In turn, this meant that tariffs on protectionist and revenue articles were levied in order to meet the requirements of fiscal accumulation. Thus from 1872-1914, of total tax revenue (TTR) extracted by the German central government, average indirect taxes constituted 99.4%, whilst customs revenue constituted 51.5% (see table 2.16; also P.Flora 1987a: 307). Similarly in Switzerland, between 1875-1914, average indirect taxes



constituted 95.8% of TTR, whilst customs provided 92.5% (calculated from Flora 1987a: 336). In America, average indirect taxes as a proportion of TTR from 1791-1914 were over 99.5%. Between 1791-1861 customs revenue constituted over 90%, whilst between 1861-1913, tariffs constituted as much as 50%. The Australian government derived approximately 62% of TTR from customs and excise (Davis and Huttenback 1988: ff. 295). For the fiscal year ending 1900, 76% of TTR for all states was supplied by indirect taxes (Levi 1988: 148; Groenewegen 1983: 173-174). For the most part, the local states tended to levy direct taxes and often bitterly attacked central governments if they attempted to levy such taxes. Central (federal) states relied overwhelmingly on indirect taxes and tariffs. Thus a chart can be drawn up, illustrating the connection between low concentrated state regimes (federal) and protectionist trade regimes

Table 6.1 The Linkage between Concentration of State and Trade regimes

	Unitary	Federal
Free Trade	Britain	
Protectionism	Russia	America Germany (Australia) (Canada)

This conceptualisation of the link between state and trade regime explains much. In particular it overcomes the hitherto "exceptional" status accorded by most authors to America's trade regime. It is also an important element in Britain's maintenance of free trade (of which more later). However, as is apparent from the chart, this linkage does not explain why the Russian (unitary) state favoured protection. Clearly, the "concentration" state variable is inadequate on its own in explaining trade and state regime linkages. At this point we can introduce the second major aspect of state/political power, the mode of domination. As the chart above shows, the principal focus here must be differentiating liberal Britain from autocratic Russia.

Table 6.2 Proportions of Total Tax Revenues at central government level.

Year	Britain		Russia	
	Direct	Indirect	Indirect	Direct
1860	18	64	52	16
1865	16	61	46	19
1870	26	59	50	21
1875	17	63	51	21
1880	25	61	56	18
1885	26	53	48	20
1890	26	50	50	12
1895	28	50	47	11
1900	31	47	39	13
1905	33	47	42	9
1910	27	47	42	8
1911	44	36		
1912	38	39		
1913	37	38	40	8

Source: See Table 4.9, calculated from Appendix 5, and Table 3.9

Table 6.3 The major categories of taxation in relation to National Income

Year	Britain		Russia	
	Indirect	Direct	Indirect	Direct
1885	4.2	2.0	4.7	2.0
1890	3.4	1.8	5.7	1.4
1895	3.5	2.0	5.1	1.3
1900	3.5	2.3	5.1	1.8
1905	4.1	2.9	6.0	1.3
1910	3.1	1.8	6.8	1.3
1911	3.5	4.3		
1912	3.3	3.2		
1913	3.2	3.1	7.2	1.4

Sources: British figures calculated from Appendix 5 and 1A; Russian figures calculated from Table 3.8 and Appendix 1A

These figures help to determine the comparative progressivity/regressivity of the two tax regimes. Table 6.2 shows that the British state shifted away from indirect taxes towards a more direct tax regime. By 1911, direct taxes constituted the major category of revenue, dropping back very slightly in 1912-1913. The

Russian state however, shifted to a predominantly indirect tax regime 1860-1913. Moreover, direct taxes (unlike in Britain) were in fact regressive. In addition, Russia had no income tax in this period. Table 6.3 charts the comparative position in regards to the relative rate of extraction (taxes as a proportion of national income), in terms of progressivity/regressivity. In 1911, direct taxes were approximately three times higher than in Russia. Moreover, Russian regressive (indirect) taxes were over twice as high as the British equivalent. This meant that in Russia, the lower classes were fiscally penalised, whereas in Britain, mainly after 1910, the tax burden was distributed more or less evenly.

These tax regimes were linked fundamentally to the respective modes of domination. In Britain, political parties competed to gain the majority of the electorate, in order to acquire executive power. By the early twentieth century, the Liberal party came round to attracting the recently enfranchised working class by paying for pensions through a progressive income tax. It was this shift towards direct taxes which enabled the state to maintain free trade, and avoid the Unionist alternative of tariff protectionism. However in Russia, the working classes remained outside the political system, with no legitimate means to affect policy-making. The autocratic state aimed to maintain and indeed increase its despotic power over society. This meant repressive policies against the lower orders, particularly vis-a-vis the proletariat. Specifically, this led to regressive taxes, which were comparatively oppressive (see table 6.5). In turn, this led to tariff protectionism (indirect regressive taxes). Thus the respective modes of domination had direct linkages to the different modes of taxation. In turn, the mode of taxation had direct linkages to the adoption of the different trade regimes.

Can this linkage between modes of domination with modes of taxation/trade regimes be extended to encompass the cases of liberal America and authoritarian Germany? If we are interested in the nature of the overall mode of taxation, we could draw up a comparison (Table 6.4 compares the overall nature of the British and German tax regimes). However, as we shall see below, this line of analysis would be irrelevant when trying to understand the relationship between

modes of domination (ruling class strategies) and the nature of the trade regime.

Table 6.4 Comparison of the nature of the overall German and British tax regimes

Income £	Germany (1900/1905)	
	1	2
Under 35	100	100
35- 50	102	95
50- 90	89	75
90- 130	82	70
130- 180	82	60
180- 270	107	55
Over 270	98	<50

Income £	Britain (1904)	
	1	2
50	100	100
100	68	68
150	55	55
200	62	86
500	73	97
1000	81	113
2000	73	108
5000	62	106
10,000	56	104
20,000	54	110
50,000	53	112

Income £	Britain (1914)	
	1	2
50	100	100
100	69	69
150	56	56
200	55	80
500	67	114
1000	76	140
2000	67	138
5000	78	143
10,000	93	174
20,000	95	184
50,000	97	208

Source: Germany: [Col. 1] W. Gerloff (1908: 164, quoted in P. C. Witt 1970: 52); [Col. 2] Approximate revision on the basis of widespread direct tax evasion [see text below]. Britain: 1903/1904 & 1913/1914; Samuel (1920: 176-177 Statistical Society of London Journal LXXXII, quoted in Murray (1980: 294).  
(Col. 1) Earned Income. (Col. 2) Unearned Income.

The German figures require a brief explanation. Column 1 in the above chart provides an estimate of regressivity on the assumption that all tax-payers paid direct taxes in full. However, there is much archival evidence to show that this did not happen. In particular, the Junkers and the members of the "high" agricultural class in practice managed to escape much direct taxation. The principal method of tax evasion was the non-declaration of total personal income. This was possible mainly because the Junkers occupied the bureaucratic positions as the Landratte after 1891. In this respect, they were a law unto themselves (see especially P. C. Witt 1985: 137-154). Thus column 2 has been presented as a very approximate guide to the actual nature of the tax base. Since the regressivity of the German tax regime would hardly have changed by 1914, it would be fair to conclude that the German fiscal system was far more regressive than its British counterpart (to be expanded upon in the next section).

However, the use of regressive indirect taxes (particularly at central level) was more a function of the state's federal nature, and less a function of ruling class strategies to repress the working classes. Tariffs occupied a different role in Germany and also America to that of Russia and Britain. Central federal states relied on indirect taxes only. With extremely limited use of direct taxes (in this period) these central states were therefore far less able to redistribute income between different social classes, by changing the tax base (in contrast to their unitary counterparts). Thus the only way to affect a redistribution of income was for the central state to levy indirect taxes and then redistribute these revenues to the local states which could then use these to reduce their own progressive (direct) taxes. Indeed as we have seen, this was central to the Bismarckian strategy of effecting tax relief to the upper income groups. However, it was not an effective instrument of issuing tax relief to the upper income groups (as discussed in the final section of chapter 2). As we shall see in the next section, unitary states had a real power (high fiscal displacement factor potential) over their federal counterparts (low displacement factor potential), when it came to changing the nature of the tax system, and to redistribute income through tax base changes.

The hitherto dominant notion of the linkage between states and trade regimes as expressed by the likes of Gerschenkron, Gourevitch and Barkin, concealed more than they revealed. The revised linkage for the period 1870-1914 can be expressed as follows;

- (1) Unitary/Liberal state = Direct taxes = Free Trade
- (2) Unitary/Autocratic state = Indirect taxes = Protectionism
- (3) Federal states = Protectionism

Thus we can pose a linkage between trade and political regimes; but it can only be done by combining these two aspects of state institutional power.

We may now present three hypotheses which theoretically locate the reasons for Britain's retention of free trade after 1870, whilst her German and Russian counterparts turned to protection. Firstly, a country remains free trading after 1870 because state expenditures do not significantly increase. Secondly, a country remains free trading after 1870 because it can acquire revenue from sources of a non-indirect nature. Thirdly (and linked to the second), a state remains free trading owing to its unitary nature. In addition to these three hypotheses, a further reason for the maintenance of free trade was also linked to Britain's dominant position in the European setting.

British state expenditures did not increase significantly in the 1870s. Expenditures remained remarkably stable - revenues even more so. It was not until after 1890 and in particular after 1900 that the fiscal problem was felt, (the fiscal crunch being largely offset between 1890 and 1900 due to a rising gross national product). Germany and Russia had experienced a "fiscal spurt" in the 1870s. It was this factor which had formed the backdrop to the switch to protection. In Britain however this spurt had come much later. If the hypothesis is correct, then we would expect to see a desire for protection emerging in Britain just after the turn of the century.

Indeed in 1903 Joseph Chamberlain set up the Tariff Reform League. Furthermore, tariffs on manufactured goods were to perform an important fiscal function - namely to provide revenue for welfare

reforms. This was an important though not dominant aspect to Chamberlain's project of imperial preference. However by 1907, tariff protection on a wide range of manufactured goods became official Tory party policy. And it was done precisely for the reasons expounded in the hypothesis - namely to provide revenue. It is at this point that the second null hypothesis becomes relevant.

The British state had been moving away from an indirect to a more direct tax base throughout the nineteenth century, accelerating after 1870. The politics of liberal Britain had led to the enfranchisement of a significant proportion of the working classes. The enfranchisement of the masses - though not complete was important in that the vote (in partial contrast to Germany, and complete contrast to Russia), had salience due to the liberal parliamentary nature of the state. In contrast to Germany, the enfranchisement of the British masses led to significant changes in policy, particularly in taxation. With the pluralistic set up of parties and an executive which could only be captured by the vote, it became imperative to address the newly enfranchised masses in some shape or form. Responding to such pressures, party politics in Britain polarised over the fiscal issue. The politics of New Liberalism led the state to introduce a substantial increase in progressive direct taxation, (the opportunity cost of which was the Unionist return to protection). The Liberal government secured the transition from the old fiscal regressive regime (indirect), to a new more progressive direct and indirect mode of taxation, which would dominate modern twentieth century Britain, (as it would at a later date most other advanced states).

Equally as important in the determination of the Edwardian tax regime was the state's unitary nature. Federal regimes in the nineteenth century were particularly prone to raising tariffs, which tended to provide the mainstay of central government finances. Unitary central states had far easier access to direct tax and non-tariff revenue sources. In addition, they had as a result a high fiscal displacement factor potential

The first two hypotheses represent an inversion of those used to explain the rise of tariff protectionism in Russia and Germany. Thus firstly, both Germany and Russia faced fiscal crisis in the late 1870's; derived to a large extent from the impact of the second military revolution. This provided the initial impetus to the rise of protectionism. With regards to the second and third hypothesis, both these countries would rely on indirect taxes, either as a function of autocratic ruling class strategies, or of federal fiscal-political exigencies.

## Section 2 Adumbrating a theory of State Power/Autonomy

In the common literature, it is usually understood that state power is synonymous with the ability of the polity to usurp or, go against the wishes of the "dominant" class (a special legacy of Marxism). Michael Mann has argued that in general, Marxists have been looking in the "wrong place" (1988: Ch. 1). For Mann, state power can be found elsewhere. In the modern world, he argues, states cannot go against the needs or wishes of the dominant class (limited, or non-existent despotic power). Rather, state power resides in an entirely different setting. Modern states have a developed conception of infrastructural power (see 1986a: 477-483, 521; see also the notion of "scope" in Giddens 1985). In this conception, states can penetrate societies and shape them in differential ways to those of say the dominant class, or the church etc. The essence of this power, is derived from the fact that the state operates on a different social-spatial plane to other power forces lodged within civil society. Following Max Weber, the fact of territorial-centrality means that unique roles are conferred upon the state, thus differentiating it from societal actors. This can be posed as a counterfactual; "Yet they (societal groups) could not do the state's jobs themselves unless they changed their own socio-spatial and organisational structure" (1988: 18).

Whilst in agreement with the importance of infrastructural power, we shall develop further concepts of state power, by carefully analysing the state's linkage with trade regime changes for the period 1870-



1914. It is necessary to do this since, while Mann's pathbreaking work takes us beyond hitherto existing reductionist theories of the state, his conceptual apparatus itself has certain limitations (even though much of his detailed empirical work would probably go beyond these limitations). The limitations refer principally to his overall theoretical understanding of state power, which has been conceptualised through a simple dichotomy between "infrastructural" and "despotic" power forms. Broadly speaking he denies the existence of despotic power in the states examined in this thesis for this period. He therefore falls back on infrastructural power. One aspect of despotic power refers to the process where the state undermines the dominant class. Since he has rejected this, he simultaneously ignores certain processes where the state goes against the dominant class (even if these moments are not examples of despotism). These moments will be pointed to, and conceptualised below.

#### The Autonomous Powers of the State

- (1) Infrastructural power
- (2) The Mode of Domination (Insularity/independence or, Embeddedness of the executive vis-a-vis civil society).
- (3) State concentration - high or low (Unitary/federal nature)
- (4) State Capacity - strong or weak
- (5) Fiscal Displacement factor potential - high [strong], or, low [weak].

The first aspect of state autonomy, (in this case following Mann) is the notion of infrastructural power. The state has certain unique roles, many of which have direct repercussions for tariff policy. These include the ability to levy and extract taxes, as well as having a monopoly of the means of violence - which means that it is the state that decides to spend money on military defence. Thus in the 1870-1914 period, with the onset of the second military revolution, states aimed to increase overall tax extraction in order to pay for defence requisites. This fact provided the background to

the rise of protectionism in Russia and Germany, and also impacted upon tax and trade policy in Britain, though not until after the turn of the century (in the lattercase). Furthermore, the provision of defence also provided the background to American protectionism throughout the nineteenth century.

However, to gain a fuller explanatory picture of trade regime changes requires developing further aspects and concepts of state power. The second aspect of state power refers to the identity of the state. This is the mode of domination, which refers to the institutional set up of the relevant state. The executive in Russia was autocratic, which meant that it was isolated from civil society. Furthermore the state was in fact despotic in the Mannian sense. Its abrasive-despotic relations of domination over civil society meant that it repressed in particular the lower orders. This was directly (though not solely) responsible for the use of an indirect tax regime, and hence tariff protectionism. In contrast, the Liberal-parliamentary British state was embedded within society. Executive power could only be gained by the competing political parties through co-operating with social actors (large or small). Thus after 1900 the Liberal party sought to incorporate the working classes in order to gain power. In the process, it shifted toward a more direct tax regime, and hence maintained free trade. The authoritarian/liberal nature of Germany and America respectively had less salience in the determination of trade regimes. Here the third aspect of state power was more important (see below).

This also refers to the specific identity of the state; the degree of concentration of the state. Thus federal states were diluted in their ability to change many policies (low concentration). Thus federal central states tended to rely almost solely on indirect taxes and tariffs. Unitary states however, had higher levels of political power concentrated at the centre. This meant that they had control over multiple fiscal resources. Thus they could choose either to rely on indirect taxes and tariffs (as in Russia), or they could use direct taxes and avoid tariff protectionism (as in Britain).

Both these specific forms of state identity led on to different levels of state capacity. Each mode of domination had different amounts of capacity. In particular, we can differentiate autocracy from liberalism. This can be done for both tax and trade strategies. Firstly, throughout the nineteenth century, the British state levied tariffs, though these were applied only to revenue items (eg. coffee, cocoa, tea, tobacco, molasses, sugar, rubber). The important point, is that these products were did not constitute important raw materials in the production process. With the rise of tariff protectionism in the late eighteenth century in Britain, raw materials became subject to tariffs, so as to provide the state with revenues during the Napoleonic Wars (Davis 1966: 306-317; Deane 1965: 186). However, by the 1820's Huskisson reduced tariff levels, particularly on raw materials, as it was felt that these merely pushed up the cost of the finished good. Then in 1842, Peel set about instigating a system which applied a tariff ceiling on raw materials of 5%; 12% on semi-manufactures; and 20% on finished manufactures (Holland 1980: 102; Deane 1965: 188). Prior to even the initial phase of Russian industrialisation, Britain had invoked an economically rational trading regime. This was further extended in 1846 with the unilateral switch to free trade.

However, after 1870, the Russian state would travel in precisely the opposite direction. By the turn of the century, overall average tariff rates on raw materials and semi-manufactures were very often subject to higher tariff rates than the finished articles. This had a particularly adverse effect for Russian producers. At best, it would have merely negated any protection that was granted the finished product which entered the country. At worst, it would have raised the costs of production for the Russian producer to the benefit of the foreign importer. This was hardly the expected practice of an economically rational "late developer"! Thus to sum up, whilst the Russian state entered the production process in order to fund its budget, it simultaneously disrupted and undermined elements of the economy. This was typical of patrimonial bureaucracy, which ultimately sought to prevent the growth of a strong bourgeoisie and economy, in order to remain despotically autonomous. Thus the British state's strategy enabled economic development, whilst Russian

autocracy sought to limit and block it. The irony of these different approaches was that autocracy became ultimately unstable precisely because of its despotic strategies. In this respect, the British state was strong whilst the Russian state was weak. This can be revealed by a comparative analysis of the different tax regimes adopted.

As tables 6.2 and 6.3 show, after 1880 the two tax regimes moved in opposite directions. Thus Britain moved rapidly to direct taxes, whilst Russia moved to an indirect tax regime. Comparing the relative rates of Russia and Britain respectively, in 1913 regressive taxes were at least 225: 100, whilst direct taxes were approximately 100: 225, (though this latter ratio would have been much wider than this, because Russian direct taxes were actually regressive). These tax regimes reflect different ruling class strategies. The British state attempted to incorporate the working classes by granting the basis of fiscal citizenship. The Russian state however showed only contempt for the lower classes through adopting a highly regressive tax regime. Furthermore, regressive taxes in Russia consumed over 8% of national income. In Britain the figure was approximately 3.2%. This meant that the lower orders in Russia paid much higher taxes than their British counterparts. These tax strategies were important to questions of regime maintenance. The British strategy cemented the working classes to the state, whilst the Russian state merely alienated such groups. This was one reason for the overthrow of the state in 1917, which had exploited the workers through high and regressive taxes.

The British state's fiscal policy secured internal compliance, and was unequivocally strong. Thus the fact of embeddedness within civil society did not lead to a weak dependent state. Similarly, autocracy's insularity enabled the state to repress much of civil society - the source of the regime's weakness. This was also reflected in her expenditure policy. Even if we ignore extraordinary expenditures, Russian levels were still higher than the British in most years. (Both regimes are compared in the charts below)

Table 6.5 Total Government Expenditures (as a proportion of national income) in Britain and Russia

Year	Russia		Britain	
	Central	Total	Central	Total
1885	11.9	12.9	7.9	
1890	12.7	13.7	6.5	9.4
1895	14.7	15.7	7.0	
1900	14.7	15.7	8.2	16.0
1905	22.7	23.7	8.4	
1910	15.0	16.0	7.9	13.7
1911	17.7	18.7	8.1	13.0
1912 <sup>a</sup>	17.8	19.2	8.0	13.0
1913	17.7	19.2	8.1	14.0

Source:

Russia Central expenditures - P. A. Khromov (1950)

Local expenditures - Miller (1926: 142). These figures are only available for 1912 and 1913. These consumed approximately 1% of national income. This figure has been used as the basis of local expenditures for all years in the chart.

National income - see Appendix 1a, Table 1.1

Britain Central expenditures - Mitchell & Deane (1962). Local expenditures - Peacock & Wiseman (1961: 42). National income - see Appendix 1A, Table 1.4

On the evidence of this fiscal analysis, we can appraise a recent theory of fiscal historians. Patrick O'Brien and Peter Mathias (1976), in what has become a classic article, argued that in the eighteenth century, the liberal-parliamentary British state extracted far higher levels of taxation than her French absolutist neighbour. These figures have been used to support the important recent theoretical claims of Margaret Levi (1988) and John Brewer (1988). Both authors have argued that this differential fiscal-extraction capacity was linked to the various forms of state regime. Thus they argue that the fact of Britain's liberal-parliamentarism enabled the state greater social compliance to levy high taxes. Conversely, because of the low societal compliance under French absolutism, the state was unable to extract such high taxes (Brewer 1988: 88-134; Levi 1988: 95-145). In short, "Parliamentary consent made public resistance to tax collection extremely difficult" (Brewer 1988: 132);

though it should be noted that both Brewer and Levi add that there were important bureaucratic/infrastructural factors which contributed to these differential extraction capacities. The upshot of such analyses is to attribute strength to the British state, because not only could it levy higher taxes, but also because it did not give rise to a revolutionary moment, (unlike its absolutist counterpart). This echoes the classic analysis of Montesquieu, who claimed that,

"In moderate states (democracy), there is a compensation for heavy taxes; it is liberty. In despotic states there is an equivalent for liberty; it is modest taxes" (Spirit of the Laws 1748/1989: 221)

The upshot of the analysis presented in this thesis is that the British state was strong in comparison to autocracy precisely because it was able to levy low taxes. This strength was also determined by its capacity to adopt a relatively progressive tax regime (from a comparative perspective). This analysis of British fiscal strength can be linked to the regime's strength in economic matters. That is, the state's enabling strategies for economic development were in part responsible for strong national income growth. This enabled the state to extract sufficient taxes at relatively low cost to the economy or populace. Autocracy, having blocked much potential economic growth had to levy taxes which consumed relatively high amounts of national income. However, it would be quite wrong to assume that low British taxes were simply a function of high national income, and Russian high taxes were a function of low national income [as assumed by many authors] (see for example, Clive Trebilcock 1981). For such a conclusion fails to recognise the ability of the different states to maintain compliance. That is, the Russian state levied high taxes, and as a result sowed the seeds of its own future demise. The British government simply could not have got away with levying such high and regressive taxes. This factor was linked therefore, not just to national income levels, but also the differential abilities of these states to maintain compliance, and ultimately to maintain their rule.

There is some support for this theory at a more general level. Thus in the period between 1890 and 1913 liberal American expenditure levels consumed between 8-10.5% of national income. These were even lower than the levels spent in Britain. The tax regime was also

slightly progressive (particularly in comparison to the German and Russian regimes). Moreover, authoritarian Germany spent high amounts as a proportion of national income, ranging from 15% in 1890 to 17.2% in 1910, and 19.8% in 1913. Furthermore, the German tax regime was considerably regressive. There is therefore rudimentary evidence for this theory when covering the four countries - Germany, Russia, Britain and America.

This analysis contrasts with the classic analysis made by Krasner (1978), where he argued that modern states can be arranged along a continuum of strong and weak polities. This involved a typology involving three aspects of state power. These included the state's ability to firstly, resist private pressure; secondly, to change private behaviour; and thirdly, to change the social structure (1978: 55-57). According to this typology, for Krasner, autocratic Russia would have probably been cast as "strong", whilst liberal America and Britain would have been "weak". The analysis presented here would invert this typology, such that liberal Britain and America were strong, whilst Russia was weak, whilst Germany was probably closer to the Russian pole in some respects, and closer to the liberal end in others. This is the paradox of state strength; that embedded liberal states, dependent on society, are strong, whilst isolated autocratic states, with a certain amount of despotic power were fundamentally weak. This analysis is commensurate to the recent findings of John A Hall and G. John Ikenberry. Indeed Ikenberry aptly describes this phenomenon as the "irony of state strength" (1986: 106, 134-137; 1988a: 160-163, 175-177; 1988b: 219-221; see also G. J. Ikenberry and J. A. Hall 1989: 12-14, 38, 94-97; J. A. Hall 1986).

This notion of state capacity is also linked to the fifth aspect of political power; namely the concept of fiscal displacement factor potential. This is mainly linked to the concentration of the state. The concept refers to the ability of the central state to effect a change in the relations of extraction. That is, the ability to shift the tax burden onto various groups through shifting the tax base. Central federal states, as explained above, had only a very limited ability to extract direct taxes. Thus they tended to rely almost wholly on regressive indirect taxes. Even the Bismarckian strategy of

seeking to provide tax relief for the upper income earners at local level was relatively ineffective.

Thus in the period upto 1913, federal states were locked into levying indirect taxes at central level. This contrasted strikingly with the central governments' policies in unitary regimes. The British state shifted towards a more direct tax regime at central level. This was simply not possible in federal America or Germany. Russia however chose not to raise direct taxes, and instead relied on regressive indirect revenues. Thus the two unitary states (highly concentrated) had high displacement factors, in contrast to the weakly concentrated federal states, which had similarly weak displacement factors. The notion of capacity is also relevant here, since the mode of domination affected the nature of the displacement factor in the highly concentrated unitary states.

The British state was able to produce a fiscal revolution in the Edwardian era, whereby the hitherto relations of extraction were overthrown. Thus in 1909 the British state in effect attacked the hitherto fiscal privilege of the upper income groups. The result of the 1909 fiscal revolution was to produce an evenly progressive tax regime in relation to the lower and upper income groups (though there was some regression in the middle income groups). In effecting such a fiscal strategy, the state was able to maintain itself in power, as well as secure solid internal compliance. The Russian state also had a high displacement factor potential, but chose to use it in order to repress the lower income groups. Thus British "strength" was a function of the overlapping of several aspects of state power; those of a liberal embedded mode of domination with strong capacity together with its highly concentrated unitary nature, with its high displacement factor potential.

This points to a further irony of state strength; that the liberal British state, which was embedded within (capitalist) society was able to withdraw the fiscal privileges of the "dominant" class. In particular, this contrasted with the authoritarian German state, which was not embedded within society and was unable to withdraw the fiscal privileges of the Junkers (and the members of high



agriculture, even though there were various members within the state who wanted to instigate a fiscal revolution against such privilege - most notably Johannes von Miquel in the finance ministry). Even though the Reich had only a very limited fiscal displacement factor potential, the fact was that the central state had a very weak will to tax the Junkers and high agrarians. The irony was that it was precisely because the liberal state was embedded within society that it was able to instigate just such a fiscal revolution.

To return to Mann's dichotomy between despotic and infrastructural power, it is clear from the above analysis that such a characterisation tends to obscure several important concepts of state autonomy/power. In particular, the dichotomy casts little light on the fact that the British state, which was embedded within civil society, was able to effect a major fiscal shift against the fundamental wishes of the dominant class. Clearly this was not an example of despotism; nor was it a simple example of infrastructural power. Thus the concepts of state autonomy have been developed above in order to be able to shed light on these fundamental political powers.

There is one further "irony" of state autonomy to be explained. That is, whilst it is being claimed here that the state has autonomous powers, it is the case that we cannot describe the state as an "actor". The term "actor" implies that the state is a unified body with a homogeneous bureaucratic constituency, which acts in a long-term rational way. This is to be rejected. As was noted in chapter 3, state ministries in Russia were more like satrapies, each vying for the Tsar's favour. From a more general perspective, each ministry had its own specific goals and set of policy preferences. These often clashed with the goals and policies of other ministries. The Finance ministry may have been "rational" as Gerschenkron argued. But overall state economic policy was not simply the outcome of Finance Ministry decision making. Economic policy was determined by the overlapping of policies of various ministries and in particular, autocracy. More often than not, these ministries contradicted each other, such that final economic policy rarely had a consistent and rational pattern. This was complicated further by the fact that political goals often

cross-cut economic rationalities. Thus whilst the various finance ministers attempted to instil a rational plan of capitalist development, autocracy ultimately blocked this path, in order to remain despotically autonomous. Thus much state policy was determined by the overlapping effect of economic and political rationalities, generated by a highly differentiated "state elite". Furthermore, policies were as often developed for short term rather than long-term goals. The final irony therefore, is that a differentiated "state elite" leads to heightened (rather than weakened), political/state autonomy.

## Appendices

### Appendix 1A:

#### National Income (Russia, Germany, France, Britain, America)

All national income statistics have been standardised as Net National Product at factor cost (NNP/NNI).

#### Russian Net National Income 1885-1913

Paul Gregory has supplied net national product at market prices. He has used two sets of figures, which are differentiated by varying price indices. I have used Variant 1, which is based on the Moscow-Petersburg index [as opposed to the Podtiagin index] (1982: 55-56). It is significant that for most years after 1900 the Moscow-Petersburg index leads to higher income figures [and in certain years, considerably higher].

To derive NNP at factor cost (NNI) the following calculations have been made.

- (a) G. N. P. LESS depreciation (capital consumption) = NNP
- (b) N. N. P. [at market prices] LESS indirect taxes NET of subsidies, LESS government enterprise surplus = N. N. P. at factor cost.

Thus Table 1.1 presents the final NNI figures. Table 1.2 presents the calculations for Column 2 of Table 1.1

Table 1.1

Year	(1) NNP (at market prices)	(2) Indirect taxes Net of subsidies	(3) NNP (at Factor cost)
1885	7904	219.3	7684.7
1886	7732	252.1	7479.9
1887	9210	273.8	8936.2
1888	9012	350.1	8661.9
1889	8527	370.4	8156.6
1890	8572	282.9	8289.1
1891	7917	330.8	7586.2
1892	8739	323.7	8415.3
1893	10069	369.0	9700.0
1894	11533	455.4	11077.6
1895	10766	409.7	10356.3
1896	11950	461.4	11488.6
1897	11842	451.3	11390.7
1898	12356	550.1	11805.9
1899	13312	547.0	12765.0
1900	13327	385.0	12942.0
1901	13869	413.5	13455.5
1902	15293	322.5	14970.5
1903	14438	370.3	14067.7
1904	16196	443.2	15752.8
1905	14646	517.5	14128.5
1906	14184	746.7	13437.3
1907	13915	674.8	12520.2
1908	15452	634.3	14817.7
1909	16623	729.8	15893.2
1910	18194	936.4	17257.6
1911	17126	1047.3	16078.7
1912	18953	1107.7	17845.3
1913	20266	1156.0	19110.0

Col. (1) NNP figures (at market prices) from P. R. Gregory (1982: Ch. 3 )  
Russian National Income 1885-1913 Cambridge University Press,  
 Cambridge.

Col. (2) These figures are derived below in Table 1.2.

Col. (3) Gregory estimated NNP at factor cost for the year 1913 only.  
 His figure was slightly smaller than the one presented here (by  
 approximately 3%). This difference would be insignificant when making  
 the various calculations made in this thesis.

Table 1.2 Deriving NNP at factor cost from NNP at market prices

Year	(1) Total State Monop. Expenditure	(2) Total Monopoly Revenues	(3) Difference (2) - (1)	(4) Subsidies	(5) Total [(3)-(4)]
1885	102.2	421.5	319.3	100	219.3
1886	110.9	463.0	352.1	100	252.1
1887	93.3	467.1	373.8	100	273.8
1888	88.9	539.0	450.1	100	350.1
1889	97.5	567.9	470.4	100	370.4
1890	194.5	578.4	382.9	100	282.9
1891	124.9	555.7	430.8	100	330.8
1892	192.4	616.1	423.7	100	323.7
1893	164.2	633.2	469.0	100	369.0
1894	204.4	759.8	555.4	100	455.4
1895	294.5	804.2	509.7	100	409.7
1896	360.0	921.4	561.4	100	461.4
1897	390.9	942.2	551.3	100	451.3
1898	449.9	1100.0	650.1	100	550.1
1899	490.9	1137.9	647.0	100	547.0
1900	652.8	1137.8	485.0	100	385.0
1901	714.0	1227.5	513.5	100	413.5
1902	898.6	1321.1	422.5	100	322.5
1903	949.0	1419.3	470.3	100	370.3
1904	874.3	1417.5	543.2	100	443.2
1905	832.1	1449.6	617.5	100	517.5
1906	836.3	1683.0	846.7	100	746.7
1907	952.7	1727.5	774.8	100	674.8
1908	1014.0	1748.3	734.3	100	634.3
1909	987.3	1817.1	829.8	100	729.8
1910	950.0	1986.4	1036.4	100	936.4
1911	974.2	2121.5	1147.3	100	1047.3
1912	1011.2	2218.9	1207.7	100	1107.7
1913	1165.0	2421.0	1256.0	100	1156.0

Cols. (1) and (2) taken from P.A. Khromov (1950) Ekonomicheskoe razvitie Rossii v XIX-XX Vekakh 1800-1917 Institute of Economics, Academy of Sciences, USSR

Col. (4) Gregory has shown that in 1913, government subsidies to private enterprise was approximately 98m roubles. Since there are no available figures for the previous years, I have assumed that subsidies were 100m roubles throughout this period.

Table 1.3 Imperial Germany: Net National Income

Year	NNP (at Factor Cost)	Year	NNP (at Factor Cost)
1855	6997	1891	20470
1860	7937	1892	21043
1865	8582	1893	21144
1870	10433	1894	21297
1871	11329	1895	21784
1872	12748	1896	22978
1873	13979	1897	24732
1874	14718	1898	26503
1875	14234	1899	27475
1876	14535	1900	28855
1877	14219	1901	28241
1878	14004	1902	29128
1879	13746	1903	30505
1880	14435	1904	32023
1881	14650	1905	34310
1882	14795	1906	36170
1883	15472	1907	38664
1884	15778	1908	38542
1885	15928	1909	39508
1886	16279	1910	41885
1887	17140	1911	44194
1888	18051	1912	47298
1889	19158	1913	48806
1890	20590		

Figures taken from W. G. Hoffmann (1965) Das Wachstum der Deutschen Wirtschaft seit der mitte des 19 Jahrhunderts Springer Verlag, New York, pp. 506-509

See also W. G. Hoffmann & J. H. Muller (1959) Das Deutsche Volkseinkommen 1851-1957 Tubingen, pp. 14, 18. These figure favour comparably with those of national income presented in P. Jostock "The Long-Term Growth of National Income in Germany Income and Wealth Series 5 Bowes & Bowes, London (pp. 79-122.) These figures are a modified version of those presented in Statistisches Reichsamt "Das Deutsche Volkseinkommen vor und nach dem Kriege Einzelschrift No. 24 Zur Statistik des Deutschen Reichs Berlin 1932, pp. 67

Table 1.4 Net National Income in Britain 1855-1914

Year	NNP (at Factor Cost)	Year	NNP (at Factor Cost)
1855	636	1891	1373
1860	694	1892	1335
1865	822	1893	1339
1870	936	1894	1418
1871	1015	1895	1447
1872	1072	1896	1484
1873	1149	1897	1538
1874	1126	1898	1618
1875	1113	1899	1700
1876	1099	1900	1750
1877	1089	1901	1727
1878	1059	1902	1740
1879	1032	1903	1717
1880	1076	1904	1704
1881	1117	1905	1776
1882	1160	1906	1874
1883	1153	1907	1966
1884	1124	1908	1875
1885	1115	1909	1907
1886	1136	1910	1984
1887	1185	1911	2076
1888	1259	1912	2181
1889	1350	1913	2265
1890	1385		

Figures taken from C. H. Feinstein (1961) "Income and Investment in the United Kingdom, 1856-1914" Economic Journal No. 282, Vol. 71 (June, pp. 367-385). In relation to all the calculations made in this thesis, it is important to note that these are consistently the lowest estimates in the general literature of British national income. This is demonstrated by a presentation of the main income estimates, below.

Table 1.5 The Major Estimates of British National Income

Year	Deane & Cole	Deane	Jefferys & Walters	Prest	Feinstein
1860	684	755	-	-	694
1865	811	942	-	-	822
1870	923	1037	965	929	936
1875	1085	1220	1124	1085	1113
1880	1079	1229	1104	1073	1076
1885	1124	1239	1149	1118	1115
1890	1405	1396	1431	1399	1385
1895	1449	1431	1472	1442	1447
1900	1768	1832	1791	1756	1750
1901	1735	1869	1759	1724	1727
1902	1750	1861	1775	1738	1740
1903	1736	1837	1751	1714	1717
1904	1754	1857	1779	1742	1704
1905	1832	1915	1857	1818	1776
1906	1952	1976	1978	1939	1874
1907	2050	2054	2076	2035	1966
1908	1940	2038	1967	1926	1875
1909	1987	2042	2016	1973	1907
1910	2078	2106	2108	2063	1984
1911	2154	2204	2185	2140	2076
1912	2288	2297	2318	2268	2181
1913	2395	2395	2424	2368	2265
1914	2294	2372	2312	2266	2209

Source: Col. (1) P. Deane and W. A. Cole (1969) British Economic Growth, 1688-1959: Trends and Structure Cambridge University Press, Cambridge.

Col. (2) These figures are derived from P. Deane (1969) "New Estimates of Gross National Product for the United Kingdom 1830-1914" The Review of Income and Wealth Series 14, No. 2 (June, pp. 95-112). These figures are of GNP. I have converted them to NNP at factor cost by deducting capital consumption. Depreciation figures are presented in Feinstein 1961: 374, Table 2.

Col. (3) J. B. Jefferys and D. Walters (1955) "National Income and Expenditure of the United Kingdom, 1870-1914" Income and Wealth Series 5 Bowes and Bowes, London (pp. 1-40)

Col. (4) A. R. Prest (1948) "National Income of the United Kingdom 1870-1946" Economic Journal Vol. 58, No. 229, pp. 31-62

Col. (5) C. H. Feinstein [see table 1.4 above]



Table 1.6 French National Income 1870-1913

( in Fr. )

Year	NNP (at Factor Cost)
1870	18738
1875	20597
1880	20406
1885	19221
1890	21221
1895	20813
1900	25145
1901	24628
1902	23802
1903	25275
1904	25509
1905	26595
1906	27632
1907	29942
1908	29211
1909	30064
1910	31711
1911	34069
1912	37736
1913	38109

Source M. Levy-Leboyer (1990) The French Economy in the Nineteenth Century Cambridge University Press, Cambridge (pp. 314-316).

Table 1.7 American National Income 1870-1910

( in \$ )

Year	NNP (at Factor Cost)
1870	5200
1880	8600
1890	10900
1900	15300
1910	27500

Source Figures taken from S. Kuznets (1952) "Long-Term Changes in the National, Income of the United States of America since 1870" Income and Wealth of the United States: Trends and Structures Series 2, Bowes and Bowes, London (pp. 240). It is significant that Kuznet's figures are approximately 10% higher than those found in W.I. King (1915) The Wealth and Income of the People of the United States MacMillan, New York.

## Appendix 1B

### Table 1.8 Currency conversion

<u>National Currency</u>	<u>£1 (Sterling)</u>
U. S.	\$ 4. 867
France	Fr 25. 22
Germany	Dm 20. 429
Russia	Rb 9. 45

Source R. L. Bidwell (1970) Currency Conversion Tables: A Hundred Years of Change Rex Collings, London. Note that these figures are Pre-War Parities. Because there are no figures for individual years prior to 1913, currency conversion is only approximate. This mainly affects the calculations made in Tables 4. 4 and 4. 5

### Table 1.9 Populations in the Great Powers 1880-1913

<u>Year</u>	<u>Russia</u>	<u>Germany</u>	<u>France</u>	<u>Britain</u>
1880	97. 9	45. 1	37. 5	
1885	108. 8	46. 7	38. 1	36. 0
1890	117. 8	49. 2	38. 4	37. 5
1895	123. 9	52. 0	38. 5	39. 2
1900	132. 9	56. 5	38. 9	41. 2
1905	143. 9	60. 3	39. 2	42. 9
1910	160. 7	64. 6	39. 5	44. 9
1911	163. 9	65. 4	39. 6	
1912	167. 9	66. 1	39. 7	
1913	170. 9	67. 0	39. 8	45. 6

Source Russia These figures are taken from P. A. Khromov (1950: 452, 454). These are supplied by the Statistical Yearbook of Russia 1916 1st edition, (1918: 85). The remaining figures are found in P. Flora (1987b) State, Economy and Society in Western Europe 1815-1975 Vol. 2 (pp. 17-145) MacMillan, London

## Appendix 2

Table 2.1 The Decline and Recovery of Grain  
Prices (Wheat and Rye) 1870-1913  
in Germany

Years	Wheat	Rye
1870	204	139
1871	231	156
1872	247	162
1873	265	185
1874	240	186
1875	196	152
1876	214	162
1877	235	164
1878	204	135
1879	204	138
1880	221	185
1881	225	195
1882	206	152
1883	184	141
1884	166	144
1885	166	141
1886	162	130
1887	170	120
1888	180	133
1889	186	152
1890	198	165
1891	255	203
1892	181	175
1893	156	131
1894	138	115
1895	144	122
1896	158	122
1897	172	133
1898	190	149
1899	160	146
1900	158	139
1901	168	139
1902	166	143
1903	158	133
1904	172	131
1905	176	144
1906	180	159
1907	206	187
1908	210	179
1909	231	171
1910	204	149
1911	204	167
1912	217	185
1913	198	162

Source: W.G. Hoffmann (1965) Das Wachstum  
der deutschen Wirtschaft seit der Mitte des  
19 Jahrhunderts New York (pp.552-554;  
Table 135)

Appendix 3

( Germany )

Table 3.1 Importation of Grain, 1870-1900  
(In millions of Quarters)

	Wheat Qts 480lbs	Rye Qts 480lbs	Barley Qts 400lbs	Oats Qts 304lbs	Maize Qts 480lbs
1870	1.415	1.975	0.650	1.314	-
1871	2.017	1.920	0.689	0.687	-
1872	1.406	2.526	0.997	0.385	0.082
1873	1.681	3.583	1.555	1.321	0.133
1874	1.874	4.364	1.604	2.206	0.260
1875	2.292	3.215	1.356	1.691	0.520
1876	3.146	5.099	1.483	2.322	0.896
1877	4.318	5.466	2.696	2.598	0.818
1878	4.069	4.341	2.398	2.105	0.524
1879	4.209	6.749	1.733	2.298	0.920
1880	1.045	3.168	1.225	1.173	1.565
1881	1.663	2.643	1.366	1.906	1.977
1882	3.157	3.024	2.054	1.995	0.444
1883	2.949	3.569	1.772	1.887	0.814
1884	3.466	4.417	2.426	2.659	0.882
1885	2.630	3.536	2.415	1.583	0.902
1886	1.255	2.597	1.951	0.588	0.778
1887	2.514	2.933	2.820	1.216	0.733
1888	1.561	2.999	2.452	1.315	0.433
1889	2.374	4.898	3.591	1.872	1.445
1890	3.090	4.042	4.053	1.362	2.581
1891	4.159	3.871	4.006	0.870	1.876
1892	5.954	2.876	3.215	0.637	3.296
1893	3.231	1.030	4.695	1.763	3.496
1894	5.300	3.003	6.015	2.921	2.679
1895	6.147	4.630	5.121	1.732	1.488
1896	7.591	4.734	5.667	3.586	3.773
1897	5.418	3.936	5.862	3.976	5.817
1898	6.789	4.199	6.356	3.311	7.260
1899	6.299	2.575	6.088	1.879	7.472
1900	5.944	4.103	4.307	3.355	6.358
1901	9.803	3.967	4.960	2.994	5.482
1902	9.582	4.483	6.216	2.824	4.134

Source: The Corn Trade Year Book (1904: 78); see also H. C. Farnsworth (1934) "Decline and Recovery of Wheat Prices in the 'Nineties'" Wheat Studies of the Food Research Institute Vol. 10, Nos 8 and 9, (pp. 348, Table 4b); N. Jasny (1936) "Wheat Problems and Policies in Germany" Wheat Studies of the Food Research Institute Vol. 13, No. 3 (pp. 140, Table 8); V. Timoshenko (1928) Wheat Prices and the World Wheat Market Cornell University Press, Ithaca (pp. 96, Table 31).

#### Appendix 4

Table 4.1 The Fiscal Balance of Payments (Matricular Contributions)  
of the Prussian state vis-a-vis the Reich

Year	(1) Matricular contribution	(2) Subsidy from Reich	(3) Balance [(2)-(1)]	(4) Total Net Ordinary Income	(5) Balance as %age of Total Income [(3)/(4)x100]
1871	55	-	-55	335	-16
1872	52	-	-52	480	-11
1873	34	-	-34	366	-9
1874	33	-	-33	309	-11
1875	33	-	-33	297	-11
1876	32	-	-32	223	-14
1877	37	-	-37	266	-14
1878	42	-	-42	304	-14
1879	46	-	-46	414	-11
1880	40	25	-15	230	-7
1881	53	45	-8	427	-2
1882	53	55	+2	392	+1
1883	46	56	+10	484	+2
1884	41	69	+28	456	+6
1885	63	77	+14	498	+3
1886	72	90	+18	602	+3
1887	102	116	+14	665	+2
1888	128	183	+55	746	+7
1889	134	234	+100	796	+13
1890	183	248	+65	763	+9
1891	191	253	+62	773	+8
1892	192	233	+41	821	+5
1893	225	224	-1	902	0
1894	234	252	+18	925	+2
1895	233	264	+31	983	+3
1896	245	273	+28	1031	+3
1897	256	286	+30	1044	+3
1898	278	308	+30	1110	+3
1899	298	315	+17	1189	+1
1900	321	336	+15	1191	+1
1901	350	367	+17	1183	+1
1902	356	366	+10	1135	+1
1903	347	358	+11	1275	+1
1904	135	129	-6	1003	-1
1905	131	125	-6	1080	-1
1906	142	136	-6	1025	-1
1907	141	129	-11	938	-1
1908	137	129	-8	815	-1
1909	105	80	-25	923	-3
1910	142	119	-23	1092	-2
1911	132	108	-24	1112	-2
1912	154	129	-25	1144	-2
1913	160	134	-26	929	-3

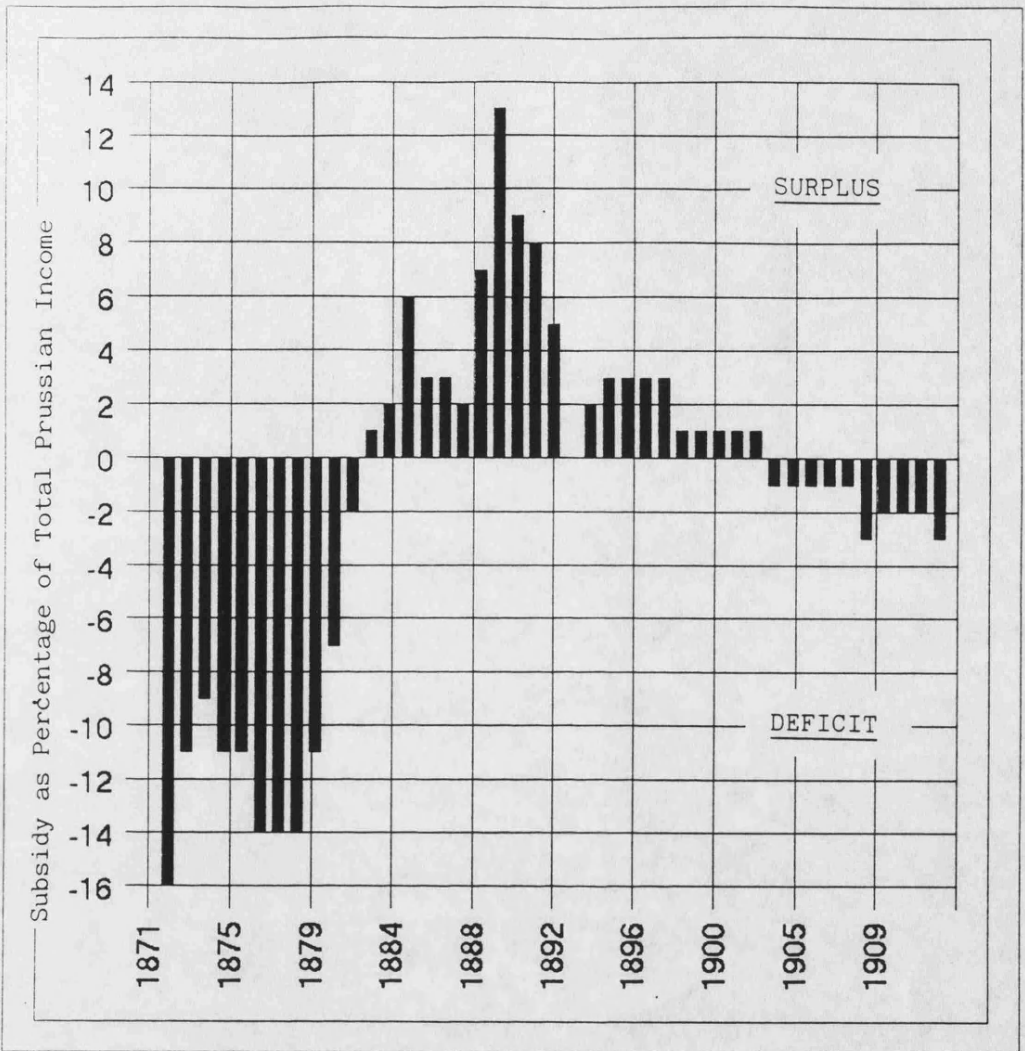


Table 4.2 Graphic Representation of the Fiscal Balance of Payments of the Prussian State vis-a-vis the Reich

Source Col. (1) Matricular Contributions from M. Prochnow (1977) "Staat in Wachstum: Versuch einer Finanzwirtschaftlichen Analyse der preussischen Haushaltsrechnungen 1871-1913" PhD Diss, University of Munster (pp. 40).

Col. (2) Subsidy from Reich calculated from the figures in Gerloff (1913) Finanz und Zollpolitik des Deutschen Reiches (pp. 522), and Statistisches Jahrbuch fur das deutsche Reich; the latter quoted in M. Newcomer (1937) Central and Local Finance in Germany and England Columbia University Press, NY. The Prussian figure was calculated on the basis of 66% of the total subsidy figure.

Col. (4) Total Net ordinary income is calculated from M. Prochnow (1977: 40).

Net Income had state property expenditures deducted from the total figure.

#### Appendix 5

Table 5.1 British State Revenues, 1860-1913

Year	Direct	Indirect	State Property	Total
1860	12.8	44.9	6.0	70.1
1865	11.3	41.6	8.1	68.7
1870	19.2	43.3	2.6	73.7
1875	12.3	46.7	3.2	73.6
1880	18.1	44.6	4.0	73.3
1885	22.7	46.9	4.0	88.0
1890	24.9	47.6	5.8	94.6
1895	29.0	51.1	6.2	101.8
1900	39.8	61.4	9.6	129.9
1905	50.8	72.0	8.9	153.2
1910	35.8	61.3	9.1	131.7
1911	88.9	73.1	10.6	203.9
1912	70.1	72.0	10.7	185.1
1913	69.1	71.5	12.1	188.8

Source B. R. Mitchell and P. Deane (1962) Abstract of British Historical Statistics: Public Finance Tables. Note that these figures do not add up to the "total" (Col. 4) because State Property revenues are NET. That is, expenditures have been deducted. The total figure has GROSS state property revenues included.

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