SURVEYS AND SPECULATIONS

Capital Exports, 1870-1914: Harmful or Beneficial?*

By SIDNEY POLLARD

In the debate on the relative decline of the British economy in the twentieth century, the period 1870-1914 is currently receiving a great deal of attention. There is a general consensus that it was somewhere in this period that the British economic lead, maintained for a century, was beginning to be eroded. Proofs are both quantitative and qualitative: the British growth rate declined markedly, while the growth of other advanced countries, even including France, remained high or even accelerated from the 1890s onward;¹ and for the first time since the mid-eighteenth century, several major industries had arisen in which Britain was no longer in the technical van.

Among the numerous explanations proffered for the slow-down and loss of ground, an excessive export of capital has always occupied a prominent position. Given that the rate of savings was similar in Great Britain, the USA and Germany, at around 11-15 per cent of GNP in 1871-1913; and that domestic investment ran at 12 per cent in the other two, while it averaged only 7 per cent of GNP in Britain, the rest of savings being exported;² many contemporaries feared that “too much” capital for the good of the British economy was being sent out of the country. Since then, the issue has erupted

* Thanks are due to Erasmus University Rotterdam which, by granting me tenure of the Tinbergen Chair for six months, provided me with contemplative and congenial surroundings in which to consider some of the issues discussed here.


repeatedly into controversy, and in recent years it has taken on a new lease of life both on the theoretical level and in terms of fresh empirical evidence. This may be a good time to stand back and take a general view.

In the present essay several issues which have often formed part of the debate will be omitted, except insofar as they become directly relevant to our main theme. These include (a) international migration (b) the re-distribution of incomes caused by foreign investment (c) the relationship between capital exports and the (Juglar) trade cycle (d) short-term international credits and (e) the effects on the borrowing countries. These omissions, particularly the first three, are no doubt drastic, but space in the Review is not unlimited.3

I

There has, until recently, been a remarkable consensus on the order of magnitude involved: British capital holdings abroad, it has generally been accepted, increased from about £1,000–£1,200 million in 1875 to £4,000 million at the time of the outbreak of the First World War. Nor has there been much disagreement on the distribution of these sums among countries, and the early estimates of Feis have been broadly confirmed by Simon's more recent researches:4 over the period, the share of the Empire rose slightly, to some 43 per cent in 1913, with the areas of recent settlement within it accounting for almost 35 per cent of the total; Europe's share was simultaneously falling rapidly to a mere 5.8 per cent in 1913, half of it in Russia; and while the USA had also been repatriating some capital before 1913, the share of Latin America had been rising, each of these two areas accounting for around 20 per cent of the total in 1913.

Table 1. Percentage Distribution of New British Portfolio Investment Abroad.5

<table>
<thead>
<tr>
<th>Sector</th>
<th>1865-72</th>
<th>1909-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Mining</td>
<td>5.2</td>
<td>9.3</td>
</tr>
<tr>
<td>Manufacture</td>
<td>0.7</td>
<td>4.8</td>
</tr>
<tr>
<td>Transportation</td>
<td>47.6</td>
<td>46.6</td>
</tr>
<tr>
<td>Utilities</td>
<td>5.5</td>
<td>6.4</td>
</tr>
<tr>
<td>Public Works</td>
<td>17.8</td>
<td>17.3</td>
</tr>
<tr>
<td>Other, including Defence</td>
<td>21.5</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Railways represented about 40 per cent of foreign investment throughout

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3 Shortage of space must also take the blame for the occasional dogmatic formulation. It is hoped to publish a longer, better documented version as part of a larger study in the future.


the period, though some of them had been financed indirectly, via loans to foreign governments. Other public works and utilities attracted a further large share of British capital, while the share of true government loans was falling. Agriculture, mining and manufacturing were increasing, but still formed only a minor proportion of the total even at the end (Table 1).

As a proportion of GDP, capital exports averaged around 5 per cent in our period, but since foreign investment occurred in ever higher waves, their proportion rose to 7 per cent in the last wave of 1905-13, and in 1911-13 almost to 9 per cent. It must forever remain unknown whether that last most remarkable spurt which was cut off by the war was exceptional, or whether it would have become just one phase of an ever-rising trend if world peace had continued. The income from foreign investment rose from around 5 per cent of GNP in the early 1870s to between 9-10 per cent in 1910-14, or to more than one-quarter of all property income.\(^6\) The share in total British capital holdings represented by British capital abroad is more difficult to establish, since it depends on the uncertain definitions of capital. Various estimates, on different bases, have put it between one-quarter and two-fifths of the total, with one-third as the mode.\(^7\)

<table>
<thead>
<tr>
<th>Table 2. Estimates of British Overseas Capital as a Percentage of Total British Capital Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hobson (1914)/Feis (1930)</td>
</tr>
<tr>
<td>Cairncross (1953)</td>
</tr>
<tr>
<td>Kuznets (1961)</td>
</tr>
<tr>
<td>Edelstein (1982) incl. bullion</td>
</tr>
<tr>
<td>&quot; excl. bullion</td>
</tr>
<tr>
<td>&quot; outstanding securities</td>
</tr>
<tr>
<td>Matthews, Feinstein, Odling-Smee (1982)</td>
</tr>
</tbody>
</table>

Whether, as has frequently been claimed,\(^8\) these were higher proportions than ever registered by any country before,\(^9\) is less important than the sheer weight of British investment in the world economy in our period. Here the best estimates may be tabulated as follows:\(^10\)


Table 3. Overseas Investments of the Main Lending Countries, 1870-1914

<table>
<thead>
<tr>
<th></th>
<th>c. 1870</th>
<th>c. 1900</th>
<th>c. 1914</th>
<th>% c. 1914</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>4,900</td>
<td>12,000</td>
<td>20,000</td>
<td>44-0</td>
</tr>
<tr>
<td>France</td>
<td>2,500</td>
<td>5,800</td>
<td>9,050</td>
<td>19-9</td>
</tr>
<tr>
<td>Germany</td>
<td>4,800</td>
<td>5,800</td>
<td>12-8</td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>100</td>
<td>500</td>
<td>3,500</td>
<td>7-8</td>
</tr>
<tr>
<td>Netherlands</td>
<td>500</td>
<td>1,100</td>
<td>5,500</td>
<td>12-1</td>
</tr>
<tr>
<td>Belgium</td>
<td></td>
<td></td>
<td>1,600</td>
<td>3-5</td>
</tr>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td></td>
<td>45,450</td>
<td>100-1</td>
</tr>
</tbody>
</table>

The British share was, if anything, still rising in 1914.

The general agreement on these figures is all the more remarkable since they have been arrived at apparently quite independently, by three different routes which all yield similar results. The first, or indirect, method consists of deriving capital exports from the differences between all in- and out-payments on current account, including bullion movements: this was the method used by Hobson, Cairncross, Imlah, and Feinstein, among others.11 The second method bases itself on inland revenue returns of income from capital held abroad, suitably grossed up, as adopted by Giffen and Paish.12 The third method is to add up laboriously all the capital issues for abroad, listed in such publications as The Economist or The Investor's Monthly Manual. This has been the basis of the estimates by Paish, Hobson, Feis, Hall, Simon, and Segal.13

Now while all these came to broadly similar results, they ought not to have been: they ought to have differed, among others, by the sums of short-term credits, by the so-called “direct” investments (i.e. those not channelled through the capital market—see below), by capital imports, by sales of existing shares abroad and by capital accumulation abroad, by the sums raised for abroad but spent at once in Britain, and by “partial” foreign issues (i.e. floated simultaneously in Paris or other foreign centres), which would each affect in different ways some of the three methods of calculation but not all.14 It may,


of course, be that by some miracle all these divergences cancelled out, but suspicion must remain that there has been a certain amount of fudging to achieve the recorded overall agreement, especially since the values for the intermediate years differ widely. The whole basis of these calculations has recently been subjected to strong criticism by D. C. M. Platt who arrives at a total of only around two-thirds of the traditionally accepted figure for 1913 (with similar reductions for other countries) but a larger share of direct investment within this total. Even at that level, however, the sums involved would still have exerted a substantial effect on the economy.

Whatever the size of the accumulated sum, it was the capital annually invested abroad which excited most comment. Yet by themselves, the yearly figures commonly referred to are highly misleading. It is a phenomenon well known to theory and often illustrated in tabular form (as well as underlying the present-day mountain of third-world debt) that a regular capital stream flowing abroad will very rapidly, depending on yield and amortization rates, generate a counterflow of dividends or interest which will within a number of

Table 4. Unrequited Foreign Payments, United Kingdom, 1855-1913

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Foreign Lending*</th>
<th>Net Funds taken by Emigrants</th>
<th>Net Property Income from Abroad plus Taxes Paid by Non-residents</th>
<th>British Net Transfers Abroad**</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>1855-9</td>
<td>135</td>
<td>7</td>
<td>77</td>
<td>243</td>
</tr>
<tr>
<td>1860-4</td>
<td>106</td>
<td>6</td>
<td>104</td>
<td>301</td>
</tr>
<tr>
<td>1865-9</td>
<td>232</td>
<td>8</td>
<td>143</td>
<td>334</td>
</tr>
<tr>
<td>1870-4</td>
<td>392</td>
<td>10</td>
<td>227</td>
<td>396</td>
</tr>
<tr>
<td>1875-9</td>
<td>152</td>
<td>4</td>
<td>281</td>
<td>301</td>
</tr>
<tr>
<td>1880-4</td>
<td>273</td>
<td>10</td>
<td>311</td>
<td>396</td>
</tr>
<tr>
<td>1885-9</td>
<td>402</td>
<td>8</td>
<td>426</td>
<td>334</td>
</tr>
<tr>
<td>1890-4</td>
<td>349</td>
<td>5</td>
<td>471</td>
<td>471</td>
</tr>
<tr>
<td>1895-9</td>
<td>222</td>
<td>3</td>
<td>544</td>
<td>544</td>
</tr>
<tr>
<td>1900-4</td>
<td>172</td>
<td>5</td>
<td>592</td>
<td>592</td>
</tr>
<tr>
<td>1905-9</td>
<td>663</td>
<td>8</td>
<td>710</td>
<td>710</td>
</tr>
<tr>
<td>1910-13</td>
<td>815</td>
<td>10</td>
<td>734</td>
<td>819</td>
</tr>
</tbody>
</table>

* Current balance minus net additions to bullion, from Imlah.

** A minus sign means a net inward payment.

Note: In 4 or 5-yearly totals, not annual averages.


17 Based on Imlah, Elements, pp. 72-5; Feinstein, National Income, T.10, 11, 37, 38; Edelstein, Overseas Investment, pp. 313-14.
years equal and thereafter exceed the outward stream. Britain had reached the turning-point by the early 1870s, as will be seen from Columns E and F of Table 4 which represent two alternative methods of calculating the net capital movements in arbitrarily chosen five-year periods. Up to then, there was still a net out-flow of capital in peak years of foreign investment, and a rough balance with the inflowing stream in troughs (e.g. 1860-4); thereafter, there was a rough balance only in peaks (1885-9 and 1905-13), while most of the time the inflow actually exceeded the outflow.

Much of the debate on British capital exports, like the very similar debate on German reparations after the First World War, has thus been conducted on a totally mistaken basis: just as the German economy never had a reparations burden to bear, American capital investments in Germany greatly exceeding the outward payments so Britain, looking at the economy as a whole rather than at individual investors, never had to “find” any net capital for abroad out of current production after c.1874; the burden was in principle on the borrowing countries, as the latter were only too well aware. Of course, capital investment abroad in the final analysis occurred because of deliberate decisions by innumerable investors, and the alternative of simply consuming the inward flow might always have been available.

II

In those terms, were capital exports of that magnitude a “good” or a “bad” thing for British national income and its growth? Was “too much” capital exported? It should be noted that the answers to these questions might be given in relation to very short-term effects, for example, on the terms of trade; to medium term effects, say over five to ten years, or to long-term growth; and that these were occasionally confused or conflated.

Much practical, commonsense opinion was in no doubt. It considered it to be self-evident that it was better to use capital at home, employing British labour and developing the home economy, rather than do the same for our competitors, while capital exports, further, would also weaken the balance of payments. Such sentiments were expressed during a remarkable debate in the House of Lords in 1909 by, among others, Viscount Goschen and Lords Rothschild and Revelstoke, as a stick with which to beat Lloyd George’s budget—no doubt to the astonishment of at least some of their listeners who

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were well aware that the families of these three peers had become millionaires precisely by exporting British capital.

An exactly opposite view is taken by neo-classical theory, which assumes, equally dogmatically, that capital exports must have been beneficial, since they would not have been undertaken had returns from abroad not been higher than expected returns from home investment; thus they served to raise total British national income. Moreover, according to the neo-classics, diverting the flow of capital from exports to home investment would have sharply reduced its returns: "By keeping savings at home," McCloskey mocked, "the British people could have had two Forth Bridges, two Bakerloo lines, two London housing stocks, two Port Sunlights", thus echoing Russell Rea in the House of Commons in 1909: "We have built a vast and profitable system of railways in Argentina. Would my hon. Friend have preferred to duplicate the Great Western System?"²²⁰ It is not without irony that neo-classical theory, allegedly a science of relative scarcity, here implicitly assumes that the problem was that there was too much capital (while the pragmatists assumed that it was limited); and that it shares this belief in a capital surplus with those who hold to the Marxist or Hobson theories of imperialism.

It would be wrong, though not entirely unreasonable,²¹ to see in this divergence of views a clash between more or less abstract thought, theoreticians favouring large capital exports, pragmatists deploring them. The fact is that there were also numerous practical men supporting foreign investment; moreover, as we shall see, there is a large body of refined theory coming to opposite conclusions. Indeed, anything beyond the most crude schematic thought very quickly comes to recognize that any cost-benefit analysis of foreign investment in this period has to be resolved into a number of separate issues, each of which yields divergent and frequently uncertain results. In the rest of the paper we shall address ourselves to the most important of these issues in turn, bearing in mind that the debate hitherto has mainly asked two questions: did investors follow their own interests rationally, and, much more important, did their own interests coincide with the national interest?

III

One of the key issues on which the debate over rationality has been carried on has been the complex relationship between risks and returns. These, together with marketability of assets, constituted the main factors in the choice between home and foreign investment from the point of view of the individual; and the neo-classical doctrine to the effect that capital exports must have been beneficial rested on the assumption that investors were rational and well-informed, and having taken into account risks and other relevant factors, found foreign yields to be higher than yields at home. There are numerous, if patchy, data available on yields of capital, the older series by Nash, Lehfeldt


and Paish having recently been added to by the splendid work of Edelstein and of Davis and Huttenback. It is their interpretation which has proved to be difficult.

A priori (leaving marketability to one side) one would expect a trade-off between risk and yields. Thus, for ordinary shares a higher return would be demanded (and reflected in asset prices) than for preference shares, and the latter would in turn carry a higher return than debentures or fixed-interest state loans. Since, as it happened, the composition of home and foreign investment differed, shares being more typical for home assets and fixed interest securities for foreign, great care has to be taken to make allowance for this in any comparison between these two groups. The most elaborate and sophisticated calculations to do this are those recently completed by Edelstein.

Having established the gaps which appeared in the same market between the returns of different types of asset and which could be put down to differences in risk, he modified the actual returns of broad groups of assets by this "risk premium" and compared the results with the overall average rate of return of 6.36 per cent. He then found that instead of neatly coinciding with this average, the modified yields still diverged widely from it, but in a systematic way. Thus the returns from home equities, at 6.61 per cent, modified because of their high risk as equities by \(-1.98\) per cent, gave only 4.63 per cent, being a "deviation" of \(-1.73\) per cent below the average of 6.36 per cent, and so on for each category.

<table>
<thead>
<tr>
<th></th>
<th>Actual Returns</th>
<th>Modified by “Risk Premium”</th>
<th>Deviation from Average of 6.36% Still Left</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Domestic:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Equity</td>
<td>6.61</td>
<td>1.98</td>
<td>-1.73</td>
</tr>
<tr>
<td>2. Preference</td>
<td>4.23</td>
<td>-1.89</td>
<td>-0.24</td>
</tr>
<tr>
<td>3. Debenture</td>
<td>3.35</td>
<td>-2.03</td>
<td>-0.98</td>
</tr>
<tr>
<td>Total</td>
<td>4.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Non-domestic:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Equity</td>
<td>8.66</td>
<td>2.06</td>
<td>0.24</td>
</tr>
<tr>
<td>2. Debenture</td>
<td>4.94</td>
<td>-1.99</td>
<td>0.57</td>
</tr>
<tr>
<td>Total</td>
<td>5.81</td>
<td>-1.04</td>
<td>0.49</td>
</tr>
</tbody>
</table>

This tabulation was intended to be a confirmation of the neo-classical theorem. With home securities in total yielding 1.09 per cent less than expected, and others 0.49 per cent more, the difference of 1.58 per cent was described as too large to be accidental. It proved that British investors would invest overseas only when the risk-discounted yields were much higher than at home, and there can thus be no question of "too much" foreign investment.

\[22\] Edelstein, Overseas Investment, p. 139.

However, the table may, with equal justice, be taken to disprove the neo-classical assumptions, for with knowledgeable, rational investors postulated by them, the returns (leaving out of account marketability), should have been equal. The inequality points to ignorance or irrationality, or both.

These are not the only problems to arise from Table 5. To begin with, Edelstein took the market values of assets as his base; what should count in this case, however, are the actual sums originally spent on them, i.e. those which might have been employed elsewhere. Secondly, there is the problem of averaging. Consider the following typical series:

Table 6. Realized Rates of Return, in Long Swing Highs and Lows.
Sample of Equities. (%)

<table>
<thead>
<tr>
<th></th>
<th>1870-6</th>
<th>1877-86</th>
<th>1887-96</th>
<th>1897-1909</th>
<th>1910-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Railways</td>
<td>11.19</td>
<td>5.19</td>
<td>6.87</td>
<td>-0.83</td>
<td>1.51</td>
</tr>
<tr>
<td>Home Electrical Equipment</td>
<td>-1.32</td>
<td>18.98</td>
<td>4.44</td>
<td>4.73</td>
<td>2.90</td>
</tr>
<tr>
<td>Latin American Railways</td>
<td>5.74</td>
<td>18.72</td>
<td>3.81</td>
<td>8.14</td>
<td>1.60</td>
</tr>
<tr>
<td>Indian Railways</td>
<td>5.46</td>
<td>8.22</td>
<td>6.46</td>
<td>1.48</td>
<td>3.94</td>
</tr>
</tbody>
</table>

Not only is the averaging over the whole period of such series (let alone of the much more widely fluctuating components of individual companies) a highly dubious procedure, but there is also a systematic bias in these returns. For, not unexpectedly, there was a tendency for home rates to exceed foreign in the home investment phase of the Kuznets swings, and for the converse to be true in the capital export phases. A study of the securities of 447 firms yielded the following results:

Table 7. Excess of the Unweighted Average Rates of Return of Foreign/Empire Firms over United Kingdom Firms (%)

<table>
<thead>
<tr>
<th></th>
<th>Foreign</th>
<th>Empire</th>
</tr>
</thead>
<tbody>
<tr>
<td>1860-4</td>
<td>3.8</td>
<td>(13.6)</td>
</tr>
<tr>
<td>1865-9</td>
<td>1.9</td>
<td>(2.0)</td>
</tr>
<tr>
<td>1870-4</td>
<td>-0.3</td>
<td>(10.6)</td>
</tr>
<tr>
<td>1875-9</td>
<td>-6.0</td>
<td>(7.0)</td>
</tr>
<tr>
<td>1880-4</td>
<td>-3.7</td>
<td>4.6</td>
</tr>
<tr>
<td>1885-9</td>
<td>1.3</td>
<td>-3.4</td>
</tr>
<tr>
<td>1890-4</td>
<td>-2.0</td>
<td>-4.1</td>
</tr>
<tr>
<td>1895-9</td>
<td>-1.9</td>
<td>-3.9</td>
</tr>
<tr>
<td>1900-4</td>
<td>0.1</td>
<td>-4.0</td>
</tr>
<tr>
<td>1905-9</td>
<td>2.3</td>
<td>0.1</td>
</tr>
<tr>
<td>1910-12</td>
<td>4.6</td>
<td>1.6</td>
</tr>
</tbody>
</table>

* A minus sign means that the home rate of return was higher. The percentages are calculated on the capital, not on the rates themselves; thus, the difference between 5% at home and 6% abroad would be 1%, not 20%.
† Returns from the Empire before 1880 are doubtful.

It is thus evident that by choosing the right period, one could show at will

26 Davis and Huttenback, 'Political Economy', p. 125.
that either home or foreign returns were higher, and one could vary the rate
by which one exceeded the other. Further, as part of the Kondratieff long
swings, foreign and colonial yields fluctuated more than home yields, so that
the overall gap between them was highest in the early 1870s and in 1913, and
narrowest in the 1890s.27

Thirdly, some doubts must arise over the risk factor incorporated in Table
5 which, in line with much current economic thinking, is measured simply
by the rate of fluctuation of returns.28 Even if this were a correct gauge, it is
not clear whether investors were considering the uncertainties of a type of
investment, American silver mines, for example, or the chances of fluctuations
of return in any given mine. In the second place, as every football pool shows,
high risks, far from requiring higher average returns, may be particularly
attractive, and Victorian investors have struck at least some observers as being
"foolhardy rather than over-cautious", while Clapham spoke of their gambling
instinct;29 certainly, some overseas investment can have no other explanation.
It seems much more likely that the risk to be compensated for by higher
returns was that of falling below a certain figure, or indeed to zero, rather than
violent fluctuations as such. Thirdly, there is here a considerable difference
between individual and social risk, and between ex-ante and ex-post. Thus,
while a highly fluctuating asset may well look unattractive to the individual
considering making an investment, it may be highly profitable to society ex-
post, as long as it fluctuates about a high average return. The fluctuation as
such is no drawback to society. Fourthly, investors before the First World
War under-estimated the risk of total loss abroad, such as to befall Russian
investments, and the prospect of discrimination against foreigners. Lastly,
Keynes added a further consideration in his review of foreign investment in
1924: in case of default, he argued, the loss abroad was total, whereas at home
the real assets, such as houses, factories or the Underground system, would
still benefit society though they might have bankrupted their owners.30
Several, though not all, of these divergences, it will be noted, tend towards
"too much" foreign investment, and it emerges that little confidence can be
placed in the "risk" column of Table 5.

It has, in fact, proved to be extremely difficult to generalize about Victorian
investors, of whom there were perhaps 300,000 at the end of our period. The


middle classes and the females (or as the Economist had it, the "clergymen, widows, old maids, pensioners, clerks and small capitalists") might prefer home firms, but the probate registers showed that about one-half of the stock exchange securities held at death were found in fortunes over £50,000, and "elite" investors favoured foreign assets.\(^\text{31}\) The highly marked "Kuznets" waves in foreign investment, bunching in great heaves, to Australia between 1877 and 1886, to Argentina in 1886-90 or to Canada after 1900,\(^\text{32}\) point with their bandwagon effects to typical stock market irrationalities rather than to careful weighing of the evidence on the part of the investors. It is true that "direct" investment, as distinct from the portfolio investment considered hitherto, which has received comparatively little attention in the literature,\(^\text{33}\) was likely to have been made more rationally. But since it obeyed different criteria, such as the strategic securing of markets or raw material sources, or the by-passing of tariff walls,\(^\text{34}\) a calculation of how far this corresponded to the national interest is even more difficult.

A sensible Victorian investor would ask for professional advice. In Britain, he would go to his stockbroker or investment adviser, but it is at this point, according to some critics, that the bias of the capital market in favour of foreign investment and against British firms, especially in new or innovating industries, would be most powerfully exerted.

The literature on this debate is enormous and well-known, and has recently...

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been well summarized by Cottrell. All of it agrees that the City of London had developed into a highly efficient and smooth mechanism for channelling capital abroad; "the main business of the London new issue market", according to F. W. Paish, "was foreign investment." In consequence, as the Economist wrote in 1911, London was often more concerned with the course of events in Mexico than with what happened in the midlands, and was more upset by a strike on the Canadian Pacific than by one in the Cambrian collieries. Of some £200 million of new issues in 1911-13 studied by Lavington, only a paltry 17.9 per cent was for the United Kingdom and very little of that for industry; conversely, only 10 per cent of the capital needed for the expansion of manufacturing capacity, or £5 million a year, was raised through the London capital market at the time: this represented less than 3 per cent of what was sent abroad. Such capital as British industry needed, beyond what could be raised among the owners out of own or ploughed-back savings, had to come mainly from the limited regional resources of the provincial stock exchanges. The contrast with Germany, despite recent modifications of the picture, where universal banks undertook most of the capital provisions for the country's growth industries, remains striking.

Where disagreement arises is over the question whether British industry was harmed or not by this stance of the City. In other words, did home industry receive so little because it never asked for more (or, indeed, in the words of Hirst and the Economist, made sure that any good thing stayed with the canny northerners), or did it, on the contrary, ask and was refused? Here, in some sense, lies the key to the answer to our main question. But while current research may clear the matter up in due course, and has found that public investment certainly suffered because of the high level of capital exports, at present we suffer from the fact that "potentially successful frustrated borrowers leave no trace", and the existing evidence, for the key industries whose growth might have maintained the British industrial momentum, such as the motor industry, steel and electrical engineering and generating, may be interpreted in different ways.

Occasionally a single flash may light up a whole scene. Such may be the case of Fred Hopper, bicycle manufacturer of Barton in Lincolnshire. His was a highly successful firm founded in 1896, which kept technically up-to-date in its equipment as well as its product, employing 400 in 1905 and 800 in 1912, capturing important export markets and developing from pedal to motor cycles and, in 1912-13, to a cycle car. More remarkably still in such a volatile industry, it paid steady dividends of 7½ per cent a year or more. Here, if anywhere, was an object within a growth industry worthy of support by a capital market interested in British prosperity. Yet, once it had exhausted the partners’ own and the company’s ploughed-back savings, the firm was in constant financial difficulties for lack of capital for expansion; no financier was willing to provide it with funds. Successive attempts to obtain capital from the London capital market, from the bank, from insurance companies and building societies all failed, and by 1913 the firm had to go into liquidation. That anything (including the archives on which this account is based) was


44 D. L. Burn, The Economic History of Steelmaking (1940), pp. 250-4, 262; Payne, Scottish Limited Companies, p. 52.
saved at all from the wreck we owe entirely to the fluke that the National Provincial Bank wanted to break into the territory and was willing to go to great lengths to capture the town’s largest account.

How representative is the Hopper example? Was it unique, unusual, typical? We do not know. But until we do, it will be hazardous to maintain that the flood of foreign investment was not in any way at the expense of industrial growth at home.

IV

At a more theoretical level of debate on the role of capital in the economy, two issues have stood out: the alleged diminishing marginal product of capital, and the dynamic effects of capital investment.

The diminishing marginal product of capital is central to the “optimistic” neo-classical theorem (as is the even more unrealistic assumption that factors are actually paid their marginal product). As we have seen above, the argument is that a substantial diversion of funds from foreign projects to home investment would have lowered the returns on home capital. “Other things being equal”, in Hicks’ formulation, “the marginal efficiency of capital will be lower the greater the amount of capital goods already possessed.”47 However, in view of the fact that capital is the changing, the transforming, the dynamic element in the economy, and that it is neither homogeneous nor easily divisible, but usually lumpy and highly specific, it is by no means certain that adding to its quantity will necessarily lower its returns.

There is, first, what might be called the “Hayek effect”.48 Finishing a half-built railway, or undertaking repairs and maintenance, are well-known examples of capital expenditure that raises rather than lowers the returns on capital already in place. Capital as an improving extension to existing capital is, in fact, as Hayek showed, normal rather than exceptional: it is sometimes known as breaking a bottleneck, or as social overhead capital, or as increasing returns.49

Moreover, the doctrine of diminishing returns on capital assumes a constant technology, whereas capital investment is the main way in which new technology is installed in the modern world. It provides the “dynamic”, the “engine of growth” or “momentum of growth”, the “major motor for productivity

gains and innovation". As growth begets growth through the "Verdoorn effect", as industry gains "x-efficiency" through "learning by doing", it has been possible to hold that, given a large enough heave, given a large enough investment drive in 1870-1914, the kind of technical innovation might have followed that would have lifted Britain over the hump into a growth path similar to that of Germany or the USA. According to one recent calculation, even on the basis of the available technology only and ignoring possible incentives to speed up innovation, a reasonable diversion of capital from abroad to home might, on certain assumptions, have raised British GNP by 38-8 per cent by the outbreak of World War I.

It may be asked why, if these opportunities really existed, they were not taken up by British investors? One possible answer turns on the inability of the individual to benefit, unless large numbers acted simultaneously with him, and it was precisely that which the market discouraged. It is a variant of the "interrelatedness" argument, developed to show why it may have been a disadvantage for Britain to have been a pioneer and to have been saddled with much out-of-date equipment at a time when others could begin with a clean sheet.

Further, diminishing returns on capital require the unrealistic assumption


of full employment. In reality, trade-union unemployment fluctuated between 2 per cent and 10 per cent, averaging around 5 per cent: total unemployment was likely to have been somewhat higher, around 5-7 per cent. Moreover, while it may be true that there was by then little spare labour available in British agriculture, there was still a vast labour reservoir among the casuals, the Mayhew people, the porters, carriers and messengers with which the pre-motor car city abounded. G. H. Wood, for example, showed that much of the recorded rise in British wages at the time derived precisely from the switch from lower-paid to higher-paid employment, rather than from the wage rise in any given employment.\(^{54}\) Unemployment was connected both with the powerful tariff reform movement and the capital export debate of the day: "Employment . . . has been the most important question of our time . . ." said Joseph Chamberlain in 1905, "it underlies everything". Hobson declared in 1911 that in view of the high level of capital exports, "we cannot wonder at the increase in unemployment and of distress among the working classes".\(^{55}\) Had capital been diverted from foreign to home destinations, it might have absorbed this unemployed or underemployed labour without endangering the rate of its own return.

Interestingly enough, some economists have turned the diminishing returns on capital argument on its head, pointing out that where British investment in a foreign territory\(^{56}\) was already high, further capital exports to it would have lowered the returns on the existing investment there, and the damage done to the existing British income streams might have exceeded the gains made by the new investors. Private and national interest would then have diverged, in the sense that "too much" capital would have been exported.


amortization payments became due.\(^{57}\) Thus there would ultimately be a change in the flow of goods to match the outward flow of claims generated by the loan.\(^{58}\) A Goschen amendment to the theory assumed corresponding interest rate changes to close the gap temporarily and hold the fort until the long-term forces described here came into operation.\(^{59}\) A Ricardo-Bastable variant envisaged that the gold would move only later in the adjustment cycle, after relative prices had begun to change.\(^{60}\) It is worth noting that the process was by no means costless even in this primitive form.

This model reached its apogee in the first two decades of this century with its elaboration by F. W. Taussig. It was at this point that it was discovered that it did not conform to reality: several of Taussig’s students, sent to find evidence from various countries including the United Kingdom, France, Canada and Argentina, reported that neither prices, nor interest rates, nor gold movements had behaved according to expectations and this judgement has been confirmed many times since.\(^{61}\) In the 1920s a Scandinavian or “modern view” came into vogue, which envisaged the mechanism as a transfer of purchasing or spending power rather than as a change in relative prices; Keynes, in 1930, also assumed that relative incomes would have to change to effect the transfer.\(^{62}\)

With the Keynesian revolution, employment entered the picture. Joan Robinson, in an early palaeo-Keynesian article,\(^{63}\) had stressed mainly that, to achieve equilibrium, international capital movements would have to make up exactly the differences between savings and investments, pluses or minuses, arising within each country. Later thinking came to the conclusion that as soon as the assumption of unemployment was made, in either borrowing or lending country or in both, no determinate solution was possible\(^{64}\) and that,


indeed, there might be no equilibrium but an inevitable rite’s progress to ultimate collapse—a vision which observers in the 1980s may find uncomfortably realistic.

Out of the welter of subsequent refinement of theory two strands of thought deserve special mention. The first is that in seeking for the mechanism which allowed the transfer of capital to take place it may be inadequate to look at one country, such as the United Kingdom, in isolation. As Lindert observed, high interest rates in London were normally matched by simultaneous high rates also in Paris and Berlin; deflation in Britain would lead to deflation elsewhere, which would not only dissipate the intended effect, but might even lead to a net effect in the opposite direction. This is in line with recent revisions which reduce the prominence of the Bank of England in the maintenance of the world’s gold standard in that period owing to its diminutive gold reserve, and emphasize that it may in fact have been the Banque de France which acted as lender of last resort. But it also leaves the world adjustment system to capital exports wholly indeterminate.

The other strand of thought, first raised by Knapp, is that the whole of this theoretical approach may be mistaken: capital exports may not be a “disturbance” of the system at all, but at least part of its adjustment, the completion, rather than the start of a process. To this we shall return below.

In the classical models, as we have seen, it was relative prices, or the terms of trade, which bore much of the weight of adjustment. Consequently the lender (and later, the repayer) had always a double burden to bear: first to find the funds, and then to see his own terms of trade deteriorate in the process of transferring them. Later debate put this in question, and found that the movement of relative prices depended on elasticities and might go either way.


In 1952, Samuelson could still argue in a classic article that in practice the terms of trade were at least highly likely to change as the classics predicted; but by 1958, H. G. Johnson saw no reason to assume they would go one way rather than the other, and this view seems now to have prevailed.\(^{71}\) Theory therefore offers now no guide as to the kind of costs, in terms of price disturbances etc. the transfer of capital abroad might have entailed to a lending country like the United Kingdom in the period 1870-1914.

The long-term effects of British capital exports on reducing costs abroad, especially in areas of recent settlement, are not in dispute, though the transformation of lowered real costs of production into actual terms of trade depended on many other factors. The opening up of the overseas grain, meat, wool, and metal supplies by European capital remains one of the most significant developments of that phase of world history.

This type of investment was particularly effective, and probably yielded more in real gains, than investment at home would have done, because it was combined with idle or underemployed other factors abroad.\(^{72}\) It might, of course, have been better still for Britain if others, for example, Germany, had denuded their own capital stock to achieve this development.\(^{73}\) Nor should the costs to British agriculture be forgotten.\(^{74}\)

## VI

The effects of taxation, which have greatly exercised contributors to the recent literature on the costs and benefits of capital exports were of little significance before 1914. But other questions of differentiation within the flow of capital mattered indeed. Most significant here is the distinction between competing and complementary economies. Keynes, in 1910, was among those who denied that the British capital went

either to the industries abroad which compete with ours, or to the countries which are our international rivals . . . . Our investments have been directed towards developing the purchasing power of our principal customers, or to opening up and supplying with credit and the means of transport our main sources of food and raw material.\(^{75}\)

In analogy with international trade theory, capital exports which widen the ratios of productivity between countries, i.e. make them more unlike, will increase the gain from trade for both, and vice versa.\(^{76}\) There is, however, as


\(^{75}\) Keynes, 'Great Britain's Foreign Investments', p. 57.

\(^{76}\) Charles R. Whittlesey, 'Foreign Investment and Terms of Trade', *Q.J.E.* 46 (1936), esp. pp. 446, 453.
in all matters relating to capital, a strong dynamic element involved, and the division of the world into complementary and competing economies is too simple, for one has a habit of turning into the other. To follow Hicks, what goes out as "export-based" improvements beneficial for the leaders, returns as harmful "import-based" improvements when copied by the rest.77 Similar considerations apply in capital exports, as in the question of whether advanced machinery should be exported.78 Europe and north America in the early phases, India and Australia in the later phases were examples of that transformation from customers to rivals.

However, the latest thinking indicates that one cannot even be sure that sending capital to complementary economies is always beneficial, nor is it always harmful to supply competitors; it depends on what competing capital exporters do, on the terms of trade, and other factors.79 Optimists will assume that income growth will lead to larger markets everywhere, or, in Sayers' terms, that the growth in total demand will outweigh any disadvantages of alternative supplies.80

The distinction between direct and portfolio investment has been noted above. Much of the recent literature agrees that one of the key elements in direct investment was the export of know-how and management skills: with these, the capital exporting firm might hope, for a time, for a "quasi-rent" as higher return.81 By contrast, the formerly strongly held view that foreign loans should be "tied" to supplies from the lending country in order to benefit its exports directly, is given little weight in recent literature; an export of capital must in the end be reflected in enlarged exports of goods or services somewhere, and there is no particular advantage in channelling them to the borrowing country.82 In fact, a declining proportion of the pre-1914 foreign investment was spent in the lending country,83 and there was no strong correlation between markets for British capital and markets for British goods.84


79 Balogh and Streeter, 'Domestic versus Foreign', p. 219.


Lastly, there is the political dimension. The influence of those investing abroad on the British Government, and vice versa, has never been very great, but there may be an important distinction here between capital exports to Empire countries and to others. Indeed, one of the most popular theories of imperialism relates the quest for empires in our period directly to the need to find outlets for surplus capital. There was, it is true, a slight shift in new issues going to Empire countries, from 35.5 per cent in 1870-8 to 43.5 per cent in 1890-1914, according to Simon. Yet some capital exports to outside countries, e.g. Latin America and China, also expanded fast, and it is doubtful whether they would have received more, had they been within the Empire. In any case, the flow of capital to the newly acquired colonies was negligible. However, once a territory became a colony it could borrow on more favourable terms in London, and for the colonial governments the costs may have been reduced by half.

The financial burden of Empire on the British taxpayer was not insignificant. A recent study found that the costs of defence amounted to the equivalent of an annual return of 0.5-1.5 per cent on British investments in the Empire countries, and this would be doubled, to 1.5-3.0 per cent if all other governmental costs falling on the mother country were included. Even if we deduct the benefits of compensating assets built up—some 0.7 per cent—this burden wipes out the whole of the benefit to Britain derived from the addition to the income of investors which arose from achieving higher returns on capital in the colonies than at home. It forms an interesting example of the divergence between private and social return, leading to "too much" capital export.

VII

Central to our question must be the locus of impetus or motivation: did capital go abroad because of push or because of pull, because of high expectations abroad, or low ones at home? Was it "autonomous" or "induced", i.e.


86 J. A. Hobson, Imperialism (1902); V. I. Lenin, Imperialism: The Highest Stage of Capitalism (1917).


88 Edelstein, in Floud and McCloskey, Economic History, p. 94.


90 Davis and Huttenback, 'Political Economy', p. 125.

arising out of a deliberate search for higher returns by capital owners, or merely to fill a payments surplus gap?

Since home and foreign investment, in their massive "Kuznets" waves, were substitutes for each other, in the sense that one was always high when the other was low,92 one could maintain that investment abroad was "crowding out" investment at home.93 But since the combined British investment was higher at foreign investment peaks than when home investment predominated, we might speak of "crowding in"—foreign opportunities bringing forth savings which would not have been made at all, had only home opportunities existed. In practice, most observers agree that sometimes one influence predominated, sometimes the other, though there is no agreement on timing.94

Let us begin with a decision to invest abroad. This must have been induced by some expectation of gain, however defined. Every spurt of capital exports in turn, as econometric tests confirm, was connected with an antecedent high level of fixed capital formation at home which had lowered home returns, and this is consistent with Hobson's oversaving causing the rate of interest at home to fall.95 Increased investment abroad would be followed by increased exports leading to further attractive openings to investors, and so on—until harvest or market failures or failure to keep up interest payments reversed the process. We must then assume a multiplier at home such that in every capital export spurt, reduced investment and/or consumption at home exactly matched the gap in the balance of payments required by the transfer of capital.96 Alternatively, we must find a mechanism to "ration" capital between home and foreign targets so as to co-ordinate with the current balance of payments.97

However, we might begin at the opposite end. We might, with Carl Iversen, see capital exports not as the first stage of a process, but as its last stage, "equating" or equilibrating an incipient balance of payments gap.98 This last type of "induced" investment would really require a long-term process of

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95 Edelstein, Overseas Investment, pp. 229-31; Gray, Business Investment, p. 21.


97 Edelstein, Overseas Investment, pp. 229-31.

98 See n. 69 above.
adjusting habits, or propensities to import and to save, as sketched by Martin. Of course, both these occurred simultaneously, together with other dynamic effects, including rising incomes and technical retardation. Let us recall the large and growing inward payments flow of interest and service on earlier debt, mostly contractual and not dependent on choice or prosperity (Table 4). Much of it, indeed, was a flow from countries with higher returns on capital, to a country with lower interest rates. This flow, which together with current rates of imports and exports had been arrived at by gradual adjustments to dynamic changes over the years, left a huge annual payments gap, the source of a potentially massive sterling shortage. As Table 8 makes clear, Britain could deal with this looming “gap” or sterling shortage in one of two ways: she could increase imports/cut exports, or she could export capital; the history of those decades may, from one point of view, be seen in the light of the Kuznets cycle as a lurch between these two options. To cut exports/increase imports harmed British industrial growth and, by its multiplier effects, induced the kind of stagnation deplored by all the critics; but to export capital created further assets abroad, which made the problem of the incoming payments even worse the next time round.

<table>
<thead>
<tr>
<th>Imports</th>
<th>-731.2</th>
<th>Exports, incl. Re-exports</th>
<th>+596.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundries (Ship sales, bullion, smuggling, emigrants, tourists, etc.), net</td>
<td>-27.5</td>
<td>Invisibles, net</td>
<td>+181.6</td>
</tr>
<tr>
<td>Gap (available for foreign investment)</td>
<td>-207.7</td>
<td>Inflow of dividends and interest, net</td>
<td>+187.9</td>
</tr>
<tr>
<td></td>
<td>-966.4</td>
<td></td>
<td>+966.4</td>
</tr>
</tbody>
</table>

Thus, in one way Britain’s industrial stagnation was a direct consequence of her earlier manufacturing export successes, which set going that fatal inexorable sequence of capital exports leading to inward payments later. Ideally, one could imagine the potential payments surpluses to have been absorbed by growing imports of things for which the outside world had a “natural” advantage, such as tea or wood pulp, while the British population, growing fat as the world’s rentier, continued to specialize in shrinking advanced industrial sectors in which their technical lead made them unbeatable. But beside the nature of the consumption function, it was the inevitable structural rigidities, trade union power, unwillingness to change occupations too quickly, among others, which made this solution impossible, and to that extent, those often deplored rigidities bore part of the blame for industrial stagnation. In any case, the market, especially the high pound and the need

for others to grow fast in order to meet their obligations, made the export of capital more attractive to British capitalists than home investment.

Thus, the emphasis has shifted in a significant way. On this view, the high level of capital exports did damage not only, or not so much, because it simply withheld capital from Britain where it might have done some good, but because it created a growing mountain of inward obligations which not only disposed market signals to limit the growth of output at home, but did so in a most destructive way, by undermining enterprise. The explanation of Victorian "failure", has, once again, not so much to account for a little capital lacking here or there at the margin, but to show how the pressure for massive, long-term future-directed changes in economic structure and emphasis was fatally weakened.

VIII

It is time to draw conclusions. Our survey of the more recent work of historians, as well as of economists, on the effect of capital exports on the British economy in the period 1870-1914 has thrown considerable doubt both on the simplistic practical, gut-reaction view that it was harmful and on the equally simplistic neo-classical view that it must have been beneficial. Indeed, no extreme simplistic position will bear much examination. Many of the assumptions of all schools of thought turned out on closer scrutiny to be dubious as to the direction of their influence. Many effects depended on elasticities and other relationships that are and must remain unknown.

Recent research has cleared up some areas of uncertainty, particularly as regards the quantity of overseas issues and their yields. Research along these lines is labour-intensive, but in the end indispensable. Where serious gaps remain is in follow-up studies, possibly only for the larger issues, to find out how much of the nominal sum in each case was taken up by British investors, and how much of that, in turn, actually found its way abroad; and to what extent therefore the traditional figures have to be modified.

The greater accessibility of bank archives, including those of the Bank of England, has also made it possible to envisage more detailed research on lending policy. Was home lending encouraged? Were reasonable propositions from home manufacturers unnecessarily rejected? Can bankruptcy proceedings yield any evidence on whether promising British ventures were starved of capital? The search for counterfactuals implies a search for causes why things did not happen, why the dog did not bark in the night. Even the known archives of firms in key industries might be combed through again for decisions not to proceed with certain ventures.

The theoretical tool kit has become highly sophisticated, perhaps too much so for the order of magnitudes involved. It does, however, largely concern itself with the decisions of the major economic units. The psychology of the individual investor has received less than its due attention. At the same time, the promising current research on individual investment portfolios, at death or whenever else they might be available, could also be extended.

Until such time as clearer evidence is available, there must remain some doubt whether Victorian investors acted "rationally" in their own perceived
interest; there is less doubt that, according to numerous complex models at
several levels of abstraction, private and social costs/benefits are “in most
circumstances . . . likely” to diverge.\(^\text{102}\) On certain assumptions made by
Kennedy, a diversion of capital from overseas to home purposes would have
added 25-50 per cent, and a dynamic structure, to British national income.
Crafts, on more restrictive assumptions, made it 25 per cent, Bairroch on a
cruiser basis, even made it 70 per cent, while Sir Arthur Lewis envisaged a
switch to home industry which would after a structural change, have set off
fast, export-led growth in the long run.\(^\text{103}\) But the assumptions underlying
those calculations are counter-factual and hence, in the nature of things,
unrealistic.

Since it has turned out that the more refined the theory, and the more
careful the calculations, the greater the uncertainty, the temptation is great
to fall back on the crude, but solid tenets of the Victorians and Edwardians
themselves. Among the more prominent of these were that capital investments
in certain primary producer countries lowered British costs, but equipping
potential competitors would be detrimental to this country; that there was
bias in the London capital market, channelling funds more easily abroad than
into home industry; that investment abroad brought higher returns than were
possible at home and were a sign of strength, but that it was also likely to
reduce employment and the return to other factors, especially labour, at
home.

Where, in all this does the overall balance lie? Where so many well-
formed persons of goodwill differ it is most unlikely that one set is wholly
“right”, the other wholly “wrong”. It is much more probable that they
measure against different criteria. The alternatives that leap to the eye are
those discovered by the genius of Friedrich List in relation to the similarly
inconclusive debate between free traders and protectionists: the quarrel in the
last resort is between those whose ultimate criterion is wealth now, and those
to whom the optimal policy is one that maximizes the power to create wealth
in the future.\(^\text{104}\)

Those who measured success by wealth now or in the medium term were
inclined to be satisfied with the performance of the Victorian investor who
sent so much of British capital abroad. Those who were not, and took the
long-term view, conjured up visions of a rich “nation of bankers and commis-
sion agents, supporting armies of unemployed loafers”\(^\text{105}\) as a result of unduly
high capital exports, a rentier nation in danger of following the path of the

\(^{102}\) Dunning, Studies, p. 120.

\(^{103}\) Kennedy, Economic Growth and Structural Change in the U.K., 1870-1914; ‘Economic Growth’

\(^{104}\) Friedrich List, Das Nationale System der Politischen Oekonomie (Jena, 1910), ch. 12, esp. pp. 220-
1; Bernard Semmel, Imperialism and Social Reform: English Social-Imperial Thought, 1895-1914 (1960),
p. 163; Waltershausen, Kapitalanlage, esp. pp. 96, 176-80, 393-4; Werner Stauffacher, Der Schweizerische
Kapitalexport unter Besonderer Berücksichtigung der Kriegs und Nachkriegsperiode (Glarus, 1929), p. 210;
Iversen, Capital Movements, p. 166; Peter Cain, ‘Political Economy in Edwardian England: The Tariff
Reform Controversy’, in Alan O’Day, ed. The Edwardian Age (1979), p. 43; Royal Commission on the

\(^{105}\) Lord Wyndham, quoted in Wolfgang Mock, Imperiale Herrschaft und Nationales Interesse: Constructive
Imperialism oder Freihandel in Großbritannien vor dem Ersten Weltkrieg (Stuttgart, 1982), p. 323; Waltershau-
sen, Kapitalanlage, pp. 363-7, 374, 382 ff., 404.
Dutch by undermining its own industrial base in the long run. Later generations might also be dissatisfied with a policy which sacrificed the future for the present. On whom the blame should fall, whether it was the businessmen who did not foresee "the trick history was to play on them",106 or the government, which should have taken a longer view and acted on it, or indeed whether the apportionment of blame is a useful exercise is, of course, another matter.

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