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Author(s): Robert H. Deans and Janet S. Deans

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J. Shield Nicholson's Project of Empire: *The Edinburgh Economist Evolved from a Free Trader into a Premier Apologist for Imperialism*

By ROBERT H. DEANS *and* JANET S. DEANS*

ABSTRACT. In the *world economy* at the *turn of the century*, great empires competed for position—those of *Great Britain*, the newly imperialistic *United States*, *Germany*, *France* and others. *Britain*, champion of *free trade*, finding its world status weakened by rising colonial *nationalism*, became racked with debate over *imperial union* or *federation*, *empire free trade*, *preferential tariffs* or *protectionism*, a common *defense* or independent strategy. A key figure in the controversies was J. Shield Nicholson, who evolved from a free trader into an imperialist apologist. Nicholson foresaw some of the problems the neglect of which explain in part the eventual dissolution of the empire: the *colonies* as sources of *raw materials* and *foodstuffs* or of *manufactures*, the allocation of the costs of defense and the protection of the mother country's economy. The debates, and especially the evolution of Nicholson's positions, illustrate how economic *ideologies* developed during the period.

I

Introduction

AT THE TURN OF THE CENTURY, militarism, protectionism, and imperialism were dominant features of Western European politics. Great Britain, the champion of free trade, found its world position weakening because of colonial nationalism, the fiscal burden of small wars, the decline in its relative trade position worldwide and with its colonies, the rising import needs for foodstuffs and industrial raw materials, and the military threat from the German Empire. Renewed interest in pacific schemes for imperial federation in Great Britain was an effort to combat disintegration of the Empire and to promote a common defense in case of war. Open debate, at times hostile, was waged by academics, members of Parliament, civil servants, and journalists.

Between the establishment of the Imperial Federation League in 1884 and the collapse of the Colonial Conference in 1911, numerous attempts were made to resolve the issues of free trade versus protectionism, imperial and colonial

* [Robert H. Deans, Ph.D., is associate dean and professor of economics in the School of Business and Management, Temple University, Philadelphia, PA 19122; Janet S. Deans, Ph.D., is associate professor of economics, Chestnut Hill College, Philadelphia, PA 19118.]

trade policy and the fiscal burden of common defense. The Cobdenite Liberals believed that by strengthening the liberal elements in society, the nation could reconstruct its methods of earning income and meet head-on the new international competition generated by the United States and the German Empire. Conversely, protectionists such as W. A. S. Hewins, William Cunningham, and William J. Ashley believed that the competitive industrial world economy requiring Great Britain to purchase raw materials and foodstuffs and, in turn, sell industrial goods was best served by the advantages of exclusive possession of particular markets by means of preferential tariffs and imperial federation.

So again the colonial question became an issue, culminating in the 1903 Tariff Debate.¹ This movement was an expression of necessary change in economic relations of the Empire and growing competitiveness with the German Empire and the United States. By tariff reform, the proponents wished to broaden the basis of taxation by a preference system in hopes of stimulating home industry and increasing employment. To the adherents of radical liberal ideology such as John A. Hobson, the developments described by the late Victorians using such words as empire and imperialism, were the inevitable consequences of a monopolistic capitalist economy. To Hobson and, eventually V. I. Lenin, imperialism created the deadly competition of rival monopolies which would lead to war and a final crisis for capitalism.²

A major figure in the debate, J. Shield Nicholson (1850–1927), was a highly respected and recognized classical economist, trained at Cambridge and holder of the Chair of Political Economy and Mercantile Law at Edinburgh. On questions of imperial economic policy, and banking and currency, he attained a position of authority, and his major economic writings constituted an adequate guide to the major economic controversies of the half-century ending in 1925.

During the last quarter of the 19th century, he was immersed in the bimetallic controversy which appeared in *Silver Question* (1888), and *Treatise on Money and Essays on Monetary Problems* (1888) which Joseph Schumpeter praised as a significant original work that economists have unjustly ignored. His major work, the three volumes of the *Principles of Political Economy* (1893–1903), which took a place deservedly high beside those of Marshall and Sidgwick, completed the 19th century tradition of classical economics (defender of Smith and Mill) and ended the first period of his economic writings.

The next 20 or so years were absorbed with the economic welfare of the British Empire, with the period up to World War I devoted to the imperialist controversy. Initially, he supported the free trade doctrine of the Cobden group which was verified in the *Tariff Question* (1903) and *History of the English Corn Laws* (1904). By the time *Project of Empire* was published in 1909 and of his address before the Royal Economic Society in 1910, "Economics of Imperialism,"

he had accepted imperial federation with justification for protection under certain circumstances.³ The *Project of Empire*, a current restatement of Smith's *Wealth of Nations*, supported the merits of an imperial policy similar to the imperial union of federation of the United States and of the German Empire.

Nicholson was somewhat unique among the economic writers of the period since he did not advocate an imperial scheme which espoused political unity, but rather the establishment of an imperial parliament.⁴ The *Project* was an economics of empire where internal commercial relations, external commercial policy and defense were mutually intertwined to the benefit primarily of the mother country and only secondarily to the welfare of the colonies.

In his writings on the subject, he presented a coherent analysis of the Smithian-Mill doctrine of international trade as the foundation of a colonial policy that would lead to the mutual defense and national economic progress of the Empire. Coercive actions that led to monopoly and restrictive policies as well as dogmatic simplification of the free trade doctrine were anathema to this effort for it placed the profit of the individual above the advantage of the nation.

By following the original principles of Smith, the Empire would avoid the evils of despotism and bureaucracy usually associated with the term imperialism. Throughout this phase, Nicholson emphasized that free trade was not incompatible nor protection identical with patriotism.

The last phase of his professional career was influenced by his patriotic spirit and he wrote on successive phases of the struggle which had direct overtones to defense and survival of the Empire. Among his major works were: *The Neutrality of the United States in Relation to the British and German Empires* (1915), "Free Trade and Protection: A Reconciliation" appearing in *War Finance* (1916 and 1917), *Inflation* (1919), and *the Revival of Marxism* (1920).

The purpose of this paper is to assess Nicholson's economic writings pertaining to the imperial question and to demonstrate his practical analysis of the economics of empire in terms of reconciling a free trade doctrine with an imperial preference system. A strong nationalist, Nicholson did not foresee the decline of Britain's political power and economic structural transformation as it approached World War I. The consequences of this issue will reemerge in the interwar period, and the influence of Nicholson and other British imperialists will appear in the 1923 Conference and Parliamentary debates of the early 1930s.⁵

Historians of economic thought have neglected many of the political economists who continued to dwell in the post-Millian stratum, a period marked by the decline of classical economics and the emergence of the Marshallian period in Great Britain. Surprisingly, the textbooks of history of economic thought have ignored the English imperialists (defenders of the Empire) as a group even though theirs was a period of significant change and instability.

II

Free Trade Argument

TO NICHOLSON THE OBJECTIVE of the political economy of every country is to increase the riches and power of that country. The attainment of this objective meant the establishment of an imperial organization under freedom of trade where the productive powers of a nation could be used to their greatest natural advantage. The natural advantage criterion propounded by classical economists suggests two comments according to William Ashley:

" . . . the greater cheapness with which one country can produce goods as compared with another is obviously in some cases due to no peculiar advantage in the geographical sense, but simply to the historical fact that the manufacture was established there earlier. The other is that a country may even possess geographical advantages for a particular production but be unable to develop them if importation is free, because for the time being, another country is producing more cheaply."⁶

But, Nicholson's argument for free trade must be viewed in terms of the reality of imperial union as contrasted with the idea of an independent sovereignty. Free trade must be viewed as a common thread to foster the union; on the other hand, the realization of union may require at times partial restrictions on imports or eventually an imperial preference scheme because the major objective is common defense.

Adam Smith provided Nicholson the support he needed to express his project of empire. First, at the time of the publication of the *Wealth of Nations*, the British Empire was confronted with the American Colonies question. In the latter part of the 19th century, the British Empire faced both the political instability of the acquired new possessions and the growing self-sufficiency of many colonies. In these accounts, Smith's original discussion of an Imperial Union therefore seemed appropriate for Nicholson's plan. Second, the question of national defense and the role of free trade in Nicholson's scheme was a major concern of Smith's colonial policy. Finally, Smith's free trade doctrine had been misunderstood and the decline of classical economics could be arrested by a restatement of Smithian doctrine.

Nicholson believed that Smith avoided abstractions because they only presented one aspect which tended to misrepresent the truth. Instead, he presented ideas with which practical statesmen and businessmen could work. The free trade debate suffered from this trait. It resulted in acceptance of protectionist arguments that obscured the links of free trade to a successful colonial policy.

Nicholson's views on free trade were stated mainly in Volume III of the *Principles*.⁷ The essence of free trade was equality and uniformity in the financial

treatment of home, colonial, and foreign produce of the same kind. Taxes on goods for revenue purposes were allowed as well as duties on imports provided there were corresponding excises on similar products. Generally, the classical writings of Smith and Mill became the foundation of his ideas, although D. F. Bastable's *Theory of International Trade* is quoted frequently.⁸

In the *Principles* and *Project of Empire* there was a parallel between interregional and international trade implying that factors were mobile internationally as well as between regions. This trade was based on absolute advantage and was supportive of the cost of production theory.⁹ Thus, Nicholson emphasized, "free imports encourage cheapness and abundance," and safeguard the wages and employment of labor, eventually leading to export rewards.¹⁰

The second consideration was that trade is essentially a means of disposing of surplus produce obtained by extending the division of labor beyond the scope which the domestic market could support. This is the so-called "vent for surplus" doctrine which confirmed that free trade was necessary in order to achieve the ongoing process of growth.

Like most classical writers Nicholson recognized a number of exceptions to the free trade case. Import duties levied for defensive purposes were allowed, and other protective arguments were acceptable (*e.g.*, avoidance of unemployment of productive labor within the country, and artificial encouragement to retain capital, in order to secure profits, act as insurance against unemployment).

For if they were not allowed there would be distortions of the price mechanism which would injure what Nicholson called the national advantage.¹¹ Nicholson, like other British imperialists, justified the rise of "national advantage" in a comparative rather than a positive sense when he suggested, "possession is necessarily a good thing for a country which has it."¹²

The transformation from natural to national advantage began with Smith's defense of the Navigation Acts and is clearly exemplified by Mill's "infant industry argument." In conclusion, Nicholson stated, "Protective duties and bounties only direct employment of a comparatively small amount of labor and capital of a country; the greater part will be employed according to natural and acquired advantages of the country relative to those of other countries."¹³

The employment of capital and labor were influenced by the scarcity of capital stock in the self-governing colonies and the potential overpopulation in the mother country. Nicholson's discussion did not give particular attention to the emigration issue nor was he concerned with colonial dependencies, such as India. The employment of capital was related to profits and the national advantage.¹⁴ Capital was to be employed first in the home country even if foreign profits were greater.

The advantage to the home country consisted in the consumption and reproduction of capital as a means of increasing exchange and output.

A capital therefore employed in the home trade will make twelve operations or be sent out and returned twelve times before a capital employed in the foreign trade of consumption has made one. If the capitals are equal . . . the one will give four and twenty times more encouragement and support to the industry of the country than the other.¹⁵

He extended this view to the British colonies in terms of directing capital outflow, but the near trade with France was more advantageous than the distant trade with Canada because of the cost and time involved in reproducing consumption. Finally, employment of capital by the home country encouraged exports and the advantage was magnified where the exports consisted of larger proportions of native produce.

Profits attracted investment but high profits could be artificially created by monopoly or by shortages of capital stock. In the case of monopoly profits, investment would be forced from natural employment to the disadvantage of the mother country, causing payments to the unproductive and creating unemployment in the home country. When would exports of capital be advantageous? Nicholson stated that when interest rates and profits were higher abroad, it meant there would be surplus capital and high import prices. The capital outflow would eventually lead to lower import prices, leading to an increase in home production and an increase in consuming power on the part of laborers. Attempts to restrain capital from being sent to other countries by import taxes to encourage inefficient production would only raise prices and wages leading to reductions in consumption and employment.¹⁶

A major shortcoming of Nicholson's theory of the employment of capital was due to his unwillingness to accept the neoclassical marginal productivity theory which in turn was because of his artificial encouragement of British manufacturing to safeguard employment and his reaction to abstract model building.¹⁷ Nicholson, like Smith, was concerned that capital would end up in activities that were distorted by profit opportunities and to some extent this could be evidenced by protective measures on local industries, including import taxes or bounties, as well as the monopoly trade enjoyed by stock companies and British overseas investment in the self-governing colonies.

At the same time he supported free trade and the greater benefits from capital employed in home trade as a means to increase exports, he accepted protection or government interference where natural conditions prevailed. Originally, natural conditions referred to geographical barriers and transportation costs which prohibited shipments of agricultural goods. More relevant under private enterprise was where profits could not be a test of public advantage such as utilities where the future return could not justify private investment. Second, some com-

mercial undertakings were unsuited for private effort on account of abuses that may occur, so the establishment of regulated companies could be allowed. What bothered Nicholson was that the necessary functions of the State regarding regulation of industry and commerce had gone beyond what could be called necessary.

He was willing to accept protection for national defense industries but otherwise the test for accepting the protective argument depended on the effects of monopoly. In the case of custom duties the original justification in Great Britain was to promote monopoly. Instead, Nicholson accepted this tax if it yielded considerable government revenue, and concurrently destroyed home producers' monopoly.

Taxes levied solely to provide government revenue were opposed when they fell on "necessaries of life" since they only raised prices. The aftermath of the repeal of the Corn Laws in 1846 was strong sentiment for free trade by producers who saw that regulation had resulted in higher wages. It was admitted that taxes would reduce employment but there were instances where the end result was different. For example, where imported raw materials replaced domestic labor and the manufactured product was protected by prohibitions on foreign consumption, monopoly profits were earned especially if bounties on exports existed.¹⁸ So, Nicholson supported import taxes if they created employment and the repeal of the duty was solely in the interest of the profits of the manufacturer.

Generally, Nicholson proposed four additional arguments where home industry could be protected beyond the above conditions, arguments which were borrowed from Adam Smith and partly from the classical tradition continued in the writings of John Stuart Mill.¹⁹

First, borrowing from Mill's four fundamental propositions on capital, Nicholson emphasized that industries suffering capital shortage which could lead to an expansion of exports should be protected. But all indications in Great Britain were that even though there was a continual increase in capital retained at home, the export of capital continued to grow, because of the surplus, so protection did not seem justified.

Second, where the employment of capital and labor was greater than the consumption gained from capital employed abroad, it was essential to give support to local industry, "provided . . . he can obtain the ordinary or not a great deal less than the ordinary profits of stock."²⁰

Third, the displacement of capital and labor by a foreign producer which can supply a commodity cheaper than the home industry can produce it, may not be in the best interest of the home country. If the displaced capital and labor is utilized in a less advantageous employment and the exchange value of its annual produce is diminished beyond the initial gains supplied by a foreign

producer, the home country has not experienced a net increase in annual produce.²¹

Finally, the displacement of capital and labor must be evaluated in terms of the effect on profits. Lower profits could be a reason for not supporting free imports of the specific commodity. If the displaced capital and labor cannot find as fruitful employment at home, then the effect on home industry would be disadvantageous from a national standpoint.²² Interestingly, it might be necessary at times for the State "to direct private people how they should employ their capitals."²³

One further point mentioned by Nicholson when discussing exceptions to free trade was the infant industry argument associated with John Stuart Mill.²⁴ Nicholson generally opposed this argument, ". . . the period of infancy is never passed, or vested interests are created which can never be got rid of . . . The labor and capital would not be used in the best manner, and in consequence neither population nor capital would increase so rapidly."²⁵ The experience of the United States, Australia and New Zealand convinced him of this position. This viewpoint was supported by other late 19th century free trade advocates, such as Henry Fawcett, J. E. T. Rogers, and Sir Robert Giffen. Giffen and others argued that many protected industries would need to be export-oriented to justify protection, and that contingency was not the objective of the infant industry argument.

Briefly, Nicholson's free trade argument was formulated before his interest in imperial union schemes. But in the *Project of Empire* he remarked, "the mobility of capital and its retention within the empire would be greatly increased by an imperial union with free trade between the constituent parts, *i.e.* if the empire became *de facto* the home country."²⁶

The impression Nicholson conveys is that British capital would flow naturally into the various parts of the empire since surplus capital existed in the home country. Second, he casually avoided discussion of the voluntary choice of capitalists to channel capital into the more profitable opportunities of the empire by emphasizing that capital outflow from the home country was constrained by the national or natural advantage. Thus, he was establishing a preference system of trade in favor of Great Britain.

Interestingly, the arguments for protection were allowable where there occurred augmentation of industry and an increase in the consuming power of the people rather than the free trade argument allowing protection for revenue purposes. Discussion in the following sections regarding imperial preference will show a modification of this position. Basically, Nicholson talked of free trade in terms of national interest and national power.

III

Colonial Policy

WHEN NICHOLSON ADDRESSED the issue of colonial policy as part of his imperial preference scheme at the end of the first decade of the new century, interest in the future of Great Britain and its colonies had shifted to the oncoming war. The ramifications of the 1906 election with regard to the 1903 Tariff Reform Debate and the Imperial controversy surrounding the Little England Question were now secondary issues, even though indirectly they were relevant to British foreign and domestic policy in terms of protecting Great Britain's imperial position in the world. The debate found a crossing of party lines and economic ideology by major participants.²⁷

The Little England Question had two extreme viewpoints. The extension of Empire on principle without concern for cost or value was the "Forward School of opinion" supported by the Conservatives with many of them supporting a Tariff Reform. On the other hand, the Consolidationists supported by Liberal-Radicals argued for an imperial association of free communities committed to parliamentary institutions and advocating a free trade doctrine. The support for imperial federation was a modified position for many earlier *laissez-faire* advocates. But both groups, having internal differences, were bound together in being imperialists and recognizing the new power forces of the 20th century and the inevitable challenge of Germany. They were opposed to the nation-dividing class antagonism fostered by the internationalist socialists and cosmopolitan Cobdenites.²⁸

At the Royal Economic Society meeting in 1909, Nicholson indicated that the colonies needed to choose whether they wanted to become part of an imperial union or to follow a course of political separation and economic sectionalism (*i.e.*, disintegration). Nicholson, aware of the growing independence of the colonies and dwindling support for federation schemes, concluded his remarks to the Society, "The Colonial said . . . it was the fetish of free trade worshipped by us; but it might be replied it was just as much the idol of the market place—fiscal autonomy—worshipped by them."²⁹

Earlier in the *Principles*, he stated that the commercial advantage of colonies was not there in terms of the significance of trade volume and surplus capital and labor because it flowed mostly to the United States. "Our foreign trade and immigration of labor and capital are determined by economic and not political considerations. Labor follows wages, capital follows profits, and neither follow the flag."³⁰ Efforts to resolve these issues in the Colonial and Imperial Confer-

ences held in the first decade of the 20th century failed because of the rigidity of ideas and the inability to overcome the abstract views of both parties.

Nicholson's approach for resolving the issue was to emphasize the need for common defense as a major priority in accepting an imperial union. War had become a business waged on a large scale and the British Government could no longer absorb the financial burden of protecting the colonies.

He argued that colonial aid for maintenance of naval power was urgent and pressing. The colonies must recognize, ". . . in case of war no ultimate reserves of wealth and numbers will suffice to build and man ships and to train and equip armies in time for active service."³¹ Great Britain had another aim here, it was the unwillingness to relinquish dominion over the colonies for ". . . such a measure would be mortifying to national pride and prejudicial to the special interests of the ruling group."³²

Furthermore, attempts to establish an imperial union as Nicholson proposed allowed Great Britain to maintain political control and to continue important commercial interests and treaties. Hobson and others writing in the early part of the century had clearly perceived that as the colonies grew in population and wealth they would assert larger rights of independence and they would want to develop their own natural resources for their advantage and not for imperial aims.³³

Beyond the general theme of common defense, Nicholson's reliance on free trade to establish the Empire depended on a hierarchical structure of rewards that mainly benefited the commercial interests of Great Britain. To the colonies he assigned the production of raw materials and agricultural goods and to the mother country the manufacturing sector of the economy. The aim here was also to gain the support of industrialists and to reduce unemployment. To believe that industrialists would accept free trade, Smith had remarked earlier, ". . . was, as absurd as to expect that an Oceana or Utopia should be established in the mother country."³⁴

Popular prejudices and selfish interest groups were powerful obstacles that stood in the way of such an arrangement. To assign such priorities, according to Bastable, "rests on the false economic idea that trade between members of (the union) is better than trade with foreigners, and is a doctrine which is protectionism in essence."³⁵ Writing in 1929, W. A. S. Hewins, a major figure in the Colonial Conferences, remarked that this assignment of tasks by the free trade proponents was a major reason why the colonies resisted joining an imperial scheme and led to the failure of the 1907 Conference.³⁶

Nicholson's insistence that free trade under an imperial union could succeed was suggested by historical fact. The early years of the American colonies, and

the current political unions of the United States and German Empire, led him to believe there could be an increase of “consuming power and augmentation of industry with an increase of employment of productive labor” if the colonies would accept his project of empire.³⁷ But in quoting Ashley and Cunningham later in the *Project of Empire*, he admits the colonies had gained immeasurably from monopoly trade to the detriment of Great Britain (loss of aggregate volume), and when some form of taxation was proposed to pay for common defense, the colonies became defensive and irritated.³⁸ Furthermore, attempts to establish colonial preference schemes beginning in 1780 and continuing until 1860 failed because of mutual jealousies between parts of the empire. With economic ties with the colonies becoming more tenuous, Nicholson faced a major difficulty in convincing them that even though free trade within the union would cause local losses and gains and disturbance of vested interests, there were advantages to the colonies in joining the imperial union beyond the common defense argument.

First, in the course of economic progress capital shortages in the colonies limited the gains to be obtained from large scale production. The continuous use and reproduction within the union allowed by the free movement of capital and labor would widen the local market and expand foreign markets. If capital and labor were displaced to countries outside the Empire, it would lead to a contraction in the home market and the Empire (although implicitly he referred to Great Britain) would find greater difficulties in competing because foreign countries would obtain the above benefits. Furthermore, the effects of monopoly (colonies having multiple tariff systems and restrictive commercial policy) by creating an artificial diversion of capital would lead to a deficiency of employment, rising production costs, and a diminution of exports. In the end, “the productive forces, capital and labor, are practically imprisoned within each country and only products are interchanged.”³⁹

Second, he proposed that emigration to the colonies would allow the workers to be quickly in a position “to equip the land and to become the real owners of land out of their savings” because their standard of living was below that of the remaining population.⁴⁰ However, Nicholson was disturbed that skilled labor would leave the mother country, reducing home industry productivity. Even though he did not advocate government intervention in emigration, he was favorably disposed toward a systematic and selective migration policy. At no time did he openly expound a surplus population thesis although he accepted the Malthusian doctrine that population growth could put pressure on agricultural resources. Unlike many supporters of Federation schemes, he did not formulate an emigration policy in terms of colonial development.

Briefly, Nicholson is arguing that the mutual advantages gained from common defense and free trade would allow capital and labor to flow more readily from the mother country where they are abundant to the colonies where they are most needed. The concluding remarks of the *Project of Empire* summarized the benefits:

The rise in the standard of life and . . . comfort of the masses . . . is only possible with a continuous increase in the productive powers of the society. The most efficient cause of the prosperity of new colonies . . . is the capital . . . which they acquire from the old civilizations. If the United Kingdom has much to gain from the development of the natural resources of the colonies, the colonies have much to gain from the accumulations, material and immaterial, of the old country.⁴¹

But the difficulties in establishing the imperial union were related to problems of organization, in terms of sharing the financial burden and implementing free trade. Goldwin Smith believed "imperial federation was largely a chimera of Englishmen, based on essential misunderstanding of the real strength of colonial nationalism."⁴²

During the war when reflecting on the period of imperial defense (1895–1914), Nicholson reaffirmed his position that the purpose of colonial policy was to enhance national power as a means to increase liberty, not to increase coercion. The development of the self-governing colonies by means of the free trade doctrine verified this position. However, in *Neutrality*, published in 1915, he remarked, "British power is not meaningless lust for exacting obedience from other people, though the love of power in this sense is one of the strongest sins of the natural man."⁴³

IV

Imperial Federation and Fiscal Considerations

THE ESSENCE of Nicholson's imperial federation scheme was borrowed from Smith and appeared mainly in the *Project of Empire*, with minor references being made earlier in 1892 and in the *Principles* of 1902.⁴⁴ In "Tariffs and International Commerce" published in 1892, Nicholson suggested the impracticality of an imperial federation, "To couple Free Trade within the Empire with Protection against the rest of the World is to destroy a practical proposal by the addition of a proposal utterly impractical."⁴⁵ But, he admits later that Great Britain must choose between federation and disintegration if the Empire is to survive. "If little by little Colonial statesmen would follow the example set by the great British financiers of this century and reduce and abolish their duties,

it would be easy to establish a fiscal union.⁴⁶ By hoping for a free trade zone within the Empire, eventually other commercial ties could be fostered leading to a nominal association for common defense. The supporters of Chamberlain as early as 1896 were proposing direct and indirect taxation schemes partly to defray the growing military burden and requiring colonial assemblies to contribute to the costs of the imperial military establishment. But, Nicholson remained uncommitted to any scheme.

In the *Principles*, Nicholson continued to avoid interfering with the colonies, remarking that the colonies were content with managing their own affairs and not affairs of the Empire, and there was no strong sentiment in the mother country for transferring the burden of taxation to the colonies. "The idea that the colonies should help to manage the empire and should pay for the privilege may appear to be good economy but it seems bad in policy and false to history."⁴⁷ He expressed the view that the colonies' loyalty to the Empire in the celebration to Queen Victoria in 1897 revealed a depth of loyalty which had no equal in British history. He assumed that they would be willing to contribute to the Empire if asked because of their mutual affection and quest for liberty without aspirations for imperial power. Furthermore, if the independence of Great Britain was threatened, "the resources of the whole empire would form a last reserve not because of fixed obligations or formal treaties but 'upon gratitude and affection.'"⁴⁸ Such statements were in accord with the earlier writings of Goldwin Smith and in contrast to the spread of Jingoism and the opinions of the Royal Empire Society which supported aggressive imperialism.

Second, in the *Principles* he proposed that free trade was desirable within the Empire and that the mother country should not attempt to interfere with the colonies' system of taxation nor "tighten ties," for the strength of the Empire rested in the freedom of the constituent nationalities and not by creating councils and formal dignitaries in the style of decaying empires.⁴⁹ Nicholson's acceptance of decentralization, avoidance of bureaucracy, as well as his free trade doctrine, were soon to undergo change as the winds of protectionism and war began to blow more violently.

The outbreak of the tariff debate in 1903 made it difficult for free traders such as Nicholson then was to reconcile in political and economic terms the free trade doctrine with imperial unity. By the time of the publication of the *Project of Empire* in 1909, a number of events had occurred which changed Nicholson's viewpoint. The events of 1903 including Balfour's proposals of fiscal reform and the Coal Question, and the eventual failure of the 1907 Colonial Conference, caused Nicholson to become concerned with the growing dangers both to the

Empire and to British industries from the protectionist mood in the colonies and their desire for independence.⁵⁰ Thus, political union and common defense meant compromising with the colonies on the tariff question. In Nicholson's view and those of other free traders such as Giffen, imperial preference although economically inefficient was being offset by the need to be politically expedient for survival of the Empire. So Nicholson accepted imperial preference and what he referred to as the temporary protection of colonial manufacturers even though he voiced his dislike for the vested interest which profited from this practice.

Judging by experience, he believed preferential duties would tend to be permanent owing to the creation of vested interests and to political power usually exercised by protected interests.⁵¹ But Nicholson believed that imperial preference schemes were inconvenient to the colonies and to Great Britain and gradually free trade could still be achieved. He understood that the sudden abolition of internal protective duties would be inconvenient to certain classes, industries and localities. But he was quick to point out that free trade did not mean the abolition of all custom duties; the practical object was to get rid of or to avoid the evils of policies of restriction and monopolies.

Initially, the gradual abolition of protective measures that needed to take place in the mother country was to provide equitable compensation to vested interests. At times, social improvement could only come about by passing laws such as bankruptcy and land tenure statutes to protect individuals. Also, equitable compensation depended on individual circumstances ranging from guaranteeing market value to hereditary land owners, to cancellation of arrears of rent, interest or debts. It was important that the permanence of protective measures be avoided especially in the case of infant industries. But caution needed to be accepted in terms of protecting home employment. Nicholson proposed that migration be encouraged, especially to the colonies, if the national advantages of employment could not be justified.

The major obstacle to eventual free trade within the Empire, he believed, was in the colonies where vested interests predominated. Colonial agriculturists would gain from free trade with the mother country but eventually colonial manufacturers would suffer, leading to a divergence of class interests. But the disruption could be alleviated by allowing preferential duties on foreign goods (*i.e.*, reducing duties on British goods by a corresponding super tax on foreign goods). Giving preference to the colonies over foreigners would only determine the source of supply, not the price. In fact, lower prices could occur and promote inter-imperial trade. Eventually, Nicholson hoped, custom duties on imperial trade would be reduced to zero with the colonies retaining their protective system in external trade and Great Britain pursuing its traditional free trade

policies. Such a strategy would guarantee a steady flow of raw materials for British manufacturing, a market for finished goods, and a larger volume of inter-imperial trade.

He emphasized that free trade between the various parts of the Empire was one of the principal causes for the prosperity of Great Britain following the repeal of the Corn Laws in 1846. In *Reconciliation*, he noted that the German Empire only began to be an Empire when it abolished the multitudes of custom duties between the various states. Also, it is even more remarkable that the United States and the German Empire combined external protection with internal free trade as one of the goals of national progress.⁵² In reflecting back in 1915 on his willingness to accept preferential duties in the *Project*, he believed it would move the colonies toward closer union with the mother country and make them realize the necessity of more adequate provision for imperial defense against Germany. Although Nicholson believed the failure to adopt internal free trade would retard the Empire's industrial progress, he emphasized that it was not the magnitude of profits from trade that would determine national advantage at this time but the promotion of common defense.⁵³

At the time of publication of *Reconciliation*, Nicholson believed that the mother country should have accepted a greater degree of authority in promoting this goal of internal free trade. When the war ended, Nicholson stressed that there would be an unrivalled opportunity for breaking away from the old dogmas and promoting this goal. The real strength needed was good organization and the power of good government coupled with the character and initiative of the individual. The great danger was that too much government would destroy the individual.⁵⁴ But the establishment of a common imperial tariff and internal free trade seemed to present an insuperable problem, for the Empire was a group of widely separated communities with very different economic circumstances. Nicholson was unable to resolve this problem.

The second major link in the *Project of Empire* was sacrificing of fiscal autonomy and accepting proportionate sharing of the civil and military burdens among the different colonies. Nicholson's proposal was to provide the colonies with representation in the Parliament based on a proportional tax system using wealth and population as the criteria.

The sources of taxation would be the same as the British tax system: land tax, custom duties (tax on merchants' profits), stamp duties and excise duties, with the first two being the major sources. The stamp tax would generate insignificant amounts of revenue while the use of excise taxes was too complex because of the wide differences in the types of goods traded. He agreed with Smith that a tax on the unearned increment of land would have an offsetting or balancing

effect on any redistribution of wealth that might result from the adoption of internal free trade.⁵⁵

The question of custom duties did not elicit the same uniformity of opinion. Both agreed that the tax was a means to generate imperial revenue and generally the tax would fall on consumers in overcharges. To Smith, it was not to be used for protection, but Nicholson accepted it in terms of a differential duty; that is, as a temporary means to protect colonial trade during the transition to free trade. However, both agreed that the incidence of the tax should not be on the necessities of life because it would raise prices and wages leading to unemployment. Although both did agree that raising tax revenue must not reduce productivity within the Empire, the necessity of defense might require taxation on necessities.⁵⁶ This was a turn-around from the earlier writings of Nicholson on colonial policy and was part of the marked shift in his thinking.

Unfortunately, Nicholson's general plan of taxation by representation was not well-conceived. He agreed with Smith that the only satisfactory source of taxation was from custom revenues. But, he ignored that the preferential tariff system could not treat each country in levying the tax. So the actual trade performance of individual colonies as well as their economic progress needed to be reconciled so as to establish an equitable system of taxation.⁵⁷ Earlier, Smith had rejected taxation by colonial assemblies for they would not be induced to impose upon their constituents a sufficient amount of taxes. This predisposition he thought, was reinforced by their ignorance of what was required by the empire as a whole.⁵⁸ In the Colonial Conferences a taxation plan was received favorably, but like the *Project of Empire* the inherent problems of deciding the allocation of the burden and the scope of authority was not well formulated. A concern was that the balance of Parliament could be shifted between the monarchical and democratic elements.

Nicholson's answer that a growth in revenue would protect the status quo was illogical, considering the dynamic nature of world development. But the colonies also worried that their degree of authority would be harmed by their distance from the seat of Parliament. Nicholson's reply that the Parliament would eventually move to that part of the Empire which contributed the most to the general defense and support of the Empire was unrealistic in terms of the political environment prevailing in Great Britain.⁵⁹

Another stumbling block in accepting Nicholson's plan was that part of the colonies' tax payment would include repayment of earlier British expenditures in the colonies leading to their economic development. In other words, the growth of the Empire had meant the growth of public debt. "The subjects are compared to the joint tenants of a great estate—liable to a share in all the expenses of upkeep and acquisition."⁶⁰ Such a proposal at the 1907 Conference

fell upon deaf ears. In Nicholson's remaining writings devoted to the project of empire, ending with the *Reconciliation* essay, taxation schemes were not discussed as part of imperial unity.

In the end, converting the project of empire into a real empire failed to address adequately the ambitions, new dignity, and sense of importance of the colonial governments and concurrently the illusions of paternalism which characterized British opinion and imperial policy. But Nicholson recognized the growing separation of the colonies from the mother country and the impact of dominion status first declared in the 1907 Conference. In the concluding remarks of the *Project*, in quoting Smith, he admitted the separation of the colonies on friendly terms might not be disadvantageous to Great Britain as long as the separations were made with the provision of commercial treaties "which might endure for centuries together, for establishment of free trade between the parts," in short, political disintegration with alliance for defense and open markets for trade.⁶¹ But, he still hoped the federation might be eventually accepted; however, Great Britain did not adopt any form of imperial preference up to the outbreak of World War I.

V

Conclusion

THE MAIN OBJECTIVE of Nicholson's project of empire, to promote the political and economic leadership of Great Britain, depended mainly on the participation of the self-governing colonies in common defense and liberal inter-imperial trade. By sharing the financial burdens of common defense, preferential trade arrangements offered the colonies an opportunity to expand their economic markets and to gain political security. Nicholson's position in the tariff debate of 1903 and in the imperial federation controversy was not in terms of free trade versus protectionism nor in terms of the problems of authority and fiscal considerations which marked the colonial conferences, but rather as a nationalist who saw trade as the mechanism to link the colonies to Great Britain. The advancement of the Empire was necessary because the alternative of friendly disintegration was unrealistic.

Nicholson's eventual acceptance of an imperial preference system to safeguard British industrial leadership led to a reciprocity of disadvantage because commercial preferences and political restrictions would cause mutual jealousies within the Empire. But, he was willing to accept preferential duties as a substitute for internal free trade even with its accompanying problems because of the gains in consumption and productive power it provided Great Britain.

Also, the end result was that British industry gained a competitive edge in the colonies, while the colonies expanded output in terms of industrial raw materials and agricultural products. In the essay *Reconciliation* he altered his views by claiming that closer political union with the colonies by establishing a more liberal preference system would advance the union in the direction of free trade.

But Nicholson's ideas did not receive the attention he expected, for the imperialists among the economic writers of the time supported protectionist measures to combat world competition and the growing challenge of foreign countries to Britain's position in the world economy. They were not concerned with the common defense argument as it related to the colonies for two reasons. First, this argument was beyond the proper scope of their discipline, and secondly, the individual colonies were not major trading partners. The Imperialists strongly believed that the magnitude of exports measured prosperity and supported greater trade to arrest economic decline. The important link of the colonies to the mother country and the reaffirmation of Smith's imperial scheme including admission of colonial representatives to the Parliament seemed peripheral to the protectionist debate.

In these differences one finds some of the explanations for the eventual dissolution of the British Empire after the second world war.

Notes

1. An excellent discussion of the debate is in A. W. Coats, "Political Economy and the Tariff Reform Campaign of 1903," *Journal of Law and Economics*, 2 (April 1968), pp. 181–229; A. Sykes, *Tariff Reform in British Politics* (Oxford: Clarendon Press, 1979), Ch. 3. In the debate which occurred with the establishment of the Federation League in 1887, the concepts imperial preference and imperial federation were interchanged by certain participants. More specifically, federation schemes were based on the German Zollverein model which included trade activity and fiscal matters. Imperial preference discussions centered on external trade policy.

2. Writing as a critic of the South African War (1899–1902), Hobson believed Britain's ill-managed economic system which could not build up consumption at home was forced to find employment for its capital in Africa. Thus investors had an interest in modifying policies in South Africa. Fourteen years later, Lenin, who was influenced by Hobson's study of imperialism published in 1902, replaced his underconsumption theory with a theory of natural expansion of monopolies which supported Hobson's contention that falling profits at home forced investment overseas and motivated empire-building. For an excellent discussion of this point see, J. C. Wood, "J. A. Hobson and British Imperialism," *American Journal of Economics and Sociology*, 42 (October 1983) pp. 485–96; Also, F. T. Fitzgerald, "Hobson's Theory of Imperialism and Leninist Critique," *Economic Forum*, 13 (Winter 1982–83).

3. *Project of Empire* (London: Macmillan and Co., 1909). It will be referred to as "Project" in the article. Also, "The Economics of Imperialism," *Economic Journal*, 20 (June 1910), pp. 153–76.

4. Nicholson's idea was considered impractical by sympathetic supporters such as L. L. Price who found no way of devising an acceptable tax formula for representation. Certain of the settled colonies showed interest in the scheme, such as Canada and New Zealand. For the most part, political unity was unacceptable even to strong free trade advocates such as Sir Robert Giffen. On the other hand, Hobson opposed the idea because it avoided the issue of independence for the colonies.

5. Future research will consider the aftermath of the imperial defense period and reflect on the economic writings of the earlier group who continued to press their viewpoints in the post war period. The eventual success of protectionist policies in the 1930s in Great Britain will be partly due to W. A. S. Hewins, a political economist and historian who never received the attention he deserved for his influence upon government leaders and legislation.

6. William Ashley, "A Retrospect of Free Trade Doctrine," *Economic Journal* 17 (September 1924) p. 519. Nicholson's discussion of natural advantage was originally developed by Hume and Smith, and J. S. Mill. Nicholson's *Principles* were, in many parts, a restatement of Mill, and Nicholson's discussion of natural advantages owes due respect to him. See his *Principles of Political Economy*, 3 Vol. (London: A. and C. Black, 1898-1902).

7. Volume III, *ibid.*, pp. 356-57. Nicholson discussed free trade to some extent in "Tariffs and International Commerce," in Arthur S. White, ed., *Britannic Confederation* (London: George Phillip, 1892), pp. 93-122.

8. The five arguments for free trade are found in Ch. 7. Essential was the mobility of capital and labor within a country's border without protective measures, the reciprocal exchange of exports and imports, and the emphasis on home employment in determining the advantages of capital employment.

9. Nicholson did not accept the Ricardian comparative advantage theory because it was too abstract to be of any practical or historical value.

10. *Principles*, Volume III, *op. cit.*, p. 357.

11. *Project, op. cit.*, pp. 85-86 and 94-95. Nicholson defines national advantage as the support for employment of the productive labor and capital within the home country instead of foreign countries as long as it is advantageous to the national viewpoint. This could be termed protectionist, as readily admitted by Nicholson.

12. Ashley, *op. cit.*, p. 538.

13. *Principles*, Volume III, *op. cit.*, p. 368.

14. D. P. O'Brien, *The Classical Economists* (Oxford: At the Clarendon Press, 1978), p. 208. Smith ranked capital in terms of the quantity of productive labor employed. Also, he stressed employing it in home trade because of the quick return. Nicholson was strongly influenced by this discussion. O'Brien clearly points out that Smith urged capital into those channels which most benefited the country and was concerned it would be diverted into wrongful activities. To Nicholson this became a major ingredient of the so-called national advantage criterion.

15. *Project, op. cit.*, pp. 50-51.

16. This conclusion was part of Nicholson's reason for signing the proclamation of fourteen prominent free traders appearing in the London *Times* August 15, 1903 denouncing Joseph Chamberlain's speech in Birmingham which sparked the 1903 Tariff Reform Debate. Nicholson in *The Tariff Question with Special Reference to Wages and Employment* (London: A. and C. Black, 1903) states that protection creates unemployment for it assumes there are no other employment opportunities. The real problem is it lowers real wages and cuts real income (pp. 44-45).

17. Two examples of Nicholson's disenchantment with marginal theory appeared first in his introductory essay to the *Wealth of Nations* edition published in 1884 (p. 25). In the area of

international trade, he explained that if the returns to capital were greater in the United States then British capital should be exported to the United States; however, labor would have to follow or starve. The continuance of this argument was applied to the length of time between capital flow and return and its impact on laborers' consumption in the home country and failure to reinvest capital if it had been invested in projects with quicker returns. Unfortunately, the concept of discounting was never seriously addressed. On another occasion, in an address before the Royal Economic Society in 1910 applying the marginal theory to public expenditures, ". . . in public expenditures, we cannot even think (or) work in terms of infinitesimals; we require bigger units; we must compare . . . the utility of the last Dreadnought with the utility of the abolition of the pauper disqualifications for old-age pensions." "The Economics of Imperialism," *op. cit.*, p. 156. See also our footnotes 11 and 14.

18. *Project, op. cit.*, pp. 142–44. The discussion on the linen industry is quite incisive in defense of the duty. ". . . did not approve of the repeal of the duty on linen yarn, the reason being that the duty . . . gave encouragement to the home labor of flax-growers and spinners." The advantage to the nation is measured by the relative amount of home labor employed. Repeal of the duty was solely in the interest of the manufacturers of linen cloth who sought to strengthen their monopoly.

19. Earlier in the *Principles* (Volume III, pp. 362–66), Nicholson discussed six theoretical exceptions to free trade. This discussion is partly incorporated into the four arguments noted in relation to the imperialist controversy and defense of the British Empire.

20. *Ibid.*, pp. 106–07.

21. *Ibid.*, pp. 109–10.

22. *Ibid.*, pp. 112–13.

23. *Ibid.*, p. 114.

24. The infant industry argument was a major issue at the 1897 Colonial Conference. The colonies did not want it abolished because they feared the force of British competition. The Unionist Free Traders were major proponents for its abolishment, for they feared higher prices and lower employment in manufacturing industries and retaliation by the colonies thereby reducing imports of cheap foodstuffs and raw materials. For an excellent discussion of the background leading up to the 1903 Tariff Reform regarding the Free Trade Union position, see Richard A. Rempel, *Unionists Divided* (Devon, Great Britain: David and Charles, 1972), pp. 11–30.

25. *Ibid.*, p. 173.

26. *Ibid.*, p. 81.

27. An example of this crossing over was Sir Halford Mac Kinder (1861–1947), the pioneer of the discipline of geopolitics, and an economic theorist and politician. Shifting from a Liberal-Imperialist to protectionist position was attributed to the growing threat of Germany as a military and political power. Viscount Milner (1854–1925), originally a Liberal but not of the Cobdenite variety, supported Joseph Chamberlain in the Tariff debate of 1903. But, he strongly believed as a nationalist that social reform and imperialism were compatible. Originally, William Cunningham had supported free trade as the best means of furthering the national interest. But he became a protectionist at the turn of the century mainly because of the shift in British economic conditions and the growing threat of other industrializing countries. But he always maintained that accepting a tariff system by Great Britain was a movement toward achievement of international free trade. An excellent discussion of the continual shift in economic and political philosophy can be found in B. Semmel, *Imperialism and Social Reform* (Cambridge: Harvard Univ. Press, 1960), Chs. 7–12.

28. See E. A. Benians (*et al.*), *The Cambridge History of the British Empire* (Cambridge: At the University Press, 1959), pp. 129–31 and 339–40.

29. "Economics of Imperialism," *op. cit.*, p. 170.
30. *Principles*, Volume III, *Ibid.*, pp. 421-23.
31. *Project*, *op. cit.*, p. 237.
32. Klaus Knorr, *British Colonial Theories 1570-1850* (Toronto: Univ. of Toronto Press, 1944), p. 190. An excellent discussion of Smith's colonial policy and imperial union scheme, pp. 187-95.
33. John A. Hobson, *The Crisis of Liberalism* (London: P. S. King and Son, 1909) pp. 238-39. Sir Wilfrid Laurier, Liberal prime minister of Canada remarking in 1907 at the Colonial Conference, ". . . the best way of serving the whole is, by allowing every part to serve and recognize its own immediate interests." *Cambridge History*, *op. cit.*, p. 446. William Ashley writing in 1903 stated that the colonies cannot be expected to have any real interest in Imperial defense as long as their trade with other countries dwarfs that of the mother country, and no appeal to sentiment will help. *The Tariff Problem* (New York: Augustus Kelley, 1968), pp. 195-96.
34. Adam Smith, *Wealth of Nations* (New York: Modern Library, 1937), p. 437. Book IV and specifically the chapters devoted to colonial policy were the major emphasis of Nicholson.
35. C. F. Bastable, "An Imperial Zollverein with Preferential Tariffs," *Economic Journal* 12 (December 1902), p. 152.
36. *The Apologia of an Imperialist* (London: Constable, 1929) Vol. I, pp. 203-05. Chapter 8 is an excellent personal observation of the 1907 Conference. The British delegation continually raised the free trade debate and emphasized the unwillingness of the British Government to reciprocate on preferential tariffs which the colonies had with other countries. Hewins believed the free trade proponents could never accept the national economic life of the colonies.
37. *Project*, *op. cit.*, p. 78.
38. Ashley, *op. cit.*, pp. 198-205; and William Cunningham, *The Growth of English Industry and Commerce*, Volume II (Cambridge: Cambridge Univ. Press, 1882), p. 583.
39. "Economics of Imperialism," *op. cit.*, p. 163.
40. *Project*, *op. cit.*, p. 233. Also, *Principles of Political Economy*, Vol. II, *op. cit.*, pp. 194-96.
41. *Project*, *ibid.*, pp. 252-53.
42. Elizabeth Wallace, *Goldwin Smith, Victorian Liberal* (Toronto: University of Toronto Press, 1957), p. 204. Originally this quote appeared in the *Weekly Sun*, a Canadian newspaper, October 9, 1901.
43. *The Neutrality of the United States in Relation to the British and German Empire* (London: Macmillan, 1915), pp. 26-27.
44. *Project*, *op. cit.*, Ch. 16.
45. White, *op. cit.*, pp. 117-18.
46. *Ibid.*, pp. 121-22.
47. Vol. III, *op. cit.*, pp. 424-25.
48. *Ibid.*, p. 426.
49. *Ibid.*,
50. Balfour's, "Economic Notes on Insular Free Trade" published in September but drafted in July and the second paper called the "Blue Paper," presented to the Cabinet in August, made a strong case for fiscal preference with a view to protecting home industry against competition based on the decline of Britain's predominance in manufactured goods exports because of tariff barriers. Also, statistics prepared by Giffen showed that Britain's imports of manufactures could be evidence of industrial weakness. In the case of coal, Britain's trade monopoly was being threatened by the United States and Germany.
51. *Project*, *op. cit.*, p. 258.
52. *Reconciliation*, *op. cit.*, p. 413.

53. *Neutrality, op. cit.*, pp. 16-17.

54. *Reconciliation, op. cit.*, p. 417.

55. "Economics of Imperialism," *op. cit.*, p. 168.

56. *Ibid.*, p. 167.

57. L. L. Price, *op. cit.*, pp. 499-501. An imperial preference system was needed to open up British trade with the colonies. Otherwise, British trade with foreign countries would not be encouraging.

58. Smith, *op. cit.*, pp. 777-79. *Project, op. cit.*, p. 261.

59. *Project, op. cit.*, p. 215. Earlier Smith had proposed the same plan, remarking that within a hundred years the Parliament would be moved to the American colonies.

60. *Ibid.*, p. 224. Earlier Smith had suggested such a proposal since the cost of the civil establishment and defense of empire had fallen on taxpayers in the mother country in the form of mounting debt, additional taxes, and borrowing. In 1903, Marshall suggested that Great Britain could charge to an account of a crown colony all expenses incurred for its development with an interest payment, or keep part of the land to cover expenses in the colonies. See John C. Wood, "Marshall and the Tariff Reform Campaign of 1903," *Journal of Law and Economics*, 23 (October 1980), p. 491.

61. *Project, op. cit.*, p. 246.

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