(14.)

Following the great U

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British Economomic Growth 1856–1973

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The use of economic method to solve economic problems is applied economics; the use of historical method to solve problems about economies in the past is traditional economic history. The possible hybrids are two. If historical method is used to illuminate modern economics and modern economies the result is the German historical school of the nineteenth century, or the national income school of the twentieth. Historical method finds out what happened by using narrative. It tells stories; for instance, the story that the new industries of automobiles, chemicals, and electrical engineering contributed to economic growth between 1914 and 1937 chiefly because their weight in the economy had grown, not because they accelerated in growth themselves (*British Economic Growth*, p 285). Though to some eyes less pretty than narrative all in words (such as the tale of Britain's alleged penalty in antiquated equipment from its early start), in both statistical and verbal narrative it is the sequence of events that makes the point and persuades the reader.

By contrast, economic method finds out what happened by using analogies, metaphors, and similes. The making of national product, 1856–1973, said to be just like a mathematical operation in which output is a function of inputs of labour, capital, land and their improvements; the working of the market for saving and investment is said to be just like curves representing the demand for new projects and the supply of funds to undertake them. Historians, then, are the epic poets, economists the lyric poets of the past. When economic lyricism is used to sing of past economies the result may be called historical economics, known to its many friends as "cliometrics". Historical economics is economics in the service of history.

British Economic Growth 1856–1973 is a double triumph in the hybrids, in historical economics and in the national income school. Largely planned and written by R. C. O. Matthews, it was commissioned nearly twenty years ago by Simon Kuznets and Moses Abramovitz as one of seven studies of growth in industrial countries. The result is mostly a very good thing. True, the story it tells of Britain's several rises and declines in the century past will astonish no one familiar with writings in economic history since the 1950s. And its severely professional standards of exposition will not invite perusal by those who have not. But the thing is very well done. To do history or economics well each by itself is quite hard enough: Even to do both poorly, a common event in economic history, is not easy, and pays badly. To do both well, as Matthews, C. M. Feinstein, and J. C. Odling-Smee have done, is a rare trick.

The book surveys 120 years of British economic growth. Economic growth, you will note, not economic history. Though its range is unusually broad for such statistical productions, it does not claim to be a rounded picture of economic history: what caused Britain's economic growth, or sometimes lack of growth, since Victoria's middle age? The authors pursue the answer with the zeal of the Bellman and his crew – and on occasion with similar results – up and down 671 pages of tables, charts, and handsome argument.

The purpose is "to view the postwar period in its historical perspective", and a most admirable purpose it is. A number by itself is meaningless, they argue throughout, and invariably requires an argumentative context in which it may be considered high or low relative to another. To know merely that from 1951 to 1973 the productivity of the economy grew at 1.8 per cent per year, and that gross savings by 1973 were 22 per cent of income and the profits of capitalists 17 per cent of income, is to know effectively nothing. Significant knowledge requires some perspective, for instance historical: one should know that the growth of productivity in this most recent period represents a great rise from zero growth 1873–1913; or that the saving rate in 1973 was about the same as in 1873 (lower if depreciation is set aside) and much higher than in 1924; or that profits were at their historic low, 40 per cent lower than a century before. The backdrop gives the play its meaning. Against the historical backdrop raised in the book one can tell a tale of Britain not failing to exploit the post-war explosion of technology, of governmental saving not crowding out private, of capitalists not eating up an ever greater share of income. Against an international backdrop, lacking in the book but presumably forthcoming from the larger project, one might tell other tales. The tale-telling is what it means to have a "view" of the economy. Lyricism can be used in writing epics.

The book is simple in outline, following the simple metaphor of the production function. It measures output; it measures input; then it compares the two. Someone involved must have reckoned that all this would overstretch the attention span of the reader, for the book is tiresomely full of summaries, outlines, and restatements. Economizing on type by pimpling the page with the acronyms TFP, SPOF, and PACE is tiresome, too. The book is seldom a positive pleasure to read. Still, in its writing as in most other matters it surpasses the standards of the fields in which it labours.

The basis for it is Feinstein's remarkable reconstruction some years ago of investment and product in the United Kingdom back to the 1850s. The present book can be viewed as a long essay on Feinstein, supplemented by special inquiries where the national accounts do not provide answers directly. The chief answer, and the nearest approach to a unifying theme, is that the record of growth, accumulation, and productivity followed a great U, declining from 1856, touching bottom around the Second World War, and ascending to 1973. The explanations for the U-ishness may be summarized in economic patois as nervous neo-classicism and uneasy Keynesianism. When market forces are necessary for the calculations, they are invoked; when they would embarrass the calculators, they are nervously dismissed (see, for instance p 104n). The Keynesian machinery of multiplier, accelerator, and the marginal efficiency of investment finds steady employment; monetarism is interviewed, perfunctorily, but is not engaged. Yet the raw Keynesian argument is disciplined by doubts that there is always a free lunch to be had from more demand or that there is never a simpler explanation in foreign prices for inflations at home.

The output of the domestic economy, the authors calculate, followed the U. Earnings from the non-domestic economy (trade and investment abroad) do not alter the pattern, except for a slump across the Second World War. Only after the war was the input of labour affected by the fall in population growth that had begun during the First World War. Hours of work fell in sharp steps at 1872, 1919, and 1947, allegedly because the bargaining power of labour peaked. Fewer hours meant more intense or better hours: the authors reckon that all the lost output from fewer hours was made up by better hours before 1914, though none after the Second World War. It is

harder to discern trends in labour's quality. Changes in the population of women and children in the labour force were not important, but the declining share of Ireland is said to have substantially increased the quality of labour in the late nineteenth century. Education contributed a steady 40 per cent or so to the growth of effective labour. Labour attitudes and entrepreneurship are said to be difficult to perceive ("the evidence on neither is quantifiable", p 97), yet are none the less said repeatedly to have followed the U.

Capital accumulation followed it, too. Capital abroad, accumulated in a great pile by 1914, was run down to pay for the two wars. After the Second World War domestic capital grew rapidly. The share of profits in national income fell steadily over the century, as did the rate of return on capital (even more so if the rising expenditure on depreciation is netted out). The fall makes even more striking the sharp rise in accumulation of capital on the upside of the U. The share of labour in national income rose from 54 per cent in 1873 to 73 per cent in 1973, for reasons of technology and markets, not of bargaining power.

In consequence of all this the rate of growth of productivity, too, followed the U. Over the century the productivity of industrial countries converged; Britain's was odd in starting high but failing to keep pace with the new leaders. Growth of productivity, taking out the contribution of capital and the effective amount of labour, was notably high after the Second World War; it was notably low in 1873–1914, especially towards the end.

With these findings, in Chapter Seven, the core of the book is finished. Eight more chapters follow, exploring some of the remoter causes of the U. They become less persuasive as they become more remote from the national statistical accounts which underlie the book. The national product is broken down into nine and then twenty-one sub-sectors, as the sources permit, to arrive at the conclusion that structural change – new industries, labour moving out of agriculture, and all that – does not explain much of the ups and downs of productivity. In Chapter Ten the state of aggregate demand is surveyed: very strong after the Second World War, very weak between the wars, and middling before the First World War. Strong demand since 1946, it is argued, was not a direct consequence of the brilliance of Treasury advisers (nor indeed was stop-go such a terrible consequence of their stupidity). The animal spirits of investors and the steadiness of exports were more important. It is argued more broadly that foreign trade, by way of the foreign trade multiplier, wagged the tail of the dog before the First World War, and positively convulsed him between the wars.

Chapters Eleven to Thirteen investigate the details of investment by sector. The results, though tangentially relevant to the main task, are interesting: investment in the public sector was higher after the Second World War, but merely because of nationalization, not the expansion of government in anciently public activities; improvements in the way the capital market worked are said to have greatly increased saving; the wind from abroad that flattened investment in manufacturing between the wars blew some good in permitting savings to flow into Britain's impressive stock of housing. The final substantive chapter, the least satisfactory, treats "International Aspects", appealing to an ill-argued "Verdoorn effect" (economies of scale) to hitch trade to nearly everything, including productivity. And the final chapter is another of the summaries.

What is weak about the book is what is weak about other recent and admirable examples of the genre, such as W. Arthur Lewis's *Growth and Fluctuations 1870–1913*. For one thing, because the main author wishes to speak largely to other economists (Denison, Kaldor, Phelps-Brown and Verdoorn are the leading entries in the index), the conversation with historical scholars is slighted. Many questions much discussed by historians, therefore, are treated as *terra incognita* through which the intrepid economist/historian must make his way self-taught. One instance among many is the revival of the doubtful notion that there was a bias away from investment at home before 1914. Counter to much work in the past ten years (only one item of which is cited, and not answered), the authors conclude that there was indeed a bias, and move swiftly to the unargued conclusion that "The bias, if present, then ranks as one of the causes making for slow growth in total factor productivity in the pre-1914 period". The failure to keep abreast of a rapidly developing literature here and elsewhere gives the book at times a musty odour.

Another and related weakness is stopping the arguments just short of their conclusions. The rhetoric of the senior common room gives much weight to irrelevant excellence: excellence at Latin composition is taken as a warrant for leaving half-supported one's opinions on the prevalence of markets in Rome; excellence at proving existence theorems in mathematical economics is taken as a warrant for leaving in unargued form one's objections to global monetarism. In the present work the excellence in finding proximate cause of economic growth is taken as a warrant for leaping to unargued conclusions about ultimate causes. An instance is the abrupt descent to speculation on the matter of entrepreneurial failure, 1873–1914, at the very point the literature becomes most rich. Slothful descendants of the founders, it is said, came to hold the reins of enterprise (*pace* Charlotte Erickson, not cited); technical education, it is said, was poor (*pace* Roderick Floud, not cited); and so forth. Another example is the astonishing and unsupported attribution of economies of industry scale to agriculture, 1856–1913, in aid of explaining the national deceleration in productivity. Still another is the casual way in which an "intermediate position" between "extremes" is taken up in characterizing how the economy worked in aggregate, whether supply created its own demand or demand its own supply. The point is not that such moderation is wrong in all things, but that to adopt it unargued is no less unreasonable than to adopt one of the "extremes" unargued. There are too many other instances of lack of argument to leave one entirely happy with the conclusions.

A revealing instance is the strange treatment of Ireland. Output per man in Ireland during the late nineteenth century was half what it was in Britain. Therefore, say our (British) authors, the rising weight of Britons in the labour force of the United Kingdom was a "quality shift" upwards. The shift is large enough by itself, they argue, to leave other productivity growth, 1873–1914, a nil on balance (they do not answer how exactly the climax of the age of steam and steel, not to mention of Lever soap and Lyons tea, could have left productivity undisturbed for forty years.) The argument might be called the Kuznets/Lewis (or Nobel Prize in Economics) Fallacy, in honour of its most eminent users. It has grave difficulties, of which the authors are aware; the grave difficulties are not overcome. They are that a gap in wages (the authors do not compare wages) may indeed represent real quality differences (they do not measure quality) rather than omissions (they do not investigate living costs or working conditions); but in that case it may well have been expensive to achieve such quality (they do not measure costs of training or of moving from Ireland), and if it was not then workers were out of equilibrium to the extent of ignoring a potential doubling of their incomes (they do not look into the evidence for disequilibrium). Briefly put, their calculation supposes that Paddy, poor fool, could have reformed himself by boarding the ferry for Liverpool, but stayed home. Arithmetic here triumphs over reason and evidence.

This said, however, the book is a wonder. Even a very big (and expensive) book cannot be expected to finish every argument it begins, least of all about a subject so recently brought into argumentative focus as Britain's growth after industrialization. Much remains to be done, as one can always say, but what is done here exhibits how to do it. One does it by meeting a dual standard of excellence in economics and in history. The result will confound anyone who doubts that Britain's epic can be sung in sweetest song of structure and merry metaphors of margins.