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Introduction

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If a nation were a man the economic history of Britain in the second half of the nineteenth century would make a fine novel. In 1860 a father bequeaths to his son a thriving business in iron, wheat, and cotton textiles. Towering over his neighbours in wealth and power, the young man has the self-confidence of inherited success, and thinks nothing of exporting his savings and his children to nourish his competitors. In his contemplative moods, to be sure, he suspects that his relative prosperity is fragile, that he is running the business with little concern for new products or new techniques. Yet he is not by nature a brooding sort, and cheers himself in middle age with the thought of his steady income, his artistic and scientific pastimes, and his undiminished influence in the affairs of the town. As he ages his doubts grow, confirmed by the successes of young neighbours. He is still rich and powerful as the novel ends, but sleeps fitfully, troubled by forebodings of the end of a dynasty in strikes by his workers, red ink on the balance sheets, and Channel firing.

A nation, however, is not a man, and the language of anthropomorphism in history has been mischievous. Recent work on the economic history of Britain from the perspective of economics can be viewed as an attempt to rewrite the story in the duller but more testable metaphors of economic theory–the profit-seeking entrepreneur, the calculating migrant and investor, the discriminating consumer. The rewriting has been most necessary and most successful in the history of Britain's international economic affairs, for in this field anthropomorphic metaphors are exceptionally attractive and the economic statistics and theory to replace them exceptionally well-developed. With this in mind a committee consisting of Paul David, Charles Feinstein, Roderick Floud, Barry Supple, and myself called for papers on the theme of "Britain in the World's Economy, 1860–1914" to be presented at a conference at Eliot House, Harvard University in September, 1973. The ten papers chosen were distributed to the participants in advance of the conference. Thirty people of widely differing backgrounds participated formally as authors of papers, chairmen of sessions, or discussants, and five others (Alexander Gerschenkron, Charles Kindleberger, Douglass North, Henry Rosovsky, and Peter Temin) participated informally. The order of play was as follows:

September 10

The Trade in Capital

Chairman: R. M. Hartwell (Oxford)

William Kennedy (Essex), "Foreign Investment, Trade, and Growth in the United Kingdom, 1870–1913"

Discussants: P. Cottrell (Leicester), B. W. E. Alford (Bristol)

Michael Edelstein (Columbia), "Push and Pull in the Capital Market: The Determinants of British Investment in America, 1870–1913"

Discussant: J. A. Dowie (Kent)

The Trade in Money

Chairman: David Landes (Harvard)

Paul McGouldrick (State University of New York at Binghamton), "The Relative Stability of Output and the Money Supply: The Gold Standard and Beyond"

Discussant: Michael Bordo (Carleton)

Brinley Thomas (University College, Cardiff), "The Atlantic Economy Revisited: A Methodological Appraisal"

Discussants: Hugh Rockoff (Rutgers), A. J. H. Lathan (University College, Swansea)

September 11

The Trade in Men: Trends

Chairman: James Potter (L.S.E.)

Jeffrey Williamson (Wisconsin), "Late Nineteenth Century Migration to the New World: Long Term Causes and Consequences"

Discussants: Harry W. Richardson (Kent), P. K. O'Brien (Oxford)

Dudley Baines (L.S.E.), "Emigration and Internal Migration in England and Wales, 1861–1901"

Discussant: Lars Sandberg (Ohio State)

The Trade in Men: Cycles

Chairman: Peter Mathias (Oxford)

Richard Rodger (Liverpool), "New Light on an Old Hat? Cycles in Scottish Homebuilding, 1873–1914"

Discussants: Sylvia Price (Edinburgh), Malcolm Falkus (L.S.E.)

Larry Neal (Illinois), "What Can Statistics Do? A Cross-Spectral Analysis of Long Swings in the Atlantic Economy after 1860"

Discussant: Stanley Engerman (Rochester)

September 12

The Trade in Commodities

Chairman: Charles Feinstein (Cambridge)

C. K. Harley (British Columbia), "A Leontief Paradox in Edwardian Exports"

Discussants: N. F. R. Crafts (Warwick), Richard Sylla (North Carolina State)

Mancur Olson (Maryland), "The United Kingdom in the World Market in Wheat, 1870–1914"

Discussant: N. von Tunzlemann (Cambridge)

The conference was supported in a most generous fashion by the American National Science Foundation and the British Social Science Research Council. A year before they had financed a conference on Britain's rise to economic maturity, 1750 to 1850, from which a selection of papers was published as a special issue of *Explorations in Economic History* last summer and distributed in the United Kingdom by the Economic History Society; and three years before the National Science Foundation, through its Mathematical Social Science Board, had financed a conference on British entrepreneurial failure in the late nineteenth century, published as *Essays on a Mature Economy* by Methuen and Princeton University Press. The present issue of *Explorations*, then, is a further step in the writing of a new economic history of Britain.

The tradition of close alliance between economists and historians in the study of economic history, stronger in Britain than on the Continent or (until recently) in the United States, was apparent at the conference, and bodes well for the future of British historical economics. To be sure, one could observe at times the specifically professional reflexes of an economist to question the logic of the model put forward or the cogency of the econometrics and of a historian to question the truth of the facts put forward or the relevance of the argument to a wider historical context. Edelstein's paper explaining the British demand for American securities in terms of their unique features of high risk and high return, for example, elicited in part arcane discussions of collinearity and simultaneous equation bias on the one hand and of the detailed history of small banking houses investing in American railways on the other. But it was nearly as common for someone trained primarily as a historian to make economic points or an economist to make historical points as for the participants to stick closely to their professional lasts. The result was a discussion of the larger issues of substance and method in the application of economics to Britain's international affairs in the late nineteenth century that maintained a high level of economic and historical sophistication.

A recurring issue, for example, was that of how simple an economic model of Britain's situation can be before it ceases to yield useful results, an issue that in the econometric literature goes under the name of "the specification problem." When does one cut one's throat with Occam's Razor? All four of the papers reprinted here, and many of the others, use very simple models, even though their theme is uniformly that more complex ones than have been customary are desirable. Harley's suggestion that the labor-intensity of British exports in the face of relative labor scarcity can be explained by complicating the simplest models of trade to allow for the distinction between skilled and unskilled labor was met by Crafts' comment that the models can be further complicated by introducing differences in the levels of British and foreign production functions, with similar observed results. Williamson breaks new ground by estimating a model determining wages at home and abroad instead of adopting the simpler specification usual in studies of migration that wages are not affected, yet was open to Potter's criticism that the model oversimplifies by looking at the United Kingdom and the United States in isolation from the rest of the world. Latham made the same point in his prepared comments on Thomas' paper, as did Dowie in his comments on Edelstein's. Kennedy's paper advances the discussion of late Victorian economic failure by criticizing what he considers to be the oversimple specifications in my 1970 paper in the *Economic History Review*, yet in a written reply circulated at the conference (and available from its author, as are many other of the prepared comments of discussants) I pointed out that he himself can be criticized on much the same grounds. For example, he uses the high domestic rates of return on real capital to establish that the yield on investment in foreign bonds was low, assuming implicitly that a yield on physical capital, which includes the risk of ownership, is comparable with a yield on a bond, which does not. Olson's model, demonstrating the small effect of Britain's demand for primary products on its terms of trade in the late nineteenth century, is in some respects more complex than the model usual in the literature of bilateral relations between Britain and each trading partner, yet in his prepared comments von Tunzelmann pointed out that the historical models Olson is attacking (notably those of Nurkse) concern the whole industrial center, not just Britain, making the model in this respect less complex than it should be. In his paper on Scottish housebuilding Rodger argued that a model using the ebb and flow of migration alone is too simple, and that income and the availability of capital must figure in a full explanation. There was general agreement with Falkus's comment, however, that the model would need to be complicated still further, to allow explicitly for a separation of factors on the side of demand and of supply, before the question of why houses were built could be settled.

The issue of the simplicity of models relates to another, that of how best to characterize the operation of the economy. In the discussion of Edelstein's paper, for example, Harley pointed out that if one is willing to adopt as a characterization of the capital market in late Victorian Britain and abroad that it worked well, it follows that a reshuffling of foreign investments would not have made Britain better off: in other words, if the capital market made it cheap to transfer funds from one part of the world to another, then one might suppose that all advantages to be gained from such transfers had already been exploited. This conclusion would greatly simplify the history of British investments, for it would make their geographical distribution less critical to the story. For a similar reason, if the world market in primary products were unified, Olson's argument that British demand had little effect on the price of goods supplied to Britain would be vindicated. That most Australian wool or Argentinian beef went to Britain would be irrelevant to the question of how much foreign demand for British exports or for British loans depended on British demand for imports: in a unified market the observed pairing of demanders and suppliers is unimportant (one does not care, to take the extreme case, which wheat farmer in Russia or India supplied which British consumer); what is important when the market can be assumed to be unified is the price faced by participants, and this price can be expected to be insensitive to the geographical pattern of British demand for primary products. Sandberg and Harley, however, dissented from this assumption, and Saul objected to it on the grounds that it ignores the constraint of the balance of payments. Again, Harley's paper attempts to show that one does not need to believe that entrepreneurial failure was an important characteristic of the late Victorian economy to explain the labor-intensity of British exports. Landes and Mathias, however, asserted that microeconomic calculations showing that labor-intensive methods were profitable do not prove the point. They argued, as did Kennedy in his paper, that what is required is evidence that the milieu in which such decisions were made was unaffected by entrepreneurial failure, not merely an assumption that this conclusion is true. Still wider issues of economic method and evidence surfaced in the discussion of Thomas' paper. In the paper he raised the Debate of the Two Cambridges over the validity of neoclassical economics, and concluded that an organic (Cambridge, England) rather than a mechanical (Cambridge, Massachusetts) analogue is the appropriate one for the analysis of the Atlantic economy. The issue was joined by Rockoff, who pointed out that an organic model can be interpreted simply as a static model with changing parameters. In his view it is possible, although of course not always easy, to allow for the changing parameters in the econometric work.

A discussion of the role of counterfactuals is obligatory at meetings of economic historians, and this one was no exception. Counterfactual exercises were depicted by some participants as being akin to the proverbial absurdity that "if my grandmother had wheels she would be a tram." In his discussion of Williamson's paper Richardson, arguing that counterfactuals involve the assumption that "if we turned the world upside down people would behave in the same way," pronounced them dead. Yet they look very much alive in the papers by Williamson, Kennedy, and Olson. Falkus, as is traditional in discussions of the issue, disputed the relevance of Olson's mental experiments in removing British demand for imports from the late-nineteenth-century scene and Olson replied, again along traditional lines, that any assertion about the effect of British demand for imports on the demand for British capital or exports already involves an implicit counterfactual. In the discussion of Kennedy's paper Baines argued that it is illegitimate to infer from the existence of internal and external mobility of the labor force that in a world of greater demand for British exports or more vigorous British entrepreneurship further mobility would have been possible. The issue is a counterfactual one, for its resolution depends on the shape of the supply curve of labor beyond the points observed in fact. A similar and broader issue in counterfactual method was raised by Mathias towards the end of the discussion of Kennedy's paper: how does one know, he asked, that British capital or labor would have gone to new and better (high productivity) industries had more capital and labor been available at home? Kennedy responded that international comparisons provide the answer. As Lincoln Steffens remarked on returning from the new Soviet Union, "I have been over into the future, and it works." The comparative method is in this sense counterfactual, and the issue reduces to one of which comparison yields the relevant future fact. Both Kennedy and Harley used the United States as the relevant future for a retrospective remodeling of Britain, but Saul suggested that Germany would be more to the point. McGouldrick's international and intertemporal comparisons of the stability of the British and other economies in response to monetary management elicited doubts from Feinstein that the comparisons were valid, particularly in view of the use of annual rates of change of data designed (by Feinstein, as it happens) to reveal trends. The question appears to be, then, not whether counterfactuals in general are acceptable, but whether any particular counterfactual involving a comparison of Britain's circumstances with others, whether realized in some other time or place or imagined at home, is illuminating.

Novelties of fact or statistical technique aroused less controversy at the conference. Aside from the papers already mentioned, Baines' construction of emigration statistics from census data on birthplaces (an advance over the earlier use of the crude data available on the character of immigrants from the American side of the Atlantic) and Neal's introduction of cross-spectral analysis of long swings (an advance over the earlier use of the crude method of spectral analysis) will no doubt fuel future controversy, at any rate if their tentative conclusions hold in future work. Baines rejected the notion of cities as staging areas for rural migrants, pointing out that the countryside was too thinly populated by the end of the century to account for the bulk of emigration, and suggested that the remarkably high and constant rates of rural emigration were caused by long-run forces of industrialization, not by cyclical variations in wages: it was a city-born population that accounted for the cyclical waves in English emigration. And Neal revived the notion of long swings in an Atlantic economy: one is tempted to exclaim, "The (spectral) long swing is dead! Long live the (cross-spectral) long swing!"

The conference and the four papers from it offered here as a sample, in short, testify to the vitality of economics in the service of British economic history. Happily, the tension that naturally exists between the methods of economics and of history has not resulted in a division into warring camps, scowling at each other across a no-man's-land and shooting methodological arrows that fall wide of the mark, with each confident in an arrogant and ignorant assumption that they alone are in possession of the truth. The reader of this volume will no doubt agree, in fact, that the tension has been fruitful in substance and decidedly creative.