

Modern Economic History

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THE M & E HANDBOOK SERIES

Modern Economic History

British Economic and Social History 1760–1978

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Preface to the First Edition

This HANDBOOK aims to provide the student with material for examination but in such a way that the significance of long-term movements in history is made clear. It is hoped that it will meet the needs of candidates for the G.C.E. at Ordinary and Advanced Levels and should also prove of value to students of Modern Economic History in the Part 2 external B.Sc.(Econ.) of London University.

In so far as economic theory and economic history are complementary studies, the book may be of assistance to the general student of economics. Equally, some knowledge of economic analysis is advantageous to a full understanding of historical trends. To this end, some attention has been given in this book to theory, particularly in respect of monetary and full employment policies.

While the subject matter in each chapter is intended to be as self-supporting as possible, the student is nevertheless advised to work through the book in the sequence given and, before attempting a fresh chapter, to check his progress with the tests provided.

Examination Questions

Specimen examination questions are placed under general headings which correspond to the parts of the book. In many cases, however, it will also be necessary to draw upon information provided elsewhere in the book.

I am indebted to the following bodies for permission to reprint their examination questions:

Joint Matriculation Board of the Universities of Manchester, Liverpool, Leeds, Sheffield and Birmingham (J.M.B.); University of London.

November 1965

E.S.

Preface to the Third Edition

In revising the text for this edition, while some attention has been given to reinterpretation of earlier history, the main emphasis has been on more recent events, particular account being taken of the implications for society and the economy of membership of the European Community. The book's coverage of earlier history coupled with a subject-based approach remain appropriate to the needs of G.C.E. students. Since, however, it is the author's view that contemporary problems cannot be clearly understood without tracing their historical origins, it is hoped that the updating of various topics will be of particular interest to students following economics and business courses. In this respect some historical background would seem appropriate to the new Business Education Council (BEC) courses, specifically in the modules concerned with the organisation in its environment. It is in this area that history can be of great value in integrating the insights of the economist, the political scientist, the sociologist and the lawyer.

May 1979

E. S.

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PART ONE

THE RISE OF LAISSEZ-FAIRE

CHAPTER I

The Foundations of a Capitalist Society

THE SIGNIFICANCE OF THE INDUSTRIAL REVOLUTION

1. The nature of history. In examining any branch of history, it is tempting to visualise a series of landmarks, following each of which, in a moment of time, the political, cultural or economic scene was transformed.

However, history does not unfold in this way. It is a process of gradual and almost imperceptible change, in which many threads are interwoven to produce a dominant pattern. It is the historian's task to unravel these threads and to evaluate their contribution to the over-all design.

2. A popular view of the industrial Revolution. The true significance of the Industrial Revolution is frequently misunderstood. It is popularly supposed to mark the beginning of modern economic life. It is assumed that until then England was a primitive, rural society made up of self-supporting communities and with little trade or industry.

The development of the steam engine, textile machinery, machine tools and new processes for iron smelting in the late eighteenth century are supposed in themselves to have given rise to the following phenomena which we associate with today's industrial society.

(a) *The capitalist system of production* on a large scale, with its central figure, the entrepreneur, i.e. the business organiser who hires labour, raises capital and accepts the risks of production in the expectation of a profit.

(b) *A wage-earning proletariat* deriving its strength from association in trade unions.

(c) *A cleavage of interest* in the system of production between labour and capital, expressing itself in open antagonism.

(d) *A market economy*, which implies a dependence upon fluctuating home and overseas demand. This in turn gives rise to the danger of unemployment and allied social problems.

(e) *Trusts and cartels*. Monopolies and price rings are commonly considered to be the product of industrialism in its most sophisticated form.

3. A balanced view. The facts do not support this popular conception. The capitalist system of production was well entrenched long before 1760, the date which traditionally marks the beginning of the Industrial Revolution. This is shown by the following.

(a) *The separation of the functions* of the capital-providing employer and the wage-earning workman (the hallmark of the capitalist system) was already clearly perceptible.

(b) *The entrepreneur* was already the mainspring of production in industry, commerce and agriculture.

(c) *National markets* had already begun to replace local markets while, overseas, English manufactures were in great demand.

(d) *Many of the problems* of a capitalist society (e.g. unemployment, depressed wages, poor working conditions, long hours of work) were apparent before the advent of machinery.

The great inventions of the eighteenth and early nineteenth centuries, which we identify with the Industrial Revolution, were not conjured up magically to give rise to a capitalist system but were the product of a society already organised on a capitalist basis.

4. The laissez-faire doctrine. The motive force of this society was an unshakeable belief in *laissez-faire*. The doctrine of the French physiocratic school of philosophers crossed the Channel in the eighteenth century to give formal expression to views which had long been developing in England. It taught that a natural law governed the affairs of the universe and that man, a creature of nature, could only develop free and unfettered if imperfect human law was kept to a minimum.

The economic implication was that if every man were allowed

to pursue his own genuine self-interest, society would benefit from a general increase in prosperity. Unrestrained private enterprise was therefore the accepted order.

5. Conclusion. The technical advances of the Industrial Revolution, although giving immeasurable impetus to England's subsequent economic growth, were themselves the climax of a long evolutionary process (see Fig. 1 on p. 14). In order to give perspective to events after 1760, it is therefore necessary to make some examination of these formative influences.

ORGANISATION OF AGRICULTURE IN THE MIDDLE AGES

6. The manor. The Middle Ages may be said to span the period from the eleventh to the mid-fifteenth centuries, and during that time English agriculture was based upon the manor.

The manor was a large estate centred upon a village and sometimes surrounded by a hedge which separated it from adjacent manors or from wilderness. Each manor had its lord, who was a tenant of the king. He occupied the manor house, the most substantial building in the village.

7. Manorial self-sufficiency. The economic objective of the manor was self-sufficiency, and this was widely—although never completely—achieved. Bread, ale, milk, eggs, beef and mutton were all produced from the manor's own resources. In the cottages, wool was spun and woven into a rough cloth and the hides of the cattle were made into shoes.

However, it was beyond the manor's resources to produce luxury items such as silk, muslin or certain necessities such as salt, iron implements and weapons, needles, thread and nails. These were obtained in neighbouring towns.

8. Minimal use of money. Internally, the manor had little use for money. Goods and services were paid for in kind. Money was only necessary for the limited amount of external trade.

9. Division of the land. The manor was divided into the demesne, the land tilled for the lord's benefit, and the outland which fed the serfs. Since the latter held their land only by custom and not by legal right, strictly the whole manor was demesne land save for the holdings of a few free men.

10. The open fields. The land was divided into two or more, usually three, great open fields. Each field was divided into broad belts or "shots" and each shot into strips between one and four rods (5–20 m) wide and a furlong (about 0.2 km) in length. The strips were separated by balks of unploughed earth.

(a) Some strips were held by the lord and others by his serfs but no one man had a consolidated holding. Everyone's strips were scattered throughout the three fields.

(b) Meadowland which yielded hay was also divided into strips, each man reaping his own.

(c) The waste comprised the common pasture and woodland to which all had certain rights.

11. Social organisation. The lord, his bailiff, the village priest and a number of liberated serfs constituted the free men.

(a) *Villeins*. These were serfs, not slaves. They had certain disabilities but also customary rights. They held a cottage and about thirty acres of land and had legal rights against anyone save their lord. In return, they gave labour service on the lord's strips, cartage service and special "boon" service at harvest time. However, they might not leave the manor, marry, learn to read, sell their oxen nor do many other things without their lord's consent.

(b) *Bordars and cottars*. These were villeins with a smaller land-holding. Since their labour service was reduced accordingly, they had time to work for wages on the strips of the lord or the more substantial villeins, or to work as carpenters, blacksmiths, etc.

12. The character of manorial life. The manor was a tightly-knit community whose life was regulated by custom and by decisions taken collectively, e.g. the routines of agriculture. There was little scope or need for individual enterprise, with the result that the principal characteristic of manorial life—as indeed of all medieval life—was stability.

This same feature pointed also to stagnation, since custom was a bar to experiment and improvement.

THE ORGANISATION OF TRADE IN THE MIDDLE AGES

13. Towns and trade. Medieval towns, with few exceptions, were

small. By the fourteenth century, there were only about forty with populations in excess of 1,000.

The majority owed their existence to the stimulus of trade, since the accumulation of valuable merchandise in a village, a harbour or route junction necessitated the building of some form of protective wall, the hallmark of a town.

14. Freedom from controls. The new towns at first had obligations to the lord of the manor of which they were a part. As the wealth of the burgesses increased, so they were able to purchase charters which gave them freedom to regulate their own affairs. This they did through a borough court which was both a legal and an administrative body.

In addition, the charter normally made townsmen free men and guaranteed certain privileges to the merchant guilds.

15. The merchant guilds. Since a communal spirit pervaded every aspect of medieval life, it is not surprising that the merchants of a town tended to group together to advance their common interests. These associations were termed merchant guilds. They had the privilege of trade within the town, free of the tolls imposed upon strangers.

16. Aims of the merchant guilds. In the same way that agricultural practice was governed by custom and collective decisions, so the guilds regulated trade in order to:

(a) *guarantee a "just price"*, i.e. the customary price, fair both to buyer and seller;

(b) *guarantee standards of quality and quantity* in order to protect the consumer from dishonest practice;

(c) *protect their members* from the bad debts of gild members in other towns; they often did this by distraining upon the goods of other members of the debtor's gild;

(d) *share out the benefit* to all members of a cheap purchase of goods made by any one of them (the "right of lot").

THE ORGANISATION OF INDUSTRY IN THE MIDDLE AGES

17. The craft guilds. Associations of craftsmen existed in the towns as early as the twelfth century. Like the merchants, craftsmen were drawn together by common interests. The town authorities encouraged them, since the organisation of a craft made its regulation in the public interest easier.

When membership eventually became compulsory, the guilds were able to exercise complete control over the practice of their crafts. However, with few exceptions, they were themselves subject to the authority of the borough council.

18. Functions of the guilds. A council imposed regulations whose broad intention was to ensure justice to both buyer and producer and to develop a corporate pride and sense of responsibility.

(a) *Minimum standards* of workmanship and material were imposed.

(b) *The council insisted upon a "just price"* which would remain stable in times of scarcity or excess.

(c) *Wages* were regulated.

(d) *Apprenticeships* were regulated. Admission to a craft was controlled in the interest of efficient training and, later, to forestall an excessive supply of craftsmen. The responsibility of the master craftsman for his apprentices extended to their moral and religious instruction.

(e) *Philanthropic activities* might include the provision of almshouses, schools and relief in sickness or distress for members and their dependants.

(f) *The guilds adjudicated in disputes* between their members.

The relationship between employer and employee was not antagonistic. Journeymen (qualified workmen) and apprentices were not destined to a life as wage earners, but later in their careers would themselves assume positions as master craftsmen.

19. Relationship between merchant and craft guilds. Frequently, the merchant guildsmen were themselves the town government. In the twelfth and thirteenth centuries, therefore, the merchant guilds were dominant but in the fourteenth and fifteenth centuries, with the extension of industry and trade, the wealthier craftsmen tended to become the merchants of their own product and members of both types of guild.

The merchant guilds therefore tended to sub-divide into guilds closely associated with particular crafts.

THE GROWTH OF INDIVIDUALISM IN INDUSTRY

20. The rise of self-interest. Between the twelfth and fifteenth centuries, planning and regulation by the municipal or village

authorities were the principal features of economic life. The aim was social harmony and well-being, and to this extent all forms of production were regarded as a public service rather than as a means of self-aggrandisement.

During this time, man's strong acquisitive instinct was largely contained within the framework of a corporate society. As industry and trade prospered, there began to evolve in the towns a middle class whose ambitions, drive and energy laid the foundations of England's greatness as an industrial and commercial nation.

Under these pressures, the craft guilds began to decay. Capital became more essential to production, and the wealthier master craftsmen began to emerge as an employing class. Their journey-men and apprentices, who now had little chance of advancement, became antagonistic to their employers. The guilds themselves became narrow in their outlook, insisting upon their monopolies but caring little for fair dealing.

21. The domestic system. The declining craft system was replaced by the domestic system of production which survived into the nineteenth century. The new entrepreneurial class of merchants and ex-master craftsmen co-ordinated the production of a large number of craftsmen, providing raw materials and marketing the product.

The workman now lost his independence. He remained a wage earner permanently, subject to the direction of an employer even though he still used his own tools and worked in his own home.

EXAMPLES: (1) In England's oldest industry, woollen manufacturing, the entrepreneur can be traced to the fourteenth century. By the close of the fifteenth century, the majority of woollen workers were directed by owners of capital. (2) By the seventeenth century, the entrepreneur had risen to prominence in the other great English staple industries, coal and iron.

Ambition and self-interest provided the driving force towards an individualist and capitalist system of production, but we must look further afield for the opportunities through which ambition was satisfied.

(A capitalist system is one in which labour and capital are provided by two distinct classes of people.)

22. Expansion of the market. Trade and industry prospered slowly through the Middle Ages, and by the fourteenth century a

vigorous market was developing both at home and abroad.

(a) *Home market.* There was already trade in some commodities on a national scale, e.g. London drew woollen cloth in specialised forms from East Anglia, coal from Tyneside, agricultural produce from the Home Counties. London was not alone among the towns in its dependence upon the produce of the nation.

(b) *Overseas markets.* English manufactures, particularly woollen cloth, had long enjoyed a high reputation and a wide sale in Europe. With the discovery of America and a sea route to India, vast new outlets were opened.

Increasingly, it became impossible for small producers, working in isolation, to satisfy demand and it was a natural development that they should be superseded by entrepreneurs who co-ordinated their efforts. Moreover, organisation called for the outlay of large sums of money and only the wealthy merchant or master craftsman had access to such funds.

Frequently he was able to meet his capital requirements from his personal resources but, if not, financial and commercial institutions were developing which could assist him.

23. Sixteenth-century financial and commercial institutions. By the sixteenth century, the scale of enterprise was such that fresh capital was often required. This was especially true in overseas trade, in which English merchants were beginning to participate for the first time. Previously English overseas trade had been conducted by foreign merchants from the Baltic, in the north, and Italy, in the south.

Geographical discoveries in the reign of Elizabeth widened the market but overseas ventures were costly and risky. In response, there developed the following institutions.

(a) *Banking.* Fundamentally, the business of banking consists of accepting deposits and making loans on payment of interest. During the Middle Ages, this had not been possible, since the Church condemned the practice of usury. Later, economic pressures began to weaken the traditional morality. In the hands of wealthy merchants and goldsmiths, modern deposits banking was created.

There is ample evidence that the business world was only too anxious to avail itself of the opportunity of credit and by the end of the seventeenth century a large part of English commerce was conducted on this basis.