Introduction

As the first president of the Economic History Society in 1926 William James Ashley, the most original of the English historical economists, warned economic historians: "the theoretical economists are ready to keep us quiet by giving us a little garden plot of our own; and we humble historians are so thankful for a little undisputed territory that we are inclined to leave the economists to their own devices."[1] Ashley's comment was symbolic of the relationship between economics, economic history, and historical economics. Ashley had set out fifty years earlier not only to promote the study of economic history, but also to replace deductive economic theory with a new historical economics erected on a foundation of inductive research. Ashley was unwilling to acquiesce in the compartmentalization of economic studies into economic theory, applied economics, and economic history.[2] In this study the term "economic history" is used to describe the study of past economic phenomena, that is, it is used primarily to describe a category of history. "Applied economics" is here characterized as the study of contemporary economic issues for the formulation of policy. Finally, the term "economic theory" will be employed to describe the derivation of abstract principles from economic phenomena. Between the 1870s and 1920s, economic theory and economic history began to be recognized as separate, though related, disciplines in British universities. The historical economists were those who began their careers before this division became enshrined in the examinations of the universities. They wrote and taught economic theory, applied economics and economic history. Their ovewhelming emphasis, however, was upon economic history and applied economics.

With the partial exception of Ashley, the English historical economists, unlike the better known German historical school, did not aim to construct a systematic historicist economics upon their inductive research. The historicist program was an effort to derive general laws from inductive and historical research and thus create a new system of social theory. Instead, the English historical economists hoped to remind economic theorists and the wider public of the limitations of theory, and

to promote the inductive studies of economic history and applied economics in the service of social reform. Further, although the English historical economists shared a broadly similar research program, that included a common teleological and evolutionary view of history as process, their specific interests and personal circumstances did not allow for the creation of a "school" of historical economics in England, such as the German historical school of economics or Alfred Marshall's neoclassical school of economics.[3] As A. W. Coats suggested, English historical economics constituted a primarily historical criticism of orthodox English political economy. In short, English historical economics was a historist critique rather than a historicist effort of building a new system of economic theory.[4]

During the 1870s the dominant school of English political economy was still primarily deductive in method and Ricardian in its theoretical structure. Its intellectual prestige was due not only to its brilliant, if narrow, theoretical structure, but also to the fact that classical economics had basked in the glory of being identified as the creed that had accompanied Britain's rise to industrial supremacy during the first half of the nineteenth century. With the unification of Germany and the American recovery from the Civil War, and, especially between 1873 and 1886, a sluggish rate of growth and technical innovation in Britain, the classical economic prescription of free trade, theoretical opposition to the combination of labor, and faith in unrestrained competition came under increasingly serious attack. At the same time, theoretical criticism by both the historical economists and those associated with the marginal revolution questioned its very method, its theory of value, its scheme of distribution, and its underlying assumptions of perfect competition and omniscience. The historical economists were much more successful in their first goal of laying low the old than they were in their second of building a new edifice. The latter task was completed by the neoclassical economists. They not only participated in the destruction of the old theories, but also, first under Jevons and then under Marshall, established a new orthodoxy in Britain. Neoclassical economics remained true in spirit to a deductive methodology, though tempered by historical criticism, as it rebuilt its theoretical structure upon the sounder foundation of marginal utility analysis. Moreover, it was far more cautious in its claims of the relations between science and application than classical economics had been.

The failure of the English historical economists to become a dominant school of economics in Britain, to say nothing of the dominant one, should not lead us to conclude that they were of little or no importance in the history of economic thought or to history in general. Even in the

history of economic thought, in which Whiggish interpretations of history often still flourish, their importance has been acknowledged. Their chief historical significance lies in three areas. First, they helped destroy the overconfidence, the insularity, and even the dogmatism that often characterized English classical economics. They continually reminded neoclassical economists of the hypothetical nature of their conclusions, the need for empirical research, and the relativity of economic theory and policy to a particular time and place. Second, in the field of economic policy, the historical economists generally expounded the need for a national, and even an imperial, scheme of economic policy and social reform that has become so characteristic of the twentieth century. Third, they played a major role in the development of economic history as a recognized field of study. This became their most lasting and specific legacy.

The foundation of the Economic History Society in 1926 demonstrated that the academic discipline of economic history had achieved professional status. By this time the discipline could point to its inclusion in university examinations, a nucleus of university posts, a growing number of works in economic history produced by professional economic historians, and a wide popularity as evidence for its claim that it constituted a recognized discipline.[5] Despite the fact that the impetus for the creation of the society came from historians,[6] the historical economists had, during the last quarter of the nineteenth century, played the major role in laying the intellectual, as well as the institutional, foundation for the new discipline.

Before economic history became a recognized discipline in England, a good many historical tracts, monographs, treatises, and pamphlets had already been written on a variety of subjects in the field.[7] What distinguished the late nineteenth century from the earlier period was the increasing role assigned to such subjects in academic teaching and writing, in both history and economics, and the emergence of an intellectual and social framework that gave coherence to these writings and the underlying interests they reflected. There were positive and negative sides to these factors. The negative side was primarily an attack upon the established methodology and principles of classical economics in particular and of utilitarian social theory in general. These principles reflected the social ideals of individualism and cosmopolitanism current during the first half of the nineteenth century. By contrast, social thought during the second half of the nineteenth century placed a greater emphasis upon evolutionary, historical, and collectivist patterns of ideas than the relatively mechanistic conceptions derived from the eighteenth century.[8] On the positive side, the late nineteenth century saw the de-

velopment of a "scientific" historical method, especially in legal studies and history; the introduction of examinations in history at both Oxford and Cambridge; a greater emphasis upon the economic aspects of history;[9] calls for the creation of a general science of society; and an increasing public demand for an historical understanding of contemporary problems. Alongside this, and linked with the negative aspects, was the growing feeling by some that the reigning body of economic ideas, however adapted, was largely inappropriate for the circumstances of the time, and was, moreover, associated with distasteful policies and attitudes. The historical economists asserted that the study of economic history and applied economics would serve as a more appropriate guide to the formulation of public policy than either classical or neoclassical economic theory.

The social ideals and policy recommendations of the historical economists differed significantly from those of the orthodox school. The conflicts between the historical economists, on the one hand, and the classical and the neoclassical economists, on the other, should not be interpreted as a pale reflection of the German *Methodenstreit*, a celebrated methodological debate between the deductive Austrian economic theorists, led by Carl Menger, and the inductive German historical school, led by Gustav Schmoller. The English *Methodenstreit* was a dispute over the appropriate use of an inductive or deductive methodology in economic study, the role of the scientist in society, competition over academic posts and intellectual territory within the universities, and, perhaps most importantly, broadly dissimilar social and political ideals.Taken as a whole, the writings of the English historical economists can be characterized as neomercantilist. They not only insisted that the more inductive and practical methodology of the mercantilist writers was superior to the abstractions of the classical economists, but also believed that mercantilism's nationalist concerns, its faith in corporate responsibility for the welfare of the people, and some aspects of its scheme of state regulation were more desirable than what they called the system of laissez faire. In addition to reflecting these ideals in their writings, the historical economists were also variously active on behalf of such causes as Irish social reform, the condition of agricultural and industrial workers, recognition of the labor unions, and, especially, tariff reform. As historical economists, they saw no conflict between their political advocacy and academic activity; indeed, such action expressed the very essence of their aims.

The historical economists – particularly Arnold Toynbee, W. J. Ashley, H. S. Foxwell, William Cunningham, and W. A. S. Hewins – sought a middle way between socialism and unregulated capitalism. Although

they moved from Liberal to Unionist and Conservative politics, they, like J. M. Keynes after them, hoped to manage capitalism. Their program might be called "corporatist" or, more persuasively, "social-imperialist." The term "neomercantilist." however, seems superior for several reasons. First, the historical economists rehabilitated the history of mercantilism in England. Second, they themselves constantly reiterated the proposition that mercantilist economics, however imperfect, was at least a political economy that sought to deal with pressing issues of the day. Third, they argued that mercantilism's concern for the welfare of the community was a superior mental and moral framework to that of classical and neoclassical economics, which emphasized the welfare of the individual and the firm. Fourth, while orthodox economics, except in its more popular and dogmatic form, had never exclusively championed laissez faire or free trade, the historical economists frontally attacked these ideals between 1870 and 1914. Fifth, the very term "neomercantilism" was coined in reference to English historical economics.

The term is used here in its broadest sense as illustrated, for example, by L. L. Price in a 1902 article on tariff reform. Price argued that a tide of national feeling was sweeping the world: "This national feeling will be allowed by the candid observer to harmonize more evidently with the ideas of the Mercantile System than with those of Free Trade." Despite many qualifications, Price concluded: "Free Trade is 'cosmopolitan' and Protection is 'national.' "[10] As the large literature on English mercantilism suggests, the mercantilists hoped to achieve both power and plenty. This tradition was what most English historical economists wished to adapt to the twentieth century. Keynes's famous 1924 statement on the end of laissez faire and his more spectacular call for national self-sufficiency in 1930 have frequently been noted as prophetic comments for our time. But the politicians, businessmen, and civil servants who were slowly eroding free trade during the 1920s were not yet listening to Keynes. Instead, they could seek justification, if intellectual justification seemed useful, for their protectionist and interventionist schemes in the academic writing and public pronouncements of English historical economists.

The transformation of English classical economics and the rise of historical economics were contemporaneous with fundamental changes in Britain's economic, social, and political structure. Historians have often seen the 1880s as a critical decade of transition in British history.[11] For contemporaries, the central fact of British economic history was what they called the "Great Depression." We know now that the period 1873 to 1896 was not a depression. Instead, we discuss this period as

the beginning of British industrial retardation. For contemporaries, the economic problems of the period were a fundamental psychological shock that by the twentieth century had all but destroyed Victorian confidence in England as the workshop of the world and the master of a Pax Britannica.

In agriculture, however, the depression was real. Between the mid 1870s and mid 1880s rents dropped by one-fourth. The repeal of the Corn Laws in 1846 did not immediately threaten British agriculture, but after 1870, peace and prosperity in both Europe and America, new agricultural technology, cheap ocean transport, the building of the intercontinental railways, and inexpensive grains from the virgin lands of North America and Russia endangered the prosperity of English arable agriculture. Market gardening and dairying fared much better in close association with towns and cities. These forces, combined with the land question, especially in Ireland, produced considerable interest in such themes as peasant proprietors, the nature of rent, and the links between rural development and national prosperity. The problems of British arable agriculture also saw an absolute decline in the social and political position of landed society within the nation.[12]

In trade and industry there was no general depression during the period. However, lower prices, declining profits, and foreign competition caused a serious crisis of confidence. To contemporaries, the fear of foreign competition was especially severe and culminated in the fair trade movement of the early 1880s and the more vigorous tariff reform program initiated by Joseph Chamberlain in 1903. Britain, which had long been accustomed to being the major exporter of manufactured goods in the world, was now vigorously challenged at home and abroad by an industrial and imperial Germany. In iron, shipbuilding, machine tools, and even in textiles – the staple trades – Britain experienced a relative decline due to lower productivity, slower technological innovation, the survival of family management, and the failure to link education closely with industry. This retardation was also evident in the newer industries of steel, chemicals, and later electricity. There were of course bright spots in the economy, especially in the retail, food processing, home product, clothing, and pharmaceutical industries. The late nineteenth century also witnessed the growth of the size of firms and the advent of the corporation. Indeed, Britain ranked with the United States as having a few of the largest corporations in the world. In general, however, the family firm survived more widely in Britain than in the United States. By the 1890s there was a growing demand among economists that something be done in Britain to provide edu-

cation for modern business. By contrast, the growth in invisible earnings was an apparent bright spot in the economy. Between 1873 and 1896, earnings from trade and financial services, investments, and insurance rose from 12% to 24% of British import costs. Thus, the stage was set for a fundamental debate between those who argued that this demonstrated the wisdom of free trade and those that argued that this constituted one of its chief follies.[13]

The last quarter of the nineteenth century saw a gradual improvement in the standard of living, because wages remained relatively stable as prices fell. Although the overall rate of population growth did not diminish significantly from its average rate of much of the century, the Malthusian specter seemed to have been laid to rest as the standard of living visibly increased for large segments of the population. Indeed, from the 1870s, a decrease in the birth rate in the middle classes became pronounced. It was hoped that this, along with middle class morality, would percolate down to the lower classes. Despite this generally optimistic picture, from the 1880s there was a marked increase in demand for the improvement of the "condition of the people," a consequence of a variety of factors. Chief among these was the severity of cyclical business crises in 1879, 1886, and 1893, which led to a greater employment insecurity than during the 1850s. Charles Booth's famous surveys of London during the 1880s demonstrated that at least thirty per cent of London's population lived in extreme poverty and that the chief cause of poverty was irregularity of employment. Labor unions had been virtually legalized in 1871. The late 1880s also saw the emergence of the "new unionism." This movement brought whole industries and some unskilled labor into the labor movement and a new militancy that had been largely absent from the craft unions of the previous decades. The question was no longer what were the costs and benefits of labor unions, but how to deal with their claim for a share of power.[14]

In politics and social theory, the 1880s were a watershed in British history. The Reform Act of 1867 did not in fact bring democracy to England, but contemporaries were not far wrong in arguing that it would have that ultimate effect. The Reform Act of 1884, as well as the secret ballot and a series of corrupt practices acts which insured a system of open and honest elections, created nearly universal male suffrage in Britain. In politics these developments saw the creation of modern political parties with constituency electoral organizations and the emergence of labor candidates. To this must be added the dilution of the aristocracy in government by ambitious members of a rapidly expanding middle class. Indeed, during the 1880s England began to acquire that

characteristic twentieth century class structure in which the middle class finally achieved a significant share of power, especially in the professions and the bureaucracies.

The establishment of laissez faire in England, as we now know, was accompanied by the gradual erection of a new system of state intervention that has been traced to the 1830s. But during the 1870s and 1880s, a considerable increase in the scale of public expenditure and state regulation took place. Particularly important were the Civil Service and Education Acts of 1870, the Trade Union Act of 1875, the Employer Liability Act of 1880, the Diseases Prevention Act of 1884, the Parcel Post Act of the same year, the Land Act of 1881, and the Housing Act of 1890. These and many other pieces of legislation greatly extended the power of the state. Legislation was often preceded by far ranging Royal Commissions, on Agriculture in 1882, on the Depression in Trade in 1886, and on Labour, Poor Reform, and Currency in the 1890s. Finally, beginning in the 1870s, large English cities began to build systems of "municipal socialism" that included the ownership of utilities and transportation, the regulation of businesses, and the provision of numerous services. While economists and other social theorists debated all this as exceptions to laissez faire, these ad hoc exceptions were becoming so numerous that we can speak of the regime of state intervention.[15]

After 1870, faith in religion was rapidly being replaced by faith in science. Though, as we shall see, Christian Socialism, broadly conceived, and teleological views of history largely derived from religion had a considerable impact on the work of several of the English historical economists, among many social theorists of the period religious fervor was being replaced by an evangelical faith in various versions of the science of society. Whether Comtean, Spencerian, Marxist, Idealist, or an amalgam of these, social theories were all historicist in their formulation. Evolutionary forms of social theory had already become dominant during the 1860s, replacing a more static utilitarianism of the earlier period as the orthodox creed. At the same time, the late nineteenth century saw the professionalization, and consequent specialization, of each of the social sciences. By the early twentieth century, social sciences were becoming safely embedded in their own university departments. These intellectual and social changes had important repercussions upon the debate in economics of the period.[16]

In politics the period saw the emergence of both the theory and reality of what has been called "positive freedom." This concept held that in modern industrial society isolated individuals could achieve neither material welfare nor effective freedom. Thus, it became the function of

the state to actively promote a social basis for both welfare and freedom. The negative freedoms of classical liberalism were no longer deemed sufficient to rule an empire of 8 million square miles and 265 million people, and an island nation of labor unions, corporations, democracy, growing contrasts between wealth and poverty, and serious foreign competition. The theory of the new liberalism has been especially linked to the philosophy of T. H. Green during the 1880s; it was already present, however, a generation earlier in the work of J. S. Mill. The social and political theory of the new liberalism did not easily and neatly carry over into actual politics. The 1880s saw not only the birth of a new radicalism within the Liberal Party, but also a host of socialist organizations and a new social conservative movement. Imperialism was but one of the complications, though an important one. Such historical economists as Ashley, Hewins, and Cunningham were part and parcel of a social imperialism that transcended the old political parties and dominated politics in the early twentieth century.[17] Thus, the debate within economics during the last third of the nineteenth century was not an isolated phenomenon, because many of the key issues reflected fundamental social, political, economic, and intellectual currents of the period. It is in this wider context that we must understand the crisis of the old political economy and the conflicts over its reconstruction.

CHAPTER 1

The crisis of classical political economy and attempts at reconstruction, 1870–1885

The 1870s and 1880s were the formative years of English historical economics. The late 1860s and the 1870s have been called the crisis of the old English political economy. Until the publication of Marshall's *Principles* in 1890, the immensely popular economic writings of J.S. Mill remained the dominant work in economics and served to shore up the illusion that the classical postulates, deductive methodology, and policy conclusions inherited from the Ricardians remained valid into the last third of the nineteenth century. As we will see, however, Mill's methodology, theory, and policy conclusions seriously compromised the Ricardian structure. Indeed, the economic views of Mill offered a significant opening for the heretical views of several of the historical economists. The last of the classical economists, J.E. Cairnes, sought to repair what he saw as dangerous tendencies in Mill's work by returning to a more rigorous deductive method and by disassociating economic theory from its popular policy maxims. Cairnes's efforts, however, only deepened the crisis of classical economics. Finally, during these same years the brilliant work of W.S. Jevons and Alfred Marshall laid the foundations for neoclassical theory. Before 1885, however, neoclassical theory had not yet become the dominant school of economics in England.

The crisis of political economy

To celebrate the one-hundredth anniversary of the publication of the *Wealth of Nations*, the Political Economy Club, itself nearly a half century old, held a centenary dinner at the Pall Mall Restaurant on May 31, 1876. It met to discuss the question: "What are the most important results which have followed from the publication of the *Wealth of Nations* just one hundred years ago; and in what principal directions do the doctrines of that book still remain to be applied?"[1] Present at the discussion were such politicians as W.E. Gladstone, Robert Lowe, and W.E. Forster; the distinguished reforming civil servant Edwin Chadwick; the literary and political figure John Morley; the economic and