



## The Decline of the British Economy.

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in *Economic History*, 1987), protests that agricultural output data are too weak to support the argument Crafts makes. This puzzle must be left to future research.

In chapters 3 and 6 Crafts considers what slower growth implies for our vision of structural change. Just as growth was slower, so the shift of labor from agriculture to industry was slower. Britain in 1750 had been far more prosperous and commercial than the Continent. Britain's relative advance in income and in the sectoral distribution of economic life appears to owe more to the period from 1600 to 1750 than to the next century; "England's Apprenticeship" is in need of more attention.

Crafts is weakest in his chapter on sources of growth. He notes that only "30% of the extra growth [in total output] in 1801-31 . . . [over] 1700-60 came from productivity" and concludes that factor inputs played a large role, that "thrift" has been understated compared to "invention." But the same data expressed in terms of per capita output paint another picture: productivity contributes 150 percent of extra growth from 1801 to 1831 over the period 1700 to 1760 in per capita income, for the rate of growth of the capital-labor ratio falls.

Chapter 5 tackles the standard-of-living debate. The central puzzle in this debate has never been that pessimists are right—standards of living did not fall—but that there are pessimists. Elsewhere the jump in wealth during industrialization is so striking that respected historians simply do not claim that working-class real incomes fell. Broad productivity growth in the style of Deane and Cole fits uneasily with even the existence of pessimists, but by revising downward the rate of growth of output and by concentrating technological advance in a few sectors Crafts makes the existence of pessimists more compatible with the path of output.

The slowing down of the industrial revolution also reduces dissonances that have always existed between economic and other forms of history. Political history saw the glacierlike cession of power by traditional elites. Mass society emerged only very gradually. These Whig continuities fit less well with the growth pace of Deane and Cole than with the slower, revised pace of growth.

The chapter on Britain's relative decline shows Crafts at his most provocative. Deane and Cole claim that the period from 1750 to 1870 sees Britain acquiring in all industries both a technical edge and the means to maintain and recreate this edge. The subsequent failure—given Britain's wealth, capital, science, and technology—to gain a leading position in the "high tech" industries of 1900 appears extraordinary. Crafts argues that coal and cotton supported a cluster of innovations that gave Britain a large edge in a small number of industries. Britain's failure to maintain its broad edge in the period from 1870 to 1914 is thus unsurprising, for it had never held such an edge.

*British Economic Growth During the Industrial Revolution* is a fine book, quite possibly the best new book of economic history I have read in years. But I expect the book to succeed not as a synthesis for students but as a base camp for researchers. The claim that Deane and Cole's industrial production index grows too fast is convincing. The way Crafts draws out the implications of the new industrial production estimates is exciting. But the interpretation given still has many loose ends and awkwardnesses. The volume is, therefore, primarily one that defines a future research agenda, not one that summarizes settled conclusions.

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*The Decline of the British Economy*. Edited by Bernard Elbaum and William Lazonick.  
New York: Oxford University Press, 1986. Pp. 310. \$49.00.

Britain's decline is an enigma. Absolute growth has been impressive: per capita incomes are six times 1870 levels. Yet absolute advance has been coupled with relative decline. Britain was the industrial economy with the highest per capita income in 1870.

Today per capita income is half of the industrial leaders'. Britain is a counterexample to "convergence," to the claim that in the long run living standards are determined by factor endowments and world-wide technology.

Explanations of why "convergence" fails fall into two groups. One traces failure to defects in the system of property rights. Successful economies have laws that make private appropriation of the social gains from innovation easy. Unsuccessful economies have laws that make appropriation of others' production attractive—through monopoly, imperialism, theft, or taxation. But property-rights theories cannot account for Britain's decline, for the British legal order of 1870 is the source of our image of what a growth-promoting legal order is.

So thought about Britain's decline is driven toward the second, "institutionalist," family of explanations. Since "convergence" denies that decline can happen, and focus on property rights and stable constitutions denies that *British* decline is *ex ante* likely, the only live option to pursue is the "disadvantages of leadership" explanation, built on the claim that institutions matter.

Elbaum and Lazonick have edited a book to develop this institutionalist view. Their project is to build an account of Britain's decline on the assumption that the core of growth is the dynamic interaction between structures of industrial organization and industrial relations.

Elbaum and Lazonick's account begins in 1870. British industrial institutions then crystallize into a pattern that fits the existing environment but would handicap growth over the period 1870 to 1970. They stress four elements. Firms are competitive—there is little market power. Different stages of production are linked by markets, not hierarchies—there is little vertical integration. Firms are small—they develop neither internal bureaucracies nor long-term links to individual investment banks. "Job control"—control over shopfloor implementation of technology—is held by the "labor aristocracy," by unionized groups of skilled workers.

This setup is effective at organizing production in 1870. Since shifts in demand are incremental, competitive firms quickly seize new profit opportunities and check social waste resulting from monopoly. Since shifts in technology are incremental, growth is promoted by handing control to skilled workers with the knowledge and the incentive to make machines and the unskilled produce.

But this setup proved bad for growth in the century after 1870. Industries lacking vertical integration could not adopt lumpy innovations calling for changes in many stages of production. No firm in the vertical chain could internalize enough gains to make it risk being first mover. Moreover, restructurings of the division of labor threatened the power and incomes of workers with "job control." Given the system of industrial relations, new technology could not be allowed to erode skilled workers' bargaining power. But the small size of and competitive relations between firms meant that no firm wished to be the first to try to change industrial relations.

This general sketch is drawn in Elbaum and Lazonick's introductory essay and in the other essays in the first half of the book. Lazonick analyzes the cotton industry. Elbaum analyzes the pre-World War I steel industry. Steven Tolliday considers the interwar steel industry and "argue[s] that [p]ower relations within the firm interacted with the technical and market environment to close certain options or promote others." Existing institutions were unable to carry through programs of rationalization that were in the industry's long-run interest.

Edward Lorenz and Frank Wilkinson examine the shipbuilding industry. They also conclude that industrial decline came about not because of an inevitable shift of comparative advantage away from Britain but because firms were too small to take advantage of emerging economies of scale and the old system of industrial relations blocked rationalization. Wayne Lewchuk examines the British motor vehicle industry. He concludes it adopted in this century the same institutional pattern the rest of British

industry had adopted in the nineteenth. Here, as elsewhere, profit-maximizing decisions produced unintended institutional consequences that eroded the industry's long-run position. It is as if an invisible hand had dealt a losing card.

The remaining essays examine the underlying social infrastructure. Julia Wrigley concludes that laissez-faire ideology and class identity prevented Britain from evolving a broad-based system of technical education. David Mowery attributes the poor record of British applied research to three factors: firms were too small to internalize the benefits of research, the educational system was faulty, and the government did not encourage industrial research. Carol Heim examines the government's reaction to northern regional decline after World War I. She concludes that attachment to laissez-faire ideology prevented effective action to reduce the waste of northern unemployment.

Michael Best and Jane Humphries examine the capital market, which had developed to channel small sums to many small firms. It was thus ill-equipped to channel capital to the "high tech" industries of 1900. Elsewhere market failures forced investors to learn how to assess firms' creditworthiness, expertise which could then be used to assess the prospects of new industries. The City of London's efficiency as a supplier of intermediation led to its deficiency as a supplier of financial direction, and so knowledge of the prospects of new industries was found nowhere in the economic system.

The central image this book relies on is a contrast between structure-preserving and structure-breaking action. Almost every essay concludes that individuals did as well as could be expected given the constraints of existing institutions. But the acts of creative destruction that break old institutions and erect new ones were missing. The Carnegies, Fords, Mitsubishis, and Thyssens of the British economy never found themselves able to implement radical change in the way things worked.

Why didn't the obvious efficiencies from copying emergent technologies and bureaucracies induce the creation of new forms of organization? To some degree they did: British growth from 1870 to 1980 has been impressive; it just has not been as impressive as the growth of, say, Sweden. In my view the most serious question facing this interpretation of British decline is different. Clearly Britain's institutions have been only a drag on, not a barrier to, economic growth. So how can institutions formed more than a century ago still cast a shadow over Britain today?

On this question the institutionalist narrative becomes least convincing. In the concluding essay on the role of the state, Peter Hall suggests that there is nothing inevitable in Britain's decline. He notes that France was viewed in 1948 as having a dim industrial future and concludes that "a state can transform . . . its economic system, but first it must transform itself." He rejects Margaret Thatcher's policies on the grounds that they are calculated to free up markets—to make optimization *within* given structural constraints work more smoothly—not to spark the Schumpeterian innovation that the book sees at the heart of growth. But a positive model for government action is not presented.

In sum, the book is impressive. Elbaum, Lazonick, and their collaborators have demonstrated that their writing of institutionalist economic history is coherent, that their basic vision is not *prima facie* incompatible with what has gone on in Britain since 1870. By contrast, the fact that Britain was rich and is now relatively poor is incompatible with "convergence." "Property rights" explanations of Britain's relative decline fare no better—witness Sam Brittan's skillful and ultimately unsuccessful attempt to construct a coherent account of the "British disease" in "How British is the British Sickness?" (*Journal of Law and Economics*, vol. 21 [Oct. 1978], pp. 245–68).

Elbaum and Lazonick's book is very good. It can and should be read with great profit by anyone who wishes to understand Britain's relative decline. Nevertheless while

Elbaum and Lazonick's point of view is relatively convincing, this is partly because other approaches are so clearly unsuccessful.

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*The First Industrialists: The Problem of Origins.* By François Crouzet. Cambridge: Cambridge University Press, 1985. Pp. ix, 229. \$37.50.

In the mid-1880s three large volumes of industrial biography, *Fortunes Made In Business*, were published in London, celebrating the lives and accomplishments of many of the successful British industrialists of the previous century, "who, generally, had raised themselves by their 'own exertions from a low to a high situation'" (Crouzet, pp. 49, 171). Such a publication was nothing new, but this was one of the more massive and lavish tributes to the "Self-Made Men" of nineteenth-century economic progress, apotheosis of a legend already embodied in autobiography, fiction, and the popular works of Samuel Smiles. The "myth" of the self-made man has usually in this century been received rather skeptically, but, as Crouzet's *The First Industrialists* illustrates, the myth is far from being expunged from the literature on early industrialization.

François Crouzet is well known among economic historians of Britain for his extensive studies, among other things, of capital formation in the late eighteenth and early nineteenth centuries; in the Preface to this book he remarks that "after looking into the sources of fixed and circulating capital, it was natural to become interested in human capital" (p. vii). In early 1983 Crouzet pursued this interest in presenting the Ellen McArthur Lectures at the University of Cambridge, and this volume is the expanded and heavily documented version of the lectures. It seeks to assess the British equivalent of the Horatio Alger myth via an examination of social and occupational origins for as many early industrialists as the secondary literature allows. As Crouzet is the first to admit, his procedures generated a "sample" which is by no means scientific, but which yields results "so striking that one is tempted to put some trust in them" (p. 67). The upshot is that the "much-derided and maligned lower middle class must be accorded a key role in British economic growth and the myth of the self-made man rises, phoenix-like, from its ashes" (p. 143).

This conclusion, while striking, rests in large degree on Crouzet's methods of selection, definition, and classification, all of which are open to sufficient criticism and qualification to soften his results considerably. The "sample" consists of 226 industrialists whose fathers' occupations can be identified, and of 316 whose own occupations are known for the period immediately preceding their founding of an enterprise. This information is drawn from an impressive set of secondary sources, ranging from contemporary local histories to recent works of scholarship examining similar questions in a regional or industrial context. Fifty-four pages of source notes and useful commentary support a text of 143 pages. On the one hand, the lists are restricted to men who were, in Crouzet's view, the "true pioneers of the Industrial Revolution"—that is, those who founded large, modern industrial undertakings—and, on the other hand, are extended to include all such founders "about whose career *some* information was available" (pp. 55–56, original emphasis). This yields a national list dominated by the textile and primary and secondary metals industries (75 percent or more), with a leavening of others such as glass, paper, brewing, and chemicals. His occupational classifications are unexceptionable, but on moving to social origins Crouzet is forced to translate occupation into status, a somewhat dubious procedure although not grossly inaccurate. Similarly, on the central question of the importance of self-made men in industry, Crouzet (rightly) refuses to limit the necessarily humble origins of the