FACULTY OF ECONOMICS STUDY AIDS 2017

ECT1 Paper 5 British Economic History

The Faculty Board has agreed to release outline solutions to the 2017 examinations as a study aid for exam revision. They are abridged solutions, and not 'definitive', and should therefore not be considered as an exemplar for 'complete' answers.

Also note that the Faculty will not respond to any queries regarding these solutions.

1. "Without trade the cotton industry could not have developed to the extent that it did, but this does not imply that international trade was essential to achieving industrialisation." Discuss.
   Cotton grew from a tiny industry to contributing 5 per cent NI by 1802. By 1812 outstripped wool in importance. 1830 half of home-produced exports were cotton textiles.All raw cotton imported. Cotton industry epitomises Industrial Revolution - application of steam power to machine manufacture, situated in factories. Trade clearly crucial to cotton industry, but could industrialisation have occured without cotton, and without trade? Export volumes increase faster than volume of total output, but value of total exports grew slower than value of total output 1800-1830. Terms of trade move against Britain. New technology and competition between firms led to falling prices and increased exports. Technological change came first. Thomas and McCloskey - domestic demand/ supply would replace foreign demand / supply in absence of trade , so trade contributed relatively little to growth of British economy in C18th. Harley estimates just 6 per cent NI in 1860 without any trade. Trade helped industrialisation, but did not cause it. Cotton and iron industries would have been large even if they had not captured export markets. Technologies would have been applied elsewhere. Indeed recent evidence suggests very early manufacturing emphasis in economy and factor prices encouraged adoption of labour saving technology in a variety of industries.

2. Explain the economic mechanisms through which transport improvements might aid economic growth. With reference to two types of transport, consider whether transport played this role in aiding growth in Britain's industrial revolution.
   Transport key role through: Contribution to National Income Transport improvements can affect rate of grwoth through development of infrastructure: leading sector, and reducing transport costs Externalities e.g. extend markets, increase competition, diversification and achieve economies of scale. Improves communication and allows more rapid diffusion of technical progress.
   Improvements in roads, inland waterways, shipping, then canals and railways. All improve (but at different points in time, continuous improvement from C16th), variously increase speed, carry bulky goods more efficiently, reduce costs per mile. Improved communications and connect areas previously hard to reach. Transport infrastructure growth generally greater than NI growth, suggestive of leading role. Also suggested by 'mania' phases of canal and arilway building when oversupply occurred. So, along with providing infrastructure, also achieve many of the externalities identified - particularly size of market and regional specialisation, spur to commercialisation of agriculture, faster dissemination of information. Also savings to manufacturers as reduced need to hold raw material inventories and benefits to banking and finance. Overseas shipping, allowed development of international markets and access to the 'ghost acres' of the colonies. Comparison with France (Szostak) shows better transport in England fosteered aspects assocated with industrial revolution.

3. Crafts' view that Industrial Revolution was characterised by a slow rate of economic growth and limited influence of new technology has recently been challenged by (a) evidence on the occupational structure of Britain (Wrigley and Shaw Taylor) and

(b) the shift in technology occasioned by high wages and cheap energy costs (Allen). Describe how these have challenged Crafts' view.
Crafts: growth less than 2 per cent per annum per capita, TFP less than one percent per annum in industrial revolution. Transformation of production through inventiveness and technological change confined to a relatively small part fo the economy. Occupational structure: 37 per cent in secondary sector in 1710, not much larger by 1851 (45 per cent). Agriculture only half with slow decline over C19th, and tertiary growing Not the precocious structural change observed by Crafts Britain more developed pre-industrial revolution than Crafts' estimates suggested Labour input growth in secondary sector lower than previously thought, therefore labour productivity must be higher. More role for innovation. Innovation in industries: Allen queries whether no growth in productivity in sectors other than the revolutionised ones. Measure productivity growth in the industries making up everything else. Find TFP growth in shoes, stockings, paper, glass, nails, steam engines, water power, candles etc. Attributes to economic incentives: coal cheap, wages high. leads to technologies that substitute capital and energy fro expensive labour. Shows for factories, steam engines, ceramics and hats. Industrial revolution characterised by widespread innovation and inventiveness.

4. The commercial revolution preceded the Industrial Revolution. How important were the developments in finance and commerce in enabling industrialisation?
1688 onwards Britain developed sophisticated financial sector: Bank of England (1694), National debt, Stock Exchange. Trade financed by bill of exchange, discount houses trade these. Finance of trade voyages leads to stock market by 1690s. Bank notes developed. Quickly surpassed rivals such as France and Holland. But developed for needs of trade and for financing State debt, not needs of industry. Legislation that developed to restrict financial markets created a regulatory environment that protected the financial system that underpinned state finance. Diverted resources from privte investment to public use (Temin and Voth) Bank of England monopoly limited size of other banks and constrained diversification of assets. Banks concentrated in London. Capital markets focussed on governemnt debt and infrastructure financing, not financing of industry. Financial revolution was 'not so good for economic growth'. But some indirect benefits.

5. Consider evidence from Matthews, Feinstein and Odling-Smee (1982) and Broadberry (1997, 2007) on growth of output and productivity to determine whether there was 'failure' in the late Victorian economy.
Idea of 'failure' in late Victoria economy commonplace but defined by McCloskey to be underutilisation of or inefficient use of existing resources. On this basis McCloskey claims 'no failure' but continued to be contentious. Evidence: other countries catching up and overtaking, trade deficit implying poor manufacturing performance, lack of devlopemnt of new industries in evidence elsewhere. M,F,O-S provide detailed quantitative evidence that shows decline in growth rate 2.2 per cent to 1.8 per cent 1850-73, 1873-1913 and TFP growth 0.5 percent p.a. in latter period (zero if improvements in labour quality removed). feinstain also shows faster rates of labour productivity growth in six other industrial nations over the long-period and USA achieving higher levels by 1880. Broadberry looks at labour productivity growth for UK vs USA and Germany - whole economy, manufacturing,

service sector. Whole economy catch up and overtaking by USA clearly evident, but not due to improving manufacturing performance. USA always had higher labour productivity in manufcaturing and no shift in this period, instead due to sectoral shift as USA gets resources from agriculture into manufacturing, somethign Britain has already achieved. USA manufacturing high productivity due to use of mass production techniques but economic geography explains this, therefore not a failing - at least in this period. Longer term picture die to poor relative productivity performance in services in UK. Doing well in this period but USA moves from counting house to modern office so mass produces services, also gets higher levels in transport and communication. Not causing failure at time but does in longer term as inefficient servcies not driven out by competition. Position relative to Germany shows Germany closing the gap with UK at whole economy level in this period. Again not manufacturing, both countries perform at very similar levels. But Germany doing better in transport and mining (but not generally in services) but has less transfeer out of agriculture than USA due to protectionism. But how explain low TFP? Partly declining growth in value of exports demanded which may depress entrepreneurship. Also some sectors apparently performing poorly e.g. agriculture (due to imports), mining (due to geological constraints) and services hard to measure, so could get low TFP without this necessarily indicating 'failure' in the economy.

6. Britain had a visible trade deficit from 1850-1914. Explain how this trade deficit might be related to the high levels of interest, profits and dividends being returned to the economy from earlier capital export. Does the trade deficit necessarily imply poor performance in Briatin's manufacturing sector?
Growing trade deficit 1850-1913. Two explanations for this via balance of payments. BoP needs to balance, on gold standard and surplus would reduce sterling to world that underpins world trade. IPD inflows and invisibles surplus mean either capital must be exported or deficit on visibles trade to balance. Inflow of gold leads to increase in domestic prices which makes UK exports uncompetitive. But no evidence of this price effect when analysed. Second possibility is absorption effect (Rowthorn and Solomou) - IPD means UK can consume more than it produces so net exports reduced. Show trade deficit causally related to IPD inflows. Trade deficit has variously been suggested to be because purchase of imports blunts entrepreneurial drive within the UK so retards manufacturing sector, or evidence of Britain's early manufacturing success as have so much to invest abroad. Also targetting 'soft' Empire markets for selling goods from staple industries and not developing new innovative industries. Can find evidence for all. But, note, protectionism limits the more sophisticated markets Britain can sell in, Briatin is unilateral free trader at this time so no restrictions on imports, does develop industries that are geared towards relatively wealthy home market and relatively protected from competition e.g. luxury cars, gas appliances, confectionery, newspapers.

7. "The technology used in various industries in Britain from 1850-1914 has been used to demonstrate entrepreneurial failure." Discuss whether this inference is correct with reference to at least two industries.
Comment on outdated technology used in cotton, iron/steel, coal, chemicals (United Alkali), mass production technology Spinning due to different endowments of skilled labour and raw cotton, appropraite choice made Iron due to technological hold

up, have to develop talbot tilting furnace to deal with accumulation of slag from domestic iron ore before can use most up-to-date process Coal due to geological constraints, not use so much mechanical cutting but use more steam engines to pump water out and for traction as deeeper mines. United Alkali, do fail to adopt most up-to-date technology but effectively form a monopoly to protect their position but, due to nature of mergers at time, fail to operationalise this effectively. Mass production, requires large market prepared to buy standardised goods, economises on skilled labour in favour of unskilled, is quite energy and resource intensive. The conditions are suited to USA but not to UK.

8. Compare and contrast the causes of the peaks in unemployment in Britain in 1920-1 and 1929-32.
1920-21 internal factors. Supply side decrease in working hours with maintenance of nominal weekly wage. Demand side contractionary monetary policy designed to help return Britain to Gold Standard at pre-war parity. Increase value of real wage and causes output gap and unemployment. High unemployment not evident in countries that don't return to gold or return at devalued levels. 1929-32 external factors. World slump. Emanates from USA, contractionary policy transmitted via the Gold standard to other countries, also decline in USA lending abraod and eventual repatriation of loans. Causes over production of primary products to service debts, bank collapses, Depression. UK predominantly affected by declining demand for her staple industry exports. Don't suffer bank collapses and industry focussed more on domestic market less affected. Some policies may help mitigate some effcets and aid recovery. Britain less affected and for shorter time period than many other countries.

9. Evaluate the evidence as to whether the 1932 General Tariff impacted favourably on the economic recovery during the1930s.

   Type of evidence that can be considered:

   1. Import Substitution effects –Richardson, Kitson-Solomou, Broadberry-Crafts
   2. Resource Allocation effects as measured by Effective Protection Rates (Capie, Kitson-Solomou-Weale)
   3. Macroeconomic impacts – Foreman-Peck, Kitson & Solomou, Tariff-Growth literature of Clemens and Williamson
   4. The 1932 General tariff and Imperial preference may also allow us to evaluate the effects on British trade in terms of trade creation and trade diversion (as in the work of Eichengreen and Irwin)

10. What were the short-term and long-term effects of Britain's policy goal of returning to the gold standard at the pre-war parity?

    Short term effects

    1. Effects on macroeconomic policy to achieve the exchange rate target (discuss tightening of monetary policy and effects on nominal and real interest rates
    2. Effects on real effective exchange rate – discuss the path of overshooting and correction of real exchange rate

3. The role of exchange rate shocks in explaining the 1920-1depression
4. Effects on trade during the exchange rate correction 1921-29

Long term effects

1. Analysis of exchange rate shock and hysteresis effects on trade during the 1920s.
2. Possible impacts on unemployment
3. Price deflation effects and debt burden in 1920s

An awareness of the importance of other variables that can interact with the exchange rate would help the analysis. For example supply-side shocks such as the hours of work effect in 1920-1 may act as an inflationary shock that further appreciates the real exchange rate.

END OF PAPER