Economic Theory and Britain’s Global Superiority

An evaluation of the prevailing economists’ theories regarding Britain’s growth and fall from global superiority

European Imperialism, which began in the fifteenth century with pieces of North Africa as well as the Canaries and Madeiras in the Atlantic, lasted nearly five centuries until its passing in the twentieth century. Throughout this enormous period of human history, we have seen huge economic, social, and scientific advancement as well as the gradual rise and precipitous fall of numerous empires that has been regarded as a historical truism of great civilizations. However, throughout all of history, it is difficult to discern a nation that has contributed more to the economic and social global state that we see today than Britain. Their empire, once called, "the empire on which the sun never sets", enjoyed global superiority throughout the late 18th, 19th, and early 20th centuries due to their economic status and cultural, as well as social climates. The British Empire rose to world dominance extremely quickly, but in accordance with King George V's last gasps in 1936, "How is the Empire?", they seemed to vanish overnight. In this paper I would like to evaluate the works of great economic thinkers such as Smith, Malthus, Ricardo, and Mill in order to assess the economic climate that led to Britain's early success. Then, I would like to look into Engels' and Marx's anti-capitalist theories regarding the stagnation and eventual demise of the empire. Finally, I will evaluate Keynes' extensive economic models of the volatile global climate leading up to and after the First World War and how the division of economic and political beliefs, the loss of leadership, and general complacency of Britain led to the decline of one of history's most powerful and impactful nations.

It is helpful to understand the pre-classical economic environment of the seventeenth and eighteenth centuries in order to set the scene for Britain's emergence as a superpower. During this time trade was still bound by force, and the Dutch, Portuguese, Spanish, and, most notably, the English fought, lied, and stole in order to compete for trading territory and pieces of the market. The English were notably extremely gifted in the art of piracy, and although they could not make much money in business, they were successful in stealing the gains from others. Trade remained a struggle between these European nations throughout the 1600's until England began to emerge in the end of the century as it took Calcutta. However, England's true emergence into the world market occurred in the early 18th century as the British East India Company expanded into Asia as the Portuguese and Dutch continued to fight for the remainder of the market. England's great blow to the Dutch was finding what the Chinese wanted and were willing to pay for, and the answer to this was opium. The English were then able to penetrate far richer places than Indonesia, and as they expanded into India and other lands, they brought back more fruitful rewards.

The turn of the eighteenth century saw the opening of the New World and much greater economic expansion as the European nations sought to increase the size of their pie rather than continue to bicker amongst themselves for the wealth in Asia. In order to comprehend the economic emergence of the small island of Britain that occurred during the industrial revolution, roughly around 1760, it is important to evaluate the prevailing classical thought of Adam Smith and Thomas Malthus that dominated European economic theory during this period. Adam Smith reveals in his book, *The Wealth of Nations*, that a series of inventions, predominately within the British cotton manufacturing industry, led to a new form of production called the factory, which through division of labor and specialization revolutionized the British economy and led to Britain's emergence as a superpower. In Adam Smith's Law of the Markets, he references the division of labor that the factory system provided enabling much greater levels of production. Unlike the popular mercantilist thought that prevailed during this time, Smith believed that the secret to economic growth layed in economic freedom. He claimed that there were only two modes of human thought, self-interest and sympathy, and the market worked best when there was a balance between the two. He continued by saying that an “invisible hand” guided the markets and regulated an equilibrium using these two states of human thought. Overall, Smith maintains that the secret to Britain’s early economic success is due to the factory system and division of labor. The substitution of machines for human skill and effort brought a shift from the working class in agriculture to the cities where the factories were. Specialization allowed workers to be more dexterous while they were only required to perform one or two tasks. Smith’s most famous example regarding specialization is seen when he evaluates a pin factory in England. He claims that when each individual within the factory is responsible for making as many pins as they can in a single day, then the output is very minimal. However, when each individual performs only one part of the pin-making process, like straightening the pin or constructing the pin head, then their output rises tremendously.

Malthusian economics, which also prevailed just prior to the Industrial Revolution, were extremely dismal and revolved around, what modern economists call, the “Malthusian Trap”. The Malthusian Trap is based on three postulates: 1) Food is necessary for mankind, 2) passion between the sexes is necessary, and 3) the power of population to grow is greater than the earth’s power for food production. The first two postulates have proven to be accurate, but the Industrial Revolution serves to dismiss Malthus’ “dismal science”. The third postulate is based on the belief that food production grows arithmetically, but population grows geometrically, meaning that through positive checks like famine, war, and disease, humankind is doomed to oscillate between misery and death throughout all of eternity because man cannot produce enough subsistence to sustain growth. Malthusian economics was quite impactful on pre-industrial Britain especially regarding the Poor Laws of 1834 and the Corn Laws. Malthus saw the Poor Laws as bad attempt to reduce the positive effects of geometric population growth. He claimed that the poor laws would raise the standard of living for the poor, causing an increase in early marriage and birth rates, which would then increase the supply of labor, causing wages to fall again and unemployment to rise. Overall, he claimed that Britain should get rid of the Poor Laws, issue premiums for tilling fresh land, and get rid of apprenticeship. Malthus, like Adam Smith, was somewhat of a physiocrat, and regarded agriculture as the key to British economic growth. According to this sentiment, and somewhat contradicting his laissez-faire attitude, Malthus supported the Corn Laws claiming that high food prices would increase rent causing more investment in agriculture. Malthus lived in the pre-globalized world and did not support Britain's dependency on foreign nations for food, but this idea soon began to dissipate.

The economic works of David Ricardo set the scene for Britain's economic position just prior and during the beginning of the Industrial Revolution. Ricardo's work revolves primarily around the political economy within England and taxation at the time. Although extremely summarized, one can encapsulate much of Ricardo's theory into five assumptions. Firstly, the natural wage of the worker is equal to the subsistence required to live, second, all investment in the economy is done by capitalists for profit, third, agriculture is subject to diminishing returns, then, the profit rate is the same throughout the economy at any point in time, and finally, the profit rate for the economy is equal to the last piece of land brought into cultivation. These assumptions led Ricardo to fight against the Corn Laws within England. He argued that diminishing marginal returns in agriculture along with the Corn Laws would cause profits to eventually drop to zero and England would eventually enter a stationary state. However, one can clearly see that this does not occur, and this is because of the industrial revolution.

Despite the gloomy predictions of Adam Smith, Malthus and Ricardo, Britain was well ahead of its competing nations in the early eighteenth century. Britain's core industries, textiles, iron, energy and power, utilized the advantages of increased productivity via the distribution of labor and investments in capital, spurring Britain's economic growth. Although this economic growth increased the per-capita GDP in England and allowed the nation to emerge as the global frontrunner, it brought with it an extreme gap in income, and the cities where manufacturing became the primary industry began to fester with disease and poverty. John Stuart Mill, who lived in a much different time than Smith, Malthus, and Ricardo, began to observe these malodorous byproducts of industrialization and adopted, on a less-extreme level, Malthus' theory of population. Mill observed increasing populations of poor within the cities because industrialization increased wages for the unskilled laborer, which allowed them to have more children. There was a clear segmented labor market within Britain at the time that was different culturally and economically than ever previously seen. The skilled and educated individuals enjoyed a natural monopoly within the market because they had upward mobility. Mill believed that the most important objective to further British economic success was to distribute industrial output more efficiently throughout the economy and stunt the incessant population growth, and his solution to this was first to speed up the diffusion of wealth through education of the impoverished. Although Mill believed in methods of poor relief, he did not support the Poor Laws because he did not believe that they provided an incentive system that discouraged the poor from remaining impoverished. Mill saw two classes of poor individuals, the deserving and undeserving, and he believed that private charity was the most beneficial method of distributing wealth to the deserving. Second, Mill did not believe that the "wage fund", as the capitalists called their portion of income given to the laborers, was fixed as they claimed. He saw the capitalists as having a monopoly over the labor that the workers were able to provide. Thus, Malthus supported unions within England, allowing the workers to form their own form of a monopoly and serve as a countervailing power to bargain for fair wages. Finally, Mill attempted to create a tax system within Britain that mitigated unearned income that individuals received due to inheritance or via other means. He believed that these systems only served to keep the rich wealthy and the poor impoverished. His solution was that there should be no taxes on the impoverished up to a natural level of subsistence. He also believed that all income made after subsistence should be taxed at a flat rate, providing an incentive for individuals to pursue more economic gain. However, he believed that there should be a sharp, progressive tax rate for unearned income, such as gifts, inheritance, and rent. However, like Ricardo, Mill valued the contributions that agriculture made to society, so he supported only a progressive tax on the average rent increase because he wanted agriculturalists to continue making capital improvements.

As the 1800's rolled around, Britain continued to train factory labor and accumulate capital, and their scale economies grew as their transport facilities improved, and by 1815, Britain had seen nearly two generations of growth and industrial development. However, despite all this economic development, there still remained an incessant gap in income inequality, and the conditions in the manufacturing districts became worse. Two economists, Karly Marx and Friedrich Engels, most renowned for the work in founding the communist economic model, spoke out loudly regarding the dismal conditions that the workers in Manchester and other great cities experienced and predicted economic turmoil and a revolution of the lower class. Marx publishes his first volume of “Capital” in 1867, and he is essentially a mutated classical economist. He believes that in Britain’s growing economy, wages will continue to fall to subsistence and profits will fall to zero, but unlike Mill, he does not believe in a stationary state. Marx as well as Engels, predict that as long as the industrial reserve army, the group of exploited workers that are being displaced due to the capitalists’ unfair wages and machine production, continues to grow, then eventually there will be a “glorious revolution”, and the poor will usurp the wealthy and create a new world.

Engels continues with Marx’s work and publishes numerous pieces of literature regarding the condition of the working class in England and the attitude of the bourgeoisie towards the proletariat. In these works, he condemns the capitalist structure throughout this powerful nation and predicts that the system will collapse. In his volume, “The Condition of the Working Class in England” in 1845, Engels reveals to the world the dark underside of industrial capitalism as it affects workers, saying that every hour, industrial capitalists consciously commit social murder on their workers. In this volume he points to the 57% child mortality rate within Manchester’s working class and the horrible conditions within the textile factories. He also claims that machinery has displaced adult labor within the factory system, allowing adult, male labor to be replaced by women and children. Engels’ continues by condemning the New Poor

Law that allows the impoverished to work in abominable workhouses, saying that the bourgeoisie blame the poor for their poverty and that these laws demonstrate the greed and inhumanity of the bourgeoisie at its highest level. Finally, Marx and Engels conclude with their theory of the capitalist crisis that claims that subsistence wages and falling profits will not lead to a stationary state, but rather to a revolution whereby capitalists will be overthrown by a "dictatorship of the proletariat". Firstly, the industrial army will continue to grow larger as more workers are replaced by machines while the number of capitalists decrease as the weaker ones are absorbed by the more powerful. Secondly, the crisis of overproduction will continue to grow worse until the two forces reach a "fever pitch" and a revolution occurs. At this time, we can see that the communist revolution did not occur, and this can be primarily attributed to Marx and Engels' ignorance towards the globalizing world.

The late nineteenth century, more accurately from 1870-1914, saw a period of massive globalization until progress was completely destroyed during the first months of World War One in 1914. The period of intense globalization was characterized by increases in international trade, the collapse of transportation costs, and the convergence of global prices and wages. One of the first examples of this shift towards free trade can be seen by the repeal of the Corn Laws in Britain during 1846 which essentially made Britain a free-trade nation. Along with the multilateral trade agreements between Britain, France, and the Zollverein, the world saw a substantial decrease in tariffs and considerable movement towards free trade. An international gold standard was also established by the beginning of the twentieth century which allowed for fixed exchange rates, providing merchants with confidence when loaning money to other nations, thus increasing international capital flows. At this point, nations and their business did not have to rely solely on domestic savings for investments. John Maynard Keynes had extremely positive insight regarding the well-functioning global economy prior to WWI, and, unlike Marx and Engels, Keynes claimed that the inequality in wages in England was the key to its growth. He called the wage gap a “Double bluff” because the workers would obviously not be allowed to consume as much of the pie that they helped produce, but there was a tacit understanding that this could only continue because the wealthy had to reinvest their capital. Keynes claimed that this led to a great deal of savings and geometric capital growth. However, all of this came to a halt as Germany began to seize more power and war broke out, but the war itself did not solely destroy economic growth, as Keynes claims, the Treaties of Versailles and Armistice compounded all economic dislocations.

Keynes was extremely critical of the treaties following the First World War and even went as far as resigning from the peace committee claiming that the prevailing attitudes towards Germany are reprehensible and the reparations they are required to pay produce extremely undue hardship. The European nations, especially England, attempt to return to pre-WWI economic climates as they endeavor to balance their budgets and subsidize poor relief, but Keynes argues against these methods, claiming that, “in the long run, we are all dead” and that self-adjusting markets in the long run do not effectively help the economy. He claims that the laissez-faire economy is not its natural state because individuals’ pursuit of self-interest does not necessarily lead to socially optimal outcomes. At this time, savings had become a religion within England, and individuals were under the false assumption that saving during a recession would help the economy. Keynes points out that saving during a recession actually hurts the economy, and he claims that instead of using government funds to provide unemployment insurance and poor relief, the government could put people to work. Furthermore, he contradicts Britain's lowering their interest rate, saying that they should actually increase it in order to gain foreign investment and increase present spending. Inevitably, growth falls rapidly in England, and as soon as the nation is able to catch up with Keynes' ideas and repeal the gold standard, issue public works projects, and run a budget deficit, they are forced to re-arm for Keynes' other prediction, World War II.

Overall, despite the contradicting theories throughout the centuries of British economic expansion, Britain was able to grow into the global superiority throughout the late 18th, 19th, and early 20th centuries due to their factory systems as well as their capitalistic tendencies towards capital investments and growth. During the neoclassical economic era, economists such as Smith, Malthus, Ricardo and Mill dominated and guided political economic policy through their opinions on compensation for the poor, trade restrictions, and focus on agricultural capital. Engels and Marx's communist theories highlighted the plight of the workforce in Britain, and pointed to the growing economy, spurred by the capitalists, on the back of the impoverished. Finally, Keynes' opinions regarding government intervention as well as the treaties following WWI were not heeded in time and resulted in the perpetual loss of superiority of the empire until it was not able to catch up before WWII.

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