

Reply to Peter Cain

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It is pleasant to have my little essay rescued from obscurity by the gentle attentions of Peter Cain, and for this I thank him. The essay is one of several over the past decade in which I have tried to dislodge Foreign Trade from its grotesque prominence in the historiography of Britain's century. These have recently been collected with some others in a book, *Enterprise and Trade in Victorian Britain* (McCloskey, 1981), parts of which (in collaboration with C. K. Harley) appear also in a few pages of Chapter 3 of Volume 2 of *The Economic History of Britain Since 1700* (Floud and McCloskey, 1981).

The view of trade I express is that multiplier models assuming unemployment are inappropriate to the long run, that the industries encouraged by exports (cotton for one) were no more progressive than those encouraged by import substitution (agriculture for one), and that the profits from exports did not enrich the most prescient investors. The three arguments bring us out of the murky world of dynamic gains from trade and into the clear light of the world as the early Victorians themselves saw it, namely, a world of static gains. The gains from the trade boom before 1870 were small. When after 1870 the world turned sour for British trade, at any rate by the standards of the previous boom, the resulting losses were small as well. Britain in Victoria's reign (and truth to tell in the reigns of the Georges too, as Robert Thomas and I argue in Volume 1 of Floud and McCloskey (1981)), did not "depend" on foreign trade. It depended on work and saving and ingenuity at home.

Cain's method in challenging the argument is to deny the persuasiveness of the three subarguments bringing us into a static world. His minor criticisms of the calculations once arrived in the static world are not very damaging, and I shall pass them without comment. My reply to his denials is that they lack force, especially quantitative force. That is, we should stay in the static world.

Take the argument about less than full employment. If employment was not full at the peak of the business cycle (it is of course irrelevant

what it was before the peak), then there might be a free lunch to be had in setting people to work making exports. With full employment, on the other hand, more exports have an opportunity cost in domestic demand unfulfilled. Was Britain fully employed at the peaks of the cycle? As I did in the original article, Cain quotes much airy assertion on the matter, but no evidence that would convince someone armed against the more obvious fallacies. It is one thing to believe as we all do that labor was supplied elastically to British industry in the early 19th century. After all, employment rose but wages did not rise much until midcentury. It is quite another to believe that labor was, socially speaking, free—that more exports cost nothing, or next to nothing, in output forgone. The latter, free-lunch hypothesis is what is required to make multiplier models work.

The direct testing of the hypothesis would be possible. One could examine the opportunity cost of a given bundle of increased exports, tracing the resources back to their home, in idleness or in alternative employment as the case may be. No one has performed the test. A less onerous but still useful exercise is to ask whether any substantial portion of British growth on trend in the 19th century could reasonably be explained by unemployment at its beginning. Few would claim that unemployment at the peak of the business cycle even in the 1820s was as high as 53%, yet so it would have to be to explain as one long secular boom (a popular phrase, that, for which Sir John Hicks is to blame) the rise of income per head of 53 on a base of 100 from the 1820s to 1873 (the underlying statistics may be found in Floud and McCloskey (1981, Vol. 1, p. 136, and Vol. 2, p. 7)). Needless to say, the difficulties with such misapplications of cyclical models to the very long run become insuperable on merely arithmetical grounds when the rise to be explained is more than 100%, as it is for longer periods.

Take then the argument about the progressiveness of the industries encouraged by exports. Cain is aware that some assumption is required to draw any conclusions about the effects of a counterfactual retention of agricultural protection. It would be possible to calculate how fast productivity was growing in the export industries as against the import substitution industries around 1850. The calculation would be superior to loose remarks about the "semifeudal" structure of the world's most progressive agriculture. In fact productivity change was rapid in British agriculture, before and after Repeal. And short of such a calculation one could, as I have in the book of essays (pp. 146-148), reckon what abandonment of trade would really have meant for the composition of output. Surprisingly, perhaps, a Britain forced to consume all its own manufacturing exports would have had manufacturing industries only a fifth or so smaller. It can be doubted that the enrichment of the nation depended on such a small change.

Take finally the argument about the prescience of the part of the nation enriched by trade. Cain follows a familiar line in suggesting that removing protection from agriculture increased the savings rate. In footnote 7 he suggests that Stolper-Samuelson calculations might be performed for Britain. Happily, I can oblige him, having done them a long time ago and buried them for lack of chutzpa. The chutzpa involved is supposing that people will believe one's guesses about such mysteries as the elasticity of substitution in manufacturing. The result for 1861 is perfectly believable, though: the abandonment of protection for agriculture would by then have resulted in a big fall in rent, little fall in wages (although of course a rise relative to the bundle of importables and exportables purchased for consumption), and a little rise in returns on capital. The model that arrives at such a result is a three-factor, two-sector Jones model (labor is mobile between the sectors, each of which has a specialized factor). Because it does not have nontraded goods (half of national income in fact) or trade in factors of production (on the eve of Britain's massive export of capital and men), it surely exaggerates how much factor returns moved in response to free trade. A big drop in rents and a little rise in returns on capital cancel each other out, for land is a smaller share of national income than is profit on capital. Little happens to the distribution of income, and therefore little can be expected to happen to the rate of savings.

The dynamic possibilities raised by Cain, then, are probably dead ends. That does not mean that research into them would be useless. Quite the contrary: if research into the history of unemployment, industrial productivity change, and the distribution of income would allow us to erect signs at their entrances saying "Dead End: Do Not Turn Down Here In Search of Clever Objections to Static Calculations" we would all save a lot of intellectual gasoline.

REFERENCES

- Floud, R. C., and McCloskey, D. N., Eds. (1981), *The Economic History of Britain since 1700*. Cambridge: Cambridge Univ. Press. 2 Vols.
- McCloskey, D. N. (1981), *Enterprise and Trade in Victorian Britain: Essays in Historical Economics*. London: Allen & Unwin.