

## THE PROCESS OF DE-INDUSTRIALISATION IN MODERN ECONOMIC HISTORY: LESSONS FROM BRITISH HISTORICAL EXPERIENCE

YOSHIRO KAMITAKE

### *Abstract*

The aim of this paper is to construct an effective terminology to make clear historical significance of the shadow sides of industrialisation. For this purpose there are many invaluable examples in history, most of which can be found out in British economic history from the late 19th to the early 20th century. From these English historical experiences we can assume several stages of industrial *de-structuring*. Its first stage is the period of *de-farming* which began during the Transport Revolution. *De-industrialisation* is the second stage. Its meaning has been clearly defined by the late Nicholas Kaldor. And the third stage of industrial de-structuring may be characterized as an era of *commercialization* or *Entindustrialisierung*. If such a hypothesis is to be justified, we can regard the present stage of British economic history as a mixture of de-farming, de-industrialisation and commercialization.

### I

In constructing and reconstructing a historical image of modern European capitalist economies or a system of world capitalism there have been many points of view proposed by economists and economic historians. Especially some famous economists such as Rostow<sup>1</sup> and Lewis<sup>2</sup> who had identified their economic thoughts with their excellent historical perspectives, tried to conceptualize the process of modern economic development through the application of a new theory of economic growth. History of economic growth has become a main theme among many aspects of economic history, and European industrialisation has been described as a process of economic growth.

However, if our attention should be given to the aspect of economic *decline* instead of economic growth, we must devise a new apparatus for historical research works. As growth is followed by growth, decline is followed by decline, and both of them have been reckoned to trace the same 'cumulative' process.<sup>3</sup> But each process represents its own historical feature which should be depicted from a peculiar viewpoint. As the preliminary step for exploring a declining process we have to construct an effective terminology to make clear

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<sup>1</sup> W.W. Rostow, *The Stages of Economic Growth: A Non-Communist Manifesto*, Cambridge U.P., 1960.

<sup>2</sup> W. Arthur Lewis, *The Theory of Economic Growth*, London, 1955.

<sup>3</sup> Ingvar Svennilson, *Growth and Stagnation in the European Economy*, Geneva, 1954, p. 6(n).

the historical significance of a reverse or shadow side of industrialisation in general. It is the aim of this paper. Fortunately there are many valuable examples to be probed for this purpose, most of which we can find out in British economic history from the late 19th to the early 20th century. In the next section we will extract from historical facts of that period several important topics which may be useful for making up the key concept for analysing an economic decline, that is, *de-industrialisation*.

## II

In early April 1975, Tony Benn, the then Secretary of State for Industry, called attention to 'a history of decline that shows no sign of ending,' into which the British economy had fallen, and warned English people of the possibility of 'devastating trend to contraction in British industry.'<sup>4</sup> According to his calculation, during the five years 1970-74 the net contraction of employment in British manufacturing industries averaged 120,000 a year. Moreover, as the volume of imports of manufactures to Britain rose 67 per cent compared to only 8 per cent of increase of their output during the same period, British balance of trade in manufactured goods had worsened continuously. Immediately after Benn expressed his pessimistic view of British industrial future, Denis Healey, who was then the Chancellor of the Exchequer in the Wilson's Cabinet, referred to the same problem in his Budget Statement as follows:

'But from now on we must do everything in our power to ensure that our exports of manufactures increase faster than our imports and not the other way round. We must preserve and improve our international competitiveness—a word that covers many things other than just relative wages and prices. It comprises the quality and availability of industrial capacity and of skilled manpower, and the efficiency, the originality and the vitality of our industrial management. . . . We must reverse the process of de-industrialisation—of a steady loss of jobs and factory capacity year after year—which my right hon. Friend the Secretary of State for Industry described so convincingly in a recent article.'<sup>5</sup>

Healey was one of the first to use the word 'de-industrialisation' as a term to describe a retardation or declining process of British industry in the latter half of 20th century. A few years later it also became a subject for discussion in the academic world. At a conference on de-industrialisation organized by the National Institute of Economic and Social Research (NIESR) Alec Cairncross, a well-known economist, delivered a speech entitled 'What is De-industrialisation?,' in which he defined the term 'De-industrialisation' as 'a progressive failure to achieve a sufficient surplus of exports over imports of manufactures to keep the economy in external balance.'<sup>6</sup> However he told that de-industrialisation problem should not be taken seriously, and criticized the view of Cambridge economists who had emphasized its crucial significance in evaluating British economic decline after

<sup>4</sup> *Trade and Industry*, Vol. 19, 1975, p. 2.

<sup>5</sup> 890 *House of Commons Debates*, 5s., Col. 288 (April 15, 1975).

<sup>6</sup> Alec Cairncross, 'What is De-industrialisation?,' in F. Blackaby ed., *De-industrialisation*, 1979, p. 10.

the Second World War. Nicholas Kaldor, as the commentator on Cairncross's report, found fault with his opinion and proposed a more precise definition of de-industrialisation. He defined it as

'a state of affairs in which there is a continued decline in a country's share of world trade in manufactures and/or a continued increase in the share of imported manufactures in domestic expenditure, in consequence of which it becomes progressively more difficult to achieve a sufficient surplus of exports over imports of manufactures to keep the economy in external balance.'<sup>7</sup>

By this definition 'de-industrialisation' became a term suited for our conjuring up historical images of British economic decline, which Kaldor was asked to evaluate in his comment on the paper read by Cairncross. With Kaldor's refined analysis the course of de-industrialisation process can be traced more exactly.

At first, he expressed the level of output ( $Y$ ) determined by Harrod's foreign trade multiplier by the equation  $Y=(1/m)X$  where  $m$  is the proportion of consumption and investment expenditure spent on imports, while  $X$  represents exports. Upon this simple formula he considered that in an economy without labour shortages 'the (trend) rate of growth of manufacturing output will be determined by the (trend) rate of growth of exports provided that the propensity to import (average and marginal) remains constant over time.'<sup>8</sup> But if the propensity to import rises or the 'Harrod's multiplier' falls, the growth of exports shall not bring about the same level of growth of manufacturing output that was achieved at a previous stage. Therefore Kaldor made clear the necessity of 'aligning the growth of imports to the growth of exports,'<sup>9</sup> and advocated an economic policy which can cause the propensity to import to be lower, that is, a protectionist policy to put a stop to de-industrialisation. From this angle he referred to Joseph Chamberlain's 'Tariff Reform' campaign which showed remarkable foresight. According to him, British de-industrialisation had already started at the end of 19th century, when Chamberlain had been intuitively on the scent of something serious against British economic prosperity.

Kaldor's appraisal of Chamberlain's protectionist movement seems to reflect his excellent sense of history, and his conviction that British de-industrialisation commenced at the turn of the century can be supported by a few important historical facts which we shall see later, though not a little doubt may be casted on his view about the structure of British capitalist economy in those days:

'Throughout that period the economy was demand-constrained, not supply-constrained. There was considerable unemployment and under-employment as shown by the heavy net emigration, estimated at six million from Great Britain alone in the period 1880-1910. . . . Capital accumulation in industry was limited by lack of opportunities due to low demand, not by lack of savings, as is shown by the heavy capital exports throughout the period.'<sup>10</sup>

<sup>7</sup> N. Kaldor, 'Comment,' in Blackaby, *op. cit.*, p. 18.

<sup>8</sup> *Ibid.*, p. 19.

<sup>9</sup> *Ibid.*, pp. 20-21.

<sup>10</sup> *Ibid.*, p. 22.

His argument in which he characterized British economy of the later 19th century as a 'demand-constrained' may be accused of being biased towards Keynesian theoretical framework, and he was too optimistic as to the possibility of development of new industries. In fact, British industrial structure of the 19th century had been inappropriate for the introduction of heavy industries with higher level of capital-labour ratio, and, as is best shown in the effects of the Basic process invented by Sidney Gilchrist, it was too rigid to reap the fruits of technical innovation. Consequently Britain was not able to accomplish the so-called 'Second Industrial Revolution' to meet the needs both of domestic and overseas markets. These 'supply-constrained' aspects of British economy seemed to accelerate the process of de-industrialisation. It is clear that Kaldor emphasized exclusively market factors to generate de-industrialisation, and neglected the distribution structure of national savings which reflects the characteristics of British capitalist national economy. His main arguments are likely to depend upon few restricted historical facts. Therefore we must give more evidence which may support his case for de-industrialisation.

British people who had won the Napoleonic Wars and brought about a 'revolutionary' industrialisation occupied an unparalleled position as the strongest industrial power in the world. Abnormal though it might be, the situation was successfully maintained until 1880s when Britain still covered about 40 per cent of world manufacturing trade.<sup>11</sup> Its changing structure after 1880s may be shown in Table 1. The British share in world trade of manufactures has steadily decreased until the present day. But it did not seem to be a major contributing factor which disturbed the achievement of 'a sufficient surplus of exports over imports' in British manufacturing industries, for the growth rate of British net exports of manufactures had already stagnated or decreased before the share of Britain in world trade began to diminish. Now we will go more in detail about this problem.

In 1903 the Board of Trade published a famous report on economic conditions surrounding British trade and industry.<sup>12</sup> As it gave numerical data and evidence for free or unrestricted trade system, a lot of free traders often employed it so as to justify their commonly used argument that Free Trade can be consistent with the development and prosperity

TABLE 1

	UK share in world exports of manufactures (%)	Volume of UK exports (1958=100)
1899	34.0	33
1913	30.9	91
1929	22.9	74
1937	21.3	59
1950	25.3	91
1960	16.5	109
1970	10.8	170
1975	9.3	221

Source: A. Cairncross, 'The postwar years 1945-77,' in R. Floud & D.M. McCloskey, *The Economic History of Britain since 1700, Vol. 2: 1860 to the 1970s*, 1981, p. 388.

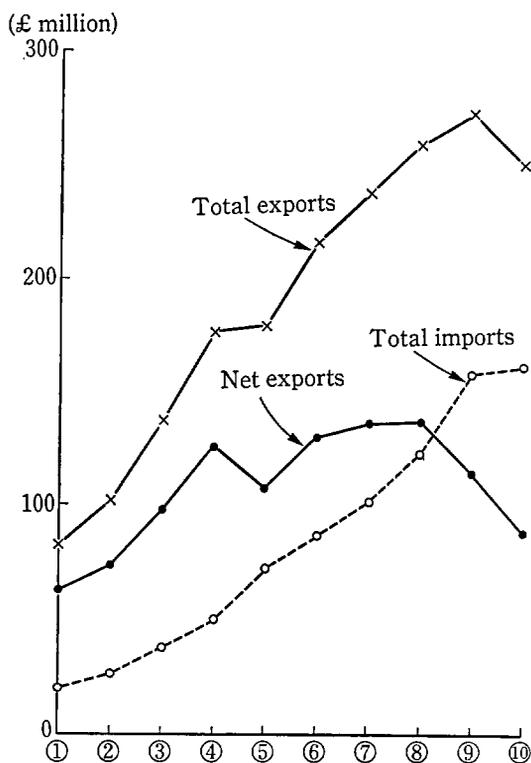
<sup>11</sup> *Ibid.*, p. 22.

<sup>12</sup> *Memoranda, Statistical Tables, and Charts Prepared in the Board of Trade with Reference to Various Matters Bearing on British and Foreign Trade and Industrial Conditions* (Cmd. 1761), 1903.

of British overseas trade of manufactures. However a special attention should be paid to the fact that the Board of Trade report documented the very aspect of British de-industrialisation towards the end of 19th century. It recorded a few time-series data in terms of current prices, which could show the changing pattern of aggregate British exports and imports of manufactured and partly-manufactured goods after 1854. By deflating these figures through the Rousseaux Price Indices we can draw Figure 1. It illustrates the fluctuations of British net exports of manufactures.

From Figure 1 several important facts can be pointed out. Firstly, net exports of British manufactured and partly-manufactured goods began to stagnate in 1870s and its rate of growth became negative in 1890s. Secondly, there was a steady growth of total exports of manufactures up until 1890s, then a downward or negative growth from the outbreak of the Boer War. Thirdly, the growth rate of total imports was greater than that of total exports of manufactures. From these statistical facts we can guess that in Britain

FIGURE 1



Note: Figures plotted show annual averages in each of the following periods:

- |           |             |
|-----------|-------------|
| ① 1854-58 | ⑥ 1879-83   |
| ② 1859-63 | ⑦ 1884-88   |
| ③ 1864-68 | ⑧ 1889-93   |
| ④ 1869-73 | ⑨ 1894-98   |
| ⑤ 1874-78 | ⑩ 1899-1902 |

there had been a symptom of de-industrialisation towards 1870s and its clear indication was given in 1890s. At least up to this point the image of de-industrialisation suggested by Kaldor's 'Comment' could be supported by several numerical evidences in British economic history. But how to explain the genesis of causes which had brought about British de-industrialisation? Perhaps we can get a fairly deep understanding of this problem from the angle of a long-term distribution structure of national savings in Britain.

As was pointed out in the Minutes of Evidence of the Colwyn Committee (1927),<sup>13</sup> considerable parts (about 30 per cent) of British national savings between the Wars were invested abroad, otherwise they would have been available for domestic capital formation. The flow of these funds for investment could not be turned to a different direction by any economic policies designed for short-term use, for this stream of national savings was a result of a long-term tendency which had been observed after the Napoleonic Wars, and which we must investigate next.

We are now in a position to examine how British exports of capital, domestic capital formation and national savings were interconnected in the later 19th century. For this purpose gross savings which constitute a barometer of national savings may be defined as the sum of gross domestic fixed capital formation, inventory investment, and net overseas investment.<sup>14</sup> But inventory investment was so small during the period concerned that it could be neglected. Relationship between the other three variables may be shown in Figure 2. From it we can find out two fundamental historical facts. Firstly, there is a negative correlation between domestic fixed capital formation and exports of capital. This is a well-known fact for which sufficient evidence has been given since the pioneer work of A. K. Cairncross.<sup>15</sup> Secondly, half of gross savings were invested abroad during the boom periods of overseas investment. But further analysis should be needed to interpret this fact.

To clarify the relationship implied by Figure 2 we shall define the savings-ratio as the rate of gross savings to GNP. Table 2 shows deviations from the annual averages of savings-ratio over the period between 1870 and 1913. It suggests that the propensity to save is likely to be higher in the boom years of foreign investment than in the depressed years or in the boom periods of domestic investment.<sup>16</sup> In other words, a considerable part of gross savings tended to be exported through the City and could not be connected with domestic capital formation. Such a flow of gross savings seemed to be closely related with the 'static' industrial structure of Britain, that is, a conservative framework of productive powers with least capacity for the application of technological innovations which might be expected to develop new industries. Moreover, the development of joint stock companies which had reflected the characteristics of British industrial structure could not promote industrial concentrations necessary for the progress of heavy industries as in Germany. In Britain several company laws enacted in the later 19th century remained to give a legal foundation for the formation of limited partnership or private companies.<sup>17</sup>

<sup>13</sup> *Minutes of Evidence taken before the Committee on National Debt and Taxation*, Vol. II, 1927, p. 639.

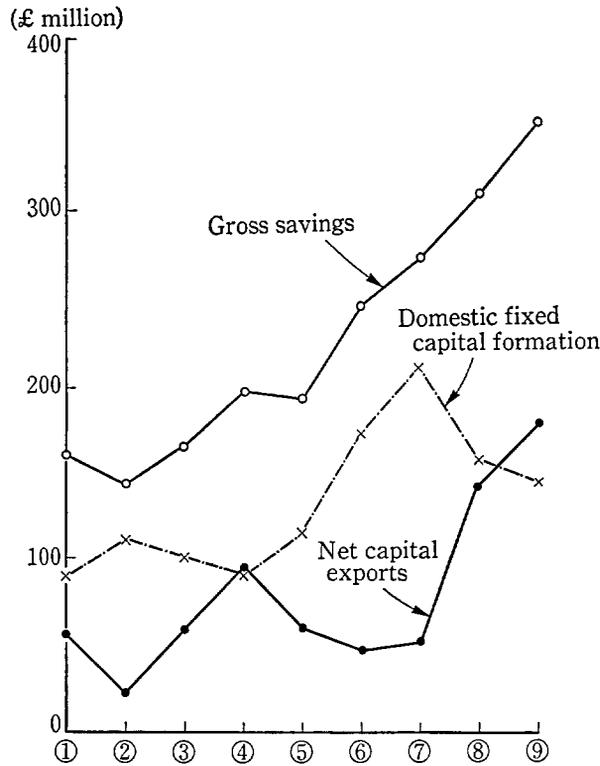
<sup>14</sup> R.C.O. Matthews, C.H. Feinstein & J.C. Odling-Smee, *British Economic Growth 1856-1973*, Stanford U.P., 1982, p. 139.

<sup>15</sup> See, A.K. Cairncross, *Home and Foreign Investment 1870-1913*, Cambridge U.P., 1953.

<sup>16</sup> See, P.L. Cottrell, *British Overseas Investment in the Nineteenth Century*, Macmillan, 1975, pp. 47-55.

<sup>17</sup> See, J.B. Jeffreys, *Trends in Business Organization in Great Britain since 1856* (University of London unpublished Ph.D. Thesis), 1938.

FIGURE 2



Note: Figures plotted show annual averages in each of the following periods:

① 1871-75	⑥ 1896-1900
② 1876-80	⑦ 1901-05
③ 1881-85	⑧ 1906-10
④ 1886-90	⑨ 1911-13
⑤ 1891-95	

TABLE 2

Year	Deviation	Year	Deviation	Year	Deviation
1970	-2.0	1885	-1.8	1900	-0.8
1	1.5	6	-0.5	1	0.2
2	0.9	7	1.0	2	-0.2
3	-0.5	8	0.5	3	0.2
4	0.8	9	0.4	4	0.2
5	0.4	1890	0	5	1.1
6	-0.8	1	-0.1	6	2.3
7	-1.6	2	-1.2	7	1.6
8	-2.2	3	-2.0	8	0.3
9	-2.3	4	-1.0	9	0.7
1880	-0.8	5	-1.1	1910	1.9
1	-0.6	6	0.6	11	1.8
2	-0.9	7	-0.5	12	1.1
3	-0.4	8	0.1	13	3.0
4	-0.6	9	1.2		

It is these small joint stock companies that had maintained steady growth in British exports of manufactures up to the end of 19th century. As we have stated, the growth rate of British *net* exports of manufactured and partly-manufactured goods began to stagnate in the latter half of the century. Its primary cause seemed to be a rapid growth of British imports of manufactures through general improvements of the commodity terms of trade. At the turn of the century when export industries of England had already been unable to compete on equal conditions with foreign, especially German enterprises and when the rapid increase of imports of manufactures had been brought out by the 'income effect' of overseas investment,<sup>18</sup> the growth rate of British net exports became negative and the process of de-industrialisation started in a remarkable speed. These economic situations enabled Joseph Chamberlain to begin his career as a 'social imperialist'

### III

As is commonly known, Joseph Chamberlain, an industrial capitalist in Sheffield, who had been appointed to the Colonial Secretary in 1895, commenced a campaign for 'Tariff Reform' in the spring of 1903. Its purpose was to reconstruct the British imperial economy through protectionist policies and preferential treatments and to organize an 'Imperial Zollverein.' There shall be many points to be investigated about historical significance of the 'Reform' movement, but here we will focus our mind on Chamberlain's speeches which expressed and reflected the relationship between his economic ideas and British de-industrialisation at the turn of the century.

Chamberlain's discussions about 'Tariff Reform' were not published as a series of books, but as a collection of speeches.<sup>19</sup> Therefore from these stenographic records we must choose several materials suitable for our present purpose. Fortunately we have only to pay attention to one speech which Chamberlain gave in Limehouse, East End of London, in December 1903, for, amongst others, it seemed to involve several essential points of his economic thoughts.

In that speech he indicated there should be some important aspects of unemployment problems to be debated openly and publicly. At first he told that a case for Free Trade would be misleading, because it could not propose any plans for controlling economy including unemployment policies. Secondly he spoke out that if the doctrine of Free Trade is to be consistent it must introduce *laissez-faire* policies, and referred to Cobden's view as follows:

'His (=Cobden's) view was that there should be no interference by the State in our domestic concerns. He believed that individuals should be left to themselves to make the best of their abilities and circumstances, and that there should be no attempt to equalise the conditions of life and happiness. To him, accordingly, protection of labour was quite as bad as protection of trade. To him a trade union was worse than a landlord. To him all factory legislation was as bad as the institution of tariffs.'<sup>20</sup>

<sup>18</sup> See, Cmd. 1761, p. 102.

<sup>19</sup> Joseph Chamberlain, *Imperial Union and Tariff Reform*, London, 1903, and *Mr. Chamberlain's Speeches*, Vol. I-II, Edited by Charles Boyd with an Introduction by Austen Chamberlain, London, 1914.

<sup>20</sup> Boyd ed., *op. cit.*, p. 259.

Chamberlain emphasized that such a doctrine was not able to bring out any systems of workmen's compensation, effective unemployment policies and factory legislations, all of which only the Unionist party could realize in the near future.

Meanwhile, according to him, 'the doctrine of Free Imports' would leave domestic unemployment to attain a seriously high level. But how did he perceive the economic meaning of unemployment. He considered that each worker would have the alternative of unemployment or low wage, the principal cause of which might be the reduction of costs forced by the increase of import of foreign manufactures. As he did not believe in the possibility of involuntary unemployment, that is, he was convinced that wage-rate must be determined at a level at which supply and demand can be balanced, he was mainly concerned with policies for eliminating various factors lowering wage rates. Therefore his plan included a protectionist trade policy which may check the import of unfairly cheap goods, as well as the restriction of growing immigrants which can put some pressure to reduce wages of British workers. But he paid special attention to another, stronger pressure on British working class.

In the same speech cited above Chamberlain took up the view of Carl Peters, a famous German imperialist, who made the effort to form the East Africa as a German colony. He briefly summarized the opinions of Peters:

'Whereas at one time England was the greatest manufacturing country, now its people are more and more employed in finance, in distribution, in domestic service, and in other occupations of the same kind. That state of things is consistent with ever-increasing wealth. It may mean more money, but it means less men. It may mean more wealth, but it means less welfare.'<sup>21</sup>

In an address delivered at Liverpool on October 28th 1903 he had already made clear the difference between 'wealth' and 'welfare' and stated that the former is not necessarily consistent with the latter. In these addresses he asserted his own view of the so-called 'poverty in the midst of plenty' that as an industrial structure changes and the proportion of industrial sectors in a national economy is decreasing the number of workers in 'continuous employment'<sup>22</sup> will become lower and lower, though monetary 'wealth' is not likely to decrease. National 'wealth' cannot bring about general 'welfare,' for any bias of industrial structure may distort a desirable state of income distribution.

Now let us consider another interesting argument of Joseph Chamberlain, which nowadays can be called a 'hollowing-out' problem. He explained this problem by the following example:

'In a certain town or village, as it may be, there is a manufacture which employs 500 people. The trade is half with Germany and half at home. Germany puts on duties

<sup>21</sup> *Ibid.*, pp. 267-8.

<sup>22</sup> As to 'continuous employment' Chamberlain explained as follows: 'I think we cannot properly measure the present position of the working classes of this country by the sort of returns which the political economists provide for us, and which deal only with the highest class of workman. They never deal with the amount of employment which each working man has. They deal with the average rate of wages, which is quite a different thing. I was told the other day that the wages of dock labourers in Liverpool always get continuous employment? ("No.") And if he does not get continuous employment, what does it matter how high the wages are?' (Chamberlain, *op. cit.*, p. 154).

which would make the trade in Germany impossible. Thereupon the manufacturer who wants to keep his trade carries over half his machinery to Germany, and thereafter he employs 250 Germans and 250 Englishmen. What is the result there? The manufacturer is just as rich as before. He has just as large an income, but there are 250 fewer Englishmen—Britons—employed.<sup>23</sup>

The reality of such a view that protectionist tariffs in a foreign country may induce direct investment there but decrease the volume of domestic employment, if it was not believed in those days, seems to be reinforced by the recent trend towards multinationalization of industrial concerns in advanced capitalist countries.

Though Chamberlain intended to make far-reaching changes in contemporary British economic policy and started to propose alterations to conventional framework of the Empire, his main contribution to ideas of political economy in England should be limited to the point that he grasped the problem of de-industrialisation as a result of changing economic structure instead of as a consequence of decline of export industries. But this is an essential point.

#### IV

As a summary of this paper we can propose a sort of *Kasuistik*—Max Weber often used the term in his methodological works<sup>24</sup>—for understanding a negative or shadow aspect of industrialisation process. By a *Kasuistik* we understand a set of concepts which can be useful for making clear our judgements of social and historical phenomena and available for perceiving a new combination of social events.

We can assume several stages of *industrial de-structuring*—‘hollowing-out’—which means a partial destruction of a national economy, that is, a national system of social division of labour.<sup>25</sup> If a country’s net imports of agricultural products become so great that they could lower the degree of self-sufficiency in its agricultural production, we define that phenomenon as *de-farming*. It was developed during and after the Transport Revolution<sup>26</sup> of the 19th century. From these English historical experiences we can realize that de-farming is the first stage of industrial de-structuring. De-industrialisation which has already been defined according to Kaldor’s proposals is the next stage. *Commercialization* or *Entindustrialisierung* is the final stage of industrial de-structuring. If we understand the term *commerce* includes banking and monetary services,<sup>27</sup> commercialization shall mean

<sup>23</sup> Boyd ed., *op. cit.*, p. 268.

<sup>24</sup> See the first and second chapters of his *Wirtschaft und Gesellschaft* (Studienausgabe, Tübingen, 1972, SS. 1–121).

<sup>25</sup> Though reference should be made to the works of Hisao Otsuka on National Economy, only a few of them are available for the English reader. See, for example, Hisao Otsuka, *The Spirit of Capitalism: The Max Weber Thesis in an Economic Historical Perspective*, Translated by Masaomi Kondo (Iwanami Shoten Publishers), Tokyo, 1982.

<sup>26</sup> S.G. Checkland, *The Rise of Industrial Society in England 1815–1885*, London, 1964, p. 25.

<sup>27</sup> With regard to the terminology such as this, see Geoffrey Ingham, *Capitalism Divided?: The City and Industry in British Social Development*, London, 1984.

a process where the proportion of service sectors in a national economy become increasingly larger than that of agricultural and industrial sectors.

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