HICKS ON ECONOMIC HISTORY

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As MIGHT BE EXPECTED of the author of *Value and Capital* and sundry other major theoretical works, Sir John Hicks' analysis of the pattern of economic history [3] is both elegant and stimulating. The work does however, demand close critical attention since the scope of the book is such that many major problems of a theoretical approach to economic history are raised, if not solved.

Hicks defines his task as

> . . . a theoretical enquiry which must proceed in general terms—the more general the better. We are to classify states of society, economic states of society: we are to look for intelligible reasons why one such state should give way to another. It will be a sequence not unlike the "Feudalism, Capitalism, Socialism" of Marx, or the stages of the Germanic Historical School. But our presuppositions are less deterministic, less evolutionary than theirs, and this will make a difference. [3, p. 6]

Having defined his task, Hicks postulates a pre-mercantile economic phase which he calls the Revenue Economy. This economy is characterized by the presence, not of market relationships, but of customary tributes, in labour or in kind. It is the transformation of this pre-mercantile form by market forces which is the theme of the book.

Before discussing the manner in which this transformation is brought about it is necessary to examine Hicks' description of this pre-mercantile phase.

The Revenue Economy, as described by Hicks, subsumes two types of economic structure which are usually thought of as distinct types. These are the bureaucratic state (of which Imperial China is the obvious example) and the various forms of feudal society (of which post-Imperial Europe is the usual example). It is quite clear from Hicks' analysis that he regards the less centralized feudal type to be the more common and that the bureaucratic type itself will show marked tendencies to turn into some form of feudalism. He comments:

> The multitude of systems or social organizations, to which the term feudalism has been applied—including those to which many would say it is misapplied—have perhaps nothing more than one thing in common. They are a low degree of success in the transmutation of an army into a civil government. The Generals are made governors of provinces, the Captains their district officers. They retain some memory of the positions from which they have sprung, so they still have some feeling of

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> allegiance to the centre: but the power of the centre to enforce its commands upon them has become very limited, so that hardly more authority over them is retained than is expressed in customary rights. [3, p. 16]

And later he adds that the performance of particular bureaucratic functions and the enjoyment of corresponding privileges tend to become regarded as rights and so passed on to the functionaries' heirs. The growth of a hereditary aristocracy and the specialization of trade by caste are but two other examples of what Hicks labels the "gravitation" phenomenon.

Of the Revenue Economy as a crucial phase in economic development he says:

> It is a genuine form of organization, which is to be contrasted with the market form: it is the principle background against which the evolution of the market is to be studied. . . . [3, p. 24]

In the subsequent explanation of the rise of the market economy Hicks does not give any indication whether he regards either of the two sub-types of the Revenue Economy as more amenable to penetration by market forms. Thus it is not clear whether he regards feudalism, or at least its European form as being inherently more open to market penetration than the classical bureaucracies of countries like China or Ancient Egypt. This omission is of some importance for a general theory of economic history since Hicks' subsequent discussion of the legal, financial, and governmental barriers which the mercantile economy had to surmount runs in terms of the penetration of a feudal monarchical system not of a centralized bureaucracy. Whilst the discussion of the problems of such a system is convincingly carried out by Hicks it is not clear that the same problems would necessarily arise in the case of a bureaucratic system. For example the problems of Royal finance which Hicks discusses (see below) would not necessarily arise for the Chinese Emperor or the Inca Bureaucracy since the amount of information available to these rulers would be much greater than to a Stuart monarch. Hicks emphasizes that taxing trade is difficult unless trade can be taxed at well-defined points. Is there any reason to assume that the bureaucratic state would be incapable of solving this problem? Similar questions can be posed on whether the legal systems of a classical bureaucracy and the concomitant centralization of enforcement favour or hinder the development of trade. These questions are not posed, or at least not put explicitly by the author. The effect, in the view of the present writers, is to detract from the generality of Hicks' analysis. Before leaving Hicks' Revenue Economy there are two subsidiary questions to be raised concerning his explanation of feudalism. The first is whether Hicks views feudalism as only arising out of conquest; as the quotation above would indicate. In his treatment of the mercantilization of agriculture (chapter vii) his account of feudalism is different from the conquest explanation in that the feudal relationship postulated between lord and peasant is essentially one of mutual support-protection in return for maintenance. The second question also arises from Hicks description of "conquest" feudalism—is slavery to be regarded as a distinct economic system with its own set of economic relationships or is it merely a sub-class of feudalism? In one place Hicks seems to say that slavery and feudalism are qualitatively the same.

The point will come when the army or at least some nucleus of armed force needs regular support—when it is necessary for the despot to assure himself of a regular income. There are two ways in which he can do this: by setting captives to work as slaves, or by imposing contributions (the ancestors of our taxes). We are accustomed to thinking of one of these methods as barbaric, the other as civilized but at the stage with which we are concerned they shade into one another. Is labour part-time slavery, or is it a form of tax-payment? It can be looked at either way. [3, p. 16]

One problem which stems from this approach is that by lumping slavery and serfdom into one category the difference of the feudal relationship from that of the slave is obscured. Hicks describes the feudal relationship in chapter vii, in terms of an exchange between the lord and the peasant. The exchange is regulated by custom and this implies that once the customary duties are met the peasant can accumulate surpluses on his own account. Whilst there are some relationships called "slavery" which seem to fit into this category, normal usage implies outright domination as the hallmark of slavery—or alternately the lack of those customary relationships which Hicks emphasized in the case of feudalism proper. The possibility of accumulating surpluses on the part of the feudal peasant as against all surpluses accruing to the slave-owner is obviously an important factor in how a pre-mercantile system will develop. Or to paraphrase Marx: take away the Seigneur and one is left with peasant farmres. Take away the slave from the plantation and no economy is left. In moving on to Hicks' account of the rise of the market economy it is worth keeping in mind that Hicks' "Revenue Economy" is not an unambiguous concept.

The Rise of the Market

Hicks postulates three stages in the rise of the market economy. The first stage or phase is connected with the emergence of the city state as a trading entity. Hicks lays great stress on the Mediterranean City State as providing the necessary conditions for the emergence of the market economy. He says:

. . . if external trade is to gain this importance, the opportunities which it offers must be large, relatively to internal opportunities: and it is easiest for that to happen in a community that is rather small. The need therefore is for a community with good opportunities for trading outside it: but it must be an independent community, independent enough to mould its institutions to meet its own needs. These are stringent conditions, but there is a well known case where they are met. They are met in a City State. [3, p. 38]

It should be observed, in passing, that the City State appears in Hicks as a trading centre. No account is given of the manner by which the City was transformed from a body of citizen landholders into a trading community. Why the trading City arose in the Mediterranean area is explained by the geography and the differing natural resources of the area. However to describe the conditions which made the trading City possible is not the same thing as describing the process of transformation.

Given the City State as a trading centre, Hicks gives a simple but telling analysis of how trade will tend to develop, on the basis of different geographical prices for "corn" and "oil." The act of trading gives rise to surpluses which provide the basis for further expansion. Even if there are inherent limits to the trade in primary commodities traders will tend to look for new products to trade. The expansion of trade implies the need for new contracts and new contacts and the legal flexibility of the City State facilitates this expansion and diversion. Hicks account brings to mind the description given by A. French [2] of the trading policy of Athens. Whilst it is not inevitable that a City State will follow such a policy of enlightened self-interest, those that emerge as successful trading centres will have done so. Hicks then outlines the manner in which the City State may expand both by trade and/or colonization. Hicks argues that the process of expansion itself, by producing increasing competition, new sources of supply and substitute products, tends to reduce the profitability of trading. Although there are offsetting tendencies which reduce trading costs:

> It is tempting to suppose that there must be a phase in which the one force is dominant, which must be followed by a phase in which the other force is dominant—a phase of expansion followed by a phase of stagnation. It may be so: but it may also happen that after a pause new opportunities are discovered, so the expansion is resumed. [3, p. 56]

However, according to Hicks, pauses do occur and in addition conflict may emerge with other City States (e.g., Venice and Genoa, the Peloponnesian War) which end the expansion. This may lead to war or to cartelization of the market. Thus customary agreements may develop within the mercantile community itself.

The second phase of Hicks' schema is when the trading centres survive under the protection of a state which is itself only partly mercantilized. Four chapters of the book deal with this phase (v–viii) and these are concerned with the penetration of the mercantile forms into the Revenue Economy. The areas dealt with are law, money, state finance, agriculture, and the labour market. Hicks emphasizes two legacies of the City State—the "law merchant" and the use of standardized money. Thus, when the City State reappears after the Dark Ages

> . . . There was much to be done but they did not have to start from scratch. [3, p. 71]

Given these two legacies it is possible to derive the beginning of the modern credit and financial system. These developments are:

> Near to the heart of the transformation which has brought the middle phase of mercantile development to an end and has ushered in its modern phase. [3, p. 80]

In the next chapter (vi) the author discusses the problems of government finance during the second or middle phase. Hicks argues that as trade and wealth expand, the finances of the sovereign will tend to lag behind expenditure. It is not explained why expenditure increases but presumably a more complex economy requires greater legal, administrative, and military expenditures. Lagging revenue is explained by the difficulties of taxing the merchant classes—the source of the growing national economy. The administrative difficulties of taxing trade are considerable since what is required is a large volume of trade passing through relatively few points. Attempts to compensate for the narrow tax-base traditional to the pre-mercantile economy fall into three categories:

(i) Squeezing more out of the customary taxes
(ii) Borrowing
(iii) Debasement.

Hicks argues that there are major difficulties associated with each of these. Attempts to increase customary taxes would produce strong opposition (Wat Tyler, John Hampden, and the Boston Tea Party). Borrowing was difficult in that the middle phase State was not usually creditworthy. The basic inelasticity of the tax revenue made repayment very difficult and default likely. Also the royal loan was not legally secure since in the middle phase state the courts were the Sovereign's and redress unlikely. Borrowing against security was a possibility. Not only borrowing against the Crown Jewels but also against the right to tax. Hicks stresses tax-farming, and the associated tendency to purchase exemption from future taxation as a crucial source of weakness in the middle phase State.

> Parting with state property and parting with the taxing power obviously weaken government. We can trace their effects in the ruin of Charlemagne's Empire, and in the ruin of the Holy Roman Empire of Germany which succeeded it. It is the same story under the early Stuarts in England and it would not be surprising if it were part of the greatest of historical mysteries, the decline and fall of the original Roman Empire itself. [3, p. 87]

The third alternative, debasement, was limited, since if the Mint attempted to extract revenue by debasing one of the "great" currencies, the supply of metal to the Mint would dry up. (The "great" currencies included the solidus of Constantine, the Florin, the Guilder, the Ducat, and the Pound sterling.) The fact that these had to be internationally acceptable limited the power of the sovereign to tamper with them. Local currencies were more open to debasement since the price offered to the supplier of the metal could be raised and the book-profit split between State and supplier. However this would tend to raise prices and hence reduce the real value of the customary revenues. Thus debasement, like tax-farming, could leave the State in a weakened position. As an expedient the ill-effect of debasement could be offset by forcing the exchange (at a rate favourable to the state) of debased coins into harder coin for the purpose of paying taxes but again

> . . . the imbroglio . . . would be one that in future he (the sovereign) himself would be anxious to avoid. [3, p. 91]

There would also appear a distinction between actual coinage and the unit of account. If State revenue could be written up by revaluing the unit of account, state debt could be written down by reducing it, that is by debasement. The author suggests that the downward tendency observed in the value of money over centuries is a sign of a series of partial repudiations by the state. In addition the strength of the two tendencies at any time explains the stability or otherwise of the value of money.

Hicks contrasts the financial position of modern government with that of the middle phase state. Two factors serve to explain the difference; firstly the growth of Governmental continuity (so that repudiation becomes less likely) and the rise of the modern banking system. The rise of the Bank provides a middleman who can raise funds for the State but is not outside the normal legal system. As the banks develop a credit-creating function they provide the basis for Governmental solvency since the state can always finance debt expressed in their own currency by borrowing from the banks. This "Money Power" is great but is not unlimited; internally price-hedging can offset many of the effects of inflation and internationally:

> . . . The Balance of Payments is the point of clash between the National Money which the State now controls and the international money, which, by itself, it cannot. [3, p. 98]

The third chapter on the middle phase (vii) deals with the spread of mercantile practice into the customary system of agriculture. Hicks points out that the rise of production for the market does not necessarily produce freedom for the peasant and contrasts the case of Western Europe with lands east of the Elbe. Given the weakness of the middle phase state (here specifically feudal) there was a continuing need for the Lord to act as judge and protector and hence guaranteed the persistence of the lord and peasant system until recent times. Hicks suggests that the system will tend to break down where the custom of either pledging land against money loans or outright sale become common. These two acts require a legal definition of the rights of the Lord, and hence of the peasant. However the codification drawn up between lord and moneylender are not likely to reflect the peasant interest very strongly. Hicks does not go into specific cases on this point but the general tenor of the Enclosure Acts passed by the English parliament and the experience of the dispossessed clansmen of the Scottish highlands indicate that the move from custom to contract is liable to ignore the customary rights of the peasants themselves. Hicks details the four likely outcomes of the transitional period of the move to production for the market: the re-imposition of serfdom: the growth of tenant farming: the growth of free peasant farming and the growth of demesne farming worked by wage labour. The overthrow of the first can lead either to free peasant farming or to direct state farming. In the case of free peasant farming the modern state has replaced the lord as protector (and also as taxer).

Hicks raises the problems of dependent as against independent farming at this stage in his analysis. Tenant farmers and free peasant farmers are classed as independent whilst managers of plantations are dependent. He comes down firmly on the side of the independent farmer whilst recognizing that there may be disadvantages which attach to this status. In his view these latter seem to be mainly smallness of size and lack of adequate finance. The handicaps of dependent farming boil down to the fact that decisions about output-mix and technology are removed from the dependent farmer. The author comments:

> The separation of responsibility for the disposal of the product from responsibility for the "when" decision which cannot be separated from the farmer is a defect of dependent farming. It is a defect which is more important in some conditions than in others (and by improvement in methods of management can be diminished):

> and it may well be outweighed by countervailing advantages. But in itself it is a defect for the day to day administration of a farm, involving continual adjustment to the natural processes is an activity which is not easy for an outsider to oversee. Independent farming's combination of responsibility for the day to day decisions, and for the longer term decisions and for the disposal of the product is a merit. It is a merit which often outweighs the considerable disadvantages which must be set against it. [3, p. 117]

Hicks' treatment of this issue is difficult to assess in concrete terms. In some cases dependent farming is better, in other cases independent. It is easy to pick examples which support either case. Presumably Stalinist agriculture is an example against dependent farming: on the other hand, in terms of efficiency, the experience of some African nations (for example Kenya) between state-run farms and a re-established peasant agriculture indicates that here the dependence which Hicks condemns may be the source of much higher productivity. Obviously for a land-hungry peasantry, subsistence farming is better than no farming, whilst for an industrializing government, agricultural surpluses may be of strategic importance —and can only be obtained by a system of dependent farming. It is difficult to see why the author raises this issue at this point. Presumably in the middle phase even demesne farming at its most extensive implied a great deal of localized management, as did the system that emerged from the agricultural revolution in England. On the other hand it appears that the problems envisaged by Hicks did arise in the colonial plantation system, notably in the New World but also in some of the younger white dominions where large estates were managed on behalf of absentee owners.

The fourth chapter on the middle phase deals with the impact of the mercantile forms on the labour market. The analysis deals with two themes, the conditions under which free labour will replace slave or semi-slave labour, and the conditions under which an urban proletariat will emerge as a stable pool of labour. The discussion of free versus unfree labour is conducted in terms of orthodox supply and demand analysis. In the author's hands this becomes a powerful tool which strips this emotive subject down to its economic framework. Hicks shows that the assumption made by some writers that unfree labour is necessarily uncompetitive with free labour is too simple. Hicks shows that slavery will be relatively uncompetitive under conditions where the supply of slaves is inelastic, since the cost of maintenance per unit of time of free labour will be lower than that of unfree labour, given equal productivities. However it is in the nature of the mercantile system to offer prospects of advancement for some of the labour force and it is this bait which attracts labour from the countryside. Once attracted, return to the traditional framework of the pre-mercantile agriculture becomes difficult if not impossible. However the author points out that in handicraft industry, even in a growing handicraft industry, a labour surplus will not necessarily be absorbed because of lack of homogeneity in the labour force and lack of training facilities. These two factors will ensure that part of an expansion in the demand for labour will exhaust itself in higher wages for the more skilled groups. Although this may encourage some substitution of unskilled for skilled labour, it is doubtful that this will be sufficient to absorb the surplus. Hicks does not spell out the reason for this but it does appear that under handicraft conditions the possibilities of factor substitution are extremely limited. Apprenticeship in its origins was a training for necessary skills, and shifts in relative wages would have little effect on the factor-mix of handicraft industry. Training also is not something the market provides readily (as experience even in some advanced countries indicates) and the apprenticeship system, in its original setting, was one way round this. The apprentice paid for his training by accepting lower than market rates for part of his working life. Thus Hicks concluded his analysis of the middle phase of mercantile development.

In Chapter ix Hicks turns to the rise of modern industry. For Hicks the essence of this change was the shift of investment from trading to fixed capital. It is this which marked "modern" industry off from the mercantile-handicraft period which preceded it. Hicks says:

> A particular merchant may indeed employ some fixed capital, an office, a warehouse, a shop or a ship; but these are no more than containers for the stock of goods on which his business centres. [3, p. 142]

He adds that even in the case of buildings and ships, two types of important fixed capital, the first was largely a consumer durable and the second ancillary to trade, not manufacture. This approach can be questioned, particularly with reference to the growth of capital intensity on the production side of industry rather than the distribution side. For example, the growth of modern industry in the Hicksian sense is closely paralleled by the rise of investment in improved roads, canals and towards the end of the period, railways. Whilst it seems undeniable that the period witnessed a general move towards investment in fixed capital in production, there were also similar moves towards capital-intensive methods of distribution. Indeed it is difficult to see how the first could have continued without the second. It is true that the goods to be carried must come first, but barriers to rapid distribution must very quickly prevent expansion, irrespective of the technological capacity of the new capital-intensive methods of manufacture.

Another question of fact is raised by Hicks' treatment of the financial needs of the new industry.

> In order that people should be willing in an uncertain world to sink large amounts of capital, they must either themselves be in possession of other resources, which they hold in a more liquid form, so that they must be in a position to borrow—and that means borrowing from someone else (it may be a bank) who is able to borrow or who has liquid funds. In the end it is the availability of liquid funds which is crucial. This condition was satisfied in England (as in Holland and even in France) by the first half of the eighteenth century. [3, p. 145]

This intimate connection between the emergence of capital-intensive manufacturing and the role of bank finance has been seriously questioned in a monograph by P. Bairoch [1]. Thus:

> In addition there was the problem of guarantees and even of securing the necessary information. The whole banking system needed to be improved and expanded before transfers of savings to industrial investment could be carried out on any

scale. In fact historians of financial institutions agree in stressing the minor part played by the banking systems at the outset of the industrial revolution in the sphere of industrial credit. [1, p. 57]

This does not exclude the possibility that bank credit may have supported the move to long-term investment in some way but this would require some elucidation to be accepted. The thrust of Bairoch's argument is that (1) the new industrial capitalists were a different group from the well-established merchant or handicraft capitalists and (2) the new men were largely from the agricultural sector, as was their finance. The surpluses came from the preceding agricultural revolution and their flow into fixed capital is explained by Bairoch as due to the difference in the value of money capital required to employ a worker in industry as against agriculture. He adds:

> We have stressed the role of the small farmer in this development: but big landowners also often played an important part in industrial development, aided by the high rent incomes from land that was a concomitant feature of the agricultural revolution in most countries. [1, pp. 61–62]

Thus there are difficulties about the account given of the transition from the middle to the modern phase. Hicks' description of the psychology of these entrepreneurs is open to question as a factual account. The ignoring of the agricultural revolution in his schema and its effect on the availability of finance serves to limit, if not dispose of, Hicks' account of the important financial factors behind the rise of modern industry. Hicks' analysis of the role of technology, wages, and profits in the industrial revolution is very important for the present-day developing countries. In fact the most important model of economic development, that with unlimited supplies of labour (Lewis et al.) has envisaged a similar developmental process for the underdeveloped nations. However in these countries, increasing use of modern methods has increased industrial output and profits, but has failed, so far, to absorb the excess supplies of labour which are a hallmark of economic backwardness in non-centralized economies. Hicks notes the existence of the problem but adduces no reason for the failure.

In the present writers' view, (and as Hicks stresses in his treatment of the first industrial revolution), the application of science to the indigenous technological base was the fundamental force behind the industrial and economic development. The growth of the indigenous technological base and capital intensity of production created increasing opportunities for employment, absorbing surplus labour. In the case of underdeveloped countries the growth of the industrial sector, the leading sector in the economy is largely the result of wholesale importation of science, technology, and capital and therefore paradoxically, despite some growth of modern manufacturing, the effect on the rate of labour absorption has been disappointing.

Here Hicks seems to have underestimated the importance of the development of monopoly, state intervention, and tariff policies which characterize the latter-day international economy. Features which suggest that analogies of development drawn from the eighteenth and nineteenth centuries are not likely to be relevant to the situation which the underdeveloped nations are in today.

Conclusion

Minor disagreements apart, the present writers feel that this work by Sir John Hicks is an important and insightful contribution to the debate on the role of theory in explaining historical phenomena. Major disagreements seem reducible to two fundamental questions, both concerned with methodology.

The first is a question of the specific approach adopted by Hicks. The Author's concern with the Rise of the Market appears to have obscured the importance of the origin and use of economic surpluses at each stage of the analysis with one exception. The exception is the brilliant examination of the problems of middle phase finance (the Finances of the Sovereign) where the importance of the difficulties associated with taxing the mercantile surplus is not only important for the Marxian historical analysis, as the work by A. French (cited above) shows [2, especially pp. 12–14]. Hicks' treatment of slavery and serfdom seems confusing (at least to the present writers) in that Hicks' slavery/serfdom category does not explain precisely how surpluses accrue in the two sub-types. Similarly Hicks' lack of concern with the source of the growth of investment in fixed capital seems partial, if not actually erroneous.

The second methodological problem is rather more abstract.[1] Two general approaches to historical model building are open. One, the reductionist approach, which implies deriving the essence of the different states from their specific occurrences in history. The other by the selection of some elements, not necessarily derived from the total data. Whilst in practice these may come down to much the same thing, in the present case the distinction seems to provide a clue to certain of the problems in Hicks' method. One would expect the reductionist method to provide for definitions which are historically consistent and comprehensive in scope. Hicks' "feudalism," as has been argued above, seems to lack these qualities of consistency and comprehensiveness. It may be that this is traceable to Hicks' orientation toawrds market analysis, a method which is both abstract and selective—in other words essentially constructionist in approach. Both Hicks' "feudalism" and his composite "feudal/bureaucratic" state suffer from this lack of definitional precision. However, these criticisms, if they are justified, should not be allowed to detract from what is a lucid, forceful and original analysis of the vast field of economic history. This work is of importance to economist and historian alike.

REFERENCES

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[1] This approach is outlined by Freudenberger and Redlich, "The Industrial Revolution in Europe," *Kyklos,* Vol. 17 (1964), p. 372.