

Distributional Coalitions, the Industrial Revolution, and the Origins of Economic Growth in Britain

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Version of March 2007. Prepared for the special session in honor of Mancur Olson, Southern Economic Meeting, Charleston S.C., November 2006.

Introduction

The recent work of Douglass North and his students has made the study of institutions fashionable again in economic history. Mancur Olson's *Rise and Decline*, which appeared only a year after North's *Structure and Change*, showed that he too was quite persuaded that institutions held the key to understanding why Britain took the leadership in the eighteenth century to become the first industrial nation. North focused on securing property rights from the threat of the Monarchy. Olson regarded rent-seeking through distributional coalitions as critical to economic development and especially decline. He saw society as a constant struggle between creative and productive agents, whose hard work would help an economy enrich itself, and organized groups of lobbyists, special interests, brigands, and tax-collectors whose rent-seeking activity reduced the overall size of the pie and could well turn economic growth into stagnation and even regression. The difference between the two is important: for North, security and constraints on the executive were paramount. For Olson, the nature and origins of property rights were just as important. Almost a decade before North and Weingast's (1989) influential paper, which squarely identified the institutional breakthroughs in Britain with the Glorious Revolution of 1688 and its aftermath, Olson (1982, pp. 78-83, 128) already pointed to the Glorious Revolution as a watershed. These events of 1688-89 and the preceding Civil Wars, Olson argued, created a stable and strong nation-wide government that made Britain into an integrated and large jurisdictional unit, thus weakening most distributional coalitions.

In light of the growing interests in institutions as a central element in explaining economic growth (North, 2006; Greif, 2006), the question of how institutions help account for the British Industrial Revolution must be re-examined. Olson thought that the British practically "invented modern economic growth" during their Industrial Revolution (p. 78). While the actual spurt in per capita income occurred after and not during the Industrial Revolution, many of the critical changes that laid the foundations for the Great Divergence took place in the years of the classical period that T.S. Ashton associated with it (1760-1830). The difficult question is to what extent institutional changes were necessary for this transformation to occur. The main impetus, surely, came from technology. Along a broad frontier, technological changes transformed the way production took place in textiles, power technology, materials, and transport. While the "modern sector" still comprised but a relatively modest part of the economy in 1830, it was growing

rapidly and was soon to subsume the bulk of the economy.

Traditionally, the role that institutions have played in this event has figured heavily in the literature on the topic. Much of their impact has been thought to work through their direct encouragement of technological progress (through the British patent system, for instance), or through the importance of secure property rights, enforceable contracts, and constraints on the powers of the executive. Recent work has suggested that the importance of intellectual property rights or other kinds of incentive systems in encouraging innovation has been overrated, however, and secure property rights in and of themselves will not necessarily encourage innovation (Boldrin and Levine, 2005). Rather, as Olson pointed out quite correctly, the security of property rights in and of itself could have ambiguous effects. A *bad* property right, such as a privilege or sinecure that entitled a successful pressure group to some form of government subsidy or protection or encroached on the incentives of another group, could be damaging to economic development even if it was perfectly secure and well-defined. In what follows, we will follow what is essentially an Olsonian model and will place the Industrial Revolution in a context of the slow decline of rent-seeking distributional coalitions. However, it will turn out to be a more complex story than the simple good-institutions-lead-to-growth story.

It is possible to disagree with some of the details in Olson's analysis, but not with his overall vision. The answers to the questions "why Britain?" and "why the eighteenth century?" must have two separate if interrelated components. First, there is a technological component that explains the advantages that British inventors had over others and that British entrepreneurs had in implementing inventions made elsewhere (Mokyr, 2002). Second, there was an institutional advantage that ensured that incentives for talented and resourceful individuals, able to take advantage of the opportunities that technology provided, were properly set up. In other words, there had to be an environment in which opportunistic behavior by Olsonian "bandits" would not create obstacles and hindrances high enough to suppress the technological potential that eighteenth century Britain developed. The British created a powerful and stable state that simultaneously saw an expansion in the power, wealth, and stability of the central government while encouraging an economic transformation that gradually allowed both industrial technology and liberal commerce to flourish and break out of their mercantilist straitjacket.

What was behind institutional change? Was ideology an autonomous factor in these changes, or were the basic economic realities on the ground decisive here? Following Keynes's famous argument in *The General Theory* that ideas were infinitely more important than vested interests in affecting economic outcomes, we may well ask to what extent the institutional changes in eighteenth century Britain were driven by ideological rather than "real" factors? Economists typically feel that economic realities on the ground determine ideology and beliefs, not the other way around. Adam Smith claimed that the self-interest of merchants in an enlarged national and international commerce tore down the old, local feudal restrictions and in so doing brought prosperity to town and country both, and "commerce and manufactures gradually introduced order and good government and with them the liberty and security of individuals" (1776, Book 3, ch. IV, p. 433 in the Cannan ed.).¹ For them, then, the causality ran from economic developments to changes in institutions. But, we shall argue, things were more complex than that.

Political Power and Rent Seeking in eighteenth century Britain

What were the details of the transition whereby further expansion of the British state contributed to improved order and commerce without using the power of the State to deform or even to crush free exchange? In this regard, the paper by North and Weingast (1989) emphasizing how important it was that the Crown and Parliament accept complementary roles that saw each check the power of the other while building the foundation of a stable and non-arbitrary state, has served as a benchmark for all economic interpretations of eighteenth century political economy. But the details of how this compromise managed to produce the conditions for an economic revolution without disenfranchising the stakeholders in the traditionalist economy have never been made clear.

At the end of the day, the problem for eighteenth century Britain, as it is for today's developing economies, was that there was much to be gained for many incumbents from maintaining "obsolete" economic arrangements. Because rent-seeking and efforts to create exclusions and other privileges exploiting existing inefficiencies and creating new ones were so pervasive and so long-standing, blocking

¹Or as he colorfully put it, "For a pair of diamond buckles perhaps, or for something as frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be all their own and no other human creature was to have any share of them." (Smith, Book 3, ch. IV, pp. 418-19; p. 437 in the Cannan ed.) James Steuart (1767, p. 217) noted "When once a state begins to subsist by the consequences of industry, there is less danger to be apprehended from the power of the sovereign ... he finds himself so bound up by the laws of his political economy that every transgression of them runs him into new difficulties."

coalitions existed that stood to lose much from any set of reforms, no matter how productive. Investments that exploited existing inefficiencies were not easily abandoned if it was not possible to persuade the vested interests that they could benefit from large-scale transformative changes. Though the total gains to the winners – society as a whole – might well overwhelm the costs to the losers, the losers will choose to stand in the way of changes if they are not properly compensated. Mancur Olson argued in *The Rise and Decline of Nations* that the most successful reforms have often come in moments of crisis when organized vested interests are broken or destabilized or when outside forces can impose new rules without excessive concern for the losses of the entrenched powers. Often the critical factors that allowed the overthrow of existing power-coalitions blocking reform were exogenous shocks that led to the breakdown of existing power coalitions and a reordering of priorities. Below we will show that British institutional developments in the age of the Industrial Revolution demonstrate that such shocks were neither necessary nor sufficient conditions for successful change.

For the Industrial Revolution to be successful, Britain had to overcome the problem of incumbent landed powers who drew their political, social, and economic strength from the existing blend of feudal customs and traditional arrangements. For example, improving landlords and entrepreneurial farmers had opportunities to innovate in agriculture and to re-arrange property rights through enclosures. These opportunities implied in turn that those who were least successful in making such experiments should abandon agriculture at considerable cost. Yet the losers in the process were unable to stop it using either legal or extralegal means. After 1750, the state had chosen sides. Although property rights remained one of the central mantras of Parliamentary rules, many of the activities of the eighteenth century British State “removed, reallocated, and in short, invaded property” (Langford, 1991, p. 146). Property required regulation and enforcement, and in the eighteenth century decisions were made increasingly on the basis of national interests.

Outside farming too, regulation and transport costs had long protected a system of local monopolies and mercantile niches. The small merchants and producers who had traditionally operated under the conditions of a fragmented market characterized by monopolistic competition had to be persuaded – or forced – to make the switch to a more integrated and efficient national market. As many have noted “most important was that Britain had a truly national market, the integration of which was progressing, thanks to

the absence of internal customs and tolls, to internal transport movements, ... and to the impetus of the enormous and fast-growing city of London,” (Crouzet, 2001, p. 111).²

Market integration paired with political centralization were central to the process of economic development. The creation of an integrated market, often credited with British economic progress, was in large part the outcome of a political process. The regional fragmentation of premodern economies had not meant usually political competition, but rather constituted a balkanized system of local monopolies that impeded the workings of the national economy, protecting niches of inefficiency from competition.³ These niches preserved local custom and diversity, but also encouraged a diffuse network of small scale mediocrity at the margins of agriculture, artisanal production, and commerce. It is thus a matter of great historical significance that the British authorities in the eighteenth century did not overly interfere with free domestic trade. It took a mere century or so for the conditions to emerge that destroyed the sources of many locational rents. In the integrated economy, new concentrations of production emerged that undermined the many small, local quasi-monopolies that were the lumpy residue of a world of high transactions costs and protected market exchange. Above all, there had to be a way to make room for a rising merchant and industrialist class as they asserted their power in the political sphere, and posed an increasing threat to the existing political class.

The success of the British experiment was the result of the emergence of a progressive oligarchic regime that divided the surpluses generated by the new economy between the large landholders and the newly rising businessmen, and that tied both groups to a centralized government structure that promoted uniform rules and regulations at the expense of inefficient relics of an economic ancient regime. Wealth — inherited or earned — remained the source of political power, but as its base broadened, its political objectives shifted. Some of this transformation can be gleaned by considering how politics changed over the period from the Glorious Revolution in the late seventeenth century to the first decades of Walpole’s

²The importance of a national competitive market in iron goods, textiles, pottery, and luxury goods to the economy forms the basis of the work of Szostak (1991), whose contrast between Britain and France illustrates what Britain could have looked like had it remained a patchwork of more or less insulated regions.

³For example, consider the description of sixteenth century British markets in Wrightson (2000, p. 95). Regular economic interaction was primarily within a few miles of one’s residence, and the proliferation of local markets assured the survival of a fragmented system of monopolistic competition. Insofar that goods were traded over long-distances, they were raw materials such as wool, coal, iron, leather, imported goods, or goods requiring a particularly high level of skill, such as Sheffield knives.

ministership in the early 1700s. As Plumb's work on British elections indicates, political stability came through the rise of a two-party system that favored large scale campaign funding and competitive elections often requiring regional, or even national level influence.⁴ The grand coalition between big landowners and the emerging urban-commercial class (with particular prominence of the financial interests) as represented by the dominant Whig party became the central feature of this polity, but the Industrial Revolution that it created would be its eventual downfall.

With the creation of a more centralized administrative structure and a more powerful military apparatus, the state needed greater revenues. These were most forthcoming from a rising national commerce that was liberated (or "freed up"), but also subject to taxation. This policy can be contrasted with one that just tried to extract more revenues from the landed classes. The most powerful commercial interests were coopted into this bargain by a mercantilist policy that placed the military power of the state at the service of their colonial interests. The resulting alliance of Big Land and Big Commerce helped to undermine smaller country gentlemen (mostly associated with the Tory party) who might otherwise have stood in the way of reform. Conversely, the owners of large estates who had learned to profit from economic integration, industrialization, and political oligarchy acquired a stake in further commercialization. This coalition in turn – centered as it was on Parliament – served as a counterpoint and check on any attempts by the King and Court to regain its supremacy.

Of course, there were losers from this transformation, both in a relative and in an absolute sense. Small-scale farmers (yeomen and cottagers) and the workers in the large domestic industry as well as increasing numbers of independent artisans found themselves at the losing end of this process. Local merchants and niche producers who were accustomed to make a modest but secure living in an economy of fragmented production increasingly faced competition at a more national level and could no longer keep up

⁴“Far more influential, however, but less noticed was the steady growth of the home market and the gradual obliteration of local economic isolation. The development of inland navigation, through the canalization and control of rivers, had brought some of the most fertile and productive regions of England within easy and cheap reach of London and the great outposts ... Yet the growth of river navigation was not easily secured, and often it was impeded rather than helped by England's political system: the Cheshire M.P.s, for example, held up the Weaver navigation from 1699 to 1720. It was only in the 1720s that river navigation Bills secured easy passages through the House of Commons.” [Plumb, 1967 p. 18].

or count on either explicit government protection or the natural shield of high transportation costs.⁵ This allowed for improved productivity, for increasing quality standardization and, by reducing uncertainty, for the realization of certain economies of scale (Szostak, 1991). These developments inevitably occurred at the expense of many small merchants who now found themselves subject to the discipline of a competitive national market, as outsiders began to encroach upon their once-safe niches.

Throughout the eighteenth century, transportation costs kept declining through a combination of better roads, improved carriages and transport organization, canals, and improved coastal shipping. Unlike most of its eighteenth century competitors, Britain had no internal tariffs, tolls, or other artificial encumbrances to internal trade, excepting the tolls charged on for-profit turnpikes and canals. British Parliament did not directly engage in raising funds for transport infrastructure, but it played an important passive role by approving private bills for turnpike trusts and canals (Bogart, 2005). The net result was a growing integrated national economy in which the monopolistic competition that had kept local rents at high levels was gradually eroded.⁶

Parliament, Power, and Institutional Change

What explains the adaptative efficiency of British institutions? Their agility was facilitated by the existence of a *meta*-institution that wrote the rules by which other institutions changed. This function was filled by Parliament. For a meta-institution to be effective, it needs above all to have legitimacy, that is, even the losers will accept its verdicts, much like the United States Supreme Court.⁷ To be sure, British

⁵In the West of England wool industry, the competition with Yorkshire and the new machinery adopted there was particularly fierce. Differences in the way the industry was organized accounted for the strong resistance to the new techniques in Wiltshire and Gloucestershire, yet the integration of the markets by the 1790s meant that these niches had to either overcome their resistance, or cede the industry to more progressive regions (Randall, 1991).

⁶There is also growing evidence that factor markets were showing growing integration. For capital markets this can be readily measured through the co-movement of interest rates in London with transactions in Yorkshire (Buchinsky and Polak, 1993). Labor movement, settlement laws notwithstanding, was quite substantial. While most of it was short-distance, it is estimated that between 1701 and 1831 London absorbed about 1.3 million immigrants from all over Britain. The counties of the Industrial Revolution experienced considerable faster growth than their natural rates of growth would suggest.

⁷Blackstone (1765-69, Book 1, ch. 2, section III) stated categorically that “It hath sovereign and uncontrollable authority in making, confirming, enlarging, restraining, abrogating, repealing, reviving, and expounding of laws, concerning matters of all possible denominations, ecclesiastical, or temporal, civil, military, maritime, or criminal.” Langford feels that the British themselves only discovered this legitimacy in the second half of the eighteenth century and that “Blackstone himself seems almost to have been shocked by his discovery” (1991, p. 149).

Parliament in the eighteenth century was a corrupt institution by our standards. However, its venality may have been a form of efficient corruption. Politicians and legal changes for local and specific purposes were practically up for sale through what was known as “private bills.”⁸ Yet precisely for that reason British institutions turned out to be adaptable and agile. During the entire period under discussion, British Parliament changed British laws and arrangements in accordance with what its members viewed as their interests and Britain’s needs. The importance of the Glorious Revolution, then, was above all in leaving no doubt as to the supreme power of Parliament: the Bill of Rights and subsequent legislation eliminated the royal prerogative as a form of legislation, established Parliamentary oversight on government spending, and ensured that it met regularly and maintained control over the royal succession. In that sense, the Glorious Revolution was a watershed event, not so much because it laid the foundation of the successful system of public finance, which was to play a central role in the growing political power of Britain (Brewer, 1988) but rather because it removed the contestability of rule-making from the British polity and established a body that was receptive to both changing needs and changing ideology.

It is no exaggeration to say that the activity of British Parliament, measured by the number of acts passed, increased by orders of magnitude after the Glorious Revolution. As Hoppit has shown (1996), from 1688 and 1800 the sheer number of Parliamentary bills grew enormously.⁹ The bulk of this legislation were local and specific acts, that applied to one particular project or estate, enabling a local public good or changing a settlement, allowing the redeployment of land to more productive and remunerative purposes (ibid, p. 131). There is no question that this legislation was a mechanism by which the richest and most powerful families of England manipulated the system to advance their interests. Local elites acquired access to the center, as Hoppit notes, and acts were responses to local needs and ad hoc initiatives of an individual or small group. Such local changes, however, now depended more and more on the legitimacy of Parliament. There was no guarantee, however, that establishing Parliament as “the place where absolute

⁸As Szostak has noted (1991, p. 89), the private bill was a unique institution and no other country had any similar device at its disposal at this time. The distinction, as Hoppit has pointed out (1996, pp. 116-17) is not very helpful. Instead, he proposes a distinction between “general” and “specific” or “local” bills. The latter constituted over 70 percent of all bills passed between 1660 and 1800.

⁹The total number of acts passed during the rules of Charles II and James II was 564, or 20 per annum. In the 25 years between the Bill of Rights and the Hanoverian ascension (1689-1714), this increased to 1,752 or 70 per annum; by the period 1760-1800 this was 8,351 or 209 per annum. See Hoppit (1996), p. 117.

despotic power, which must in all governments reside somewhere, is entrusted” as Blackstone (*ibid.*) noted in 1765, was to become the key to economic progress. After all, the newly-found power of Parliament could just as likely have been abused by special-interest legislation in support of distributive coalitions.

In the decades following the Glorious Revolution, rent-seeking activity was indeed the norm. “Specific” legislation directed at a particular place or institution remained between two thirds and three quarters of all acts throughout the period 1688-1800.¹⁰ Much of the eighteenth century legislation remained in Langford’s (1991, p. 156) words, “a great bog of uncoordinated lawmaking, ever expanding but always unplanned.” Yet at some point during the eighteenth century, a gradual change in the culture of legislation occurred. Special interests were still accommodated so long as they concerned statutory legislation supporting local public goods and appointed bodies that would carry out infrastructural investments. Purely redistributive actions, however, began losing their appeal. Many special interest groups’ legislated privileges, monopolies, exclusions, the limitations on labor mobility, occupational choice and technological innovation found themselves on the defensive as the eighteenth century wore on and the ideas of the Enlightenment began to sink in. It was a very different Parliament in 1774 that tossed out the Calicot Act — a shameless piece of special interest legislation benefiting the wool and silk industry — from the one that had passed it in 1721.

Dan Bogart and Gary Richardson have recently made a more detailed study of Parliamentary Acts after the Glorious Revolution (Bogart and Richardson, 2006), showing a substantial increase in acts altering property rights and encouraging the provision of public goods. The numbers of such acts passed increased from 30 per year in the 1600s to 400 per year by the end of the eighteenth century. The acts were primarily of three types: estate, statutory authority, and enclosure acts. The first were important because they eliminated traditional restrictions on the use of private land and “authorized the improvement, sale, and leasing of land; and thus, enabled land to be shifted to higher value uses” (Bogart and Richardson, 2006, p. 2). The statutory authorities allowed for the provision of greater public goods such as roads or bridges by private organizations, thus mitigating important collective action problems. And, as is well-known, the

¹⁰Maitland (1911, p. 383) felt that “one is inclined to call the last century [i.e., the eighteenth; his lecture was written in 1886] the century of *privilegia*. [Parliament] seems afraid to rise to the dignity of a general proposition... it deals with this common and that marriage. Maitland felt that only after the reform act of 1832 did Parliament start to “legislate for the whole country” but this ignores much important legislation in the eighteenth century, though the frequency of specific and private acts declined in the nineteenth century.

enclosure acts transformed the lands affected from collectively cultivated open fields to consolidated private lands.

Though there were losers as well as winners from these acts, they promoted a clear-cut shift to a more liberal, market economy. Parliament continued to redistribute income deep into the nineteenth century. However, instead of just serving the powerful and the well-connected, a different pattern emerged. The legislation took place in an increasingly centralized fashion, in large part to placate powerful incumbents that could have blocked other forms of institutional change. It stands to reason that landowners realized the gains they could secure with improved communications and higher urban land values. In agriculture, the enclosure movement relying on Parliamentary Enclosure Bills represented the same kind of phenomenon. As Allen (1992) has shown, some of the increase in rents from enclosure came not from productivity gains, but from transfers from weaker stakeholders to the most successful landholders.

Hoppit (1993) tries to distinguish between supply and demand factors in the sharp increase in Parliamentary activity. The changes in 1688/89 did not so much shift the supply curve to the right as much as rotated it to make it more elastic. When an increase in the demand for specific legislation took place, Parliamentary approval was in most areas forthcoming fairly quickly. In some areas, of course, this took a long time to work itself out; after 1720 it was difficult for companies to acquire joint-stock status. Special-interest legislation could be used to block entry and create redistributive rents as readily as they could be used to liberalize markets and set up organizations that invested in overhead capital. Moreover, Rubinstein has called attention to the importance of rent-seeking in late eighteenth and early nineteenth-century Britain in his work on “Old Corruption” (Rubinstein, 1983). By corruption, he meant both the Crown’s patronage capacity to reward supporters and allies as well as the persistence of sinecures and offices used purely as a means of enriching individuals rather than to serve a utilitarian role in administration (*ibid.*, p. 57).¹¹ Rubinstein asked why such “pre-modern” arrangements persisted and even flourished till the 1830s or later, implicitly sensing that by the first third of the nineteenth century this kind of rent-seeking had become

¹¹Well into the nineteenth century, many office-holders were selected purely for their political influence with absolutely no regard to their qualifications for the post. In many instances there was not even the apparent need to fulfill the most basic or nominal duties. Among his numerous examples he cited “Lord Auckland, who received £1,400 per annum as Vendue-Master at Demarara, ‘where he had never been’, and £1,900 per annum as ‘Auditor at Greenwich Hospital’, in its words ‘for doing nothing’, as he certainly never audited” (Rubinstein, 1983, p. 66). It even extended to academia, where Nassau Senior’s resignation from the Oxford Chair of Political Economy in 1829 led to the election of Richard Whateley who had no qualifications except for being a prominent Christian who wished to rescue economics “permanently from disrepute” (p. 68).

misplaced. His answer, that this was the “stagnant” persistence of a pre-modern, pre-rationalistic elite is unconvincing. It is more plausible that such “corruption” was the byproduct of the expansion of the state and the substitution of a national administrative system for the more localized feudal institutions. The expanded elements of the Old Corruption that characterized the late eighteenth century owed much of their existence to the State-creating and rent-making efforts of the Walpole Whigs of a previous century.

On the whole, however, as the eighteenth century proceeded, Parliament increasingly used its powers to make dents in the rent-seeking machinery of the ancient regime and make the economy more efficient and streamlined. Parliament reserved the right to revise and amend the rights it provided to individuals, and a growing number of acts amended, repealed, or renewed explicit legislation. Judges who were characterized by petty corruption and destructive political competition in the seventeenth century (cf. Ekelund and Tollison, 1997) were displaced by a system that favored an orderly and more centralized bureaucracy in which corruption was either focused or became subsumed in the general rent-seeking at the **Parliamentary and not the retail level**.¹² Parliament, rather than a venal institution that awarded the rights to the highest bidder, became the arbitrator of disputes between special or local interest groups, .

It would thus be oversimplified to argue that rent-seeking went into decline in the late eighteenth century through a combination of business interest and changes in ideology influenced by Enlightenment philosophers and political economists. Rent-seeking coalitions saw to it that British goods would always be preferred to foreign goods and that everything should be done in the interest of the nation. The important part is that Parliament looked after *national* interests, whereas, as we argued above, much of pre-modern rent-seeking was localized.¹³ By the late eighteenth century, Prime Minister William Pitt refused to meddle in local matters, which were “large areas of policy in which ministers and party politicians need not involve themselves” (Langford, 1991, p. 205). The areas of the most intensive rent-seeking in the eighteenth century were part of a bargain struck between those who fed income to the excise authorities and a

¹²It might be added, however, that throughout the eighteenth century much of local justice was still in the hands of unpaid JP’s, and it remains an open question how accurate the accusations of corruption really are (as for example in Smollett’s fictional Justice Gobble in *Launcelot Greaves*, published in 1762).

¹³Even patently local interests found it increasingly necessary to masquerade as national interests. Thus the Newcastle coal owners lobbied against internal waterways that threatened the price of sea-borne coal arguing that coastal shipping provided the navy with a supply of recruits. The promoters of the canals argued the reverse, that inland navigation would provide a nursery for seamen (Langford, 1991, p. 204).

government that spared increases in land taxes in favor of taxing middle class consumption and restricting imports from abroad. The result was that domestic trade was freed in the eighteenth century at the expense of free international commerce (Nye, 2007, forthcoming). This often meant making deals whereby Parliament actually had greater ability to extract rents from the national economy than it had previously.

It is not obvious from the standpoint of liberal ideology or competitive efficiency that Britain was better off in the decades after the Glorious Revolution. After all, the bulk of taxes in the eighteenth century were used to finance wars or pay interests on debts incurred during wartime. These wars did not materially benefit British society except insofar as they protected British citizens and merchants, both in Britain itself and its colonies, from potential raids. To attribute economic success to the blue-seas policy of the Hanoverians is to take a partial view of the process.¹⁴ After all, these raids themselves were often prompted by Britain's aggressive mercantilist policies. In any event, mercantilist policies, to the extent that they benefited anyone, protected a narrow range of merchants, manufacturers, financiers, ship-owners, and planters, and thus constituted a redistribution from the tax-paying public to a small special interest group. There was a decline in the willingness of and need for the British government to engage in these activities after the American War of Independence, but the Wars of 1793-1815 resumed military spending and raised them to unprecedented levels.

Later eighteenth century policies were driven not only by interests and power, but also by a growing understanding that the free market made the people in power and the political and military apparatus that supported them better off. Time and again the government chose to promote legislation that solved collective action problems while refraining from too much micro management. Remarkably, the areas in which the state played a role in legislation seems broadly consistent with a market-enabling authority seeking to internalize externalities, solve coordination problems, and facilitate public works and investment in overhead capital.¹⁵ The importance of these investments was in advancing the efficiency of markets and further reducing the enclaves of local rents. But the effects did not stop there. Alliances of landlords and merchants invested in mines, canals, lighthouses, harbors, land-drainage, and roads even

¹⁴See especially Ormrod (2003); O'Brien (1994; 2002).

¹⁵Jean Laurent Rosenthal (1992) has argued that it was precisely in the area of public works and coordination that the French *ancien régime* failed.

before railroads were an option. These projects produced opportunities for engineers and hardware manufacturers such as John Smeaton and Richard Trevithick to utilize their technical skills and create the new technologies that we think of as the Industrial Revolution. The state also recognized its responsibilities in setting standards such as weights and measures.¹⁶

Regulations that directly interfered with the workings of domestic trade and the marketplace and created rents for special interest groups seem fewer and further in between as the eighteenth century proceeds. Foreign trade was another matter: the Corn Laws, and the legislation prohibiting the export of machinery and emigration of skilled artisans remained on the books until deep in the nineteenth century. These were rent-seeking arrangements, to be sure, but very much at the national level. Nationalized rules made for easier government growth, but also made it easier for a government to become visibly reformed as was to occur in the nineteenth century. The sharp rise in taxation through customs and excise that characterized the fiscal shifts in the eighteenth century can be seen as the “price” the state exacted for its new role as market facilitator, even if the new taxes were not always ideal and even if the taxes and customs were distorted to favor this or that interest group.

When did this process start? The *locus classicus* of changes in the British institutional structure remains North and Weingast (1989), despite the fact that some of their more detailed claims have come under criticism. North and Weingast’s story points to 1688/89 as the turning point. They make two separate claims: a) the need for the Crown to reach agreement with the legislator before authorizing taxation to match expenditure and b) the ability of the government to collect the revenues they wished successfully. After all, a unified state might impose a tax without having either the administrative capability nor the coercive strength to collect. At the very least, there must be high enough compliance with a tax so that evasion does not nullify any rise in the official rates. With sufficient improvements in collection efficiency and the growth of a middle class whose consumption of excisable goods was expanding, tax rates did not need to rise for revenues to increase substantially in the eighteenth century. The rise of a wealthy and prosperous state overseeing an efficient fiscal administration in the eighteenth century made it possible for

¹⁶The British system (especially measures of volume) still left a lot to be desired, even after the Winchester bushel was made the national measure of volume in 1713 (confusingly set to 8 gallons for grains and 8 gallons and a quarter for coal) and the barrel set as the national measure of drinks (34 gallons in 1688 but changed to 36 in 1803) (Hoppit, 1993). While it seems that the majority of transactions were conducted using standardized measures and weights, there was enough use of local variants to concern many contemporaries and to instigate some Parliamentary inquiries.

the liberal elites to design a more responsive, modern mechanism with which to implement more enlightened reforms and eliminate the last vestiges of mercantilism after 1820. Having established the benefits of an open national market and a rapidly expanding international commerce, the path was opened for the grand experiment of a liberal economy with minimal rent-seeking that eventually attained nearly complete free trade.

Taxes, Elites, and Economic Reforms

We need to understand better transitions in which critical elites allowed processes to unfold that ultimately destroyed some of their entrenched positions. In Britain, no violent revolution brought this about. A nation dominated by landed nobility acquiesced in the creation and encouragement of a system in which a new merchant class shifted the distribution of political power away from land and towards capital, commerce, and eventually labor. Production shifted from agriculture to industry and services, from local to national markets and then to international commerce. In the long run, this had the effect of undermining the basis for the traditional nobility's power and destroying the social system that supported them. In Britain, the elites were not forcibly eliminated. Instead, they were coopted into an economic transformation when the immediate rewards offered them were sufficiently great that the long term change that was to erode their political dominance was either invisible or seemed unimportant. As Acemoglu, Johnson, and Robinson pose the question starkly: why did elites in Britain create a democracy, when in fact political power is the key to the distribution of income (Acemoglu, Johnson and Robinson, 2005, p. 461)? Their answer is that repression was costly as well and that the threat of violent revolution gave the disenfranchised masses in Britain a *de iure* power that eventually forced the elite to hand over power. Elsewhere in Eastern and Central Europe, they maintain, the elites felt that this threat was weak and thus they could resist reform from happening.

If political power meant the ability to generate rents, the British elite was squeezing as much income from their privileged positions as possible. The striking fact about the Industrial Revolution is that its main economic beneficiaries until the mid nineteenth century were the old landowning classes, who benefited from rising land values in strategic areas (including urban areas, coal mines and water power sites). As a class, the landowners were able to maintain the Corn Laws to protect their agricultural rents.

Since the late seventeenth century the Corn Laws had actually provided a “bounty” (i.e., a subsidy) for grain exports, and while that bounty was abolished in 1815, a system of graduated tariffs attempted to protect landed interests. By the middle of the nineteenth century, even that was no longer politically viable. Until that time, the landed classes seem to have done well from the Industrial Revolution.¹⁷ Equally important, the landlord class retained its political power deep into the industrial age, assuring that the new economic captains would commit to respect their economic interests. As Acemoglu and Robinson suggest, institutional changes that leave much of the political structure intact have a better chance to succeed.

One indicator of the way in which the British landowning class was coopted to join those that it could not beat can be seen in the structure and magnitude of British tax receipts. From the Glorious Revolution through the end of the eighteenth century, total government income rose at a rate nearly five times faster than GDP growth. Most of the changed revenue came in the form of increased excises and customs receipts. Yet revenues from land taxes remained virtually unchanged for most of the eighteenth century (O’Brien and Hunt, 1993). The costs of a powerful military and the funds that had to be extracted from the nation during the early years of the Industrial Revolution fell only minimally on the landed nobility, who saw their total direct contribution to the state remain more or less steady, while the consuming middle classes paid more and more in excise taxes and tariffs.

Thus, the British elite did not effectively impede the growing commerce in the eighteenth century, nor did it impose insuperable obstacles to the spread of industry throughout Britain. They could not have anticipated that these changes in technology and production would not just revolutionize British production in only a few industries, but would eventually invert the entire relationship between town and country. It is also clear, however, that many of the elite had the presence of mind to jump on the bandwagon of a rapidly changing economy. By 1700, Britain was already unusual because of its high degree of urbanization and the relatively small share of the economy devoted to agriculture (second only to the United Provinces, where the landed classes had already ceded effective power to the commercial oligarchy), particularly in comparison to its continental rivals.

¹⁷Rubinstein’s rather heroic estimate of landed and non-landed millionaires and half millionaires dying between 1809 and 1859 shows 179 landed millionaires vs. 10 non-landed millionaires, and 338 landed half-millionaires as compared to 54 non-landed ones (1981, pp. 60-65). As Rubinstein (*ibid.*, p. 61) remarks, “an observer entering a room full of Britain’s 200 wealthiest men in 1825 might be forgiven for thinking that the Industrial Revolution had not occurred.”

Parliament: From Individual Influence to the Rise of Party Loyalty

In the eighteenth century, political control was increasingly centralized in London and Parliament and was supported by the creation of a centralized civil service, especially with regards to taxation. The number of full-time employees in the fiscal bureaucracy grew from 2,524 in 1690 to 8,292 in 1782/83 (Brewer, 1988, p. 66) — still a small number by modern standards, but a respectable growth by the standards of the time. As we argued above, in the medium run, centralization led to the shift in rent-seeking activities from a fragmented but highly local provincial structure to a national system in which local patronage operated through Members of Parliament. In the long run, this very same system allowed for a shift from locally directed patronage to distributional struggles that were more broadly focused on national concerns. In other words, the long-term institutional transformation of Britain between the Glorious Revolution and the 1867 Reform Act went through distinct stages. First a change of locus occurred, then, as a new ideology took root and a new power structure emerged, rent-seeking itself was put on the defensive.

This view is consistent with the historical literature in political science on changing voter patterns in Britain. As argued in the classic work of Gary Cox (1986), electoral influence shifted from being a means of exercising local control through regulation and patronage to serve as a unifying feature of party campaigns that turned on national issues rather than local favoritism. This shift was the culmination of a political transition many decades in the making. Cox argued that this shift — the final stage of which took place in the mid to late 1800s — could be observed by the change in split voting in double-member districts that occurred throughout the century. Whereas earlier, voters in such districts tended to favor candidates from each of the major parties in order to preserve favors regardless of party success, by the mid 1800s, voters were more likely to focus their voting in response to tighter party discipline that nationalized the campaigns.¹⁸

This type of political wheeling and dealing was made possible by the close connection between issues of licensing and taxation with the centralized administration of the state. As a result of the shift of political power to Parliament in the eighteenth century, local influence had to be channeled through local

¹⁸An example of what was meant by patronage and influence is the following case: The Vice-Chancellor of Cambridge University, for example, sometimes sent the marshal of the University to the licensed lodging-house keepers in order to recommend a candidate, and in 1834 pointedly deferred the day for renewing licenses until after the parliamentary by-election held that year. One of the commonest forms of influence was the practice of dealing exclusively with the shopkeepers who had voted “correctly” and of withdrawing custom from those who had not (Cox, 1986, p. 212).

representatives in London. This made individual MPs quite powerful and was a special concern in districts where either of the major parties might win the election. In these cases, Cox claims that voters often acknowledged both the importance of patronage and the risks of displeasing the wrong group, splitting votes between parties to succeed in “giving offence to neither party” (Cox, 1986, p.212).

Cox’s thesis – which is now the mainstream of political thinking – was that the decline in split-voting matched the disappearance in this sort of electoral influence. This is because British policy changed to remove many forms of legislation that permitted the rent-seeking in the first place. Cox’s view is that legislators’ influence was most critical in the provision of divisible benefits to constituents, such as tariff bills, civil service patronage, and local improvement bills (Cox, 1986, p. 209). But with the rise of free trade, the elimination of patronage in the civil service, and non-discretionary/”laissez-faire” rules for the allocation of public goods, individual MPs simply had little to offer local constituencies.¹⁹

As local discretion waned, voters began to care about the actions of parties, not individuals. This in turn spurred nineteenth-century parties to nationalize the issues and impose party discipline, leading to more coherent positions. This thesis fits well with our claim that the creation of a transparent electoral system did not initially reduce rent-seeking in the eighteenth century. In creating systematic rules based on a national administrative machinery, however, the state established the conditions for changes that would eventually undermine rent-seeking itself. The initial centralization of control allowed for ample rent-seeking throughout the eighteenth century. But that selfsame system was easily changed as reforms stamped out many of the legislative prerogatives that provided for regulatory and bureaucratic redistribution. In effect, the system that favored pork-barrel politics in the Walpole era could not be credibly maintained as the ideological winds in the late eighteenth century shifted to favor a more liberal, hands-off regulatory order. By the middle of the nineteenth century, in any case, the old patronage system, after a prolonged decline, was finally on the way out. Particularly striking was the shift in the rules regarding “private” bills governing such things as turnpikes and local roads, and later the construction of canals and railroads, regulation of sanitation, and eventually the provision of other public goods such as utilities and local

¹⁹ Cox attributes patronage decline to civil service reforms that eliminated direct appointments (1820) and then opened up civil service employment to direct competition in 1853 and 1870 (Cox, 1986, p. 209).

transportation.²⁰ This effectively destroyed the last remnants of individual patronage. The individual MP could no longer offer his direct services to the district by agreeing to oversee the passage of individual bills. The system of individually sponsored private bills that had been the backbone of the rent-sharing arrangements that the State had created jointly with provincial elites was thus dismantled. The procedural changes in the nineteenth century effectively changed the rules and simply disenfranchised MPs as patrons en masse. The result was a switch to party discipline and an organizational restructuring whereby the influence that MPs could offer was more along the lines of trying to influence national party policy since they could no longer offer particularized benefits. What were the ideological origins of this transformation?

Mercantilism and the Liberal Enlightenment²¹

Much of the literature regarding institutional change focuses on economic interests and the political power necessary to ensure an income distribution favorable to one group or another, and hence is focused on issues such as the ability of a group in society to commit to certain promises it makes to another group and the capacity of interest groups to overcome collective bargaining issues. While there is no question that such issues are central, they leave little room for ideology. Yet the history of the European Enlightenment demonstrates North's argument that what people believed about the world in which they lived and the principles they thought governed their societies played an important role in shaping these institutions. It is true, as Acemoglu and Robinson (2000, 2005) state, that people have preferences over institutions because institutions imply a certain allocation of resources and distribution of income, but this is not the entire story. People also have a view of the way society ought to work, an awareness of what institutions make sense to them and what appeals to their concepts of fairness and logic. In the end, these beliefs help determine what kind of institutions are selected and survive. Beliefs, however, are not constant: people are open to learning, to persuasion, to new methods of understanding reality. Ideas compete in a market for ideas, in which

²⁰As Cox notes:

For most of the first half of the [nineteenth] century, private bill committees consisted chiefly of members directly interested in the measures referred to them. In 1844, however, the Commons began to staff their railway bill committees exclusively with impartial members, and this practice was extended to all other private bills in 1855. Each member chosen for private bill committee service was thereafter required to sign a declaration "that his constituents have no local interest, and that he has no personal interest" in the bill to be considered (Cox, 1986, p. 210).

²¹Some of the following is based on Mokyr (2006).

intellectual innovators provide new products to a public of educated consumers (Mokyr, 2007). The largest product “sold” in the eighteenth century was the Enlightenment.

By the start of the eighteenth century, the British state was still firmly wedded to Mercantilist principles. While the exact meaning and significance of mercantilism as an ideology (the term “economic doctrine” seems anachronistic) is still a matter of serious debate, two themes have emerged from recent work. One is that mercantilism represented a coalition between rent-seeking interests and the national fiscus that was at the core of much economic policy in the eighteenth century and before. This theme was particularly emphasized by Ekelund and Tollison (1981, 1997). The other (e.g., O’Brien, 2002; Ormrod, 2003) is the belief that wealth and political/military power were mutually indispensable and implied one another. Both of these ideologies were a manifestation of the underlying notion that the economic game, whether played internationally or locally, was zero-sum, in which the gains of one were inevitably the loss of the other.²² From that assumption it followed that if one could exclude others from trade by forcible means, a gain would accrue to the nation as a whole, although this gain inevitably benefitted some groups and not others. The legislation represented special interests, but it came under fire after 1760.²³

In the second half of the eighteenth century, mercantilist doctrines faced increasing critique from influential thinkers.²⁴ It is an irony of British history that, after a false dawn between 1783 and 1793 when it seemed that these doctrines were definitely on the retreat, the French and Napoleonic Wars led to a serious

²² Even as sensible an observer as Daniel Defoe, writing in 1704, thought that “by how much the trade, and consequently the wealth of France is encreased for the past 150 years past, by so much the trade and wealth of England, Holland, Spain, Flanders, and the rest of trading Europe has decreased” (cited by Earle, 1977, p. 91). Adam Smith summed up this view scathingly: “nations having been taught that their interest consisted of beggaring their neighbours. Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss” (1976, p. 519).

²³ Among those, particularly brazen attempts to enrich a few at the expense of the public at large were the Calicot Acts of 1701 and 1721, unceremoniously tossed out in 1774, and the 1733 Molasses Act, intended to protect British sugar plantations on the Caribbean Islands, which raised the ire of Samuel Adams and his fellow revolutionaries and was abandoned during the American Revolution. The famous Bubble Act of 1720, too, was a thinly disguised attempt by incumbent firms to place new entrants at a disadvantage and thus secure an exclusionary rent. Harris points out (2000, p. 135) that the main barrier to entry into the state of joint-stock enterprise was not so much to convince Parliament to vote a private incorporation bill, but acquiring the money needed to overcome resistance from incumbent firms or other vested interests.

²⁴ Josiah Tucker thought that nothing was so absurd as going to war for the sake of getting trade. “Trade will always follow cheapness, not conquest,” he argued (1763, p. 41). In its stead, eighteenth century thinkers proposed the concept of *doux commerce*, gentle trade, a concept popularized by Montesquieu in which a peaceful, mutually advantageous exchange in a “civilized consortium of nations” enriched and improved all participants (Howe, 2004, p. 195). Indeed, the hope was that “the natural effect of commerce is to lead to peace,” with calculated interests overcoming the passions of war (Hirschman, 1977, pp. 79-80).

setback and a revival of trade-reducing foreign policies. Indeed, it is a testimony to the strength of the rise of liberal ideas that they survived the reactionary policies of the war period at all.

A corollary of mercantilist principles was that British interests should always take precedence over foreign ones, and that the military apparatus of the state should be deployed in the service of these interests. It was a world-view uniquely suitable to support policies in the defense of special interests (Ekelund and Tollison, 1981, 1997). Yet even in a mercantilist world, the importance of the interests of the nation *as a whole* and the need to provide for the common good cannot be dismissed altogether as a motive for public policy. Mercantilism was as much a doctrine of *national-dynastic* interests as it was a doctrine of economic defense or a response to feared aggressiveness of other nations in a Hobbesian world order. It advocated a positive balance of trade because it was believed that the flow of gold into a country would enable its rulers to hire mercenaries and build ships to defend the realm and protect special interests with a stake in the British colonies. Moreover, mercantilist writers were deeply concerned about employment and advocated what would be called in the twentieth century a “beggar thy neighbour” policy, supporting exports and curtailing imports in the vain hope of creating “jobs”. Most economists today would regard these policies as questionable, but they cannot all be dismissed as motivated by mere narrow-minded special interest. While they were almost invariably based on a mercantilist zero-sum view of the world, they represented *national* and not *local* interests. Once enough policy makers changed their understanding of the nature of the economic game, it was easier to change course .

Whatever their exact source, the reforms that were introduced in Europe and North America between 1770 and 1830 significantly reduced the total amount of rent-seeking in the Western world. Olson’s distributional coalitions reached a zenith in the two decades following 1850. While the precise quantification of that phenomenon cannot be attempted here, there is little doubt that it took place. In Britain after 1760 legislation was passed that got rid of practically all residual monopolistic and exclusionary practices. Thus, the Statute of Artificers was abolished in 1814, the enumeration clauses (that forced British colonial goods to be shipped to third markets through Britain) in the Navigation Acts were repealed in 1822, the law prohibiting the emigration of artisans was repealed in 1824, the export prohibition on

machinery was weakened in 1824 and repealed in 1843, the Bubble Act thrown out in 1825.²⁵ All in all, a great deal of special interest legislation was swept away. The rationalization of weights and measures, too, had this dimension. The proliferation of weights and measures was a traditional source of rents that seriously increased transactions costs (Alder, 1995). Enlightenment ideology required the rationalization of economic transactions, and multiple standards increased uncertainty and transaction costs.²⁶

Trade liberalization started in the eighteenth century after the American Revolution. The Eden treaty of 1786 with France was an important step forward. Many of Britain's leading figures after 1760 had become convinced free traders. The Eden Treaty could have been the start of a new and enlightened age of free trade, had it not been for the setback of the French Revolution. Trade liberalization resumed in the early 1820s with William Huskisson, followed by abolition of the Corn Laws in 1846 and what remained of the ultra-mercantilist Navigation Acts in 1849, and culminated in the Cobden-Chevalier treaty of 1860. The way to the Free Trade Britain of legend, all the same, was not easy. Britain hesitated long and hard before it fully committed to free trade in the second half of the nineteenth century, reflecting the power of rent-seeking at the national level and the many difficulties and ambiguities in the enlightenment arguments for free trade. The gradual weakening of the farming sector's hold on political life after the Napoleonic wars meant a confrontation that ended with the repeal of the Corn Laws in the 1840s. Yet, as we now know, even the end of the Corn Laws did not immediately result in the full liberalization of trade (Nye, 2007).²⁷ Oligopoly – including restrictions on entry through licensing, price controls, and mandatory inspections – led to larger and more dominant enterprises, and made the political bargains easier to negotiate and maintain and the taxes easier to collect (Nye, 2007). Changes in the tariffs towards pure free trade after 1850 required not only a belief in the national benefits of a more liberal policy, but also a willingness to overturn a long-

²⁵Of the law prohibiting the emigration of skilled artisans, Ashton in his classic work (1924, p. 205) wrote that “by this time [1824] the crude nationalism of the eighteenth century had begun to lose ground before the assault of newer ideas of personal freedom.”

²⁶“It is a maxim in trade, no Kingdom can flourish by their commerce when Weight and Measure are not certain” stated one mid-eighteenth century writer (cited by Hoppit, 1993, p. 91). But adopting the radical (and “republican”) French innovation of metric weights and measures was never considered a serious option in Britain, though it had some supporters. As in other areas, the French revolution — itself a child of the Enlightenment — was ironically highly disruptive of the salutary effects of the British Enlightenment on the economy.

²⁷The beverage interests had been essential to the fiscal transformation of the eighteenth century. Wine tariffs kept out a French product that might compete with British and colonial beverages. Tariffs were used to regulate trade from the Continent in favor of British colonial rum, beer and whiskey at home, and the wines and liquors of Portugal abroad. Limited competition from imports allowed the maintenance of high excises on beer and other domestic alcoholic beverages.

standing prejudice against the French. Freer trade also depended on a willingness to challenge industries that would be threatened by imports and to accept the fiscal consequences of reduced tariffs while preserving the fiscal soundness that had made the British system the envy of Europe. The post-1815 decline in military spending was helpful in bringing this about, but the lower aggressiveness of British foreign policy too must be seen in the context of a changed international situation based on Enlightenment ideas.

In other areas, too, liberal ideology translated into policy changes. By the end of the eighteenth century monopolies were roundly condemned.²⁸ With the exception of the Bank of England, whose unique position was recognized by the British in the Bank Charter Act of 1844, they were phased out.²⁹ The East India Company's autonomy was weakened by Pitt's East India Act of 1784, which made the appointment of the Governor General the responsibility of the Crown and reserved all important policy decisions to a special committee controlled by the government. The Company's monopoly was ended by two parliamentary acts in 1813 and 1833 respectively. The position of the East India Company had weakened to the point that after the 1857 rebellion, it lost its *raison d'être* altogether.

On the whole, the European experience during the Industrial Revolution displays mixed evidence for Olson's famous hypothesis that political stability creates hotbeds for distributional coalitions to ripen and poison growth with their pernicious influence. In France and the Netherlands, the story rings true. Old coalitions were mercilessly swept away, and while new ones took their place, they were not nearly as effective in bringing about redistribution. Nowhere is this more clear-cut than in the fatal weakening of guilds and the abolition of internal trade-barriers. Olson pointed to guilds as a classical case of a distributional coalition. Indeed, their disappearance in the late eighteenth century due to political disruption and border changes is consistent with his views. However, that leaves Great Britain, the leader of the Industrial Revolution, in an odd position. As noted, mercantilist views and the policies they supported declined in Britain after 1750, despite a remarkable ability of the regime to defend itself against radicalism on the left and reactionary toryism on the right. To be sure, Britain did not need to outlaw guilds, abolish

²⁸Adam Smith (1976, p.165) called them the "great enemy of good management" and writers from William Godwin to Josiah Tucker treated them as an unmitigated social evil. Liberal views had become the bases for policy.

²⁹The Bank of England was gradually converted into a public policy tool to manage the economy into greater stability. That, too, was the result of the declining acceptability of rent-seeking and the growing awareness of the need for enlightened government management.

internal tariff barriers, or eliminate many of the “privileges” enjoyed by ruling classes over the continent. It did not have to instate the freedom of movement or occupational choice, release serfs, wholly re-organize the set-up of property rights over land to allow the rationalization of farming, unify bewildering sets of different local weights and measures, to say nothing of laws and litigation procedures and hundreds of encumbrances, small and large, on the free exercise of commerce and industry. For a meta-institution such as Parliament to be responsive to changing needs of the economy, what was needed was a mechanism that signaled the needs of various sectors and industries to the members of Parliament.³⁰

The growth of organized petitioning and lobbying matched the rise of Parliament in the eighteenth century and paralleled the concentration in the administrative structure that made London ever more central to the national bureaucracy. This meant that Londoners came to lobby and exert influence even on behalf of provincial interests (A. Olson, 1992, p. 98). This influence peddling can be seen in the most important new source of excises for the nineteenth century – the brewing industry. As the regulation of beer shows, the British went from a system where anyone could get permission to brew and sell beer by petitioning (and often bribing) any of dozens of different judges with overlapping jurisdictions, to one in which a single judge held sway over a specific region or district thus concentrating the political transactions that would take place. An Act of 1729 led to licenses being granted at licensing sessions known as Brewster Sessions in March of each year. The act also switched responsibility from the county to the local level by restricting jurisdiction for licensing to the local division (U.K., 1998; and cf. Webb, 1903). The government discouraged entry and supported oligopoly in production, particularly as London rose to take a larger share of both the population and total commerce of the British national economy (cf. Mathias, 1959). It was not till the Beer Act of 1830 that the thrust of these regulations was reversed. From that point on, it became possible to sell liquor without obtaining licenses from a local magistrate so long as a license was obtained from the Excise authorities (U.K., 1998; and see discussion in Nye, 2007). Once the government decided to reduce its support for rent-seeking brewers, it could do so because it controlled a powerful political apparatus and did not have to be concerned with local opposition. Brewers thus represent a signal example

³⁰In the eighteenth century, we observe the emergence of the lobbying of Parliament as a coherent and coordinated activity. In the work of Alison Olson (1992), we see the rise of focused interest groups that begin in the late seventeenth century and develop to the fullest in the eighteenth. Even though Olson’s work is primarily focused on colonial interest groups, her observations are often germane to all such coalitions in the eighteenth century. She observed that these interests “expected favors: anything from favorable legislation and beneficial trade treaties at one extreme, to administrative concessions and financial assistance on pet projects at the other” (A. Olson, 1992, p. 95).

of eighteenth century legislation that first strengthened local rent-seeking in a limited way and then abolished those rents once central authorities (in this case, the Excise) became well-established.

Clearly, industrial and commercial interests found a way to reach the ears of Parliamentary notables and were able to overcome collective action problems with well-orchestrated petitioning campaigns.³¹ The most important organized lobbies emerged later in the eighteenth century, such as the General Chamber of Manufacturers. Founded by iron manufacturer Samuel Garbett and potter Josiah Wedgwood, the General Chamber had standing committees of the most influential members of the trade, employed solicitors and parliamentary officials, and generated and circulated information pertinent to their case. When they felt they did not get a sympathetic hearing from the commons, they turned to the press and tried to influence public opinion. Garbett, a co-founder of the Carron ironworks in Scotland, may be regarded as one of the earliest professional political lobbyists. The ideological commitment of industrial lobbies to the principles of the Industrial Enlightenment is, of course, suspect. Their rhetoric, unsurprisingly, consistently used national interests, not the narrow interests of their trade, as the reason for their demand (Norris, 1958). Given their superior knowledge of the details and their single-issue focus, however, their persuasive powers, as Adam Smith pointed out, were substantial.

Perhaps the most important and least noticed changes in policy were the growing support for the bearers of technological progress and innovation. The British political establishment simply refused to cave in to the local special interests that tried to resist innovation in an attempt to preserve the technological status quo. The wool industry is a good example. It was initially far larger than cotton and had an ancient tradition of professional organization and regulation. Artisans and workers in the wool trades tried to manipulate the political establishment to protect their livelihood and somehow stop the new techniques of the preparation and finishing of wool fabrics. In 1776, workers in the wool industry petitioned the House of Commons and asked to suppress the jennies that threatened the livelihood of the “industrious poor,” as they put it. It was a classic mercantilist argument, using “employment” as a pretext to request a rent-seeking constraint on economic activity. It was denied. In subsequent years, groups and lobbies repeatedly turned to Parliament requesting the enforcement of old regulations or the introduction of new legislation that would

³¹In 1718, the leather industry submitted no fewer than 91 separate petitions to get its point across (Hoppit, 1996, p. 128).

hinder the machinery but they too were turned down. In 1809, Parliament repealed the old laws regulating the employment practices of the woollen industry.³² In 1814, the ultimate blow came when Parliament repealed the 250 year old Statute of Artificers, which had hindered free entry and unrestricted occupational choice for generations.³³ Challenges to law and order that could not be settled by local authorities were dealt with effectively and harshly. It could be maintained that the draconic Combination Acts passed in the 1790s acted in the same direction, although it is hard to view that repressive legislation as “progressive” or “enlightened” by our standards. Workers did not vote and had few options. It should thus be no surprise that there was little improvement in workers’ living standards before 1850. What counted for the political elite was the growing conviction that technological progress was behind British success, and the need to keep ahead in a competitive world.

What historical forces explain the decline of rent-seeking coalitions in Britain during the Industrial Revolution? Much like today, politics in eighteenth century Britain was a mixture of narrow interests and ideological convictions. Members of Parliament were increasingly influenced by Enlightenment ideas and their proudest offspring, liberal Political Economy. Parliament had long resisted general legislation based on ideology (Langford, 1991, p. 156). In the 1780s, the influence of the new ideology on policy becomes discernible, as the liberal concepts of Charles Davenant, Josiah Child, David Hume, Josiah Tucker, Adam Smith and similar Enlightenment thinkers on political economy influenced Shelburne, William Pitt the younger, William Eden (Lord Auckland), and their colleagues into formulating more liberal trade policies towards Ireland and France. The growing power of the parliamentary system meant that British institutions could adapt to changing circumstances and, equally important, to changing ideas. That there were rigidities is obvious. Yet the political system in Britain was reformed mostly without violence, without undue waste

³²The language used by the committee is telling: “If Parliament had acted on such principles [on which the use of these particular machines is objected to] 50 years ago, the Woollen Manufacture would never have attained to half its present size...its Augmentation is principally to be ascribed to the general spirit of enterprize and industry among a free and enlightened people... It is likewise an important consideration...that we are at this day surrounded by powerful and civilized Nations, who are intent on cultivating their Manufactures and pushing their Commerce.” See Great Britain, *B.P.P.* 1806 No. 3 (“Select Committee on State of Woollen Manufacture of England”), p. 7.

³³As Paul Mantoux put it well many years ago, “Whether [the] resistance was instinctive or considered, peaceful or violent, it obviously had no chance of success” (Mantoux, 1928, p. 408).

and destruction, and without tossing out the proverbial babies with their bath water.³⁴ The position of Parliament as a meta-institution meant that rent-seeking could be reformed and weakened as needed without bloodshed. Reforms were gradual in that they often preserved many older forms while “reforming” them to make them more suitable to changing needs. These reforms were certainly uneven and lagged behind the demand for them. However, the political structure that had emerged after 1688, while far from perfect, was better than any of Britain’s Continental neighbors, and helped cement its economic leadership for much of the nineteenth century.

In many ways, the story of a growing British state that did not abuse its powers too severely, that cooperated in political reform, and that did not stand in the way of socially disruptive technical change is one of the most interesting and most Olsonian tales in all of modern economic history.

³⁴Parliament could even engage in local violations of property rights if these were considered necessary for the public good (for example when land needed to be confiscated for transport projects), or when it deemed certain property rights to be incompatible with Enlightenment notions, such as the slave trade (abolished in 1807) and slavery altogether (abolished in the British colonies in 1833).

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