Theory of the Webbs on National Minimum and the Future of British Economy

Taku ERIGUCHI*

Aichi Prefectural University, Aichi, Japan

Abstract

This paper tries to clarify that the Webbs' national minimum theory was a modernising strategy for the British economy at the turn of the 20th century. The Webbs, contrary to the label of Fabian socialists, were influenced by A. Marshall's organic growth theory. However, they could not accept the policy conclusion of his liberalism and tried to formulate the 'applied sociology' to be a guide for institutional co-ordination to make the British economy 'efficient'. For Beatrice Webb, this meant the departure from H. Spencer, her sociology teacher. They proposed a unique theory that trade unions are harmonious to industrial progress, and this formed the basis for the national minimum policy. Moreover, their national minimum was compatible with free trade. On this point, they were against W. Ashley's protectionism and had a framework similar to that of A.C. Pigou.

Introduction

In the history of economic thought, Sidney Webb (1859—1947) and Beatrice Webb (1858—1943) have been located close to the English Historical School. Thus, Schumpeter (1954, 821—833) described them, in sharp contrast to Alfred Marshall, as 'anti-Marshallians', 'historical economists' and 'anti-theorists'. Koot (1987) placed them close to William Ashley by focusing on tariff and social reform. Kadish (1982, 277) depicted the Oxford economists as 'dissenters' to Marshall and said, '(t)he foundation of the London School of Economics to a large extent saved the careers of some of the dissenters and allowed them to develop their own independent lines of enquiry'. From the viewpoint of the history of 'business schools' in Britain, Nishizawa (2002) noticed that Ashley's Birmingham University and the London School of Economics (LSE) of the Webbs have many factors in common.

In short, the former studies have contrasted Marshallian Cambridge and the Webbs' LSE; typically, Schumpeter's picture that described Marshallian 'theory' vs. Webbian 'history'. However, it is an oversimplified and misleading picture. This paper will submit an alternative picture indicating that the Webbs were ambivalent to Marshallian economics. On one hand, they were very sympathetic to Marshall in the framework of economics, but on the other hand, they criticized his policy implications. The Webbs' theory is similar to modern institutional economics, which combines neo-classical economics and sociological observations (Figure A).

Sidney Webb, reviewing Marshall's *Principles* in 1890, wrote to Beatrice Webb:

* Aichi Prefectural University, Aichi, Japan. e-mail: eriguchi@ews.aichi-pu.ac.jp

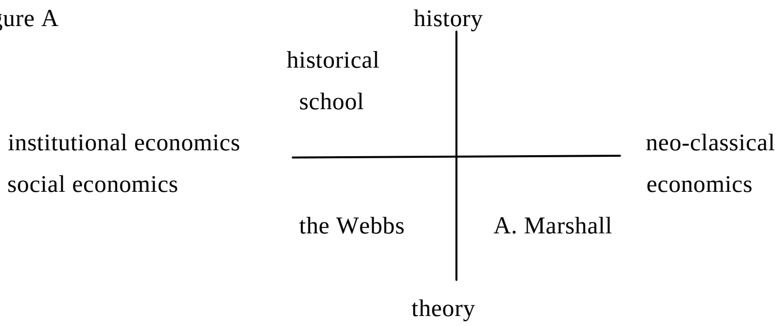
> ‘It is a great book, nothing new – showing the way, but not following it. For all that, it is a great book – it will supersede Mill, but it will not make an epoch in economics. Economics has still to be re-made. Who is to do it? Either you must help me to do it, or I must help you?’ (MacKenzie and MacKenzie 1982, 337)

Marshall showed ‘the way’ but did not follow it. The Webbs’ task was to explore ‘the way’ and ‘re-make’ economic science.

What was ‘the way’ for Sidney Webb? The key expressions that he incorporated from *Principles* included science of social life, social organism, conscious social co-ordination, industrial decline, social policies and labour questions (S. Webb 1890). These points were mentioned partly but not investigated in depth in *Principles*.

Part one of this paper considers the relationship between Sidney Webb and Marshall in the making of the theory of industrial progress; part two deals with the sociology of Beatrice Webb in comparison to her teacher H. Spencer; part three focuses on the vision of industrial progress devised in the trade union and national minimum theory of the Webbs and part four locates the Webbs’ national minimum within international perspectives in comparison to that of W. Ashley and A.C. Pigou.

Figure A



1. Marshall and Sidney Webb on ‘industrial progress’

The Webbs have been considered as Fabian socialists who proposed public ownership of the means of production.[1] However, the Webbs’ economic thinking was influenced by Marshall’s organic growth theory. Sidney Webb’s early essays on economics suggested a theory of ‘industrial progress’, which was similar to Marshall’s theory. Sidney Webb contributed two essays, ‘The Rate of Interest and Laws of Distribution’ (S. Webb 1888a) and ‘The Rate of Interest’ (S. Webb 1888b) in *Quarterly Journal of Economics*. Strangely, these two essays were produced in the course of the debate with F.A. Walker,[2] who was a forerunner of neo-classical economics in America, as well as J.B. Clark.

In the essay ‘The Source of Business Profit’ (Walker 1887), Walker

[1] N. Thompson (1994), focusing on the 1920s, described the Webbs as naïve supporters of socialization of the means of production.

2 This paper’s discussion is based on the premise that F.A. Walker and Marshall are on the same side of the making of modern distribution theory, which criticised the wage fund theory.

submitted a new theory of distribution, which would relieve class conflict. Beyond the dichotomy of capitalists and workers, he introduced the new idea of 'entrepreneurs'.[3] For him, 'profits' should be divided into 'interest' and 'wages of superintendence'. The latter was originated by J.S. Mill, and Walker renamed it as 'business profits'.

In perfect competition with identical qualies of employers, the 'business profits' of all firms will become zero. However, in reality, there is gradation from 'masters of industry' making large profits, to those who realize no profits at all. 'Business profits' are not produced by cutting down wages, because 'masters of industry' pay higher wages than employers with no profits. According to Walker, the difference in 'business profits' originates from the 'business ability' of the employers. He named them 'rent of ability', borrowing Ricardian rent theory (Walker 1887, 269—278).

With this 'rent of ability', he intended to show the common interest between employers and workers. For, in Walker's residual theory of wages, wages are a 'residual' of national income after deduction of interest, land rent and 'rent of ability'. According to him, interest is determined by demand and supply of capital, while land rent is fixed by Ricardian discipline. Hence, if 'business profits' are determined, wages can be fixed (Walker 1887, 281—283). In short, when 'business profits' increase, wages decrease. From this viewpoint, Walker said:

> 'to commit the conduct of business to an inferior order of men, having …smaller net productiveness in the use of labor and capital, is to enhance the cost of that last necessary portion of the supply which determines the price of the whole stock, and is thus to increase the share of the product of industry going to the employers of higher grades, as profits.' (Walker 1887, 278)

Price is fixed by the production cost of marginal firms. When this is higher, the share of 'business profits' will be larger, and the share of wages will be smaller. Walker concluded that the real cause of low wages is the existence of 'inferior employers'. Contrary to the socialistic idea, 'it is for the interest of the community, particularly of the wages class, that the conduct of industrial enterprise should be restricted to men of distinct, decided business ability.' Institutions that 'protected' incompetent employers, such as the 'truck' and 'slavery' systems, should be reformed (Walker 1887, 278—280, 288).

Sidney Webb criticized Walker. However, the criticism was not socialistic. He appreciated the idea of 'rent of ability' and tried to develop Walker's theory of 'business profits' by supplementing the theory of interest (S. Webb 1888a, 188). He criticized this sentence of Walker:

> 'notwithstanding that the utility of the successive increments of capital applied to production has varied within a wide range, all the loans made would, in a money market where perfect competition existed, be made at the same rate' (Walker 1888, 286—287) .

Sidney Webb argued that interest should be defined as a 'share' of national

3 The idea of 'entrepreneurs' was already used in Wage Question in 1876. (Walker 1876, 244)

income, not as a 'rate'. And the 'same rate' of interest applies only to 'loan capital'. He focused on the fact that 'in every department of industry, the means of production, contemporaneously employed, vary in efficiency'. The income from these differential advantages of capital equipment should be called 'rent'. He said:

> 'since it is the article produced under the most disadvantageous circumstances which determines the value of the whole, there must necessarily be a real 'rent' upon all but the capital employed under those worst circumstances. This is obviously the source of the large industrial profits' (S.Webb 1888b, 471).

For him, both 'rent of capital' and 'rent of ability' were sources of profit. The efficient firms would make huge amounts of 'rent' with the newest equipment and able managers. The less efficient firms would be 'eliminated' by downward price competition. This resulted in shrinking of the 'rent' of efficient firms and promoted the next stage of technological innovation. 'Rent' was a key to understand the dynamism of 'industrial progress'. He emphasized that the 'process is never ending', and that the theory should be 'dynamic and not static' (S. Webb 1888b, 471—472).

Sidney Webb, based on Marshall's *Economics of Industry*, criticizes the socialistic view. He said:

> 'There is a common impression that a manufacturer makes his 'pile' by screwing down the wages of his hands…But this is not the case…No – capitalist who makes a large income is not particularly the enemy of the wage-workers…We want many more of such capable 'captains of industry'. What we have to complain of is the system which places so much of the national capital at the command of incompetent and unsuccessful employers, who waste it and fail' (S. Webb 1887, 31—34).

Contrary to the traditional understanding of the Webbs as Fabian socialists, Sidney Webb incorporated the stream of industrial economics of Walker and Marshall. This was to turn into the basis of the national minimum theory of the Webbs in *Industrial Democracy*. However, before considering this, we have to move to the next question: How could the Webbs not accept the policy implications of Marshallian economics? The social theory of Beatrice Potter Webb was a key to understand it.

2. From Social Evolution to Social Control: Herbert Spencer and Beatrice Webb

In the late 1880s, Sidney Webb planned to write a book on economics based on his rent theory. However, Marshall's *Principles* published in 1890, shattered his dream. Sidney Webb complained that his idea of 'rent of capital' was stolen by Marshall's 'quasi-rent'. Whether there was any theoretical influence from Sidney Webb to Marshall is beyond the scope of this paper, but it is clear that Sidney Webb shared very similar economic thinking to Marshall. Finally, Sidney Webb abandoned his plan, but this was not just a retreat. He stepped forward along 'the way' that Marshall showed but did not follow it. In this new direction, Sidney Webb had secured a powerful co-operator, Beatrice Potter Webb.

At that time, Beatrice Webb, under the influence of Herbert Spencer, had an idea of 'sociology', which would incorporate economic science within itself. For her, economics should be a part of the 'study of social institutions'. In her 'sociology', the usage of the term 'economic' should be limited to human relations based on money transactions. From the same viewpoint, she criticized Marshall as 'he makes measurement by money…opposed to other motives'(B. Webb 1926, 422—425, MacKenzie 1978, 163).

Beatrice Webb expressed her ambitious plan to remake economic science as 'applied sociology' and said:

> 'Indeed, it should be one of the main objects of applied sociology to bring about the largest measure of unbroken continuity and mutual satisfaction in an ever-increasing stream of marriages between the economic faculties and economic desires of human race' (B. Webb 1926, 429).

Beatrice Webb comprehended the economic society as a social system. In it, the 'efficiency' of the combination of human 'faculties' with 'desires' became the largest problem to be solved. 'Efficiency' was the most important criteria for the Webbs' 'applied sociology'. It was different from Pareto's static idea of the distribution of resources. The Webbs' 'efficiency' was a dynamic concept in which the paths from human faculties to desires were smoothly secured and ever growing by the co-ordination of social institutions. According to them, the price system of the market was not 'efficient' enough, because, in real economic society, there were many social factors that modern Institutional Economics will explain by concepts such as organizations, habits, co-operative/non-co-operative actions and asymmetry of information. The 'efficiency' depended on the working of these social factors.

In short, Beatrice Webb's 'applied sociology' was similar to modern institutional or social economics. It also shared the idea with K. Polanyi that the economy was 'embedded' into the society.[4] However, the difference between them was that Beatrice Webb tried to establish an 'applied science' that discovered the knowledge required to 'embed' the economy into the society.

This 'applied sociology' was the hardcore of the Webbs' lifelong academic careers and was to become the main theme of the LSE founded in 1895. The Webbs explained their methodology that the objects of 'an applied science of society' were 'social institutions…deliberately devised with a view to increasing social efficiency'(Webb and Webb 1932, 242). They also said, 'efficiency is the sole object, as is the supreme test, of social institutions of this class' (Webb and Webb 1932, 28).

Strangely, this idea of social engineering was influenced by a liberal philosopher, Herbert Spencer. In the intellectual history of Britain, it has been a mystery that Beatrice Webb was a pupil of Herbert Spencer. It may be natural that the former studies recognized little influence of Spencer on Beatrice Webb,[5] because the former represented liberalism of the 19th century, and the latter was a famous Fabian socialist. However, Beatrice Webb confessed that she was influenced by Spencer's idea of 'functional adaptation' when she departed from a '*laissez faire*

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[4] Polanyi 1944
[5] Cole 1945, 17

bias' (B. Webb 1926, 37).

'Functional adaptation' was a concept placed against 'natural selection' in her social theory. It was a basis of social reform sharply contrasted to liberal theory based on 'natural selection'. Here, one should remember the triangle of H. Spencer, C. Darwin and J.B. Lamarck. Sometimes, Spencer was misunderstood, as he believed in Darwinian 'natural selection'. However, Spencer also supported the Lamarckian theory of inheritance of acquired character (Bowler 1989, 153—154).

Spencer used the term 'functional adaptation' as a Lamarckian concept in his *Principles of Biology* (1864—1867). It is a function of an organism to attain equilibrium with regard to the strains of circumstances by changing its organs.[6] Spencer described human nature as changeable and 'adapting' to circumstances, not as unchanging. This means that his theory had possibilities for social reform, because 'the unfit' can become 'the fit' through social policies and not be eliminated by 'natural selection'. However, Spencer argued that liberalism was the only practicable measure to turn the human race into 'the fit'. He once criticized the Beatrice's idea of 'applied science' in her younger days and argued that liberalism should be conserved.[7]

On the other hand, Beatrice Webb developed Spencer's idea of 'functional adaptation' into a basis for social reform. In fact, 'functional adaptation' was to play an important role in the Webbs' 'national minimum' theory. 'Functional adaptation' means 'the adaptation of an individual to an increase in the strength and complexity of his faculties and desires', which industrial society demands of human nature. The changing labour process enforced by technological innovation requires workers to acquire new types of abilities and to improve their styles of consumption (Webb and Webb 1897, 703—704).

At the end of the 19th century, the Webbs had in mind the new lifestyle of the lower middle and upper labouring class. These people enjoyed the Victorian virtues such as self-help, prudence and thrifty through co-operative movements and trade unions. Marshall also idealized them as 'true gentlemen'.[8] As long as this behaviour of self-improvement was influential, the economy of high wages would operate progressively. That is, 'functional adaptation' was 'progress' (Webb and Webb 1897, 703—704). The Webbs' theory of 'functional adaptation' was similar to the Marshallian theory of human capital and the economics of high wages known as the 'standard of life' theory.

The Webbs had a framework same as that of the Marshallian 'organic growth' theory. Both parties shared the two aspects of 'industrial progress': competition among firms and the economy of high wages. However, the policy implications of the two parties for the poverty problems of the lower working class were different.

Marshall wrote a substantial amount concerning poverty problems. However, his theoretical conclusion was that general opulence would be attained by free competition within the framework of traditional liberalism. As his 'economic

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[6] Spencer 1864-1867, 216
[7] B. Webb 1926, 282-283
[8] Groenewegen 1998, 599

chivalry' tells us, moralistic managers perceive high wage to be economical. According to the Webbs, he was too optimistic. Marshall and Spencer seemed to be on the same side in terms of social theory, because they shared the optimism that 'social evolution' was always to be 'progress'. The Webbs were suspicious of this liberal assumption, because sometimes 'evolution' became 'degeneration', the most typical phenomenon of the latter being 'poverty'.

Beatrice Webb, according to a famous survey on poverty conducted with C. Booth, criticized Marshallian economics as 'abstract economics'. According to Marshall, the workers would move to the places where they are paid the most for their labour. However, in reality, the workers stay where they are paid the least. In this case, an economy of low wages is operating. Employers can threaten workers with the whip of hunger, but the 'faculties' and 'desires' are in equilibrium at lower levels. 'Degeneration' rather than 'progress' was the reality of poverty (B. Webb 1926, 426—427).

The Webbs said,

> 'in human society, as in the animal world, the lower type developed by parasitism, characterised as it is by the possession of smaller faculties and fewer desires, does not necessarily tend to be eliminated by free competition' (Webb and Webb 1897, 752).

The Marshallian conclusion was that poverty would be overcome in the long run by economic growth. However, according to the Webbs, poverty would remain eternal in a free economy system. The Webbs used the term 'parasitic' to explain this.

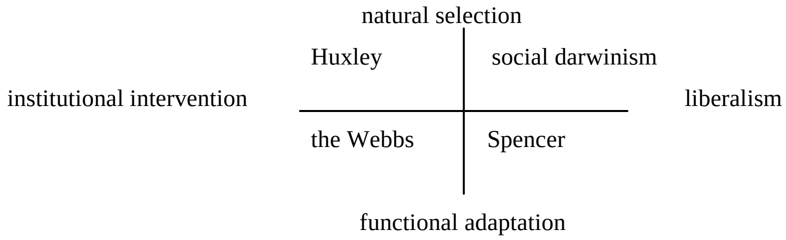
The Webbs used the phrase 'parasitic trades' to explain the reality of 'sweated industries', where labourers were employed in bad conditions. Employers in 'parasitic trades' are to be understood as if they receive a 'subsidy' in the form of cheap labour. The employer does not pay the normal cost of the reproduction of labour. If labourers are in bad health because of low wages, the employer will not pay to redress this and simply discard them. Other people including the public poor law authorities then have to support them. Such employers are 'parasitic' on the society.

In modern terminology, there is a negative externality in the industrial relations of 'parasitic trades'. The Webbs believed that capital and labour should be allocated according to their original efficiency through market competition. However, 'parasitic trades' grow faster than other industries because of 'subsidy', and distort the optimum allocation of industries (Webb and Webb 1897, 749—755).

According to the Webbs, the market economy was an imperfect system, which was open not only to 'progress' but also to 'degeneration'. 'Evolution, in a word, if unchecked by man's selective power, may result in Degeneration as well as in what we choose to call Progress' (Webb and Webb 1897, 752—753). The economic system has an original 'disease' in itself, and 'social institutions' should correct this.[9] The national minimum was their answer.

[9] This idea was partly influenced by Darwin's 'bulldog', T.H. Huxley. Huxley used the dichotomy between 'nature' and 'art' as a parallel for the relation between 'natural selection' and 'human selection'. His metaphor of 'gardeners' explains the importance of 'art'. The work of 'gardeners' is not to eliminate the 'possibility for progress' of nature. It weeds out only the harmful effects (Huxley 1898, 73). When this metaphor is applied to the society, 'gardeners' are understood as statesmen. However, in

Figure B



3. National Minimum

The Webbs proposed the ‘national minimum’ theory in *Industrial Democracy* (1897), the main part of which was devoted to the analysis of trade unionism. The classical economists saw trade unions as economically useless. However, in the late 19th century, the economic analysis of these became possible with a new approach to national income in place of the stock-based growth theory. Representing this stream of thought, A. Marshall said in his *Economics of Industry*:

> ‘it is not impossible for labourers, by forming themselves into trade combinations, to obtain a general rise in wages; and that this rise may be maintained, provided it is so used that the Wage-and-profits Fund is not diminished’ (Marshall 1879, 206).

If trade unions are harmonious to economic development, there is no reason to denounce them. Marshall’s *Principles* also followed this idea but did not discuss their economic effect in depth. In short, for the Webbs, Marshall showed ‘the way’ but did not follow it. The Webbs themselves explored ‘the way’.

As admitted by Marshall, industrial negotiation will be advantageously fixed for employers without trade unions; these are necessary to secure the equality of bargaining power. However, both Marshall and the Webbs had the same idea that some trade unions were not profitable for economic development. The Webbs discussed this point further, dividing trade unions into ‘old unionism’ and ‘new unionism’.

The Webbs criticized ‘old unionism’ as harmful to ‘industrial progress’. ‘Old’ unions sought a monopolistic position in the labour market by controlling the supply of skilled workers. However, this convention became a bottleneck for the expansion of business. Moreover, union members were not co-operative with technical innovation, which undermined their skill.

‘New unionism’ was appreciated by the Webbs as harmonious to the market mechanism. They focused on the favourable effects of the ‘common rule’; the

human society, statesmen cannot be omniscient. Huxley thought that statesmen should not be the masters of ‘human selection’ but should ‘create the conditions’ for ‘facilitating the free expansion of the innate faculties of citizen’. He said, ‘that which lies before the human race is a constant struggle to maintain and improve, in opposition to the State of Nature, the State of Art of an organized polity’. (Huxley 1898, 101-103). He criticized Spencer’s optimism with regard to evolution in his essay ‘Nihilism to government’ (1871), and Beatrice Webb followed his view when she used the phrase universal contracts between trade unions and employers' associations on the minimum standard of labour conditions applied to all concerned members. The 'common rule' never intervened in the selection of workers by employers. Rather, it introduced a favourable order of selection for both parties.

Usually, the optimal distribution of workers is secured by free competition in the labour market. However, if there is no rule of bargaining or no system for rewarding the workers, employers sometimes seek only the short-term cheapness of wages. In this case, the efforts of workers are not rewarded, and the effort level reduces. The Webbs noticed the facts of adverse selection in the labour market, which the new institutional economics today[10] successfully explained. This was also the reality of the poverty which Beatrice Webb named 'degeneration'.

The 'common rule' enforced on all employers the minimum wage rate (ex. piece -work rate) and payment according to their efficiency of work. As a result, the workers try to invest their money in a lifestyle of improving their abilies. In the Webbs' terminology, 'functional adaptation' begins to operate. The institution that is necessary to make the labour market efficient is the trade union (Webb and Webb 1897, 714—723).[11] Their discussion was similar to the Marshallian theory of human capital and the economy of high wages.[12] Moreover, it is similar to the incentive theory of new institutional economics.

The 'common rule' also promoted 'industrial progress' on the side of employers. In an unorganized labour market, competition among firms often results in reduced wages. As far as it is possible, innovation will be hampered. However, once the 'common rule' is settled, firms are forced to compete for the innovation of capital equipment.

The level of the 'common rule' is settled at what the least efficient firm can afford. However, the economic interest of trade union members will push this level up as far as possible. In reality, 'it knocks another nail into the coffin of the least intelligent and worst equipped employers in the trade'. The least efficient employer will be 'eliminated' if he refuses to refine the production process. In short, 'it is always tending to drive business into those establishments which are most favourably situated, best equipped, and managed with the greatest ability, and to eliminate the incompetent or old-fashioned employer' (Webb and Webb 1897, 726—728).

The Webbs said,

> 'It is obviously to the interest of the Trade Union so to fix the Common Rule as to be constantly 'weeding out' the old-fashioned or stupid firms, and to concentrate the whole production in the hands of the more efficient 'captains of industry,' who know how to lower the cost of the product without lowering the wage' (Webb and Webb 1897, 729—730).

The Webbs believed that efficient firms had enough room for expansion. They

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'nihilism to government of Herbert Spencer' (B. Webb 1926, 329).

[10] The economic of the Webbs is similar to the new institutional school based on the idea of information asymmetry. The Webbs were forerunners of new institutional school members such as J. Stiglitz, G. Akerlof and O. Williamson. See Eriguchi（2009）.

[11] Marshall (1961, 704-711) appreciated the theory of the 'common rule' in later versions of *Principles*.

[12] Blaug (1962, 460-461) pointed out that the Webbs theory was the same as the economy of high wages.

workers of the firms that were closed down would move to efficient firms for more favourable conditions (Webb and Webb 1897, 729). On this point, we can say that there is a resemblance between the Webbs and the Rehn-Meidner model of post-war Swedish welfare state strategy. The Webbs' theory was a forerunner of 'solidarity wage policy'.[13]

The Webbs assumed that the price in a given trade was fixed by the production cost of least efficient firm. The 'common rule' eliminated only the least efficient firm, and the price would not increase (Webb and Webb 1897, 730). The said,

> 'the Trade Union could theoretically raise its Common Rule ,to the successive exclusion…of the worst employers, without affecting price or the consumers' demand, and therefore without losing the area of employment. By…increasing the output of the more advantageously situated establishments, this Device of the Common Rule may accordingly shift the boundary of that part of the produce which is economically of the nature of rent, and put some of it into the pockets of the workmen' (Webb and Webb 1897, 730) .

They concluded that 'new' trade unions were harmonious to 'industrial progress'. Of course, the Webbs realized that the job-creating effect in the expanding firms would diminish when there was little room for efficiency improvement. In this case, the growing payment of 'out-of-work' benefit by trade union insurance would be a safeguard against excessive raising of the 'common rule' (Webb and Webb 1897, 738—740).

Learning from Marshall and Walker, Sidney Webb formulated his own theory of 'industrial progress' based on the idea of 'rent'.[14] His 'rent' theory prepared a basis for their trade union analysis. The Webbs' theory of trade unionism was far from socialistic as it is generally considered, because it emphasized the importance of able entrepreneurs for the future of the working classes.

The Webbs denounced the existence of incompetent employers as 'a clear diminution of the nation's productive efficiency'. They said,

> 'The enforcement of a Common Rule, by progressively eliminating the worst equipped employers and concentrating the whole pressure of production, tends constantly to the development of the highest type of industrial organisation' (Webb and Webb 1897, 732).

The 'common rule' is a social institution that would not undermine, but rather promote the productivity of 'rent'. It was devised to correct only the inefficient inequality of 'degeneration'. This was an essence of the Webbs' 'applied sociology', which sought the combination of social institutions and 'efficiency'.

The Webbs had a prospect that the 'efficiency' of the British economy would increase as the 'common rule' permeated each trade. However, in reality, 'parasitic trades' hampered this ideal growth path. 'Parasitic trades' were the same as 'sweated industries' that depended on cheap labour. 'Sweated industries' were

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[13] On the economic analysis of Rehn-Meidner model in Swedish welfare state, see Erixon 2001.

[14] In *Industrial Democracy* (Webb and Webb 1897, 645), the Webbs cited from Marshall' *Principles* and used the expression 'quasi-rent'.

'parasitic' on the British economy, because they, in the long term, absorbed energy from it without paying the normal price for labour stock. Here, the 'degeneration' of the workers was a fact of industrial life.

In these 'parasitic trades', it was difficult for the workers such as children and young women to form effective trade unions. So, 'degeneration' would not be prevented by the liberty of trade unionism. Here, the 'national minimum' was required, which was a legal enforcement of the 'common rule' 'to prevent any industry being carried on under conditions detrimental to the public welfare'. The 'national minimum' included those of wages, leisure (working day), sanitation/safety and education. It would only prevent 'degeneration' and was to form 'a solid basis for industrial pyramid' (Webb and Webb 1897, 767—768, 790).[15] For the people of the lower working class, this meant that they should be efficient workers deserving to the national minimum.

However, the Webbs did not exclude the possibility of unemployment; they prepared answers to it. First, there was a group of 'unemployable' who could not obtain the national minimum because of physical or mental problems. Of this group, the Webbs argued that modernized welfare programmes should support them. They proposed intervention in the early stages of problems and called this the 'prevention of the destitutions' (Webb and Webb 1909a). Second, public authorities should 'prevent' unemployment. They proposed labour exchange, public works and job training (Webb and Webb 1909b).

4. Free Trade and the National Minimum

Strangely, the Webbs' national minimum theory also had an international perspective. In fact, it was based on the internationalism that free trade and social policy are compatible. However, the former studies, e.g. Semmel (1960), labelled the Webbs as 'social imperialists' of the Chamberlain type and missed this point.

As G. Myrdal (1960) said that there was 'ambivalence' to nationalism in the discourses of the intellectuals of welfare states,[16] it is worth asking whether the ideas on welfare states are nationalistic. Recently, Trentmann (1997) described the discourses on international relationships around the turn of the 20th century as a picture of 'wealth vs. welfare' and mentioned the Webbs as offering an alternative free trade theory to the Cobdenite one.

The Webbs followed the free trade theory of Ricardo and J.S. Mill that international division of labour based on comparative advantage is beneficial for all over the world. This fact is very important, because preceeding studies, e.g. Semmel (1960, 27), described the Webbs as protectionist.

However, the Webbs' belief in free trade also demanded the modification of

[15] The Webbs theory was similar to that of the 'preservation of labour power' of Kazuo Ohkouchi, Professor of Social Policy, Tokyo University, who was a Marxian economist. He said that he followed the German School of Social Policy. However, he was familiar with the Webbs' theory on the national minimum from *Industrial Democracy*, which had already been translated into Japanese in 1927. There is a possibility that Ohkouchi incorporated the Webbs' theory into the Marxian context. (Ohkouchi 1949)

[16] Myrdal 1960, 159-164

its discipline. They noticed that free trade was beneficial only when ‘each nation would retain the industry in which its efficiency was highest, and its potentialities were greatest’. In reality, however, ‘parasitic industries’ became larger with comparative advantage because of the ‘subsidy’ of cheap labour (Webb and Webb 1897, 855).[17]

The Webbs thought that, if the amount of imports is given, the expansion of ‘parasitic industries’ would cause staple industries to decline under the balance of trade equilibrium. In staple industries such as cotton, machine making, coal mining and shipbuilding, ‘industrial progress’ was attained. For the Webbs, the expansion of ‘parasitic industries’ and the decline of staple industries were symptoms of the ‘degeneration’ of the British economy. They said,

> ‘Hence the Protectionist is right when he asserts that, assuming unfettered individual competition within each community, international free trade may easily tend, not to a good, but to an exceedingly vicious international division of labour’ (Webb and Webb 1897,855).

As Koot (1987) pointed out, there was a similarity between the Webbs and the members of the English historical school such as W. Ashley and W. Hewins, especially around criticism of the unfettered free trade. They all shared anxiety about the decline of the British industry.

However, the Webbs never proposed the abandonment of free trade. Their point was that ‘unregulated’ free trade should be reformed. A combination of free trade and the national minimum was the answer. They said,

> ‘the proposal for the systematic enforcement…of its own National Minimum of education, sanitation, leisure and wages, become a necessary completion of the Free Trade policy’ (Webb and Webb 1897, 860).

The Webbs were consistently opposed to a ‘protection tariff’ and said, ‘though the existence of parasitic trades knocks the bottom out of the argument for *laisser faire*, it adds no weight to the case for a protection tariff’ (Webb and Webb 1897, 856).

W. Ashley, who supported Chamberlain’s tariff reform campaign, also had anxiety about the decline of the British economy. Ashley had a similar standpoint to the Webbs that the expansion of ‘sweat shops’ was dangerous, but his explanation was different. For Ashley, the expansion of ‘sweat shops’ was a result of protection tariffs and dumping in Germany and America. First of all, Britain had to import a certain amount of food from abroad. However, staple industries were in difficult circumstances because of ‘crushing blows’ from the rivals. The expansion of ‘sweat shops’ was an inevitable result of the decline of the British industry. Ashley’s prescription was the introduction of a defensive tariff in Britain (Ashley 1903, 83—113).

The Webbs rejected this sort of protectionism. They also had anxiety over the declining of staple industries as a ‘degeneration’ of the British economy. However, they thought that protectionism was ineffective, because the cause of ‘degeneration’ was not protectionism abroad but the comparative advantage of cheap labour in Britain. They said,

[17] Mill (1948, 689-670) already noted this point but did not pursue it in depth.

> 'An import duty…would leave unchecked the expansion of the subsidised trades, which…might go on absorbing more and more of the nation's brains and capital, and more and more of its export trade' (Webb and Webb 1897, 857).

The Webbs rejected protectionism as a prescription for 'parasitic trades' and proposed the policy package of free trade and the national minimum. In 1903, even when many members of the Fabian society supported Chamberlain, Sidney Webb was consistently against him. Hence, Semmel's labelling of the Webbs as 'social imperialists' of the Chamberlain type should be carefully corrected. The Webbs' argument was 'regulated free trade'.

Some will notice that the Webbs' discussion was similar to the national minimum theory of A.C. Pigou, who mentioned this in the final chapter of *Economics of Welfare* (1920). Pigou understood the national minimum as an 'annual transference of resources from relatively rich to the relatively poor'. It would, on one hand, 'increase the real income of the relatively poor' and, on the other hand, 'diminish the national dividend' and 'diminish the real income of the relatively poor'. The problem to be solved was the optimum balance between them (Pigou 1920, 758—759).

Pigou also considered the economic effects of the national minimum from international perspective. For him, if the national minimum, e.g. the regulation of women's labour and sanitary arrangements, was imposed in one country, it would become a 'handicap' to production costs, and 'cause a flood of imports from abroad'. It would induce capital freight and reduce national income. He noticed that, sometimes, an import tariff was proposed to offset the burden of the national minimum. However, 'such a tariff…would make national dividend smaller' because of distortion of the normal distribution of resources (Pigou 1920, 764—765).

To understand Pigou's discussion, Trentmann's picture of 'wealth vs. welfare' is useful. The national minimum, which means 'welfare', will under free trade decrease 'wealth' because of capital freight. The national minimum with an import tariff will also decrease 'wealth' by distorting the allocation of the resources. The methods to attain the optimum balance between 'wealth' and 'welfare' are 'international minima'. Pigou said,

> 'If the handicap of these high minima is extended to all important countries by international labour legislation, the danger that our capital will be driven abroad is removed' (Pigou 1920, 765).

From the viewpoint of orthodox theoretical standards, Pigou's discussion on the national minimum should be counted as typical of this time.

However, in fact, the Webbs had already realized this sort of discussion earlier. They said,

> 'If…we could arrive at an International Minimum of education and sanitation, leisure and wages, below which no country would permit any section of its manual workers to be employed in any trade whatsoever, industrial parasitism would be a thing of the past' (Webb and Webb 1897, 858).

The Webbs recognised the possibility of an 'international minimum'. However, they were consistently pessimistic about this and said, 'internationalism of this sort…is obviously Utopian'(Webb and Webb 1897, 858).

In comparison to Pigou, the Webbs' perspective on the national minimum and free trade was strange. Of course, it had a historical limitation. In the late 19th century when the Webbs were writing, international organizations such as the ILO were more difficult to imagine than for Pigou, who was writing after the first world war. It may be possible to say that the Webbian national minimum theory was naïve.

However, the Webbs' idea was consistent. They said,

> 'There is no advantage in this National Minimum being identical or uniform throughout the world. Paradoxical as it may seem to the practical man, a country enforcing a relatively high National Minimum would not lose its export trade to other countries having lower conditions, any more, indeed, than a country in which a high Standard of Life spontaneously exists, loses its trade to others in which the standard is lower. If the relatively high National Minimum caused a proportionate increase in the productive efficiency of the community, it would obviously positively strengthen its command of the world market' (Webb and Webb 1897, 860).

The national minimum was understood as a strategy for the future of the British economy. It would, like the 'common rule', promote 'industrial progress'. In contrast to Pigou, who described its negative effect as a 'handicap', the Webbs threw light on its positive effect as a condition for long-term 'progress'.

The Webbs recognized that the positive effects of the national minimum would diminish as the standard became higher. However, in the earlier stage of the welfare states, when the Webbs were writing, the national minimum would be more effective than in Pigou's period. The significance of the Webbs' national minimum theory was that they noticed, for the first time, its positive economic effect in the earlier stage of the welfare states.

According to the Webbs,

> 'each community is economically free, without fear of losing its foreign trade, to fix its own National Minimum, according to its own ideas of what is desirable, its own stage of industrial development, and its own customs of life' (Webb and Webb 1897, 863).

In the sense that the national minimum policy was open to imitation by other countries, it was also an international idea. It is impossible to overemphasize the fact that it was not 'social imperialistic' idea as Semmel described. In reality, the Webbs described their own idea as ' 'inter'-nationalism': that is 'internationalism based on nationalism' (S. Webb 1920).

Conclusion

As mentioned earlier, former studies have located the Webbs close to the English historical school. However, these should be corrected carefully, especially Semmel's labelling of them as 'social imperialists'. They overlooked the Webbs' free trade theory based on international division of labour among welfare states. Additionally, the Webbs' theory was more Marshallian in the sense that it utilized the 'organic growth' theory. The fact that they were ambivalent to Marshall in the sense that they utilized his economic ideas and tried to construct an 'applied sociology' needs to be emphasized.

The Webbs tried to develop Marshallian economics into an 'applied sociology' to reconstruct economic science. This was also the LSE's task, launched by the Webbs in 1895. For the Webbs, the task of the LSE was 'the concrete application of economics to the affairs of commerce, finance, and public administration' (S. Webb 1897, 208) and 'the diffusion of economics and political knowledge of a real kind'(Kadish 1982, 250—251). The Webbs own task was to 'control' the evolution of social institutions. They said,

> 'Whether or not human society in Great Britain will continue to advance or will slip back to a lower level…depends essentially on man's power to control environment to which he must, perforce, become adapted or perish. Unless he can and will, by taking thought, so control the environment that this adaptation means an advance in civilisation, and not a retrogression…what is assured for future generations is not progress but decay' (Webb and Webb 1920, 98—99).

In the future, the co-ordination between welfare and economic progress would become unavoidable in not only of Britain but also of all civilised nations. At this new stage, the worship of liberalism or 'evolution' would be outdated. An 'applied science' was required to lead from 'evolution' to 'progress' and not to 'degeneration'. Social control, not social evolution, was the new task for the nations, which were afterwards to be called welfare states. The Webbs tried to respond to this task by their 'applied sociology', and the national minimum policy was their answer.

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