

# Centennial Waves of Socio-Economic Development<sup>1</sup>

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Fluctuations and cyclical behaviour are observed in majority of socioeconomic processes, the literature on this subject is enormous and has its own long history – let us mention four early authors of such hypotheses: Clément Juglar who in the middle of the 19<sup>th</sup> century tried to prove existence of 8-10 year business cycles, Nikolay Dmitriyevich Kondratiev who investigated existence of so called Long Waves of 50-60 years longevity in the beginning of the 20<sup>th</sup> century, J. Kitchin, who at the same time searched for short, roughly 3 years, inventory cycles, and Simon Kuznetz who in 1930 noticed 15-25 years length cycles and associated them with fluctuations in rates of population growth and immigrating but also with investment delays in building, construction, transport infrastructure, etc.<sup>2</sup> It was Schumpeter who in his *Business Cycles* called the three cycles as ‘Juglar’, ‘Kondratiev’ and ‘Kitchin’, respectively and that “[b]arring very few cases in which difficulties arise, it is possible to count off, historically as well as statistically, six Juglars to a Kondratieff and three Kitchins to a Juglar – not as an average but in every individual case” (Schumpeter, 1939, pp. 173-174). For some reasons Schumpeter have not included the investment cycles into his considerations.

In addition to the above-mentioned cycles it seems that there is possible to identify long waves of socioeconomic development of (roughly) a centennial longevity. This hypothesis is based on evolutionary interpretation of human knowledge development proposed in (Kwaśnicki, 1996, see also Kwaśnicki, 1989, Kwaśnicka, Kwaśnicki, 1986). In evolutionary biology we can say that the basic notion is a *gene*. Similarly in evolutionary view of human knowledge development such a basic notion is a *paragon*. There are some evidences that individual knowledge of each human being consists of *paragons* – of perception, cognition, behaviour, understanding, and so on. Paragons play a role analogous to genes in biology and determine, in some way, the behaviour of an individual in some well-defined life situations. Sometimes the paragon can be identified with *routine* (and in fact this name is used in some approaches in evolutionary economics). Examples of paragons are: ritual actions (naturally conditioned by genes or culture), systems of law, technological standards, statements and theorems of scientific theories, successive steps of algorithms applied in solving standard (normal) scientific and technical problems and everyday duties to be fulfilled during the working day. The term *paragon* is used

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<sup>2</sup>Juglar C. (1862), *Des crises commerciales en leur retour périodique en France, en Angleterre et aux États-Unis*, Librairie Gillaumin et Cie, Paris.

Kondratiev, N.D., (1935, original in Russian in 1925), ‘The Long Waves in Economic Life’, *Review of Economic Statistics*, 17, 105-15.

Kitchin J. (1923), ‘Cycles and Trends in Economic Factor’, *Review of Economic Statistics*, 5, 10-16.

Kuznetz S. (1930), *Secular Movements in Production and Prices*, Boston: Houghton Mifflin.

intentionally to underline the ideal type of pattern of behaviour. A paragon in this context means a pattern of excellence or perfection. The Ten Commandments (the Laws of Moses) are such paragons at the cultural level. The term paragon comes from the Italian *paragone* which means comparison, probation, and the Greek *parakonan*, that is, to sharpen.

On the basis of biological analogy hierarchical structure of human knowledge (a so-called archetype) is partitioned into six levels (or taxa, using a biological term), namely: (1) genetically determined paragons (epigenetic paragons), (2) the image of the world, (3) the image of the society, (4) the image of the economic system, (5) the *epistechne*, and (6) the paradigm.

The paradigm is the lowest taxon of *archetype* and is analogous to species in biology. The activity of an individual, formulated in terms of paragons (routines, patterns of behaviours, modes of thought, etc.) ranked below the level of paradigm belongs to the *cosmetic* category and is differently named by different authors, for example, Kuhn (1962) calls it 'normal science as puzzle-solving', Freeman et al. (1982) and Mensch and Schopp (1977) call it 'incremental innovations' or 'rationalizing innovations', Nelson and Winter (1982) speak about 'natural trajectories' and Dosi (1983) refers to 'technological trajectories'.

A direct consequence of the existence of the hierarchy of hereditary information is a perception of the mode of development of evolutionary processes. Because of the strong cohesion of archetypal paragons, improvement of the personality (phenotype) requires simultaneous changes in a relatively large number of paragons (genes). Improvements of archetypes (fulgurations) are relatively rare events, in contrast to the frequent occurrences of small improvements in the cosmetic domain. Therefore, we observe gradual changes at the cosmetic level and jumps in development at the archetype level.

In my understanding, a long-range development of evolutionary processes (among them of knowledge development at personal and social levels) is cyclical with two phases in each cycle, namely, the *substitution phase* and the *quasi-equilibrium phase*. The transition from a quasi-equilibrium phase to the ensuing, substitution phase, is connected with a fulguration of a new and better archetype.

The new archetype delimits the scope of possible changes in the cosmetic domain, that is, a new archetype demarcates in the cosmetic domain a new canalized pathway of change – a *chreod*, to use Waddington's terms:

The stabilization of a progressive system acts to ensure that the system goes on altering in the same sort of way that it has been altering in the past. Whereas the process of keeping something at a stable, or stationary, value is called homeostasis, ensuring the continuation of a given type of change is called homeorhesis, a word which means preserving a flow. A phrase used to describe such systems, is to say that the pathway of change is canalized. For the pathway itself one can use the name *chreod*, a word derived from Greek, which means 'necessary path'. (Waddington, 1977)

Probably a new form of higher taxon demarcates analogous chreods in all lower taxa of the archetypal paragons. The personal development of man and the resulting social development of human societies are bounded by our biological constitution; sometimes it is said that we are prisoners of our biological nature. The same may be said about all other taxa: the accepted worldview (the image of the world) delimits, more or less broadly, the spectrum of our acceptable views on forms of organized society, or ways of economic order; the accepted social view delimits the spectrum of acceptable economic orders, and so on, down to the lowest taxa of human knowledge (paradigm, and cosmetic).

Estimations of the duration of the substitution phase and the quasi-equilibrium phase for five taxa are presented in Table 1. These are subjective evaluations, made mainly to illustrate a hypothetical dynamics of evolution of different taxa. Apart from the image of the world, the estimations are made on the basis of observed historical changes in Europe and North America

in the last 500 years. The four most recent changes of the image of the world were observed in European civilization:

- between the 6th and the 7th centuries BC in Greece,
- between the 2nd and the 4th centuries in Rome,
- in the 16th and the 17th centuries in Western Europe, and
- at the end of the 19th and in the first half of the 20th centuries in Western Europe and North America.

*Table 1. Waves of development; the Western hemisphere*

Taxon	Substitution phase (years)	Quasi-Eq. phase (years)
Image of the world/civilization	100–300	400–1000
Image of the society/political order	50–100	200–300
Image of the economic system/economy	30–60	100–150
<i>Epistechne</i> /epistemological and technological systems	10–30	40–120
Paradigm (scientific and technological)	5–10	30–60

The period around the 6th century BC is a singular period in the history of humankind. It is marked by the activities of: the great Greek philosophers, the prophet Isaiah (concluding the work of the Jewish prophets), Confucius and Lao-tsy in China, Gautama Buddha in India, Zarathustra in Persia and King Numa – Numa Pompilius – in Rome. It is reasonable to claim that at that time the main evolutionary lines of cultural development in the history of humankind were initiated.

In this paper I will focus on long-term economic development of the Western Hemisphere. Analysis and conclusions will be drawn on the basis of historical records of the last 300 years.

## **Image of the economy**

Paragons of this taxon relate to ways of the fulfilling material needs of members of the society. The main categories of paragons in this taxon are as follows:

- *categories of needs* – paragons of these categories refer to the material human needs which it is possible to satisfy at the current stage of socio-economic development;
- *management (organizational) categories* – paragons of these categories concern (1) economic criteria (objectives) to be applied during the manufacturing process, (2) manufacturing structure and manner of manufacture of material goods, and (3) ways of distribution of material goods and services;
- *relational categories* – these paragons determine (1) the role of political power in the economic process, that is, intensity of connections or separation of political power (e.g. of the state), and economic ‘power’ (for example, of economic agents), and (2) the role and weight of organized labour (for example, guilds, trade unions) in the economic process.

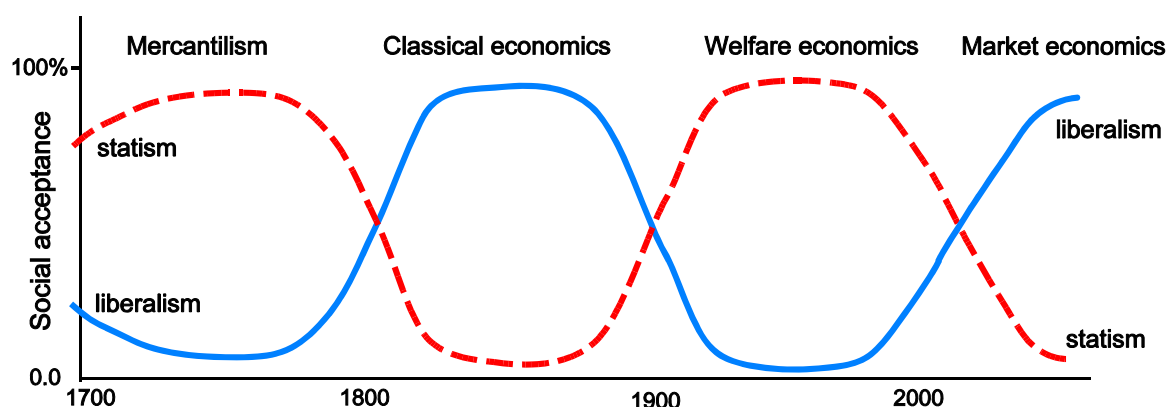


Figure 1. Waves of economic development

Stylized view of evolution of social attitude to economic development is presented in Figure 1. The way of changes of social attitudes toward two opposing views of economic development, namely statism and liberalism, in the last 300 hundred years in the Western societies is suggested. Domination of any one of these opposing views of social development in different periods is never total. At any time there are people claiming that the right way of social development is opposing to currently prevailing mode of development. This opposing view allows to initiate the issuing substitution phase what occurs when conditions of socioeconomic development are worsening. More and more members of the society came to the conclusion that to improve the conditions of living it is necessary to shift the course of development. It is one of the main reasons of occurrence of the waves of socioeconomic development.

In the following sections a stylized description of the three last waves of development of the image of economy is presented. Deeper and fuller corroboration of the centennial waves hypothesis is required and in fact envisaged by the author. I hope that it will be possible to prove the hypothesis at more quantitative level by enquiring historical changes of such variables as government public spending (what only partially is presented in this article), share of trade unions members in the total employment, trade tariffs, growth of world trade related to the world growth of GDP, or analysis of literature (e.g. of contents of one of the oldest economic journal *The Economists*, founded in 1843) enquiring frequencies of using such keyword as liberalism, freedom, liberty, social justice, statism, government intervention, etc.

### **Mercantilism**

Governments in the 17<sup>th</sup> and 18<sup>th</sup> centuries through relevant policy influenced industrial development, controlled trading companies, encouraged domestic industry, regulated production, and placed restrictions such as tariffs and quotas on the import of merchandise from other countries. State intervention was an important feature of mercantilism. Mercantilist overwhelming believe was that a country's exports were fundamental measure of its strength and that economic success could be judged by the influx of gold, silver, and other precious metals from abroad. Mercantilist thinking was based on the assumption that the volume of trade was limited and that countries could expand their trade only at the expense of others. Almost all European countries have passed through mercantilism phase of development. An influential advocate of mercantilism in France was Jean Baptiste Colbert (1619-1683). He directed French economic policies since 1661 to 1683. Later on a thorough application of government controls over the economy was frequently called as Colbertism. Colbert was also a great codifier of laws

(e.g. Code of Civil Procedure (1667) and Code of Criminal Procedure (1670)) and an initiator of state cultural and scientific undertakings. Colbert became superintendent of public buildings in 1664, controller general of finances in 1665, and secretary of state for the royal household in 1668 and for the navy in 1669.

Colbert's mercantilist policies included governmental subsidization and inspection of industries and guild control of manufacturing, establishment of new East and West Indies companies, reduction of tariffs internally and their increase against Dutch competitors, and also a more efficient tax administration. Colbert founded academies for the fine arts, music, inscriptions (monuments), and science, and the Academy of France. In Paris he established the observatory, triumphal arches, the Louvre's classical colonnade, the Hotel des Invalides (a hospital for war veterans), and the Tuileries Gardens. Naturally all it was possible to be done because of huge state money collected by Colbert as healthy financial administrator.

Great Britain also passed the wave of mercantilist policies; among others they were embodied in the Navigation Acts and the Staple Acts of the 17th century, which were intended to expand British shipping and exports especially at the expense of Dutch preeminence in international trade. The act of 1651 required that all products from America, Asia, and Africa ought to be imported into England and its possessions in ships manned predominantly by English subjects. European products could be imported into England only by English ships or those of the country of origin. The Navigation Act of 1660 prohibited all foreign ships from trade between England and its colonies and restricted that trade to English-built and English-owned vessels with an English captain and a crew in 75 percent English. It also enumerated certain commodities, such as sugar, tobacco, and dyes, that the colonies could export only to England or to another British colony. The Staple Act of 1663 forbade the shipping of European goods to the colonies except through England or Wales. Additional acts in 1673 and 1696 tried to plug various loopholes and provide stricter enforcement. The Navigation Acts incorporated basic mercantilist assumptions that the volume of world trade was fixed and that colonies existed for the benefit of the parent country. They were finally repealed in 1849 after Britain had espoused the policy of free trade (what will be a subject of considerations of the next section).

Another sphere of regulation in the mercantilism era was regulation of labour. Probably the most known are the Act of 1768 controlling the wages and hours of journeyman tailors and the Spitalfields Act of 1773 controlling conditions of work of silk industry workers in the one region (namely Spitalfields). The two other Spitalfields acts of 1792 and of 1811 allowed the silk workers from that part of Britain to gain privileged position (e.g., through fixing weaving prices, limiting the number of apprentices). That act, and many others were the reaction of government to frequent skilled workers' petitions to enforce the apprentice system in many industries. In fact by 1813 the movement encompassed the whole working class.

Because of the paper length limit, our description is far reaching idealization of real process of socioeconomic development. Social development is never a smooth process. In fact in the course of time it is full of turns, interrupts and interferences from other cultural processes. When we speak about different waves of socioeconomic development, we point out only the main characteristics of a particular wave just to show our thesis on the wave-like mode of development. But naturally during each wave there are short periods in which opposing policy is performed. Concerning mercantilism let us mention only three such periods in the 18<sup>th</sup> century when the course of political changes were against the mercantilist trend of socioeconomic development. In 1730s Sir Robert Walpole diminished the import duties and repealed export taxes. Due to his regulations volume of trade increased significantly. But as it frequently happened in the history, Britain's engagement in wars has stopped that reform. Next attempt to make the trade freer was made by Henry Pelham who in 1745 significantly reduced duties on imported tea. This step stopped tea smuggling. Unfortunately his followers returned to the policy

of high duties and smuggling returned. The natural course of such policy was higher price of tea.<sup>3</sup> In December 1783 William Pitt became the prime minister and in the next year he has made similar step as Pelham did a few decades earlier, namely he reduced the duty on tea from 119% to 12.5% *ad valorem*. What interesting, this reduction has not diminished the income from that duty significantly – namely from £700 000 to £650 000 only.<sup>4</sup> Once again in the end of 1780s and 1790s high duties policy was imposed and smuggling became profitable engagement. As it is estimated in 1793 around 40 000 people were engaged in smuggling.

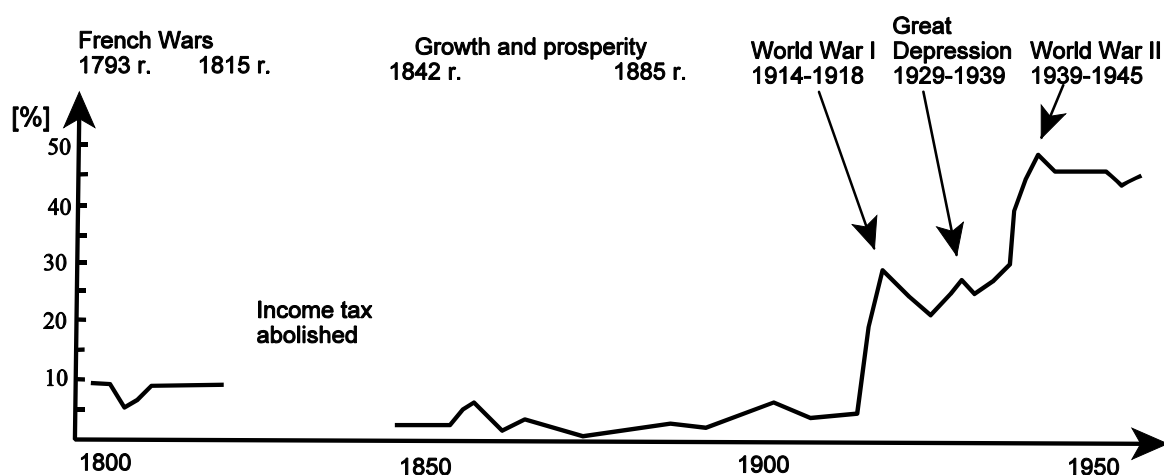


Figure 2. Income tax in Great Britain since 1793 to 1960

To cover costs of wars and to cure increasing debt, new form of tax, namely personal income tax, was imposed in 1799 at a rate of 10% for annual incomes above £200, and slightly lower rates for incomes between £60 and £200. Since that time British started to be accustomed to that kind of taxes. Only for a short periods in 19<sup>th</sup> century (i.e., for one year after the Peace of Amiens in 1802, and after Napoleonic Wars from 1815 to 1842) the income tax was abolished (see Figure 2). At the beginning of the peace period in 1815 the budget of British government was equal to £68.3 million, out of that sum £32 million was spent for servicing debt charges.

Very similar short periods of distracting from the mercantilist trend occurred in the 18<sup>th</sup> century in France. Turgot, baron de L'Aulne (1727-81) became *contrôleur-général* in 1774. His first activity was focused on making the grain trade free. Preamble of his first act points out that the aim of his policy is "to animate and extend the cultivation of land, whose produce is the most real and certain wealth of a state; to maintain abundance by granaries and the entry of foreign corn, to prevent corn from falling to a price which would discourage the producer; to remove monopoly by shutting out the private licence in favor of free and full competition of exchange superfluities for necessities which is so comfortable to the order established by Divine Providence".<sup>5</sup> As in Britain, some merchants, privileged clergy and nobility, and the Parliament of Paris opposed this course of reforms and, because of direct protest of Marie Antoinette, Turgot was dismissed by Louis XIV from his position before the end of the second year of his ministry. In 1776 Turgot introduced the Six Edicts in which he abolished guilds and replaced forced peasant road work (*corvée*, i.e., obligation of peasants to work without payment for almost two

<sup>3</sup> it is hardly believed but in the second half of the 18<sup>th</sup> century, because of high prices of tea, Englishman drank tea thimblefuls.

<sup>4</sup> Francis W. Hirst, 1925, *From Adam Smith to Philip Snowden: A History of Free Trade in Great Britain* New York: Adelphi, p. 7.

<sup>5</sup> Rothbard, 1995, t. 1 p. 367, quoted by Henry Higgs, 1952, *The Physiocrats*, 1897, New York: The Langland Press, p. 62.

weeks in a year to maintain and renovate roads, bridges and canals) with a tax on all landowners. His conservative slogan was “No bankruptcy, no new taxes, no loans.” But for the short period Turgot established free trade of grain and repealed privileges of trade corporations and guilds. He limited heavily the government spending and improved the credit system to such extent that he was able to borrow money from Dutch on the 4% interest rate instead former 7% to 12% .

We will discuss the liberal wave of socioeconomic development in the next section but writing about zig-zag way of socioeconomic development we ought to say that the idea of *laissez-faire* originated in the period of domination of mercantilism. For the first time the term *laissez-faire* was used by French merchants (Thomas Le Gendre, Belesbat and Boisguilbert) in 1680, opposing interventionist policy of their government. René de Marillac intendant of Louis XIV in Rouen, in his report of the 5<sup>th</sup> of October 1685 to *controller-general* quoted the opinion of two influential merchants that

„The greatest secret is to leave trade entirely free; man are sufficiently attracted to their own interest... Never have manufactures been so depressed, and trade also, since we have taken it into our heads to increase them by way of authority.” (following Rothbard, 1995, v. 1 p. 261)

One of this merchant, banker Thomas Le Gendre (1638-1706), probably for the first time used the phrase *laissez-faire* when he said to Jean-Baptiste Colbert: *Laissez-nous faire* (leave us alone).

### ***Classical economics***

The ‘classical’ image of the economy, which lasted over 100 years from the end of the 18th century until the end of the 19th century, was preceded by the works of great liberal thinkers in Great Britain (Richard Cantillon, David Hume, Adam Ferguson, Adam Smith, to name only a few) and physiocrats in France (François Quesnay, Anne Robert Jacques Turgot).

There is no space to describe in details the liberal economy, but in a few words this concept may be characterized as follows: as little intervention by the state as possible;<sup>6</sup> free market economy; free entrepreneurship, employment and price settings; quick turnover of the financial capital. The essence of liberal economy lies also in the specific mode of production based on the principle of division of labour. Free competition (the *invisible hand* of Adam Smith) forms the basis of the economy and allows the optimal allocation of resources, rational balance of all production factors, wages, workforce, profit for capitalists and rent for landlords. In the opinion of Adam Smith, as a consequence of putting such principles into practice, we should observe continuous economic progress and ‘the wealth of nations’.

Great Britain has entered the 19<sup>th</sup> century with high taxes and duties, and large debt. Its economy was hardly called the free market economy as we know it in the end of that century. The list of regulations imposed by mercantilist governments was extremely long and included such spheres of socioeconomic life as wages, condition of work, prohibitive tariffs, a ban on the export of machinery and a ban on emigration of skilled craftsmen and artisan, an embargo on export of precious metals, restrictions on limited joint-stock companies, maintenance of the monopolies of royally-charged companies, and few thousands of different taxes on almost all types of economic activities. The Navigation Acts and the Spitalfields Acts were still in live. To

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<sup>6</sup> The state ought to play the role of the night watchman with only three, albeit very important, duties: ‘first, the duty of protecting the society from the violence of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it; or the duty of establishing an exact administration of justice; and thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain’ (Smith, 1776, Vol. I. p. 325, Book II, Chap. III, edited by Edwin Cannon, 5th edn, London: Methuen & Co., Ltd., 1930).

that list the famous Corn Law ought to be added immediately (which was imposed in 1815).

The first very visible sign of a new epoch was abolishing personal income tax in 1815 and initiatives toward tariffs reduction and simplification of tariffs and excises system. The 19<sup>th</sup> century liberal reforms in Great Britain ought to be credited to three persons, namely William Huskisson in 1820s, Sir Roberta Peel in 1840s and William E. Gladstone in 1850s and 1860s. The reforms ended in 1865, when Gladstone finished his last budget as *Chancellor of the Exchequer*. In 1866 Britain was country of free trade, personal income tax below 2% and the conviction that lower taxes allow to gain much larger income to government than high rates.

Naturally the policy of governments of the 19<sup>th</sup> century was based on the general premise of the 18<sup>th</sup> century liberals mentioned earlier but in opinion of British historian Arthur Taylor “Victorian governments, like the Classical economists, had no explicit theory of economic growth. But implicitly they believed that an economy thrives best when left to the free play of market forces. In this respect, therefore, the commitment to laissez-faire was positive, and the continuing expansion of the British economy thorough the nineteenth century seemed to validate this approach.”<sup>7</sup> S. G. Checkland, another British historian, comments that “It is probably not far from the truth to say that the period 1815 to 1885 in Britain represents that range of human experience in which individual economic initiative had its greatest opportunity to operate upon men and things, and in so doing to re-make an ancient society.”<sup>8</sup> How it was reached?

In March 1817 Lord Brougham gave the first of the series of speeches in Parliament to defend the system of free trade. He argued that rebuilding the system of law toward liberalization of trade can help Britain economy to recover from the deep crisis. As usual the government’s answer was that the exchequer will not sustain such deep reforms – the government income will be so low that it would be impossible to fulfill all its obligations. Fortunately it has not stopped the discussion and in 1820 Alexander Baring presented a petition of the merchants of London in Parliament. London merchants postulated that the government actions ought to be based on the same principle that guide individual merchants in their own business, namely government should buy at the cheapest cost and sell at the highest price. The petition was focused on diminishing duties on Scandinavian timber. Parliament, facing continuing economic depression, set up a committee on foreign trade. The committee recommenced simplification and liberalization of government economic policy.

Timber was imported from British North America and from Europe, the problem was that worse in quality timber from North America was imported free of duty but better timber from Scandinavia was charged £3.5 per load (i.e., 50 cubic feet). The committee proposed £1 reduction of the duty. In spite of strong opposition of shipping lobbies the reduction was accepted. This ought to be considered as the first victory of more liberal oriented politicians and the sign of further reforms. In April 1823 William Huskisson was appointed President of the Board of Trade. He initiated further reforms in commercial taxation. His first and important step was repealing silk industry protective Spitalfields Acts. Government regulations did not help silk industry and in spite of good government intention to protect the industry and help it to recover, the industry has gone into deeper and deeper depression. Spitalfields was the center of English silk industry but silk was manufactured in other part of Britain. Huskisson concluded that it is not necessary to spread privileges of Spitalfields Acts into other parts of British silk industry but to help that industry it is necessary to repeal the Acts and diminish duties on imported silk product. He did it in May 1823. Together with repealing of the Acts he reduced the tariffs. The reduction of import duties was really heavy one. For example the duties on imported raw silk from Asia before the Huskisson reforms was 5s. 6d. a pound, and on imported undyed thrown

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<sup>7</sup> Arthur J. Taylor, *Laissez-Faire and State Intervention in Nineteenth-Century Britain*, London: Macmillan, 1972, p. 101.

<sup>8</sup> S. G. Checkland, *The Rise of Industrial Society in England 1815-1885*, New York: St. Martin Press, 1964, p. 103.



14s. 8d.<sup>9</sup> One year after initiating the reforms, in March 1824, the duties were reduced to 3d. for raw silk and 7s. 6 d. for thrown. In following year the duties were still reduced and in July 1829 reached the level of 1s. per cwt. for raw silk and 3s. 6 d. for organize and crape, 2s. for tram, 1s. 6d. for singles thrown. It means that within 6 years the duties were reduced over 500 times for raw silk and around 8 times for thrown.

Huskisson policy related to silk industry was based on statistics of cotton industry (being in good condition and exposed to international competition) and wool industry (being in crises and protected in similar way as the silk industry). Volume of silk production, its export and import increased significantly after Huskisson reforms. The other effect was also diminishing of harmful smuggling of silk to Britain (it was estimated that loss from uncollected customs only for French goods was equal to £100,000 annually).

Huskisson's reforms are probably one of the best documented actions of tariffs reduction and their positive effect on economic development. He heavily reduced duties of large number of products and, what is important, the collected income after introducing low tariffs was greater than in the former period. For example on 25 March 1825 Huskisson reduced duties on cotton goods from 50-75% to 10% *ad valorem*, duties on woollens from 50-67.5% to 15%, linen from 40-180% to a single, uniform rate 25%. Beside significant reduction duties on tens of goods Huskisson repealed prohibition of imports of many other goods. In almost all cases volumes of import have grown significantly, e.g. during the budget debate on 13 March 1826, Chancellor of the Exchequer F.J. Robinson compared growth of import of different goods in the period 1816-1825. As he estimated import of different goods growth from 13% up to 443%.<sup>10</sup>

Beside the significant increase of collected duties in 1826 over estimated revenue (around £1.4 million) additionally £500,000 (compared to 1818) was saved because lower cost of collecting duties. Huskisson strategy is interesting – he scrutinized the structure of custom receipts, and it occurred that in 1827 total custom receipts were £19.8 million but the most important 18 articles gave £17.7 million and the rest 510 articles allowed to collect around £585,000. To simplify the collection of duties and to save on the cost of collection Huskisson selected 60, the most productive imported items, and has abolished duties on all other articles.

The next phase of reform was initiated in the end of 1830s by the new cabinet of Sir Robert Peel. Peel was assigned to form new Tory government after few years of retreat from the general trend of liberal reform made by Wig government in 1830s (what is another example of non-smooth development of economic systems, what we call zig-zag evolution). Lord Althorp was Chancellor of the Exchequer in the Wig government and one of his steps to balance the budget was to increase taxes. He estimated that new taxes will increase the income by £2 million but it occurred that the real increase of income was ten times smaller. The first aim of Peel was to balance a budget and diminish the debt (annual payment to serve the debt overcome 60% of the budget). William Ewart Gladstone was nominated vice-president of Board of Trade. Peel made rather unconventional step, to balance the budget he has proposed to increase income tax for limited period of 4 years (7d. a pound, i.e. the 3% tax, but the income below £150 was not taxed – average income at that period was equal to £24, what means that only rich persons were taxed, see Figure 2). Concurrently he reduced (and in many cases repealed) duties on 750 items out of total number 1200 tariff items. He focused on repealing prohibitions and prohibitively high duties, on reduction of duties on most raw materials to the maximum rate of 5%, reduction

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<sup>9</sup> One old pound equals to 20 shillings, s.; one shilling is equal to 12 pennies, d.; therefore one pound is equal to 240 pennies.

<sup>10</sup> Import of tobacco increased 13%, sugar 19%, tea 20%, leather 29%, candles 36%, coffee and cocoa 43%, paper 51%, (hemp 74%, wine 88%, crown glass 95%, flint glass 104%, plate glass 108%, hard soap 113%, raw cotton 119%, soft soap 121%, thrown silk 180%, deals 182%, timber 196%, bricks 188%, tallow 201%, raw silk 274%, butter 317%, sheep's wool 443%.

of duties on manufactured goods to maximum 10-20% percent, and on abolition of export duties of manufactured products. Important step made by Peel was repealing of the old Corn Law, as it was mentioned, imposed in 1815. It is well known that in 1838 John Bright and Richard Cobden founded famous Anti-Corn Law League and the repealing of the Corn Law was done because of the activities of the League. But repealing the law was imposed also by potato famine in Ireland in 1845. Peel proposed in his 1846 budget to repeal all grain duties since the 1<sup>st</sup> of January 1849. He proposed very low 1s. registration fee per quarter of wheat. All other agriculture products (included meal) were exempted from duty.

Naturally all Peel's reforms were not put into life without opposition but William Gladstone strongly supported Peels reforms. In a paper published in 1843, Gladstone argued for positive effects of free trade. As he estimated, in 1842 reduction of the income because of lower tariffs ought to be around £192 000 for hides and skin, bark for tanning, turpentine oils but next year the volume of import of those goods would be much greater and in spite of lower duties rates additional income should be £410,000. In 1845 he analyzed the import once again and it turned out that real lost was slightly greater then expected, namely was equal to £204,473 but real additional income was much greater, namely equal to £835,760. The same situation was with other goods, e.g., for hides, palm oil, olive oil, additional income was over ten times greater then losses. Naturally there were goods where income was much lower then before the reform, e.g., for mahogany.

The reforms were continued by William Gladstone, who in 1852 become the Chancellor of Exchequer in the government formed by Wig and Tory coalition. The problem for Gladstone was similar to that of Peel – how to make economy more liberal concurrently keeping the budget balanced. Once again he proposed to impose higher income tax for limited period of time (namely for seven years, the first two years 7d. on the pound, (i.e. 3%), for the next two year 6d., and 5d. for the last three years). The above taxes were for annual income over £150, incomes between £100 and £150, was initially taxed 5d. a pound. Gladstone abolished the privileges of landowners (who were not taxed), through this way he not only increased budget income but also demonstrated that since that time parliament is not controlled by the landowning class. One of his leading principles was to spread the costs of reforms justly on all classes of the society. The second principle was his striving for abolishing the income tax, which he always considered as temporal, and aimed to help the economy to recover.

Higher income from personal income taxes allowed Gladstone to reform the tariff system – tariffs for 123 goods were repealed and for next 133 duties significantly reduced. As it was estimated, tariffs reforms made by Gladstone reduced budget income by £5.4 million. Gladstone's only hope was that the seven years of personal income taxing are long enough to allow for growth of income from imported goods due to increasing of volume of import. An outbreak of the Crimean War changed his calculations and to cover the costs of new war he was forced to double the personal income tax and to increase the duty rate for malt, spirit and sugar. Catastrophe of the Crimea forced Lord Aberdeen government to resign and also Gladstone left his office on 21 February 1855. But after four years Gladstone returned as Chancellor of the Exchequer. In very short time he has prepared the budget for the next year, which he presented in July 1859. He faced the problem of the higher deficit of £5 million, generated mainly by the Chinese wars and increased former government expenditures. Therefore he raised the income tax rates from 5d. to 9d. a pound. Higher income tax rates allowed Gladstone to gain small surplus of £1.5 million. The surplus allowed Gladstone to continue the tariffs reforms. The Gladstone's budget started on the 10<sup>th</sup> of February 1860. Wars in China caused increase of expenditures by £1 million, additionally the budgeted income was diminished by £640, 000 because of the treaty of free trade with France, signed by Cobden and Chevalier in 1860.

In spite of difficult budget situation Gladstone insisted on continuation of tariffs reforms. He argued that in the period of two reforms made by Peel, income from tariffs in 1842-1853

increased £221,000, annually. In that period export increased to the level of £4.3 million. These figures were much higher than in the former anti-reform period 1832-1841. He proposed to widen the Cobden-Chevalier treaty. Naturally in the first year after that step the income from tariffs diminished by £910,000. To secure his budget he increased the income tax from 9d. to 10d., although previously he promised to repeal income tax. Before the treaty the volume of French-Britain trade was smaller than £20 million annually. After signing the treaty trade increased to £43.5 million in 1862 and £63.5 million in 1866, and still increased (with the fluctuations caused by Franco-Prussian war of 1873) until 1880 when the treaty lapsed.

Before the Peel reforms the number of taxed items were equal to 1052 (the state on the 1<sup>st</sup> of January 1840), in 1853 this number was diminished to 466, and still decreased to 419 in 1859. After approval of the Gladstone's budget in 1860 the number of taxed items was diminished to 48, out of this 15 were the main source of the budget income.

Gladstone tried to fulfill his promises and diminished the income tax rate from 4% in 1861 to 1.7% in 1866. In spite of the tax rates reduction the budget income was higher than it was expected. In 1864 surplus of £3.7 million was worked out (and it was made during three years of troublesome conditions in agriculture). The surplus allowed for further tax reduction. Gladstone entered 1866, the last year as Chancellor of the Exchequer, with the surplus of £2 million. In his May 1866 speech in Parliament he used tariff reforms on timber as an example of positive effect of tax reduction.

In the period 1868-74 Gladstone served as the prime minister of Her Majesty Government.<sup>11</sup> In the four first years Robert Lowe was Chancellor of the Exchequer and he continued the reforms initiated by Gladstone in the beginning of the 1860s. In the first year he repealed the symbolic 1s. registration fee on grain import and the tax on insured property. He lowered the income tax from 6d. to 5d. (the increased rate was imposed by Benjamin Disraeli to cover military expedition into Abyssinia). In the following years he continued repealing and diminishing duties rates on many other items. British economy was still growing but increasing military and social expenditures have not allowed Lowe to continue policy of tax reduction and in fact in 1871 he was forced to increase the income tax rate by 2s. Although budget surplus in 1872 allowed to reduce the income tax to 4d. (but this rate was paid by person with very high income of £300). In the following two years the tax rate was diminished to 3d. and 2d, respectively.

In 1874 Disraeli won the campaign (in spite of Gladstone campaign to abolish the income tax) and for six years he became the prime minister. During this six years Disraeli increased military and social spending to such extent that budget deficit increased by £6 million (in spite of increasing the income tax by £5 million). It is worth to point out that during five years of Gladstone premiership income surplus was equal to £17 million (and the income tax reduction by £12 million).

Once again Gladstone became the Prime Minister in 1880-85, but in this period he proceeded different policy than in the past decades. Partially because Britain's problems in Ireland, South Africa, Egypt and Sudan Gladstone's government faced real budget problems. Public spending increased from £81 million in 1881 to £89 million in 1885. In the last year of his premiership the income tax was equal to 8d. a pound, i.e., 3.2%. He introduced duties on beer and alcohol. Looking at Figure 1 suggest that 1870s and 1880s are the first decades of the substitution phase of the next 'Welfare Economics' wave of socioeconomic development. During his second term Gladstone capitulated under the pressure of the social mood of the end of the 19<sup>th</sup> century.

A.J.P. Taylor correctly notified the changing social conditions in the last decades of the 19<sup>th</sup> century and the first decades of the 20<sup>th</sup> century. He wrote that

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<sup>11</sup> In the last two years of his premiership he was also the Chancellor of the Exchequer.

Until August 1914 a sensible, law-abiding Englishman could pass through life and hardly notice the existence of the state, beyond the post office and the policeman. He could live where he liked and as he liked. He had no official number or identity card. He could travel abroad or leave his country for ever without a passport or any sort of official permission. He could exchange his money for any other currency without restriction or limit. He could buy goods from any country in the world on the same terms as he bought goods at home. For that matter, a foreigner could spend his life in this country without permit and without informing the police. Unlike the countries of the European continent, the state did not require its citizens to perform military service. ... The Englishman paid taxes on a modest scale: nearly £200 million in 1913-14, or less than 8 per cent. of the national income. The state intervened to prevent the citizen from eating adulterated food or contracting certain infectious diseases. It imposed safety rules in factories, and prevented women and adult males in some industries, from working excessive hours. The state saw to it that children received education up to the age of 13. Since 1 January 1909, it provides a meagre pension for the needy over the age 70. Since 1912, it helped to insure certain classes of workers against sickness and unemployment. This tendency towards more state action was increasing. Expenditure on the social services had roughly doubled since the Liberals took office in 1905. Still, broadly speaking, the state acted only to help those who could not help themselves. It left the adult citizen alone.<sup>12</sup>

Good measure of the role of the state in the economic process (what is one of the categories suitable for distinguished proposed centennial waves of socioeconomic development) is the share

of public spending in the national income. Figure 3 shows how this share evolved in the 19<sup>th</sup> century. Including debt charges the share reached the level of almost 30% in the first decades of the 19<sup>th</sup> century. Policies of Huskisson, Peel and Gladstone allowed to reduce this share to the level of 7% in 1870s. Since the middle of 1880s the share increased once again and as we will see in the next section it was steadily growing in the 20<sup>th</sup> century. Exact values of British government expenditure are presented in Table 2. Large public debt was a heritage of mercantilist policy (as in modern time high debt of the most industrialized countries is the result of 'welfare policy' – what will be discussed in the next section). Service of debt consumed over 50% of the government budget in the most hard time for liberal governments (see the last two columns in Table 2). All efforts of liberal governments have given positive effect in the second half of the century, Great Britain entered the 20<sup>th</sup> century with very low debt and the service of this debt cost only 10% of the budget. But just at that time liberal ideas were in retreat and Britain entered the period of high government spending and increasing of the state debt. The similar situation is currently in almost all industrialized countries. Debt of industrialized modern

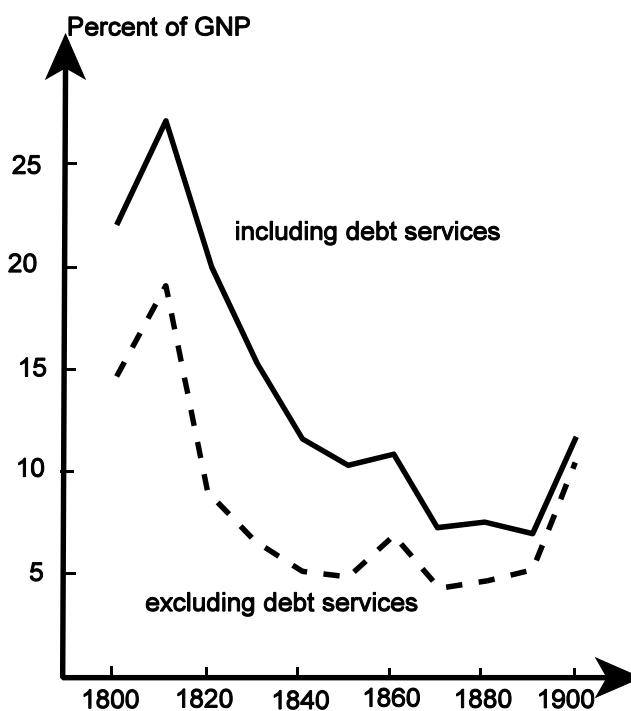


Figure 3. Share of public expenditures in national income in the 19<sup>th</sup> century Great Britain

<sup>12</sup> A.J.P. Taylor, *English History 1914-1945*, New York and Oxford: Oxford University Press. 1965, p. 1.

states ranges from 40 to 130% of GNP. In 1990 debt of Great Britain was comparable small (but very high measuring it by the 19<sup>th</sup> century standards), namely it was equal to 35% of GNP, in other countries the debt was much higher: USA 56.9%, Germany 41.2%, France 48.5%. Especially high debt was in two countries, namely Belgium and Italy, 130.2% and 101.1% of GNP, respectively.

Table 2. Government expenditure in Great Britain in 1770-1901

Year	National Income	Public Expenditures (Debt services excluded)		Public Expenditures (Debt service included)		Debt services	
	£ million	£ million	% of National Income	£ million	% of National Income	£ million	% of the budget
1770	130.1	5.7	4.0	10.5	8.1	4.8	45.7
1801	232.0	34.2	14.7	50.9	22.0	16.7	32.8
1811	301.1	57.2	19.0	81.6	27.1	24.4	29.9
1821	291.0	26.4	9.1	58.4	20.0	32.0	54.8
1831	340.0	22.7	6.7	51.9	15.3	29.2	56.3
1841	452.3	23.7	5.2	53.2	11.7	29.5	55.5
1851	523.3	26.4	5.0	54.7	10.5	28.3	51.7
1861	668.0	46.6	7.0	72.9	10.9	26.3	36.1
1871	916.6	41.0	4.5	67.8	7.4	26.8	39.5
1881	1051.2	51.4	4.9	80.6	7.7	29.2	36.2
1891	1288.2	69.5	5.4	93.4	7.3	23.9	25.6
1901	1642.1	173.5	10.6	193.3	11.8	19.8	10.2

(source: B.R. Mitchell, Phyllis Deane, Abstract of British Historical Statistics, Cambridge: Cambridge University Press, 1962)

The idea of income tax is relatively young – in Great Britain it was introduced in 1799 and in USA in 1861. In the whole 19<sup>th</sup> century the income tax never exceeded the level of few percent (see Figure 2), only one time the income tax reached the level of 10% (during the Napoleonic wars). It was abolished during 26 years after signing the peace treaty in 1815. Since its reintroduction in 1842 it fluctuated in the range of 1% to 6.7% (in 1855). What ought to be stressed, in the whole 19<sup>th</sup> century period after the Napoleonic wars intention of all liberal governments was to abolish the income taxes. The income tax was always treated as a temporal tool to balance the budget in the period of tariffs reduction. British 19<sup>th</sup> century liberals considered a retreat from once increased tariffs much harder than a retreat from the imposed high income tax rates, therefore they selected the way of increasing income tax rates and concurrently decreasing tariffs rates. Low tariffs stimulated higher economic growth and usually, after very limited period, the income from duties was kept at the same or greater level as before the duties' reduction. The policy of low income taxes ended with the outbreak of World War I. Initially, after the WW I the tax rates increased to the level of 25-30%, in the following decades steadily increased to reach 40% during World War II and was kept almost at that level after WW II. Great Britain is not a peculiar state, the same scenario was in all industrialized countries in the 20<sup>th</sup> century.

Stafford Northcote, Gladstone's private secretary and later Chancellor of the Exchequer, in 1874 noticed "[t]he seemingly paradox, that a larger revenue might be obtained from smaller duties, had turned to be the simple expression of economic law, which appeared capable to more extensive application that it had yet received. Duties had been largely reduced, and even in some

cases repealed; yet the [overall] revenue was as large as before and was evidently growing”<sup>13</sup>. This opinion can be illustrated by Figure 4, where we can see that increasing volume of import in the second half of the 19<sup>th</sup> century (mainly due to decreasing tariffs) was accompanied by almost constant income from collected duties.

We have focused on the 19<sup>th</sup> century Britain but the same tendency toward more liberal economy was observed in other European countries and in the USA. In 1834 all dispersed German states introduced the custom union (*Zollverein*). Although the evolution toward free trade within German states started a few decades earlier. It was Friedrich List who had advocated the elimination of tariffs. In 1818 the Prussian customs union abolished all internal duties and in 1828, Prussia extended the union to the first of several neighbouring states. A total of 18 German states joined the *Zollverein* in 1834. Member states had the advantages of access to the sea, aid in building highways (and later railroads), their own customs administrations, veto over economic decisions. All German states outside of Austria, except Bremen and Hamburg, joined the union by 1867. Austrian countermeasures failed because of continued protectionist duties on trade outside the union and the diplomacy of the Prussian statesman Otto von Bismarck. The *Zollverein* resulted in increased industrial prosperity, German economic unity, and, from 1867, a common German parliament for economic matters.

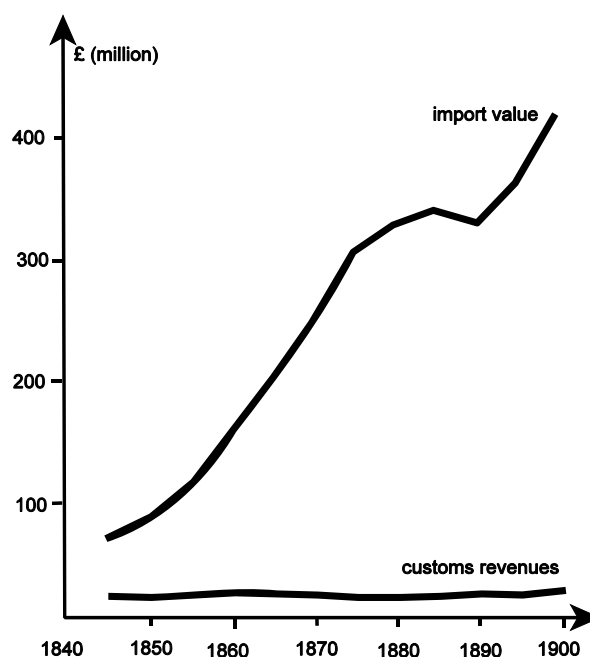


Figure 4. Value of import and customs revenues in Great Britain in the second half of the 19<sup>th</sup> century

The other states on the European continent followed that policy of free trade. We have mentioned about the Chevalier-Cobden treaty of free trade between Britain and France, signed in 1860. It was that *Anglo-French Treaty* where for the first time the notation of the *most-favoured-nation status* was used. Thanks to that notion international trade was much more vigorous in the second half of the 19<sup>th</sup> century.

### **Welfare economics**

The 20<sup>th</sup> century image of the economy was shaped in the last 30 years of the 19<sup>th</sup> century. During that period the image of the economy which had prevailed in Western societies since the end of the 18<sup>th</sup> century was significantly modified. Under the influence of socialist ideas (of the Fabians in Great Britain, the social democrats in Germany and also Marx and Engels) the role of the state government in economic life has changed. Since the end of the 19<sup>th</sup> century it has been claimed that the government should take care of the redistribution of national income to provide social justice. Active involvement of the state in the economy was initiated in European continent by Otto von Bismarck in 1870s (Bismarck's *Sozialpolitik*, and *Solidarzollschutz*).

<sup>13</sup> in Francis W. Hirst, *Gladstone as Financier and Economist*, London: Ernest Benn, 1931, p. 73 – quoted after Rabushka, 1985, p. 51.

Albeit less promptly, a similar propensity towards greater government intervention was observed in the USA. One of the favourable indices of the role played by government in the economic process is reflected in the fraction of government spending in the gross national product. Until the 1870s US government expenditure was less than 2% of GNP; during the 1870s it increased to 4%, was around 3% in the next 40 years, grew to 7% in 1920s and since that time steadily increased to reach 10% in 1939, 19% in 1950, and since 1960 the proportion of government spending roughly stabilized at the level of 30%. Similar trends have been observed in all modern capitalist states, public spending is much higher in all modern capitalist European countries – probably the extreme case is Sweden with its public spending in the 1980s running at over 60% of the national GNP. In the end of the 19<sup>th</sup> century the share of public spending very rarely extended 10% but since the beginning of the 20<sup>th</sup> century it steadily grows. In Figure 5 the selected countries shares of public spending related to GNP and the average value out of the 16 industrialized countries is presented. Before the World War I the growth was relatively slow but since WW I was growing much faster to reach currently the level of 50%. In the last decades the dynamics of growth is slightly slower, what can suggest that the industrialized states entered the substitution phase of the next wave of socioeconomic development.

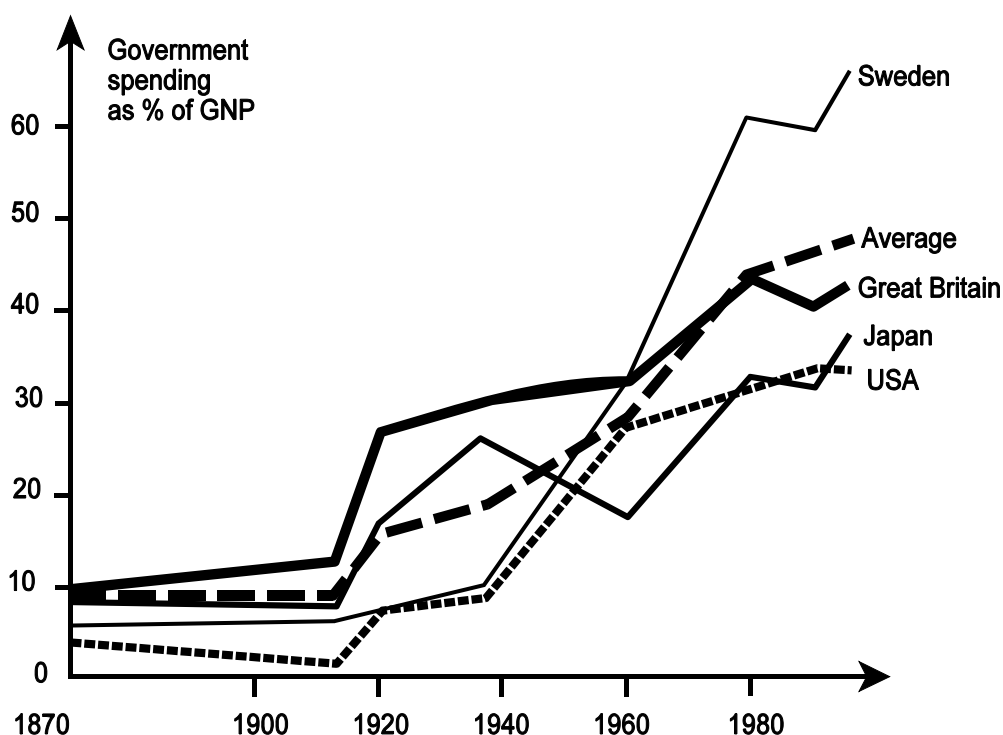


Figure 5. Share of public spending (selected countries and average of 16 the most industrialized countries) (after The Economist)

Another, more detailed, data on government spending of two countries (namely USA and Sweden) presented in (Henderson, 1993, p. 263) confirms the long term pattern of government spending mentioned above. As we see in Figure 6, the government spending as the share of GNP was remarkable stable in the whole 19<sup>th</sup> and beginning of the 20<sup>th</sup> centuries, it increased during wars but typically returned to its previous level. This pattern has changed after the World War I, since that time the government spending steadily increases. Probably this trend will continue for roughly next decade or two, and it will fall after that during the future 'liberal wave' of socioeconomic development in the 21<sup>st</sup> century.

Concurrently to the growing role of the state in the economy the expansion of trade unions

and their much greater influence on the economic decisions of entrepreneurs and on the political decisions of the state governments were observed. It is a kind of co-evolution of these two phenomena, fully understandable – for both parties, government as well as workers, it is much easier to negotiate if both sides of the negotiation process have balanced powers. The state, with the cooperation of big head offices of trade unions, started to play the role of ‘economic governor and social functionary’. This idea was expressed in extreme form in the politics of the New Deal in the 1930s (see below), and expounded as a coherent theory by J.M. Keynes in his *General Theory of Employment, Interest and Money* (1936).

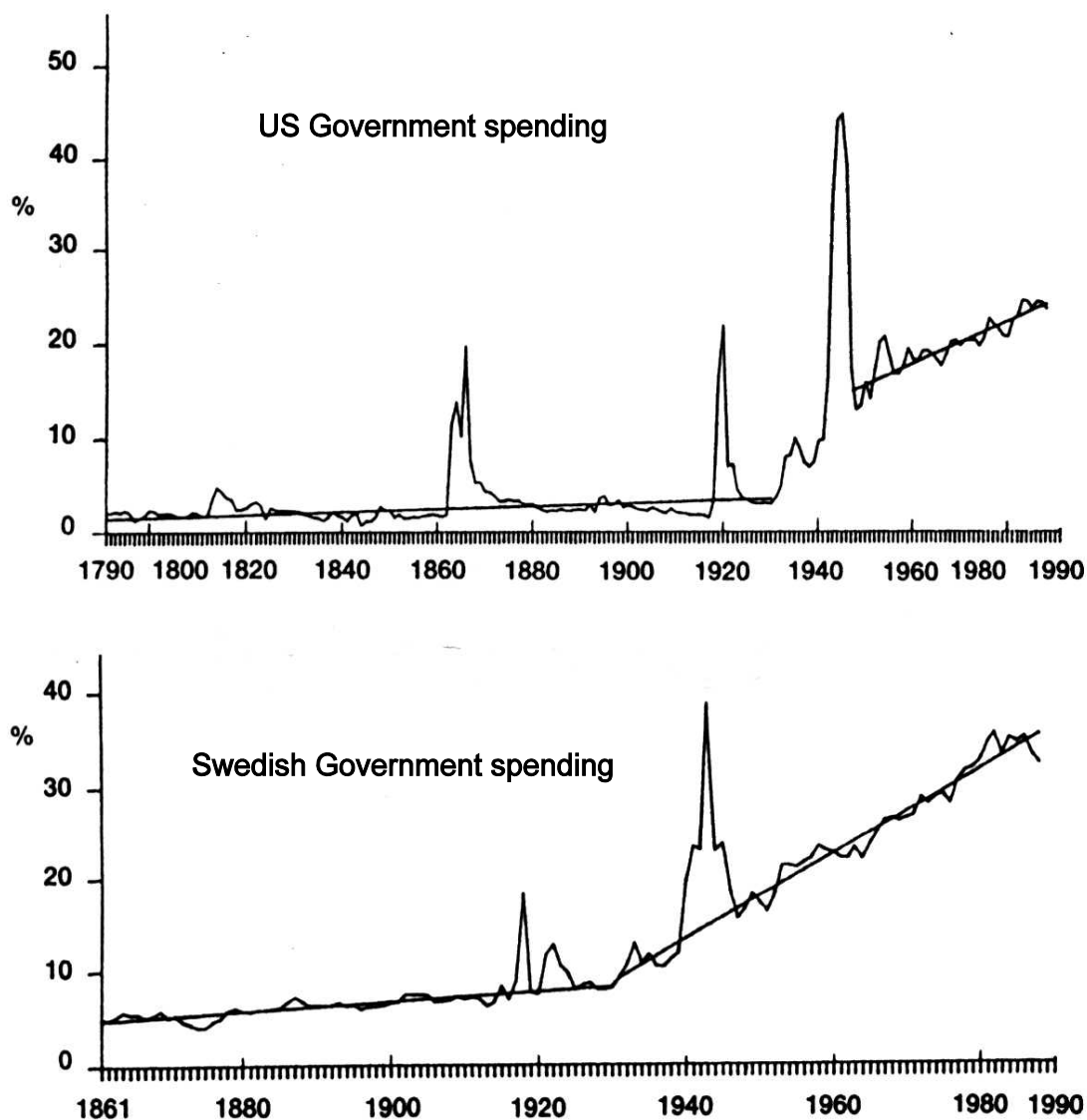


Figure 6. U.S. and Swedish central governments spending as a percent of GNP (after Gordon Tullock, ‘Government Spending’ in Henderson, 1993, p. 263)

The shift of the image of the economy at the end of the 19<sup>th</sup> century was also associated with a new management and organization approach in industry and a new posture in agriculture. Innovative practice in management was mainly connected with a new vision of organization of working processes in factories. Frederick W. Taylor, inventor of ‘scientific methods of management’ has shown how it is possible to improve the working conditions of a worker in a factory by using ‘systematic enquiry of the workplace’. Contrary to the almost universal belief that the main aim of Taylor’s approach was to increase capitalists’ profits, Taylor’s primary



intention was the improvement of workers' conditions of labour. Henry Ford, by introducing his assembly line to manufacture famous model T, opened the way to mass production and mass markets. He has shown that it is possible to accumulate large global profits by gaining only small unit profits. He demonstrated and established the advantages of what is now termed economies of scale. The essence of this philosophy of production and fulfilling material needs is expressed in Ford's famous statement that he was able to produce and to sell cars of 'any colour you want so long as it is black'.

Changes within agriculture at the end of the 19<sup>th</sup> century were coupled with the structural changes of whole societies. Agriculture since then has not been the predominant form of employment for the majority of the 19<sup>th</sup> and 20<sup>th</sup> centuries, but concurrently farmers had to provide a sufficient quantity of food for the growing society. This demand imposed a flow of capital and an increase of technological progress in agriculture (especially in the United States). The organization and mode of production in agriculture became more and more similar to those in industry. A farmer became an agronomist and technologist, who organizes the production of food not only to feed his family but principally to manufacture a surplus of food to be sold.

The predominant category of material needs in the 20<sup>th</sup>-century image of the economy were any mechanical and automatic mechanisms (goods, things) of households, especially those facilitating household labour (refrigerators, washing machines, kitchen robots, and so on). Fulfilment of these needs was possible thanks to the application of mass production (economies of scale).

In United States the substitution phase was initiated in the period after the Civil War. The United States did not use an income tax until 1861, and then only as a temporary measure to help finance the Civil War. Similar to income tax policy in Great Britain, in the initial phase of its introduction, only richer persons were taxed in 1861 in USA. The tax rate was equal to 3% for income over \$600 per annum, 5% for income over \$10 000 (three years later increased to 10%). The income below \$600 was exempted from income tax. The Sixteenth Amendment to the US Constitution, ratified in 1913, consists of a single sentence that allows income taxation. The ensuing 1913 income tax exempted the first \$3,000 from taxation and taxed the remainder of income at graduated rates ranging from 1 percent for income up to \$20,000 to as high as 7 percent for income over \$500,000. Since the Civil War the role of federal government slowly but steadily is increasing. The basic principle of non-intervention of the federal government persisted and *laissez-faire* principle was treated as fundamental one astonishingly long in America. The process toward social state was accelerated by Woodrow Wilson, during his presidency in 1912-20. In the initial period of his career Wilson was under influence of Walter Bagehot's (1826-1877) treaty on *Physics and Politics* and his inclination was toward conservative liberalism. Later as politician he has retreated from the liberal thinking and has tried to find compromise between classical liberalism and current social conditions. He tried to be representative of middle class and concurrently take care about poorer social groups. He still thought that the government ought to play rather a moderate role in proceeding social reforms. During his presidency campaign he spoke on classical vision of freedom but also he stressed the necessity of widening (at least in some spheres of social life) the scope of intervention of government and retreat from the concept of minimal state. In 1919, not without the proud, he said that although he is not socialist, a lot of people call him socialist (see Sobolewska, Sobolewski, 1978, p. 96).

Some keen observers of the social processes in the end of the 19<sup>th</sup> century noticed the changes of social attitude in that period. In 1883 G.J. Goschen noticed greater and greater limitations put on the basic principle of *laissez-faire* and steady increase of spheres of state control and

intervention.<sup>14</sup> The World War I accelerated the changes of the trend observed since the 1870s and 1880s. State of the war imposed activity of normal citizens, their everyday life has been controlled and governed by central authorities. To adjust the economy to a new requirement the existing structure of industry has been changed – some branches, promising in the peace time have been eliminated or at least their development were significantly slow down, some new (especially related to a military sector) emerged or even bursted. Freedom of migration has been significantly limited, the same can be said about the freedom of press and freedom of different views expressions.

The first decades of the 20<sup>th</sup> century in most European countries and in the USA are marked by triumph of social liberalism (sometime called democratic liberalism). Labour Party in Great Britain was founded in 1900 (although its name was established in 1906). Initially it was a federation of diversified trade unions, socialist societies and parties. Since 1918 individual persons were allowed to become members of the Labour Party. Growing popularity of socialistic ideas forced liberals to include them in their doctrine, but it has not helped them to play an important role in creating social development. Liberal Party has been put aside on the margin of socio-political life, in 1931 Liberals got only 7% of votes. In 1924 Labour Party won election and J.R. MacDonald become the prime minister. They introduced many social programs that were developed and widened in the next decades by other Labour governments (especially by the government of C. Attlee in 1945-51).

Herbert Clark Hoover (1874-1964), was the president of USA in the period of Great Depression 1929-33. Against dominated current trends of thinking and in spite of very difficult situation of American society he treat American socio-political system as the best in the world. He claimed that a free access to education creates itself the possibility of real application of the principle of 'equal of opportunity' for American citizens. Government's social help to the poor was in his opinion 'offending American perception of justice'. He repeated that government intervention into economic life would threaten basic principles of freedom. He warned that if it happened it would lead to the final victory of bureaucracy over civil self-governance. Franklin Delano Roosevelt easily defeated Hoover in 1932 campaign by promising Americans a New Deal. FDR introduced and developed his New Deal program in 1933-39 promising relief, recovery, and reform that aimed at solving the economic problems created by the Depression of the 1930s. Accepting the 1932 Democratic presidential nomination, Roosevelt said: "I pledge you, I pledge myself, to a new deal for the American people." The New Deal included federal action of unprecedented scope to stimulate industrial recovery, assist victims of the Depression, guarantee minimum living standards, and prevent future economic crises. The production controls and price supports managed by the National Recovery Administration and the Agricultural Adjustment Administration (both set up in 1933) initially helped to put business proprietors and farmers back on their feet, but the nation's economy did not regain its 1929 level until the United States entered World War II. The Public Works Administration (formed in 1933) and the Works Progress Administration (formed in 1935) helped tide many of the jobless over hard times, but nearly 9.5 million remained unemployed in 1939. The Social Security Act (1935) created a system of old-age pensions and unemployment insurance, and the Fair Labor Standards Act (1938) established a federal minimum wage and maximum-hours policy; both laws, however, excluded millions of working people. The New Deal laid the foundation for a greater federal commitment to manage the economy and provided a system of programs to aid the poor.

The New Deal programme was followed by the Fair Deal program of president Harry S. Truman (initiated in 1949). Included among the Fair Deal proposals were a full employment law,

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<sup>14</sup> G.J. Goschen, 1883, *Laissez-faire and Government Interference*, London, after W.H. Greenleaf, 1983, *The British Political Tradition*, vol. 2. *The Ideological Heritage*, Methuen, London, p. 44.

a national health insurance plan, extended social security, aid to education, civil rights legislation, public housing, universal military training, an increase in the minimum wage, and a fair employment practice act. In response to Truman's proposals, Congress passed the Employment Act of 1946 (which established the Council of Economic Advisers), the Housing Act of 1949 (which was the first to provide federal funds for urban renewal), the Fair Labor Standards Act Amendments of 1949 (which raised the minimum wage from 40 to 75 cents an hour), and the Social Security Act Amendments of 1950 (which increased Social Security benefits and extended their coverage to include an additional 10 million persons, including agricultural and domestic workers, state and local government employees, and self-employed persons).

“New Deal” was a slogan invented by Roosevelt and his advisors and in fact was negation of Hooverian interpretation of ‘equality of opportunities’. New Deal initiated a lot of new social programs. We have mentioned the Social Security Act of 1935, now administered by the Social Security Administration and the Health Care Financing Administration. The principal programs are Old-Age, Survivors, and Disability Insurance (OASDI) and Medicare, which includes Hospital Insurance (HI) and Supplemental Medical Insurance (SMI). They provide direct payments to maintain the income of retired or disabled workers, their dependents, or their survivors and to defray some medical expenses of the long-term disabled and of retirees and their spouses aged 65 and older.

In 1988, Congress passed the Medicare Catastrophic Coverage Act. This act expanded Medicare coverage to protect beneficiaries from financial ruin in the event of serious, long-term illness. Catastrophic hospital insurance took effect in January 1989. Later that year, however, Congress repealed the act after many beneficiaries objected to having to pay a surcharge to cover the costs of the expanded coverage.

It is worth to mention that idea of social insurance was put into life in the substitution phase, in 1883-84, by Chancellor Otto von Bismarck who in Germany established the first social insurance programs, sickness insurance, and workers' compensation plans supported by the compulsory contributions of workers and employers; in 1889 old-age insurance was added on, to which the government also contributed.

France introduced a voluntary national unemployment insurance plan in 1905, little more was done until 1928, when a vast range of compulsory programs was adopted. The 1920s also witnessed the development of national social security plans in many other European nations, in some Latin American countries, and in Japan.

Great Britain instituted a national social insurance scheme, establishing a rudimentary unemployment and old-age insurance program, in 1911 (*National Insurance Act*). This program was greatly expanded in 1925 and after World War II when a program of “cradle-to-grave security”, advocated by Sir William Henry Beveridge, was adopted. New Zealand, under the pressure of economic hardship, adopted a sweeping social insurance and welfare plan in 1938, and Australia gradually instituted a similar program in the late 1930s and 1940s.

Canada introduced a national unemployment insurance program funded by equal contributions from employers and employees in the late 1940s. It also developed an old-age pension program that is financed by general tax revenues and instituted a family allowance plan under which families receive a small monthly payment for each child. In addition, the compulsory Canada Pension Plan is a contributory retirement plan that provides retirement and disability benefits to covered workers. The Guaranteed Income Supplement program ensures a minimum income for persons over age 65.

Since Franklin Delano Roosevelt the U.S. federal government spending increased over 160 times and government spending on social programs increased over 270 times. Expenditures on health care in the United States was equal to 14.2 percent of GDP in 1995, up from 5 percent in 1960. The Advisory Council on Social Security estimated that by 2020 expenditures on health

care will consume from 25 percent to 30 percent of GNP.

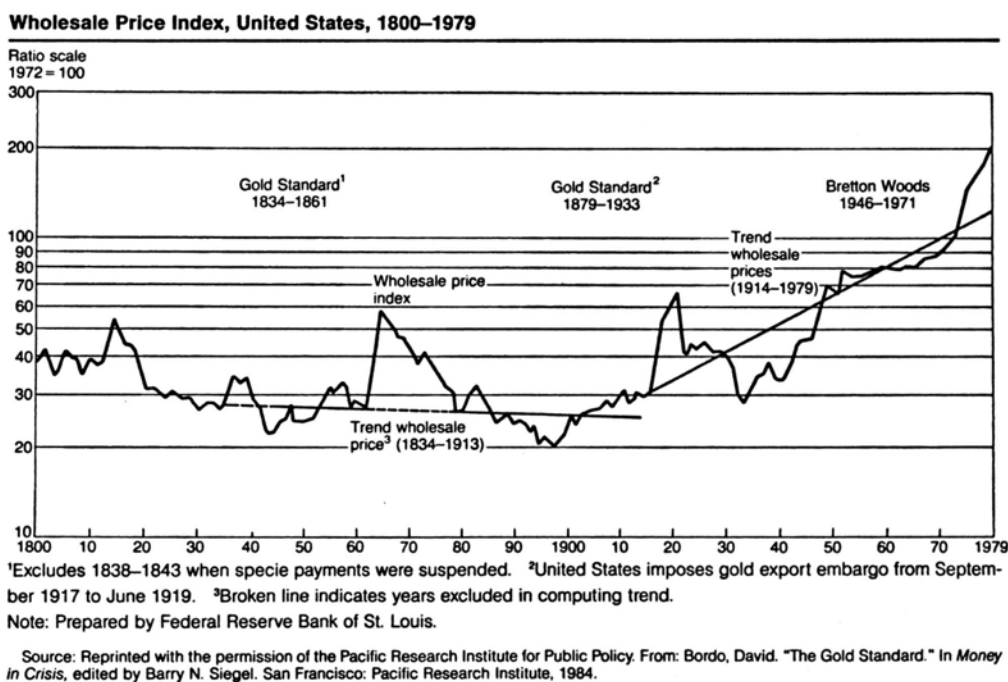
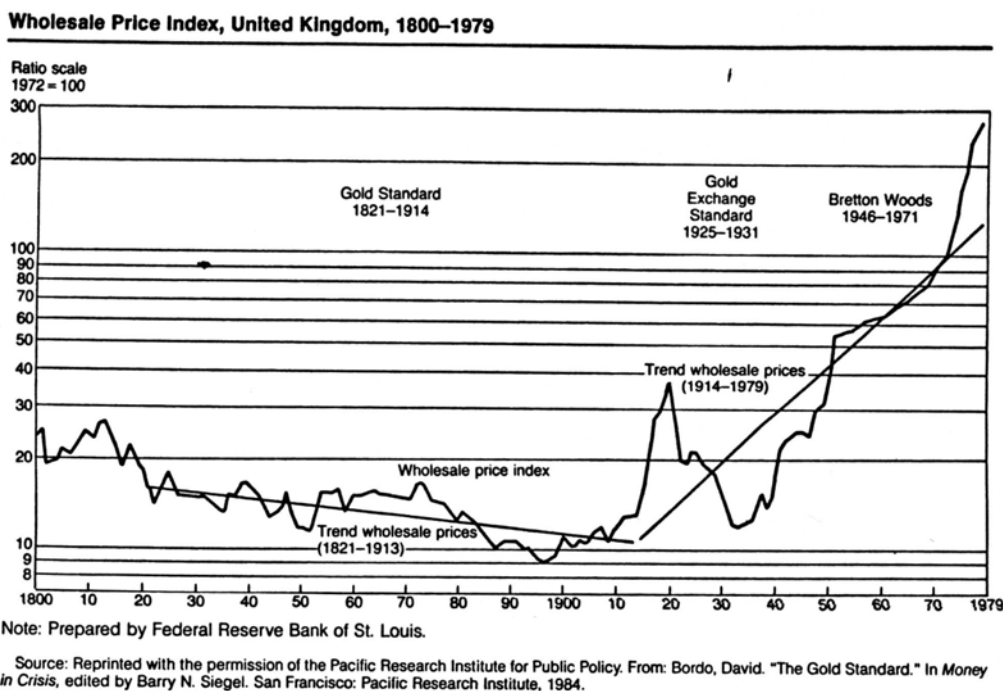


Figure 7. Wholesale price indices in UK and USA in the 19<sup>th</sup> and 20<sup>th</sup> centuries

One of important consequences of New Deal introduction was quick growth of different federal agencies in the decades following its introduction. Some government agencies existed before New Deal, like *Army Corps of Engineers* founded in 1824. In the end of 19<sup>th</sup> (i.e., during the substitution phase) the number of these agencies started to growth. One of the most powerful was *Interstate Commerce Commission* founded in 1887 but true avalanche of them was observed after introducing New Deal program – over fifty percent of agencies which existed in 1966 was

created after 1933. At the initial phase of development all these federal agencies were created to act (control) within very limited sphere of social life, frequently within one branch of the industry. A lot of them have grown into very powerful agencies in later decades after their origin and widened the spheres of their activity. Some of them, like Food and Drug Administration, Consumer Products Safety Commission, National Highway Traffic Safety Administration, Environmental Protection Agency influence and control almost all spheres of the national economy.

Since the 1930s a number of different acts, statutes, norms, etc. issued by the federal government grows almost exponentially. It was very difficult to manage within so large number of issued federal acts, therefore in 1936 the first volume of *Federal Register* was published. The main aim of publishing *Federal Register* was to collect all federal acts in one place to allow their more efficient use. It is very educative to follow the evolution of the size of *Federal Register* issues over last decades – 1936 issue consisted of three volumes with total 2411 pages (it was spread on 15 cm of a bookshelf). Twenty years later, in 1956 the *Federal Register* consisted of 12 volumes, 10 528 pages, and consumed 65 cm on a bookshelf. In 1966 the number of volumes grown only to 13 but number of pages grown to 16 850 and length on a shelf was 90 cm, in 1978 it was 36 478 pages and 323 cm of a shelf. The issue of 1980 consisted of 87 012 pages and it was a peak of the length of *Federal Register*. In the middle of 1980s the number of pages has dropped to 47 418 pages (in 1986) but once again increased to 67 716 pages in 1991 and 69 688 pages in 1994.

Differences between the ‘classical’ and ‘welfare’ waves are visible in many quantitative variables. Let us give as example of such variable a wholesale price index in UK and USA (see Figure 7). In both countries during the ‘classical wave’ the prices were very stable, first signs of ‘new epoch’ are visible in the beginning of the 20<sup>th</sup> century, and the trend initiated in the first decade of the 20<sup>th</sup> century is continued during the whole wave of welfare economics. The prices in the first eight decades of the 20<sup>th</sup> century multiplied over eight times. The socioeconomic system is highly correlated therefore we can identify very similar patterns of development of many other variables, let us mention only presented changes of government (public) spending as the share of GNP (Figures 3 and 5) and personal income taxes (Figure 2).

The stable level of prices in the 19<sup>th</sup> century was mainly the result of the gold standard which was international standard in that century and which was in retreat in the 20<sup>th</sup> century. In the last two decades of the 20<sup>th</sup> century a revival of gold standard is discussed. It can be expected that some form of gold standard will be introduced and from this point of view the next century may be similar to the 19<sup>th</sup> century – it can be expected that in the 21<sup>st</sup> we will live in the world of almost constant, stable prices.

### ***Market economics - future image of the economy***

It is almost commonly accepted that the last decades of the 20<sup>th</sup> century are characterized by continuous flux. We have witnessed a multitude of tremors in business, industry, and the whole economy. Newspapers are full of information about mergers and acquisitions, technological change, the deregulation of business, the emergence of global financial markets, a shift from mass production to flexible manufacturing, the emergence of the internet as a major business tool, a reassessment of the role of small firms, and so on. It is a kind of fashion to write about ‘managing the change’.

The words of Heraclitus (c. 535–c. 475 B.C.) that „we could not step twice into the same rivers” warn us that history never repeats but to some extent the magnitude of changes in the last decades of the 20<sup>th</sup> century are comparable to those changes in the industrial world in the last decades of the 18<sup>th</sup> and the 19<sup>th</sup> centuries. We can also expect that in some respect economic development in the 21<sup>st</sup> century will be similar to the 19<sup>th</sup> century development, especially as we think in more general terms as liberalization, competition, industry concentration,

decentralization, government intervention, etc.

Opinions on future ways of production and the future image of the economy are diversified and heterogeneous. But there is a common understanding that the emerging image of the economy will be essentially different from that predominant in the 20<sup>th</sup> century. All categories of paragons mentioned in the beginning of this paper will be modified or have been modified since the beginning of the 1980s.

The emerging category of needs will also include mechanical and automatic household devices but the predominant position will be occupied by devices fulfilling higher-order needs – connected with entertainment, sport, hobbies, craft, art, and so on. The basic difference between needs in the last decades and the future category of needs rests in the possibility of buying any commodity according to individual preferences, taste, relish and fancy. A leading slogan of the previous image of the economy was ‘*economy of scale*’ and it seems that in the emerging image of the economy this slogan will be replaced by a new one, namely ‘*economy of scope*’. In the emerging image of the economy production of different products on the same set of plants will be as cheap (or even cheaper) as the production of one product on different plants. Potentialities of mass production will be much less important than elasticity of production and flexibility of design for individual requirements. The new manner of production will be based on current highly developing technologies in microelectronics, computer science and the computer industry, telecommunication, and so on, and will result in the integration of currently separated technologies. First attempts have already been made, for example, CAD, CAM, CAE – Computer Aided Design, Manufacturing, Engineering; CIM – Computer Integrated Manufacturing; FMS – Flexible Manufacturing Systems; and computer trade technologies based, for example, on EFT – Electronic Funds Transfer.

In the emerging image of the economy we will also witness modification of the objectives of economic activity; besides contemporary predominant objectives focused on effectiveness and profit maximization, future consequences of current economic activities will also be taken into account. The modification of economic objectives is forced by the growing consciousness of the ecological problems facing contemporary societies.

Economic analysis of industrial processes in the last decades suggests that besides two ‘classic’ factors of production, namely labour and capital, there exists a third ‘residual’ one, sometimes called knowledge, related to technological progress. Results of some statistical analysis show that this third, ‘residual’ factor of production is responsible for 70 to 80% of observed economic growth, and only 20 to 30% of economic growth is related to the classical factors – labour and capital. The discovery of the third factor of production will have a significant influence on the economic policy of the state. Even now we observe further and further divergence from Keynesian economics and macro-planning towards a more decentralized economy based on the philosophy of self-organizing processes. In the new conditions the role of the government in economic process will be much less significant, but probably there will be no radical retreat from state interventionism, which has been growing steadily since the beginning of this century. Probably the future model of the state in economic life will be something intermediate between the model of the state as the ‘night watchman’ and the ‘welfare state’ – contemporary state monopoly. This process of shifting towards the new model of the state is observed all around the world – starting from the United States, through the European states (Sweden, Germany, Great Britain and many others), and ending in the East European states, former communist states, Poland, Hungary, the Czech Republic and Slovakia, and former Soviet republics.

A new subsequent feature of the emerging image of the economy will be a shift from the international to the world economy (a current modern term is globalization). International economy has been a subject of research for economists since the days of Adam Smith. What we have witnessed in the last decades is a tendency towards the strong cooperation of domestic

economies and the creation of a world economy. One of the challenges for modern economic thought is how to explain the domestic economy as part of the world economy. The 19th-century separation of domestic and international economy is an obsolete concept. Economists must go beyond the traditional limitation of economic analysis focussed on the concept of the domestic economy (see, e.g., Drucker, 1971, p. 200).

Like in the first decades of the 19<sup>th</sup> century so now in the eve of 21<sup>st</sup> century rapid technological change has lead to questions and concerns about the role of small firms in industrial economics. An important role of small and medium sized firms in economic development was missed by politicians and most economists of the 20<sup>th</sup> century, it was out of fashion to write about role of small firms in driving economic progress and especially in forcing emergences of new ideas and innovations. This attitude changed in the last decade of the 20<sup>th</sup> century and now it is almost commonly accepted that such problems of contemporary industrial societies as unemployment are not solvable by relevant government policy but only through individual activities and their engagement in creation of large number of small firms. Before the emergence of mass production and Taylorist work organization most firms were small. Initiated by the growth of trusts in the late nineteenth century, the first seven decades of the twentieth century can be characterized by the growth of large and giant corporations (examples are U. S. Steel, Dupont, General Motors, Ford, IBM, Exxon, Merck, General Electric in USA but similar trends can be found in most industrialized countries). In this development small firms were viewed as inefficient and socially less desirable. Noticeable reverse of this trend was observed in the USA in the end of 1970s, small firms have created over 50 million new job places in the last quarter of the 20<sup>th</sup> century. This job creation was accompanied by the reduction of jobs by giant corporations, e.g., General Electric reduced its employment from 420 000 in 1980 to 276 000 in 1992 (and concurrently GE productivity has grown so the average sales growth rate in that period was around 10%).

Another process initiated in the end of 1970s in industrialized countries is privatization<sup>15</sup> what can be considered also as the reverse of the 20<sup>th</sup> century trend of nationalization (i.e., increasing government ownership of the means of production). The process of privatization was initiated by Margaret Thatcher in Great Britain and Ronald Reagan in USA but in the 1980s worldwide many other governments issued very similar policy (let us point out only selling out airlines by the Netherlands, Malaysia, Italy, and Thailand governments; Germany, Brazil, and Britain sold oil interests; the government of the Philippines sold hotels, sugar and coconut mills, and cement plants. Car and truck companies were sold by Britain). British prime minister Margaret Thatcher's government began to sell the public holdings in several industries, including telecommunications. In the United States privatization campaign of the Reagan administration was followed by state and local governments actions, mainly in the form of contracting out. State and local governments started to privatize basic housekeeping services (such as street sweeping, vehicle maintenance) but it was later on extended to services delivered directly to the public, such as garbage collection, ambulance and paramedic services, and various social services. There is ongoing discussion in the US about privatizing criminal justice system (see e.g. the project of National Center for Policy Analysis – the web address <http://www.ncpa.org/pi/crime/crime.html>). One of the results of this discussion is growing number of privately operated prisons.

In many spheres of the civil life the privatization process goes from the bottom as the direct result of individual members of the society by expanding the private sector and through this way diminishing the role of the public sector. This is a case in many industries but also in services,

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<sup>15</sup> The term privatization was put into common usage by Robert Poole at the Reason Foundation in California, in 1976.

e.g., in the USA there is over three times as many private security guards as public law enforcement officers and the private sector spends almost twice as much on private security as it is paid in taxes to support the public police.

A private sector is more innovative and more efficient than the public one, it is true not only in industry but also in a service sector. Privatized fire-fighting services in Scottsdale, Ariz., which cost about half as much as similar public services in nearby communities, provided a model for other fire-fighting companies. Some USA state and local governments have privatized further, by transferring ownership of major infrastructure projects to the private sector. There is very serious discussion about privatizing one of the last resort of government monopoly, the post office (in 1999 the privatization of the post services was initiated in the Netherlands).

In the 1990s the privatization process was accelerated. Several Latin American countries had moved in the direction of the free-market approach and advocated the privatization of some government assets and services. Most dramatic of all were the changes in the countries of Eastern Europe, which were in the process of disbanding their centrally-planned economies, and in the newly independent nations of the former Soviet Union. The privatization process goes with different velocity, sometime it is stopped, in some countries even reversed, but privatization efforts will continue in the next decades worldwide.

The process of world trade liberalization was initiated just after the World War II, and it was a direct reaction to governments' protective policy in the first decades of the 20<sup>th</sup> century. With the intention to encourage the USA export, duties were raised sharply in 1921 and again in 1922. The Smoot-Hawley Act (1932) imposed still higher tariffs (on average 60%) also in order to stimulate exports and to combat unemployment. Other countries followed that policy and imposed the same protective tariffs. The Reciprocal Trade Agreements Act of 1934 and other initiatives by U.S. Secretary of State Cordell Hull revived interest in free trade. An increased desire for free trade was reflected in the Bretton Woods Conference (1944). As an effect of this prolonged, diversified efforts a multinational treaty of General Agreement on Tariffs and Trade (GATT) was founded in 1947 and started on the 1<sup>st</sup> of January 1948. It ended when 117 member states signed the 'Uruguay Round' of negotiations in Marrakech, Morocco, on Apr. 15, 1994. GATT established a code of conduct for international trade, based on the principles that trade should be conducted without discrimination, tariffs should be reduced through multilateral negotiations, and member countries should consult to overcome trade problems. GATT also established in 1964 the International Trade Center, operated jointly with the United Nations Conference on Trade and Development, to assist developing nations in promoting their exports.

Under GATT, a total of eight 'rounds' of trade negotiations brought about phased reductions in tariffs and other trade barriers. The prolonged eighth round began in September 1986 at Punta del Este, Uruguay. Participants agreed to expand the negotiations to include banking, investment, intellectual properties, and telecommunications. The talks were concluded in December 1993 and resulted in further trade liberalization. GATT negotiations allowed for tariffs

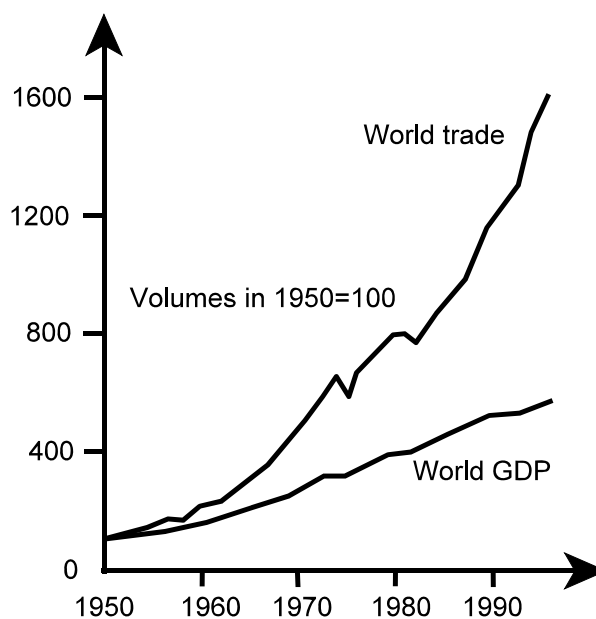


Figure 8. World trade and world GNP in the second half of the 20<sup>th</sup> century



reduction. In 1940s the average level of international trade tariffs was equal to 40%, since that time it started to be continuously reduced and it was equal to 25% in 1950s, 17% in 1960s, 13% in 1970s, 7.5% in 1980s and 5% in 1990s. It is expected that after 2000 it will reach the level of 3%.

In 1988 US Congress enacted *Omnibus Trade Bill* which allowed to open international markets to American products. The World Trade Organization (WTO) succeeded GATT as the overseer of world trade on January 1, 1995. The WTO is empowered by a multilateral agreement of December 1993 to moderate trade disputes among its 116 member states. Its agenda also includes environmental issues, labor standards, and questions arising from foreign investment after World War II;

Founded in 1958 the European Community created a single European economy in the European Union of 12 members. After signing the Maastricht Treaty in 1992, Europe can become one of the greatest region of the free trade in the World. Very similar tendencies are observed in other parts of our Globe. Let us mention only *Canadian-U.S. Automotive Agreement*, signed in 1965, which opened the way to sign *North American Free Trade Agreement* (NAFTA) between USA, Canada and Mexico. NAFTA took effect on the 1<sup>st</sup> of January 1994 and it is aimed to disembody all tariffs barriers by 15 years since its initiative. Recent idea is even to widen the NAFTA into Latin and South America. Very similar efforts are made to enact free trade zone with Japan, South-East Asia and Australia (so called *Pacific Rim*). Founded in 1989 at the instigation of Australia to promote trade liberalization throughout the Pacific Rim, the Asia-Pacific Economic Cooperation (APEC) group consists of 18 economies. The group held its first summit meeting in Seattle, Wash., in November 1993. At its second summit, held in Bogor, Indonesia, in 1994, the leaders of all 18 countries signed a nonbinding “declaration of common resolve” to create a Pacific free-trade zone by the year 2020. At its third summit, in Osaka, Japan, in 1995 members sought to accelerate trade liberalization. The fourth summit, held in Manila in 1996, discussed increased technical as well as economic cooperation.

A fall in barriers to trade has helped to stimulate its growth. The volume of world merchandise trade is now about 16 times what it was in 1950, while the world’s total output is only five-and-a-half times as big (see Figure 8). The ratio of world exports to GDP has climbed from 7% to 15%.

The ongoing very intensive discussion in many countries about a need of tax reform is another indication of coming the liberal wave of economic order. Although we are far from the radical reforms but it seems that in some countries we can expect (in the perspective of a few decades) introduction the system of linear income tax (flat tax system). Reduction of the top marginal rates and decrease of average income-tax rate is observed in many countries, for example when we compare the top marginal personal-tax rates in 1979 and in 1997 we can see that it was significantly reduced: in Great Britain from 81% to 40%, in Japan from 76% to 62%, in the United States from 72% to 57%, Italy 70% to 46%, France 60 % to 53% (only Germany increased the top marginal tax from 58% in 1979 to 60% in 1997, but probably it was caused by high costs of reunion of both German countries and in future we can expect reduction of tax rates).

In the previous section it was mentioned about increasing government’s role of providing social security during the ‘welfare economics’ wave. Social security in most nations in the world evolved toward a pay-as-you-go system, that is into an intergenerational wealth transfer. The ‘pay-as-you-go’ system depends strongly on demographic factors more than it does on economic factors such as productivity gains. Birth rate and longevity determine the solvency of pay-as-you-go retirement systems. In majority of nations that system experience strong crises, e.g. it is estimated that the US Social Security system will start losing money by 2012 and will be completely insolvent by 2029. Therefore, after decades of experience with that system many societies believe there is no economic issue facing the world today that is more important than

converting public pension programs from pay-as-you-go government-run systems into individually capitalized privately owned retirement systems. Chile is the most successful example of Social Security privatization (which was initiated almost 20 years ago) but many other countries started reforms in that direction. Probably privatization of the social security will be one of the features of the emerging wave of the image of economic order.

In contrast to the very influential role of trade unions in the former image of the economy, the importance of trade unions in the succeeding image of the economy will be much smaller. This process is clearly visible now in the high-tech industries (computers, microelectronics, biotechnology) where trade unions do not exist or are very rare and weak. Drucker (1971, p. 81) states that:

The greatest obstacle to economic growth in the United States and Great Britain is the craft organization of work and especially the craft union, which puts a tremendous premium on doing things the way they used to be done. The craft union with its 'jurisdictions' and 'demarcations' (the former, the American – the latter, the British, term for union restrictions) prohibits, by definition, the learning of new skills by its members, and at the same time forbids access to skilled job by outsiders.

The new shape of the future society will also impose changes in the modes of work and the basic subject of labour – in the former image of the economy the worker-proletarian was the basic subject of labour. Different authors expose different features of the future society, and this is reflected in different names for that society, for example, Drucker (1971) and Toffler (1985) speak about the knowledge society, others speak about a post-industrial, information, informal or dual society. In Toffler's opinion a specific class of workers will arise, namely those whose work will be based on knowledge, and he proposes naming this class *cognitariat*. Drucker (1971, p. 350) writes that:

What the knowledge worker needs to be positively motivated is achievement. He needs a challenge. He needs to know that he contributes. This is in complete contradiction to what we have come to consider 'good management' of the manual worker. The essence of our experience here is summed up in the popular phrase, 'A fair day's work for a fair day's pay'. Knowledge workers, however, should be expected to do 'an exceptional day's work' – and, they should then also have a chance to earn 'exceptional pay'.

## Conclusions

The outline of economic development of the Western Hemisphere, sketched in this paper, was used to exemplify the general view on long waves of development of human societies observed at different levels of cultural evolution. There are some indications that each wave of economic development was initiated by publication of important books, e.g., mercantilism was preceded by publications of Thomas Milles' *Treatise of Commerce* (1601), Thomas Mun's, *A Discourse of Trade from England unto the East Indies* (1621) and *England's Treasure by Forraign Trade* (1630); the classical economics wave was preceded by publication of Richard Cantillon's *Essai sur la Nature du Commerce an Général* (1755, written 1730-1734), Anne Robert Jacques Turgot's *Elegy to Gournay* (1759) and *Reflections on the Formation and the distribution of Riches* (1766), Adam Smith' *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776); the welfare economics wave foundations can be found in Karl Marx and Friedrich Engles *Communist Manifesto* (1848), and Karl Marx, *Critique of Political Economy* (1859) and *Capital* (vol. 1, 1867), William Stanley Jevons, *The Theory of Political Economy* (1871), Léon Walras, *Elements of Pure Economics (Éléments d'économie politique pure)* (1874), Alfred Marschall, *Principles of Economics* (1890); future wave of economic order will be shaped by Friedrich von Hayek's, *Road to Serfdom* (1944), *Individualism and Economic Order* (1948), *The Constitution*

of Liberty (1960), Ludvig von Mises, *Human Action: A Treatise of Economics* (1949), Milton Friedman, *Capitalism and Freedom* (1962), *A Monetary History of the United States 1867-1960* (1963, with Ann J. Schwartz).

The problem here is similar to the classical problem related to the Kondratiev cycles, namely: ‘Do basic innovations cause emergence of long waves of the Kondratiev type or there are another factors causing emergence of this waves?’ Giving examples of such monumental volumes I do not like to impose that the individual publications are so influential that they are able themselves to initiate the forthcoming waves of development but I would like to say only that some of the authors are clever enough to see the ongoing processes in their nucleus forms. As usual a sum of actions of all individuals of any society shape the process of change and is the motor of transformation.

In fact it is still open question if the frequency of publication of books classified to both general streams of thought (namely, liberalism and statism) is more or less uniform and only society chooses the more ‘appropriate’ books which become popular and shape general mode of thinking or if some books are really so influential that they essentially contribute to the process of emergence of the issuing wave of development? It would be nice to prove the later option and I have tried to find corroboration of this view generating my personal canon of economic literature (which contains over 250 books) and to scrutinize the distribution of the publications of these books in the course of time. This first attempt has not produced convincing arguments that frequency of publication of ‘liberal,’ or ‘statism’ books and waves of economic development are strongly correlated. Probably it is necessary to work out a proper methodology of investigation.

A number of evidences have been presented in the paper to support the view that the substitution phase of the next liberal wave of economic development was just initiated. Let us give one more example of social attitude changing – the significant change of answers in the USA to the poll question: “How much of the time do you think you can trust the government in Washington to do what is right?” In 1964, 14 percent said ‘always’ and 62 percent said ‘most of the time’. By 1994 ‘always’ had virtually disappeared, and ‘most of the time’ was down to 14 percent. ‘Only some of the time’ had risen 22 percent to 73 percent, while 9 percent volunteered the response ‘never’.

This change of social attitude is noticed by politicians, especially by social democrats whose campaigns’ rhetoric has significantly been modified in the last decade. It is seen in Poland, where frequently Social Democratic Party (SLD) is more procapitalistic then so called Right (e.g., AWS). In many Western countries very similar process is observed. British Prime Minister Tony Blair in the beginning of 1990s popularized his „big idea” for Britain future, namely „the Stakeholder Society”. Blair was elected leader of Britain’s opposition Labour party in July 1994 and in October 1994, he launched a campaign to repeal Clause Four of the party’s constitution (which committed Labour to promote „common ownership of the means of production, distribution, and exchange”). He succeeded and got the membership’s approval in April 1995, despite opposition from trade union leaders and other protagonists of the party’s socialist traditions. Probably this shift of attitude of the Labour Party allowed to win the 1997 campaign and in May of that year Tony Blair became Prime Minister. Now Tony Blair is the proponent of the „Third Way”, which idea is far from the classical ideas of free market economy and laissez faire but at least tries to combine liberal ideas and ‘classical’ social democrat vision of development. The „Third Way” idea was accepted by some other social democratic leaders of Western Societies, e.g. Bill Clinton and Gerhard Schröder (with whom Blair published in 1999 the famous manifesto where virtues of a market-led form of social democracy dominate).

For decades of *The Gallup Organization* is asking Americans about their attitude to some important social institutions. One of the question is: “In your opinion which of the following will

be the biggest threat to the country in the future – big business, big labor, or big government?”<sup>16</sup>. Results of this enquiry are presented in Figure 9. It is seen that in the long perspective Americans see more and more thread flowing from big government. In the last 35 years a share of people seeing big government as dangerous for American society has almost doubled (from 35% in 1965 to 65% in 2000). Almost stable number of Americans (at the level of roughly 20%) indicated thread of big business. Trade unions (‘big labor’) are now seen as almost no influential, fraction of society seeing threat from big labour decreased over four times, from 30% in 1965 to 7% in 2000. Interestingly a fraction of people having no opinion decreased in that period significantly, from 20% in the second half of 1960s to 5% in the end of 1990s.

The perceived threat of different institutions is strongly related to political party affiliation. Democrats express more concern about big business than do Republicans and independents (in 2000, 32% Democrats, 9% Republicans, 21% independents) and, alternately, Republicans express substantially more concern about big government than do Democrats and independents (81% Republicans, 51% Democrats, and 67% independents).

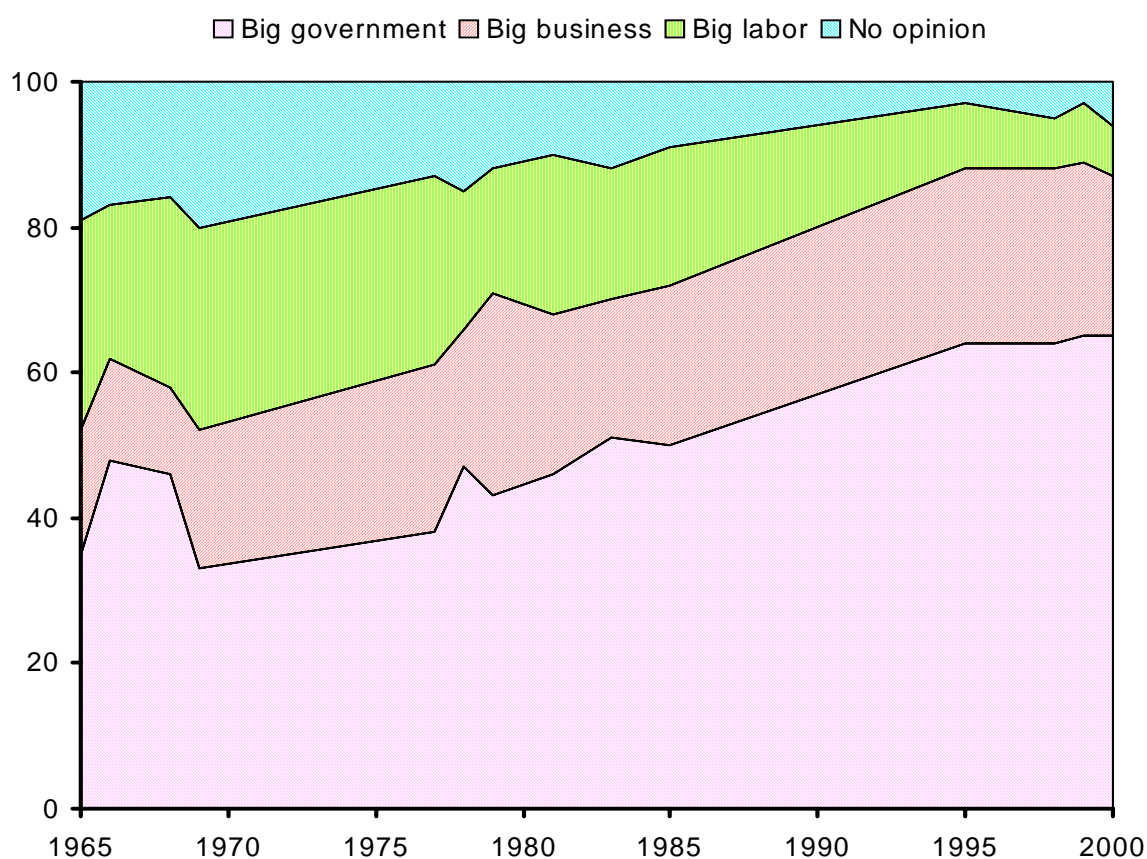


Figure 9. What will be the biggest threat to the country in the future?

I would like to finish the presented analysis with the conclusion that Western societies (followed probably by the other parts of the world) will face an era of liberal development in the next decades. But the natural dynamics of the process is relatively slow, and similar to the past shifts, the substitution phase will last few decades. We can expect the domination of the liberal

<sup>16</sup> Published on the 1st of November 2000 at <http://www.gallup.com/Poll/releases/pr001101b.asp>

view of socioeconomic development around the year 2020-2030.

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