explanation of the price fall if only because not all prices moved to
the same extent at the same time. It seems, however, that we may
have to put money back to where it used to be as a major force in
the price movement, particularly if we are prepared to follow
Friedman and Petersen in dating the downward trend from the
mid-1860s and ending it in the late 1880s.

Professor Rostow’s View

IN his book *The British Economy of the Nineteenth Century*,
published in 1948, Professor W. W. Rostow constructed an
explanation of the long swings in terms of the shifting balance
between different types of investment. He distinguished between
investment which brings returns quickly in the shape of output
of goods – i.e. investment with a short period of gestation – and
investment which either is not productive of final goods at all –
wars or gold mining – or which brings its returns only after a
considerable period of time. Periods of rising prices are charac­
terised by the second type of investment, falling prices by the
first. The two decades or so prior to 1870 saw a great deal of
unproductive investment in gold mining and wars. In addition,
Britain was investing heavily in building railways and other
public utilities at home and overseas; that is to say, indulging in
investment with a long period of gestation. After 1873, however,
prices began to fall partly because the emphasis in investment
switched from overseas to home, lowering the period of gestation
and bringing quicker returns. There was less unproductive
investment and above all the long gestation investment of the
earlier decades now began to bear fruit in the form of final
products and of lower costs. Investment overseas, gold mining,
wars and rearmament characterised the years of rising prices
after 1896 once again.

Unquestionably the book represented a tremendous step
forward in our thinking about these problems, giving the
analysis a dynamic character that it never possessed before.
There are difficulties all the same. Rostow has placed his analysis
into a pattern of rising and falling price trends which we now
feel is no longer tenable. Furthermore, when applied to the years

S. B. Saul, *The Myth of the Great Depression, 1873–1896*
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1875–96 the statistics simply do not bear out his views in detail. The proportion of the national income devoted to overseas investment then was larger, not smaller, than in the preceding period. His definition of unproductive investment is too narrow; he takes little account of house-building which was actively under way in the 1870s and which might be expected to raise most prices except rents. These, in any case, do not appear in our price index. But because a theory turns out to be too ambitious and draws unduly sharp contrasts between home and foreign investment, productive and unproductive investment, periods of rising and of falling prices, we must be careful not to ignore the underlying truths of the argument. The two decades before 1870 did see a succession of major wars which helped to boost the price level – to create the plateau we have identified – in a way that was absent for the following two decades. The Boer War and world rearmament must have had similar effects after the mid-1890s. Quite apart from any monetary effect, the direct demands arising from gold mining were clearly less during the ‘Great Depression’ years. These demands would be inflationary since no final goods were created to match the incomes made available. It is right, too, to concentrate our minds on the consequences for the world economy of the opening up of new areas and the development of new technologies. Furthermore, if we confine our attention simply to the years from 1873 to 1887, then the proportion of investment going overseas is below normal for the half-century to 1914 and we can accept Rostow’s views for that part of the ‘Great Depression’ far more readily.

Other writers, especially R. C. O. Matthews and Brinley Thomas, have laid stress on the interaction of home and foreign investment in a somewhat different way.¹ We cannot go into detail about this unsynchronised movement of two elements in the economy, but they are certainly extremely important. In the early 1870s their peaks came close together; the subsequent fall in foreign investment in that decade was so steep that only a minor gain in income and no recovery of prices was produced by the rise of home investment to a second peak in 1877. Then again the cyclical peak of activity of 1882–5 was unusual in that neither home nor foreign investment was at a peak. The result was a very