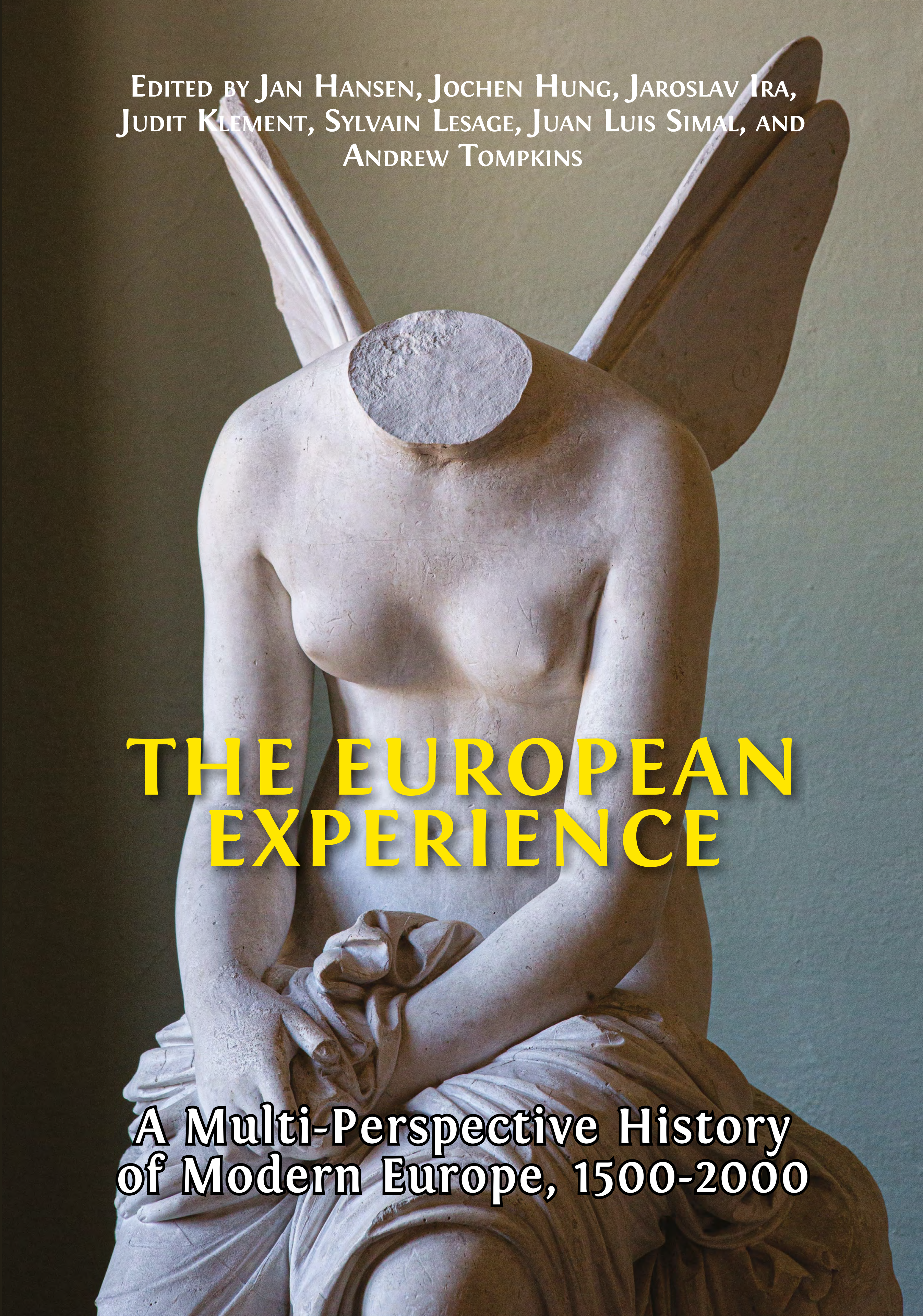

Edited by Jan Hansen, Jochen Hung, Jaroslav Ira, Judit Klement, Sylvain Lesage, Juan Luis Simal, and Andrew Tompkins

THE EUROPEAN EXPERIENCE

A Multi-Perspective History of Modern Europe, 1500-2000

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5.2.2 Distributing Wealth in Modern History (ca. 1800–1900)

Jiří Janáč and Judit Klement

Introduction

The standard image of the long nineteenth century is a picture of fast economic growth fuelled by industrialisation and early globalisation. For the second half of the nineteenth century, a slow rise in living standards is evidenced by rising real wages and biological indicators (e.g., life expectancy at birth, infant mortality, height, literacy). Although both interrelated processes (industrialisation and globalisation) have significantly improved the performance of both the European and global economies and have undoubtedly contributed to a rapid increase of their overall prosperity in general, the extent to which particular regions, social classes, ethnic, and gender groups have participated in this growth varied. Wealth and income inequality had been steadily growing in Europe since the sixteenth century, but this trend accelerated significantly in the nineteenth century and was only broken at the beginning of the twentieth century and especially by the First World War. While all this—economic growth combined with rising living standards and increasing inequality—was a general tendency across Europe, the level of individual indicators and the extent to which they changed over time varied from country to country. This chapter shows how increasing inequality was perceived over the course of the century, what intellectual responses and debates it generated, and what reactions it provoked at the social and socio-political levels.

Manifestations of Unequal Wealth Distribution

One way to approach the study of inequality is to focus on income and living standards across a wide spectrum of social classes. For more than a century now, economic historians have discussed the development and changes in living standards as indicators of the spatial and social distribution of wealth during the industrial revolution. They have identified industrialisation as

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unfolding unevenly across different regions of Britain and Europe, and see it (and its associated social and economic changes) as a spatially dynamic process, shaped by local contexts. These interpretations can be divided into two major strands. The first strand is more optimistic, claiming that as industrialisation took off, living standards generally improved: despite an unequal distribution of wealth, the less fortunate also gained from industrialisation. After all, in general the nineteenth century witnessed rising wages of industrial workers and gradual expansion of industrial production across the continent, and there were material benefits from this process for ordinary people. The second view is far more pessimistic. This view emphasises the fact that gains from industrialisation were more complex, and the situation differed depending on a number of variables. Rising wages alone, those who subscribe to this view would argue, do not simply guarantee better living: to assess industrialisation, it would be necessary to consider changes in social relations, general price levels, and other types of social costs. All in all, there is today a widespread consensus on the fact that at some point in the process of industrialisation living standards did indeed start to grow and wealth distribution became more equal.

Current debates focus mostly on the exact timing of the change in the trend (starting either in the early nineteenth century or only in its second half, depending on the particular place), and how universally it applies (again, mostly depending on location, but also on social position). The arrival of industrialisation undoubtedly exacerbated divisions of income and fuelled rising social and economic inequality, but there was a certain levelling later in the process. At the beginning, large parts of the population were left behind and did not gain from the benefits and wealth brought about by industrialisation. The use of machinery and growing factory production (first in Britain, later elsewhere) triggered a rapid growth of productivity and profits, in which workers did not share. Due to the almost limitless supply of labour coming from the rural countryside, factory owners could keep wages at the subsistence level. Furthermore, many local producers and craftsmen could not compete with the high quality and cheap price of industrial production and fell into poverty with their families. The initial stage of the industrial revolution was thus characterised by extremely uneven distribution of profits, which resulted in a growing army of urban poor, a relatively (in numbers) small capitalist class and an emerging middle class—merchants, skilled employees, shopkeepers, or bureaucrats.

Striking contrasts between the modern and healthy lives of the wealthy, moving in carriages on paved streets from their villas and palaces to summer houses in the countryside, and the urban poor, often surviving on the streets or in overcrowded cottages and slums in unsanitary conditions, spending most of their time manually working or looking for work, became symbolic expressions of the era of early industrialisation in European memory—perhaps assisted by the portrayals of socially sensitive novelists such as Charles Dickens. Reality often lined up closely with this image. For instance, in Bohemia, one of the first industrialised regions of East-Central Europe, the financial and political elites (in 1800 mostly nobility and in 1900 mostly nobilitated businessmen) consisted of less than one percent of the population both at the beginning and at the end of the century and their numbers could be counted in thousands. By 1869 there were more than 3.5 million poor—i.e. mostly unpropertied workers, which gradually concentrated in industrial centres during the intensive industrialisation in the last quarter of the nineteenth century.

Paradoxically and in contrast to much of the continent, in Britain the trend in income inequality started to reverse at the time of the publication of *The Communist Manifesto* (1848). According to most economic historians, in the second half of the century, investments and growing consumption on the part of the wealthier social strata created new job opportunities and wage rates started to grow. Together with social reforms, this process to a certain extent curtailed the furthering of the distance between different social classes and mitigated the class war envisioned by Marx. In Bohemia and other parts of the continent, wages started to grow approximately thirty years later.

The changes in the spatial distribution of wealth have generally followed the pattern associated with the expansion of international trade, dividing the continent into centres and peripheries. In the early nineteenth century, economic growth in the core areas of industrialisation in the North Sea region greatly exceeded that of the rest of Europe, although some areas (such as Germany) matched it in the periods before the First World War. However, even within individual states, there was internal differentiation and income gaps opened between town and country, but also between emerging industrial and rural regions, depending on their success in the process of industrialisation. However, some authors, in contrast to the traditional view that industrialisation triggered regional differentiation in the initial phase, only to balance out again later (i.e. that the inequality developed similarly in the horizontal, spatial plane as in the vertical, social plane) now argue that—for example—the differences between North and South in Italy and Spain, or West and East in the Habsburg Empire, may well simply reflect links and structures that existed already back in the eighteenth century. The envisioned closing of regional income disparities in later phases of industrialisation after 1900 does not hold up on closer inspection, and regional differences prevail.

Responses to Inequality

Growing inequality evoked different responses in practice in the nineteenth century. The mass emigration from Europe to North America, especially the

United States, characteristic of the second half of the century and particularly the turn of the century, can be interpreted as a spontaneous social response: they left Europe in hopes of a better livelihood. However, in addition to growing inequality, population growth also played a significant role in the process: the reason for emigration at that time was clearly economic. Between 1880 and the 1920s, nearly twenty-five million Europeans migrated to the United States. The reason behind this flood of migration was also the fact that the 'long trip' became cheaper and more accessible because of the expansion of railroads in Europe and the steam-powered oceangoing ships between the continents. The peak of this trend was in 1907 when 1.3 million legal immigrants were registered in the United States. Although a significant proportion of immigrants (estimated to be about one third) lived in the United States only temporarily to earn money and raise capital, population movements were intense.

The most important form of geographical mobility in the century, however, was urban migration from the countryside, by those in search of a better life. European urbanisation gained momentum in the nineteenth century, and the urban population increased sixfold, although most of the European population still did not live in cities before the First World War. The social consequences of growing inequality became particularly visible in cities due to population concentration, and also because the people who moved to cities mostly lost their traditional supportive social network. A possible consequence of this lack of social support was urban pauperisation, with recurrent epidemics, poor housing, and health conditions. All of this became an increasingly problematic issue for city governments during the century. Accordingly, everything that these governments did to address urban pauperisation can also be interpreted as a response to the increasing sharpening inequal distribution of wealth and income: from the regulation of housing conditions or construction of social housing to the development of urban social policy. The latter mostly took the form of housing subsidies and aid to the urban poor.

Another type of social reaction to inequality was the increase in social self-organisation. The century was particularly marked by the self-organisation of industrial labour, greatly affected by urban pauperisation. The primary purpose of labour associations was initially to provide mutual assistance to members (e.g., in the event of unemployment or job searches), which was accompanied by the articulation of common interests as employees. In addition to criticising working conditions (e.g., working hours, the danger of accidents, an unhealthy workplace), most workers' initiatives were aimed at raising wages and questioning the distribution of income. The standard of living of wage labour was particularly vulnerable to business cycles, and rising prices and rents could have immediate, negative consequences. The number of strikes also increased during such price-sensitive periods, as at the turn of the century. The self-organisation of labour increased workers' ability to assert their interests, which took the form not only of workers' associations, but trade unions and political (e.g., socialist, social democratic) parties. (In Germany, for example, the General German Workers' Association was founded in 1863, and the Social Democratic Workers' Party in 1869.) The trade unions and the political parties were already signs of a growing mass labour movement in Europe. Moreover, with the establishment of the First International in 1864, the labour movement also became international. The main political demand of labour was universal suffrage.

The movements for changing the suffrage system also dealt with the distribution of wealth and income in society, as censitary suffrage was a common phenomenon in all European countries before the First World War. Censitary suffrage meant that the right to vote belonged to the citizens with a given level of income—measured in paid tax—or wealth and/or a specific educational level. By the end of the nineteenth century, there were real social debates about the prospect of extending the franchise to women and lower-income social groups, due to quite a few mass demonstrations throughout the continent. In some countries (like Austria or Italy), the property qualification for suffrage was decreased by the end of the nineteenth century, and the range of voters widened slightly as a reaction to these popular demands.

The nineteenth century witnessed only the beginning of the state social insurance system. Prussia took the lead in introducing it: at the initiative of Chancellor Otto von Bismarck (1815–1898), sickness insurance (1883), accident insurance (1884), old-age and invalidity insurance (1889) were introduced in the 1880s first for workers, then for all employees. The initiatives in Prussia served as a model for many countries including, for example, Hungary. Despite the fact that these new measures hardly affected the distribution of wealth or income, important progress was made in regulating labour law and introducing compulsory sickness and accident insurance prior to the development of the welfare state in the twentieth century.

Intellectual Debates

The issues of economic inequality and the distribution of wealth in society came to the fore in the context of discussions about civil equality during the first half of the nineteenth century. While the gradual implementation of the liberal and Enlightenment concept of equality before the law removed the traditional privileges of the elites and made parts of Europe more equal, the economic liberalisation that was associated with this process also made economic inequality more visible by stripping away the traditional checks on wealth accumulation and trade (such as guilds, duties, tolls and other regulations). Initially, theories about the distribution of income among social classes and individuals developed predominantly in the discipline of political economy, which celebrated the liberal economic system based on competition and free from regulatory mechanisms. In their theories of income distribution, classical economists such as Adam Smith (1723–1790) or Thomas Robert Malthus (1766–1834) stressed the importance of functional relations between rent, wage, and profits, but did not explicitly address the moral and political dimension of wage (income) in the wealth distribution. It was only their successor, the English political economist John Stuart Mill (1806–1873), who on the margins of his magnum opus *Principles of Political Economy* (1848) noted that the distribution of wealth "depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them and are very different in different ages and countries."

Mill, unlike his predecessors, could respond to debates about the need for social reform and redistribution of society's wealth to ensure at least a minimum standard of living for the growing army of the urban industrial poor. The growing social criticism directed against economic liberalism and its callousness towards the working poor had been strongly manifested since the end of the Napoleonic Wars. The French theorist Henri de Saint-Simon (1760–1825) pioneered the idea of socialism and envisioned a meritocratic society in which wealth and privileges would no longer decide one's status.

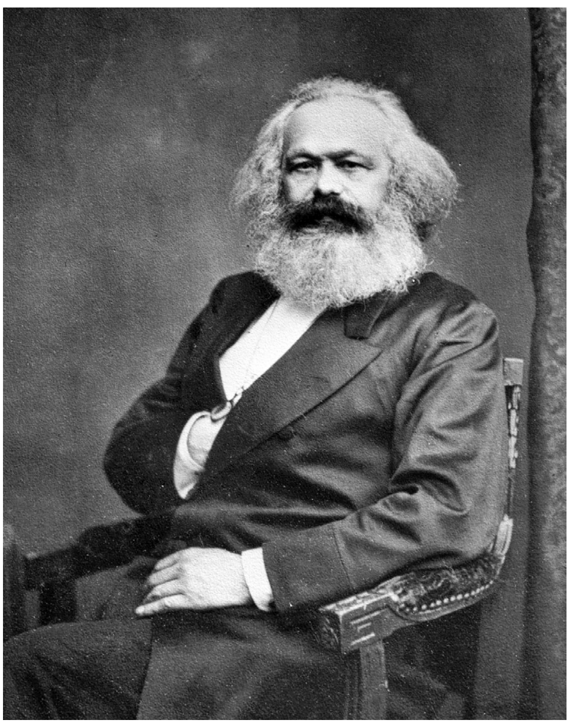

Fig. 1: John Jabez Edwin Mayal, Portrait of Karl Marx (before 24th August 1875), Public Domain, Wikimedia, https://commons.wikimedia.org/wiki/File:Karl_Marx_001.jpg.

The German philosopher Karl Marx (1818–1883), in contrast to Mill, was quick to add that customs and values are actually produced by the economic relations in the same way as wages, and thus the principles of income and wealth distribution are fully dependent on the entire working of the economic system. In his critique of capitalism, Marx argued that one of its systemic features is exploitation. A worker is only paid a subsistence wage (if he is employed at all), which does not correlate to the value of what he produces, but to the value of his skills on the market. The difference between the market price of the product and paid wages, Marx argued, is actually workers' unpaid wage and constitutes a major part of the profit of a capitalist. In their writings, Marx and his colleague Engels addressed the existing situation of the large numbers of the emerging English working classes during the industrial revolution. Building upon vast statistical evidence and contemporary surveys and reports on incomes, living standards or health of the industrial labourers, they argued that workers experienced dire social and economic conditions, and most were even worse off than before industrialisation.

In response to Marxism, proponents of classical economics argued that inequality is in itself not a negative thing. By the end of the nineteenth century, Italian political scientist and economist Vilfredo Pareto (1848–1923) studied the distribution of wealth in Italian society. Finding out that approximately twenty percent of the population controlled eighty percent of national wealth, he considered the examples of other European countries. Interestingly, the results roughly corresponded to the Italian case. The so-called 'Pareto principle' became a generally accepted distribution pattern, according to which the extremely rich strata of a population within a given economy control most of the nation's wealth. Pareto, who harboured strong anti-socialist sentiments and is usually classified as one of the leading figures of the 'neoclassical revolution' in economic thought of the late nineteenth century, argued that some level of wealth inequality within a society is both natural (independent of the particular social and political system) and even productive.

Towards the end of the nineteenth century, levels of income inequality started to significantly decline. Economic historians studying the rise and decline in inequality, echoing Pareto's explanation, stress the role of structural variables such as demographic change, technological change, and income effects in explaining this process. Variables such as these initially boost inequality and gradually tend towards a new equilibrium. When explaining inequality, however, it would be unwise to ignore the role of public policies, often framed as under the influence of economic experts. As the English economist Arnold Toynbee (1852–1883) rightly observed in his *Lectures on the Industrial Revolution* (1884), industrialisation in Britain was accompanied by the process of democratisation, characterised by extension of parliamentary suffrage and ensuing progressive legislation. Whether ruling elites expanded the franchise for ideological reasons, or due to instrumental calculations aimed at avoiding insurrection or in order to foster economic growth (by subsidising education of the poor and thus indirectly allowing for their political mobilisation), the fact is that Britain and later most of Europe introduced reforms and policies targeting income inequality and its negative implications on social welfare and cohesion.

Conclusion

The nineteenth century saw growing wealth inequality both within and between European countries. The reason for this increase in inequality was an unequal distribution of gains from dynamic economic growth. Wealth disparities were particularly pronounced in cities where industrial labour was concentrated. Tackling urban poverty resulted in action by city authorities, like regulation of housing conditions. The labour movement became a massive phenomenon and spurred government action, like changes in the suffrage system or the introduction of social insurance. The economic growth of the era nonetheless led to an increase in living standards for all in the long run.

Inequality in the distribution of wealth and income that grew significantly in nineteenth-century Europe shrank remarkably in the twentieth century, but inequality is now once again widening in the present. In his widely read book *Capital in the Twenty-First Century* (2013), the French economist Thomas Piketty characterises this as the return of social inequalities of the Belle Époque and the Gilded Age. According to Piketty, the price of economic growth and progress is extreme inequality in the distribution of wealth and income in the twenty-first century. This is and will remain an important issue. As long-run historical approaches to inequality have shown, growing inequality cannot be expected to decline automatically with economic growth, and institutions and human agency have a significant role to play in either remedying or ratifying inequalities.

Discussion questions

1. How did wealth and income distribution change in the long nineteenth century?
2. How can geographical mobility be interpreted in the context of distribution of wealth and income during the nineteenth century?
3. What kind of intellectual debates emerged about the distribution of wealth during that time?

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