

# ECONOMIC AND BUSINESS HISTORY 22/23

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## LECTURE 5 – WHY EUROPE FIRST?



# Why Europe First?

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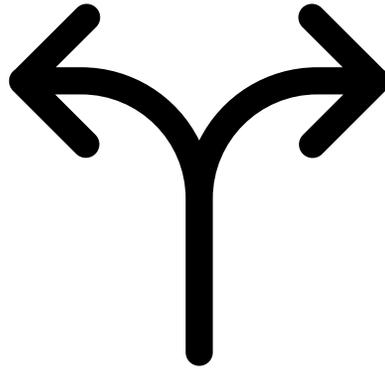
The Great Divergence



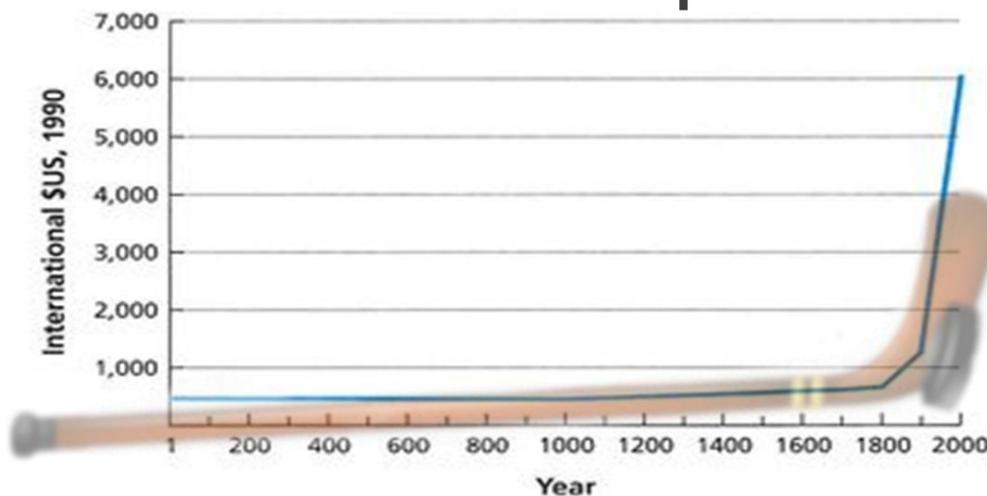
Why not the East?

# 1. The Great Divergence

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## Econ Hist in 1 Graph



### 1.2 Gross world product per capita (1990 International Dollars)

Source: Bolt, J., and J. L. van Zanden. 2013. "The First Update of the Maddison Project: Re-Estimating Growth Before 1820." Maddison Project Working Paper 4.

# The Great Divergence

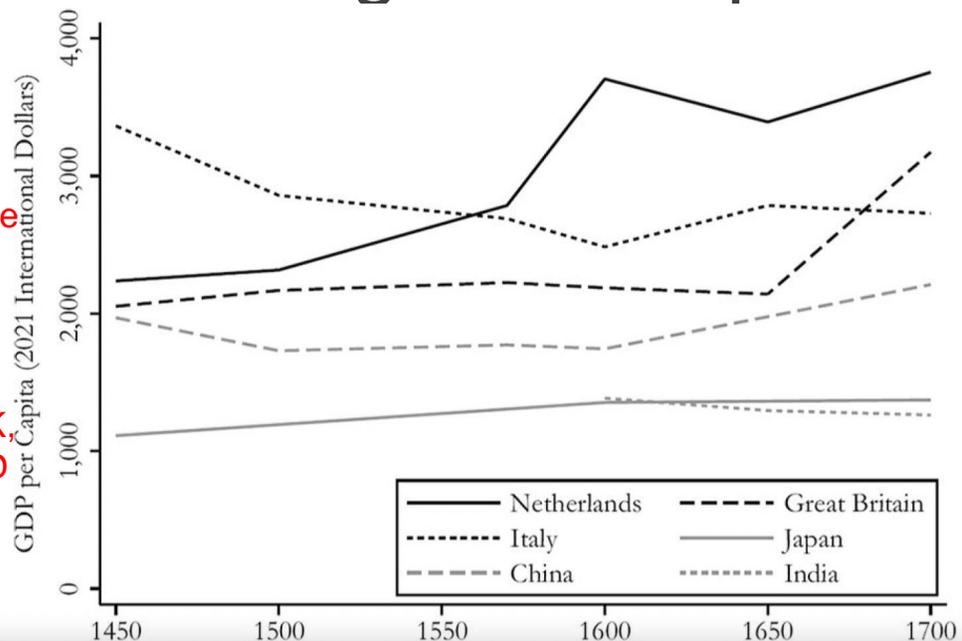
GDPpc (US\$1990)				
	1000	1500	1700	1820
India	450	550	550	550
China	450	600	600	600
Europ	425	797	1.028	1.234

- 'Divergence' in Econ means a state in which wealthiest economy(ies) grow at a higher rate than other(s).
- Convergence means that poorest grow at a higher rate.
- As mentioned, after a period with no major difference (1st to 15th cent AD), by 1700 the GD was already ongoing
- The 19th cent Globalization did not create the GD

Why?

## Note: Improved datasets confirm Western advantage in GDPpc

2021 International dollars are another currency used for comparison of living standards across time and space. The purchasing power of this currency is approximately twice that of 1990 USD GK, so that 800 2021USD is the subsistence minimum.



# Western Political Institutions

European political institutions had the same **blueprint**:

- Private Propriety is enshrined by law, even against executive power
  - Ultimately, this derives from Roman Law (law and state cannot override property rights)
- Judicial Power judicial formally independent from executive power and based on written law (law codes)
  - Justice understood as acknowledging private rights: 'giving each one his due' (*iustitia suumque cuique distribuit*) not as an extension of the ruler's authority
- Executive power limited (by parliament, property rights and constitutional principles)
  - Even if monarchs claimed to be 'absolute' their power were constrained by customary law, parliaments, courts (they could appear in court, theoretically)

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# Western Families

*EMP (European Marriage Patterns)*, by contrasts with eastern values and practices (most of all in India and China)

- Marriage is a decision made by the individuals (not arranged by families)
- Marriage occurs not in the early child-bearing years
- Competitive marriage market, shown in the relatively low rates of matrimony (high prevalence of 'singletons')



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# Family Values

This creates some incentives that also increase productivity

- Independent working life before marriage (both male and female)
- Savings
- Acquisition of skills

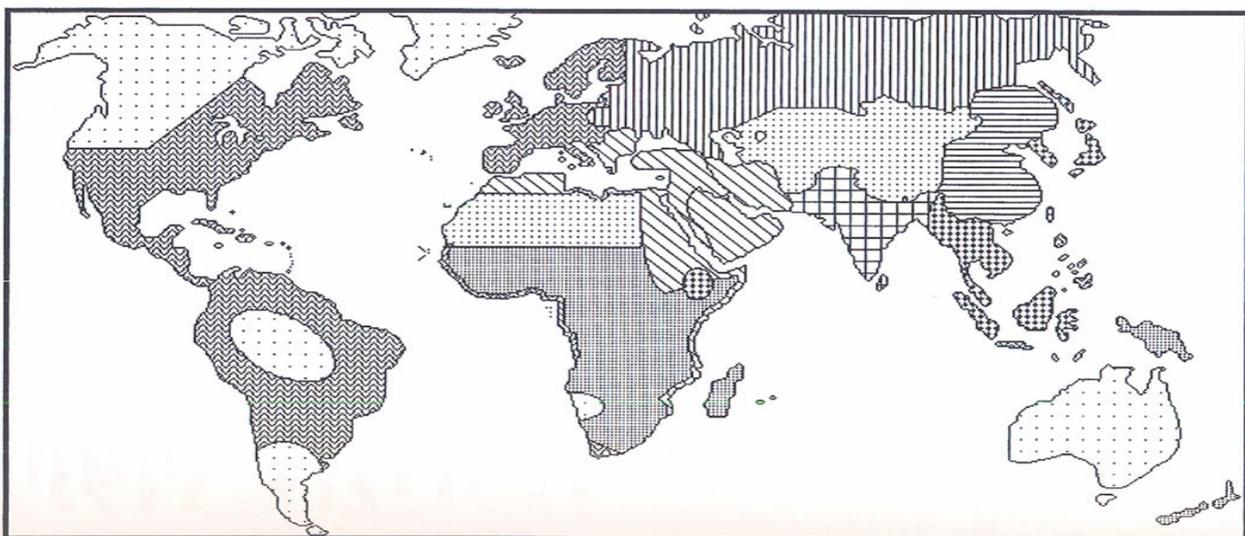
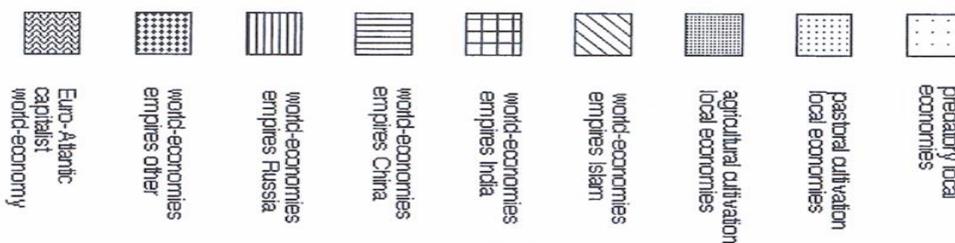
European families were thus more integrated in the markets (as workers and as consumers), improving the population composition and the size of the workforce



ATLANTIC TRADE integrated with EMP to further improve population composition

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## The Economies of the World, c. 1750

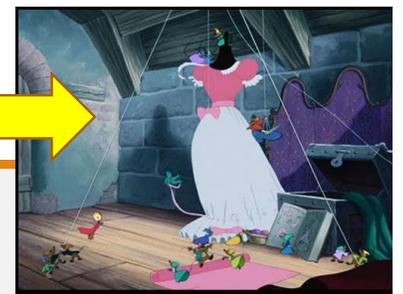


# The European Economy and the Atlantic Trade

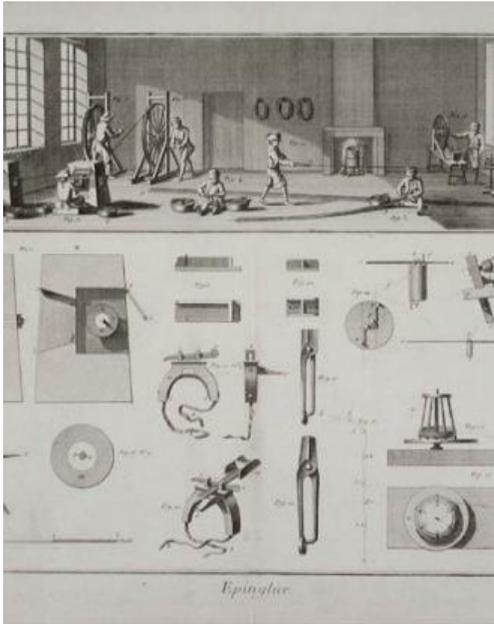


## Families and the Atlantic Trade

- From 1650, the arrival of exotic, addictive commodities from the New World (coffee, sugar, tobacco, tea, cocoa), which cannot be produced at home, led to European to increase their contribution to labour market
- Thus, even before major industrial innovations, labour supply and labour productivity increased: L is used more intensely and, as more family members work (sacrificing leisure, domestic labour and holy days), per year productivity increases as well
- This is called the Industrious Revolution



# The Industrious Revolution has the same effect as the Division of Labour



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Street sellers and the water carrier  
by Jean Michelin (1650)

ACH @ ISEG

## Western Growth, pre-MEG

Three main factors

- Political Institutions
- Family structure
- Interaction of external trade with family structure

No words so far about 'industry' or 'innovation'

These only came about because of the previous factors

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## 2. Why the East failed?



### China, 960-1911

Unlike India, Chinese world economy had no important advantage: a strong, unified state

- As elsewhere in the world this allowed for general security
- Almost uniquely to China, the state also sponsored public works
  - Of which the most important was the Great Canal, which integrated the wheat-producing north with the rice-growing south
- These features allowed for important
  - Growing urbanization and improvement of human capital
  - Urbanization c. 1600 similar to England/Netherlands
  - Integration of agricultural market prices via the Great Canal



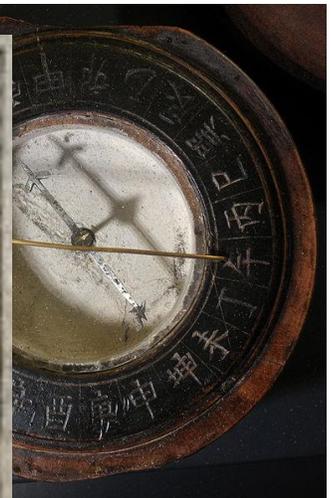
# Human Capital

- Concentration of population in cities reflected good specialization of labour
- Numeracy (18th and 19th cent.)
  - High in China, Japan and Formosa/Taiwan
  - Higher than elsewhere in Asia
- Literacy (18th and 19th cent.)
  - Very high in Japan (superior to England and Holland)
  - High in China
  - In India very low (only superior castes)

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## Inventions

- Concentration of population in cities and human capital result in many potentially disruptive inventions:
  - Paper
  - Gunpowder
  - Compass
  - Paper money
  - Printing characters (not printing press)
- Yet, these were little-used and were not applied to private sectors



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# 王土王民

- Chinese growth was limited by its institutions
- These were founded in the 'Wangtu wangmin' (王土王民, king's people; king's land; ultimately, all land and people belonged to the sovereign) doctrine.
- Thus, power was not shared with other institutions, only devolved to local administrators and judges (*mandarins*) who represented the emperor
- Chinese mandarins were both JUDGES and ADMINISTRATORS
  - They did not follow strict and detailed legal codes, but rather broad moral norms and/or principles
- Justice was not understood as protection of rights, but restoring 'harmony' or 'balance'

## Interest Rates

The lack of reliable institutions regulating contracts (especially courts and law codes) is shown in the interest rates charged:

- India, 17th cent.
  - Lowest values observed (7,5-9%) double England's (lower than 13th-cent. Europe)
- China, 17th-18th
  - Average observed 12% (with 20, 30 and 40% occurring)

### Why?

- High risk (untrustworthy institutions)
- Low Level of savings (low private income from wages)

# The Limits of Institutions



*China has been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world. It seems, however, to have been long stationary. Marco Polo, who visited it more than five hundred years ago, describes its cultivation, industry, and populousness, almost in the same terms in which they are described by travellers in the present times. It had perhaps, even long before his time, acquired that full complement of riches which the nature of its laws and institutions permits it to acquire. (TWN, I, 8)*

## Low wages

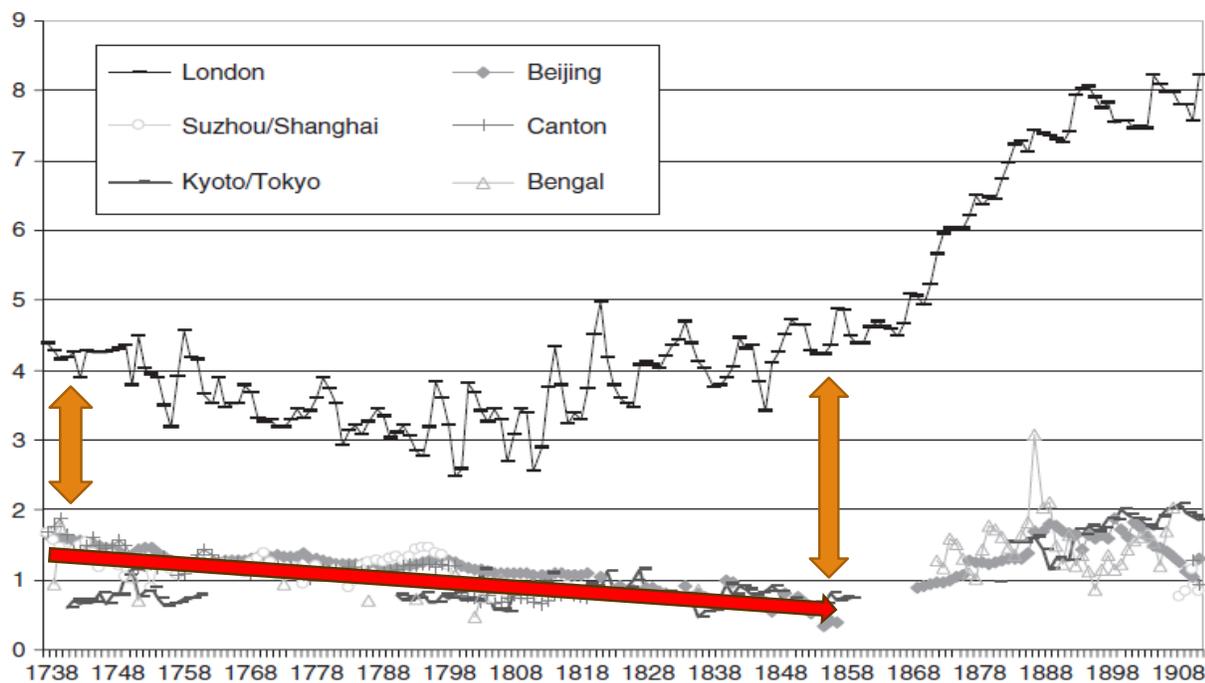


Figure 11.2 Real wages in Europe and Asia (Allen *et al.*, 2010)

# Malthus goes to China

- Wages inferior to Western Europe. Why?
- Despite high human capital levels, there is little investment and improvement of labour specialisation
- As population increases, the agricultural productivity hits decreasing returns, which poor technology cannot compensate (Gupta e Ma 2010: p. 270)
- Labour-intensive agriculture did not stimulate investment
- No incentive from external trade (IMP+EXP, <1% of GDP)
- A Malthusian trap is set

## Demography and Growth (China)

Falling Wages led families to increase the quantity of labour

- Universal marriage
- High fertility (young age of brides)

This leads to population growth, which contributed to deteriorate furthermore wages (Quality behaviour)

ANO	1000	1500	1600	1700	1820	1870	1913	1950
GDPpc/GDPpc Europe (US\$1990)	113	78	67	59	49	27	16	10
Pop (million)	59	103	160	138	381	358	437	547