

ECONOMIC AND BUSINESS HISTORY 22/23

LECTURE 6 – GREAT DIVERGENCE



1

PLANO



1. Growth



2. Neither
industrious nor
industrial



3. Institutions

2

The Great Divergence

GDPpc (in US\$ 1990)

	1000	1500	1700	1820
India	450	550	550	550
China	450	550	600	600
Europe	425	797	1.028	1.234

In order to understand what went well in the Atlantic coast of Eurasia, it is useful to contrast with the other extremity: Asia

The GD started before the 19th cent.

This GD can be better observed in China, which was independent, than in India (which under British rule de facto from 1757)

The Chinese case is more relevant because China its native institutions did not receive external influence

3

3

Specialization and growth (960-1912)

Chinese imperial dynasties performed to some extent the three Smithian state duties

- Sovereignty
- Justice
 - Meritocratic administration (national exams)
 - Public order maintained
- Public Works
 - Especially, the Great Canal
- Specialization
 - Growing urbanization and innovation
 - Urbanization c. 1600 similar to England/Netherlands
 - Integration of agricultural markets (see Gupta and Ma, tabl 11.5)
 - Public works enlarge internal market and contribute to some division of labour (Brandt, Ma and Rawski (2014: p. 52)



4

4

Human Capital

- Chinese inventions testify good levels of Human Capital
- 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)

5

5

Invention without Innovation



6

6

How about Agriculture?

China and India: High LAND productivity but low LABOUR productivity

Wages inferior to Western Europe

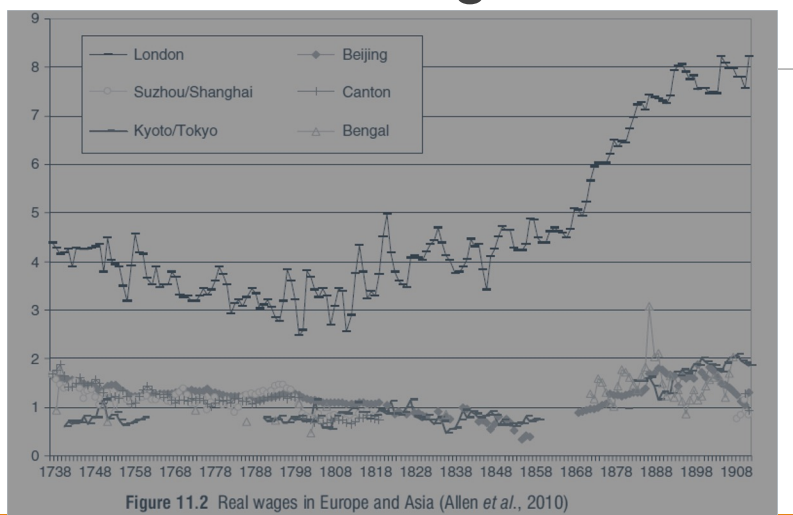
Little Specialisation of agricultural labour and poor technology when compared with NW Europe (Gupta e Ma 2010: p. 270)

Labour-intensive agriculture did not stimulate investment

7

7

Real wages?



8

8

Real Day Wages (China v England)

	In silver grams/day			In kilos of cereal (or carloric equival)		
	England	Yang-Tse Delta	China/Inglaterra	England	Yang-Tse Delta	China/Inglaterra
1550-1649	3,8	1,5	39%	5,2	4,5	87%
1650-1849	11,5	1,7	15%	7,8	3,0	38%

9

9

Real day wages (India vs England)

	Grams of silver		
	England	India	India/Engl
1550-99	3,4	0,7	21%
1600-49	4,1	1,1	27%
1650-99	5,6	1,4	25%
1700-49	7,0	1,5	21%
1750-99	8,3	1,2	14%
1800-49	14,6	1,8	12%

10

10

International Trade

According to Brandt, Ma and Rawski (2014) and Gupta and Ma (2010) confirm the idea that China did not benefit from International Trade (India did and hence its silver wage grew)

Chinese external trade (Imp+Exp) pre-1800 was inferior to 1% of the GDP (Brandt, Ma and Rawski, 2014: p. 52)

No Chinese demand for European manufactures or products (except silver)

No stimulus for Industrious Revolution

11



11

Demography and Growth (China)

Falling Wages led families to increase the quantity of labour

Absence of European Marriage Pattern

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

This leads to population growth, which contributed to further wage decay

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

12



Fonte: Brandt, Ma e Rawski, 2014, p. 50

12

Poor Institutions

王土王民

- Doctrine 'Wangtu wangmin (王土王民, king's people; king's land; ultimately, all land and people belonged to the sovereign) (Brandt, Ma e Rwaski, p. 63)

Defective justice Poor protection of property rights:

- "private property" absent from laws and legal thought
- Chinese mandarins were both JUDGES and ADMINISTRATORS
- They did not follow strict and detailed legal codes, but rather broad moral norms and/or principles

13



FONTE:
MADDISON 2007

13

High and Unpredictable Interest Rates

Abundance of Labour made investment unprofitable

Low ages match high interest rates (Gupta e Ma 2010: 258):

- India, 17th cent.
 - Lowest values observed (7,5-9%) double England's
- China, 17th-18th
 - Average observed 12% (with 20, 30 and 40% occurring)
- High risk (untrustworthy institutions – courts, admin, ...)
- Low Level of savings (low private income)

14



FONTE: MADDISON 2007

14

Great Divergence: Why?

- A definite answer is difficult because all three potential explanations for Western Europe fail:
 - No improvement of agrarian productivity and, hence, no sectorial transition
 - Families do not increase labour participation and productivity according to changes in international trade
 - Institutions discourage capital accumulation and investment
- China is thus interesting because it provides a mirror to analyse British and Western European experience in general