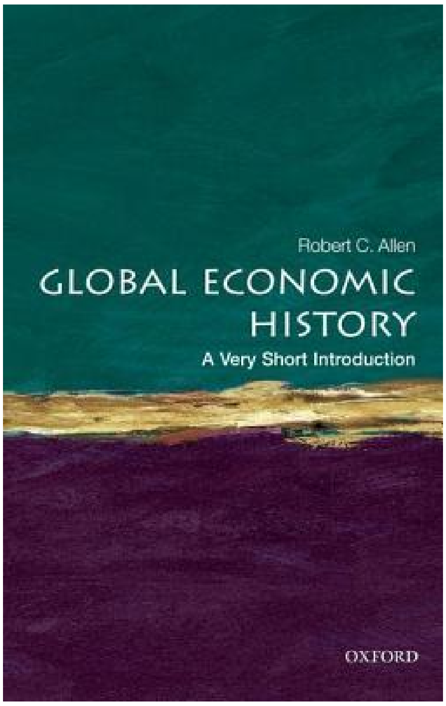

Global Economic History: A Very Short Introduction

Robert C. Allen

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Why are some countries rich and others poor? In 1500, global income differences were small, but disparities have grown dramatically since Columbus reached America. In this Very Short Introduction, Robert C. Allen shows how the interplay of geography, globalization, technological change, and economic policy has determined the wealth and poverty of nations. Allen shows how the industrial revolution was Britain's path-breaking response to the challenge of globalization. Western Europe and North America joined Britain to form a club of rich nations, pursuing four polices--creating a national market by abolishing internal tariffs and investing in transportation, erecting an external tariff to protect their fledgling industries from British competition, creating banks to stabilize the currency and mobilize domestic savings for investment, and promoting mass education to prepare people for industrial work. Together these countries pioneered new technologies that have made them ever richer. A few countries--Japan, Soviet Russia, South Korea, Taiwan, and perhaps China--have caught up with the West through creative responses to the technological challenge and with Big Push industrialization that has achieved rapid growth through coordinated investment.

Global Economic History: A Very Short Introduction Details

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From Reader Review Global Economic History: A Very Short Introduction for online ebook

Warwick says

Everybody knows the fight was fixed
The poor stay poor, the rich get rich
That's how it goes…Everybody knows.
—Leonard Cohen

Economics is a frustrating subject, managing to be both essential and eye-wateringly dull. This primer does a decent job of distilling its subject into one basic question – why the world is so unequal – and of holding your attention long enough to sketch the outlines of an answer.

Normally with such things there is a lot of hemming and hawing, bet-hedging, and phrases like 'remains to be seen'; here, refreshingly, Allen is relatively clear and unambiguous about how things came about (though less so on how they should be fixed). There is much discussion of economic policy, but plainly geographical luck had a lot to do with it – and once some economic development gets underway, it becomes a self-fuelling engine as technology substitutes for, and drives, higher wages.

This is why the technologies developed by the industrialised West can't just be imported into developing countries – they only make economic sense when workers are paid so much that investing in machines instead becomes an appealing prospect.

> Western technology in the 21st century uses vast amounts of capital per worker. It only pays to substitute that much capital for labour when wages are high relative to capital costs.

And the technology brings with it newer, more specialised jobs, which in turn bring higher wages, which in turn prompts further R&D into technology that will make them obsolete…. Hence the Industrial Revolution – and other 'industrial revolutions' since – were the result, not just the cause, of high salaries, and countries who don't get started are stuck in a poverty trap.

Especially interesting is the discussion in the last chapter about those few countries that did manage to catch up with the West – namely Japan, South Korea, and in part the Soviet Union. China will undoubtedly join this group any second now. The only way this could be done was to construct all the elements of an advanced industrialised economy all at once – steel mills, car factories, cities, all erected as an act of will on the grounds that they would eventually all need each other. This is 'big push' industrialisation, but it is hardly an option for many countries, especially those still suffering the deleterious hangovers of colonialism.

You finish something like this with a lot of questions, but they are at least more specific than the questions you had going in – or that's the hope, anyway. At the very least there's enough in here to arm you against the next Jared Diamond fanatic you find yourself stuck in an elevator with.

Hoda Tarek says

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Dorotea says

Allen’s writing is clear and the material is fascinating. The central topic is the big divergence, the situation that it emerged from, its causes, the situation after (the ‘big push’) .

One distinctive element of the mercantilist era it’s that it witnessed an early modern globalisation because of the discovery of the New World and new sea routes to East Indies and Americas. This lead to the rise of north-western Europe (Britain, Netherlands, France) and the contemporary relative decline of the Mediterranean region, as well as the accumulation of human capital (knowledge of managerial techniques mainly because of the birth of corporations or joint stock companies such as the East India Company) and the improvement of existing technologies (especially in shipbuilding, weaponry, metallurgy and agriculture). Data on incomes in the distant past are not robust, but it looks as though the differences in prosperity between countries until 1500 are small, but since the mercantilist era (1500-1800 with the voyages of Columbus and da Gama which led to an integrated global economy thanks to the Atlantic trade) an income gap has resulted from the industrial revolution and then it has expanded creating a divergence between rich

and poor countries all throughout 1800s till 1913, as in the former period economic development was to the primary objective – but rather was political power. This changed in the catch-up period of the 19th century when Western Europe and the USA set four policies to close the gap with Great Britain: unification of the domestic market (creation of a unified national market by eliminating internal tariffs and building transportation infrastructure), protectionism (the erection of an external tariff to protect their industries from competition), modernization of banking (the chartering of banks to stabilize the currency and finance industrial investment), and the establishment of mass education to upgrade the labour force.
Ronald Allen measures this gap through not only GDP per capita but also real wages of unskilled labour, which further proves the poverty trap (when wages decrease people cut back on extras such as education, luxury goods and healthy diet + when labour is cheap, the incentive to increase productivity via capital equipment is minimum-to-non-existent)
In the 20th century, the same policies proved to be less effective in countries that had not yet developed, since technology was not cost effective. There are exceptions to income divergence – Japan, South Korea, Taiwan and later on Soviet Union and China today – all thanks to a degree of planning and coordination of investment (developmental government).
Phenomena that explain this divergence are the shift in world manufacturing distribution and industrialization.

Muhammad Hassan says

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Adam says

This book is not so much a history of the global economy as it is a comparative study of economic development after the Industrial Revolution. Its premise is that at around 1800, most nations had more or less the same size economy relative to their population – i.e., they were all poor despite the existence of some small elite. But from that point, the richest nations experienced a spiral of growing population, GDP, education, and industrial output, while the poorest nations continued to grow slowly despite access to increasingly productive technology and global markets. Later, some countries in the middle became rich through another path. The general question of the book is what is that spiral of growth and what allowed it to happen in some places and not others?

The first question is arguably a variant of the Jared Diamond "cargo" question: why did economic growth take off in Europe before anywhere else, and within Europe, why in England before any other nation? Allen begins his explanation with globalization. The richest nations in Europe were those engaged in the most trade around the world (Britain and the Netherlands). That meant that, for the first time in an agrarian society, high wages were not necessarily linked to a small market for goods. Allen doesn't reference secular cycles explicitly, but the logic is the same and I think it is more clear to think of it in those terms. What would normally happen is that the price of labor and thus manufactured goods (whose costs derives mainly from labor) would be high when population is low and vice versa. There would be no incentive to invest in capital to enhance the productivity of scarce labor because the price of labor would fall faster than the market would grow. With globalization, high wages and growing international markets combined to give capitalists the incentive to invest in research and development of laborsaving technologies.

Allen takes it for granted that the IR was caused by intentional R&D spending on a social scale if not by each company. He gives a fairly in-depth treatment of the technological iterations involved in cotton production, emphatically making the point that this was a process of technological evolution driven by sustained price competition and high wages.

The British industrial sector was initially protected from competition with (primarily) Indian cotton by transport costs. The low price of labor in India and many parts of Europe prevented the immediate adoption of laborsaving technologies elsewhere, preserving the technological advantage of the British businesses long enough for them to refine the machines. In the meantime, the price of British cotton and of transportation became low enough that British companies could outcompete native manufacturing in India. I was not aware of the fact that the handicraft cotton spinning industries in India and China were largely the same proportion of the economy as they were in Britain immediately before the Industrial Revolution, but shrank to almost nothing shortly thereafter. As soon as British cotton was cheaper to produce and ship to India than local laborers could spin it by hand, those laborers were better off in the short term working in agriculture, growing food to trade for British manufactured goods.

That leads to one of the points that I found most surprising. Britain was obviously not the only country to benefit from the Industrial Revolution. So the next question is why did some countries get on the same escalating spiral while others did not? The example of India hints at one explanation: competition. As long as imports are cheaper than native products could be, it is not worthwhile to invest in capital intensive technologies to try to compete. Some countries, like the United States and Germany, had high wages and were more or less able to join the Industrial Revolution as it began. Others, like India, experienced deindustrialization. Once they had missed the beginning, it was hard to step on that later points, because the population was not being educated and wages were not growing to justify the investment.

Which raises the question that is in some ways the most relevant today: how have some nations jumped onto that spiral while others remained at the bottom? Early on, the answer seems to lie in a "standard package" of development policies including eliminating internal tariffs, imposing external tariffs, and subsidizing education and transport networks. The US and Germany, among many others, took this approach and found it very successful. What I found surprising was the emphasis answer places on external tariffs, which I assumed economists found unwelcome in practically every circumstance. The implication that developing economies imposing external tariffs is in the long-term interest of their citizens, and that countries like the US now seek to destroy because our industries are now dominant and need markets more than protection, feels more like something you would hear in a NAFTA protest than an economics book.

Conversely, this "standard package" no longer seems to be effective as of the 20th century. Because rich countries have climbed so high on the development ladder,
enormous investments are required to jump to that level. Economies of scale mean that a steel plant or an automobile factory must be extremely large to compete on an international level, and many national economies are not large enough markets to support them. The answer once again seems to contradict contemporary economic conventional wisdom: Government planning. In China, Russia, and Japan, industrial development was kick started by targeted investment from government banks, which apparently demanded large scale production on the assumption that demand would rise to meet it. While part of this process was jumping up to the current level of efficient scale, the other part involved scaling down some machinery to be efficient at current wages.

It's interesting to note the balance in explanatory mechanisms Allen offers. In general, he has little faith in a cultural or institutional explanations and tends to prefer materialist ones. He does not totally dismiss the importance of bad policy, but he emphasizes that underlying economic conditions can work around or overcome it. He gives several interesting examples of cases where cultures and governments with policies or predilections many feel should discourage economic development in fact experienced rapid growth (the most obvious being China). On the other hand, the "standard model" and Big Push models of industrialization both feel more or less entirely up to the government.

There has to be some limit to how far a "Very Short Introduction" can follow the causal chain, so it would be reasonable for Allen not to spend much time going into the political economy of why some governments made those efforts and others did not. And for the most part he does, but there are some good insights in that vein. He suggests that many of the Latin American ex-colonies (and the Southern US) persisted in extremely divided and unequal societies, in which white elites did not want to grow the economy in ways that would benefit society in general (whereas New England had a more equal economy of small farmers and merchants and a democratic spirit friendly to investing in education). Colonial governments have more or less the same relationship, though exogenous instead of endogenous. India, for instance, seems to perhaps have suffered in comparison to China for this reason. Those ambitious development policies are universally beneficial in the long run, but a major lesson I think this book emphasizes is that for the most part things progress in small steps that are all beneficial in the short term or they don't progress at all. In that light, a Big Push investment is a feat of ultracooperation that requires more social capital than many countries possess, especially among often corrupt ruling classes.

Overall it's a remarkable dense but very accessible, and very even handed intro to the topic. More discussion of the debate on certain issues might be useful.

Jonathan Peto says

This "very short introduction" was fine. One point it hammered home was that there is a historical connection between high wages and growth. That came up repeatedly. Another interesting idea for me was that without the Industrial Revolution, without growth, without, I guess, consumerism, a lot of us would work hard just to subsist. The book gave me a good impression of how various factors interact and why some nations have been more successful than others. Folks, education is much more important than the military. Likewise, giving the so called job creators too big a piece of the pie is good for them in the short term, but not good for long term prosperity. It's bad for everyone in the long term...

John-Paul says

I felt quite ignorant about this topic and now that I've read this little book I feel slightly less ignorant. Allen writes quite well -- not beautifully, but efficiently -- so the reader not only gets a lot of facts but also a way of thinking about the central question of the book: Why are some countries rich and other countries poor?

His answers are reasonable and persuasive if not definitive, and squarely in the California School of history: it's mostly about access to resources and getting there first. Allen also repeatedly emphasizes that high wages lead to technological innovation, since one need not buy a machine when labor is cheap. Curiously, Allen also says a few times that this has nothing to do with "culture," though my own sense is that whether or not one pays laborers nothing, very little, or a lot must be at least somewhat "cultural." He also wants to tell us that much of what we're told about "African traditions" were invented or misinterpreted by colonizers (pace Hobsbawn et al.) while telling us about African agricultural practices that played a fairly direct role in Africa not developing economically. Japan and India, on the other hand, made certain adaptations so their industrial policies could fit their culture. But it's not about culture.

He also seems to operate with the baseline assumption that industrialization is good and growth is good. I know it's hard to argue with that, but that doesn't mean it's true.

As is so often the case when I read books like this, I find it waaaaaay more interesting than the history I got in high school. Yes, I'm sure that has more to do with me being older now. Nonetheless, I long for days when high school history textbooks are more forthright about the importance of corporations, banks, and resources -- and how that is more "political" than presidential elections. I also love the total de-emphasis on the individual.

Glad I read it.

Vivek Agarwal says

The perspectives in this book are not unlike the other history books I have previously read

The main difference is that this is as the title says a lot more concise and to the point

The chapter on Africa is vey interesting and shows how and why Africa has lost out on the development which the other emerging countries were able to build upon

The author is very careful in linking many variables very well through the book

Which includes the education, ago based economy, how and why the Industrial Revolution happened and why it happened and how it affected the world

How the changes in China and the other new emerging countries are affecting the balance of trade and how things might look in the near future based on this

Where is the growth going to be sustainable and why? (Or why not)

Interesting book with a few different perspectives on economic history which is worth reading and considering

Good book
I am considering looking at the other books in the series

Riku Sayuj says

I had been asked to read this in parallel with Jared Diamond’s Guns, Germs, and Steel: The Fates of Human Societies. Unfortunately, I have gotten around it more than a year late. But I kept the GGS open beside me as I traced the economic explanations for the trajectories of the various continents/regions - and it is true this book is a good companion volume for the enormously popular GGS. It can prove to be a useful aid to go beyond some of the simplistic assumptions and still arrive at some of the same conclusions. Which is a thrill, by the way.

A second reading, and an additional star to Allen's VSI. This really is a superbly concise summation of a lot of great ideas, well tied together and well presented.

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xhxhx says

It could have been so much better.

A non-Marxist center-left account. No, that's not quite right. A Listian, Leninist and Preobrazhenskyan history of the world. A history of primitive accumulation and extractive growth.

A critically incomplete account. Provides the outputs of growth, trade, and labor market models, but does not articulate their premises. Offers a dubious account of capital and technology transfer. Offers the conventional (deprecated) account of underdevelopment in the periphery. Dismissive of Smith and the New Institutionalists, and of liberalism more generally.

Begs questions. There's a section that declares that Mexico supplied less education than Americans because Mexicans demanded less education than Americans, and that Mexicans demanded less education than

Americans because they had lower consumption expectations than Americans. That's quite a departure from the premises underlying the rest of the book, where labor remains undifferentiated.

Provides aid and comfort to the anti-revisionists. Stalin and Mao get a good press here. Perhaps the most interesting section of the book is its unconventional account of economic development in the People's Republic. According to Allen, the infrastructure, technology, education supply and industrial base established under Mao set the stage for take-off growth after 1978. Institutional and policy change under Deng would have had no effect without that Maoist base.

Includes an excellent bibliography, without a single work by Gregory Clark.

Kyle Bunkers says

Very interesting book. At least, if you like reading about how countries industrialized, and the theories on how to effectively do so. Allen does a good job of explaining a rather convincing theory that high wages drove investments in high-capital labor saving devices/methods, which forms a positive feedback cycle, as the high-capital devices allow wages to increase, and so higher-capital devices can be introduced economically.

He also gives good accounts of other theories of how economic history such as staples (use a "staple" product to grow by exporting it), and industrial planning.

He tackles every area of the world and pretty much every time from 1500 (mostly focusing on Europe for the early times). Japan, Russia, Korea, Taiwan, and China get special mentions for accomplishing the catch-up of GDP/capita with Western Europe, with some thoughts on how and why.

Overall, just an interesting viewpoint as to how the world has gotten where we gotten. Allen does a good job of pointing out problems with theories and also accepting that no simple explanation will probably due. He ends with "The best policy to effect economic development, therefore, remains very much in dispute," which I think is a fitting ending for an area with so many uncertainties.

Jaqueline says

Un percorso, che vede nella scoperta dell'America e nell'età delle grandi esplorazioni l'inizio della globalizzazione (che ha portato il mondo ad essere ciò che è oggi), e che cerca di rispondere a questa sola domanda: perchè esistono paesi ricchi -che possiedono supremazia economica a livello globale- e paesi poveri, che vivono nella miseria e sottostanno al dominio di un economia dettata dall'Occidente che, in passato, li ha distrutti e che tutt'ora continua a farlo? Quand'è iniziata questa grande divergenza?

C'è un grande parallelismo, per la compessità della domanda posta in entrambi i testi, con il saggio di Diamond, 'Armi, acciaio, malattie'.

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Amira Mahmoud says

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