Institut d’Etudes Européennes
et Internationales du Luxembourg

Luxembourg Institute for European
and International Studies

EXECUTIVE SUMMARY

Workshop

Growth and Interaction in the World Economy: The West and the Rest, 1000-2000 AD

24 and 25 May 2002,
Harvard Faculty Club and Minda da Gunzburg Center for European Studies

Abstract

The Luxembourg Institute for European and International Studies (LIEIS) organised on 24 and 25 May 2002 at the Harvard Faculty Club and at the Center for European Studies a two-day conference on the relative economic performance of the West and the other continents over the past millennium. Based on the book *The World Economy. A Millennial Perspective* and on a working paper entitled ‘‘Growth and Interaction in the World Economy: The West and the Rest over the Past Millennium’’ by Angus Maddison, an economic historian and Professor emeritus of the University of Groningen, some 25 participants, in the course of four discussion sessions, debated the timing and the nature of the economic rise of the West, and the relative economic performance of Asia, the Americas and Africa.

The debates focused on the merits and disadvantages of different methods of comparative quantification and of typologies of development. While there was no fundamental disagreement that the West currently displays higher levels of income, controversy raged over the exact timing of the West’s economic ascension, the main underlying factors, as well as the nature and extent of the impact of the economic rise of the West on the development of the other continents. Two main positions emerged from the discussions: on the one hand, Angus Maddison claimed that the West overtook the rest of the world around the 16th century, as indicated by higher levels of income per capita and longer life expectancy than India, China or Latin America. This view was supported by David Landes, Professor emeritus at Harvard University and author of the best-seller *The Wealth and Poverty of Nations* (the first manuscript of which was presented at a conference in Harvard organized by the LIEIS), who praised the Western model of economic development, namely the nature of gender relations, scientific activities and navigational prowess, all of which favoured economic growth. On the

other hand, André Gunder Frank, Professor at the World History Center of the Northeastern University in Boston, argued that the position and performance of China has constantly been underestimated within the world economy and that the West's economic take-off does not stretch back further than the second half of the 19th century.

Other participants, such as William McNeill, Professor emeritus at the University of Chicago, Patrick O'Brien, Professor at the London School of Economics and Deepak Lal, Professor at UCLA in California, defended a middle way, criticizing the above positions for their partial view and stressing the importance of other factors, notably agriculture and traditional non-capitalist non-market economies. In the light of this rather fundamental disagreement, it would seem that among the crucial questions to be addressed by further research and further exchanges are, first, the timing of the economic ascension of the West, second, the main factors underlying economic development and, third, the nature and extent of the impact of the rise of the West on the other continents.

I. When and how did the West get rich?

Abstract

The first discussion session featured an introductory statement by Professor Angus Maddison on the timing and the main reasons of the West's economic take-off. This was followed by a discussion in the course of which various hypotheses were formulated: first, the economic rise of the West commenced around the 16th century and was based on a combination of economic, legal and cultural factors, including property rights, nation-state building and inventiveness. Second, the West did not overtake other continents and countries such as China before the second half of the 19th century. Third, the West has indeed performed better than any other continent, but a number of other factors need to be integrated in any meaningful comparative analysis, above all climactic conditions and medieval inventions.

1. Introductory statement by Professor Angus Maddison

According to Angus Maddison, there is sufficient empirical evidence to suggest that the West has done better in economic terms than any other continent since the 16th century: since approximately 1500, European per capita income has risen by a factor of 3 and by 1820, it was twice as high as in China, even 3 times as high in the UK and the Netherlands. Similarly, life expectancy in Europe has consistently exceeded that of China since the 16th century. There are five main reasons which account for the economic take-off and overtaking of the West: property rights, nation-state building and the positive effects on identity, generation and diffusion of knowledge since the Renaissance, the conquest of other continents, as well as the European family structures.

2. Discussion

The discussion featured a large number of short interventions that can be distinguished according to their main focus: economic theory and methodology, quantification and empirical evidence, as well as alternative explanatory factors.

(a) economic theory and methodological aspects:

Any account of the world economy cannot confine itself to the supply-side but has to include the demand-side. More fundamentally, the world economy is not the sum of all parts, but exceeds its components, since the economic reality cannot be captured outside of the relations between the various poles. Furthermore, the Schumpeter model predicated upon a trend and a cycle does not apply to the world economy prior to 1820 (André Gunder Frank).

It was also stressed that contemporary capitalist market-based models hardly apply to the Middle Ages or indeed wholly different systems of production across the globe. This seems particularly true for money and markets, which simply did not exist or function in the same way (Charles Kindleberger, Professor emeritus, MIT; Andrew Kamarck, former Director of the Economic Development Institute at the World Bank). Moreover, the opposition does not seem to be between demand- and supply-side factors, but between fundamentally different modes of economic organisation, namely between exchange and production schemes (Alice Amsden, Professor, MIT).

(b) quantification and empirical evidence:

Any pre-1400 evidence is bound to be ridden with errors, and the empirical evidence used by Angus Maddison seems to neglect figures on Chinese and Asian performances and does not even attempt to account for the ability of the West to transfer the costs of its development to the Rest. Thus, it would seem that the Western economic expansion did not take place prior to the second half of the 19th century, that Western performance over time and across space requires differentiation (e.g., European trade never exceeded 15-16% of trade in the North-Chinese Sea), and that it was the Chinese which helped boost the World economy thanks to their important silver demand (André Gunder Frank).

Other participants wondered what the very basis of all the empirical work is, how economically and statistically meaningful a starting point might be (William McNeill, Richard Cooper, Professor at the Center of International Affairs of Harvard University) and whether per capita income is a good measure to capture economic reality in the past (Charles Kindleberger)

(c) alternative explanatory factors

According to David Landes, four intimately related factors need to be included into the equation: first, family and relational units might constitute an immediate economic loss (women as mothers and children in education), but they generate a spiritual gain and therefore important social stability; second, navigational prowess, inventiveness and economic growth are strongly correlated with one another, not least because the curiosity that underlies inventiveness is conducive to the spread of knowledge; third, Europe did not simply catch up the lag it had with respect to other civilisations in the first centuries AD, but steamed ahead and brought a large number of important inventions to the world; fourth, the civilisational differences of Europe are real and account for the drive of modernity which inaugurated a new era in world economic history.

Others argued that contemporary economic models do not take into full consideration a number of medieval and other inventions which enabled Western economies to advance, e.g. some particular ploughing and draining techniques in agricultures, the development of mining and the importation of indigenous Indian plants, which contributed to the stabilisation of food supply (William McNeill; John R. McNeill, Georgetown University). More fundamentally, current narratives of why the West became richer than the rest can be challenged on account of the binary thinking which dictates them, e.g. the different Enlightenment conceptions of the nature of modernity (Voltaire vs. Montesquieu, Marx vs. Weber). More recently, post-colonial research has shown that rationality, far from being confined to the Western civilisation, was also operative in other civilisations. In this light, the Western characteristics are two-fold: first, exploitation of natural resources thanks to scientific inventiveness and, second, monopoly and 'comparative advantage' in violence as a function of the nature of the modern state (Patrick O'Brien).

A closely linked thesis is that most Western characteristics relate to the nature and operation of the state and the interaction with other factors such as manufacturing and trade patterns (Alice Amsden). It was argued that ultimately this goes back to certain cosmological views which are specific to the Western cultures: the rise of technology can only be understood as the outcome of a certain individualism that was permanently shaped by religion and its evolution, e.g. the successive Gregorian reforms progressively transformed not only family structures, but also the nature of institutions and the relations of the State and Church, opening up an autonomous space within which science could develop and spread (Deepak Lal).

II. Asia

Abstract

In the course of the second session, the participants turned their attention to the nature and characteristics of Asian economic development, notably the factors that may have retarded the performance of major Asian countries such as India and China and the reasons for the recent acceleration and decline, and this in the light of the Western rise and its consequences for Asia. What emerged from the discussions is, first, that social structures have played a predominant role in economic development and that they continue to do so (e.g. India's caste system; China's one-child policy); second, that colonialism had a mixed impact, ranging from exploitation to the introduction of inclusive civic structures for the first time in the history of Asian civilisation; third, that China not only is the central force in Asia, but that it will be causal in the evolution of the world economy.

1. Discussion on Asia's economic history

The thesis was put forward that a specifically Asian social tissue accounts for the main stages of its economic development: fear of political instability favoured the introduction and establishment of the caste system and its dual implication: on the one hand, social stability which helped sustain growth and development in the history, e.g. high income level equilibrium in India in the 4th century AD. On the other hand, different forms of rigidity, e.g. inflexible trade patterns due to cosmological views on alterity. In the case of India, it was also argued that the British presence and the British project of a more inclusive society ultimately failed on account of a lack of enactment of inclusive economic social practices on the part of the British (trade restrictions imposed on Indian textile industries), but also due to an insufficiently long British presence which could have solidified civic institutions (Deepak Lal).

In his reading of Chinese economic history, Professor Dwight Perkins of Harvard University argued that pre-1400 data is not (as yet) available and that any empirical statement is subject to an important margin of error. It is nevertheless possible to ascertain that technology has played the predominant role in China's economic performance over time, since it accounts both for the lag behind Europe in the past three centuries or so and for the recent process of catching-up. But central government control and a rule-based education have almost been equally instrumental in China's economic recovery. Justin Lin Yifu from the University of Beijing set out a number of characteristics such as property rights prior to the Industrial Revolution and high externalities from trade. He argued that China's main problem has been the lag between the innovation and the commercialisation of goods and services.

Takashi Hikino, Professor at the Harvard Business School, examined the question of the role of economic policies based on 'comparative advantage' in explaining the Japanese economic performance over time. It would seem that the opening of Japan in the wake of the Meiji Revolution after 1868 contributed to the modernisation of the Japanese economy by breaking with over 200 year of inwardness. Yet the costs were high, including the acceptance of Western supremacy. Over time, Japan's comparative advantage has been in the domains of institutions and saving patterns, sustaining industrialisation and trade on the world markets.

Finally, André Gunder Frank contended that China was absolutely causal in Europe's early modern economic recovery, as Renaissance commenced on the Chinese end of the Silk Road and China generated an economic momentum through its silver demands. This is all the more important since Europe's 17th century so-called scientific revolution never took place, at least not in the manner construed by European historians. Instead, science and technology only became related in the late 19th century, that is, Germany's late industrialisation which tied optics, chemicals and electricity together and produced a vast industrial sector.

2. Discussion on Asia's recent performance

One of the main factors which helps explaining Asia's recent performance is the role of China since Deng Xiaoping for the Asian continent, notably the rise in the market size and the subsequent rise in intra-Asian production and exchange. This allowed the service sector to thrive and thereby to enable China to import foreign technology (Justin Lin Yifu). It was also argued that it was the overseas Chinese who played a crucial part in the rise of China, e.g. by facilitating technology and capital import (T.N. Srinivasan, Professor, Yale University). More fundamentally, it was stressed that the mark of Asia's recent development is the fast development of IT across Asia, encompassing innovation, production and marketing.

Another important explanatory factor is the emergence of democracy in Asia, not only in India where democratisation has generated local representation and an improved integration of market activities with social policies (R. Malhotra, Director, Centre for Research in Rural and Industrial Development, Chandigarh), but also in other Asian countries such an Indonesia.

Alice Amsden argued that a third factor is manufacturing patterns, which has important explanatory power in accounting for pre- and post-Second World War performances, including the recent downfall, since countries such as China and India had already laid down prior to the Second World War the foundations for their subsequent industrial take-off, while other Asia countries permanently lag behind. Coupled with decolonisation and the concomitant land reforms, this had the effect of giving control to domestic entrepreneurs and to the newly emerging nation states. Moreover, rather than practising free market integration, Asian economies adopted the strategy of 'selective seclusion', i.e. open markets and foreign direct investment (FDI) in some domains but not in others so as to maximize comparative advantage and thereby bolster trade.

III. The Americas

Abstract

The third session focused on the reasons explaining the growth and income differential between North, Central and South America and on the impact of European expansion on the economic history of the Americas. Among the main factors were, first, Latin America's demographic structure and its modification in the wake of European colonialism; second, the interaction with geographical conditions (topography and climate); third, the nature and evolution of institutional structures; fourth, the relationship between income distribution, savings and investment, and growth; fifth, the international division of labour and multilateral economic relations.

1. Presentations on the economic history of the Americas

In his presentation on Central and Latin America, Professor Stanley Engerman from University of Rochester in New York, argued that the interaction of demographic and climactic factors yielded a specific growth pattern: while the 17^{th} and the 18^{th} century saw an economic expansion and a rise in income and equality in Latin America (with Cuba producing half of the world's production of cane sugar), the 19^{th} century marked an economic and social decline. This was the outcome of populations and production sites moving from tropical to more moderate climactic zones, which explains why Latin America and the Caribbean underwent an economic recession, while North America and Canada experienced a prolonged boost: between 1780 and 1870, Latin America dropped from equality with North America to a mere 26% of North American prosperity. The progressive shift of economic prosperity from the Mediterranean to North Europe constitutes a historic parallel. A second key determinant were the institutional structures and their changes, particularly the land and property structures, as well as the emerging banking system. The major problem seems to have been the nature of adaptation to changing economic conditions: at times Latin America adopted European and North American dysfunctional institutions (e.g. credit practices) and at other times there was institutional rigidity and therefore a lack of modernisation.

Professor John Coatsworth from Harvard University supported Angus Maddison's findings and Stanley Engerman's arguments and added that Latin America fell as much as to a mere 1/5 of North American levels of income. This was the outcome of a combination of geographical and institutional factors: on the one hand, Latin America disposes of a richer endowment with natural resources than North America but, on the other hand, those resources are largely inaccessible due to topography, climate and a lack of investment in infrastructure: e.g. the river system in Europe North America opened up vast lands for agricultural and industrial purposes, which the Amazon did not permit in South America. Another key factor were mercantilist restrictions imposed on South America by Europe, leading to a net fiscal drain and consequently an underdevelopment of the public sector: e.g. a lack of investment in education and land concentration in the hands of a few *latifundistas*.

2. Discussion

It was argued that there were a host of further reasons which explain the lagging behind of Central and Latin America: the failure of the textile industry in Mexico (Alice Amsden), the destructive impact of the wars of independence (Patrick O'Brien), Western exploitation and therefore a demand and investment structure unfavourable to growth (André Gunder Frank), as well as the collapse of indigenous populations (Angus Maddison). What emerged from the discussion was the centrality of the relation between income distribution, savings and investment, and growth: for a long time, inequality seems to have been instrumental in generating savings and therefore investment conducive to growth (Stanley Engerman, André Gunder Frank). It was contended that this relationship of inequality and growth is ambiguous because it rests on other forms of distortion, e.g. credit markets (T.N. Srinivasan), and because it is not stable over time (John Coatsworth). Another crucial dimension of the problem of cross-continental inequality is the international division of labour and multilateral economic relations: e.g. the US has been able to cover trade imbalances with Europe, particularly with the UK, on the basis of the surplus with the Southern hemisphere in general and Latin America in particular (André Gunder Frank).

Questions were raised as to the specific development of historically wealthy countries such as Mexico and Argentina. It was said that Mexico suffered more strongly than other Central or Latin American countries from deep political turmoil, with invasions, civil wars and peasant revolts. Argentina did indeed experience an almost unprecedented decline due to a wide array of factors, ranging from a lack of political unity to indebtedness in the wake of the construction of railways to failing strategies in manufacturing.

IV. Africa

Abstract

The fourth session featured a debate on the main determinants of Africa's economic history. It was argued that the decline of African levels of income and rates of growth are the outcome of a combination of geographical, institutional and political factors, such as climate, topography, a lack of transethnic, civic structures and aggressive colonialism (Muslim and Christian, and later European invasions).

1. Presentations on some of the key features of Africa's economic history

Professor Robert Engler from City University in New York argued that culture accounts for the bulk of the changes in Africa's prosperity. Muslim invasion and, more strongly, European colonialism operated a rapid and aggressive shift from an indigenous subsistence culture to a growth culture, without the necessary commitment to economic and social equality. This was not confined to a lack of investment in education, but also included a general brake on critical thinking and creativity, and the shifting of risk to indigenous populations.

John McNeill maintained that the growth and income differential between North and Black Africa stems from different demographic evolutions: the North underwent a stronger population growth as early as the Middle Ages, which favoured economic expansion (labour force, 'consumption', savings), whereas Central and Southern Africa first lagged behind and then caught up and overtook in population terms, which ultimately put a huge strain on growth and income, since it was not matched by a proportional rise in production capacities.

Andrew Kamarck put forward the thesis that it was the lack of access to natural resources combined with particularly unfavourable climactic and health conditions which explain Central and Southern Africa's economic problems. This part of the African continent has the largest tropical zone in the world and is home to a wide array of diseases unknown on other continents (river blindness, black fly etc.). Coupled with the extraordinarily rapid invasion by the European colonialist powers in the wake of the 19th-century 'rush to Africa' and the spread of European diseases, this disqualified vast territories from any economic activities. Moreover, the topographical structure of Central Africa and a lack of investment in infrastructure entailed transportation problems, particularly any importation of production capacities, goods and services to the hinterland.

2. Discussion

It was also said that political structures in Africa have been inappropriate to sustained growth and development: given the multi-ethnic populations and the colonialist legacy of arbitrary borders, the nation-state seems least appropriate and a properly reconfigured empire most appropriate to genuine political identity (Deepak Lal). This and other factors such as the natural immunisation of indigenous population vis-à-vis diseases implies that the roots of Africa's economic demise are not only geographical, but also political in nature, above all the implications of colonialism (André Gunder Frank), a lack of investment in transportation channels from the interior to the coast in order to enhance trade (Richard Cooper), as well as the sustained impact of slave trade (Stanley Engerman).

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Workshop on

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24 and 25 May 2002

Programme

Friday, 24 May 2002 at the Harvard Faculty Club

9.00 – 10.45	**Session I: When and how did the West get rich?**
	Is Maddison’s comparative quantification and chronology of the development of population and real income acceptable? What were the reasons for the superior economic performance of Western Europe and its offshoots in North America and Australasia?
10.45 – 11.00	**Coffee Break**
11.00 – 12.45	**Session I:** continue
13.00 – 14.00	**Lunch Break**
14.00 – 15.45	**Session II: Asia**
	What factors retarded the performance of major Asian countries (India and China)? Why has their performance accelerated in recent decades? Why did the Japanese performance deviate for the Asian norm? What impact did the West have on the pace and pattern of Asian development?
15.45 – 16.00	**Coffee Break**
16.00 – 17.45	**Session III: The Americas**
	What was the European impact on economic performance in the Americas? Why was North American performance better than that of Latin America?

Saturday, 25 May 2002 at Minda de Gunzburg Center for European Studies

9.00-10.45	**Session IV: Africa**
	Why are income levels lowest in Africa? What was the impact of the West on African development? What role have Africa’s own institutions and policy had in regarding development
10.45 – 11.00	**Coffee Break**
11.00 – 12.45	**Session IV:** continue

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List of participants

Amsden, Alice, Professor, Urban Studies and Plan, MIT, Cambridge
Bergson, Abram, Professor emeritus, Center for Russian Studies, Harvard University
Clesse, Armand, Director, Luxembourg Institute for European and International Studies
Coatsworth, John, Professor, Dept. of History, Harvard University, Cambridge
Cooper, Richard, Professor, Center of International Affairs, Harvard University, Cambridge
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Engler, Robert, Professor emeritus, City University of New York
Frank, Andre Gunder, Professor, World History Center, Northeastern University, Boston
Heston, Alan, Professor, Dept. of Economics, South East Asia Regional Studies, University of Pennsylvania
Hikino, Takashi, Professor, Harvard Business School, Boston
Hirsch, Mario, Chief Editor, D'Letzeburger Land, Luxembourg
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von Kunitzki, Norbert, President, Centre universitaire de Luxembourg
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