An Economic History of Europe

Knowledge, Institutions and Growth, 600 to the Present

Second Edition

KARL GUNNAR PERSSON University of Copenhagen

in collaboration with

PAUL SHARP University of Southern Denmark



Contents

List of tables page ix List of figures x List of maps xii List of boxes xiii Preface to the second edition xv Preface to the first edition xvii

Introduction: What is economic history? 1

Efficiency in the use of resources shapes the wealth of nations 1 Outline of the chapters 4

1 The making of Europe 10

- 1.1 The geo-economic continuity of Europe 10
- 1.2 Europe trades, therefore it is! 14
- 1.3 The limits of geographical integration 19
- 1.4 From geo-economics to geo-politics: the European Union 23

2 Europe from obscurity to economic recovery 25

- 2.1 Light in the Dark Ages 25
- 2.2 Gains from division of labour: Adam Smith revisited 26
- 2.3 Division of labour is constrained by insufficient demand 28
- 2.4 Division of labour promotes technological change 29
- 2.5 After the post-Roman crisis: the economic renaissance of the ninth to fifteenth centuries 31
- 2.6 Population 33
- 2.7 The restoration of a monetary system 33
- 2.8 Transport and trade routes 35
- 2.9 Urbanization 37
- 2.10 Production and technology 41

3 Population, economic growth and resource constraints 47

- 3.1 Historical trends in population growth 47
- 3.2 The Malthusian theory of population growth and stagnation 50
- 3.3 Is the Malthusian theory testable? 52

- 3.4 The secrets of agricultural progress 56
- 3.5 Understanding fertility strategies
- 3.6 The demographic transition62

4 The nature and extent of economic growth in the pre-industrial epoch 67

59

- 4.1 Understanding pre-industrial growth 67
- 4.2 Accounting for pre-industrial productivity growth 69
- 4.3 Wages and income distribution 74
- 4.4 The Great Divergence: when did Europe forge ahead? 76Appendix: The dual approach to total factor productivitymeasurement 80

5 Institutions and growth 82

- 5.1 Institutions and efficiency 82
- 5.2 The peculiarity of institutional explanations 85
- 5.3 The characteristics of a modern economy 86
- 5.4 Market performance in history 88
- 5.5 The evolution of land and labour markets: the rise and decline of serfdom 90
- 5.6 Firms and farms 97
- 5.7 Co-operatives and hold-up 100
- 5.8 Contracts, risks and contract enforcement 102
- 5.9 Asymmetric information, reputation and self-enforcing contracts 104

6 Knowledge, technology transfer and convergence 107

- 6.1 Industrial Revolution, Industrious Revolution and Industrial Enlightenment 107
- 6.2 Science and entrepreneurship 115
- 6.3 The impact of new knowledge: brains replace muscles 116
- 6.4 The lasting impact of nineteenth-century discoveries and twentieth-century accomplishments 123
- 6.5 Technology transfer and catch-up 125
 - 6.5.1 Why was Germany a late industrial nation ... and why did it grow faster than Britain once it started to grow? 132
 - 6.5.2 Human and capital investment 134
 - 6.5.3 Research and development 135
 - 6.5.4 Industrial relations 136
- 6.6 Convergence in the long run: three stories 137

6.7 Why is Europe not closing the income and productivity gap relative to the US economy? 141

7 Money, credit and banking 146

- 7.1 The origins of money 146
- 7.2 The revival of the monetary system in Europe: coins and bills of exchange 148
- 7.3 Usury and interest rates in the long run 152
- 7.4 The emergence of paper money 154
- 7.5 What do banks do? 158
- 7.6 The impact of banks on economic growth 159
- 7.7 Banks versus stock markets 165
- 7.8 Reflections on recent financial crises 167
- Appendix: The bill of exchange further explored 170

8 Trade, tariffs and growth 173

- 8.1 The comparative advantage argument for free trade and its consequences 173
- 8.2 Trade patterns in history: the difference between nineteenth and twentieth-century trade 175
- 8.3 Trade policy and growth 177
- 8.4 Lessons from history 179
 - 8.4.1 From mercantilism to free trade 179
 - 8.4.2 The disintegration of international trade in the interwar period 182
 - 8.4.3 The restoration of the free trade regime after the Second World War 185
 - 8.4.4 Tariffs and growth 186
- Appendix: Comparative advantage 189

9 International monetary regimes in history 192

- 9.1 Why is an international monetary system necessary? 192
- 9.2 How do policymakers choose the international monetary regime? 193
- 9.3 International monetary regimes in history 196
 - 9.3.1 The International Gold Standard *c*. 1870–1914 196
 - 9.3.2 The interwar years 199
 - 9.3.3 The Bretton Woods System 201
 - 9.3.4 The world of floating exchange rates 203
 - 9.3.5 The Eurozone Crisis in the light of the historical experience 206

viii	Contents

10	The era of political economy: from the minimal state to the WelfareState in the twentieth century213	
	10.1	Economy and politics at the close of the nineteenth century 213
	10.2	The long farewell to economic orthodoxy: the response to the Great
		Depression 214
	10.3	Successes and failures of macroeconomic management in the second
		half of the twentieth century: from full employment to inflation
		targeting 218
	10.4	Have austerity policies worked in recent history? 223
	10.5	Karl Marx's trap: the rise and fall of the socialist economies in
		Europe 228
	10.6	A market failure theory of the Welfare State 232
11	Ineq	uality among and within nations: past, present, future 238
	11.1	Why is there inequality? 238
	11.2	
	11.3	Gender inequality 245
	11.4	Is inequality on the rise again? 247
	11.5	World income distribution 249
	11.6	Towards a broader concept of welfare 250
	11.7	Speculations about future trends in world income inequality 252
12	Globa	alization and its challenge to Europe 256
	12.1	Globalization and the law of one price 256
	12.2	What drives globalization? 259
	12.3	The phases of globalization 261
		12.3.1 Capital markets 261
		12.3.2 Commodity markets 265
		12.3.3 Labour markets 267
	12.4	Globalization and divergence 269
	12.5	Globalization backlash: three cases 273
		12.5.1 Trade openness and migration 273
		12.5.2 The retreat from the world economy 274
		12.5.3 The tale of the twin farm protests 276
	Appe	ndix: Freight rates and globalization 278
	Gloss	
	Index	289