

An Economic History of Europe

Knowledge, institutions and growth, 600 to the present

KARL GUNNAR PERSSON

CAMBRIDGE
UNIVERSITY PRESS

Contents

List of tables	<i>page</i> x
List of figures	xi
List of maps	xiii
List of boxes	xiv ,
Foreword	xv

Introduction: What is economic history?

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 From geo-economics to geo-politics: the European Union	18

2 Europe from obscurity to economic recovery 21

2.1 Light in the Dark Ages	21
2.2 Gains from division of labour: Adam Smith revisited	22
2.3 Division of labour is constrained by insufficient demand	24
2.4 Division of labour promotes technological change	26
2.5 After the post-Roman crisis: the economic renaissance of the ninth to fifteenth centuries	28
2.6 Population	29

2.7	The restoration of a monetary system	30
2.8	Transport and trade routes	31
2.9	Urbanization	32
2.10	Production and technology	36

3 Population, economic growth and resource constraints 42

3.1	Historical trends in population growth	42
3.2	The Malthusian theory of population growth and stagnation	45
3.3	Is the, Malthusian theory testable?	47
3.4	The secrets of agricultural progress	49
3.5	Understanding fertility strategies	52
3.6	The demographic transition	54

4 The nature and extent of economic growth in the **pre-industrial** epoch 60

4.1	Understanding pre-industrial growth	60
4.2	Accounting for pre-industrial productivity growth	62
4.3	Wages and income distribution	67
4.4	When did Europe forge ahead?	68
	Appendix: The dual approach to total factor productivity measurement	71

5 Institutions and growth 74

5.1	Institutions and efficiency	74
5.2	The peculiarity of institutional explanations	76
5.3	The characteristics of a modern economy	77
5.4	Market performance in history	79
5.5	The evolution of labour markets: the rise and decline of serfdom	81
5.6	Firms and farms	82
5.7	Co-operatives and hold-up	85
5.8	Contracts, risks and contract enforcement	87
5.9	Asymmetric information, reputation and self-enforcing contracts	89

6	Knowledge, technology transfer and convergence	92
6.1	Industrial Revolution, Industrious Revolution and Industrial Enlightenment	92
6.2	Science and entrepreneurship	99
6.3	The impact of new knowledge: brains replace muscles	100
6.4	The lasting impact of nineteenth-century discoveries and twentieth-century accomplishments	107
6.5	Technology transfer and catch-up	110
6.5.1	Why was Germany a late industrial nation ...and why did it grow faster than Britain once it started to grow?	117
6.5.2	Human and capital investment	118
6.5.3	Research and Development	120
6.5.4	Industrial relations	120
6.6	Convergence in the long run: three stories	121
7	Money, credit and banking	129
7.1	The origins of money	129
7.2	The revival of the monetary system in Europe: coins and bills of exchange	131
7.3	Usury and interest rates in the long run	135
7.4	The emergence of paper money	136
7.5	What do banks do?	140
7.6	The impact of banks on economic growth	142
7.7	Banks versus stock markets	147
	Appendix: The bill of exchange further explored	151
8	Trade, tariffs and growth by Karl Gunnar Persson and Paul Sharp	154
8.1	The comparative advantage argument for free trade and its consequences	154
8.2	Trade patterns in history: the difference between nineteenth and twentieth-century trade	156
8.3	Trade policy and growth	158

8.4	Lessons from history	160
8.4.1	From mercantilism to free trade	160
8.4.2	The disintegration of international trade in the interwar period	163
8.4.3	The restoration of the free-trade regime after the Second World War	164
8.4.4	Empirical investigations	165
	Appendix: Comparative advantage	167

9 International monetary regimes in history by Karl Gunnar Persson and Paul Sharp 171

9.1	Why is an international monetary system necessary?	171
9.2	How do policymakers choose the international monetary regime?	172
9.3	International monetary regimes in history	175
9.3.1	The International Gold Standard c.1.870-1914	175
9.3.2	The interwar years	178
9.3.3	The Bretton Woods System	179
9.3.4	The world of floating exchange rates	181

10 The era of political economy: from the minimal state to the Welfare State in the twentieth century 185

10.1	Economy and politics at the close of the nineteenth century	185
10.2	The long farewell to economic orthodoxy: the response to the Great Depression	186
10.3	Successes and failures of macroeconomic management in the second half of the twentieth century: from full employment to inflation targeting	190
10.4	Karl Marx's trap: the rise and fall of the socialist economies in Europe	195
10.5	A market failure theory of the Welfare State	199

11	Inequality among and within nations: past, present, future	206
11.1	Why is there inequality? •	206
11.2	Measuring inequality	207
11.3	Gender inequality	212
11.4	World income distribution	214
11.5	Towards a broader concept of welfare	216
11.6	Speculations about future trends in income inequality	217
12	Globalization and its challenge to Europe	221
12.1	Globalization and the law of one price	221
12.2	What drives globalization?	224
12.3	The phases of globalization	226
12.3.1	Capital markets	226
12.3.2	Commodity markets	230
12.3.3	Labour markets	232
12.4	Globalization backlash: three cases	234
12.4.1	Trade openness and migration	234
12.4.2	The retreat from the world economy	235
12.4.3	The tale of the twin farm protests	237
	Appendix: Freight rates and globalization	239
	Glossary by Karl Gunnar Persson and Marc P. B. Klemp	242
	Index	250