Preface and acknowledgements

In this volume I deal with themes relating to economic development and cultural, institutional and structural change. My aim has been to illustrate historical and modern patterns, and to some extent integrate them. Behind this purpose lies another, which is to show that plain economic history can help to pick out the more durable of the arrangements that favour growth. To do so involves trying to restore historicity to modern topics and modern interest to historical investigations. The conditions that favour long-term growth are essentially political ones. They include contestable markets (including information markets), free trade, and decentralized institutions. This lesson is well known yet is in constant danger of being ignored or obscured, as witness the ceaseless efforts to roll back free trade – efforts that seem to be swelling as one millennium gives way to the next.

My work on economic history has flowed readily enough into the modern topics dealt with in this book. Present-day East Asia has proved especially fertile ground for someone already interested in its past and able to compare its unfolding with Western development. Just as current globalization (and, one fears, the protectionist reaction to it) is a re-run of the first globalization boom of 1870–1914, so recent attempts at cultural explanations of East Asian development replay unsatisfactory Weberian-style analyses of the European Miracle. The fit between past and present can never be exact and is easily over-strained, but, with due precautions against self-serving analogies, comparisons can be very suggestive.

The main themes of the book are indicated by the part titles. Slightly rephrased, they are long-run world economic history, the check to growth from protectionism, the East Asian Miracle and Crisis, and adjustments to global competition. There are two further topics and many more cross-links than will at first appear. Agriculture is the first additional topic; it receives special notice in both the world history and Protectionism sections. Culture is the second such topic, it is discussed in the chapters on the significance of East Asian development and Asian Values, as well as in comments on cultural protection in Chapter 10. The subject of Protectionism spills over from the part devoted to it, for example to material on early agricultural protection in Chapter 4, to Japanese legal protection in Chapter 3, to the defence of Australian supermarkets inspired by protectionist complaints from small grocers in Chapter 11 and to a discussion in Chapter 12 of the current anti-
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globalization backlash.
The impetus to assemble and prepare the material for this book was an
invitation to lecture in Japan. One of the topics on which I was asked to speak
was the ‘relevance’ of my book, The European Miracle. At first I jibbed at this
part of the assignment, being a little gun-shy as the result of criticisms that had
been aimed as much at me as at the book. Most people seemed to like the
Miracle but a small number of noisy anti-European or anti-Western
ideologues most definitely did not. Since I had never intended to imbue my
economic history with political significance, and have not met these people,
their animosity rather took my breath away. While I believe that economic
history can be used to throw light on the present, this has to be done
sensitively. In the Miracle and a subsequent volume, Growth Recurring, I
went out of my way to caution against the dangers involved in transposing
conclusions about the past into the present and tried to clinch the point by
identifying some of the facile transpositions in the literature.

In any case, when I wrote the Miracle my philosophical viewpoint would
not necessarily have endorsed the type of conclusion that critics purport to
have found in the text. Of course I cannot answer all of their points because I
have never held some of the views ascribed to me, for instance that Europe is
‘permanently superior’. In so far as such a statement means anything it is the
diametrical opposite of my views about the long-run dynamics of economic
systems. Another critic claimed that I argue by ‘mentality’ – again that
Europeans were in some way superior. Stephen Mennell has already dealt with
that: as he expressed it in the introduction to a book that he, Joop Goudsblom
and I jointly authored, ‘we share a suspicion of all forms of mentalistic
explanation, where culture, religion, or ideology is seen as the main engine of
history’. With regard to assaults on anything that can be passed off as
‘Eurocentric’, I am content for Joel Mokyr to frame the debate; his title is
‘Eurocentricity Triumphant’.

Notwithstanding the polemics with which world economic history has
become suffused, the question of whether economic history can help us
understand the present (whether one period helps to explain the next) remains
an interesting topic and deserves to be aired. On second thoughts, then, I
decided to accept the challenge with which my Japanese hosts had confronted
me. Even the title of the visiting position, which incorporated the term
‘economic dynamics’, implied a challenge. Economic Dynamics is not a clear-
cut subject but it invites, and in this case was intended to invite, investigations
of the relationship between economic history and contemporary economic
change. I doubt that a comparable opportunity to address this would be offered
in the Western world, where other subjects are being encouraged to crowd
economic history right out of the syllabus. I learned with interest that this is
not so in Japan. The government there intends courses on history to constitute
one-third of undergraduate work in faculties of economics and business in the national universities, on the grounds that the subject is the proper foundation of social science. This is the opposite of current opinion in the West.

Nevertheless, although they are shallow, Western attitudes are not wholly misguided. There are reasons for avoiding purely historical treatments. Historians, including economic historians, typically claim too much for the ‘genetic’ approach – that is to say for explaining the present in terms of the past. Current structural forces need to be taken into account too. They affect what is chosen from the menu, so to speak, which history hands us: ‘History is only half the equation. Nevertheless it is still an indispensable half, a point that is neglected by those in adjacent disciplines who have appropriated the resources formerly devoted to history and who prefer to dodge the mastering of historical material (a prejudice easily communicated to students). I do not spend any further time in the present volume scolding the anti-history movement but I hope to show by illustration that it has overshot the mark.

PART I LONG-TERM ECONOMIC DEVELOPMENT

The first part of the volume deals with very long-run economic development, largely taking the form of re-evaluations of The European Miracle and Growth Recurring. It was especially appropriate for me to reconsider these works because a Japanese edition of the Miracle had been published in August 2000 by the University of Nagoya Press, in a translation by Professors Minoru Yasumoto and Kohei Wakimura. Growth Recurring also reappeared in 2000, with a long new introduction, in the University of Michigan series, ‘Economics, Cognition, and Society’. Because these books were actually written in 1979 and 1986–87 respectively, and could draw only on literature available at those dates, I found it interesting to consider how their theses had fared in the light of subsequent research and debate.

Accordingly, in the first three chapters I offer some comment on later work and the more serious criticisms. Where research has shown that Asian economies were more advanced than the literature disclosed when the books were written, the early advantage held by Europe will obviously have been less than I thought. But to the extent that this is correct, it makes the European achievement of rapid growth more remarkable, not less. Those who are overcome by Euro-envy can avoid this conclusion only by denigrating the practices employed by Europeans in the course of economic growth. That means arguing that the Rise of the West was at the expense of the decline of somebody else, as if history were a zero-sum game. Subsequent experience – all the borrowings from the West and all the income gains that have ensued – shows this to be untrue.
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The entire East-West dispute is hardly science, or social science; it involves distorting scholarship in order to fight again archaic battles of the ‘Clash of Civilizations’ type. When other civilizations achieve stable growth, the interest of non-Westerners in these old intellectual conflicts will die away. What will happen to Western scholars who dislike their own societies enough to make careers of denigrating them past and present, I cannot imagine. Doubtless the personally disgruntled will find fresh targets.

I was drawn into these disputes willy-nilly, as will be apparent from Chapter 3. The point I add in this volume is that, whether or not Europe’s institutions were first designed for the common good (and clearly many were not), they often possessed a quality of openness that has enabled their benefits to be extended to wider and wider social groups. These groups include non-Europeans, since institutions as well as technologies have been adopted elsewhere, while the basis of much international law and many international organizations is European or at any rate Western. It is a historical fact that the West ‘got there first’. A mature attitude does not involve rejecting the Western legacy but grasping its beneficial aspects with both hands. Plenty of non-Westerners are willing to do so, though, as usual with cultural transfers, they find it easier to adopt technologies than ideas that might disturb existing power structures.

An analogy that may make clearer what I have in mind is with veterinary medicine. Until the era of antibiotics, science was often helpless in the face of animal infections. As late as the 1920s there were ‘wise men’ in England who counselled farmers to meet calamities among their cattle herds, such as Bedfordshire disease, by burning frogs in the farm gateway. The sickness is a deficiency disease, readily cured by providing the cattle with mineral licks. As someone commented, few minerals are released by burning a frog. Yet a scientific veterinary profession had come into existence and, even if there was little it could do at first, it knew enough not to burn frogs. Fortunately research was on the brink of important advances. Vets assimilated the findings as they emerged, translated them into practice, and spread the word among the farm community. Was it not better – a stupendous act of faith, if you like, but a heartening one – to have ready a trained veterinary profession than not to have had such a profession in the first place?

In a similar vein, European history happened to create institutions that were capable of universally benign results once political circumstances generalized them. This was not the case in systems that were, and sometimes remain, in the hands of undemocratic political elites. China is clearly the largest remaining unmodernized polity. Smaller historical cultures could also be self-referential, in contrast to the boundless curiosity displayed by Europeans. Thus Peter Munz notes that the Maori were so fixated on perpetuating their patriarchal social order that they were uncomprehending of anything that did
not seem to bear on it, even the threat implied by the arrival of the Europeans. The quality of openness, rooted in the polycentric nature of Europe’s society, gave Europeans options for growth and expansion seldom inherent in societies with more static hierarchies.

The fourth chapter in Part I complements the earlier ones. It uses a supply and demand framework to put order into the very long-term history of agriculture. When the whole world was poor, output and consumption remained in long-term equilibrium. Production seldom ran far ahead of consumption, and for obvious reasons consumption could not run far ahead of production. How did things change? It was not always via demand-pull in which the growth of population neatly created the pairs of hands needed to feed the extra number of mouths. We can infer from the big demographic cycles in world history that there were periods when the growth of supply did overtake demand. Usually this drew human numbers up with it and, as it were, cancelled out the gains in real income per head. In other words, population growth typically consumed the additional food produced by the stellar episodes when major new practices were spread.

What was needed was an increase in supply that would outpace population growth and bring the price of food right down, putting pressure on producers to switch into petty manufacturing or leave farming for more productive occupations. Fresh land in the neo-Europes certainly helped with this, supplemented by industrial inputs to agriculture and better institutions to diffuse improved methods. Labour productivity in agriculture rose dramatically, but not fast enough to maintain farm incomes, especially as European peasants often moved to better land in other continents. The accelerating increase in supply pushed farm incomes down, contributing to industrialization but also to the perverse response discussed in Part II.

PART II PROTECTIONISM

Part I is on Growth but Part II is on Anti-Growth. Whereas the first part considers the conditions under which past economic growth took place, the second recognizes that growth is fatally easy to slow or stop. Protectionism is one of the main threats and this part consists of two chapters dealing with the familiar case of agricultural protection and the less familiar case of language protection. Complementary material on language appears later in the book, in Chapter 10, while Chapter 11 was inspired by yet another protectionist challenge, in this case to supermarkets.

As to agricultural protection, the farm sector usually reacts to downward pressure on its incomes by intensifying production. A familiar paradox is involved. Individual farmers can maintain their own incomes by
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expanding output and reducing unit costs, but when all of them are striving in the same direction the result can only be a further squeeze on prices. This tends to be good for consumers but not for farmers themselves. A frequent alternative is therefore for them also to seek protection against foreign competition.

Chapter 5 begins by describing the phases in English agricultural history when events conspired to give farmers the protection for which they clamoured. Taxpayers in the developed world have been surprisingly willing to subsidize agriculture but support for still further increases in output is simply not affordable. A clever twist has thus been found to add to the arguments for protection. This is to claim that farmers should be paid for functions other than producing commodities, such as safeguarding the environment. The name bestowed on the creation of these previously unpriced benefits – which an already well-fed, high-income population may now be supposed to want from the land – is ‘Multifunctionality’. The main thrust of Chapter 5 is to examine the case for this by looking at the record of farming in Lowland England. My interest arose from over 50 years’ observation of the landscape as a hobby naturalist and from prolonged, though peripheral, involvement with the farm sector. As someone once said, all the best social science is autobiographical. Observation had made me sceptical of the claims of farmers to provide significant environmental and other benefits as a side effect of commodity production. On examining the record I was even more surprised at the extent of agriculture’s negative impact.

The other chapter in Part II deals with language protection. My interest in this less familiar topic arose when my wife took a degree in Linguistics. She found herself in the Department of Linguistics at La Trobe University with other keen, hard working, adult women and a staff capable of arousing genuine intellectual excitement. The study of language requires few props and is readily discussed over the dinner table. In order to keep up my end in the conversations, I took to glancing through the books and articles. Fascinating though they were, it was apparent that none of the authors had ever heard of economics, though they sometimes contrived to give the impression that, had they done so, they would have been against it! Rather like farmers, linguists talk as though the taxpayer owes them a living, though both occupations live so enclosed in their own professional cultures that they are probably unaware how they sound to outsiders. Linguists are inclined to speak as though funds without limit should be forthcoming to record and preserve each and every language on the planet. This assumption of the essential rightness of preservation chimes with the wishes of cultural producers who employ minor languages and of course with the politicians who, in response, pontificate so fatuously about the sacredness of language. There may be a scientific case for language preservation as there is for research into languages but it is taken as
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axiomatic rather than expounded. The opportunity cost of preserving languages for their own sake is seldom taken into account.

PART III  EAST ASIAN DEVELOPMENT

The most striking alteration in world economic geography in modern times, perhaps at any period, has been the rise of East Asia. Thirty years real growth rates of 6 or 8 per cent per annum in many countries in the region reasonably enough justifies the label of the East Asian Miracle. The pace, even more than the enormous scale, of this achievement eclipsed all previous episodes of growth. Contrary to recent assertions, this does not invalidate comparisons with European experience. What can be 'predicted' from history in detail may be moot but I urge that Asia is not exempt from the general pattern of development found earlier in Europe.

Asian exceptionalism is simply not persuasive. The only possible exceptionalism, at least in the 1990s, was that of the United States, where types of production and consumption were being created that all other countries were adapting to, either by trying to catch up or by striving to exclude the influence of the 'Great Satan'. Mutatis mutandis, evolving demographic structures and rising real incomes produce comparable results everywhere. Income-related patterns of consumption in East Asia have already followed a path not unlike that in Europe and North America. Most striking of all is the shift of attention in the more developed parts of Asia from bread-and-butter issues to non-material demands already familiar in the West, such as for environmental clean-up and legal freedoms. This spillover from lives of mere shopping, as it were, to politics was to be expected once a sufficient number of people felt secure in their new level of material comfort.

But in 1997 the East Asian Miracle faltered and in some countries went into reverse, though (it is important to note) nowhere to the extent of wiping out all the gains over the previous generation. This downturn proved embarrassing, not least to those who had triumphalist books and articles scheduled for publication that year or the next. There was a great deal of back-pedalling and even more attempts to claim that events were actually vindicating whatever position a given writer had previously taken. Only a few authorities were candid enough to admit that they had grossly exaggerated the strength of Asian economies.

I pretend neither to have predicted the Asian Crisis nor to have been wholly exempt from the bullish mood of the times. I do claim however to have been enough of a contrarian to have insisted that the institutional foundations of Asian growth would turn out to be rickety. No one at the time was interested in scepticism and some were scornful of it. Before the Crisis my annual lecture
on corruption was condemned by occasional students who had failed to grasp the pains I was taking to show that corruption is not specifically an Asian problem: surely no citizen of the European Union could have dared suggest that! Thus I was braced for trouble when an Indonesian student came up after a class and asked whether I had said that Transparency International’s (the premier body surveying and fighting corruption) index listed his country as number one. I replied ‘yes’ and he said, ‘I think it should be number one, number two and number three!’

Since the Crisis audiences have indeed been much more willing to consider the fragility of Asian political and institutional arrangements. My version of the Crisis in Chapter 8 is that it was ‘premature’ in the sense that, had the system of fixed exchange rates not crashed, a more general institutional crisis would have surfaced within a few years. This would probably have taken the form of political conflict within Asian societies over issues of governance that few publicly questioned during the years of rapid growth.

Readers can judge the cogency of this argument for themselves, since Part III contains pieces written in 1991 and 1997 as well as one written in 2000. The pieces tackle institutional and cultural aspects of the Asian experience. Chapter 7, written in 1991, suggests that whenever growth starts to speed up in other regions we will find that commentators respond by extolling the positive features of their cultures too.

They will celebrate the merits of features that have hitherto been dismissed as obstacles to growth. I was amused to note that, once Indian growth began to accelerate in the 1990s, Amartya Sen discovered ‘the fact that India has perhaps the longest accounting tradition in the world has now been dusted up and presented as a causal explanation’ of the new-found dynamism: Hinduism is a prime candidate for being transformed from growth impediment into growth propellant, like Confucianism before it and Christianity earlier still. We should not take such arguments in terms of over-generalised value systems very seriously. Chapters 8 and 9 also question the salience of cultural explanations of the East Asian Miracle.

PART IV ADJUSTING TO GLOBAL CHANGE

In order to sustain economic growth, all economies have to face up to continual alterations in their industrial structure. Whether they like it or not they are embroiled in permanent revolution, or what a McKinsey Report called the ‘race without ending’. It is the challenge of structural change that makes free trade seem so threatening, because it brings in international as well as local competitors. This calls out the Protectionist fire brigade which is always on stand-by. In reality more of the challenge comes from technological
innovation than from imports, but either way the effect can be to stir up Schumpeterian gales of creative destruction. One cannot argue that in the short run such changes are Pareto optimal, with no one worse off and at least one person better off. Some businesses and whole industries are always going to be washed away in the process. Economists are too glib about the lag before the people involved can be redeployed. The appeal of economic change can only be to the greatest good of the greatest number, the point being that the destruction is creative, with new firms, new industries, and new jobs arising. There are net gains as capital and labour shift to higher-earning occupations. Society no longer supports makers of crinolines or hansom cabs, nor should it do so. But it cannot be denied that some people will suffer while waiting for the new equilibrium.

Much the biggest set of structural changes that the world has seen was that accompanying industrialisation. New industries, using machinery powered by steam and housed in factories, out-competed traditional handicraft ones formerly carried on in dwellings or small workshops. Industrial employment as a whole expanded while agricultural employment shrank. Hence an advanced economy used to be defined by a percentage of the labour force in agriculture low enough to be counted on the fingers of one hand. By the end of the twentieth century a second and quite distinct wave of structural change was taking place. This was the expansion of tertiary (service) occupations at the expense of manufacturing. Episodes that have been called ‘the second industrial revolution’ – any number of phases have attracted this label – turned out to have been little more than changes within subdivisions of manufacturing. The transition from manufacturing to the service industries, which The Economist once described as producing ‘things you cannot drop on your foot’, is of an entirely different order. A great impetus has been given to this shift by the adoption of the computer. Although the computer has breathed new life into some manufacturing industries, its most promising effect has been to generate an information revolution underpinning the rise of the tertiary sector.

The American economy has adjusted best to this new phase of structural change. Returns to shareholders by major corporations in the United States are said to have been half as high again as in Europe and almost three times as high as in Australia. Other economies have not merely often failed to meet American standards but have performed below what it is reasonable to think of as their own potential. Chapter 10 discusses the Australian case. The costs of limited structural change there have been obscured by self-congratulation about the high rate of growth in the 1990s, much of which is catch-up on earlier periods when Australia lagged behind Europe or the States. As the new millennium begins many of Australia’s largest companies are contemplating moving their headquarters overseas and listing on the stock exchanges of the United States or United Kingdom. The young native-born and people with
MBAs are leaving the country at an increased rate and although some will undoubtedly return no one can be sure that the most creative will do so. Australia is in danger of exporting the creative people and companies that would help it look outwards. Certainly the country is hampered by a tiny domestic market; its problem is less the ‘tyranny of distance’ than the tyranny of small market size. Nevertheless there are deficiencies that could be remedied by bolder policies. Chapter 10 concentrates on internal difficulties of adjusting to structural change.

One of the areas where competition within Australia is intense is retailing. But the very fact elicits a chorus of demands for protection, in this case from small grocers who fear the competition of the supermarket chains. Chapter 11 gives a history of retail grocery in Australia throughout the twentieth century that I prepared as background to the submission by the supermarket chain, Coles Myer, to a joint parliamentary enquiry into retailing in 2000. The United Kingdom has held a very similar enquiry. Before writing the history there is no doubt that I fell into the category known to market researchers as ‘the reluctant shopper’. However I became converted to the supermarket case after contrasting supermarkets with the family groceries in which I spent so many dreary hours queuing as a small boy and after contemplating the extended range of products and lower prices supermarkets have offered to consumers since the Second World War.

Retailing is a topic where popular opinion is sure it knows best in condemning the supermarket chains for offering tough competition to smaller grocers, but I am sure the public mistakes its own interests. Indeed this is made clear by ‘revealed preference’, which means noting what consumers do instead of what they say. What consumers do is patronize the supermarket while talking up the corner store. In the long run, protection of less efficient shops would serve the interests of their owners and no one else.

Chapter 12 offers some general conclusions about globalization.

ACKNOWLEDGEMENTS

Over half the text of this book consists of material written especially for it or that has appeared only in the half-light of discussion paper series. The remainder consists of studies prepared for my programme of lectures in Japan and intended to complement the earlier material. The whole reflects the development of my interests in recent years, involving themes such as the rise of East Asia, Protectionism, and cultural, institutional and structural change, approached from different angles but all informed by my original professional perspective as an economic historian.

In 2000 I was appointed seventh Distinguished Visiting Professor in
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Economic Dynamics at Osaka Gakuin University, following Williamson, Ranis, Adelman, Fogel, Mathias and Temin. This annual visiting programme was initiated by Professor Yasukiichi Yasuba and supported by the President of the University, Mr Yoshiyasu Shirai. I wrote the necessary lectures during the summer for delivery during my visit to Japan in the autumn. At the host university I delivered the lectures printed here as Chapter 3, ‘The European Miracle and its Relevance’ (the Phoenix Lecture), Chapter 5, ‘Multi-functionality’, and Chapter 9, “‘Asian Values’ and cultural explanations’. I gave ‘Environment, State and Economic Development’ (Chapter 2) at Meiji University, Tokyo, as the Special Lecture to the annual meeting of the Japan Socio-Economic History Society. Other lectures were delivered at the universities of Kyushu, Osaka, Tohoku, Tokyo (Institute of Oriental Culture) and Waseda, and at the Kansai Center of Economic Research, Osaka.9

The courtesy, hospitality and attention that my wife and I received at every place we visited in Japan were memorable. Professor Yasuba deserves pride of place among the many people to whom we owe thanks, not only for conceiving of the programme in the first place but also for making the administrative arrangements, doing the lion’s share of translating where that was required, and for great personal generosity during our visit. Other colleagues who were outstandingly kind and helpful included Professors Kunio Katayama and Masamichi Mizuhara at Osaka Gakuin University, Kiyoshi Sakimaki and Yoh Kawana at Tohoku University, Yoshio Fujii at Kyushu University, and in Tokyo, Minoru Yasumoto.

The remaining chapters have more diverse origins. Chapter 4, on world agriculture, was written for this volume to supplement the long-run histories in the first section and act as a bridge to the following section on Protection. Chapter 7 on the ‘Ultimate Significance of East Asian Development’ was a Discussion Paper of the School of Economics and Commerce at La Trobe University in 1991. Chapter 8 is the third incarnation of a paper on the East Asian experience which, at the invitation of Dr David Gress, I gave to the Danish Institute of International Affairs at Copenhagen, in October 1997, reworked for a joint session of the Max-Planck-Institut and the Department of Economics of the University of Jena, Germany, in November, and gave finally in the seminar series of the Institute of Advanced Study at Berlin, where I was a Fellow, in December. The Asian Crisis was unfolding that autumn, obliging me to update the talk for each occasion. The (third) version here appeared in the Lectiones Jenensis series of the Max-Planck-Institut in 1998. Chapter 10 on Australia’s response to structural change appeared as a Pelham Paper of the Centre for the Practice of International Trade at Melbourne Business School in 1999; I was persuaded to turn to this matter by Professor David Robertson, then the Centre’s Director. I was encouraged to write Chapter 11 on the history of retail grocery by Kerrina Watson and Chris Mara of the Government...
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Affairs Department at Coles Myer in Melbourne; acknowledgements to others who helped me to understand retailing are made in the chapter itself. Chapter 12 was written for this volume.

I am, as always, deeply in debt to my wife for attending to so many of the household jobs while I sat at my desk and for her editorial work on this volume, as well as for a lifetime of interesting conversations about the issues raised here and many, many others.

NOTES

9. Chapters 2 and 3 are to appear in Japanese in Shakai-Keizaishi-Gakkai (Socio-Economic History, the journal of the Japan Socio-Economic History Society) and the Economic Journal of the Faculty at Osaka Gakuin University respectively. The lecture at the Kansai Center is not reprinted here but was published (in Japanese) as Eric L. Jones, Australia’s Economic and Strategic Prospects (Osaka: Kansai Economic Research Center, 2000).