Preface

> No new light has been thrown on the reason why poor countries are poor and rich countries are rich.
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> Paul Samuelson (1976), *Illogic of Neo-Marxian Doctrine*, p. 107.

Wide variations in living standards are observed across countries. Going further back in time, we notice that this variation is largely attributable to economic performance across countries since the start of the sixteenth century and not just how they performed post-Second World War. This book presents, in two parts, a detailed account of this process of divergence, the data involved and policies for the future. The first part opens with theories of institutions, geography, human capital, trade, religion and culture, and state formation and war explaining this divergence. Following which, it discusses some empirical results and illustrates the difficulties in quantifying the relationships between root causes and economic development. The novelty of the book is the 'unifying framework' which explains the process of development in Western Europe. This framework is also compared with growth narratives in other countries and continents namely Africa, China, India, the Americas, Russia and Australia. A narrative style is adopted throughout to create a bridge between the empirical literature and history. The 'unifying framework' is an attempt to merge all seemingly disparate theories of economic progress. The main message is that diseases and geography matter at an early stage of development. Institutions, however, become much more important as the economy develops. Geography and, in particular, disease epidemics are a crucial explanator of lack of development in Africa. In contrast, in China and India, the Malthusian population growth and disease cycle was broken fairly early and institutional weaknesses played a crucial role in their respective declines. In the Americas and Australia, colonial institutions were a crucial factor. In Russia, it was crippling political institutions of the nineteenth century and restrictive political and economic institutions of the Soviet Union that did the damage.

The second part of the book focuses on growth promoting policies. First, it documents some macro evidence on the role of policy in yielding growth. It shows that trade can benefit nations in situations when institutions are adequately strong. Property rights and contracting institutions are good for growth. Market stabilizing institutions are good for growth and regulations are important only up to a certain extent. Second, it outlines growth promoting policies namely the ‘first principles of growth’. They are property rights, contracts, regulatory institutions, rule of law, macroeconomic stabilization, representative politics, human capital investments, market access and international trade. Third, it discusses the cases of India and China, two recent success stories. It shows how these countries have preserved incentives for private investments even without rigidly following the first principles. But more importantly, they have been able to create institutions which are well grounded in local traditions and culture and are also able to create appropriate incentives for investments. Fourth, the book outlines steps that could be taken to facilitate growth in situations of state failure, disease trap, poverty trap and scarcity of skilled workers.