

NYT. Economic Scene: Avoiding Previous Blunders January 1, 2004 by Virginia Postrel
Virginia Postrel is the author of "The Substance of Style: How the Rise of Aesthetic Value Is Remaking Commerce, Culture and Consciousness," published by HarperCollins.

THOSE who do not learn from history are doomed to repeat it. To that old saw, an economist might reply, "If only it were so easy." Then every country could be rich. Alas, the process of economic development is hard to repeat. The great mystery is why. In recent years, economists have returned to their field's oldest question: What accounts for the wealth of nations? "The real question now that everybody wants to know is, 'Why isn't the whole world rich? Why can't they be like us? Why couldn't the former Soviet Union become immediately like Switzerland or Denmark? Why is Africa mired in this horrible pool of poverty?'" says Joel Mokyr, an economic historian at Northwestern University.

"Once you admit that that question is on your agenda, which it now is, you can't do without history," he continues, "because you want to know how the rich countries got to be where they are. You need to look at their experience and compare it to the experience of the others." Those who do not learn from history may in fact never repeat it. Professor Mokyr is the editor of the Oxford Encyclopedia of Economic History, a five-volume set just published by Oxford University Press.

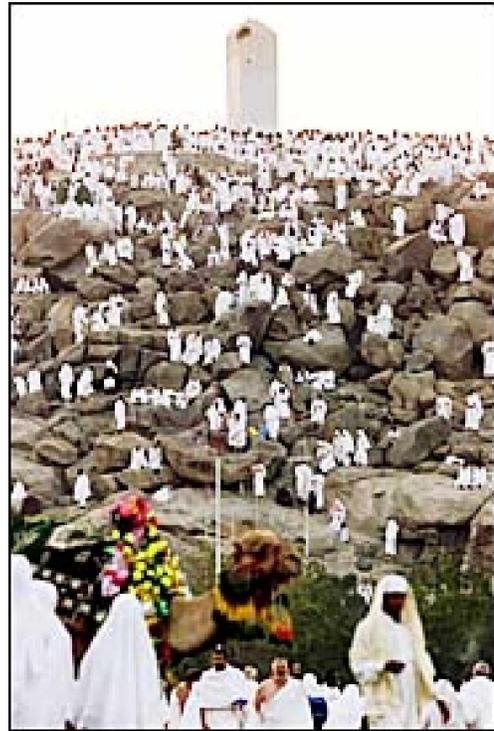
The encyclopedia took 10 years to complete, a short time given its scope. "Economic history," Professor Mokyr writes in the preface, "covers nothing less than the entire material existence of the human past." The encyclopedia gives theoretical economists a way to check their ideas against the realities of the past. "You guys can't write these big, fancy models without looking at the details," Professor Mokyr says. The encyclopedia does indeed provide lots of interesting details.

Did you know that the oldest records of chemical pest control date back 4,500 years, to Sumerian farmers who used sulfur compounds to kill insects and mites? Or that a century ago, railroad companies accounted for half the securities listed on the New York Stock Exchange? (Before the railroads, with their huge demand for capital, securities markets traded almost entirely in government debt.)

Or that in 1850, shoemaking employed more workers in the United States than any other manufacturing business? The past doesn't look quite like we tend to picture it: many of the people who got rich from the Industrial Revolution were not industrialists, but landowners who held urban real estate or property with access to water power or mines. From 1880 to 1914, unions went on strike at least 50 times to stop American employers from hiring black workers. Above all, Professor Mokyr says, "in the Middle Ages and in classical antiquity, the destitute were the vast majority of the population."

Some consistent themes emerge from the many and varied entries. One is the importance of technological innovation in raising living standards.

Consider cotton, an expensive and relatively unimportant textile until the mid-18th century, when spinning became mechanized. Before that innovation, an Indian hand spinner took 50,000



Hajj to Mecca

hours - the equivalent of five years and nine months - to spin 100 pounds of cotton. After the invention of the hand-operated cotton mule spinning machine in the 1760's, that time dropped to 300 hours. With the mule, human fingers no longer had to spin the threads, thread could be spun on many bobbins at the same time, and the strength of the thread improved significantly. After 1825, when the self-acting mule spinner automated the process, spinning 100 pounds of cotton took 135 hours. Cotton became a cheap and common cloth, and cotton production a major industry.

Technology even makes an appearance in the entry on religion, which cites estimates that "attribute 90 percent of income growth in England and the United States after 1780 to technological innovation, not mere capital accumulation." The relative insignificance of savings undercuts Max Weber's famous theory that Protestant thrift was the key to capitalist growth. Another theme is the importance of legal and social institutions, which evolved differently depending on circumstances.

Take marriage payments, a once-common practice. In agricultural economies dependent on hoe cultivation, marrying off a daughter costs the family a valuable field worker. So grooms traditionally pay a bride price. Where farming depends on guiding heavy plows pulled by animals, by contrast, men are more valuable, and brides' families pay dowries. In modern economies, inherited familial wealth is less important than individual skills, brains are more important than brawn, and dowries and bride prices have mostly disappeared. Like technologies, institutions also compete and change, with new and improved versions emerging over time. That evolution can change the relative economic positions of different parts of the world.

Until the 17th century, the Muslim Middle East was more economically advanced than Christian Europe. Islamic law allowed much more flexible partnership arrangements than Christian customs, giving Muslim regions a commercial advantage. (Non-Muslim businesses in these areas usually chose to be governed by Islamic law.) The hajj, the annual pilgrimage to Mecca, also fostered international trade. Many pilgrims combined business and religious duty, financing their trips through trade along the way, and sometimes coming home richer than they left. But these once-helpful institutions eventually put the Muslim world at a commercial disadvantage. Islamic partnerships remained two-person ventures into the 19th century. Meanwhile, European laws developed more varied and complex partnership and corporate forms, allowing larger and more adaptable ventures. Meanwhile, the very success of the hajj trade discouraged the development of the nonreligious commercial fairs that spurred growth in Northern Europe.

Despite all the differences across time and space, Professor Mokyr says: "There are certain unifying themes that you see everywhere. People have to make a living. People would rather have more than to have less. On the whole, they don't behave stupidly. They do as well as they can under the circumstances. The variation is in the circumstances, in the richness and diversity of human economic institutions that have emerged over time."