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
### Contents

3.4 The secrets of agricultural progress 56  
3.5 Understanding fertility strategies 59  
3.6 The demographic transition 62

4 **The nature and extent of economic growth in the pre-industrial epoch** 67  
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? 76  
Appendix: The dual approach to total factor productivity measurement 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
10  The era of political economy: from the minimal state to the Welfare State in the twentieth century  213
   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  Inequality among and within nations: past, present, future  238
   11.1  Why is there inequality?  238
   11.2  Measuring inequality  239
   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  Globalization 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

Appendix: Freight rates and globalization  278

Glossary  281
Index  289