Development and Change

Published on behalf of the Institute of Social Studies, The Hague

Review Essay

Why the West Grew Rich and the Rest Did Not, or How the Present Shapes Our Views of the Past

Servaas Storm

Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. New York: Random House, 2012. 560 pp. US$ 30 hardback.

Amiya Kumar Bagchi, *Colonialism and the Indian Economy*. New Delhi: Oxford University Press, 2010. 392 pp. £32.50 hardback.

Niall Ferguson, *Civilization. The Six Killer Apps of Western Power*. London: Penguin Books, 2011. 432 pp. £9.99 paperback.

Prasannan Parthasarathi, *Why Europe Grew Rich and Asia Did Not. Global Economic Divergence*. Cambridge: Cambridge University Press, 2011. 384 pp. £15.99 paperback.

'What makes a nation *is* the past', wrote Eric Hobsbawm (1992: 3), 'what justifies one nation against others is the past, and historians are the people who produce it'. Because historiography has always been so mixed up in politics, historians writing about nationalism 'cannot but make a politically or ideologically explosive intervention'. A prominent recent example of such an explosive intervention is Niall Ferguson's *Civilization: The Six Killer Apps of Western Power*. 'Watching my three children grow up', writes Ferguson (p. xix), 'I had the uneasy feeling that they were learning less history than I had learned at their age, . . . because they had bad history books and even worse examinations'. Children, he said, should be taught that the Big Story of the last 500 years is the rise of Western domination of the world. Ferguson's book (and the accompanying BBC/Channel 4 television series) sets out to do this, being designed 'so that 17-years-olds will get a lot of history in a very digestible way, and be able to relate to it' (see Porter, 2011).

Ferguson's book has created quite a stir (e.g. Bromwich, 2011; Porter, 2011), which escalated when Ferguson chose to publicly respond to Pankaj

Development and Change 44(5): 1181–1206. DOI: 10.1111/dech.12049
© 2013 International Institute of Social Studies.
Published by John Wiley & Sons Ltd, 9600 Garsington Road, Oxford OX4 2DQ, UK and 350 Main St., Malden, MA 02148, USA

Mishra with legal threats over a fearsomely unfavourable review in the *London Review of Books* (Mishra, 2011). The issue is far bigger than a mere academic spat, however. Britain's increasing irrelevance on the world stage and the (supposed) loss of 'British identity' (whatever that is) are prompting heated debates over its History National Curriculum, which, according to Ferguson and other 'patriots of the West', should put the 'Great' back into Britain, celebrate its past, foster a sense of national identity and forget the post-colonial apologias. Their demands are for a celebratory history — the purpose, after all, is the cementing of a (superior) national identity — of stories that make up a nation's collective memory and bind the generations. The call is for a return to narrative history explaining 'what really happened' — or, as Mr Michael Gove, Britain's Secretary of State for Education, puts it, 'I just think there should be facts ... I am saying we need to have facts in the curriculum — facts, knowledge' (Bates, 2011). To help him overhaul the curriculum, Mr Gove invited Ferguson, a self-declared 'fully paid-up member of the neo-imperialist gang' (Bromwich, 2011) and unapologetic supporter of US interventions in the Middle East.

So, how convincing and informed is Ferguson's emollient tale of Britain's glorious past? How insightful and persuasive is his account in 'informing readers about the present' (p. xxi) which is — ostensibly — Ferguson's chief ambition? This Essay confronts Ferguson's account of what has become known as the Great Divergence — the long-term divergence in growth, productivity and living standards between Occident and Orient — with three recent books on the same theme: Acemoglu and Robinson's (2012) *Why Nations Fail*, Bagchi's (2010) *Colonialism and the Indian Economy*, and Parthasarathi's (2011) *Why Europe Grew Rich and Asia Did Not*. As we shall see, what the confrontation between these books makes clear is that it matters whose history is being written, who does the writing and who decides what counts as historical fact.

THE WONDERFULNESS OF THE WEST

Ferguson writes in the established tradition of Eurocentrist and neoliberal triumphalism that started with Max Weber. This tradition holds that it is the superiority of *early modern* European institutions and culture that furthered development in the West, but had no equivalent in other regions of the world. More specifically, it makes two claims. First, 'good' institutions — that is, *capitalist institutions*, such as secure individual property rights, free markets and minimal but good government — and an enlightened and rationalistic belief system, which emerged from the Protestant Reformation, were the prime factors causing the onset of Europe's modern economic growth and the consequent divergence. Second, because these institutions had already been created centuries before the Industrial Revolution, it was inevitable that the West would first break through to an industrialized society and capitalist modernity, and next become the driving force of globalization; it all resulted 'from the wonderfulness of the West, not to mention the hopelessness of the East' (Mishra, 2011). From this reading of global history, it follows that contemporary under-development and stagnation must be caused by 'wrong' or 'poor-quality' institutions and from this, it is just a small step to the Washington Consensus, the IMF–World Bank–US Treasury policy agenda which has been imposed on big parts of the Rest, arguably to spread progress by promoting individual rights, the rule of law and good governance, free markets and private enterprise, and enlightenment values, if necessary by imperialistic might and/or military force. History matters in a rather direct sense.

However, Western triumphalism reached its zenith more than twenty years ago, after the collapse of the Soviet Union left the US 'top dog' globally. The superiority of Western civilization and its capitalist institutions has since come under threat, challenged — for one — by China's rapid economic and political rise. For another, the financial crisis, fully 'Made in the West', is fuelling widespread Gibbonian speculations that Western civilization is 'going to the dogs'. This fear prompted Ferguson to write his book. 'What we are living through now is the end of 500 years of Western predominance. This time the Eastern challenger is for real, both economically and geopolitically', he writes in his conclusion (p. 322). 'Can anything be done to save Western civilization from . . . calamity?'. To answer this question, Ferguson argues, we first need to understand why the West did dominate the Rest. Here, the 'West' is loosely defined as being 'much more than just a geographical expression'; one must think rather of 'a set of norms, behaviours and institutions with borders that are blurred in the extreme'. Civilization is left even more vague, but it is clear that Ferguson's real subject is the political, economic, military and technological bases of power and domination. Hence, wherever 'civilization' appears, read 'dominance'.

Forgoing a coherent argument, he sets up a grand narrative scheme around six themes or 'killer apps', including: (i) a more fragmented political setting that worked to encourage competition (between firms) and innovation both between and within states; (ii) a predilection for open scientific inquiry and an inclination to change the world, specific to Europe, that led to the Scientific Revolution in physics, astronomy, chemistry and biology; (iii) secure individual property rights and the representation of property owners in elected assemblies, specific to the English-speaking world; (iv) modern medicine; (v) an industrial revolution based on both a supply of new productivity-enhancing technologies and a demand for mass consumer goods (beginning with cotton garments); and (vi) a Protestant work ethic that emphasized diligence, delayed gratification, savings and productive investment.

Ferguson writes in 'Churchill-style' — a grand but turgid language made up of ringing phrases, inapt metaphors, stereotyping anecdotes and faulty logic that at times appear to have little relationship with historical realities. His argumentation is often teleological — quite like Rudyard Kipling's

(1902) *Just So Stories*, which relate how the camel got his hump, how the kangaroo got its powerful hind legs, long tail and hopping gait, and so on. To show (off) his command of his subject, Ferguson stuffs his narrative with quiz-friendly facts, most of which will do well at dinner parties. For instance, did the interested reader know that the French *croissant* was inspired by the crescents on the Turkish flag (p. 56), although this pedigree is somewhat disputed? Or that Prussia's Frederick the Great, who detested his wife, once greeted her saying 'Madam has grown fatter' (p. 74)? That Immanuel Kant, grandson of a Scottish saddle-maker, would take his walk around Königsberg so punctually that locals set their watches by him (p. 76)? That Karl Marx liked to boast that his wife was '*neé* Baroness of Westphalen' (p. 207)? Or that the history of blue jeans (pp. 240–52) is closely linked to Cold War politics, the student protests of 1968, the Prague Spring, perestroika, and the fall of the Soviet bloc? But however much he tries to force such 'facts' into his six-app scheme, the result is precisely the kind of *smörgåsbord* he supposedly wanted to avoid. The anecdotes serve, however, to help him cover up holes in his argument, obscure jumps in the chronology of developments, and get away with mind-boggling non-sequiturs, such as his claim that the true aim of the 1968 student revolutions was 'unlimited male access to the female dormitories' (p. 245), or that the Jewish role in Western intellectual life in the twentieth century was disproportionate, 'suggesting a genetic as well as cultural advantage' (p. 235). For all such silly digressions, Ferguson mostly repeats well-known Tory clichés. For instance, he believes that the American Revolution stands for true progress, while the French one went astray. After all, the Jacobins put into practice Rousseau's collectivist philosophy — the doctrine of the general will, explained in *The Social Contract* (1762), one of 'the most dangerous books Western civilization ever produced' (p. 151).

There are deeper, more analytical reasons, however, why Ferguson's approach does not work. First, and perhaps surprisingly, Ferguson's approach is, in a major way, ahistorical: his idea of the West is devoid of any pre-modern past. We are made to think that sometime around 1500 Western civilization somehow came into being when individuals managed to successfully download the killer apps, almost out of the blue. Take Ferguson's discussion of the Scientific Revolution, his second killer app, the downloading of which began in Europe around 1530 (pp. 64–67). All he has to say about the pre-modern period is that 'Europe before 1500 was a vale of tears, but not of ignorance' (p. 60): much classical learning was rediscovered in the Renaissance, often thanks to contact with the Muslim world, which had preserved it and also made key contributions to cartography, medicine, philosophy, mathematics and optics. But whereas (Christian) Europeans employed their scientific understanding to change the world, notably by developing weapons (speaking of 'killer apps'!), the Muslim world failed to reconcile Islam with scientific progress. The printing press, a Chinese invention but improved upon by Gutenberg, was used to diffuse knowledge in Europe, whereas the Turks banned it to assert the sanctity of the pen and the

Chinese used their invention merely to reproduce the Four Books and Five Classics of Confucianism. But what were the origins of Europe's penchant for open scientific inquiry and its predisposition to change the world? One is left to guess.

Second, because it is a 'history written by the winner', it actively downplays, or neglects, historical evidence that complicates his claim of the West's uniqueness and wonderfulness. This is not just a dumbing down of history, it is also a matter of conferring an air of inevitability, as well as a clear conscience, on the 'victory of the West' (Bromwich, 2011). Take the exact timing of the beginning of the Great Divergence; an issue of crucial import to Ferguson's reheated Weberism is the superiority of *early modern* European institutions and culture which had no equivalent in non-Western societies and which created the conditions for modern economic growth. With remarkable *legerdemain* Ferguson discards available evidence, by André Gunder Frank (1998), Kenneth Pomeranz (2000), and Carol Shiue and Wolfgang Keller (2007) among others, that China was economically neck and neck with the West until as recently as 1800, and that Western predominance has lasted a mere 200 years — not 500 years, as Ferguson claims. This disparity of views shows that there can be no easy agreement about 'what had really happened'.

A final paradox is that Ferguson's narrative is essentially an 'island story' of how Britain/Europe/the US came to dominate the world. There is no discussion, for instance, of how imperial control helped Britain (and other colonial powers) extract investable resources from the periphery (through unequal exchange) — resources which were crucial not only in financing domestic (and US) industrialization, but also in sustaining global hegemony (more on this below). There is also no recognition of the fact that colonial control made it impossible for the Rest to try and catch up with the West — a primary reason being that imperial rule eroded these societies' social and institutional fabric, wiped out existing industrial activities, and destroyed local infrastructures (Bagchi, 2008; and Bagchi, under review; see below). That development is, to an important degree, a path-dependent process, in which societies get locked in to (institutional, economic and political power) structures and that decline becomes cumulative and long term (Acemoglu and Robinson, under review; see below), is an insight which seems to have escaped Ferguson. He casually dismisses Western imperialism as a cause of the contemporary plight of the 'bottom billion', pointing (p. 145) to the 'serious environmental and geographical obstacles to Africa's development', to independent rulers who 'with few exceptions' did not perform better than colonial rulers ('most did much worse'), and to the 'immense' sums of development aid and huge numbers of Irish rock stars fruitlessly mobilized in support of post-colonial development. Instead, Ferguson likes to look at the brighter side of Empire: the introduction of modern medicine and public health, which from Cuba to Cape Town helped improve conditions along a broad front, reducing mortality and raising life expectancy. What he omits is that life expectancy and other indicators of human development actually declined during the first century (and beyond) of Western imperialism (Bagchi, 2008), when millions of colonized people suffered and died at the hands of a forced-labour regime imposed by European nations in pursuit of raw power and sheer profit.

The absence of a world-historical approach is nowhere more noticeable than in Ferguson's discussion of the importance of mass consumption (killer app number five). Manufacturers understood that workers were also consumers, Ferguson proclaims, something missed by Karl Marx who was in any case an 'odious individual', an 'unkempt scrounger' and a 'savage polemicist' — someone whose handwriting was so atrocious that he was rejected on the sole occasion he applied for a job (p. 207). If that is not already enough to disqualify the man, Ferguson adds that the prescriptions of the *Communist Manifesto* were 'singularly unappealing to the industrial workers they were aimed at' (p. 209). Workers just wanted more and better and cheaper goods, beginning with textiles — and capitalists were eager to provide them. Because they understood that workers were also consumers, capitalists allowed income differentials to narrow and real wages to increase, Ferguson informs the reader. Granted, there was the occasional crisis, but capitalism's overall dynamism was more important and, besides, communism, by contrast, could not even make a decent pair of jeans. There is no mention of the labour movement and of how many years of social struggle were needed, how much 'blood, toil, tears and sweat', including two World Wars and a Great Depression, it required for the capitalist class to finally discover that it was in its own interest to allow a regulated, more (social-) democratic capitalism to be built up — as in Karl Polanyi's (1957) double movement, or as masterfully explained by Tony Judt (2010). And besides, would a similar post-World War II socialization of consumption in the capitalist welfare states of Europe and North America (kept from self-destructing only by adhering to Keynesian economic principles) have been possible in the absence of the rivalry between the West and the USSR-bloc?

Ferguson's narrative unravels at the end as he addresses China's success in catching up. China, argues Ferguson, has finally embraced Western values: China believes in competition, 'the Chinese have got capitalism' (p. 322), they believe in science and technology and have created consumer societies. The Chinese not only imported the work ethic from the West, but Protestantism as well — Protestant missionaries went there to plant the seeds of competition, science and work. This leads him, in his inimitable way, to a guided tour of the secret churches in the city of Wenzhou, to stories of Christian entrepreneurs, on to rumours that Jiang Zemin, shortly before stepping down as president and Communist Party leader, told Party officials that, 'if he could issue one decree . . . , it would be to "make Christianity the official religion of China"'. The mystery left unexplained is how China achieved its growth miracle without downloading political pluralism, security of property rights and rule of law, which appears to be the killer app that makes all others possible. Anyway, China's success is indicative of the strength and superiority of Western civilization (Q.E.D.): 'they are becoming just like us', so there's no need to fear the Dragon. 'The Fall of the West' is of our own making, caused by our own loss of faith in and knowledge of the civilization we inherited from our ancestors — by 'our own pusillanimity' as Ferguson puts it in the final sentence of the book. We risk being left with just a vacuous consumer society and a culture of relativism (p. 288), and this vacuum leaves the West vulnerable to the sinister ambitions of radical Islam (p. 289). 'The history that nationalists want is not the history that professional academic historians, even ideologically committed ones, ought to supply', wrote Hobsbawm (1992: 3). 'It is a retrospective mythology'. This holds true for Ferguson's *Civilization* which is — unintentionally — an almost perfect illustration of why children need to be taught, before anything else, to be critical.

RETROFITTING THE WASHINGTON CONSENSUS

Why Nations Fail: The Origins of Power, Prosperity and Poverty, written by economists Daron Acemoglu and James A. Robinson, offers an alternative narrative on the largest of all historical questions. The book is a capstone of the authors' work, representing their effort to project to a broad readership their (econometric) findings on development failure and success, which they have published in influential academic papers. It has received wide attention and lavish praise, by no less than seven Nobel laureates in economics as well as by Ferguson himself, the latter writing: 'For those who think that a nation's economic fate is determined by geography or culture, [the book has] bad news. It's man-made institutions ... that determine whether a country is rich or poor'. 'Man-made' here means that institutions are what they are, because the political system in any given society has an interest in keeping them that way. In Ferguson-speak, the book's message is that it is political freedom and security of property rights (killer app number three) that has been making countries rich. As the book rehashes the new-institutionalist canon (North and Thomas, 1973; North and Weingast, 1989) and tries to retrofit the powerful but flawed (post-) Washington Consensus, it is not difficult to understand why *Why Nations Fail* has enjoyed the circulation it has. But it does not explain what's so special about it.

The book goes beyond the new-institutionalists, however, by claiming that prosperity ultimately rests upon political foundations. Yes, the capitalist class wants the assurance that if it works hard, it can make money and actually keep it — this is where property rights matter. But the quality of the economic institutions, in turn, depends upon the nature of the polity. Politics is paramount: 'When there is conflict over institutions, what happens depends on which people or group wins out in the game of politics' (p. 79). Two key conditions have to hold for economic success: political institutions must be sufficiently centralized to provide basic public goods (including justice, education, secure property rights and contract enforcement), but at the same time the 'power of the executive' must be curtailed by a (more or less 'inclusive') democratic process. It is only when both conditions are met that the right incentives and secure property rights are created which reward hard work and investment, and allow greater market competition and more openness to technological progress. The result is a *virtuous cycle* of innovation, economic expansion, and peace (*sic*!). Nations have failed when their institutions are bad or 'extractive' — the product of political systems that protect the vested interests of a powerful elite (the oligarchy) which exploits and impoverishes everyone else. The result is disorder, which is anathema to investment and innovation. Rent-seeking elites tend to go for ever more repression, limiting access to both the political and economic system, and the result is a *vicious cycle* of bad institutions reinforcing bad outcomes.

The deterministic and mono-causal scaffold of Acemoglu and Robinson's narrative is dressed up with a patchwork of anecdotal evidence that illustrates how political shifts, at critical junctures, can tilt the balance towards favourable institutions — and hence, economic success — or toward repressive institutions, and stagnation or decay. The authors acknowledge that countries with extractive institutions can experience bursts of growth by fully exploiting the potential of existing technologies, but only when their economies are distant from the technological frontier. Extractive growth miracles cannot last, therefore, because they ultimately fail at bringing about innovation and generating 'creative destruction'. The reason is that when new opportunities emerge, it may not be rational for the 'old-order' elite to upset current (rent-extraction) arrangements by allowing the introduction of new technologies if there is a risk that in the process 'the cow which the elite has the power to milk' may be weakened or even killed. 'For he who innovates will have for his enemies all those who are well off under the existing order of things, and only lukewarm supporters in those who might be better off under the new', wrote Niccolò Machiavelli (1532/1974: 13) in *The Prince*. Nineteenth-century Russia and Austria–Hungary illustrate this point: in both nations, the ruling monarchies feared replacement and were powerful enough to block the establishment of institutions that would have facilitated industrialization (and the rise of an industrial proletariat).

The authors generally use a juxtaposition of historical cases (somewhat reminiscent of 'natural experiments') to illustrate how institutional difference leads to diverging economic performance, with notable pairs including: Nogales, Arizona (US), prosperous because of inclusive institutions *versus* across-the-border Nogales, Sonora (Mexico), poor because of extractive institutions; the two Koreas, united until the late 1940s but dramatically diverging ever since; and absolutist Ethiopia/Zimbabwe/Sierra Leone *versus* democratic Botswana. At a more general level, the book points to the role played by the mode of early colonial settlement in bifurcating economic development. Colonized countries that received relatively large numbers of settlers from Britain (such as Australia, Canada, New Zealand and the US) developed more inclusive political institutions, basically because these settlers found nobody to exploit and hence were forced to co-operate, respect each other's property and develop representative political institutions. By contrast, countries with small numbers of settlers developed 'extractive' political institutions designed to exploit the native population. This applies to the tropical-zone countries of Latin America, plundered by Spanish imperialists; Africa, put on the extractive path by various slave-trading European nations; and India, atrophied under British rule. Acemoglu and Robinson argue that because political systems tend to be self-replicating, these early institutional differences have persisted to the present day and hence explain much of today's global inequality — which is, to wit, a sharp rejection of Ferguson's neo-imperialist apologetics.

The conclusion about the primacy of political institutions for development leads the authors to a few unsurprising policy implications in their concluding chapter. The most humdrum one is that well-intended aid dollars are useless when a country has 'bad' institutions, as is the case in some African countries where localized power supposedly usurps the authority of the state. This echoes the recent World Bank view that aid is less effective in a weak governance environment, or USAID's stated mission to help in promoting democracy and expanding the global community of democracies. So, if inclusive political institutions are necessary, how do they come about? On this, Acemoglu and Robinson have rather little to offer: they don't see any natural process whereby rising prosperity transforms an autocracy into an inclusive democracy, and hence conclude, somewhat blandly, that it is broad-based political struggle against privilege that is critical for political transformation. There is no mention of what (working) class struggle means and what political movements do — only a general reference (on pp. 460–62) to the 'transformative role' of the media and ICT in the process of political empowerment, which downplays the role of corporate power in actually manufacturing public opinion. However, when it comes to China, Acemoglu and Robinson let their reservations go, claiming that the roots of its success are 'a radical change in economic institutions away from rigidly communist ones and towards institutions that provide incentives to increase productivity and to trade'. But while this move from 'extractive' to 'more inclusive' *economic* institutions has made rapid growth possible, it will not last, the authors predict, because of China's extractive polity, in which 'the Party controls the armed forces; the Party controls cadres; and the Party controls the news' (p. 462). If China does not transition to inclusive *political* institutions, 'history and our theory suggest that growth with creative destruction and true innovation will not arrive; and the spectacular growth rates in China will slowly evaporate' (p. 442). What is remarkable is that there is no similar prediction for future US growth — which (following their logic) can only be dismal in view of its post-1980 turn to oligarchy and rentier capitalism for the 1 per cent.

Perhaps surprisingly, the authors do not provide a clear definition of what is 'inclusive' and what is 'extractive' independent from actual outcomes. 'Inclusive' institutions are very broadly defined as ones that promote growth; 'extractive' institutions are those that effectively block growth. 'Inclusive' economic institutions include formal property rights and the rule of law, but also concern broader social conditions (including education and culture) which allow individuals to participate in markets. 'Inclusive' political institutions seem to — anachronistically — refer to a modern electoral democracy, but they also include a Weberian centralized state and forms of political participation that hardly resemble modern democracy. In what sense was Rome's political system 'inclusive' relative, for example, to that of the USSR? In what sense was the English polity following the Glorious Revolution incipiently inclusive, when less than 10 per cent of the population had a right to vote? Many such examples not only strain credibility, they also smack of *ex-post* rationalization. Knowing the outcome, the authors found it easy to convince themselves that all successes were inclusive, all failures extractive. For example, Acemoglu and Robinson argue that Rome and Venice grew because of inclusive institutions, but then collapsed because these were replaced in a *coup d'état* by bad institutions. But Rome continued to prosper for nearly four more centuries after Julius Caesar's coup and the establishment of imperial rule — much longer, in fact, than the period of Western prosperity starting from the beginning of the Industrial Revolution. The extractive Mayan Empire, to mention one more ancient case, managed to generate wealth over more than six centuries — a Guinness World Record which will last for another four centuries at least. More recent examples are those of South Korea, Taiwan and China, all of which industrialized under non-inclusive political institutions. South Korea and Taiwan managed to evolve a more inclusive polity, but their experience suggests that inclusive political institutions are the consequence, rather than the cause, of economic success.

There's also selection bias. What to make, for example, of Italy? What is the institutional difference between successful Padania and lagging Il Mezzogiorno? What to think of South Africa, where the shift to more inclusive democracy did not result in improved economic performance? In Russia, the shift to more inclusive political institutions was accompanied by economic collapse, whereas the consequent shift to a more authoritarian system coincided with economic recovery. Another example is India, where growth accelerated somewhat after the neoliberal reforms of the early 1990s, even though India's political and economic institutions became arguably less 'inclusive'. Acemoglu and Robinson try to tone down their claims, putting in the disclaimer that in a real sense, institutional evolution is random: small initial institutional differences, and what the authors call 'institutional drift' (e.g. pp. 108–9; 115; 157; 178–80; 209–12; 300; 431–34) over time can interact with 'critical junctures' and historical contingency to change the path of institutional development. Botswana, for instance, was lucky to have as its leader Seretse Khama, who promoted an inclusive polity, unlike Ethiopia, Zimbabwe and Congo, which were profoundly unfortunate in getting Menistu Haile Mariam, Robert Mugabe and Joseph Mobutu respectively. This emphasis on chance individuals not only comes close to Ferguson's 'great men' interpretation of history, but is also problematic on its own terms, as it invalidates their main claim that today's global inequality can be traced back — more or less in a straight line, via the path-dependent evolution of a country's institutions — to modes of colonial settlement and rule a few centuries ago.

Unsurprisingly, the prototypical example of how stable democratic politics ushered in economic growth is England during the seventeenth and eighteenth century. Acemoglu and Robinson's reading of the English experience, which goes back to North and Thomas (1973) and North and Weingast (1989), forms the heart of the book and acts as the acid test for its argument. The Glorious Revolution of 1688 replaced a corrupt, autocratic monarchy with a political system in which Parliament, admittedly drawn from a limited franchise, controlled the monarch. During the subsequent period of political stability, Britain's transport system was improved, its agricultural commons were aggressively privatized, guilds were abolished, and new institutions of finance and commerce were put in place. But most importantly in Acemoglu and Robinson's account, by disempowering and binding the old-order elite, the Glorious Revolution strengthened the security of private property rights, which, in turn, enhanced the incentive to invest in new technology and eventually culminated in the Industrial Revolution. It is no secret, however, that this particular interpretation of English history is problematic. For one, there is Max Weber's 'England Problem': is it not remarkable that it was in England that industrialization occurred first, despite its poorly specified rights and 'irrational' case-law system, and not in Germany, where private property was more formally and rationally protected by a codified legal system? Weber could not explain the anomaly and finally concluded that England was the exception which proves the 'rights hypothesis'. Talcott Parsons went further, arguing that it was England's lack of codified law which had been a fundamental precondition of the Industrial Revolution — which amounts to a rejection of the new-institutionalist story. And Parsons was right: England's institutional arrangements were definitely contradictory, its legal system was neither direct nor clear, and its institutions did not necessarily encourage free markets (Carruthers, 1990). There is also no evidence that the incentive to invest became stronger. As Gregory Clark (1996) has shown, neither rates of return on capital nor farmland values responded in any way to the political change — hence to 'read the Glorious Revolution as ushering in a stable regime of taxes and property rights that laid the foundation for the Industrial Revolution is to write Whig history of the most egregious sort' (Clark, 1996: 588).

What is most striking is that Acemoglu and Robinson present their argument with greater confidence and authority than their somewhat dumbed-down illustrations appear to warrant. The reason for their confidence is that the anecdotal evidence is backed up by their more ambitious econometric work, published as Acemoglu, Johnson and Robinson (2001, 2002; henceforth: AJR). AJR tried to establish statistically that the nature of institutions protecting private property rights[1] matters to economic performance (which is measured as per capita income at the most recent date). The difficulty is that 'causality' is hard to establish. A simple correlation between 'institutions' and 'performance' will not do, because it may reflect the reverse influence of economic growth on institutions, or the simultaneous influence of omitted variables on both institutions and performance. To circumvent these problems, AJR adopted a two-step, instrumental variable procedure to estimate the 'true' causal impact of 'property-rights institutions' (the independent variable) on economic performance (the dependent variable). The first step was to find a deeper, ex-ante variable that is statistically associated with 'property-rights institutions', but which, unlike 'institutions', can be claimed to be uncorrelated with ex-post 'economic performance'. Step two was estimating a model in which per capita income at the most recent date depends on the variable 'institutions that protect property rights', estimated using the ex-ante instrument in step one. The trick was — as should be clear — to find the strongest possible *valid* instrumental variable to do the job. Validity here means that the mechanism by which the instrument is supposed to affect the measure of 'institutions' is *plausible*. The strength of the instrument has to do with how much of the variance in 'institutions' is explained by the instrumental variable. To be clear, it is no trivial matter to find instrumental variables that are both valid and strong. Valid but weak instruments will not do; weak instruments can be worse than no instruments.

For AJR, the intensity of European colonial settlement holds the key: it was the settler colonies to which the 'right' (English/European) institutions were exported, rather than the colonies where Europeans (and especially the English) did not settle. AJR hypothesize that one main factor explaining the size of a settler population was the risk of disease and death the settlers faced: Europeans were more likely to settle in places where they had a lower mortality risk. Assuming that the direct effects of mortality on economic performance faded over time, while the indirect effect of property-rights institutions persisted, AJR take colonial settlers' mortality rates as their

---

1. Two measures of institutional quality are used: 'protection against the risk of expropriation', as measured by a Washington-based consulting firm (Political Risk Services), and 'constraints on the chief executive', from Polity III. AJR (2002: 1270) acknowledge that their measure of institutions may 'correspond poorly to the real concept that is relevant to development (which is likely to be a broad range of institutions, whereas we only have an index for a particular type of institutions)'.

instrument to predict institutional quality. Using this instrument, AJR find a positive impact of 'good institutions' on economic performance. It goes without saying that the econometrics underlying *Why Nations Fail* is technically sophisticated and definitely cleverly construed. But that doesn't mean that their statistical findings hold water. They don't. Their statistical approach is problematic.

The first issue is theoretical: why focus exclusively on institutions that serve to protect private property? The unstated new-institutionalist assumption is that once property rights are secure, markets will take care of the rest and spontaneously generate development. This bypasses all the evidence (e.g. Paul Rosenstein-Rodan, 1943) that economies at early stages of development are beset with coordination failures of various kinds — on account of, say, highly unequal asset (land) ownership, strategic complementarities in long-term investment decisions, and the absence of credit and insurance markets. Markets then fail, and other coordination mechanisms (notably the state) are needed to kick-start growth. For late-industrializing countries, establishing effective (state) coordination in the face of rampant market failures tends to be more important than establishing security of private property rights and competitive markets, as Alice Amsden (2001) argued — successful development in her view means 'getting relative prices wrong', which is a far cry from AJR's new institutionalism. 'To proclaim the universal superiority of one coordination mechanism over another is naïve, futile and a-historical,' concludes Pranab Bardhan (2004).

The second issue is conceptual and concerns the validity of the instrument. AJR never convincingly demonstrate that Europeans settled on the basis of disease, or that they brought inclusive institutions with them when they came — counter-examples include South Africa, Zimbabwe, the US South and Argentina. AJR assume that institutions established during European colonization have lasted until the present, but Adam Przeworski (2004) has shown that their particular measure of institutions does change considerably over time and, more specifically, that 'good' institutions were more likely to survive in more affluent countries; this implies that 'institutional quality today is still endogenous with regard to income'. AJR further assume that the direct effects of mortality on economic performance have disappeared, but the fact is that their settler's mortality measure is correlated with the present-day disease environment, which has its own direct effect on today's per capita income levels.

A third issue is statistical. A re-examination of the original colonial settler mortality rates by David Albouy (2012) brought out non-negligible inaccuracies and data uncertainties, which after correction created a weak instruments problem. Albouy (2012: 3073–74) concludes that 'it seems unlikely that a convincing set of settler mortality rates can be constructed' and researchers who have used the AJR mortality data 'need to reconsider their conclusions in light of the data issues raised here'. Earlier, Ola Olsson (2004) had shown that colonial settler mortality rates were a very weak instrument for subsamples of the Latin American and African countries, which means that the findings by AJR were driven mostly by Asian countries and the white-settler countries (Australia, Canada, New Zealand and the US). This debate on AJR's findings, which is still ongoing, points to a general methodological problem of instrumental-variable regression: the search is for a valid instrument that is strongly correlated with 'institutions'. That is, the search is for a verification of the hypothesis (Morck and Yeung, 2011) and because it takes much rummaging about in history to identify a valid instrument, researchers may be tempted to search the data for specifications/measures that support their priors, while barely noticing evidence that goes against them. The approach has an in-built confirmation bias and researchers may be tempted into making Type II errors (i.e. they may erroneously fail to reject the null hypothesis that there is no relationship).

The final problem is the most disturbing, however. AJR argue that 'extractive' colonial rule created 'bad' political institutions, which have persisted until today and frustrated development. But they fail to talk about the other side of colonialism: how it actually helped Europe develop. As Rosa Luxemburg (1951: 416) astutely observed, capitalism, haunted by the ghost of under-consumption, cannot accumulate without feeding on the ruins of non-capitalist economies through violent processes of unequal exchange and accumulation by dispossession: 'Only the continuous and progressive disintegration of non-capitalist organizations makes accumulation of capital possible'. In a remarkable bout of clarity, Acemoglu and Robinson (p. 178) recognize the same: 'While in England the profits of slave trade helped to enrich those who opposed absolutism, in Africa they helped to create and strengthen absolutism'. The virtuous cycle in the West, to use Acemoglu and Robinson's vocabulary, fed on the vicious cycle in the Rest — a process persisting in many forms even today, such as the US imposing on the world an extractive regime of intellectual property rights favouring Western 'knowledge monopolists', while deliberately stunting technological catch-up and innovation elsewhere. This insight has one fundamental implication: it is impossible to explain Western success in isolation from 'Restern' failure — which is exactly what the instrumental variable regression tries to do. Consider the following analogy. In randomized controlled medical trials, it is possible to compare independent 'treated' and 'non-treated' patient-groups in order to identify the causal effect of the treatment by measuring differences between the groups, first before and then after the treatment. But in Acemoglu and Robinson's historical analysis, the health of the 'treated' group (the nations with the good institutions) improves by taking life-energy away from the 'non-treated' group (the nations having the bad institutions) in what resembles a zero-sum game. To then celebrate the importance of 'good institutions' is tantamount to missing the forest for the trees.

COLONIALISM, ONCE AGAIN

In 1943, in the midst of the Bengal Famine in which some three million Indians died of starvation, Sir Winston Churchill, one of *Civilization*'s unsung heroes, resisted the fervent pleas — from two successive Viceroys, Churchill's own Secretary of State for India and even the President of the United States — to export food (from Australia and Canada, but destined for Albion) to India in an attempt to end the dearth. Churchill decided to tolerate famine in India, blaming it in Malthusian fashion on Indian philoprogenitiveness (Churchill's actual comment was that Indians 'bred like rabbits'), even though he considered bread rationing in wartime Britain an intolerable deprivation.[2] Ferguson recounts that Gandhi, 'the ascetic holy man' whom Churchill had called 'a fakir striding half naked up the steps of the Vice-regal palace to parley on equal terms with the representative of the King-Emperor', when asked what he thought of Western civilization, is said to have replied that he thought it would be a good idea. Earlier, Gandhi had called Western civilization 'a disease' and 'a bane' (p. 144). Ferguson is — wilfully — oblivious when it comes to understanding Gandhi's 'wit'.

It is not remarkable, therefore, that one author prominently absent from Ferguson's otherwise vast bibliography is Amiya Kumar Bagchi, one of the foremost scholars of the economic and social consequences of colonial rule in India and elsewhere (Bagchi, 2008). His latest book, *Colonialism and Indian Economy*, offers a compelling analysis of the imperialist causes of India's underdevelopment, effectively arguing the case that yesterday's colonialism (the 'Westminster Consensus') is today's Washington Consensus. Bagchi writes in a clear, sharp and combative style; and even if he does not hide his anger, nowhere is it allowed to stand in the way of an analytically grounded analysis. The introductory essay synthesizes the book's main claim, which is elaborated in the various chapters with ample primary data on income, wages, output, land revenue, exports, etc.: that British colonial rule, first under the banner of mercantile capitalism and later of industrial capitalism, ruined indigenous agriculture and industry. This goes against claims that imperialism was on balance a progressive force for India, bringing not only infrastructure (railroads) and the growth of large-scale (capitalist) industry and trade, but also civil society based upon the notion of 'equality before law', in which distinctions of religion or ascribed (caste) status would matter less than before in determining human existence. This 'phantasmagoric' view, writes Bagchi, 'is based on wilful illiteracy and total insensitivity to the deaths of tens of millions of Indians in famines and indirectly, of several hundred millions of avoidable malnutrition and epidemic diseases and a structural retrogression of the economy' (p. xxvii). It is based on 'cherry-picking', choosing only pieces of evidence that favour the neo-imperialist

2. The source of this forgotten imperial brutality is Madhusee Mukherjee (2010).

view, and on an inexplicable casualness about the processes that would sustain their optimistic assessments. To set the stage, Bagchi's historical estimations of real GDP per capita show that Indian per capita income (in real terms) was about one-third lower in 1895–1900 than in 1794 — that a century of oppressive British rule had resulted in absolute decline should 'knock the bottom out of most colonialist apologetics' (p. 10). The book then goes into great detail to explain the causes and consequences of this impoverishment in its variegated regional, sectoral and temporal contexts. Let me here just highlight a few major mechanisms.

The main aim of colonial rule was to squeeze out of the colonized economy a surplus of financial resources to the ruling country. The British were masters at doing this. As Bagchi shows, the tribute (or drain) extracted from India was critical in catapulting Britain to global dominance. It helped pay for British military expenditures in their century-long war against France; victory paved the way for British hegemony in Europe and the world in the crucial period 1765–1812. Later on, Indian surpluses during 1870–1915/16 were so big that they could have financed anywhere between 75% and 95% of British foreign investment worldwide. Colonial control over India was therefore an integral element of British capitalist accumulation, both as a source of funds and a sink for cheap Lancashire cottons — the deeper significance of which is missed by Ferguson and Acemoglu and Robinson. For India, what resulted was a strategy of export-led exploitation (not export-led growth). In agriculture, this was achieved by 'land grabbing' as British rule (and arms!) made existing property highly insecure for the non-white peoples, providing the white (plantation) settlers with free land and command over dispossessed labour power — all for the sake of surplus extraction. Striking at the very existence of most rural people, this dispossession created a 'reserve army' of rural labourers, whose already low real wages generally fell during the nineteenth century and many of whom tragically did not survive the repeated famines of those times. Agricultural land was taxed by the Raj, but so excessively and aggressively as to wipe out any peasants' surplus for capital formation or working capital, while the bigger landlords had neither the authority nor the incentive to maintain irrigation infrastructure. Added to this, British imperial power discontinued public investment in irrigation during the first twenty-five years of rule. In North-East India, the British revenue system (the so-called permanent settlement of land) gave rise to new forms of rentier landlordism with no interest in productivity-enhancing agricultural investment. The British never allowed the rise of a class of landlords with freehold rights in India (except in the region of tea plantations) nor a class of capitalist tenant farmers with a secure tenure of the type they were familiar with in Britain. As a result of all this, there was a decumulation of capital applied to land; the historical records show that, on balance, agricultural productivity, per acre as well as per worker, declined between 1794 and 1901.

At the same time, India was deindustrialized, as was openly recognized by British observers at the time. Before colonial rule, in the seventeenth and eighteenth century, India was the workshop of the world: it featured many industrial centres, it accounted for almost a quarter of global manufactures output in 1750, and the quality of Indian (textile) products was superior to that produced in pre-Industrial Revolution Britain — witness India's considerable export surpluses in manufactures in those days. The prime reason for the industrial destruction was the policy of '*one-way* free trade' (p. 155), which blatantly favoured the import of British manufactures over Indian products. In effect, the proportion of the working population working in secondary activities declined sharply. Especially the cotton weaving and spinning industries were wiped out (as Bagchi illustrates for Gangetic Bihar) with serious knock-on effects on other activities (e.g. trade and transport), but the process of destruction 'continued so long as there was any industry . . . to destroy' (p. 102). Bagchi (p. 59) approvingly quotes Sir John Hicks who remarked that the 'English handloom weavers, who were displaced by textile machinery, could . . . find re-employment in England; but what of the Indian weavers who were displaced . . . ? The poorer the country, the narrower will be its range of opportunities; the more likely, therefore, it is that it will suffer long-lasting damage'. There was no 'creative destruction', just plain 'destruction'. Indian business communities were pushed out of the most profitable avenues of trade or became subordinate collaborators of European businessmen. And workers — hundreds of thousands of weavers and other artisans — lost their livelihoods and were reduced by the East India Company to indentured workers, coerced into selling their products far below their value. Even though it is true that the British and a few Indians established modern capital-intensive large-scale industries, mostly around Bombay and in Bengal, this offered to the Indian worker little more than the choice between 'dying from overwork or from starvation' (p. xliv).

Not even a semblance of (bourgeois) civil society could emerge under colonialism, argues Bagchi, because the rulers routinely used ethnic and racial discrimination, codifying caste and community distinctions that had been more fluid in pre-colonial days. Patriarchy and ethnic or religious ascription became fortified in order to strengthen and/or invent (group) identities at the cost of those of others. Securing property rights (on land) for some meant dispossessing others of their traditional rights. Notions such as 'the rule of law' or 'civil liberty' were meaningless, because the rulers were wont to use various forms of non-market coercion (often in racist ways) at will — for example, the monopsony power of the East-India Company by which the freedom of weavers was restricted, forced labour for public works could be recruited, plantation owners could indenture labour, and even 'free' workers were semi-servile in apparently capitalistic enterprises. 'Civil liberty' in these circumstances is just a fig leaf. 'Can civil liberty be secure when life is not?', Bagchi asks (p. 236) rhetorically. Capitalist colonialism operated by introducing and exploiting markets, but these were in no way 'free' markets, as they were guided and structured by colonial political and military power operating under the long-run imperative of revenue generation, and involved extremely unequal relations between colonizer and colonized, big buyers and peasant sellers or creditors and debtors. Although Bagchi doesn't use these terms, his narrative centres on the symbiotic relationship between the virtuous cycle in Britain and the vicious cycle existing in India.

AVOIDING ANACHRONISM

Prasannan Parthasarathi's book *Why Europe Grew Rich and Asia Did Not: Global Economic Divergence, 1600–1850* does for India what Frank (1998) and Pomeranz (2000) did for China: de-traditionalizing early modern Asia. Parthasarathi shows how stories about Oriental inferiority go back to François Bernier, a seventeenth century French physician who worked at the court of Aurangzeb (the last of the Mughal emperors) and whose 'acrid' account of life in the Mughal Empire had a deep and long-lasting influence on subsequent European thinkers. Parthasarathi (p. 51) quotes Charles de Montesquieu, who never set foot in India but wrote, with apparent great authority, that 'the laws, customs and manners of the Orient . . . remain the same today as they were a thousand years ago', 'power must always be despotic in Asia', and 'in Asia there reigns a spirit of servitude . . . it is impossible to find a single trait that marks a free soul'. Based on Bernier, Adam Smith's *Wealth of Nations* depicted India as an exemplar of past greatness but present-day stagnation, where caste and insecure property rights acted as major impediments to the market and a vibrant commerce. Rather than invest in productive ventures, merchants supposedly buried and concealed their fortunes to protect them from seizure by despotic rulers. Marx, basing himself on Smith, wrote that 'Indian society has no history at all, at least no known history. What we call its history, is but the history of the successive intruders who founded their empires on the passive basis of that unresisting and unchanging society'. James Mill, whose *History of British India* was required reading for civil servants planning a career in India for more than a century, dismissed Indian history as nothing but 'autocratic darkness'. Max Weber — and after him, countless others — held that capitalism rooted in instrumental rationality did not emerge in India because of the caste system which was 'completely traditionalistic and anti-rational in its effect'.

But, so argues Parthasarathi, these eighteenth and nineteenth century writers were wrong: for them, the Indian present (that is, the abysmal economic conditions of the nineteenth century) stood for the Indian past. In earlier times, India had been legendary for its immense wealth and wisdom, and Parthasarathi's book outlines why this was so. During the period 1600–1800, Moghul India, he argues, was commercialized with well-functioning institutions, well-working and integrated markets, and pockets of highly skilled and internationally competitive artisans. The early-modern global trading system was a polycentric order within which India held a prominent position. Vibrant production of cotton textiles for export led to sizeable inflows of silver and gold, which fuelled a commercial revolution. As Parthasarathi demonstrates, India's competitive advantage in cotton cloth did not lie in its low cost and cheapness (*vis-à-vis* European cloth), but rather in its convenience, fashionability and superior quality, especially the fastness and brightness of the colours. As one British observer (cited on p. 32) complained in 1700, the 'manufactured goods from India met with such a kind reception, that from the greatest gallants to the meanest cook-maids, nothing was thought to fit, to adorn their persons, as the Fabrick from India'. True, Indian cloth prices were generally lower than the prices of European cotton and silk manufacturers — a fact which made Daniel Defoe bemoan the unfair competition with India (cited on p. 34) because 'The People who make all these fine Works are to the last Degree miserable, their Labour of No Value, their Wages would fright us to talk of it, and their Way of Living raise a Horror in us to think of it'. But Parthasarathi's data tell a different story again. They show that *real earnings* for weavers, spinners and agricultural labourers were roughly comparable for Britain and India in the mid-eighteenth century. The true source of India's price advantage in cotton lies in India's higher agricultural productivity, which yielded lower prices for food in the Indian subcontinent and therefore allowed for lower money wages (p. 42). High productivity levels suggest that agrarian institutions worked effectively, underpinned by a regime of (relatively) stable and secure property rights (which allowed for investment and innovation rather than promoting the 'burial of fortunes') and political institutions which did not limit the mobility of peasants and artisans, but instead facilitated the distribution of *taccavi* — advances of capital to cultivators for the restoration of production systems after a drought and famine (pp. 77–79). All this leads Parthasarathi (p. 17) to conclude that the 'economic institutions' of the advanced regions of India were not profoundly different from and not inferior to those in Britain in the run-up to the Industrial Revolution — denying Ferguson's claim that the Great Divergence was already three centuries underway by 1800.

Parthasarathi attempts to extend his claim to the institutions of science and technology, but this leads to over-reach. He does debunk conventional claims that Asia had nothing to offer by way of technical or scientific knowledge, and shows that colonial rule did destroy indigenous knowledge. But knowledge per se is not the issue. Europe, driven by inter-state political competition, was unique in creating a regime in which 'useful' knowledge was indeed spread and *used* — with a (military) aggressiveness and single-mindedness that no other society had experienced before. Equivalents of Diderot's *Encyclopédie* or the *Hortus Malabaricus* written in Bengali and printed for sale to the public were unthinkable in the 1700s; rather, India's intellectual achievements, written in Sanskrit, were stored in temples and monasteries with access restricted to Brahmins. Here Parthasarathi does not convince. But he's more persuasive when arguing that the many cases of successful technology transfer from Britain to India in the early-nineteenth century are evidence of a greater comparability in skills and knowledge between these two regions than has been previously appreciated.

In addition to de-traditionalizing India, Parthasarathi's book must also be read as an attempt to *provincialize* Europe (Britain) — the imaginary, mythical Europe, that, as Dipesh Chakrabarty (2000: 27–46) argues, is built into the social sciences as the norm of development. Eurocentric historiography universalizes liberalism and capitalism. Parthasarathi denaturalizes Europe's path of development in two major ways. First, he demonstrates how a deeply felt competitive challenge of Indian cotton textiles helped shape the context for heavily state-guided industrial innovation in Britain's textile industry. The accounts of eighteenth century inventors-cum-cotton-businessmen, which make for fascinating reading, show how much they were driven to innovate by the desire to produce cloth that equalled the fabrics of India, and how much they favoured protection from imports of Indian cloth. British efforts to imitate Indian cloth propelled a search for new techniques of production, which culminated in the great breakthroughs in spinning of the late eighteenth century. As a result, the British cotton industry experienced very rapid growth between 1770 and 1830, and from around 1820, British cotton cloth of Lancashire began to be exported to India, reversing the long-standing flow of textiles from Asia to Europe and commencing India's de-industrialization. By 1845, Lancashire had become the centre of a new global textile manufacturing order. All this was achieved without steam engines, just on the basis of innovation in spinning and weaving machines — the jenny, the water frame and the mule — while steam power became important only after 1830. Parthasarathi's point is that the invention of these mechanical devices in British cotton textiles was induced, more than we realize, by competition from Indian cottons and driven by efforts to imitate them.

Secondly, counter to Ferguson and to Acemoglu and Robinson who accord exclusive priority in their narratives to property rights and 'inclusive' political institutions, Parthasarathi argues that 'coordination' and policy by the British state was far more important to the early stage of industrialization than 'markets'. The technological revolution in cotton and iron in Britain would not have been possible, Parthasarathi holds, without the mercantilist protection to domestic textiles and state encouragement given to the large-scale use of coal. Here his argument builds upon the analysis of German economist Friedrich List, the early-nineteenth century advocate of infant-industry industrialization. Parthasarathi provides a bounty of evidence on how the British Industrial Revolution was shaped by deliberate industrial policy, protecting domestic industry (from foreign competition) and encouraging import-substitution. Already in 1721, Britain banned the import of Indian cotton cloth to protect its sizeable wool and silk industries from the competition of foreign goods. Import competition from India was managed and regulated so as to create a more hospitable economic climate for cotton manufacturers to fashion their imitations of Indian goods. These protectionist walls facilitated the development of skills, technology and markets, which were a precondition for the growth and expansion of the British cotton industry. Even so, it took about fifty years of these types of infant-industry protection measures to bring about the crucial technological breakthrough in spinning (the water frame).

The British mercantilist state shifted the balance of power towards London through the creation of an imperial trading network by violence and force. The British navy captured and protected markets, for instance through the Navigation Acts which helped establish British dominance over Atlantic trade with West African markets (crowding out Indian cottons) and North America (where they had a trading monopoly). At the same time, the fiscal state broadened the tax base by deliberately promoting economic development. Variations of the tariff structure together with the redistribution of the customs revenue, via bounties, drawbacks and tax exemptions, provided the means to encourage industrialization, promote the growth of re-exports and modify the terms of trade between British exports and imports of foreign goods and raw materials. Also of great importance was the willingness of the British state to discipline labour, remaking the lives of workers to meet the needs of manufacturers (p. 146). A growing shortage of wood, a consequence of deforestation, threatened to stunt the industrialization process, but — again — the British state stepped in where markets were failing. It began to actively promote the development of coal as an energy source, for coal had become no less essential to the lives of London's citizens during the winter months than bread itself; and the coal trade was also a reliable and easy source of tax revenue. The successful substitution of coal for charcoal, thus engineered, turned Britain from a high- to a low-cost producer of iron. High tariff protection against Swedish and Russian iron imports provided an economic context that made this innovation possible, giving local ironmasters a guarantee of high prices for their produce as they experimented with coal and new technologies of smelting. This, in turn, sparked the development of the steam engine and new means of transport, including the railway and steamship.

What was true for Britain, Parthasarathi continues, held true even more strongly for the continental European countries such as Belgium, France, Prussia and later Russia. Here he puts himself in the grand tradition of Harvard historian Alexander Gerschenkron, who argued (for Europe) that the more economically backward the country, the greater becomes the coordinating effort to 'catch up' with the more advanced economies, and hence the more likely and necessary the reliance on non-market arrangements to mobilize investment, regulate markets and guide the industrialization process (Amsden, 2001). Europe was different, Gerschenkron argued, because its states came to the aid of industry. But India could not follow the Prussian road, because it was blocked by the British Raj and the East India Company, which ruled the country on a profit–loss basis and, hence, saw investment in public goods such as education and technical knowledge as a deduction from its earnings. In the process, British rule did seriously, if not fatally, weaken India's potential to industrialize and develop. For India, therefore, the nineteenth century represented one big missed opportunity.

Parthasarathi's argument has been criticized, notably by Joel Mokyr (2012), as offering just 'a warmed-up old nationalist chestnut', blaming the Raj squarely for everything that went wrong with India's nineteenth century development. If everything in India was so good, why did it fail to keep up? But this critique misreads Parthasarathi's argument, which is not that India could have been England, but rather that it had, in principle at least, as much potential to industrialize as other late-comers such as Belgium or Prussia. But the Indian society that did emerge in the nineteenth century under imperialist control was radically different from what was there before — for reasons outlined by Bagchi as well. Parthasarathi thus forces us to think in terms of counterfactuals: could an independent Indian state, in the absence of colonial domination, have performed successfully in Gerschenkronian fashion, or not? Conclusive answers remain elusive, but Parthasarathi undoubtedly succeeds in bringing out the crucial role of the state and deliberate industrial policies — rather than property rights and markets — in shaping the speed and form of economic development. Not only was Europe's success not as inexorable as it is made out to be by authors from Weber to Ferguson, but it was above all policy-driven. 'Britain diverged from Asia, as well as other parts of Europe, not because it possessed rationality, science, markets, capitalism or anything else in greater abundance, but because the pressures and needs it faced — in combination with its state policies — produced a revolutionary response' (Parthasarathi, p. 2).

WHAT IS HISTORY?

Confronting this collection of books makes it clear that there is no easy agreement on 'what has really happened'. This is not surprising. Historical facts, as E.H. Carr (1961: 23) wrote long ago, are 'like fish swimming about in a vast and sometimes inaccessible ocean; and what the historian catches will depend partly on chance, but mainly on what part of the ocean he chooses to fish in and what tackle he chooses to use — these two factors being, of course, determined by the kind of fish he wants to catch'. History, in other words, implies interpretation — history as a compilation of 'objective facts' is untenable, 'a preposterous fallacy, but one which is very hard to eradicate' (Carr, 1961: 12). Equally untenable is the proposition that because all facts are subjective, history is but the subjective re-imagination of the past by the historian (which seems to be the view taken by Ferguson). Instead, Carr argues, history should follow a middle-path: an exchange between one's priors and the evidence, as well as an unending dialogue between past and present. In doing this, it is crucial to avoid anachronism, teleology and 'just-so' stories — for the simple reason that 'history is the record of "effects" the vast majority of which nobody intended to produce', as Joseph Schumpeter (1939: 1045) remarked. Historiography must therefore come to an understanding of what happened that is not wholly premeditated by present concerns. 'With hindsight one can conclude that industrialization produced the divergence between Europe and Asia', writes Parthasarathi (pp. 9–10), 'but neither Europeans nor Asians in the seventeenth and eighteenth century were attempting to develop an industrial society'. Europe's industrialization was an unanticipated, unforeseen and unintended outcome of the economic and social needs that were found in that part of the world.

History also has to find a middle-path between 'structure' or deterministic forces, on the one hand, and 'agency' or human free will, on the other. 'Men make their own history, but they do not make it as they please', wrote Marx, that unkempt scrounger, in *The Eighteenth Brumaire*: 'they do not make it under self-selected circumstances, but under circumstances existing already, given and transmitted from the past'. But historical change is not deterministic and fully path-dependent, it is a dialectical process, in which structure shapes and is itself shaped by the actions of individuals and collectives. This means that history is more than applied econometrics — because, even if the search is for probabilistic (and not fully deterministic) causation, the statistical analysis still presupposes causal determinism. 'Wrong' institutions *cause* under-development, with a high probability. But the econometric findings, as by Acemoglu and Robinson, are only as good or valid as the validity of the premises on which they rest. For instance, is it valid to narrow down the notion of 'institutions' to exclusively 'institutions that protect property rights' and neglect all other dimensions? The principle 'garbage in, garbage out' holds true in econometrics as well, so the question arises: how much information can one extract from the primary data without compromising on rigour, meaning and reliability? When pooling data across countries and over very long periods of time ('compressing' history), the question is: is such data pooling legitimate? Attempts to establish causality — by instrumental variable regression, for instance — are likely to suffer from confirmation bias (as the search is for a strong instrument), while one cannot dismiss the possibility that latent variables interfere in the relationship, or that the effect is obscured by inherent noise in the data. 'Counting', wrote Barrington Moore (1967: 520), 'necessarily involves ignoring all differences except the one being measured. It requires reducing evidence to similar units. . . . The necessities of counting . . . make it necessary to ignore structural differences sooner or later'. Hence, econometric findings are at most deductive inferences, offering clues for digging deeper and exploring more. But econometric analysis generally stops at the discovery of a good fit — as AJR do.

Going beyond statistics, historical research means careful engagement with the archival sources, contextualization of events, writings and competing narratives, and critical checking for internal and external consistency. This is exemplified by the way Bagchi engages with the late-eighteenth century data of Henry Thomas Colebrooke or early-nineteenth century data of Francis Buchanan Hamilton, or Parthasarathi carefully deconstructs the conflicting data on grain wages by Stephen Broadberry and Bishnupriya Gupta (2006). Of course, their methodologies are also open to debate and have their problems, but I believe them to be less critical than the difficulties inherent in using econometric techniques, reductionist methodologies borrowed from science, and downloadable panel-data — none of which guarantees good historiography.

Perhaps it was true, as Dipesh Chakrabarty (2000) argued not so long ago, that the subject of history is always Europe, even when the histories in question are those of Africa, India, China or Latin America. But the West, long held to be the example of linear progress, is in decline, while the Rest is on the rise. The remainder of this century will show how this shift in power and wealth plays out. While for the moment most of us have lost the historical plot, it is evident that the Global Shift will change our interpretation of the past — a revisionism which has already begun, as shown by Parthasarathi's book. New questions will be asked and new perspectives will emerge in the course of time. World history is unlikely to remain the provenance of Eurocentric scholarship, however much Ferguson wants us to believe otherwise.

REFERENCES

Acemoglu, Daron, Simon H. Johnson and James A. Robinson (2001) 'The Colonial Origins of Comparative Development: An Empirical Investigation', *American Economic Review* 91(5): 1369–401.

Acemoglu, Daron, Simon H. Johnson and James A. Robinson (2002) 'Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution', *The Quarterly Journal of Economics* 117(4): 1231–94.

Albouy, David Y. (2012) 'The Colonial Origins of Comparative Development: An Empirical Investigation: A Comment', *American Economic Review* 102(6): 3059–76.

Amsden, Alice H. (2001) *The Rise of 'The Rest': Challenges to the West from Late-Industrializing Economies*. Oxford: Oxford University Press.

Bagchi, Amiya Kumar (2008) *Perilous Passage: Mankind and the Global Ascendancy of Capital*. London: Rowman and Littlefield.

Bardhan, Pranab (2004) 'History, Institutions and Underdevelopment'. Berkeley, CA: Department of Economics, University of California, Berkeley. http://emlab.berkeley.edu/users/webfac/bardhan/papers/Bardhan_Scarcity_Ch1.pdf

Bates, Stephen (2011) 'Stick to Facts, Mr Gove', *The Guardian* 21 January. http://www.guardian.co.uk/commentisfree/2011/jan/21/michael-gove-national-curriculum-facts

Broadberry, Stephen and Bishnupriya Gupta (2006) 'The Early Modern Great Divergence: Wages, Prices and Economic Development in Europe and Asia, 1500–1800', *Economic History Review* LIX(1): 2–31.

Bromwich, David (2011) 'The Disappointed Lover of the West', *New York Review of Books* 22 December, pp. 20–22.

Carr, Edward Hallett (1961) *What is History?* New York: Random House.

Carruthers, B.G. (1990) 'Politics, Popery, and Property: A Comment on North and Weingast', *Journal of Economic History* 50(3): 693–98.

Chakrabarty, Dipesh (2000) *Provincializing Europe: Postcolonial Thought and Historical Difference*. Princeton, NJ: Princeton University Press.

Clark, Gregory (1996) 'The Political Foundations of Modern Economic Growth: England, 1540–1800', *The Journal of Interdisciplinary History* 26(4): 563–88.

Frank, André Gunder (1998) *ReORIENT: Global Economy in the Asian Age*. Berkeley, CA: University of California Press.

Hobsbawm, Eric J. (1992) 'Ethnicity and Nationalism in Europe Today', *Anthropology Today* 8(1): 3–8.

Judt, Tony (2010) *Ill Fares the Land*. London: Penguin Books.

Kipling, R. (1902) *Just So Stories*. London: Macmillan and Co Ltd.

List, Friedrich (1844) *National System of Political Economy*. New York: Dry Bones Press.

Luxemburg, Rosa (1951) *The Accumulation of Capital*. London: Routledge and Kegan Paul.

Machiavelli, Niccolò (1532/1974) *The Prince*. London: Penguin Books.

Mill, James (1817) *The History of British India, 6 vols*. London: Baldwin, Cradock and Joy.

Mishra, Pankaj (2011) 'Watch this Man', *London Review of Books* 33(21): 10–12. http://www.lrb.co.uk/v33/n21/pankaj-mishra/watch-this-man

Mokyr, J. (2012) 'Review of Prasannan Parthasarathi, *Why Europe Grew Rich and Asia Did Not: Global Economic Divergence, 1600–1850*'. http://eh.net/book_reviews/why-europe-grew-rich-and-asia-did-not-global-economic-divergence-1600—1850

Moore, Jr., Barrington (1967) *Social Origins of Dictatorship and Democracy*. London: Allan Lane.

Morck, Randall and Bernard Yeung (2011) 'Economics, History, and Causation', *Business History Review* 85(Spring): 39–63.

Mukerjee, Madhusree (2010) *Churchill's Secret War: The British Empire and the Ravaging of India during World War II*. New York: Basic Books.

North, Douglass C. and Robert Paul Thomas (1973) *The Rise of the Western World: A New Economic History*. Cambridge: Cambridge University Press.

North, Douglass C. and Barry Weingast (1989) 'The Evolution of Institutions Governing Public Choice in 17$^{\text{th}}$ Century England', *Journal of Economic History* 49: 803–32.

Olsson, Ola (2004) 'Unbundling Ex-Colonies: A Comment on Acemoglu, Johnson and Robinson 2001'. Working Papers in Economics No. 146. Göteborg: Department of Economics, Göteborg University.

Polanyi, Karl (1957) *The Great Transformation: The Political and Economic Origins of Our Time*. Boston, MA: Beacon Press.

Pomeranz, Kenneth (2000) *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton, NJ: Princeton University Press.

Porter, Bernard (2011) '*Civilization: The West and the Rest* by Niall Ferguson – Review', *The Guardian* 25 March. http://www.guardian.co.uk/books/2011/mar/25/civilization-west-rest-niall-ferguson-review

Przeworski, Adam (2004) 'Geography versus Institutions Revisited: Were Fortunes Reversed?'. New York: Department of Politics, New York University (mimeo).

Rosenstein-Rodan, Paul N. (1943) 'Problems of Industrialization of Eastern and South-Eastern Europe', *The Economic Journal* 53: 202–11.

Schumpeter, Joseph Alois (1939) *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process*. New York: McGraw-Hill.

Shiue, Carol H. and Wolfgang Keller (2007) 'Markets in China and Europe on the Eve of the Industrial Revolution', *American Economic Review* 97(4): 1189–216.

Servaas Storm works on issues in macroeconomic policy, technological change, growth and distribution, with a focus on the financial and the climate crises. His latest book (jointly authored with C.W.M. Naastepad) is *Macroeconomics Beyond the NAIRU* (Harvard University Press, 2012). He can be reached at the Department of Economics, Faculty TBM, Delft University of Technology, Jaffalaan 5, 2628 BX Delft, The Netherlands; e-mail: s.t.h.storm@tudelft.nl

discussing why the West rules the world and sometimes why it is its wealthiest. part. Both are questions considering â€œcapabilities to get things doneâ€, but they. are not identical and the connections between power and wealth are anything but. unequivocal.Â actual description of why Britain was first and the rest of the Western world. followed suit, however, Morris takes a lot for granted that has nothing to do. whatsoever with geography.Â West that became rich were not integral parts of the Atlantic economy. Several. regions that were or had been, did not industrialize or only quite late. What is. the role of geography in early-industrializing countries like Belgium and. Switzerland or in countries that caught-up like Germany, the USA, or Japan? Why did these not occur in China or the Muslim world and only in Europe? His narration revolves around the political fragmentation in Europe that beset it in the wake of the rise of nation states. Political fragmentation gave rise to fierce competition, not just in commerce and trade but also in ideas which spread as innovations like the printing press made their presence felt. Nation states, as they raced to embrace science and technology, also competed for leading scholars and thinkers. This spawned a culture of openness, not just in science but also in ideas. Why are we so rich? An American earns, on average, $130 a day, which puts the U.S. in the highest rank of the league table. China sits at $20 a day (in real, purchasing-power adjusted income) and India at $10, even after their emergence in recent decades from a crippling socialism of $1 a day. After a few more generations of economic betterment, tested in trade, they will be rich, too. Actually, the â€œweâ€ of comparative enrichment includes most countries nowadays, with sad exceptions. Two centuries ago, the average world income To Read the Full Story. Subscribe Sign In. Continue reading your Contemporary Development and Economic History: How do we Know what Matters?. Economic History of Developing Regions, Vol. 27, Issue. sup1, p. S136. CrossRef.Â Goldstone, Jack A.â€œEfflorescences and Economic Growth in World History: Rethinking the â€˜Rise of the Westâ€™ and the Industrial Revolution,â€Journal of World History 13 2002 323. Goody, JackThe East in the WestCambridge 1996. Greenberg, Doloresâ€œReassessing the Power Patterns of the Industrial Revolution: An Anglo-American Comparison,â€American Historical Review 87 1982 1237.