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What was the Great Divergence?

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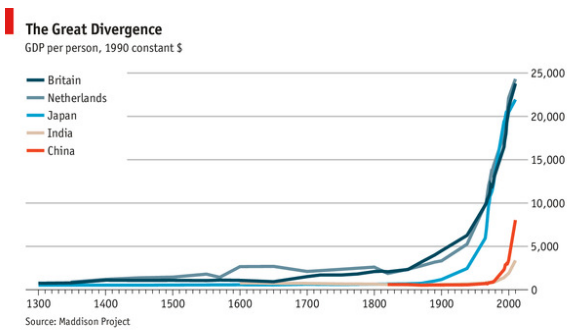
This post has been updated to include a suggested reading list.

A better understanding of economic history might have helped the world avoid the worst of the recent crisis. Free exchange continues its discussion of milestones in economic history, showing how they contributed to the development of economic thought. You can read the first entry here (http://www.economist.com/blogs/freeexchange/2013/08/economic-history) .

A FEW centuries ago it would have been difficult to tell Europe apart from the rest of the world—in economic terms, at least. Indeed, half a millenium ago Europe might justly have been considered a laggard. The three inventions which, in the words of Karl Marx, “ushered in bourgeois society” were not invented in Europe. Gunpowder, the compass and the printing press were probably all invented in China.

But by the 19th century, things were rather different. Western Europe and parts of North America had become fabulously wealthy. Almost everywhere else was horribly poor. Economic historians refer to this as the “Great Divergence”.

The timing of the divergence is hotly debated. Some think that it really took off around 1800. Others reckon that it was earlier. Such debates will probably never be resolved with much precision, given the unreliability of the evidence. But the question of what caused the divergence might be of more interest.



Cultural factors are a popular explanation for European ascendancy. Max Weber, a German sociologist, thought he had the question nailed. In his book “The Protestant Ethic and the Spirit of Capitalism”, published in 1905, Weber argued that religious factors were crucial for spurring European economic growth. Weber's view centred on Calvinism—a branch of Protestantism—and argued that it encouraged Europeans to be thrifty, rational, and concerned with material gain. Such values did not exist outside Europe where, according to Weber, material wealth was not revered and entrepreneurship was seen as subversive.

Similar arguments have emerged since Weber. Thomas Sowell, at Stanford University, points to the British as responsible for no less than the invention of freedom. In Mr Sowell's view, the British were a shining light of economic development, which other countries gradually learnt to imitate. (Fascinating new research (http://www.nber.org/papers/w19361.pdf?new_window=1) explores a similar theory: that learning best practices from others is essential to growth and becomes harder the greater the cultural distance from economic leaders.)

But other historians reject the idea that European cultural superiority caused the Great Divergence. Rather, it was their plundering and pillage of foreign lands which was responsible. According to James Blaut, an American historian, the year 1492—when Christopher Columbus landed in America and set off centuries of European colonialism—"represents the breakpoint between two fundamentally different evolutionary epochs". From 1492 onwards, Europe pulled in raw materials, currency and labour, and deliberately held back the rest of the world.

Furious debate has raged between these two camps. Those who think that Europe was a beacon of progress are opposed to those who think that it was a ruthless thief. But in both cases, cultural factors take centre stage.

But others have looked to non-cultural explanations. Jared Diamond, at the University of California, Los Angeles, suggests that environmental factors played a crucial role in the European take-off. Mr Diamond argues that Europe was uniquely endowed with domesticable plants and animals. Its population was also more immune to diseases. These factors led to higher productivity and, crucially, higher population density. The upshot? The development of institutions such as cities, bureaucracies and literate classes, which contributed to economic growth. Economist Gregory Clark presents an explanation similar to this but with a macabre twist; as disease picked off Britain's poorer residents, he argues, the population became steadily more competent and productive, leading eventually to the self-sustaining growth of the Industrial Revolution.)

Some are aghast at Mr Diamond's work. They accuse him of "environmental determinism"—the idea that climatic conditions are fully responsible for human behaviour. But Joel Mokyr, at Northwestern University, quotes Mr Diamond's work approvingly. Environmental differences are important, but they do not explain everything.

Mr Mokyr suggests that many different factors, working together, allowed Europe to take off. The development of "open science" in the 16th century helped with the spread of economically useful ideas. Another theory suggests that the Glorious Revolution in Britain of the 1680s, which reduced the power of the monarch, was a crucial stepping-stone in the country's economic development. After the revolution, people became less worried that their profits would be summarily seized by the Crown, as they had been in the past. And so they became keener to work hard. This theory is at the heart of the book "Why Nations Fail", by economist Daron Acemoglu and professor of government James Robinson.

The Western affection for capitalism, as well as colonialism, certainly contributed too. Mr Mokyr argues that the causes of the Great Divergence are “overdetermined”. Many different factors intertwined to create European dominance—and no single factor would have been enough on its own. This conclusion might seem like a typical academic fudge. But the point is that the Great Divergence was not simply caused by European culture. Rather, it emerged because a business-friendly, open and innovative economy was created—mostly by accident.

A better understanding of the Great Divergence would help to refine some received economic wisdom—particularly the assumption that a country's culture determines its economic success. Economic woes in Greece have been ascribed to the laziness and profligacy of its people—even though figures from the OECD, a Paris-based club of rich countries, show that the Greeks work more than those in most other rich countries. In Britain, Nick Clegg, the Deputy Prime Minister, has been harping on about “alarm clock Britain” (http://www.economist.com/blogs/bagehot/2011/01/perils_populism) —undefined role models for the idle. And India’s growth over the past few decades has been put down to the population's unbeatable work ethic—although we have been hearing less about this as their economy has faltered (http://www.economist.com/news/leaders/21583994-indias-economy-its-tightest-spot-1991-now-then-answer-be-bold-how) . Cultural explanations for booms and busts are tempting, but economic history shows that they rarely stand up to scrutiny.

Update:

Suggested reading list:

Blaut, J. M. (1992). ‘Political geography debates no. 3: On the significance of 1492: I. Fourteen ninety-two’. Political Geography, 11(4), 355-385. *[A good summary from a Marxist historian. Blaut argues that European ascendancy began after 1492, as it was able to draw in capital from the "New World"—in particular, the Americas]*

Clark, G. (2008). A farewell to alms: a brief economic history of the world. Princeton University Press. *[A good introduction to these debates. Controversial, particularly in relation to its “genetic” arguments for European ascendancy]*

Mokyr, J. ‘Innovation in a historical perspective: tales of technology and evolution’, in Steil, B., Victor, D. G., & Nelson, R. R. (Eds.). (2002). Technological innovation and economic performance. Princeton University Press. *[More difficult, but very good on how technological innovation evolved over time—especially after 1750]*

North, D. C., & Weingast, B. R. (1989). Constitutions and commitment: the evolution of institutions governing public choice in seventeenth-century England. The Journal of Economic History, 49(04), 803-832. *[A very influential paper. It argues that the Glorious Revolution resulted in institutional changes that favoured capitalism]*

Pomeranz, K. (2009). The great divergence: China, Europe, and the making of the modern world economy. Princeton University Press. *[Another good introduction. Notable for its use of the term "ghost acres"—the idea that Europe could grow fast because it exploited foreign lands to grow raw materials and food]*

Weber, M. (2002) [1905]. The Protestant ethic and the spirit of capitalism. Penguin. *[The opening part is enough for most people—but it is a classic]*

Wrigley, E. A. (2000). 'The divergence of England: The growth of the English economy in the seventeenth and eighteenth centuries'. Transactions of the Royal Historical Society (Sixth Series), 10(1), 117-141. *[Points to the success of the agricultural sector in explaining growth between 1550 and 1820]*