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A Critical Assessment of Liberal History Writing:
Why Nations Fail in Light of Evidence from post-1688
British Institutions

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1. Introduction

Over the last decades, many economists have tried to bring together economics, politics, and history in order to put an end to the isolation of economics from other social sciences. New institutionalist scholars stand out within this current with their peculiar interpretation of history, taking the Glorious Revolution of 1688 as its turning point. This view attributes the formation of secure private property rights, the emergence of high finance, pluralistic institutions and limited government (as opposed to arbitrary administration under absolutist rulers) to the Revolution in 1688, which then created the right incentives and resulted in an unprecedented economic activity¹.

The much-lauded latest book of Daron Acemoglu and James Robinson, *Why Nations Fail*, carries the above mentioned approach to its extremes, reads the entire history from the Neolithic Revolution up to the present merely through institutional glasses, and claims that it is nothing but political and economic institutions that determined economic development throughout the history. In line with many mainstream economists' view, the active role of the state, wars, and mercantilism, i.e. the actual character of competition in the centuries surrounding the Glorious Revolution is systematically disregarded and excluded from the general narrative of the book. Thus, it reads as a plea for mainstream economic theory, and projects it back into history.

The aim of this work is to provide a critical assessment of the book's general approach and conclusions. Accordingly, in the first and shorter part, I will discuss the central concepts, methods, and arguments of the book from a critical perspective. For the Glorious Revolution and its aftermath attracts the greatest attention in the book, the second and more detailed part will focus on post-1688 England, and its political and economic institutions. This, in turn, will allow for evaluating Acemoglu and Robinson's framework for interpreting history, and reveal where it falls short of the mark in the concluding section of this work.

¹ Many references to such studies can be found in the second part of this work.

2. Why Nations Fail – A General Assessment

In the first chapter of this part, I will provide a brief summary of the book, and introduce the central concepts and the authors' main arguments. The subsequent chapters will deliver a deeper look into the subject and discuss some aspects, which the reader will have familiarised with, from a critical perspective. The general critique provided in the first part will pave the way for a more profound discussion of a specific point in the second part, namely the political and economic evolution of post-1688 England/Britain. Now, let us turn to the main concepts and arguments of *Why Nations Fail*.

2.1 *Why Nations Fail According to Acemoglu and Robinson*

As the title chosen by the authors suggests, their intention is to explain the origins of poverty, prosperity and power. The book opens with the question of why the Egyptian people gathered in the Tahrir Square, or to put it in broader terms, what were the factors underlying the so-called Arab Spring. The authors' answer is that the root of discontent in countries such as Tunisia, Egypt, Libya, and so on, lies in their poverty². Already in the first pages of the book, Acemoglu and Robinson (hereafter AR) argue that the reason for poverty in these countries is that they have “been ruled by a narrow elite that have organized society for their own benefit at the expense of the vast mass of people.”³ Hence, as early as in the preface, AR place the emphasis on political and economic institutions, which make the very core of their argument and come up in every chapter of the book. In fact, the authors time and again underline that neither geographical nor cultural arguments are capable of explaining the differences in income per capita between North and South Korea, or the US American Nogales/Arizona and Mexican Nogales/Sonora, which border each other and had been sharing the same culture before establishing different institutions and diverging economically, and still share similar geographical environments. Disparate economic outcomes are rather created by different political and economic institutions, on which I will dwell below. In order to make an analytical assessment easier, one can say that the theory put forth in the book operates on two levels. The first distinguishes between political and economic institutions that foster growth and prosperity, and those that hinder it. The second asks why some countries have growth-friendly institutions, while others do not⁴. Let me start with the first one.

² See Daron Acemoglu and James A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty* (New York 2012) 1.

³ Ibid. 3.

⁴ See ibid. 429.

In accordance with mainstream economic thought, AR write that economic institutions conducive to growth “are those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish.”⁵ The authors call such institutions ‘inclusive economic institutions,’ and add that they “must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract.”⁶ In contrast, institutions that lack these properties or have an opposite character are called ‘extractive economic institutions,’ for they serve to extract incomes and wealth from a vast mass of people in favour of a small elite⁷. However, inclusive economic institutions are a necessary, but not sufficient condition of sustained growth. It is political institutions that determine which set of economic institutions a country will have. Thus, AR make an analytical distinction between inclusive and extractive political institutions. The former feature sufficient centralisation with state monopolising the legitimate use of force and enforcing law. Moreover, power must be subject to constraints and broadly distributed in society so that an absolutist monarch or a small elite cannot augment their power at the expense of the rest. In the book these kinds of political institutions with a sufficient degree of centralisation and pluralism, are referred to as ‘inclusive political institutions’, while the absence of either of these conditions creates ‘extractive political institutions’⁸.

AR postulate a strong synergy between economic and political institutions. Extractive political institutions help concentrate power and allow for exercising it in favour of a narrow elite. This elite then establishes extractive economic institutions to transfer resources from the rest of the society. This, in turn, increases the power of the narrow elite and helps it consolidate its power by structuring future political institutions. Inclusive political institutions, on the contrary, distribute power broadly and tend to abolish extractive economic institutions. The authors call such cycles ‘feedback loop’⁹. It is remarkable that economic institutions, in the last instance, inherently depend on political institutions for their survival. In other words, politics play the ultimately decisive role.

As mentioned above, on a second level, the theory suggested by the authors aims at explaining why inclusive political and economic institutions emerged in some countries, and

⁵ Ibid. 74.

⁶ Ibid. 74f.

⁷ See ibid. 76.

⁸ See ibid. 80f.

⁹ See ibid. 81f.

not in others. Let us briefly reconstruct their argument through focusing on how the first set of inclusive institutions in the history emerged in Britain with the Glorious Revolution of 1688.

Rome's fall had created a decentralised political order in Europe, which is referred to as feudalism. By-products of this process were the disappearance of slavery and the emergence of independent cities. The Black Death created a massive scarcity of labour, thus the bargaining position of peasants became stronger. In Western Europe, an inclusive labour market gradually emerged as peasants freed themselves from compulsory services and other obligations, while in Eastern Europe landlords succeeded in intensifying their control over the labour force as towns were weaker and less attractive, and peasants less organised. These 'small differences' in terms of how organised peasantry was and to what extent towns played a role were very consequential for the future development of institutions. The Black Death represents a 'critical juncture' according to AR, i.e. "a major event or confluence of factors disrupting the existing economic or political balance in society."¹⁰ Small initial differences, combined with the Black Death as a critical juncture, set the stage for the gradual disintegration of feudal relations in Western Europe, and consolidated these relations in Eastern Europe, which was to be called the Second Serfdom¹¹.

There were also small differences within Western Europe. For instance, both the English Parliament and the Spanish Cortes were instrumental in taxation. However, after 1492, the Spanish Crown benefited handsomely from the gold and silver flowing from the Americas. While Elizabeth I of England depended heavily on Parliament for taxes, and had to make concessions particularly in terms of her right to create monopolies in exchange, Philip II of Spain monopolised trade and became increasingly independent from Parliament, the Cortes. Consequently, an influential class of merchants emerged in England, and not elsewhere. These small differences, in conjunction with the flourishing Atlantic trade engendered a fairly unique balance of power in England, which reflected a clash of interests between merchants and the Crown, and paved the way for the English Civil War, the Glorious Revolution and the Industrial Revolution¹².

Besides small initial differences and critical junctures, contingency plays a crucial role in the evolution of history according to the authors. As Philip II sent a great fleet to Britain in 1588, in order to eliminate challenges to his monopoly over the Atlantic trade, the expected outcome was that the Spanish would ultimately defeat the English. However, bad weather

¹⁰ Ibid. 101.

¹¹ See *ibid.* 98ff.

¹² See *ibid.* 105ff.

conditions and strategic mistakes by the inexperienced commander of the fleet allowed the English to destroy their much more powerful Spanish opponents, which opened up the Atlantic seas to the English on more equal terms and ignited the events leading to the Glorious Revolution¹³. In AR's words, "the entire path leading up to this political revolution was at the mercy of contingent events."¹⁴

To recapitulate, sustained growth based on creative destruction can only be achieved under inclusive political and economic institutions, so claim AR. Extractive institutions are not conducive to creative destruction because of the lack of economic incentives, for the surplus is not (entirely) accrued to the investor, or the resistance by the elites who fear any political or economic destabilisation. However, it is creative destruction which replaces the old with the new, reallocates resources from the former to the latter, makes existing skills and machines obsolete, fosters economic growth, and creates losers as well as winners in economic and political terms¹⁵. Then, this also explains why some countries are poor. Nations fail primarily because they have extractive political institutions, which induce extractive economic institutions. Rulers who take advantage of extractive political institutions fear and hinder innovations for their impacts could pose a threat to their reign. The reason, for instance, why Ottoman sultans prohibited or strictly restricted the use of printing press was that books spread ideas, which could challenge the status quo¹⁶. The Austrian-Hungarian monarchy and Tsarist Russia opposed the construction of railways, Chinese Ming and Qing dynasties restricted international trade on similar grounds, namely the fear of creative destruction¹⁷. Additionally, recall that inclusive political institutions require not only pluralism, but also a sufficient degree of centralisation. Lack of state centralisation, infighting and constant warfare led to the collapse of Maya civilisation that was based on city states¹⁸, and hindered many other countries to take advantage of industrialisation, such as Somalia¹⁹.

It is notable that extractive institutions in many countries have colonial origins. As the Spanish conquered Latin America, they created a set of institutions designed to exploit the indigenous people, forcing their living standards to a subsistence level and extracting the entire surplus²⁰. Similarly, many Africans were captured and subjected to slave trade by European colonisers. Even after the suspension of slave trade, native Africans were

¹³ See *ibid.* 110f.

¹⁴ *Ibid.* 110.

¹⁵ See *ibid.* 84.

¹⁶ See *ibid.* 213ff.

¹⁷ See *ibid.* 222ff.

¹⁸ See *ibid.* 143ff.

¹⁹ See *ibid.* 238ff.

²⁰ See *ibid.* 11ff.

expropriated and impoverished so that they could serve as cheap labour supply, as it was the case with Zimbabwe²¹ or the apartheid regime in South Africa²². Nor did de-colonisation help much. Many of the post-independence leaders of former colonies, such as those of Sierra Leone²³ or Guatemala²⁴, chose to consolidate their power and make use of extractive institutions inherited from the colonial era, instead of encouraging growth and development, which brings us to the next point.

Once in place, inclusive and extractive institutions tend to persist, through creating virtuous and vicious circles, respectively. As indicated above, inclusive political institutions feature pluralism, i.e. the distribution of power across a broad coalition, which makes the abuse of power by a dictator, group, or elite much more difficult. Moreover, inclusive political institutions support inclusive economic institutions, for the arbitrary exercise of power is constrained, and the political institutions are supported by inclusive economic ones insofar as the latter create a level playing field and a fairer distribution of resources, hindering a disproportionate concentration of wealth and power in the hands of a small group²⁵. In contrast, extractive political and economic institutions support and reproduce each other, as the former allow for unconstrained or meagerly restricted exercise and abuse of power. Consequently, rulers establish extractive economic institutions in order to enrich themselves, which in turn provide them with more wealth and power. The overthrow of a regime based on extractive institutions or colonial rule engendered in many cases a new group of masters to exploit the same set of extractive institutions, thus resulting in a vicious circle²⁶. Although vicious circles are not inevitable, as the Glorious Revolution in England indicates, AR claim that extractive institutions heavily tend to persist whether or not they have colonial roots.

There is a final point which is worth mentioning here. AR emphasise that sustained growth can only be achieved under inclusive political and economic institutions, which encourage creative destruction. However, this is not to say that extractive institutions cannot generate any growth. There are two ways in which an economy can grow under extractive institutions. First, unrealised economic potential can be unlocked by reallocating resources from inefficiently organised agriculture to industry, as it was the case in the Soviet Union from the 1920s to 1970s. The USSR grew impressively due to industrialisation in this period.

²¹ See *ibid.* 368ff.

²² See *ibid.* 258ff.

²³ See *ibid.* 336ff.

²⁴ See *ibid.* 345ff.

²⁵ See *ibid.* 332ff.

²⁶ See *ibid.* 364ff.

However, this growth was not based on innovations and creative destruction, for both political and economic institutions were extractive, according to AR, and thus was not sustained²⁷.

Secondly, extractive political institutions might generate some growth, if somewhat inclusive economic institutions are tolerated. In other words, if the elites find their position sufficiently secure, they might permit or even support some steps towards inclusive economic institutions. The US-assisted South Korean industrialisation under General Park illustrates this second type of growth under extractive political institutions. As an exception, South Korea switched from extractive to inclusive political institutions in the 1980s, instead of reversing the move towards inclusive economic institutions²⁸. Also, China has been growing for some 35 years under extractive political institutions, which can be attributed to the radical reforms undertaken after Mao's death, such as the opening up to foreign investment, establishing an incentive system first in agriculture and then in industry, and adopting new technologies. However, China has not yet transformed its political institutions, and its growth is thus based on the adoption of existing technologies and large-scale state-backed investments, rather than creative destruction. This catch-up growth cannot be sustained, so argue AR, unless extractive political institutions give way to inclusive ones²⁹.

To sum up, *Why Nations Fail* puts forward that sustained growth requires inclusive political and economic institutions. The former stand for the distribution of power in a pluralistic manner and a sufficient degree of centralisation, while the latter provide secure private property, an unbiased system of law, and a level playing field. While inclusive political and economic institutions support each other, it is very likely that in the absence of inclusive institutions, the ruling elites oppose innovations and creative destruction, for these involve political and economic changes, i.e. a potential destabilisation of their power. Hence, once established, inclusive and extractive institutions tend to persist, once established. Then the question is, of course, how can countries build inclusive institutions. The authors' answer is that there is no recipe³⁰. Small differences play consequential roles at critical junctures and create institutional drift, i.e. path-dependencies, while contingency has far-reaching impacts. Case studies that indicate vicious circles render the authors a bit pessimistic when it comes to the possibility of breaking the mold. Nonetheless, they emphasise that history is not destiny³¹.

²⁷ See *ibid.* 124ff.

²⁸ See *ibid.* 92f.

²⁹ See *ibid.* 437ff.

³⁰ See *ibid.* 460.

³¹ See *ibid.* 426.

2.2 A General Critique of *Why Nations Fail*

Before critiquing the content of the book, I think that the authors deserve to be praised for their efforts in writing a book with such a wide scope, at a time when we are ostensibly witnessing the end of grand narratives. Although I find the authors' way of reviewing the historical case studies problematic, a point on which I will dwell below, I believe the authors' efforts to bring out the universal side of the story, instead of desperately getting bogged down in the deconstructionist narration of authentic cultures and disparities, is worthy of praise.

AR have co-authored many works over the last 15 years³² and they have been looking for ways to combine political and economic analyses. In this sense, one of the merits of *Why Nations Fail* lies in its argument that economic outcomes, in the broader sense, cannot be merely attributed to economics or economic institutions. In other words, one has to grasp the root, i.e. political, causes of failures in order to achieve radical changes: "This book will show that while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has."³³ Considering that mainstream economics has long divorced itself from politics and banned history, it is notable that *Why Nations Fail* stands in a distance from it insofar as political institutions lie at the very heart of the book, and the arguments are supported with wide-ranging historical evidence³⁴. Whether or not one approves of – I certainly do not – the way politics and history are integrated into the book, it involves some potential to alleviate the deadlock of mainstream economics.

There is one last general point I would like to mention before I start to criticise some specific aspects of the book. The book is obviously written for a general audience. It does not assume any previous knowledge about the specialist literature. Also the smooth language used by the authors renders it facile to read. However, in a work of about 500 pages, which claims to demonstrate that political and economic institutions explain the entire economic history, and illustrates its thesis through over 25 case studies ranging from the Neolithic Revolution to the present, from East Asia to Middle East, Africa and Europe to America, one expects to see

³² For instance, see Daron *Acemoglu* and James A. *Robinson*, Why Did the West Extend the Franchise? Growth, Inequality and Democracy in Historical Perspective. In: The Quarterly Journal of Economics Vol. 115, No. 4 (2000), 1167-1199; see Daron *Acemoglu* and James A. *Robinson*, Economic Origins of Dictatorship and Democracy (New York 2006); see Daron *Acemoglu* and Simon *Johnson* and James A. *Robinson*, The Colonial Origins of Comparative Development. An Empirical Investigation. In: The American Economic Review Vol. 91, No. 5 (2001), 1369-1401; see Daron *Acemoglu* and Simon *Johnson* and James A. *Robinson*, Rise of Europe. Atlantic Trade, Institutional Change and Economic Growth. In: The American Economic Review Vol. 95, No. 3 (2005), 546-579.

³³ *Acemoglu* and *Robinson*, *Why Nations Fail*, 43.

³⁴ However, what actually AR are trying to do is to apply the Smithian logic to the entire history, which is, of course, an unhistorical method. I will turn to this point below.

some graphs and tables. In their response to Jeffrey Sachs' review, AR justify the absence of evidence in *Why Nations Fail* by stating that it is a book for a general audience and that they refer to their previous empirical work in the section with bibliographical sources for each chapter³⁵. I agree that in such a book there is no place for econometric analysis in depth. However, they could have used some descriptive statistics, and created some simple tables and graphs which would have added to the persuasiveness of their arguments. Moreover, although at the end of the book further references on general issues are given, it is not always possible to find out the sources of some specific information.

So far so good. Now we can focus on more narrow aspects of *Why Nations Fail*.

2.2.1 The Ambiguity of the Central Concepts

Let me start with the title of the book. Although the authors chose the title *Why Nations Fail*, they neither define nor explain when nations fail. Obviously, they mean something more than 'failed states,' which refers to states lacking sufficient centralisation, monopolisation of the legitimate use of force, and sovereign government³⁶. Failed states, in this sense, constitute only one case of extractive institutions, namely extractive political institutions due to the lack of sufficient centralisation. Then, what do the authors mean by failed nations? The book opens with the following lines: "This book is about the huge differences in incomes and standards of living that separate the rich countries of the world, such as the United States, Great Britain, and Germany, from the poor, such as those in sub-Saharan Africa, Central America, and South Asia."³⁷ In other words, cross country differences in income per capita constitute the point of departure of the book, and play a decisive role in determining whether a nation is failed or not, since the authors time and again compare the income per capita levels of failed and successful nations. Thus, it is reasonable to assume that the most relevant measure for AR is income per capita, which is calculated by dividing the aggregate income of an economic unit by its total population. Unfortunately, this assumption does not cast much light on the problem. Countries such as Qatar, Kuwait and United Arab Emirates are among the top 20 countries with regard to income per capita³⁸. Certainly, AR would not claim that these countries have inclusive institutions. It could be

³⁵ See Daron Acemoglu and James A. Robinson, Response to Jeffrey Sachs. 21.11.2012, online at <<http://whynationsfail.com/blog/2012/11/21/response-to-jeffrey-sachs.html>>

³⁶ See Peer Vries, Does Wealth Entirely Depend on Inclusive Institutions and Pluralist Politics? In: Technology Governance, July 2012, online at <<http://technologygovernance.eu/files/main//2012092612501919.pdf>>, 5.

³⁷ Acemoglu and Robinson, *Why Nations Fail*, 1.

³⁸ See *International Monetary Fund*, World Economic Outlook Database. October 2013, online at <<http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>>.

argued that such countries are oil rich, and thus the high level of income per capita is not very informative. However, in the Human Development Index 2012, they rank out of 186 countries 36th, 54th, and 41th, respectively. The fact that these countries rank much better than, for instance, Brazil, which is 85th ³⁹, poses problems for the notion of ‘failing nations,’ since AR argue that the latter has established somewhat inclusive institutions reflecting a broad coalition in the 1980s⁴⁰.

Alternatively, by ‘failed nations’ the authors might be meaning the absence of sustained growth. Here, I confine myself to stating that *Why Nations Fail* is problematic also in this respect. Although China has been growing at unprecedented rates over the last 35 years, AR insist that this growth is not of sustained nature, and will peter out soon. I have difficulties discerning the dividing line between sustained and ephemeral growth, which is proposed in the book. Regardless, I will discuss this point in detail below. What remains is the vagueness of the object of the book, namely ‘failed nations.’

The picture is not better with regard to the book’s subtitle, *The Origins of Power, Prosperity and Poverty*. The book discusses the origins of prosperity and poverty extensively. However, the same does not hold for power. Rather it is argued that power relations (and mainly domestic ones) help us understand the causes of wealth and poverty of nations⁴¹, i.e. the changes or persistence in the institutions of a country. In other words, the consequences of existing power relations, rather than their roots are discussed in the book. Particularly, factors such as military power, warfare, political and military interventions, asymmetric economic relations, and trade policies are not the authors’ main concern when it comes to international balance of power. Thus, I must say that the subtitle is a bit misleading, as well.

Unfortunately, it is not only the title that exhibits ambiguity. We have seen that inclusive and extractive political and economic institutions are found in any and every chapter of *Why Nations Fail*. They underpin the thesis of the book, namely that sustained growth and prosperity can only be generated by inclusive political and economic institutions. However, it is disappointing to see how abstractly, broadly, and vaguely these central concepts are defined⁴². Secure property rights, an unbiased system of law, public services, the freedom to contract and exchange, and the absence of monopolies and entry barriers are distinctive marks

³⁹ See *United Nations Development Programme*, Human Development Report. 2013, online at <http://hdr.undp.org/sites/default/files/reports/14/hdr2013_en_complete.pdf> 143.

⁴⁰ See *Acemoglu and Robinson*, 455ff.

⁴¹ See *Vries*, *Inclusive Institutions and Pluralist Policies*, 5.

⁴² See *ibid.* 10f, and Francis *Fukuyama*, *Acemoglu and Robinson on Why Nations Fail*. In: *The American Interest*, 26.03.2012, online at <<http://www.the-american-interest.com/fukuyama/2012/03/26/acemoglu-and-robinson-on-why-nations-fail/>>.

of inclusive economic institutions, while inclusive political institutions feature pluralism and a sufficient degree of centralisation. These definitions are reminiscent of Adam Smith's thesis that it is peace, easy taxes and a tolerable administration of justice that carry a state from the lowest barbarism to the highest degree of opulence, once justice is read as an unbiased system of law, secure property rights and freedom to contract, and peace is understood as sufficient centralisation to avoid chaos and infighting⁴³. One can even say that Smith goes a step further and makes a concrete policy suggestion regarding the role of the state, namely that low taxes stimulate economic activity. AR carefully refrain from discussing what inclusive institutions or the role of the state might look like in concrete, real-world situations.

For example, it is above mentioned that AR take the Glorious Revolution of 1688 as the turning point of history since, prior to it, extractive institutions had prevailed all over the world. Because I will discuss the post-1688 British institutions in detail in the second part of this work, here I confine myself to pointing to the fact that only "less than 2 percent of the population could vote,"⁴⁴ universal suffrage was not established until 1928⁴⁵, that the British tax system became increasingly regressive in the two centuries following the revolution⁴⁶, that the working conditions even in the nineteenth century were extremely inhumane⁴⁷, and that Britain, by no means, was engaged in free trade, which AR agree with: "The aim of these [Navigation, BGI] acts was to facilitate England's monopolization of international trade – though crucially this was monopolization not by the state but by the private sector."⁴⁸ Nor were political and economic institutions in British overseas territories inclusive. What really happened after the Glorious Revolution in terms of inclusiveness, as defined by AR, is that the rule of law was secured in Britain⁴⁹. Anyway, the British case will be extensively discussed below. However, it is obvious that the ambiguous content of inclusiveness and extractiveness cause confusion when it comes to identifying them in concrete cases. Real world societies usually had, and still have, a mixture of both inclusive and extractive elements

⁴³ Jennings compares Besley and Persson's framework with that of Adam Smith. I think, a similar comparison can be made with AR's work. See Colin *Jennings*, *A Review of Timothy Besley and Torsten Persson, Pillars of Prosperity. The Political Economics of Development Clusters*, Princeton University Press, Princeton, 2011, pp.375 and Daron Acemoglu and James A. Robinson, *Why Nations Fail. The Origins of Power, Prosperity and Poverty*, Profile Books, London 2012, pp.529. In: *European Journal of Political Economy* Vol. 29 (2013), 252-258, here 253.

⁴⁴ See *Acemoglu and Robinson*, *Why Nations Fail*, 192.

⁴⁵ See *ibid.* 316.

⁴⁶ For instance, see Robert M. *Kozub*, *Evolution of Taxation in England, 1700-1850. A Period of War and Industrialization*. In: *The Journal of European Economic History* Vol. 32, No. 2 (2003), 363-387.

⁴⁷ For instance, see Karl *Marx*, *Capital. A Critique of Political Economy. Volume One* (London 1990) 340-411.

⁴⁸ *Acemoglu and Robinson*, 202.

⁴⁹ See Douglass C. *North* and John Joseph *Wallis* and Barry R. *Weingast*, *Violence and Social Orders. A Conceptual Framework for Interpreting Recorded Human History* (New York 2009) 157-190 and 213-219.

in their institutions. In such a vague framework that does not provide any concrete measure to operationalise these concepts, growth success or failure of a country can be ex-post attributed to respective inclusive and extractive elements. In other words, concepts with such broad meanings make it hard to test the authors' theses.

The same ambiguity mars the role of the state, too. For instance, we are told that "secure property rights, the law, public services, and the freedom to contract and exchange all rely on the state, the institution with the coercive capacity to impose order, prevent theft and fraud, and enforce contracts between private parties."⁵⁰ However, this is not very informative as to how states assist growth and industrialisation domestically. Even though the authors are timid when it comes to discussing concrete economic policies, one can infer from their general attitude that they would rather tend to laissez-faire policies, where the role of state would be constrained to fulfilling the above-mentioned functions. Nonetheless, there is a considerable literature arguing that countries that are rich today did not become so through the policies and institutions, which they now recommend to, and even impose on, developing countries. Particularly, Great Britain and the United States were the countries, which took the most aggressive protectionist measures in order to develop their industries⁵¹. There is no need to elaborate on how 'interventionist' Britain was not only in terms of tariffs and subsidies, but also in military terms.

In other words, *Why Nations Fail* does not touch upon either concepts such as the infant industry argument that played a crucial role in the take-off and catch-up phase of many countries like the US, Germany, Japan, and Korea, or on how the state could create a level playing field. For instance, the authors write that wealth is not concentrated in the hands of a small elite under inclusive economic institutions⁵². However, the United States, which is represented in the book as *the model* for inclusive political and economic institutions, had in the late 2000s one of the highest Gini coefficients, i.e. most unequal income distributions, among OECD countries⁵³. This, of course, raises the question, what should the government do under these circumstances? Should it adopt some redistributionist policy in order to establish a level playing field, or does equality of opportunity already exist? In short, the amorphous definition of the most important concepts in the book falls short of the mark when concrete,

⁵⁰ Acemoglu and Robinson, *Why Nations Fail*, 75f.

⁵¹ See Ha-Joon Chang, *Kicking Away the Ladder. Neoliberals Rewrite History*. In: *Monthly Review* Vol. 54, No. 8 (2003), 10-15, here 10f.

⁵² See Acemoglu and Robinson, *Why Nations Fail*, 364.

⁵³ See OECD, *OECD Factbook 2011-2012. Economic, Environmental and Social Statistics*. 2011, short summary online at <http://www.oecd-ilibrary.org/docserver/download/3011041ec031.pdf?expires=1395332281&id=id&accname=guest&checksum=59A2954EAA1F49C7D6E9EBED77CAE39B>> 81.

real-world cases are at stake. There is a reason why the authors do not address such specific problems, namely that the first task should be, in their view, to establish inclusive political institutions which then set the stage for sustained growth. Whether or not the causality between inclusive institutions (or more generally, democracy) and growth is so straightforward and can be supported by historical evidence is discussed in the next chapter in general, and in the second part of this work with the help of the post-1688 British example, in particular.

Before I move on to the next chapter, I want to point to the role of contingency in the book. *Why Nations Fail* argues that both the cross-country differences in terms of wealth at the present time, as well as the entire economic history can be explained as a function of political institutions in the last instance. However, in many historical cases, the authors cannot convincingly explain why some countries developed inclusive, and others extractive institutions. For instance, they expect us to believe that Botswana broke the mold because “the contingent path of history worked in Botswana’s favor.”⁵⁴ In contrast to Zimbabwe’s Robert Mugabe or Sierra Leone’s Siaka Stevens, who developed the extractive institutions inherited from the colonial era even further in their countries, Botswana had democratic and benevolent leaders such as Seretse Khama and Quett Masire who promoted inclusive political and economic institutions after independence was gained. Moreover, Botswana had a certain degree of state centralisation, a collective decision-making procedure, and a chieftaincy system based on talent and ability, in short, relatively pluralistic tribal institutions already in the colonial period. This, in turn, is attributed to three smart Botswanian tribal chiefs, who managed to get the support of the British Queen against the invasion by the South Africa Company at the end of the nineteenth century, which would have smashed their relatively inclusive institutions. This institutional drift, combined with the critical juncture of decolonisation in 1966, enabled Botswana to become one of the fastest growing countries in the world thereafter⁵⁵.

As this example demonstrates, it is as if inclusive institutions emerged randomly in some countries. It was a question of the character, acumen and motivation of those in power. While the contingent hand of history gracefully granted some countries bona fide leaders, some other ill-fated ones were cursed with dictatorial, self-interested rulers. I am not sure whether this is a convincing and satisfactory answer to one of the central questions posed by the book itself.

⁵⁴ *Acemoglu and Robinson, Why Nations Fail*, 413.

⁵⁵ See *ibid.* 404ff.

2.2.2 The Link between Democracy and Growth

The authors of *Why Nations Fail* are fairly critical of modernisation theory, which postulates that inclusive institutions (or democratisation) emerge as a by-product of economic growth insofar as increasing life standards and level of education of the workforce will strengthen the demand for better institutions. AR are quite pessimistic in this respect. In their view, although many countries with extractive institutions (such as the USSR) attained higher growth rates for decades compared to those under inclusive institutions, extractive institutions in those countries did not transform into inclusive ones⁵⁶. The causality runs rather in the opposite direction. Inclusive political and economic institutions allow for the best use of talents and skills, foster economic activity and productivity increases, and generate sustained growth⁵⁷. Let us now critically question this link suggested by AR.

According to the authors, the patent system vividly illustrates how significant inclusive institutions are for invention, creative destruction, and therefore, sustained growth. Patents protect property rights in ideas and create incentives for developing one's skills. Prior to seventeenth century England, as extractive institutions were rule throughout history, those in power refused to grant patents to innovations because continuous replacement of the old by the new reshapes not only economic, but also political power. It was the Glorious Revolution that raised a framework of inclusive institutions, which also protected intellectual property rights. Consequently, a technological breakthrough took place on many fronts, power being the most important, which paved the way for the Industrial Revolution⁵⁸. However, Joel Mokyr, a prominent scholar whose area of expertise is history of technology, argues that before the big reform in 1852, it was extremely expensive and bureaucratically complicated to take out a patent in Britain. Consequently, only a minor share of inventions was patented. For instance, only 11% of all British exhibits displayed in a major industrial exhibition in London in 1851 were patented. Furthermore, there is ample evidence showing that in many cases realised patents were used to block research and slow down innovation in some directions. Had the patent system been more accessible, it is reasonable to think that monopolies in industries subject to rapid technological change may have slowed down the pace of progress. In short, while the role of the patent system for the creation of incentives cannot be totally dismissed, its importance in the British Industrial Revolution has to be scaled down⁵⁹.

⁵⁶ See *ibid.* 443ff.

⁵⁷ See *ibid.* 73ff.

⁵⁸ See *ibid.* 182ff. and 202ff.

⁵⁹ See Joel Mokyr, Intellectual Property Rights, the Industrial Revolution, and the Beginnings of Modern Economic Growth. In: *American Economic Review* Vol. 99, No. 2 (2009), 349-355, here 350ff.

Furthermore, besides the role of the patent system in the British Industrial Revolution, there is a deeper problem with the direct causation suggested by AR between inclusive institutions and sustained growth. The authors make no distinction between take-off and catch-up growth, and growth in highly industrialised countries, something that makes them ignore historical evidence or treat it in a selective way. The second part of this work will argue, contrary to *Why Nations Fail*, that Britain at the first onset of modern economic growth was in no way a democratic or inclusive country as it is understood by AR. Nor does Germany under Bismarck or Japan under the Meiji regime fit into an inclusive framework. It can even be argued that in many cases dictators or authoritarian rulers carried out administrative and economic reforms in order to outstand international threats and gain in competitiveness⁶⁰. Japan's Meiji restoration in the late nineteenth century, or the Imperial Edict of Reorganisation that was launched in the Ottoman Empire in 1839 to help modernise militarily and socially depict typical examples of reforms undertaken under repressive regimes. One does not even need to go back that far in history. Many latecomer countries experienced their first steps towards industrialisation in the twentieth century under fairly despotic rulers. For instance, Turkey under Ataturk had a single-party system (which de facto functioned as a one-man regime) in its state-assisted capital accumulation phase where the seeds for industrialisation were laid. Similarly, the East-Asian growth model in the second half of the twentieth century exhibited extractive institutional properties. All five countries, Taiwan, South Korea, Singapore, Vietnam, and China started with extractive political institutions, and then established relatively more inclusive economic institutions. Whereas the latter two have not democratised yet, extractive political institutions gave way to inclusive ones in the former two. These findings contradict the suggested relationship between inclusive institutions and economic growth with causality running strictly from the former to the latter, as postulated by the authors⁶¹. Here, the question of why not interpret the take-off phase or the catch-up growth as a necessary condition of the subsequent sustained growth arises. Although AR acknowledge catch-up growth⁶², they do not consider it as important as 'sustained growth' under inclusive political and economic institutions. I claim that take-off and catch-up growth are indispensable elements of a full theory of economic development. This applies not only to latecomers, but also to those countries, which were the first to

⁶⁰ See Jeffrey D. Sachs, Government, Geography and Growth. The True Drivers of Economic Development. In: Foreign Affairs, September/October 2012, online at <<http://www.foreignaffairs.com/articles/138016/jeffrey-d-sachs/government-geography-and-growth>>.

⁶¹ See *ibid*.

⁶² For instance, see *Acemoglu and Robinson, Why Nations Fail*, 442.

industrialise. In fact, we will see that in England's take-off phase as well the picture was not as rosy as it is presented by AR in terms of the inclusiveness of its institutions. Nor was the role of the state as simple as it is argued to be in the book.

In other words, the book would be much less confusing if AR were to give up the claim of explaining sustained growth within an institutional framework, and instead focused their theory on innovation-led growth. First, the take-off phase and catch-up growth should be seen as a necessary stage or an integral part of 'sustained growth', and both highly industrialised countries as well as latecomers underwent that stage with non-inclusive institutions, to say the least, and state interventions that clearly went beyond creating a level playing field. Second, there is no theoretical reason to take sustained growth for granted even if conditions of institutional inclusiveness in *Why Nations Fail*'s term are fulfilled. Modern economic growth heavily depends on energy and resources. These are acknowledged to be scarce even by neoclassical economics, which is not really concerned with environmental problems. In this regard, there is all the more reason to believe that modern economic growth as such cannot be sustained eternally. Moreover, even aside from the question of resources, the presence of inclusive institutions does not guarantee a smooth functioning of economics. A basic comparison between the growth rates of China and Japan in the period 1992-2012 raises serious questions about AR's hypothesis. Japan achieved an average annual growth rate of approximately 0.8% under inclusive institutions, a rate that can be described as stagnation without any doubt, while Chinese annual growth rate averaged about 10% in the same period⁶³. The authors are quite sure that the Chinese growth will run out of steam unless extractive political institutions are replaced by inclusive ones. In their response to Francis Fukuyama's review, AR finally provided a measure to test their hypothesis of growth under extractive institutions. Namely, if China reaches per capita income levels close to those of Spain or Portugal based on its existing institutions, this would then invalidate their theory⁶⁴. As argued above, I do not see why this initial accumulation process should be grasped in an antithetic relation to 'sustained growth'. It can rather be seen as preparatory to it. In short, there is no reason to take sustained growth as granted once inclusive political and economic institutions are established. Similarly, growth under extractive institutions is not necessarily condemned to be ephemeral.

⁶³ Own calculations based on World Bank Open Data. See *World Bank*, World Bank Open Data. Online at <<http://data.worldbank.org/>>.

⁶⁴ See Daron Acemoglu and James A. Robinson, Response to Fukuyama's Review. 30.04.2012, online at <<http://whynationsfail.com/blog/2012/4/30/response-to-fukuyamas-review.html>>.

Last but not least, the democracy and inclusiveness perception of *Why Nations Fail* is too simplistic and naive when it comes to postcolonial and contemporary international relations. Not surprisingly, the authors acknowledge and discuss the adverse impacts of colonial expansion on resources, institutions and economic performance of colonies during the colonial period⁶⁵. Nonetheless, the fact that neither Europeans nor the United States applied their supposedly inclusive institutions to their colonies or to Native Americans, respectively, is regarded as completely irrelevant for the degree of inclusiveness of those countries' institutions. Moreover, the more or less persistent character of extractive institutions in many former colonies even after de-colonisation, and the consequent poverty is entirely attributed to vicious circles, the tendency of institutions to reproduce themselves, and domestic politics⁶⁶, since extractive political and economic institutions that had been inherited from the colonial era rendered power valuable for it was unchecked and brought economic riches⁶⁷. The book is strikingly disregarding in terms of international balance of power and the influence of countries with 'power and prosperity' on the internal affairs of those with extractive institutions. For example, as AR discuss how and why Guatemala could not establish inclusive institutions for a long time after gaining independence in 1821, they do not say a single word on how the dictator Manuel Estrada Cabrera, who ruled between 1898-1920 was assisted by the American United Fruit Company⁶⁸. Furthermore, when it comes to describing the overthrow of the democratically elected government in 1954 through a military coup which was planned and implemented by the CIA for the sake of the political and economic interests of the US, a fact that is well-documented⁶⁹, the authors opt for the following narration: "Ubico resigned on July 1. Though he was followed by a democratic regime in 1945, this was overthrown by a coup in 1954, leading to a murderous civil war. Guatemala democratized again after only 1986."⁷⁰ In a similar vein, AR do not hesitate to condemn the mass repression, torture and murder in Chile under the Pinochet dictatorship⁷¹, but remain rather timid about the active support provided by the US before, during, and after the military coup against the democratically elected, legitimate Allende government and for

⁶⁵ For instance, for Latin America see *Acemoglu and Robinson*, *Why Nations Fail*, 11ff., for South Africa see *ibid.* 258ff.

⁶⁶ For instance, for Sierra Leone see *ibid.* 332ff., for Guatemala see *ibid.* 345ff., for Zimbabwe see *ibid.* 368ff.

⁶⁷ See *ibid.* 343.

⁶⁸ See Frederick Douglas *Opie*, *Black Labor Migration in Caribbean Guatemala (1882-1923)* (Florida 2009) chapters 2-3.

⁶⁹ See *Central Intelligence Agency*, Guatemala page. Online at <<http://www.foia.cia.gov/collection/guatemala>>.

⁷⁰ See *Acemoglu and Robinson*, *Why Nations Fail*, 350.

⁷¹ See *ibid.* 38.

the putschist forces, again a well-documented fact⁷². To put the matter in the politest terms, it is dishonest to choose the facts that suit your purpose, and brush the rest under the carpet. Certainly, this is not the right way to study history.

The disregard of international power relations become apparent also in AR's critique of conventional international policies aimed at helping poor countries. As mentioned above, the authors are reluctant when it comes to advise at least some basic policies for establishing inclusive institutions and setting the stage for sustained growth. However, they do not hesitate to dwell on what not to do. Neither the diagnoses made by international institutions such as the IMF that attribute poor performance to bad economic institutions and policies, and propose a list of reforms overwhelmingly with macroeconomic goals, nor the 'micro-market failures' approach, which target to eliminate the malfunction of, for example, the education system, health care delivery, or market organisation through non-governmental organisations, is capable of recognising the root causes of the problems, namely political institutions, according to AR. The institutional structure that is the cause of these problems keeps creating adverse incentives and reproducing them, even if specific short-term improvements can be achieved⁷³. The same goes for foreign aid. Even if financial aid is made conditional on meeting some standards and undertaking democratic reforms, it has little impact on a nation's institutions since those who abuse political power and enrich themselves would not undermine their own power for foreign aid. Moreover, much of foreign aid paid to the governments of poor countries gets wasted in overhead and corruption. Thus, the logical conclusion is that the only way to really help poor nations is to encourage and support groups, which are otherwise excluded from power, and to empower pluralistic grassroots movements⁷⁴. Precisely this is the point where questions arise. Why should one disregard balance of power at international level, and believe that, for example, the United States to act as a benevolent transcendental entity? Why should we think that the US (or the rich world) has a stake in the democratisation of poor countries? Would, for instance, the US prefer a strong, democratic Egypt rather than a faithful ally? If yes, why have they been providing Egypt under the Mubarak dictatorship with financial and military aid that averaged about \$2 bn. a year after Egypt had signed a peace treaty with Israel⁷⁵? What about the direct and

⁷² See *Central Intelligence Agency*, CIA Activities in Chile. 18.09.2000, online at <<https://www.cia.gov/library/reports/general-reports-1/chile/index.html>>.

⁷³ See *Acemoglu and Robinson*, *Why Nations Fail*, 446ff.

⁷⁴ See *ibid.* 450ff.

⁷⁵ See *Jeremy M. Sharp*, *Egypt. Background and U.S. Relations*. In: *Federation of American Scientists*, *Congressional Research Service Reports*, 10.01.2014, online at <<http://www.fas.org/sgp/crs/mideast/RL33003.pdf>>.

indirect interventions of the rich world in the internal affairs of other countries, some of which are mentioned above? Moreover, the authors recognise tendencies to concentrate wealth and power exist even in the US, the country with most inclusive institutions⁷⁶. However, making use of pluralistic institutions, the broad coalition of interests did not allow the American elites to maximise their wealth at the expense of the rest of the society. Once this clash of interests is recognised, why should one not think that the American ruling classes, which consist of that broad coalition, would not like to benefit from underdevelopment, natural resources and low wages in other countries, given that each individual is a rational utility-maximizers, one of the main assumptions of the economic theory propagated in the book?

In short, the book is disappointing when it comes to the international dimension of the balance of power. The issue is overwhelmingly analysed on the national level, and the authors expect us to be extremely naive about contemporary international relations. Both the way the link between inclusive institutions (or democracy) and growth, and postcolonial and contemporary international power relations are handled is way too simplistic, and even selective in a way that obscures the aspects that do not suit the authors' arguments, and are thus inadequate.

2.2.3 Are Inclusive Institutions the Only Source of Prosperity?

One of the most disturbing features of *Why Nations Fail* is that institutions are regarded as the only determinant of economic performance. Besides the problems discussed in the previous sections regarding the role of international balance of power and the direct causality between inclusive institutions and growth postulated by AR, there is an additional question that has to be posed: did/do other factors play no role at all? Let us start with more smooth aspects and then move on to the more problematic ones.

I mainly agree with the authors that culture should not be regarded as a main determinant of prosperity and poverty⁷⁷. At a given point in time, social norms and values might play a role for how a society acts under certain circumstances or reacts to a change in those. However, no society has inherent values and norms, let alone a culture inimical to innovation, development and growth. Culture operates in constant interaction with material and institutional conditions and should be considered from this point of view, if it is to be taken into account in social and economic issues. Moreover, I think that the assumption that societies are harmonious in terms of culture is highly debatable. Just like different classes

⁷⁶ See Acemoglu and Robinson, *Why Nations Fail*, 319ff.

⁷⁷ See *ibid.* 56ff.

have divergent, or even conflicting interests, they might exhibit some differing cultural traits. Thus, also in my opinion, culture should not be regarded as a strong, independent cause of poverty or prosperity.

Similarly, I would also agree that the ignorance hypothesis, which attributes countries' poverty to the lack of knowledge and the limited capability on the part of their policymakers, is not the right approach to analyse the question of poverty. It is not that rulers of poor countries are badly informed or ignorant of the right economic policies, but rather that it is the elites' interests, which impose the vicious circles⁷⁸. However, in addition to AR who consider only domestic power relations, I would argue, as mentioned in the previous chapter, that asymmetric international balance of power constitutes a non-negligible part of the picture. The authors conclude that the real task should be to explain why many countries 'get it wrong' instead of trying to 'get it right' through economic reforms, i.e. shift the attention from economic failures to political institutions in order to achieve permanent solutions⁷⁹. Again, as discussed above, I do not think that the book is convincing in its argument that inclusive political and economic institutions are directly conducive to sustained growth, particularly considering the ambiguous content of these concepts. Still, I am of the same opinion as the authors about the explanatory weakness of the ignorance hypothesis.

What about the 'geography hypothesis'? I think that the authors' critique of Jared Diamond's theory that it cannot be extended to explain the modern world inequality is correct. To put in a nutshell, Diamond argues that regions with more wild plant and animal species available for domestication had an initial advantage in terms of the transition from nomadic hunter-gatherer to sedentary life. Those sedentary societies with a convenient climate and access to enough animals for domestication were the first ones to produce a surplus, and develop a division of labour, specialisation, and more complex technologies and institutions, which then resulted in powerful empires and states. Thus, it is not biological or cultural, but rather geographical factors that explain why Eurasia developed earlier than other regions/continents⁸⁰. Nonetheless, Diamond's theory does not explain why it was Britain to industrialise first within Eurasia, and thus not capable of explaining the modern economic gap between countries for it came into being in the centuries following the Industrial Revolution. In other words, Diamond's argument is equipped to search for the roots of continental

⁷⁸ See *ibid.* 63ff.

⁷⁹ See *ibid.* 68.

⁸⁰ See Jared M. *Diamond*, *Guns, Germs, and Steel. The Fates of Human Societies* (New York 1997).

inequality, but not for cross-country differences in per capita income⁸¹. So far so good. However, the picture is a bit more complicated when it comes to the denial of other aspects, which have to do with geographical factors.

Why Nations Fail also rejects two other arguments that emphasise the importance of geographical factors. The first one is that tropical diseases depict a much greater burden for some countries than others depending on their location. On this point AR believe that: “[t]ropical diseases obviously cause much suffering and high rates of infant mortality in Africa, but they are not the reason Africa is poor. Disease is largely a consequence of poverty and of governments being unable or unwilling to undertake the public health measures necessary to eradicate them.”⁸² I appreciate the authors’ endeavor to focus on human-made aspects of grievances. However, this does not change the fact that the force of malaria, for example, depends on climate, ecology, and the type of mosquito vector present in that location⁸³. AR oppose the scientific fact that tropical areas have far more parasitic diseases due to climatic conditions, and that those diseases are much more difficult to cope with. In fact, although billions of dollars are invested, there is still no vaccine against malaria⁸⁴. I would side with AR if they wrote that disease is not the most important factor that underlies poverty in Africa, let alone the only one. Nonetheless, my point here is that one does not necessarily need to neglect other factors in order to put the emphasis on one factor.

The second argument goes that agricultural productivity in tropical zones is lower than that in temperate zones due to geographic conditions. AR are not of the same opinion: “[...] the prime determinant of why agricultural productivity – agricultural output per acre – is so low in many poor countries, particularly in sub-Saharan Africa, has little to do with soil quality. Rather, it is a consequence of the ownership structure of the land and the incentives that are created for farmers by the governments and institutions under which they live.”⁸⁵ Again, as Diamond puts it, the entire field of agricultural science is brushed off here. Why should one ignore the impacts of diseases borne by insects on crop yields, or the fact that higher average rainfall in tropical than in temperate zones leaches more nutrients out of the soil? It is a scientifically proven fact that in tropical areas soil fertility is on average lower,

⁸¹ See *Acemoglu and Robinson*, *Why Nations Fail*, 54.

⁸² *Ibid.* 51.

⁸³ See Jeffrey D. Sachs, Reply to Acemoglu and Robinson’s Response to my Book Review. 01.12.2012, online at <http://jeffsachs.org/wp-content/uploads/2012/12/Reply-to-Acemoglu-and-Robinson-December-1-2012_final.pdf> 4f.

⁸⁴ See Jared Diamond, What Makes Countries Rich or Poor? In: *The New York Review of Books*, 07.06.2012, online at <<http://www.nybooks.com/articles/archives/2012/jun/07/what-makes-countries-rich-or-poor/?pagination=false>>.

⁸⁵ *Acemoglu and Robinson*, *Why Nations Fail*, 51.

crop losses to pests higher, and overall, agricultural productivity lower than in temperate areas⁸⁶.

Even though I would agree with AR that modern world inequality cannot be attributed to differences in agricultural productivity for it was caused by the divergence in industrial performance, I think that geography can help understand some differences of the past. The institutional reductionism of *Why Nations Fail* becomes obvious in its discussion of how the Neolithic Revolution took place. The crucial point was that some nomadic hunter-gatherers decided to become sedentary farmers. One might think that the availability of domesticable wild plant and animal species would have played an important role in this respect. However, we learn from the authors that the precondition of sedentary life is “an institutional innovation concentrating power in the hands of a group that would become the political elite, enforce property rights, maintain order, and also benefit from their status by extracting resources from the rest of society.”⁸⁷ Without any convincing evidence, AR argue that the Natufians who lived in the Eastern Mediterranean happened to develop a complex society with hierarchy, order and inequality before they settled down around 9500 BC⁸⁸. An expert in this field, Jared Diamond, reveals that AR do not really know what they are talking about in this respect⁸⁹, and explains in a much more plausible way that geographical factors are crucial for understanding the Neolithic Revolution⁹⁰. In short, just like it is reasonable to search for the causes of modern wealth differences in Eurasia in elsewhere than geography, an approach that focuses primarily on institutions is not adequate to understand the Neolithic Revolution.

It is notable that *Why Nations Fail* does not claim to explain only modern inequalities, but also the entire course of history solely as a function of political and economic institutions. Thus, it is legitimate to ask, for example, why centralised states did not emerge in some regions. As we saw above, sufficient centralisation is considered by AR as one of the two pillars of inclusive political institutions, and in some of their case studies, they take the lack of centralisation as a point of departure for their analyses. Could it not be, for example, that the low population density in sub-Saharan Africa due to high prevalence of disease and low agricultural productivity presented an impediment to urbanisation, growth, and formation of centralised states? Would this not mean that geography could play a role in explaining those ‘small initial differences,’ which then mattered a lot when combined with critical junctures?

⁸⁶ See Diamond, *What Makes Countries Rich or Poor*.

⁸⁷ See Acemoglu and Robinson, *Why Nations Fail*, 139.

⁸⁸ See *ibid.* 140.

⁸⁹ See Diamond, *What Makes Countries Rich or Poor?*

⁹⁰ See Diamond, *Guns, Germs, and Steel*, chapters 4-5-6-7.

Similarly, as AR discuss why South Africa became less isolated than West and Central Africa starting with the nineteenth century, they put forward that the climate and the disease environment of South Africa was much more convenient for the Europeans for it was free of diseases such as malaria and yellow fever that prevented Europeans from settling elsewhere in Africa⁹¹, which certainly paved the way for a different institutional setting. Again, this is an indication for the potential relevance of geographical factors.

In short, based on the fact that geography cannot explain the differences between North and South Korea, or East and West Germany before the fall of the Berlin Wall, AR infer that “history illustrates that there is no simple or enduring connection between climate or geography and economic success.”⁹² Such an induction is not appropriate for climate and disease environment, soil fertility, access to ocean-going ships or navigable rivers, distance to major markets, and resource endowment, which can all be helpful in answering certain questions of economic history, even if geography’s role is smaller in explaining modern issues than it is in analysing the pre-industrial world. Unfortunately, *Why Nations Fail* is too mono-causal in its reasoning. As I tried to show above, the authors could have used other theories and factors as complementary to their institutionalist analysis. In their response to Sachs’ review, AR state that the aim of the book is to provide a framework, and the power of any framework lies in its ability to focus on the most important aspects, instead of providing a large number of factors⁹³. However, I think the book is a clear case of oversimplification. Let me show this with the help of one last example.

The book tackles its main question only by investigating the ultimate determinants of prosperity and poverty⁹⁴. Proximate causes are left aside, which, in my opinion, leads to obscurity and confusion, for it remains unclear which transmission channels and mechanisms are at work between the ultimate causes and outcomes. For instance, there are no economic arguments; no land, labour and other resources; no prices, wages and profits; no trade relations; no economic policy; no taxes, tariffs and subsidies; no classes. This, in turn, renders the economic dynamics and the role of the state extremely vague in the book. In order to make the absence of such concepts more apparent through a contrast, I will very briefly summarise the main arguments of another book that is interested in the same questions as *Why Nations Fail*.

⁹¹ See Acemoglu and Robinson, *Why Nations Fail*, 260ff.

⁹² Ibid. 49f.

⁹³ See Acemoglu and Robinson, *Response to Jeffrey Sachs*.

⁹⁴ See Vries, *Inclusive Institutions and Pluralistic Policies*, 6.

In his book *Trade and Poverty*, Jeffrey Williamson makes his argument using the tools of mainstream economics⁹⁵, and puts forward that the international trade boom based on specialisation and transport revolution following the Industrial Revolution contributed significantly to the great divergence and modern world inequality. A new international economic order emerged where the ‘poor periphery’ exported primary (agricultural) products and the ‘rich core’ exported manufacture goods. While labour-abundant and resource-scarce countries within the periphery such as China and Japan specialised in labour-intensive manufacturing, other countries where resources were relatively abundant and labour was scarce concentrated on exporting primary products to the ‘rich core’. In both cases, the described strategies were the rational responses to increasing terms of trade in the periphery, and in accordance with the Heckscher-Ohlin model Williamson argues that all countries that engaged in trade gained from it – but to different extents. However, this specialisation based on comparative advantage had three adverse effects on the economies of poor countries in the long run. First, as a result of increasing terms of trade, exports of primary products rose and resources were reallocated to the export-oriented sector from elsewhere in the domestic economy, i.e. either from sectors not engaged in trade or import-competing industry, which is referred to as de-industrialisation. Second, a rent-seeking problem emerged insofar as the elite with command over natural resources and fertile land disfavoured growth-oriented policies. Third, since price volatility of primary products is generally higher than that of manufactures, the growth performance of countries that specialised in export of agricultural products was impaired. All these factors were at work to different extents in different places at different times, and played a significant role for the increasing gap between the poor and the rich world after the Industrial Revolution⁹⁶. This extremely brief summary not only makes apparent some of the concrete dynamics underlying economic performance, but also opens up a space for discussing the role of the state, a task which is also fulfilled in *Trade and Poverty* through referring to different theories regarding industrial and trade policies, something that is completely absent in AR’s work.

The reductionist mode of *Why Nations Fail* manifests itself also in the case studies discussed by its authors. Of course, one is free to refer as many examples as one sees fit. However, if one is to claim to have the single key, which explains the rise and/or the fall of the Maya civilisation, the Roman and Ottoman Empires, almost all European monarchies,

⁹⁵ His thesis bases upon the Heckscher-Ohlin model for international trade.

⁹⁶ See Jeffrey *Williamson*, *Trade and Poverty. When the Third World Fell Behind* (Cambridge and London 2011).

Chinese Song, Ming and Qing dynasties, the USSR, and the wealth level of any contemporary society, then a certain level of specificity is required from one's proposed analysis. All the examples in the book give a just-so story of the case at stake⁹⁷, and conclude post-hoc that it was institutions that determined the economic performance. Each of the huge historical cases mentioned above are discussed in 4-5 pages on average. Consequently, case studies are rife with holes on the one hand, and are perfunctorily classified into the categories proposed by the book, on the other. For instance, Chinese growth under the Song dynasty between 960 and 1279, which involves many crucial technological innovations and inventions such as "clocks, the compass, gunpowder, paper and paper money, porcelain, and blast furnaces to make cast iron"⁹⁸ is interpreted as growth under extractive institutions⁹⁹, i.e. not sustained growth based on new technologies. I think the contradiction is clear enough that no comment is required. Similarly, there is not a single word on the Enlightenment in AR's discussion of the French Revolution¹⁰⁰. The examples could be multiplied. However, the main idea is that the superficial and selective discussion of historical cases allows the authors to support their hypothesis, which is already based on vague concepts, and thus easy to 'verify' and almost impossible to falsify.

In this chapter, my aim was to show that *Why Nations Fail* is disturbingly single-minded. Of course, one does not need to study history in order to find out that the reality was and still is very complicated, and many factors interact. However, the corollary is not to abstract so much that the entire history is reduced to the function of a single factor, to distort the reality, and to obscure the aspects that are not in line with the theory one proposes.

All in all, AR assume an important task by bringing together history, politics, and economics. The question at stake is the cross-country differences in wealth. However, one should first understand how we got to where we are. Besides economics, politics has much to do with it. Hence the importance of a theory that involves all three aspects. Nonetheless, I tried to show above that the authors' approach to history is extremely selective and perfunctory in their case studies, and too reductionist about the impacts of factors other than institutions. Their political perspective is vague in its central concepts, and fails to recognise the balance of power at the international level. Last but not least, their economic perspective is restricted to secure private property rights and the rule of law, which does not give any clue as to concrete economic mechanisms and the role of the state. Although the authors never put

⁹⁷ See *Diamond*, What Makes Countries Rich or Poor?

⁹⁸ *Acemoglu and Robinson*, *Why Nations Fail*, 231.

⁹⁹ See *ibid.*

¹⁰⁰ See *ibid.* 289ff.

it so, the book reads as a plea for economic liberalism. The next part of this work will focus on the Glorious Revolution, which is regarded as the turning point of history by AR, discuss the political and economic institutions in Britain in the aftermath of it, and contrast them with the picture presented in *Why Nations Fail*.

3. The Glorious Revolution and Its Aftermath

Britain is the most important case study in *Why Nations Fail*. The Glorious Revolution of 1688 is regarded as the turning point of the entire human history for “prior to seventeenth-century England, extractive institutions were the norm throughout history.”¹⁰¹ Thus, the authors discuss the outcomes of the Glorious Revolution extensively. In what follows, I will first summarise AR’s account of the road leading up to 1688 and its outcomes, and then contrast some specific post-1688 institutions and policies with their representation in *Why Nations Fail*.

3.1 *Why Nations Fail on the Glorious Revolution*

Unsurprisingly, the authors deploy a Whig interpretation of history¹⁰², starting with the Magna Carta of 1215, which posed significant challenges to the authority of the king, especially over raising taxes, and is thus regarded as the embryonic form of pluralism. The Tudors, who succeeded to the throne in 1485 as a result of a long duel between the Houses of Lancaster and York, accelerated political centralisation and introduced a nascent bureaucratic state. This was accompanied by the removal of the power of the Church. Besides being a pillar of inclusive institutions, political centralisation also contributed indirectly to the formation of the other pillar, pluralism, as the barons and local elites started to demand to be involved in how this power was used, which manifested itself in greater efforts to have a Parliament. Nonetheless, the political and economic institutions under the Tudors were clearly extractive, so write AR¹⁰³.

After the Tudors were replaced by the Stuart dynasty, the first Stuart king, James I and his successor Charles I endeavoured to strengthen the monarchy, reduce the influence of the Parliament, and establish absolutist institutions. One major field of conflict between James I and Parliament was the granting of monopolies by the king. Despite some restrictions on the creation of new domestic monopolies, the king was allowed to sell monopolies on overseas

¹⁰¹ Acemoglu and Robinson, *Why Nations Fail*, 184.

¹⁰² For the first use of the term, see Herbert Butterfield, *The Whig Interpretation of History* (New York and London 1965).

¹⁰³ See Acemoglu and Robinson, *Why Nations Fail*, 185ff.

trade. Charles' increasingly absolutist attitude, reflected in the fact that he induced forced loans, unilaterally changed the terms of loans, and refused to repay his debts resulted in resistance and the Civil War in 1642. Charles I was defeated, tried, and then executed in 1649. The Interregnum thereafter ended in 1660 with the restoration of the monarchy to Charles II, who followed the same program of strengthening absolutism in England. James II, who ascended to the throne after Charles' death in 1685, intensified the attempts to concentrate power in his own hands. A series of conflicts culminated in another civil war that ended with the triumph of Parliament. The Dutch Statholder William of Orange and his wife, Mary, were invited to replace James. William accepted to rule under a constitutional monarchy forged by Parliament, brought an army, and defeated James II who then fled to France¹⁰⁴.

After the victory in the Glorious Revolution in 1688, the Bill of Rights were signed into law by Parliament in 1689, which established central constitutional principles. The succession to the throne was now to be determined by Parliament. Taxation without parliamentary consent was declared illegal. In addition, no standing army was allowed to exist without the permission of Parliament. According to AR, especially after the Act of Union in 1707, which united England and Scotland into Great Britain, Parliament was firmly in control of state policy. It raised taxes and controlled spending, which was now channeled to activities appreciated by it¹⁰⁵.

More importantly, "[t]he English people now had access to Parliament, and the policy and economic institutions made in Parliament, in a way they never had when policy was driven by the king."¹⁰⁶ Although less than 2 percent of the population had the right to vote, and landed interest was overrepresented in Parliament, ordinary people could influence politics via petitioning: "Anybody could petition Parliament, and petition they did. Significantly, when people petitioned, Parliament listened."¹⁰⁷ The authors illustrate the effectiveness of petitions through the abolition of the Royal African Company monopoly in 1698 through the petitioners' demand for free access to trade in the Atlantic, which would have been impossible under James II who had governed and held the majority of the Company's shares¹⁰⁸.

The interests of parliamentarians were fairly different from those of the Stuart kings: "Since many of those in Parliament had important investments in trade and industry, they had

¹⁰⁴ See *ibid.* 187ff.

¹⁰⁵ See *ibid.* 191f.

¹⁰⁶ *Ibid.* 192.

¹⁰⁷ *Ibid.* 193.

¹⁰⁸ See *ibid.* 193f.

a strong stake in enforcing property rights.”¹⁰⁹ Consequently, legislation was passed that allowed for a radical reorganisation of property rights in land that aimed at the elimination of archaic forms of property and user rights. Economically undesirable forms of ownership, in AR’s terms, such as equitable estates (that did not allow the landowner to mortgage, lease or sell the land) and common land were reorganised in a way that created the right incentives¹¹⁰.

Since many parliamentarians were engaged in manufacturing and trade, a process promoting industry and aggressively protecting traders began. Especially the domestic textile production was heavily protected against foreign imports. For instance, imports of cheap Indian textiles were banned in 1701. The actively pro-industrial policy was supported by the Navigation Acts (first passed in 1651) that helped Britain monopolise international trade by prohibiting foreign ships to transport goods from outside Europe to England or its colonies. This increased British traders’ profits, and encouraged innovation in the highly profitable manufacturing industry¹¹¹.

Also the realm of finance was reformed in a corresponding manner. The Bank of England was created in 1694 as a source of funds for industry, write AR. Consequently, financial markets and the banking sector expanded greatly. Loans were available to anyone who had the necessary collateral¹¹². The change in the financial sphere was accompanied by an increasing fiscal power. Political centralisation gained pace after 1688. Parliament’s ability to raise revenue through taxation improved significantly. The tax base was expanded particularly with the help of excises. Also expenditures of the state rose steadily, soon reaching around 10% of national income. Last but not least, the whole process was supported by improvements in infrastructure. Investments in canals and turnpikes massively increased, which helped reduce transportation costs and raise the trade volume¹¹³.

In short, the combination of improved and new property rights, improved infrastructure, a stronger fiscal regime, greater access to finance, pro-industrial economic policy, and aggressive protection of traders gave an impetus to the economy, induced innovations, and set the stage for the Industrial Revolution¹¹⁴. In what follows, I will question the inclusiveness of political and economic institutions in the aftermath of the Glorious Revolution, and try to demonstrate that AR are overly optimistic about its outcomes. My discussion will cover the period from 1688 to about 1850s, where Great Britain unilaterally

¹⁰⁹ Ibid. 191.

¹¹⁰ See *ibid.* 195 and 198f.

¹¹¹ See *ibid.* 199ff.

¹¹² See *ibid.* 195.

¹¹³ See *ibid.* 195ff.

¹¹⁴ See *ibid.* 202.

switched to free trade. However, at some points references to the pre-1688 state of affairs will be necessary in order to reveal certain continuities and downsize the overemphasised role of the Glorious Revolution by AR. I will start by providing a brief course of political and military events during the so-called Second Hundred Years' War from 1689 to 1815 in order to demonstrate that England rapidly militarized after 1688. In the next chapter, only the major wars that took place mainly between the English and the French will be handled. More specific conflicts such as those in India or the Caribbean will be discussed later in the context of colonialism. The subsequent chapters will focus on the social and economic impacts of continuous warfare, and discuss the interrelations between war, power, and trade in a mercantilist framework. On this basis, the inclusiveness of post-1688 British institutions will be questioned by focusing on taxation and government spending, property rights, labour conditions, the functioning of parliamentary democracy, slavery, colonialism and plundering.

3.2 War, War, War

The fact that my analysis will begin by emphasising the crucial role of wars in the period 1689-1815 does not necessarily mean that military triumph and territorial dominance was an end in itself. Although territory might stand out as the major motivation for individual wars, a closer look reveals that continuous warfare was intimately linked with economic interests. In other words, one has to keep in mind that in the age of mercantilism, which definitely incorporates the period at stake in this chapter, the relationship between war and economic success was mutually dependent. Mercantilism, as the dominant doctrine of the times, assumed that the possibility of growth in a world of scarcity was limited, grasped trade as a zero-sum game, and thus advised expansion at the expense of others – principally by force. Colonies or trade partners under unequal terms were regarded as suppliers of raw materials and markets for manufacturers of the home country, and military success was the key to control of trade in a region. The aim was to gain monopoly control in a given trade and generate monopoly profits, which in turn could be invested in further wars in order to seize more wealth. In the words of Findlay and O'Rourke, success in wars would go to the states that could best manage the fiscal resources necessary to provide effective naval and military forces, so that power would be the means to secure plenty, which in turn would be used to increase power¹¹⁵. In a recent debate over mercantilism, the question has been raised whether

¹¹⁵ Ronald Findlay and Kevin H. O'Rourke, *Power and Plenty. Trade, War, and the World Economy in the Second Millennium* (Princeton and Oxford 2007) 227f.

there really was a mercantilist consensus that determined state policy without opposition¹¹⁶. Leaving aside the very specific aspects of the discussion which go beyond the scope of this work, I use the term mercantilism to characterise an era that is marked by the extraordinary importance given to the relation between state power (both in fiscal and military terms) and international trade. Although mercantilism does not denominate a clearly defined and coherent policy, it did indeed exist as an ideology and an adaptable framework in the period discussed below¹¹⁷.

Already in the decades before the Glorious Revolution, England entered into wars with commercial interests. The Navigation Acts, first of which was passed in 1651, were clearly aimed against the Dutch who stood out as the leaders in global commerce in the 1650s. England's envy and jealousy of the large Dutch profits, and endeavour to enforce the Navigation Act of 1651 paved the way for the first Anglo-Dutch war of 1652-54, which did not end with the triumph of either side, but rather with a draw. Increasing tension between the two states with regard to international trade, especially the control of the West African slave trade culminated in the second Anglo-Dutch war in the mid-1660s, which again ended without a decisive outcome. In the third war between 1672 and 1674, the Dutch had to fight both against the English and the French, and were almost miraculously able to prevent a disastrous defeat¹¹⁸. However, the United Provinces slowly took a back seat in international trade as post-1688 England and France increasingly imposed their domination as great powers.

Besides the above-mentioned wars, which were modest in terms of size, length, and costs, England refrained from entering into major European conflicts such as the Thirty Years' War. From the end of the Hundred Years' War (1453) until the aftermath of the Glorious Revolution, England remained on the fringes of European hostilities, and was not a true participant in the so-called military revolution of the sixteenth and seventeenth century Europe, which was associated with an unprecedented increase in the size of national (standing) armies and an increased scale of warfare¹¹⁹. However, things changed radically immediately after the Glorious Revolution. From 1689 to 1815, Britain engaged in war

¹¹⁶ See Steve *Pincus*, Rethinking Mercantilism. Political Economy, the British Empire, and the Atlantic World in the Seventeenth and Eighteenth Centuries. In: *The William and Mary Quarterly* Vol. 69, No. 1 (2012), 3-34.

¹¹⁷ John *Brewer*, *The Sinews of Power. War, Money and the English State, 1688-1783* (Cambridge 1990) 169f.

¹¹⁸ See *Brewer*, *The Sinews of Power*, 169, and *Findlay and O'Rourke*, *Power and Plenty*, 238ff.

¹¹⁹ See *Brewer*, *The Sinews of Power*, 7f. For a brief summary of the literature on the military revolution and the problems associated with the concept, see Geoffrey *Parker*, The "Military Revolution," 1560-1660 – a Myth? In: *The Journal of Modern History* Vol. 48, No. 2 (1976), 195-214. For a critique of the concept, see N.A.M. *Rodger*, From the 'military revolution' to the 'fiscal-naval state'. In: *Journal of Maritime Research* Vol. 13, No. 2 (2011), 119-128.

against France in no fewer than 64 of 126 years¹²⁰. Motivations behind individual wars were different, but this does not change the fact that warfare became rule rather than exception for Britain, served the interests of certain deeper and coherent political and economic stakes, and had important socio-economic impacts and results for the restructuring of the state.

After 1688, an attitude of aggressive hostility towards France replaced that of amity or neutrality, which had prevailed before the Revolution. William of Orange's ascent to the English crown, who had already fought against Louis XIV in the 1670s as the Dutch Statholder, brought along the determination to weaken the French hegemony through a European alliance. However, the more important motive that made the English people withhold their isolationist foreign policy and united them against France was the possibility of the return of James II, who was supported by Louis XIV. In other words, England fought in the first instance to avoid the Catholicism and the absolutist reign of James II, i.e. to defend the Glorious Revolution. The conventional view at the time was that a potential defeat in the Nine Years' War (1689-1697) would have had catastrophic consequences for England. The war was fought on many fronts on the continent, in Ireland, on the American mainland, in the Caribbean, and in Asia. The most important result was that Louis XIV had to recognise William III as King of Protestant England, i.e. the Glorious Revolution was successfully defended and consolidated¹²¹.

England participated in the next war, namely the War of the Spanish Succession (1701-1713) with the motivation of impeding France's eventual rise. This time, the aim was not to secure its own Protestant Succession, but to prevent the Bourbons from uniting the French and Spanish crowns after the death of Charles II, the last Habsburg King of Spain. The price of a potential union of the French territorial extent in Europe with Spain's great overseas empire was regarded as too great by the English. Hence the support of even isolationist members of Parliament (MPs) for the wars against Louis XIV, albeit reluctantly. The war was mainly fought in the Low Countries (Spain, Italy, Southern Germany and the Mediterranean). The French were defeated on the continent, and had to sacrifice colonial and commercial interests in the Americas in order to avoid making further territorial concessions in Europe. Consequently, France's powers were restricted, and England acquired crucial territories and bases such as Gibraltar, Hudson's Bay, Newfoundland and Nova Scotia by the Treaty of Utrecht in 1713. Moreover, although a member of the Bourbons ascended to the Spanish

¹²⁰ See *Findlay and O'Rourke*, Power and Plenty, 247.

¹²¹ See *Brewer*, The Sinews of Power, 139ff. and *Findlay and O'Rourke*, Power and Plenty, 249f.

crown, the Treaty prohibited an eventual rule of both kingdoms by the French or Spanish branch of the dynasty¹²².

After a quarter of a century of peace, which stood for a geopolitical and an economic equilibrium between Great Britain and France, the War of the Austrian Succession (1740-48) broke out. The pretext was Prussia's and France's opposition to Maria Theresa's succession to the Habsburg throne, which effectively was a challenge to Habsburg power. Great Britain, of course, could not remain neutral over such a major conflict that could have significantly altered the balance of power on the continent. At the end of the war, which had quickly spread to India and North America, Maria Theresa retained the Austrian throne. Britain's isolationist strategy was rapidly becoming an element of the past. Despite domestic critiques, Europe's rising power got more and more involved in continental hostilities in order to check its French rival's power.¹²³

The next conflict between the French and the British broke out in North America over trade and colonies, and soon resulted in the worldwide Seven Years' War (1756-63). This time, Britain participated much less in continental hostilities. Instead, it granted unprecedented subsidies to its European allies. Unlike all other wars since 1689 that had resulted in marginal changes compared to the pre-war state of affairs, the Treaty of Paris (1763) that ended the Seven Years' War marked a clear triumph of Great Britain. France ceded the entire New France to Great Britain and recognised the British supremacy in India. The British Royal Navy won a series of victories in the Atlantic, Pacific, and Indian Oceans without incurring any defeats. To cut the long story short, by the end of the Seven Years' War, Great Britain became a great colonial and commercial power thanks to its peerless naval power and blue water policy, which in this context meant the mobilisation of European allies to divert France's attention and resources towards continental hostilities¹²⁴.

However, the Seven Years' War gave occasion to a deep fiscal crisis in Europe. Consequently, all major European powers launched fiscal reforms in their colonies. Great Britain's attempt to transfer the burden to its colonies provoked the well-known resistance that manifested itself in the slogan 'no taxation without representation'. A series of conflicts and disputes led to the outbreak of the American War (1775-83) and to the Declaration of Independence in 1776. Nonetheless, this time the setting was quite different. Besides France, Spain and even Britain's longtime ally the Dutch Republic entered the war on the American

¹²² See *Brewer, The Sinews of Power*, 171f. and *Findlay and O'Rourke, Power and Plenty*, 250ff.

¹²³ See *Brewer, The Sinews of Power*, 173f. and *Findlay and O'Rourke, Power and Plenty*, 252.

¹²⁴ See *Brewer, The Sinews of Power*, 174f. and *Findlay and O'Rourke, Power and Plenty*, 253ff.

side, while the other European states opted for remaining neutral, i.e. Great Britain was literally isolated as it had never been before. One possible reason is that European powers aimed at balancing and checking the power of the British. It was the first war since 1689 where France was totally free of continental challenges, and the first war Britain lost in that period. United States of America were granted independence in the Peace of Paris (1783). If the Seven Years' War represented the zenith of British power and supremacy, the American War revealed its limits¹²⁵.

After the American War, this time it was France that suffered from the high costs of the long distance war. The severe fiscal crisis called for a deep restructuring of the administrative system, leading to the summoning of the Estates-General and to the French Revolution in 1789, and then to the last and 23 years long scene of the Second Hundred Years' War. The mercantilist competition that had prevailed prior to 1789 was now expanded by an additional ideological dimension. France declared war first on Austria and Prussia, and then on Great Britain. Unsurprisingly, the war spread to a wide geography from Europe to Middle East, Egypt to the Caribbean, from the Atlantic to the Indian Ocean. To put it very briefly, military reforms, general conscription, and total war, combined with the support of revolutionary forces abroad to the ones in France, resulted in a French Republican victory in the Revolutionary Wars. After a short period of peace in 1802-1803, France under Napoleon went on the offensive again. A series of victories over Prussia, Austria and Russia brought France to the borders of Russia. Meanwhile, the British were also periodically defeated in the Spanish Peninsula. However, Napoleon recognised that there was no way of defeating the British on the sea, and thus tried to increase economic pressure on Great Britain through the Continental Blockade. The invasion of Russia and the occupation of Moscow resulted in a disaster for the French. Napoleon's army was destroyed while retreating from Russia. The final coalition against the French was joined by all powers that clearly wanted to be on the winning side. The battles of Leipzig (1813) and Waterloo (1815), where France was ultimately defeated, ended the Napoleonic Wars. All sides involved in the Revolutionary and Napoleonic Wars were literally exhausted. A new political equilibrium was established by the Congress of Vienna (1815) that gave clear priority to peace, which was managed to be kept until the Crimean War of the 1850s. The Congress of Vienna can also be regarded as the

¹²⁵ See *Brewer*, *The Sinews of Power*, 175ff. and *Findlay and O'Rourke*, *Power and Plenty*, 257ff.

starting point of Pax Britannica that lasted until the outbreak of First World War, a period during which Great Britain definitely became the global hegemon¹²⁶.

In this chapter, I showed that England radically changed its foreign policy after the Glorious Revolution with the aim of becoming a great power, and thus continuously waged war on its rivals. The next chapter focuses on the economic costs of this policy shift and the corresponding restructuring of the state. Then, this increased military activity and struggle for power will be placed in the broader framework of mercantilist competition, revealing the interdependence between war, power, trade, and money.

3.3 Soaring Costs and Revenues

In the previous chapter, we saw that in the aftermath of the Glorious Revolution the English state became a war machine. In his well-known words, John Brewer calls it “a fiscal-military state, one dominated by the task of waging war.”¹²⁷ In order to give due attention to the fiscal side of the story, in this chapter, I first discuss how this fundamental change in the character and the main policy of the state manifested itself in government spending and its allocation. Then, the revenue side will be discussed by focusing on the evolution of the tax system. Finally, the role of sovereign borrowing, and increasing indebtedness and its consequences will be examined.

3.3.1 Costs of Increasing Military Activity

Predictably, increased military involvement of Great Britain meant in the first instance a growth in the size of the British army and navy. Table 1¹²⁸ provides some estimations of the sizes of both.

War	Average annual personnel			Average annual expenditure	Average annual tax revenue
	Navy	Army	Total		
1689-97 Nine Years' War	40.262	76.404	116.666	5.456.555	3.640.000
1702-13 War of Spanish Succession	42.938	92.708	135.646	7.063.923	5.355.583
1739-48 War of Austrian Succession	50.313	62.373	112.686	8.778.900	6.422.800
1756-63 Seven Years'	74.800	92.676	167.476	18.036.142	8.641.125

¹²⁶ See Eric Hobsbawm, *The Age of Revolution. 1789-1848* (New York 1996) 77ff. and Findlay and O'Rourke, *Power and Plenty*, 366ff.

¹²⁷ Brewer, *The Sinews of Power*, 27.

¹²⁸ For the data, see Brewer, *The Sinews of Power*, 30.

War					
1775-84 American War	82.022	108.484	190.506	20.272.700	12.154.200

Table 1 – The wartime size of the British navy and army, and fiscal figures in pound.

The figures regarding the size of the British navy and army clearly indicate an upward trend. Although Brewer notes that the numbers for the army are probably overestimations of the actual men who fought, which helped regimental officers pocket the differential between the budget and actual expenditures, the growth in the size of both the navy and the army is indisputable. According to the figures presented in table 1, the size of the Royal Navy more than doubled between the Nine Years' War and the American War, while the number of men employed in the British army increased by 42%. Another indicator of militarization is the fact that after 1688 England had a standing army just like its rivals, which represented a constant state of readiness for war¹²⁹.

It is not only the size of the British navy and army that reveals the nation's commitment to warfare. As table 1 shows, annual military expenditures rose steadily, and quadruplicated the level of the Seven Years' War during the American War. It is notable that around 20-25% of the money voted for military expenditure on the army was allocated to foreign troops as subsidies (with the exception of the American War)¹³⁰. The ratio of average annual military expenditures in wartime to average annual tax revenues helps offset the role of inflation. The figures indicate that the former exceeded the latter by a ratio between 32% (during the War of Spanish Succession) and 100% (during the Seven Years' War). In other words, besides increasing its tax revenues, the British state had to borrow large amounts in order to finance its military expenditures, a point which will be discussed at the end of this chapter.

The trend did not change much during the Revolutionary and Napoleonic Wars. Government expenditures on warfare increased at an approximate annual average rate of 5%, while the estimated average annual growth rate for GDP amounted to only 1.5%¹³¹. When it comes to manpower, Britain mobilised between 11-15% of the adult male population as armed forces during the Napoleonic Wars, which was about three times the French military participation ratio. Moreover, throughout the so-called long eighteenth century, Britain

¹²⁹ See *ibid.* 31f.

¹³⁰ See *ibid.* 32.

¹³¹ See Patrick Karl *O'Brien*, *The Contributions of Warfare with Revolutionary and Napoleonic France to the Consolidation and Progress of the British Industrial Revolution*. In: London School of Economics, Economic History Working Papers 2011, no. 150/11, online at <<http://eprints.lse.ac.uk/31741/1/WP150.pdf>>, 14.

consistently spent twice the amount that the French did, as a proportion of national income, and three times as much per capita. Money was the sinew of war, and Britain won by outspending its rivals in absolute terms, in proportion to national income, as well as in proportion to the population¹³².

The allocation of government expenditures presented in table 2¹³³ provides a deeper insight into the role of warfare in the British public expenditures between 1688-1815.

	Military expenditures	Civil government	Interest payments
1689-1697 (war)	79	15	6
1698-1702 (peace)	67	9	24
1702-1713 (war)	72	9	19
1714-1739 (peace)	39	17	44
1740-1748 (war)	65	10	25
1750-1755 (peace)	41	15	44
1756-1763 (war)	70	8	22
1764-1775 (peace)	37	20	43
1776-1783 (war)	62	8	30
1784-1792 (peace)	31	13	56
1793-1815 (war)	61	9	30

Table 2 – Military expenditures, and expenditures on civil government and interest payments as percentage of total government expenditures.

As figures in table 2 clearly put forward, military expenditures accounted for around two thirds of total government expenditures in wartime, while in peacetime the share fluctuated around 35-40%. However, if military expenditures constitute the lion's share of overall government expenditures, and if the British state had to borrow more and more since its revenues did not suffice to meet its expenditures, soaring government debt and the rising share of interest payments in government expenditures should be considered as an indirect consequence of military activity¹³⁴. In other words, around 85-90% of government expenditures were allocated either to current spending on the navy and the army, or to interest payments on debt incurred to pay for earlier wars¹³⁵. Throughout this period, around 90% of wartime government expenditures on goods, services and labour went to the navy and the

¹³² See N.A.M. Rodger, War as an Economic Activity in the "Long" Eighteenth Century. In: International Journal of Maritime History Vol. 22, No. 2 (2010), 1-18, here 5.

¹³³ For the data, see Patrick Karl O'Brien, The Political Economy of British Taxation, 1660-1815. In: The Economic History Review Vol. 41, No. 1 (1988), 1-32, here 2.

¹³⁴ For at least 50 years after 1688, the rate of interest on government long-term borrowing followed a declining trend. See Douglas C. North and Barry R. Weingast, Constitutions and Commitment. The Evolution of Institutions Governing Public Choice in Seventeenth-Century England. In: The Journal of Economic History Vol. 49, No. 4 (1989), 803-832, here 824.

¹³⁵ Brewer's figures fluctuate around 75-85%. See Brewer, The Sinews of Power, 40.

army¹³⁶. In short, considering the unprecedented increase in the growth of the British armed forces, and the fact that public resources mobilised for military aims literally dwarfed those for civilian purposes, one can conclude that the priority of the British state was obviously waging war.

Before moving on to the question of how soaring military expenditures were funded, one last point regarding the character of British military investments is worth mentioning, namely the clear priority given to the Royal Navy. From the reign of Charles II until the end of the American War the navy grew at a faster rate than the army. In the eighteenth century, even the smallest royal naval vessels were more expensive than most industrial plants. To make the comparison more concrete, the fixed capital in one of the largest sectors of Britain's most important industry around 1800, namely in the 243 mills in the West Riding woolen industry, was only 18% of the fixed capital required for the British navy of the time¹³⁷. The great military buildings of the eighteenth century were dockyards, building yards and naval stores of the Royal Navy. A substantial proportion of navy expenditures went on capital, and to be more specific, on advanced naval technology. By the end of the Seven Years' War, Britain had a great network of naval bases in the Mediterranean, the Caribbean and in North America. These were immense enterprises. The navy was one of the largest employers of civilian labour in Britain. Moreover, the Royal Navy's shipboard population in wartime exceeded that of any British city except for London around mid-eighteenth century¹³⁸. Last but not least, in accordance with its size, the navy was buying about a fifth of all products traded on the national agricultural market. Considering the fact the increase in agricultural productivity played a key role for the Industrial Revolution, Rodger suggests that the economic activities of the navy intersect with the key question of the British Agricultural Revolution¹³⁹.

After 1688, the British navy and army gained a degree of professionalism as a body of professional army and sea officers emerged. Both occupations were matched with a high reputation in society, and a military career became an attractive personal goal. However, the general attitude towards the navy was much more positive than that towards the army, for the

¹³⁶ See Patrick Karl *O'Brien*, *Imperialism and the Rise and Decline of the British Economy, 1688-1989*. In: *New Left Review* Vol. I, No. 238 (1999), 48-80, here 51.

¹³⁷ See *Brewer*, *The Sinews of Power*, 34f.

¹³⁸ See *ibid.* 35ff.

¹³⁹ See *Rodger*, *War as an Economic Activity*, 14f.

former was associated with the British nation's commitment to overseas trade and commercial prosperity, and thus enjoyed a broad-based approval¹⁴⁰.

To recapitulate, what made Great Britain unique was its commitment to capital-intensive and high technology mode of warfare, distinguished by the special role of the navy demanding long-term state investments¹⁴¹. The expansion of military capacity in terms of both size and expenditures brought along the ultimate triumph of Great Britain in the Second Hundred Years' War and the consolidation of its position as *the* hegemonic power from the Congress of Vienna until the First World War. The next step is to discover how this relatively small country managed to finance military expenditures that multiplied those of its greater rivals.

3.3.2 The Evolution of the British Tax System

Britain owed its great capacity of waging wars to the effectiveness of its tax system. The total net tax income of the state increased rapidly as a result of the deep transformation, which took place especially after 1714, as substantial shares of tax revenues were collected in the form of customs and excise duties, on which I will elaborate below. However, I want to start by emphasizing that it is not accurate to interpret the Glorious Revolution as a radical break with regard to taxation. The beginning of the transformation of the British fiscal system should rather be dated back to the Restoration.

Prior to 1688, taxation in Britain relied on four different bodies of men, namely local government officials, the employees of tax farmers who collected the customs and excise, parliamentary commissioners who collected direct and poll taxes, and royal officials who represented a minority within the whole body of tax collectors. The lack of coherence and monitoring resulted in cross-regional efficiency differences, although all revenues were forwarded to a central body, namely the Exchequer. However, already before the Glorious Revolution a series of important reforms were undertaken. At the latest by the 1670s, the Treasury established its authority over the monarchy and the spending departments, and gained an oversight of state revenues and expenditures. It also introduced a bookkeeping system, which survived into the nineteenth century. Nonetheless, it could still not establish its control over the tax system, for the collection of major taxes was farmed out to private business interests, i.e. the government sold the authority to collect a tax in return for a cash down-payment. This meant effectively that the two most important sources of state income,

¹⁴⁰ See *Brewer*, *The Sinews of Power*, 55ff.

¹⁴¹ See *Rodger*, *War as an Economic Activity*, 8.

namely loans and taxes, were concentrated in the hands of private business interests. This lack of sovereign fiscal control was gradually abolished as the customs farm was cancelled in 1671, the excise farm in 1683, and the hearth tax farm in 1684. The right and authority to collect these taxes were assigned to respective commissions, and a process of centralisation and standardisation commenced. While in ancien régime Europe assessment and collection of taxes were undertaken by inherently rent-seeking tax farmers, and hence were perceived as inefficient in terms of the high gaps between net tax revenues received and taxes assessed, in Britain tax farming was abolished and more professional and efficient systems of assessment, collection and monitoring started to emerge already before the Glorious Revolution. Moreover, while decentralisation and regional quotas, as well as social contributions and exemptions in continental tax systems survived into the late-eighteenth century, Britain clearly was closer to the universalistic end of the spectrum of fiscal sovereignty by the end of the seventeenth century. In other words, the administrative foundations of the eighteenth-century British tax system had already been established before 1688¹⁴².

There is also a second important line of continuity between the tax systems before and after the Glorious Revolution. As it will be shown below, the British state expanded its tax base significantly through heightening indirect taxation in the aftermath of the War of Spanish Succession. However, the unpopularity of direct taxes and inflexible political constraints associated with them had already forced Charles II and his ministers to improve the institutional and administrative frameworks for an increased collection of customs and excise duties. In other words, the fiscal strategy of eighteenth-century Britain too had its roots in the mid-seventeenth century¹⁴³.

¹⁴² See *Brewer*, *The Sinews of Power*, 91ff. and Patrick Karl *O'Brien*, *Fiscal Exceptionalism. Great Britain and its European Rivals. From Civil War to Triumph at Trafalgar and Waterloo*. In: London School of Economics, Economic History Working Papers 2001, no. 65/01, online at <<http://eprints.lse.ac.uk/22369/1/WP65.pdf>>, 19ff.

¹⁴³ See *O'Brien*, *Fiscal Exceptionalism*, 12f.

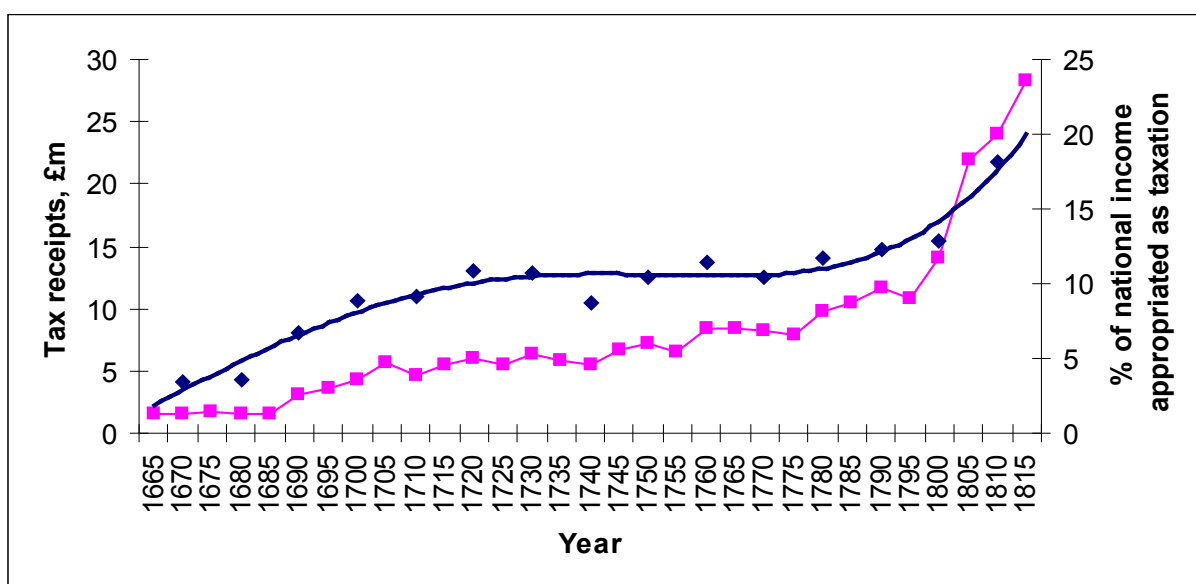


Figure 1 - Five year averages (centered on the years showed on the X-axis) of deflated tax receipts in £m (pink, left axis) and the share of national income appropriated as taxation (blue, right axis), 1665-1815.

What indeed changed radically after the Glorious Revolution was the level of net tax revenues. Figure 1¹⁴⁴ depicts the significant increase in both deflated tax receipts and the ratio of tax revenue to national income. Prior to 1688, the deflated annual tax revenue of the British state fluctuated around £1,6m. After the Revolution, an obvious increase in the level of tax revenue is observed, reaching £4,23m in 1700, £6,29m in 1730, £8,34m in 1760, £11,74m in 1790, and soaring to £28,23m in 1815, at the end of the Napoleonic War. While according to these figures the real increase in the level of tax revenues in the period 1670-1810 is 1540% (from £1,46m to £23,97m), tax revenues in proportion to national income increased by 276% (from 3,4% to 12,8%), which points to a significant rise in national income. Britain did indeed enjoy a growth of national income from £40,88m in 1670 to £320,52m in 1810 in current prices. However, when compared to soaring tax receipts in current prices from £1,39m in 1670 to £58,25m in 1810, a 4090% increase, the growth in national income seems to be moderate¹⁴⁵. In other words, a substantial part of the growth in tax revenues cannot be explained through economic growth, which therefore indicates an increased tax burden, a point that I will discuss below.

¹⁴⁴ For the data, see *O'Brien, The Political Economy of British Taxation*, 3.

¹⁴⁵ Own calculations based on the data in *O'Brien, The Political Economy of British Taxation*, 3.

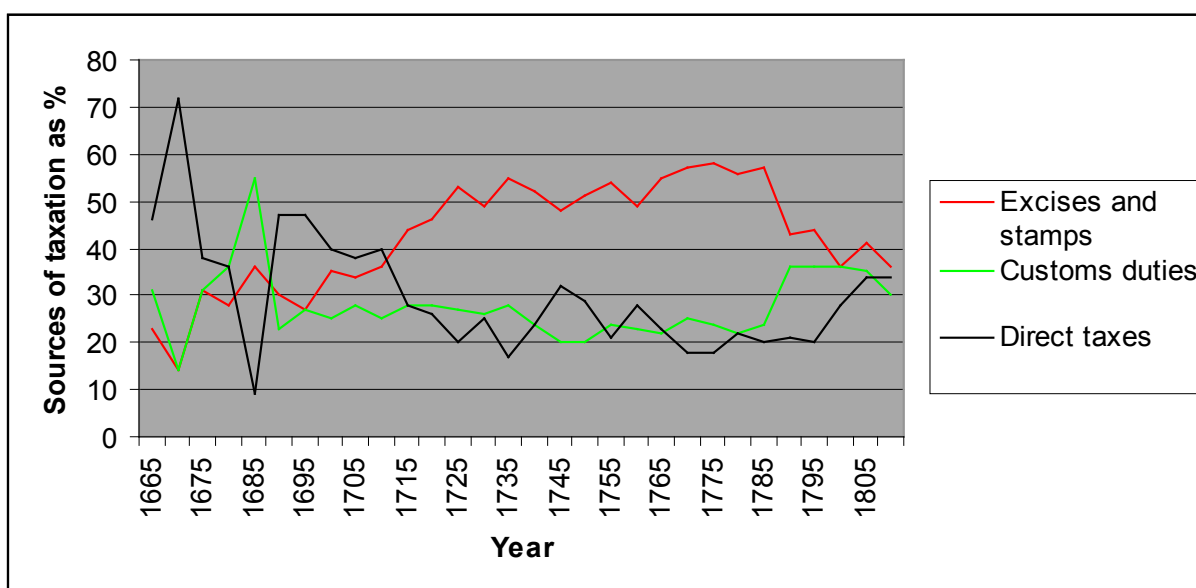


Figure 2 - Percentage contribution of excises and stamps levied on domestic productions and services, customs duties levied on retained imports, and direct taxes levied on manifestations of wealth and income to tax revenues, 1665-1810.

For a better understanding of the British fiscal strategy in the late-seventeenth and eighteenth centuries, one has to analyse the sources of the tax revenue. Figure 2¹⁴⁶ represents the percentage contribution of three principal taxes to government tax revenues. First of all, the turn to indirect taxes already before the Glorious Revolution is clearly depicted in figure 2. As mentioned above, as a result of the unpopularity of direct taxes and eventual political unrests associated with it, the crown relied more and more on indirect taxes. Especially customs duties levied on retained imports stood out as an important source of revenue as their share in total tax revenue increased from 15% to 55%, i.e. by 267% in the decade and a half between 1670-1685. Meanwhile, the percentage distribution of direct taxes dropped from 46% in 1665, and 72% in 1670, to 9% in 1685. In other words, an embryo form of the fiscal strategy of the eighteenth-century Britain (especially that of after 1714) can be observed in the decades preceding the Glorious Revolution.

Figure 2 indicates a sharp increase in the contribution of direct taxes after 1688. It rose from 9% to above 45% within a couple of years, and remained there until the end of the Nine Years' War. Although it declined slowly thereafter, it was not before the end of the War of Spanish Succession that the percentage share of direct taxes dropped below 30%. Then, from about 1715 until the end of the century, it fluctuated within a band of 20 to 30 per cent. Until

¹⁴⁶ For the data, see *ibid.* 9.

the introduction of Britain's first income tax in 1799, direct taxes could not reach the significance that they had at the beginning of the eighteenth century.

The history of excises is the very reverse of that of direct taxes. After an erratic performance of moderate importance in the two decades following 1688, it grew steadily from the last years of the War of Spanish Succession onwards. For the entire period from 1715 to 1800, it constituted more than 40%, and mostly even more than 50% of all tax revenues. From 1790 onwards, the contribution of excises gradually declined as the shares of the other two sources began to rise.

Customs revenues experienced a sharp decline after the Glorious Revolution. Their ratio to total tax revenues remained around 25% from about 1690 to 1790, and then exceeded 35% during the Revolutionary and Napoleonic Wars.

What patterns stand out according to these figures, and how should they be interpreted? The period between 1688-1714 appears to be an anomaly when regarded from a long-term perspective. Both before and after this period of interruption of the long-term trend, the decisive shift from direct to indirect taxation is obvious, whereas customs constituted the more important source of indirect tax revenues before 1688, and excises outran all other sources in the period after 1714. Contrary to this trend, one observes that direct taxes (especially in the form of the land tax¹⁴⁷) constituted at least 40% of total tax receipts throughout the two decades following the Glorious Revolution.

The anomaly mentioned above can only be explained in conjunction with the distinctive character of the political atmosphere of the period. I have argued above (in chapter 3.2) that the main motivation underlying the Nine Years' War and the War of Spanish Succession was to protect the Glorious Revolution and its hard-won results. The best way to check the power of the monarch and to prevent him/her from ruling arbitrarily was through securing that Parliament was called more frequently, and this could only be ensured by rendering the monarch financially dependent on Parliament. In other words, if the crown's access to additional revenues could be made dependent on parliamentary consent, an effective check on arbitrary policies could be established.

Besides borrowing on financial markets, which will be discussed below, there were two major options to raise increasingly more revenues in order to wage war on a grand scale: direct and indirect taxes. Despite the fact that direct taxes in the form of customs and excises were easier to collect, were already under the jurisdiction of a body of professional

¹⁴⁷ See *Brewer, The Sinews of Power*, 95.

administrators, had a less visible incidence than a poll tax or a land tax, and provided a broad tax base, members of Parliament (MPs) feared that a general excise would reestablish the crown's fiscal independence, for instance. The land tax, however, was free of such a threat for it was annually voted on and of a limited, fixed term, which in turn secured that Parliament would be called more frequently. Moreover, the land tax had not undergone the transformation that the customs and excises had experienced. It was still assessed, collected, and received by private citizens rather than state employees¹⁴⁸. Considering that a substantial proportion of MPs were landowners, one can conclude that those who opted for the land tax were most hurt by it, which ensured that the tax would be repealed, once it was no longer necessary. Thus, the Commons decided to finance the Nine Years' War and the War of Spanish Succession by land tax in order to hold the reins of financial power¹⁴⁹.

Other elements of this undoubtedly dominant political framework referred to as 'country ideology' by John Brewer were parliamentary scrutiny of the executive and the endeavour to reduce the size of the (peacetime) standing army, which was regarded as a potential instrument of absolutist rulers. However, as wars became the rule rather than the exception, the relation between war, trade, and power was gradually recognised, and Great Britain won a series of victories over its rivals and increased its political and economic power, after which the supporters of the country ideology who opposed the formation of the fiscal-military came to terms with it¹⁵⁰. Moreover, as it became evident that wars and the tax increases associated with them were not of one-time sort, the land tax became increasingly unpopular for the landed interest realised that it was being deprived of its power¹⁵¹.

Moreover, from a broader perspective, the unpopularity of direct taxation, and the unbeatable character of the opposition against it, manifested themselves in the fact that no political and economic affair in the eighteenth century could help justify the introduction of an income tax, until the risk of a French invasion in the late 1790s. Hence the radical shift to raising revenues through indirect taxation. However, customs duties did not represent a real alternative to direct taxes. In the period between 1700-1801, the share of manufactured goods in total retained imports declined from 28% to 5%, while the share of raw materials increased from 45% to 56%, and the share of foodstuffs from 27% to 39% in the same period. Considering the need for raw materials in a mercantilist framework, and the fact that Great

¹⁴⁸ For the processes by which assessors and collectors were selected, see Colin Brooks, *The Administration of the Land Tax, 1688-1720*. In: *The Historical Journal* Vol. 17, No. 2 (1974), 281-300.

¹⁴⁹ See Brewer, *The Sinews of Power*, 143ff.

¹⁵⁰ See *ibid.* 155ff.

¹⁵¹ See *ibid.* 199ff.

Britain was a net importer of foodstuffs, for it was rapidly urbanising and industrialising, high tariffs on imports were structurally inadequate and politically undesirable. Consequently, eighteenth century British governments turned to the only remaining form of taxation available to them, namely excises¹⁵².

The increasing importance of indirect taxes especially in the form of excises went hand in hand with the emergence and growth of a body of crown employees who were centrally appointed, best illustrated by the evolution of the excise department. Moreover, the development of an effective tax system which provided the government with a regular income flow, was essential for the government's creditworthiness, as well. Creditors invested in government securities only as long as they believed in their prospects to be repaid. Thus, the excise department exemplifies a crucial development in the fiscal structure of the post-1688 British state, and is worth briefly mentioning here.

The expansion of the central government was enhanced and accelerated after 1688, a process which had been initiated under Charles II and James II. Both administrative departments and the fiscal bureaucracy grew in terms of number of offices and employees.

	1690	1708	1716	1726	1741	1748	1755	1763	1770	1782/3
Customs	1313	1839	1750	1911	1925	1939	1832	2290	2244	2205
Excise	1211	2247	2778	3466	3745	3360	3294	3973	4066	4908
Total	2524	4780	5947	6497	6765	6595	6484	7478	7525	8292

Table 3 – Full-time employees in the fiscal bureaucracy, 1690-1782/3.

Table 3¹⁵³ shows that the number of full-time employees in the fiscal bureaucracy increased by 228% between 1690 and 1782/3. The sum of the shares of customs and excise departments in total employees did not decline below 76% throughout this period, which points to the significance of indirect taxation in the British fiscal system. The customs department grew by 68%, which was outstripped by the excise department's growth of 305% in the same period¹⁵⁴. The most rapid expansion in the fiscal bureaucracy took place during the wars against Louis XIV immediately after the Glorious Revolution, insofar as the total number of employees more than doubled, to nearly 6000. However, this growth did not stop in the peacetime of next twenty-five years, which marks the consolidation and further development of the fiscal-military state. The growth in fiscal bureaucracy is visualised in figure 3¹⁵⁵.

¹⁵² See *O'Brien*, *The Political Economy of British Taxation*, 21ff.

¹⁵³ For the data, see *Brewer*, *The Sinews of Power*, 66.

¹⁵⁴ Own calculations based on the figures in table 3.

¹⁵⁵ The figure is based on the data in table 3.

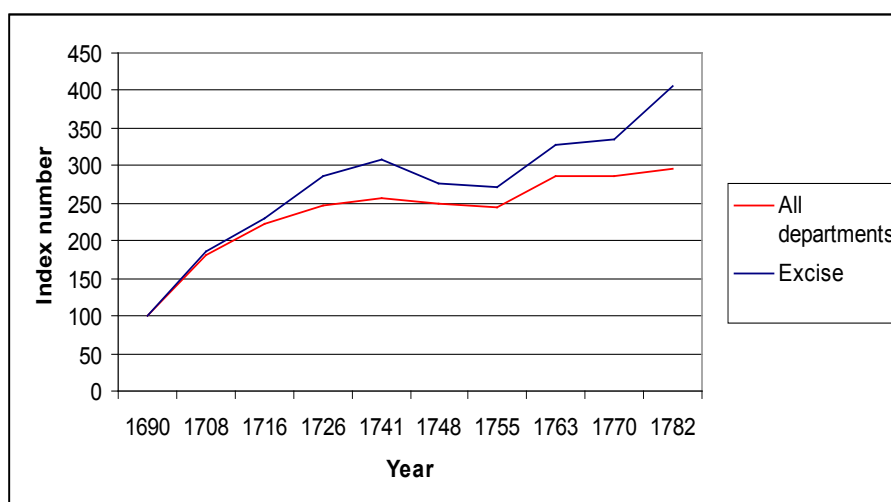


Figure 3 – Growth in fiscal bureaucracy (1690 = 100).

The excise department was highly centralised. Provinces were divided into a number of collections, and

each collector toured his collection eight or nine times a year, while in big cities taxes were paid directly by traders to the receiver in the central office. Candidates to the service had to take both a written and a practical test, and if successful, then complete a period of pupillage. By the mid-century, the excise department had become a competent, specialised, centralised and well-organised office¹⁵⁶.

Not only the size of the state apparatus changed, but also its character did. Full-time employees were rewarded with salaries instead of fees. Moreover, they were provided with the opportunity to climb up the career ladder, which was accompanied by higher remuneration in cash. More than half of the government offices offered their employees a pension scheme as early as 1713. In many cases, a position in central offices was concomitant with security for life since the dismissal rates were fairly low¹⁵⁷. In short, the British fiscal-military state established itself after 1688 not only by raising more revenues and investing them in warfare, but also through the appropriate administrative and bureaucratic modifications. The remaining question is what effects did the whole transformation have on the tax burden, and how consent was established.

In the period between 1690 and 1810, the growth of tax revenues outstripped economic growth by a ratio of 9:2¹⁵⁸. Although the changing composition of the national output, industrialisation, and economic growth undoubtedly contributed to increasing tax revenues, their extent was fairly moderate. At the height of the Second Hundred Years' War, namely during the war with France from 1793 to 1815, extra taxes in the amount of £542m were collected. However, only £47m, i.e. less than 10% of the additional receipts were owed to economic growth for more goods and services became taxable, while £197m were collected

¹⁵⁶ See *Brewer, The Sinews of Power*, 102ff.

¹⁵⁷ See *ibid.* 69ff. and 79ff.

¹⁵⁸ Own calculations based on the data in *O'Brien, The Political Economy of British Taxation*, 3.

through new taxes or due to the expanded tax base, and £298m were achieved through raising rates of taxation¹⁵⁹. Obviously, the overall tax burden on the British society increased. Nonetheless, the crucial question is who bare this burden.

One clear conclusion, which can be indirectly drawn from figure 1, is that the burden on the aristocracy declined throughout the eighteenth century. While the share of direct taxes in total tax receipts was over 45% in the 1790s, the ratio declined to about 20% by the beginning of the wars against Revolutionary France. Since a fall by the same ratio in the income of wealth owners and especially of landowners is very unlikely, one can conclude that the tax burden on the aristocracy declined. It was not until the threat of Napoleon that the upper classes had to make sacrifices that they had made at the beginning of the eighteenth century. However, the income tax that was introduced in 1799 was repealed in 1816, and the pre-Napoleonic Wars situation was reestablished.

It is shown above that indirect taxes and especially excises played an increasingly important role in the decades following the War of Spanish Succession. However, concluding that these indirect taxes were extremely regressive in their incidence is not as easy as it might seem at first sight. The ultimate effects of any indirect tax depend on the good or service, which is being taxed. Clearly, increasing taxes levied on the consumption of wine, whisky, or silks had quite different impacts on consumers when compared to higher tax rates on coal, beer and salt. Before condemning all excises as regressive for taxing necessities, O'Brien suggests to have a look at parliamentary debates in order to see how dominant the fiscal policy of exempting the 'necessities of the poor' from taxation was. In other words, one has to analyse the sort of goods and services that were subject to indirect taxation, and test the price elasticity of demand of different income groups with regard to those goods and services. However, such detailed micro data does not exist for the period concerned here. Thus, it is impossible to discover the real effects of an increased tax rate on sugar consumption, for example, on particular income groups¹⁶⁰.

What we can do is to turn to the available macro data and estimate where the burden of indirect taxes was tending to fall. The ratio of a particular tax receipt to the base of that tax can help draw some conclusions regarding the burden of a specific tax. Table 3¹⁶¹ demonstrates the evolution of the tax burden with regard to customs and excise. Column 3 shows that the burden of customs duties on imported foodstuffs, raw materials, and

¹⁵⁹ See *O'Brien, The Political Economy of British Taxation*, 7.

¹⁶⁰ See *ibid.* 10 and 12f.

¹⁶¹ For the data, see *ibid.* 15.

manufacturers increased after the turn to the eighteenth century, but then declined until the 1790s. It started to rise again during the wars against Revolutionary and Napoleonic France, as strict measures on imports were imposed in order to weaken the enemy economically.

	1	2	3	4	5	6
Year	Customs revenue in constant prices (£m)	Net retained imports in constant prices (£m)	(1/2) (%)	Excise revenue in constant prices (£m)	Domestic consumption of industrial goods in constant prices (£m)	(4/5) (%)
1680	0,5	4,7	11%	0,5	-	3 to 4
1690	0,7	4,8	15%	1	-	7 to 8
1700	1,2	5	24%	1,6	14,6	11%
1720	1,8	5,8	31%	2,6	16,8	15%
1740	1,4	6,5	22%	3,1	17,9	17%
1760	1,9	9,3	20%	3,8	22,9	17%
1780	2	11,8	17%	5,9	26,1	23%
In current prices						
1790	6,3	22,8	28%	6	36,5	16%
1800	11,5	37	31%	7,1	44,7	16%
1810	18,8	51,7	36%	11,3	63,7	18%

Table 4 – Tax receipts and the bases for taxation, 1680-1810.

For excises, the incidence trend is opposed to that of customs. It rose steadily for a century starting from the 1680s, and then declined during the last wars against France. When compared with the level in 1680, the burden of excises in 1810 multiplied by a factor of about five. Considering the fact that rapidly growing sectors such as transportation, potter, metallurgy, cottons, woolens, and finance escaped excises and stamps, the incidence fell on a narrow range of goods and services eligible for taxation¹⁶². Moreover, it is reasonable to assume that such a sharp increase in excise revenues over a century cannot be merely attributed to the increased taxation of some luxury goods and services consumed by a small elite. In other words, although it cannot be proven with the data available, one can theoretically infer that some significant part of the increasing burden was carried by the working classes, even if not necessarily by the poorest.

Table 5¹⁶³ provides an insight into the evolution per capita earnings and per capita tax revenue for a period, for which reliable data is available. Since both series are in nominal terms, the same deflator would be used to convert them into real terms, meaning that nothing would change in our results. In the short period of time considered in the table, the growth of

¹⁶² See *ibid.* 16.

¹⁶³ For the data, see J.V. *Beckett* and Michael *Turner*, *Taxation and Economic Growth in Eighteenth-Century England*. In: *The Economic History View*, New Series Vol. 43, No. 3 (1990), 377-403, here 389.

the tax burden was greater than the increase in per capita earnings. This is true regardless of the type of the earning group and tax revenue that are compared. Even when customs and excises are considered separately or when they are taken together, they outstrip the growth of the earnings of any subgroup of workers. In other words, the increase in the indirect tax burden is greater than any comparable improvement in earnings of the earning groups¹⁶⁴.

Year	Type of earning group					Type of tax revenue			
	Farm labourers	Middle group	All blue collar	White Collar	All workers	Total revenue	Customs	Excise	Customs & excise
1755	100	100	100	100	100	100*	100*	100*	100*
1781	122,8	127,8	116,8	122,2	120,7	159	162,1	138,7	145,1
1797	174,8	169,8	145,8	150,6	152,7	248,4**	203,5**	211,3**	209,9**

Table 5 – Trends in per capita nominal earnings and per capita nominal tax revenue (1755 = 100 for earning groups, 1751-1755 = 100 for tax revenues).

* The base year for tax revenues the period 1751-1755.

** Average of the values in the period 1796-9.

To cut the long story short, even if the data available does not allow one to draw clear and statistically provable conclusions regarding which income and social groups the increased tax burden fell on, and to what extent, it is obvious that British citizens bare an ever-increasing tax burden. It is nothing but a myth that England was lightly taxed by standards of eighteenth-century Europe. The share of per capita income appropriated as taxes in Britain increased from 16% in 1716, to 23% by the end of the American War. Also, the share of total commodity output appropriated as taxes rose from 17% in 1715 to 20% in 1760, and to 22% in 1785. Both figures are still moderate when compared to their levels during the Napoleonic Wars, which amounted to 35%. However, even the lower percentage shares before the turn of the nineteenth century are almost twice the comparable figures in France throughout the eighteenth century. In other words, Britain was heavily taxed in both absolute and comparative terms¹⁶⁵.

To recapitulate, England after 1688 developed a highly centralised fiscal bureaucracy by increasing the number and the size of tax departments, and by concentrating tax assessment and collection in the hands of centrally appointed government officials. In France, the collection and supervision of most indirect taxes were dominated by private financiers, except for short periods until the Revolution, while in the United Provinces, tax farmers collected excises until the tax revolts of 1747-8. Even Frederick the Great of Prussia, supposedly the paradigm case of the well-developed bureaucracy, called a group of French tax farmers for the collection of a certain tax between 1766-1786. Moreover, Great Britain

¹⁶⁴ See *Beckett and Turner*, *Taxation and Economic Growth*, 389f.

¹⁶⁵ See *Brewer*, *The Sinews of Power*, 91.

outnumbered all of its European counterparts in terms of the number of centrally appointed fiscal officials¹⁶⁶. Professionalism and efficiency are the keywords that distinguished the British tax system from its European counterparts.

The British tax system was not only more centralised and better organised than those of its rivals, but also formally more just. No region or social group enjoyed privileges or exemptions. The tax system was uniform in its legal incidence. Although this uniformity says nothing about who was *de facto* more burdened, the inequality was not built into the legal structure, which helped the British tax system to be perceived as being fairer. France suffered much from the hostility of its citizens to taxes, for unfairness was visible, for instance, in the huge profits that were pocketed by tax farmers, or regional differences in incidence. Moreover, the structure of the British tax system which relied on parliamentary consent, helped establish legitimacy of (increasing) taxation¹⁶⁷.

Last but not least, the British state developed a flexible tax system by focusing on different taxes at different times, and distributing the burden in a way that it fell overwhelmingly on those who could afford to pay (the necessities of the poorest were either exempted or taxed moderately¹⁶⁸), and those who were interested in defending their property from enemies (recall that direct taxes were introduced or increased whenever the threat of invasion emerged)¹⁶⁹. All these factors, combined with a rapidly urbanising country, and a commercialising and growing economy allowed Great Britain to raise higher revenues than its counterparts and win an ultimate triumph in the mercantilist wars between 1689-1815, by investing massively in warfare. In other words, Britain's distinguishing mark was that it had a much more *effective fiscal-military state* than its rivals.

The efficient tax system also contributed to the ability of the British state to raise increasing funds on financial markets, which is discussed in the next subsection.

3.3.3 Increased Borrowing and Soaring Debt

The effectiveness of the British tax system and the consequently increasing regular tax income allowed for borrowing at relatively cheap rates. The period of 126 years rife with wars resulted in rising sovereign indebtedness as the share of wartime expenditure funded by borrowing also increased. While only 31% of expenditure during the War of Spanish Succession was financed by borrowing, the ratio increased by about 30%, and reached a level

¹⁶⁶ See *ibid.* 127.

¹⁶⁷ See *ibid.* 129ff.

¹⁶⁸ See *O'Brien*, *The Political Economy of British Taxation*, 5 and 12.

¹⁶⁹ See *ibid.* 17.

of 40% by the time of the American War. Consequently, national debt soared both in absolute and relative terms. In nominal terms, British national debt rose from less than £10m at the beginning of the Nine Years' War, to about £76m at the mid-century, £131m in 1775, and to an unprecedented level of £243m by the end of the American War in 1783¹⁷⁰. It is notable that the British economy saw almost no inflation at all between 1690-1760. Taking 1690 as base year, the index number for inflation was only 102 in 1760, and fluctuations were fairly limited. The index number even for 1785 amounts to 131, indicating that the real increase in national debt was as striking as the nominal one¹⁷¹. In relative terms, the national debt was a tiny fraction (between 2-3%¹⁷²) of gross national product in the 1680s, and soared to almost 300% of GNP after the victory of Waterloo¹⁷³.

As the British state borrowed more and more, the debt stock soared, and the interest burden on the economy rose. Table 6¹⁷⁴ once again shows the trend of interest payments as ratio of total government expenditures in the period 1689-1815.

	1689	1698	1702	1714	1740	1750	1756	1764	1776	1784	1793
	-	-	-	-	-	-	-	-	-	-	-
	1697	1702	1713	1739	1748	1755	1763	1775	1783	1792	1815
Interest payments	6	24	19	44	25	44	22	43	30	56	30

Table 6 – Interest payments as percentage share of government expenditures.

The series starts with the Nine Years' War, and each period of war is followed by a period of peace, which is again succeeded by a war. An observable pattern is that interest payments as a share of total government expenditures were relatively modest in wartime, and fairly high in peacetime. This is reasonable since the bulk of spending was allocated to military aims during wars, and an increasing share of it was financed through borrowing. Thus, the state budget was burdened more in peacetime with the service of debt that had been created to finance the preceding wars. Consequently, an increasing share of tax revenues was allocated to service the national debt. While in the peace period 1698-1702 some 24% of tax receipts were allocated to debt service, the ratio increased with the following conflicts, and reached its peak of 60% during the Napoleonic War¹⁷⁵.

Not only the size and significance, but also the composition of the British national debt changed over time. In the immediate aftermath of the Glorious Revolution, the Commons

¹⁷⁰ See *Brewer, The Sinews of Power*, 114.

¹⁷¹ See *O'Brien, The Political Economy of British Taxation*, 3.

¹⁷² See *North and Weingast, Constitutions and Government*, 822.

¹⁷³ See *O'Brien, Imperialism and the Rise and Decline of the British Economy*, 51.

¹⁷⁴ For the data, see *O'Brien, The Political Economy of British Taxation*, 2.

¹⁷⁵ See Patrick Karl *O'Brien, Finance and Taxation*. In: H.T. *Dickinson* (edt.), *A Companion to Eighteenth-Century Britain* (Oxford 2002) 30-39, here 36f.

tried to avoid long-term borrowing for repayment would require high taxes for many years. Just as they thought that indirect taxes would be difficult to repeal after the conflicts were over, and thus opted for the land tax to finance the first two wars after 1688, they were not ardent to permit long-term borrowing, which was concomitant with long-term high taxes. It is important to keep in mind that British parliamentarians at the turn of the eighteenth century were still for an isolationist policy which focused on trade instead of warfare. Moreover, they were suspicious of the executive, and thus endeavoured to control financial affairs as much as possible. Hence, the fierce opposition to permanent taxes and long-term borrowing, since the latter two signaled nothing but a strategic switch to the great power competition and extensive warfare.

In the early periods of the Second Hundred Years' War, the opponents of long-term borrowing succeeded in restricting the size of such loans. Over 70% of Britain's sovereign debt was of short-term nature during the Nine Years' War. It was not until 1712 that the level of long-term unfunded debt exceeded that of short-term funded debt. In no major war after 1714 was the share of short-term funded debt more than 20%, which indicates a radical shift in the borrowing pattern. As the relationship between war, power and trade became more and more visible, and as Great Britain won a series of victories, the fact that deficit finance and long-term loans were an integral part of the very functioning of the British state and its imperial strategy was grasped by Parliament and society. The strategy was to no longer reduce the debt stock, but to manage it and keeping the interest rate at low levels¹⁷⁶. There was also another factor that facilitated this policy shift. In 1694, the Bank of England was created as a mediator between the government and financial markets. It handled the government's loan accounts and assured the continuity of promised repayments. In other words, loans to the state went through the Bank, and it could cease further lending if the government did not meet its obligations¹⁷⁷. After 1714, the state took advantage of developing securities markets and borrowed on long-term by issuing government securities.

There was one more major change in the character of sovereign debt after 1714. By the end of the War of Spanish Succession, a major portion of long-term debts was held by individuals in the form of annuities for lives (or for terms of many years). The problem was that such annuities were irredeemable, i.e. the state could not cancel the loan by paying off the principal, for it had agreed to pay the specified interest for the relevant period of time, and

¹⁷⁶ See *Brewer, The Sinews of Power*, 116ff. and 152ff.

¹⁷⁷ See *North and Weingast, Constitutions and Commitment*, 821.

could not take advantage of the secular fall in interest rates¹⁷⁸. A solution to this problem was found by forcing the holders of irredeemable annuities to exchange their papers for redeemable stocks of the newly created South Sea Company, which resulted in a bubble and losses carried by the former holders of annuities. In other words, national debt subject to unfavourable conditions was privatised through an exchange for the stocks of a private company. The South Sea Bubble will be discussed below in the chapter concerning property rights.

The Bank of England incorporated a close relationship between the Treasury and leading financiers of London, which provided the British state with funds even in years of credit scarcity. At a time when the French state partially repudiated its debts and suspended payments, which then resulted in higher interest rates on subsequent loans, Great Britain had a relatively smoothly functioning financial system and enjoyed declining interest rates. The French financial policy moved in the opposite direction, as it insisted on fixed-term loans, which raised the annual cost of debt service. Consequently, Britain took the leading position in Europe also in terms of borrowing capacity¹⁷⁹. However, attributing this increased financial capacity solely to self-enforcing credible commitments of the crown due to the existence of a multiple number of veto points such as Parliament and the Bank of England in the aftermath of the Glorious Revolution, as North and Weingast do, is an incomplete view¹⁸⁰. Establishment of fiscal centralisation and an effective tax system was just as essential as limited government to increasing public revenues and the creditworthiness of the state¹⁸¹. Moreover, tracing the relationship between fluctuations in the interest rate after 1688 and the party in office, Stasavage shows that the credibility of the British state's commitments depended heavily on the Whig control of one or more positions associated with veto power¹⁸². Thus, without dismissing the role of multiple veto points and credible commitment, one should be rather careful in postulating a straightforward relation between credible commitment and an increased capacity to borrow.

There has been a specific debate about whether public borrowing to fund military expenditures crowds out private borrowing, which would have otherwise been invested more productively. Following the Smithian argument that wars are inimical to economic progress, it

¹⁷⁸ The interest rate on government long-term borrowing declined from 14% in 1694 to 6,25% in 1707, and 5% in 1721. Thereafter, it fluctuated around 4%. See North and Weingast, *Constitutions and Commitment*, 824.

¹⁷⁹ See Brewer, *The Sinews of Power*, 133f.

¹⁸⁰ See North and Weingast, *Constitutions and Commitment*.

¹⁸¹ See Mark Dinecco, *Fiscal Centralization, Limited Government, and Public Revenues in Europe, 1650-1913*. In: *The Journal of Economic History* Vol. 69, No. 1 (2009), 48-103.

¹⁸² See David Stasavage, *Credible Commitment in Early Modern Europe. North and Weingast Revisited*. In: *Journal of Law, Economics, and Organization* Vol. 18, No. 1 (2002), 155-186.

is claimed that in the absence of interruptions through warfare, the trend of increase in labour productivity, industrial and agricultural growth, and growth of national product would have been higher. In other words, estimated downward deviations from long-term trends of economic growth are attributed to the reallocation of resources from the civilian economy to military purposes¹⁸³. However, a methodological problem arises in the first instance, namely whether a separation between the sequence of mercantilist wars from 1651 onwards, the emergence of the fiscal-military state with all its effects on public revenue and spending, and the industrialisation and growth of the British economy is possible, realistic, or even plausible¹⁸⁴. Moreover, as O'Brien suggests, leaving aside all the technical aspects and details, the whole approach of crowding out is malposed because, for instance, the effects of an eventual invasion of Great Britain by Napoleon's army would have put far more serious restrictions on the country's economic transformation and growth performance¹⁸⁵.

Britain emerged from the Second Hundred Years' War as *the* hegemonic power of the new international political and economic order, and possessed a huge territorial empire, which provided it with raw materials and sales markets. As also *Why Nations Fail* shows, nowadays it is popular to read history as economic theory in retrospect, where mercantilist competition and wars are either ignored or regarded as irrationalities slowing down the utopian process of long-run economic growth under liberal policies. However, wars, protectionism, slavery, colonialism, and imperialism were an integral part of that whole era, as it will be discussed in the coming chapters.

We have so far seen that after the Glorious Revolution England became rapidly integrated into an international political and economic order, which was created, maintained, and commanded by force of arms¹⁸⁶. The emergence of an effective tax system, the growth of government, and the rise of high finance provided the British state with financial resources that were necessary to conduct warfare on a grand scale. In other words, the British fiscal-military state owed its peculiarity to high taxes and huge debts, which in turn helped mobilise large armies and navies in order to establish its political-military hegemony¹⁸⁷.

¹⁸³ See O'Brien, *The Contributions of Warfare with Revolutionary and Napoleonic France to the Consolidation and Progress of the British Industrial Revolution*, 3f.

¹⁸⁴ For a critical review of factoring wars out through econometrics, see Joel Mokyr, *Has the Industrial Revolution Been Crowded Out? Some Reflections on Crafts and Williamson*. In: *Explorations in Economic History* Vol. 24, No. 3 (1987) 293-319.

¹⁸⁵ See O'Brien, *The Contributions of Warfare with Revolutionary and Napoleonic France to the Consolidation and Progress of the British Industrial Revolution*, 23.

¹⁸⁶ See O'Brien, *Imperialism and the Rise and Decline of the British Economy*, 56.

¹⁸⁷ See Brewer, *The Sinews of Power*, 250f.

Once again, the vagueness of the concepts of inclusive and extractive institutions in *Why Nations Fail* prevents one to place them in concrete historical contexts. While centralisation proves to be a crucial element of the post-1688 British state, which is rightly emphasised by AR, following questions remain unanswered within the framework presented in *Why Nations Fail*: To what extent can one talk about inclusive institutions if the most important task of the state is to extract as much resources as possible in order to invest in warfare? What does an ever-increasing tax burden mean for the inclusiveness of institutions even apart from the purposes for which tax receipts are invested? The next chapter will discuss Great Britain's trade policy and show that it can be called anything but liberal, a point AR choose to talk timidly about.

3.3.4 Beggar Thy Neighbour

In his *The National System of Political Economy*, first published in 1841, Friedrich List starts by discussing the history of major Western countries' industrial policies including those of the Italians, Netherlanders, French, German, Russian, Spanish and Portuguese, and the English. In the chapter regarding the English industrial policy, List suggests that whoever is not convinced of the protection of infant industries argument, she/he should first study the history of English industry before framing theoretical systems or giving counsel to practical statesmen¹⁸⁸. Indeed, it was not until the mid-nineteenth century that interventionist and strongly protectionist measures in Great Britain were abolished.

Mercantilism manifested itself not only in trade policy through tariffs and subsidies, but also in the increasing significance of naval power in order to safeguard commercial fleets and 'seize' new markets, which in turn provided the country with high trade profits and helped the state finance its ever enlarging naval activity. Indeed, already in the wake of the Civil War, a non-continentalist form of blue-water policy gained primacy, which regarded commercial wealth and naval power as complementary and mutually sustaining. The primary goal of this policy was the defence of the English realm against foreign invasion, i.e. the naval command of the English Channel and the North Sea¹⁸⁹. The Navigation Acts of 1651, 1660, and 1662 aimed at securing that either English ships or ships of the exporter country carried all the goods imported to England. Moreover, all trade between England and its colonies was to be conducted in English or colonially owned ships. Last but not least, a list of commodities

¹⁸⁸ See Friedrich List, *The National System of Political Economy* (London, New York, Bombay and Calcutta 1909) 32.

¹⁸⁹ See Daniel A. Baugh, Great Britain's 'Blue-Water' Policy, 1689-1815. In: *The International History Review* Vol. 10, No. 1 (1988), 33-58, here 36ff.

including sugar, cotton, tobacco, and dyestuffs could only be exported from English colonies to England itself. In other words, they could be bought by others only after being reexported from England¹⁹⁰. Obviously, the Dutch were regarded as the main rivals, who were the leading commercial and maritime power. This view is also supported by the fact that the passage of the Navigation Acts was accompanied by three commercial Anglo-Dutch Wars in the years 1652-54, 1665-67, and 1672-74. However, from the 1670s onwards France started to emerge as a great power on both land and sea, and around the turn of the eighteenth century it became evident that the strategy of national defence based on naval and commercial supremacy was not sustainable against the established continental hegemony of the French. Thus, in the aftermath of the Glorious Revolution, the blue-water policy of the seventeenth century was extended by a continental strategy that aimed at weakening the greatest rival, namely France¹⁹¹, which resulted in the Second Hundred Years' War, discussed in detail above.

The blue water strategy and aggressive military activity on both land and sea went hand in hand with the protection of key industries. Nonetheless, import substitution policies have a long history in England. Already in the fifteenth century Henry VII took a number of measures in order to promote wool manufacturing such as poaching skilled workers from the Low Countries, increasing duties on the export of raw wool, and even temporarily banning it. Similar policies were sustained in the subsequent centuries, as well¹⁹². The passage of the Navigation Acts in the mid-seventeenth century and England's increasing involvement in military conflicts, which cannot be regarded as separate from commercial interests, point to the fact that the country was increasingly becoming a part of the international economic order of strictly mercantilist character.

The Glorious Revolution did not bring along any rupture with protectionism. The Wool Act of 1699 prohibited the colonies' exports of woollen products, which in the first instance killed the then superior Irish wool industry. In 1700, imports of Indian cotton products (the so-called 'calicoes') were banned. Promoting its own industry was only one pillar of mercantilist policy. The other one was to make use of military/naval supremacy and impose certain policies to colonies and other countries, which was at least as crucial as the first one. For instance, Indian cotton manufacturing industry, which was then the world's most efficient one, was ruined by the East India Company's monopoly in international trade

¹⁹⁰ See *Findlay and O'Rourke*, *Power and Plenty*, 237f.

¹⁹¹ See *Baugh*, *Great Britain's 'Blue Water' Policy*, 48.

¹⁹² See Ha-Joon *Chang*, *Kicking Away the Ladder. Development Strategy in Historical Perspective* (London 2005) 20.

until 1813¹⁹³. This latter point will be discussed below in detail in the chapter concerning colonialism and imperialism.

The British strategy prior to Walpole's introduction of the mercantile law reform in 1721 can be described as capturing trade through colonisation and the Navigation Acts. This reform, however, points to a shift to a more profound and systematic trade and industrial policies aimed at promoting key manufacturing industries. Walpole stated in his speech in Parliament that, "it is evident that nothing so much contributes to promote the public well-being as the exportation of manufactured goods and the importation of foreign raw material."¹⁹⁴ Accordingly, the following measures were adopted through the legislation of 1721: first, import duties on raw materials used in manufacturing industries were either reduced, or entirely eliminated. This was supported by an increase in duty drawbacks on imported raw materials for export industries, a policy that had already been established under William and Mary. Secondly, export duties on many manufactures were abolished. Thirdly, domestic industries were protected through significant increases in duties on imported foreign manufactured goods. Moreover, new goods were added to the list of items promoted by export subsidies, such as silk products (1722) and gunpowder (1731). Last but not least, regulatory requirements were introduced in order to guarantee a minimum quality standard and avoid the erosion of the reputation of British products in international markets¹⁹⁵.

	1699-1701	1722-1724	1752-1754	1772-1774
Woolen goods				
Continental Europe	2745	2592	3279	2630
America and Africa	185	303	374	1148
India and Far East	89	72	230	189
Other manufactures				
Continental Europe	456	367	647	987
America and Africa	290	376	1197	2533
India and Far East	22	15	408	501
Reexports (to all markets)				
Total	1986	2714	3492	5818
of which				
Calicoes	340	484	499	701
Total manufactures	746	1116	1145	1562
Tea	2	267	217	295
Coffee	2	151	84	873

Table 7 – English exports in thousands of pounds sterling, 1699-1774.

¹⁹³ See *ibid.* 22.

¹⁹⁴ Quoted after *List*, *The National System of Political Economy*, 32.

¹⁹⁵ See *Chang*, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 21f.

Table 7¹⁹⁶ demonstrates the evolution of English exports of certain goods during the first three quarters of the eighteenth century. In terms of woolen goods it is noticeable that overseas trade (especially exports to America and Africa, which increased by 520%) expanded much more rapidly than exports to continental Europe. However, the main growth was observed in exports of a wide variety of other manufactures such as nails, clocks, saddles, buttons, buckets, axes, and so on, which are referred to as 'other manufactures' as a group. Here, the increase in exports to the colonies across the Atlantic amounts to 773%, while exports to continental Europe also more than doubled. In relative terms, exports to India and Far East experienced the steadiest growth with 2177%, while in absolute terms the Atlantic exports remained as the largest item.

The last part of the table indicates that reexports almost reached an amount of £6m and became the most important export category by the 1770s. While the East India Company's reexports of Indian calicoes to Europe and Africa more than doubled from £340.000 to £701.000, that of coffee from the West Indies and Chinese tea rose from tiny amounts to £873.000 and £295.000, respectively. The increases in the export of 'other manufactures', sugar and coffee from the 1750s to the 1770s can be attributed to the clear triumph of the British in the Seven Years' War, and the consequent territorial expansion in the Americas, West Africa, and India.

Surprisingly, French foreign trade¹⁹⁷ grew in real terms by a factor of at least 3 between 1715-1784, and outstripped that of the British, which amounted to 2,4. However, it still remained at one third of the British foreign trade in per capita terms. The most important difference between the export structures of the two great powers was that France had little or no access to the rapidly growing market of the British colonies on the American mainland. Even after American independence, on the eve of the French Revolution, British domestic exports to the United States were 45 times that of the French. All this evidence points to the structure of British trade, which acquired an increasingly intercontinental character, and reveals once again, the importance of empire, overseas colonies, war, and power¹⁹⁸.

Both Britain and France employed policies with mercantilist reasoning during the Revolutionary and Napoleonic Wars as well and endeavoured to prevent the other side from exporting, and thereby from acquiring more precious metals. Such measures manifested themselves in Napoleon's Continental Blockade and Britain's naval blockade of enemy

¹⁹⁶ For the data, see *Findlay and O'Rourke*, *Power and Plenty*, 260.

¹⁹⁷ Defined as the sum of the values of exports, imports and reexports.

¹⁹⁸ See *ibid.* 260ff.

ports¹⁹⁹. Although blockades and embargoes were to some extent undermined by smuggling and corruption, the consequent global trade disintegration can be traced both in declining trade volumes and the rising relative price of import goods²⁰⁰. Moreover, wars' impacts on trade policies remained solid long after the end of the conflict. Rising agricultural prices during the twenty-three-year period of war resulted in increased rents, benefited landed interests, resulted in strong landlord lobbying, and paved the way for the 1815 Corn Law, which closed British markets to foreign grain. Although the law was gradually relaxed, it was not repealed until 1846. Not only Great Britain, but also many other countries including France and the United States adopted strictly protectionist measures in the aftermath of the Napoleonic Wars. However, there were some important changes in the character of mercantilist policies. Many former colonies gained their independence during and after the wars. By the 1820s, Spain controlled only Cuba and Puerto Rico, and independent republics had been established in the rest of Latin America. The Dutch VOC was first severely weakened, and then dissolved in 1799. The British feared social unrest due to wartime scarcity and inflation, and thus abolished the East India Company's trade monopoly in India in 1813, while its monopoly in Anglo-Chinese trade was retained until 1833. In short, Britain (and world trade) by no means experienced a switch to free trade in the immediate aftermath of the Napoleonic War, nonetheless, common mercantilist restrictions of early modern European colonialism such as imposition of monopolies slowly disappeared, and the focus shifted to the promotion of domestic industries through tariffs and other policies²⁰¹.

Meanwhile, the British economy was undergoing a crucial transformation, known as the Industrial Revolution. The extent of rapid technological change can be best illustrated with the introduction of machinery to, and the mechanization of, the leading sector of that period, cotton textiles. In 1764, James Hargreaves invented the spinning jenny, which was followed by the invention of the water frame by Richard Arkwright in 1769, the mule by Samuel Crompton between 1775-79, and the introduction of the automatic mule by Richard Robert in the 1830s. The breaking point came with the use of steam engines as the power source for spinning and weaving. By 1835, 30.000 of the 40.000 horsepower used in the British cotton industry were provided by steam power. Consequently, while the Indian industry needed over 50.000 hours of spinning for 45 kilograms of cotton by hand, the British

¹⁹⁹ See Kevin *O'Rourke*, *The Worldwide Economic Impact of the French Revolutionary and Napoleonic Wars, 1793-1815*. In: *Journal of Global History* Vol. 1, No. 1 (2006), 123-149, here 125f.

²⁰⁰ See *ibid.*

²⁰¹ See *Findlay and O'Rourke*, *Power and Plenty*, 371ff. and *O'Rourke*, *The Worldwide Economic Impact of the French Revolutionary and Napoleonic Wars*, 146ff.

industry reduced it to 2.000 in 1779 through the invention of the mule, to 300 by 1795, and to 135 by 1825²⁰², and gained a comparative advantage of an unusual extent. Of course, the Industrial Revolution was not limited to the cotton industry, but involved rapid technological progress in a wide range of industries from metallurgy to textiles, from machine tools to chemicals and energy technologies, and so on²⁰³.

During the Industrial Revolution, key sectors grew at unprecedented rates. Between 1770-1815, the annual growth rate of the cotton textiles industry amounted to a striking level of 7%, while iron and coal industries grew at 3% and 2,5% per annum, respectively. Other sectors grew about 1% annually²⁰⁴. Besides overcoming Malthusian constraints against the background of a rapidly growing population, another important result of this change was a rapid structural transformation of the British economy. The share of agricultural employment in total male employment declined from 53% in 1760 to 41% in 1800, and to 29% in 1841²⁰⁵. This transformation was also reflected in the export structure of Britain.

Figure 4²⁰⁶ shows that textiles dominated British exports until the mid-nineteenth century as their total share increased from about 45% in the period 1784-1786 to over 65% in 1804-1806, and did not decline below 60% before the 1850s. Cotton textiles stand out as the key sector as its share in total exports rose from 6% in 1784-1786 to 42,3% in 1804-1806, and to 48,5% in 1834-1836, while the share of traditional industries such as woolen, linen and leather declined²⁰⁷. Unsurprisingly, Britain, as the industrial workshop of the world at the time, did not export foodstuffs and raw materials in the first instance, but rather imported these items to meet the growing domestic input demand for its industries and to feed its industrial workers.

²⁰² See *Findlay and O'Rourke*, Power and Plenty, 313ff.

²⁰³ For an excellent account of the technological change from the mid-eighteenth century onwards, see David S. Landes, *The Unbound Prometheus. Technological Change and Industrial Development in Western Europe from 1750 to the Present* (Cambridge 2003).

²⁰⁴ See footnote 42 in N.F.R. Crafts and C.K. Harley, Output Growth and the British Industrial Revolution. A Restatement of the Crafts-Harley View. In: *The Economic History Review* Vol. 45, No. 4 (1992), 703-730, here 713.

²⁰⁵ See *Findlay and O'Rourke*, Power and Plenty, 314f.

²⁰⁶ For the data, see *ibid.* 314.

²⁰⁷ See *ibid.*

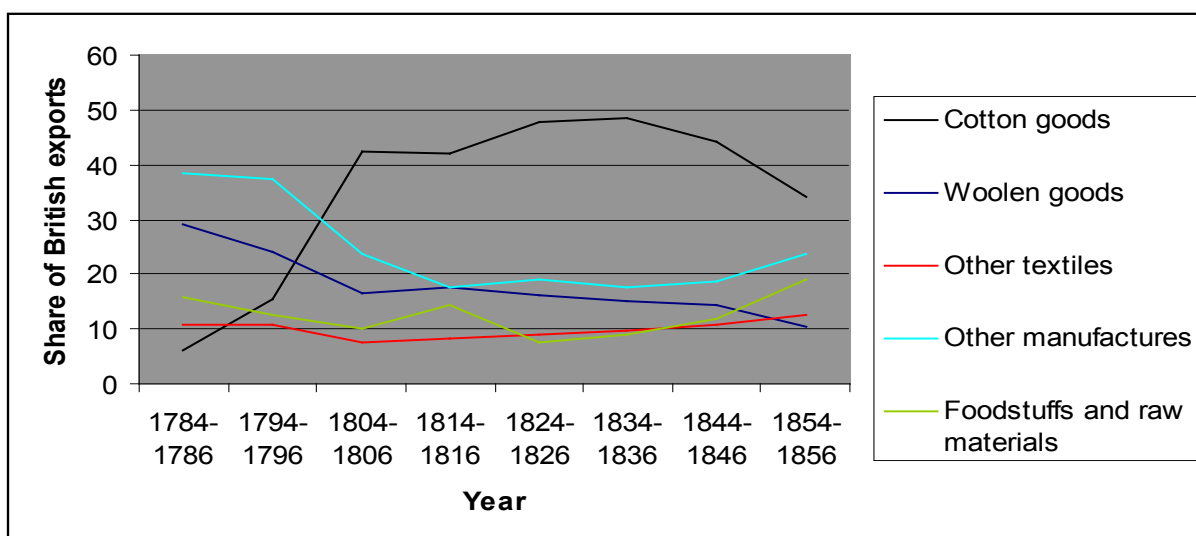


Figure 4 – British exports by product groups (percentage share), 1784-1856.

Between 40% and 60% of all British cotton goods exports went to Europe in the first half of the nineteenth century, which then declined to 30% by mid-century as the result of successful import substitution policies of European powers, while Asia and Africa took the lead in the British exports of cotton goods in the 1850s with 39,6%, largely due to the de-industrialization in India. Britain's trade with rapidly industrialising Europe focused mainly on the export of semi finished intermediate inputs, which European industries in less mechanized stages of production demanded, in exchange for some finished manufactures and primary products. The British trade with the less developed rest of the world was more of a typical character, i.e. it exported finished manufactures and imported foodstuffs and raw materials²⁰⁸.

Although as a result of the loss of the North American colonies, products such as sugar, tobacco, and rice were shipped directly to Europe instead of being reexported by the British, a new form of reexport trade began to emerge as Britain became the natural collection point of primary and semi finished products that were being demanded by industrialising European countries. The share of reexports in total British exports fell from 24% in 1794-1796 to 17% in 1854-1856. However, the volume of reexports more than tripled from less than £7m to £21m. The only difference with eighteenth-century reexports was that trade was no longer based on compulsion through the Navigation Acts, which were repealed in 1849, but rather on Britain's incontestable comparative advantage²⁰⁹.

²⁰⁸ See *ibid.* 324ff. and *Williamson*, *Trade and Poverty*, 65.

²⁰⁹ See *Findlay and O'Rourke*, *Power and Plenty*, 327.

Figure 5²¹⁰ indicates a significant change in the composition of Great Britain's imports. First of all, the share of manufactures in total imports did not exceed 10% over the whole period observed. At the beginning of the eighteenth century, however, manufactures had accounted for almost a third of total imports, which points to the extent of British industrialisation. Secondly, one observes a slight decline in the share of foodstuffs, which nonetheless does not mean that foodstuffs lost their significance in imports. Finally, and most importantly, the share of raw materials rose from about 45% by the end of the American War to almost 70% by 1834-1836, and then stabilised at about 60%.

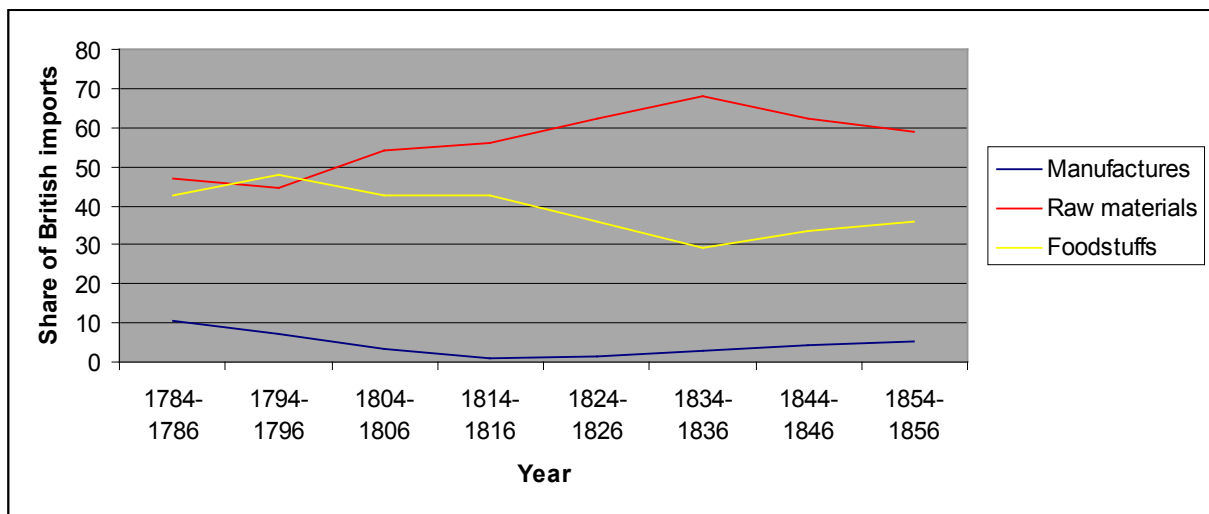


Figure 5 – British imports by product groups (percentage share), 1784-1856.

In short, a new worldwide division of labour emerged towards the mid-nineteenth century between the rapidly industrialising core and the periphery, which specialised in primary products²¹¹. Great Britain was the leader of the former group, and it engaged more and more in international trade throughout this period. Exports as share of British GDP amounted to only 8,4% in 1700, rose to 9,4% in 1780, 15,7% in 1801, and reached its peak with 19,6% in 1851. In absolute terms, British exports increased from £12,7m in 1784-1786 to £102,5m in 1854-1856, while imports also featured a likewise impressive rise in the same period, namely from £20,4m to £151,6m. In other words, Great Britain's growing specialisation in manufacturing went hand in hand with large-scale imports of foodstuffs and raw materials, which were paid for with the exports of manufactured goods²¹².

²¹⁰ For the data, see *ibid.* 329.

²¹¹ For an alternative view that I do not share and according to which globalisation and a worldwide division of labour dates from the fifteenth century, see Andre Gunder *Frank*, *ReOrient. Global Economy in the Asian Age* (Berkeley, Los Angeles and London 1998) Chapter 2.

²¹² See *ibid.* 314 and 329f.

The integration of international commodity and factor markets was facilitated first by the gradual improvement in infrastructure, and then by the transport revolutions of the nineteenth century. In the second half of the eighteenth century, canal and turnpike construction gained pace in Britain. Navigable waterways quadrupled between 1750-1820. A key invention in terms of transport revolution was the steamship, which started to cross the Atlantic by the 1830s. Its counterpart on land was the railroad. The railway mileage experienced a great growth from the 1830s onwards in Great Britain, Belgium, France, Germany, and especially the United States. As a result of all these developments, transport costs fell dramatically and world trade boomed in the century following the end of the Napoleonic War²¹³.

A combination of productivity and production increases due to the Industrial Revolution, worldwide division of labour and specialisation, the great fall in transport costs due to the advances in infrastructure and transport technology, and the relatively peaceful character of the decades after 1815 resulted in a gradual shift to a liberal trade policy under Britain's leadership. Although a series of liberal reforms were undertaken in the 1830s, Britain's move to a unilateral free trade policy began in 1846 as the Corn Laws were abolished by Robert Peel. This step was succeeded by further arrangements, such as the Cobden-Chevalier Treaty of 1860 between the British and the French, which removed all French import prohibitions and the British export duty on coal²¹⁴. However, it is worth emphasising once more that it was not until Britain had sufficiently protected its industries and established its incontestable technological supremacy that it opened up to unilateral free trade. Even in the 1820s, where Britain's global political hegemony was well-established, and the country was widening the industrial and technological gap, average tariff rates on manufactured products²¹⁵ in the United Kingdom were the highest with 45 to 55% among a number of countries including the United States (35 to 45%), Holland (6 to 8%), Germany (8 to 12%), Denmark (25 to 35%), and Switzerland (8 to 12%)²¹⁶.

²¹³ See *ibid.* 378ff.

²¹⁴ See *ibid.* 396.

²¹⁵ Weighted averages.

²¹⁶ See *Chang*, *Kicking Away the Ladder*. Development Strategy in Historical Perspective, 17.

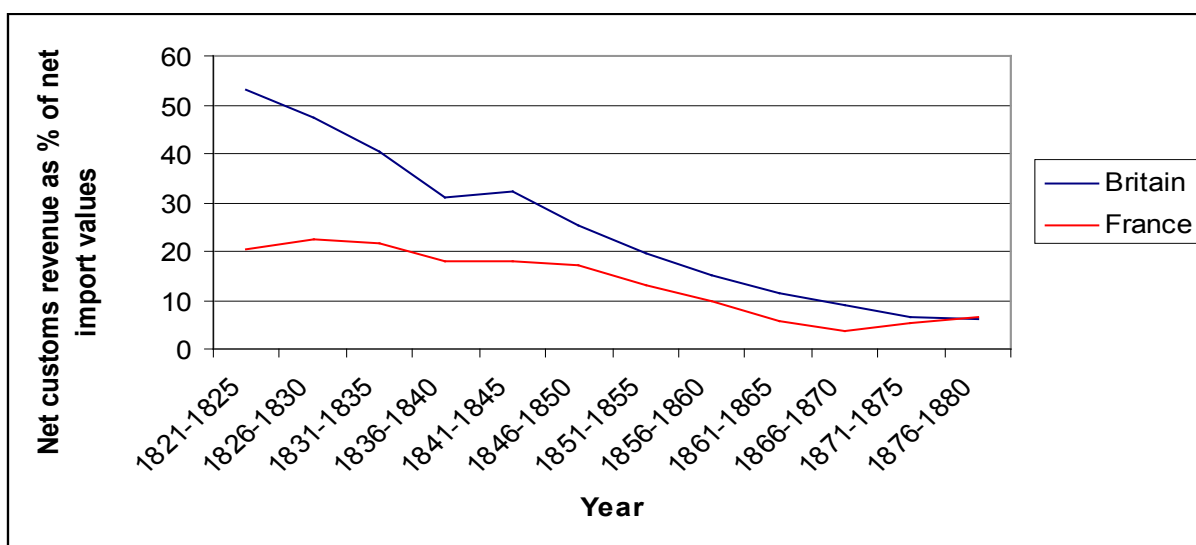


Figure 6 – Protectionism in Britain and France measured as net customs revenue as percentage share of net import values, 1821-1880.

Figure 6²¹⁷ indicates that British protectionism remained higher than that of its inveterate French enemy until the 1870s. In other words, Britain's *competitive* advantage was achieved and maintained through long-lasting protectionist measures. Similar to Great Britain, most of the countries, which are nowadays referred to as 'developed countries', actively used interventionist industrial and protectionist trade policies in order to become competitive in international markets. As opposed to liberal history writing, the United States was maybe the most protective country from the 1820s until the end of the Second World War, as its average tariff rates on manufactured products fluctuated around 40%²¹⁸. Moreover, O'Rourke found a significant correlation between tariffs and growth in developed countries in the late-nineteenth century and at the beginning of the twentieth century²¹⁹. In this light, imposition of free trade policies on many technologically less advanced countries in the nineteenth century (by Great Britain and other powers) can be regarded as free trade imperialism²²⁰, a point, which will be discussed in the next chapter. As Polanyi put it once with regard to Britain:

"There was nothing natural about *laissez-faire*; free markets could never have come to being merely by allowing things to take their course. Just as cotton manufactures – the leading free trade industry – were created by the help of protective tariffs, export bounties, and indirect wage subsidies, *laissez-faire* itself was enforced by the state. [...] The road to free trade market was opened and kept

²¹⁷ For the data, see *ibid.* 37.

²¹⁸ See Chang, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 17.

²¹⁹ See Kevin H. O'Rourke, *Tariffs and Growth in the Late 19th Century*. In: *The Economic Journal* Vol. 110, No. 463 (2000), 456-483. His analysis involves Australia, Canada, Denmark, France, Germany, Italy, Norway, Sweden, the United Kingdom, and the United States.

²²⁰ For the first use of the term 'free trade imperialism', see John Gallagher and Ronald Robinson, *The Imperialism of Free Trade*. In: *The Economic History Review* Vol. 6, No. 1 (1953), 1-15.

open by an enormous increase in continuous, centrally organized and controlled interventionism.”²²¹

To recapitulate, no matter how loath liberal economists are to devote space to state, power, wars, and mercantilism in their metanarratives, these were an integral part of the social and economic totality in the eighteenth, and at least the first half of the nineteenth century. In the example of post-Glorious Revolution Britain, we saw that trade was conducted within a mercantilist framework, and subject to severe interventions and protectionist measures. Whether or not a consensus about mercantilism existed²²², and regardless of whether Whigs or Tories were in power, a loose and flexible group of policies were adopted that aimed to increase Britain’s exports. The political economic ideology, which is being attributed to the Whigs nowadays, does not coincide with their policies of militarising the empire, heavily taxing consumer goods, and protecting domestic manufacturing industries behind high tariffs. As we have seen above, instruments used to increase exports included the conquest of new colonies in order to provide access to raw materials, military imposition of trade regulations such as the Navigation Acts (recall that they were repealed only in 1849!), the granting of monopoly rights, and a set of policies restricting imports and stimulating exports of manufactures such as subsidies, tariffs, and duty drawbacks²²³. In short, it is a huge myth that Britain was a free trade, laissez-faire economy after 1688, as it is never explicitly put but reads so in *Why Nations Fail*.

Moreover, empire and trade were closely related to each other. It was important to win wars in a zero-sum mercantilist world in order provide the country with wealth, which underlay military supremacy. In the words of Findlay and O’Rourke, power was crucial in providing for plenty, which in turn secured power²²⁴. The link between military supremacy and its role in Britain’s economic strategy implies one more aspect besides continuous warfare, namely colonialism and imperialism, which is discussed in the next chapter, and raises serious questions about the alleged inclusiveness of British political and economic institutions after 1688.

²²¹ Karl Polanyi, *The Great Transformation* (Boston 1957) 139f.

²²² For revisionist views in this regard, see Pincus, *Rethinking Mercantilism*, and Steve Pincus, *Reconfiguring the British Empire*. In: *The William and Mary Quarterly* Vol. 69, No. 1 (2012), 63-70.

²²³ See Margaret Ellen Newell, *Putting “Political” Back in Political Economy (This Is Not Your Parents’ Mercantilism)*. In: *The William and Mary Quarterly* Vol. 69, No. 1 (2012), 57-63, here 58f.

²²⁴ See Findlay and O’Rourke, *Power and Plenty*, 310.

3.3.5 Guns and Sails

England's expansion started with an 'internal colonialism' insofar as the Celtic fringe of the Scots, Welsh, and Irish was absorbed in and incorporated under Great Britain. The Scottish and English kingdoms were merged through the Act of Union of 1707. The 'inclusion' of Ireland was a much more problematic and bloodier affair with particularly violent periods under the reign of Elizabeth, Oliver Cromwell, and William and Mary. The practices of the English in Ireland can be regarded as a blueprint for what was to follow in the rest of the overseas empire²²⁵.

The English expansion abroad featured a combination of slavery, plunder, trade, and settlement. The latter began in Virginia and New England on the American mainland, and on a number of islands including Barbados in the Caribbean between 1600 and 1632, and was followed by the acquisition of Jamaica from the Spanish in 1655. Soon, it turned out that investment and exploitation in the Caribbean was by far more attractive than in the American mainland due to highly profitable sugar cultivation. Thus, population growth was much more rapid in the Caribbean islands than on the mainland. One crucial element underlying this demographic change was the importation of African slaves. Between 1601-1700, around 177.000 Europeans migrated to the British mainland in North America and to the West Indian islands. The distribution of African 'immigrants', i.e. slaves, was however clearly disproportional. While 12.000 Africans were sent to the mainland, 237.000 were brought to the Caribbean in the same period. By 1800, the cumulative number of European immigrants and African slaves reaching the mainland (starting from 1600) amounted to 752.000 and 287.000, respectively. The same figure totaled to 290.000 Europeans and 2.045.000 Africans in the Caribbean²²⁶.

	1676-1700	1701-1725	1726-1750	1751-1775	1776-1800	1801-1825
Britan	243,3	380,9	490,5	859,1	741,3	257
France	34,1	106,3	253,9	321,5	419,5	217,9
Portugal	161,1	378,3	405,6	472,9	626,2	871,6
All nations	510	958,6	1311,3	1905,2	1921,1	1645,1

Table 8 – Volume of the transatlantic slave trade from Africa by nationality of carrier (in thousands), 1676-1825.

Table 8²²⁷ shows the volume of the slave trade conducted by three greatest carrier nations. The Portuguese were the pioneer and dominant nation in slave trade until they were

²²⁵ See Findlay and O'Rourke, *Power and Plenty*, 230.

²²⁶ See *ibid.* 230f.

²²⁷ For the data, see David Eltis, *The Volume and Structure of the Transatlantic Slave Trade. A Reassessment*. In: *The William and Mary Quarterly* Vol. 58, No. 1 (2001), 17-46, here 43. Although the transatlantic slave trade

overtaken by the British around mid-seventeenth century. Thereafter, Britain by far shipped more slaves to the Americas than all other countries. For the purposes of this work, it is enough to emphasise that Britain was the most active actor of the transatlantic slave trade during its heyday, namely the eighteenth century. Between 1750-1800, more than 3,8 million slaves were shipped to the Americas, while the total number of Africans that were forcibly moved to the New World amounted to about 11 million in the period 1519-1867. In other words, more than a third of the entire transatlantic African slave trade took place in the second half of the eighteenth century, and Great Britain, with its allegedly inclusive political and economic institutions established already in 1688, accounted for 42% of it²²⁸.

As opposed to Adam Smith's view that colonies' (in this particular context Jamaica's) prosperity owed to the productive capital flowing from the mother country, sugar plantations were mostly financed by funds stemming from plunder and the contraband trade. In other words, colonies in the Caribbean stand out as ideal mercantilist projects insofar as no capital from the mother country was required, yields were high due to the super-exploitation of slave labour, and valuable goods such as sugar were obtained, which were then reexported²²⁹. Of goods such as rum, grains, wood, tobacco, rice, indigo, and meat, which were exported from the British New World Colonies and then partially reexported by the British (see table 7 above for the great significance of reexports), sugar was the most important one, as it accounted for almost 50% of all exports in the period 1768-1772²³⁰.

The transatlantic slave trade economic systems in the Americas affected Great Britain through three channels. The first point, namely that colonies and slave labour provided Britain with raw materials is beyond debate and widely recognised. However, the same cannot be said for the other two points. The role of colonies in providing markets for British goods is being disputed. The domestic market was presumably much larger than that of the Caribbean. Nonetheless, the importance of the latter lay in its strategic nature insofar as colonial demand focused on particular goods such as iron, which played a crucial role in the British economy, per the advocates of the significance of colonial markets. The third channel of effect concerns the magnitude of profits generated by slave labour, which is the most widely debated topic²³¹.

has a longer history dating back to the sixteenth century, I mainly focus on the aftermath of the Glorious Revolution for it constitutes the matter of this work.

²²⁸ Own calculations based on the data in table 8. For figures which are not involved in the table but mentioned in the text, see *ibid*.

²²⁹ See Nuala Zahedieh, Trade, Plunder, and Economic Development in Early English Jamaica, 1655-1689. In: *The Economic History Review* Vol. 39, No. 2 (1986), 205-222.

²³⁰ Own calculation based on the data in *Findlay and O'Rourke*, Power and Plenty, 234.

²³¹ See David Eltis and Stanley L. Engerman, The Importance of Slavery and the Slave Trade to Industrializing Britain. In: *The Journal of Economic History* Vol. 60, No. 1 (2000), 123-144, here 125.

Eric Williams' view that colonial profits were central to the grandeur and prosperity of England²³² has been revised by more recent works. Probably, rate of profit in slave trade was much higher in the nineteenth century than in the eighteenth, due to high entrance costs because the trade was suppressed by the British Navy from 1807 onwards²³³.

It is controversial whether reasons and motivations underlying the abolitionist movement were economic as Eric Williams argued, or ideological as more scholars believe nowadays²³⁴. In my view, the argument that ideology was the driving force behind the abolition of slave trade for the legitimacy of free labour market and individualism became increasingly more prevalent cannot be regarded as detached from economic mechanisms. In other words, both economic and ideological factors played a role. The question is which one prevailed, and this is not a question relevant for this work. Similarly, answering the question whether Britain could have industrialised at the same rate and time in the absence of slavery lies beyond my limits here. Even if one totally dismisses the role of slavery for British capital accumulation and the Industrial Revolution, what is relevant for the purposes of this work is that Britain engaged in slave trade and profited handsomely from slave labour in some of its colonies for more than a century after 1688.

The picture does not look more inclusive when it comes to Great Britain's other colonies, where slavery was absent. Within the framework of its mercantilist worldview, Britain systematically intended to prevent the economic development in its colonies. It is reported by Friedrich List that Pitt the Elder stated that, "the colonies should not be permitted to manufacture so much as a horseshoe nail."²³⁵ The British strategy to hamper its colonies' engagement in manufacturing involved several policies. First of all, in order to discourage any manufactures in the colonies, the British supported primary production. Walpole's decision in the 1720s to subsidise exports to the American colonies, and to remove import duties on raw materials produced there, intended to encourage North American producers to concentrate on the production of raw materials, besides promoting their own manufacturing industry. Similarly, the repeal of the Corn Law in 1846 can be interpreted within this framework, which helped continental Europe and the USA export their agricultural products, and was thereby believed to divert their attention away from manufacturing. Secondly, some manufacturing activities were directly prohibited. For instance, the British outlawed the construction of new

²³² See Eric Williams, *Capitalism and Slavery* (New York 1966) 52.

²³³ See Herbert S. Klein, *Economic Aspects of the Eighteenth-Century Atlantic Slave Trade*. In: James D. Tracy (eds.), *The Rise of Merchant Empires. Long-Distance Trade in the Early Modern World, 1350-1750* (Cambridge 1990), 287-310, here 299.

²³⁴ See Eltis and Engerman, *The Importance of Slavery and the Slave Trade to Industrializing Britain*, 138ff.

²³⁵ Quoted after Chang, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 51.

rolling and slitting steel mills in America. Consequently, the Americans focused on the low-value-added pig and bar iron instead of high-value-added steel products. Thirdly, export of goods from the colonies that competed with British products was banned. It is already mentioned above that cotton textile imports from India (the so-called calicoes) were banned, which pushed the Indian cotton textile industry into serious difficulties. Another example is from 1732, when Britain enacted a law and banned the exports of hats from colonies to other colonies or to foreign countries. Finally, most colonies were deprived of instruments, which would help protect their industries, such as tariffs. If such measures were strictly necessary for revenue reasons, colonial governments used other policies to offset the effects of protection. For example, the British colonial government imposed low import duties on textiles in 1859 for fiscal reasons, which was accompanied by a taxation of local producers to the same extent²³⁶. I am not sure whether *Why Nations Fail* has such policies in mind when it talks about providing a ‘level playing field’.

At this point, the widely recognised fact that a sizable share of British-Indian trade did not take place under fair market conditions²³⁷ is worth mentioning in order to illustrate Britain’s relations with its non-American colonies. The East India Company, which was established in 1600 and granted a monopoly right in England’s trade with the regions between the Cape of Good Hope and Strait of Magellan, had its own army and navy, and did not hesitate to use force to play the mercantilist game. It had already penetrated the Indian subcontinent well before the Glorious Revolution. By 1690, the Company’s activities were organised in three trading stations, namely Bombay, Madras, and Calcutta, which then became the main port cities of modern India. For about half a century after the military attempt to intimidate the Mughals in Bengal in the 1680s, the Company did not engage in any further forcible interventions. In 1707, East India Company was restructured, and transformed to a joint-stock company with contributions of 3000 shareholders. Thanks to its monopoly position, it enjoyed huge profits and maintained a dividend rate twice the rate of interest on British sovereign bonds²³⁸.

Meanwhile, the French also seized some stations in the subcontinent and increased their trade by tenfold, from £89.000 to £880.000 between 1728-1740, which still amounted to half of the British figure, but started to pose a serious threat to the latter’s domination in India. Thus, the decades around mid-eighteenth century saw an Anglo-French power struggle, which

²³⁶ See *ibid.* 52f.

²³⁷ See Javier Cuenca *Esteban*, The British Balance of Payments, 1772-1820. India Transfers and War Finance. In: *Economic History Review* Vol. 54, No. 1 (2001), 58-86, here 65.

²³⁸ See *Findlay and O’Rourke*, *Power and Plenty*, 264ff.

manifested itself in the each supporting the opposing sides in the conflict between the Afghan and Iranian invaders. Britain was the side to triumph in this struggle. An even greater opportunity to consolidate its hegemony in India came to Britain in 1757, when the young Nawab (ruler) of Bengal tried to seize Calcutta. Forces of the East India Company confronted and defeated the Bengal army at Plassey. After a series of conflicts, a treaty was signed in 1765, which granted the East India Company the right to collect Bengal's high revenues, and set the stage for the British takeover of India. In the subsequent decades, the East India Company instituted a revenue and state administration. Finally, the Mughal Empire, which had been disintegrating for more than a century, declared to place itself under British protection in 1803, and Britain became the de facto ruler of what used to be the Mughal Empire²³⁹.

In the seventeenth century, the East India Company's imports from India to Great Britain were dominated by pepper, with a share of 25%. However, the turn of the eighteenth century saw its rapid displacement by cotton textiles, where India exploited its strong comparative advantage and received massive silver inflows from the Western world in return for its textiles. Until the 1750s, the share of textiles in total imports of the East India Company (EIC) fluctuated around 60 to 80%. Raw silk from Bengal and China was another central import good, with a share that averaged between 10 to 20%. From the mid-eighteenth century onwards, tea imports from China rose rapidly, which lowered the share of textiles to around 50%, and increased China's total share in the EIC's imports to a third. Crucial for India and the EIC was the victory of the British Company at Plassey in 1757, and the subsequent conquest of Bengal because its annual revenue of about £3m accrued to the EIC thereafter, and helped the Company to finance its imports not only from India, but also from China. In other words, the mother country (Britain) had to send much less precious metals to meet the imports of the EIC. Consequently, the share of 'treasure' from Europe in total exports of the EIC fell from above 75% to around 30% in the aftermath of Plassey. After 1757, the EIC had at its disposal an army of more than 115.000 troops, and thereby enforced monopoly and monopsony power against both its European rivals and the local forces, while before the victory in Plassey, it had to compete with other European companies and the domestic demand for Indian goods. In short, the EIC literally became the master of Indian trade in the second half of the eighteenth century²⁴⁰.

²³⁹ See *ibid.* 266ff.

²⁴⁰ See *ibid.* 272ff.

It is mentioned above that it was no longer necessary to inject precious metals into India. On the contrary, the Company financed not only its Indian imports, but also to some extent the Chinese trade with Indian precious metals (revenues of Bengal). The significance of this advantage can be traced in the British balance of payments. The magnitude of direct and indirect drain from India to Great Britain is highly controversial. Estimated figures for the entire period 1757-1815 fluctuate between £1000m and £100m²⁴¹. Table 9²⁴² reflects the current account balance, net capital outflows, and accumulated balance of the British net credits with and without taking into account *minimum* transfers from India. In other words, the conclusions are drawn based on the most conservative estimates of the drain from India.

	1772-1775	1776-1783	1784-1792	1793-1802	1803-1807	1808-1815	1816-1820
Current account balance	2533	860	2172	3796	4441	-2385	4875
Ibid., with zero India transfers	1672	-547	-404	65	-1019	-9314	-6935
Net capital outflows	-368	654	367	3220	3770	-2073	3275
Ibid., with zero India transfers	-1228	-753	-2208	-512	-1690	-9001	-8535
Accumulated balance of Britain's net credits*	-13000	-7769	-4465	27733	46581	30000	46374
Ibid., with zero India transfers*	-28108	-34134	-54010	-59128	-67578	-139587	-182263

Table 9 – The British balance of payments accounts including and excluding *minimum* transfers from India, 1772-1820 (current prices, in thousands of pounds sterling).

* The given figures refer to 1775, 1783, 1792, 1802, 1807, 1815, and 1820.

The penultimate line indicates that by the onset of the Revolutionary and Napoleonic Wars, Britain's external debt was around £4.5m, a fairly moderate level. Moreover, during the war period of twenty-three years, Britain was a net creditor. However, if one excludes the estimated minimum Indian transfers to Britain, the country would have had to borrow soaring amounts in the entire period between 1772-1820. The gap between the last two lines, i.e. the actual debits/credits abroad and counterfactual external indebtedness, rose from £15m in 1775 to £49,5 in 1792, £87m in 1802, £114m in 1807, £170m in 1815, and £229m in 1820. In the period 1801-1820, this widening gap amounted to between 36 and 79% of the British national income estimates²⁴³. We cannot know whether Great Britain's external debt would have been sustainable in the absence of Indian transfers. Obviously, the British state would have been

²⁴¹ For a general assessment of the data and estimations, see *Esteban*, The British Balance of Payments.

²⁴² For the data, see *ibid.* 67.

²⁴³ See *ibid.* 68.

obliged to raise taxes and/or borrow either at home or abroad – presumably under much more unfavorable conditions, i.e. at higher interest rates. Even a balance of payments crisis would have been likely to occur, considering that the outcome of the Napoleonic War was still uncertain by 1812²⁴⁴. In short, the Indian drain did indeed play an important role in British balance of payments around the turn of the nineteenth century.

It was not only the formal colonies that were adversely affected by Britain's extractive policies abroad. Free trade was imposed on many less developed countries through 'unequal treaties,' which usually succeeded military or political conflicts²⁴⁵. For instance, China's role in the East India Company's trade increased in the second half of the eighteenth century. The Company lost its monopoly on Chinese trade in 1833, for merchants were eager to boost their sales of textiles and opium in China. Opium, in turn, was obtained from Bihar and Bengal under the colonial government, sold to private traders in Calcutta, who then exported it to Canton in order to finance the tea trade. As China attempted to ban opium imports in 1839, Britain immediately declared war, and easily defeated the Chinese with the help of new technology. Through the Treaty of Nanking of 1842, Britain acquired Hong Kong, imposed the opening up of five ports, including Shanghai, to free trade, and ensured that Chinese tariff rates were fixed at 5%. The next war was declared in 1856 by the British because the Chinese boarded a British vessel. The Treaty of Tientsin, which was signed after the triumph of the Anglo-French alliance, opened up more ports to free trade, and legalised the opium trade²⁴⁶.

India and China were by no means the only countries to suffer from British policies. Using Bengal as a base, the East India Company expanded its formal empire in India. By 1820, the entire India was under British control. Singapore was acquired by Britain in 1819, and Melaka in 1824. Siam signed a series of unequal treaties from 1824 onwards, ending with the most comprehensive one in 1855. In 1826, the Burmese coastline was conquered, and in 1852, Lower Burma was annexed. The British government took over for the East India Company in running these regions in 1857²⁴⁷.

It was not only Asian countries that suffered from British policies. Brazil (1810), Persia (1836), and the Ottoman Empire (1838 and 1861) were also forced to sign unequal treaties that deprived them of measures to protect their industries. For instance, the Treaty of Balta Liman of 1838 reduced the Ottomans' import duties to 3%²⁴⁸.

²⁴⁴ See *ibid.*

²⁴⁵ See *Chang, Kicking Away the Ladder. Development Strategy in Historical Perspective*, 53.

²⁴⁶ See *Findlay and O'Rourke*, 273 and 388f.

²⁴⁷ See *ibid.* 389. and *Chang, Kicking Away the Ladder. Development Strategy in Historical Perspective*, 53f.

²⁴⁸ See *ibid.*

There is no need here to further elaborate on Britain's colonial expansion and brutal policies in many regions and countries in Africa, ranging from Sierra Leone to South Africa. The main conclusion to draw from this chapter is that the close link between power, war, and trade was not a feature of the competition between the great powers in themselves, but the very aim of those competing powers was to acquire new territories and to expand their empires for intensifying their trade relations. Trade, however, was rarely an equal exchange. We have seen that a wide range of and changing restrictions and policies were imposed by the stronger parties on the weaker ones. Just as 'the mercantilist policy' did not exist, and policies referred to as mercantilism varied depending on the time, place, and circumstances, Great Britain's oppression policies abroad also changed over time, and from place to place. For some good 120 years after the Glorious Revolution, slave trade and labour were among the most important pillars of profits and raw materials that accrued to Great Britain from the Atlantic trade. Britain under allegedly inclusive institutions was the country that benefited the most from slavery in the heyday of slave trade. The same Britain made use of another set of instruments in India, such as granting monopoly rights to the East India Company and authorising it to govern and plunder the region with its own army. Other countries such as Brazil, China, Persia, the Ottoman Empire, and so on, were enforced to sign unequal treaties, open up to free/freer trade, and acquire the economic role in the emerging global division of labour, which, in the last instance, benefited the more advanced countries. Common to all these cases was that power was used to provide plenty, which in turn helped maintain or increase one's power.

In the analysis above, I confined myself to focusing on a small number of examples. However, those examples incorporate a long period of time after the Glorious Revolution. Mercantilism, as a general framework, survived until the mid-nineteenth century, i.e. more than a century and a half after 1688. As we saw above, even Great Britain's shift to unilateral free trade did not mean trade under fair and equal conditions. Colonialist and imperialist policies were enhanced even more in the course of the nineteenth century. Force and violence have been the most important instruments of Great Britain's imperial policy, even decades and centuries after the Glorious Revolution. Thus, it is astonishing to see how negligent Acemoglu and Robinson are about these aspects of the British Empire. Moreover, things were not as inclusive as they claim in the mother country either, which is discussed in the next and last chapter.

3.3.6 *Leviathan at Home*

Even if one fades out Great Britain's policies abroad, which can by no means be characterised as inclusive, and turns to the domestic state of affairs, one can hardly be as sanguine as the authors of *Why Nations Fail*. In this chapter, I will focus on three points that clearly contradict the overly positive picture painted by Acemoglu and Robinson, namely the functioning of Parliament, security of property rights, and working conditions.

First of all, the view that English people had access to Parliament after 1688 is a distortion of the truth. In the eighteenth century, as recognised by AR, less than 2% of society (and only men) could vote²⁴⁹. This did not change until the 1832 Reform Act, prior to which most contemporaries agreed that landlords could decide 39 of a total of 40 county elections by influencing tenants, bribery and patronage. Even the Act of 1832 extended the voting right to only 18% of men. Craftsmen and labourers were largely excluded for they did not fulfill the required property qualifications. Moreover, vote buying and electoral fraud were so common that it had to be addressed by the Corruption Practices Act of 1853-1854. For the first time, bribery, treating, and undue influence were defined properly, and procedures for auditing elections were established. However, the effects of the act were fairly limited. Thus, in 1883, the Corrupt and Illegal Practices Act was introduced, which helped significantly reduce electoral fraud. Last but not least, universal male suffrage had to wait until 1918 (i.e. for 230 years after the Glorious Revolution) in Great Britain, while it had been established decades ago in Switzerland (1879), Norway (1898), New Zealand (1889), France (1848), Denmark (1849), and Austria (1907). Universal suffrage, nonetheless, was not established until 1928²⁵⁰. The aim here is not to compare the eighteenth and nineteenth century democratic institutions with the present ones, but to point out that AR's claim that British people had access to Parliament is simply not true.

As mentioned above in the relevant chapter, *Why Nations Fail* postulates that petitions served as an effective compensation for voting right. Anybody could, and many people did, petition and Parliament listened when people petitioned, according to AR²⁵¹. It is probably true that many interest groups such as religious and trade associations, local, industrial, and manufacturing lobbies organised petitioning campaigns, and thereby influenced decision-making in Parliament. Petitioning did not only mean presentation in the parliamentary forum, but could also lead to the establishment of a committee, which considered the content of the

²⁴⁹ See Acemoglu and Robinson, *Why Nations Fail*, 192.

²⁵⁰ See Chang, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 72ff.

²⁵¹ See Acemoglu and Robinson, *Why Nations Fail*, 193.

petition. However, one should not overstate its role because petitions had to be presented by MPs, and many of them did not read petitions, of which they disapproved. Even if a petition was read in Parliament, it had to arouse sufficient interest so that it was not tabled, i.e. left aside and effectively put out of action. In any case, lobbying before, during, and after the presentation of a petition was vital for it to be effective. However, this was not only time-consuming, but also very expensive. Funds were required to gain access to copies of parliamentary documents, which were necessary for any lobby, and to meet the expenses of lobby members who personally attended parliamentary sessions. Retaining a solicitor-agent and an indoor official was absolutely necessary, who provided legal counsel and parliamentary information. In most cases, the solicitor-agent was a lawyer, who specialised in conducting parliamentary business. He drafted the legislation desired by the lobby, retained and maintained the attention of MPs on the proposal, and organised tactical pressures to make the legislation go through the Commons and the Lords. Additional funds were required to pay the clerks of the commons, who provided access to parliamentary information and documents, and even doorkeepers of the house, who were paid for distributing the lobby's propaganda materials (prints, handbills, pamphlets, and sheets of statistics). That is to say, influencing parliamentary decision-making by petitioning was by no means an easy and cheap option, which effectively compensated for the voting rights for regular people. Moreover, restrictions were imposed on petitions in some issues. For instance, as opposed to all other cases, petitions against tax proposals could only be brought forward after their enactment²⁵².

In short, petitions were adequate means only for well-organised lobbying groups. Indeed, Parliament became the place, where different interest groups endeavoured to acquire economic advantage by manipulating government regulation and parliamentary statute²⁵³. Over the eighteenth century, landed interest was overrepresented both in the House of Commons and the House of Lords. Although the Whig Party is generally identified with 'monied interest', a vast majority of the Whigs were also landowners. Major differences between the Whigs and Tories can be summarised as follows: the Whig Party was associated with being more religiously tolerant for dissenters, while the Tories were stricter. While the former was in favour of participating in European conflicts in order to act as a counterbalance to France, the Tory Party was much more isolationist. This, in turn, resulted in different positions with regard to taxation and government finance. The Tories feared the growth of government debt and fiercely opposed the idea of servicing this debt by a land tax. Thus, they

²⁵² See *Brewer*, *The Sinews of Power*, 233ff.

²⁵³ See *ibid.* 248.

became more and more identified with ‘landed interest’. The Whig Party, on the other hand, supported deficit financing, government borrowing, and increased taxes, and was thus identified with ‘monied interest’²⁵⁴. However, we saw above that it was not the overall framework of mercantilism in dispute, but rather the choice of single policies to be adopted at a given time and under certain circumstances. All parties were, or at least at some point became convinced, that wars, trade, and wealth were closely linked, and that the state required increasing resources in order to wage war on a grand scale. In other words, even the parties that had feared the fiscal-military state gradually reached a compromise with it²⁵⁵. The important point is, nonetheless, that ordinary people were those most severely affected by the strategy of raising more revenues to finance wars (recall the great increase in tax load and burden during the Second Hundred Years’ War), and these people could not influence parliamentary decision-making either by voting or by petitioning. These policies were simply imposed on them by a small elite of landowners and financiers, who were represented in Parliament on the one hand, and had at their disposal the necessary power for lobbying, on the other. If a parliamentary framework that is inclusive did not allow ordinary people to have a say on issues such as war and taxation, which affected their welfare directly, what is then to be understood as extractive?

The Glorious Revolution is regarded by AR as a turning point not only in terms of the restriction of arbitrary government and the formation of pluralistic political institutions, but also of property rights, which were secured and enforced thereafter²⁵⁶. This line of argument has a long tradition in new institutional economics, which views secure property rights as the foundation stone of good institutions, and thereby economic development²⁵⁷. However, one has to qualify the premise that contracts and property were enforced after 1688. The same parliamentary authority, which supposedly transformed Britain into a country with inclusive political and economic institutions, also overturned collective property rights and privatised land ownership²⁵⁸. The term ‘enclosure’ denominates the abolition of the open field system in agriculture. Rights over any strip of land in the open fields and over the commons were taken

²⁵⁴ See *Stasavage*, *Credible Commitment in Early Modern Europe*, 167ff.

²⁵⁵ See *Brewer*, *The Sinews of Power*, 160.

²⁵⁶ See *Acemoglu and Robinson*, *Why Nations Fail*, 191ff.

²⁵⁷ See Daron *Acemoglu* and Simon *Johnson* and James A. *Robinson*, *Institutions as the Fundamental Cause of Long-Run Growth*. May 2004, National Bureau of Economic Research Working Paper Series, No. 10481, online at <http://www.nber.org/papers/w10481.pdf?new_window=1>; *North* and *Weingast*, *Constitutions and Government*; Douglas C. *North* and Robert Paul *Thomas*, *The Rise of the Western World. A New Economic History* (Cambridge 1973).

²⁵⁸ See Max *Everest-Phillips*, *The Myth of ‘Secure Property Rights’*. *Good Economics as Bad History and Its Impact on International Development*. May 2008, Strategic Policy Impact and Research Unit Working Paper, No. 23, online at <<http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/4251.pdf>> 3.

from lords and villagers, and private property rights were created in land through reallocation depending on the claimant's previous rights²⁵⁹. While the new large landowners could make investments on a great scale and work the land in a modern style, the poor got very little or nothing at all, and the small commoners received land in small sizes, which were not adequate for farming. In Hobsbawm's words "[e]nclosures were merely the most dramatic and, as it were, official and political aspect of a general process by which farms grew larger, farmers relatively fewer, and the villagers more landless."²⁶⁰ Thus, the very basis of the subsistence economy was removed, many former commoners sold out their land, which effectively resulted in their expropriation and migration to larger towns as labourers²⁶¹. In the period 1760-1840, around 4000 enclosure acts were passed in Parliament²⁶², which involved up to 21% of England's surface area²⁶³. Thus, it is hard to talk about a neutral maintenance, i.e. security of property rights, but rather a fundamental restructuring in favour of commercialisation.

Compulsory sale of property could be organised better after the Glorious Revolution because the expropriator could not act as arbitrarily as he could prior to it, Parliament was regarded as the legitimate authority to define what was public good, it met much more frequently and thereby passed thousands of acts. In most cases compensation was provided for the property, which was to be sold. Disagreements were solved through local juries²⁶⁴. Such a restructuring took place not only in the realm of landed property. The South Sea Scheme exemplifies a restructuring of the national debt for the sake of 'public good'. As already mentioned above, at the beginning of the eighteenth century a substantial share of the sovereign debt consisted of annuities for a lifetime or for ninety-nine years, which were irredeemable, i.e. the state could not cancel out the loan by paying off its principal. The South Sea Scheme aimed at reducing the high costs of debt service. In fact, as real interest rates began to fall after 1713, the disadvantages of irredeemable debt became more and more visible²⁶⁵.

The Scheme comprised the exchange of the old and expensive debt for a new and cheap one. However, compulsory repayment of the debt would totally undermine the state's

²⁵⁹ See Frank A. *Sharman*, An Introduction to the Enclosure Acts. In: *The Journal of Legal History* Vol. 10, No. 1 (1989), 45-70, here 46.

²⁶⁰ See Eric *Hobsbawm*, *Industry and Empire. The Birth of the Industrial Revolution* (New York 1999) 80.

²⁶¹ See *ibid.* 66f.

²⁶² See *ibid.* 48.

²⁶³ See Julian *Hoppit*, *Compulsion, Compensation and Property Rights in Britain, 1688-1833*. In: *Past and Present* Vol. 210, No. 1 (2011), 93-128, here 100.

²⁶⁴ See *ibid.* 101f.

²⁶⁵ See *Brewer*, *The Sinews of Power*, 122.

credibility for it had contracted to pay a certain rate of interest for a specified period of time. Thus, what could be done was to offer a higher rate of return, which would contradict the very aim of reducing the costs of debts. A brilliant solution was found insofar as creditors were persuaded to exchange their highly secure government papers for the rewarding stocks of the South Sea Company, which was founded in 1711. The underlying idea was that the Company was granted privileges, would seize the riches of South America, and also generate huge profits from slave trade. It was expected that the trade would continuously grow, dividends would increase, and the stock price would rise. Interestingly, many contemporary observers realised that the Scheme was an attempt by the state to enforce a new contract by deception²⁶⁶. However, this did not prevent many annuitants from exchanging their assets for the newly created South Sea stock. The euphoria about the prospects of the Company's stock attracted most of the government's lenders. 85% of the government's irredeemable debt was discharged in the exchange. Moreover, 85% of the public redeemable debt was disgorged as well. Consequently, between January and July 1720, the South Sea stock rose by around 640%, i.e. many stockholders bought South Sea stocks at already inflated prices. The bubble burst in autumn, the stock price plummeted, and the former annuitants suffered serious losses²⁶⁷.

As large numbers of stockholders submitted petitions first to the House of Commons, and then to the House of Lords, they were simply told that there was no possibility of compensating or relieving the sufferers. In other words, arguments for the supremacy of the public over the private prevailed²⁶⁸. The security of a certain form of property right depends both on the people's will to maintain that right, and on the definition of public good at a given time and place. In 1700, few people questioned slavery and the categorisation of slaves as private property. In 1833, the definition of property was rewritten to exclude property in people²⁶⁹. To put it in simple words, property rights were not more secure after 1688 than they were before. What in fact happened was that the authority of Parliament was widely recognised, which redefined the public good in accordance with the needs of the fiscal-military state and the commercialising economy. Consequently, as rule of law became more established and more consolidated, property rights underwent a significant restructuring, which, as shown above, did not render them more secure.

²⁶⁶ See *Hoppit*, *Compulsion, Compensation and Property Rights in Britain*, 103ff.

²⁶⁷ See *Brewer*, *The Sinews of Power*, 125.

²⁶⁸ See *Hoppit*, *Compulsion, Compensation and Property Rights in Britain*, 107f.

²⁶⁹ See *ibid.* 1233.

The last point I want to mention is working conditions, which raise questions about the alleged inclusiveness of post-1688 British institutions. To start with, the fiscal-military state manifested itself also in terms of its 'employment' conditions. Coercive conscription was a very common practice in the eighteenth century for poor pays and great personal hazards resulted in a military labour supply, which fell behind the wartime demand. In every major eighteenth-century war, the practice of impressment was adopted. Especially the poor, the unemployed, and the other 'undesirables' were brought by soldiers or parish officials before press commissioners. Naval impressment was even more common than army conscription because the combined demand of the royal navy and the merchant marine consistently exceeded the supply of skilled sailors. Victims of coercive conscription in many cases went to law or appealed to higher authorities. However, impressment was systematically deemed legal by those authorities on grounds of state necessity. Once again, the requirements of the fiscal-military state were put before individual rights and liberties²⁷⁰.

Supposedly inclusive British political and economic institutions did not incorporate the conditions of the working class by any means. Beginning from the last decades of the seventeenth century, any limit to work hours set by morality and nature, age and sex, day and night was extended by industrial capital in order to generate as much profit as possible. As a result of increasing pressure from the working class, five labour laws were passed between 1802 and 1833. However, they all remained a dead letter for no official personnel were assigned to inspect factories²⁷¹. The debate about the 1819 Cotton Factories Regulation Act reveals the extent of unmeasured encroachments. The act banned the employment of children under the age of nine, and restricted the working hours of older children, whereupon some MPs raised the objection that labour ought to be free²⁷².

The Act of 1833 limited the ordinary factory working day to 15 hours. This time, the employment of children younger than nine years old was forbidden, and the working day of children between nine and thirteen was limited to 8 hours. A second Factory Act in 1844 reduced the working hours of children under thirteen years of age to six and a half hours²⁷³. Until 1853, only the cotton, wool, flax, and silk industries were covered by these legislations. A series of other industries were involved through the Act of 1853, while children who

²⁷⁰ See *Brewer*, *The Sinews of Power*, 49ff.

²⁷¹ See *Marx*, *Capital*, 389f.

²⁷² See *Chang*, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 105.

²⁷³ See *Marx*, *Capital*, 390ff.

worked in mines were not brought under the Factory Act until 1872. Even the Factory and Workshop Act of 1878 still allowed for children over 10 to work up to 30 hours a week²⁷⁴.

If these were the working conditions of children subject to the sacred aim of capital accumulation, it is not difficult to anticipate those of adults. It was not until the Factory Act of 1844 that the working class earned the 12-hour-working-day after a long struggle. However, this concession was only made in return for a compensating retrogression: the minimum age of 'employable' children was reduced by the House of Common from nine to eight. The Factory Act of 1847 restricted the working day of women and children to 10 hours, while they had already been banned from night work. Industrial capitalists undertook huge campaigns in order to impose a retreat from the regulation. They claimed that the employers' profits were generated in the last hour of work, and thus a reduction in working hours forced them to press wages, which were reduced significantly in order to provoke workers against the legislation. Similarly, many young and female workers were dismissed²⁷⁵. They made use of legal loopholes and minimised the impact of the new legislations, for instance by not allowing mealtimes during the work-day²⁷⁶. Even though since 1824 trade unions were no longer formally illegal (or on the flip side of the matter, trade unions were prohibited until 1824!), they were destroyed where possible by the collaboration of the state and private sector²⁷⁷. Thus, the working class had no option but to fight for better conditions by shooting in the dark. Industrial capitalism and a legal framework, which strictly favoured capital, did indeed bring along a slight improvement in the material standards of the working class. However, this was achieved through intensified exploitation, greater insecurity, and increasing human misery, i.e. at the cost of catastrophic experiences²⁷⁸.

To cut the long story short, the domestic state of affairs in post-1688 England was not as rosy as AR make them seem. While Parliament did play an important role in balancing the power of the crown, and imposing the demands of merchants and industrialists in conjunction with the nascent economic system, the channels of representation for a substantial part of the society were stuffed, since the electoral system excluded most ordinary people for more than two centuries after the Glorious Revolution. Nor did petitions constitute a proper compensatory mechanism. As the examples of sovereign debt restructuring, property rights, coercive conscription, and working conditions show, the entire social and economic system

²⁷⁴ See *Chang*, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 106.

²⁷⁵ See *Marx*, *Capital*, 393ff., and *Hobsbawm*, *Industry and Empire*, 99f.

²⁷⁶ See *Chang*, *Kicking Away the Ladder. Development Strategy in Historical Perspective*, 109.

²⁷⁷ See *Hobsbawm*, *Industry and Empire*, 101.

²⁷⁸ See Edward Palmer *Thompson*, *The Making of the English Working Class* (New York 1964) 207ff. (or more generally, part II).

underwent a radical transformation in the eighteenth and nineteenth centuries, and were subordinated to the needs of the fiscal-military state and the capitalist mode of production, which increasingly acquired an industrial character. Obviously, some classes benefited handsomely from this transformation. However, one has to look through rose-coloured glasses in order to claim that Great Britain was, or became inclusive, within a century and a half after the Glorious Revolution.

4. Conclusion

Among economists adhering to mainstream economic thought, but who nonetheless try to bring together economics, politics, and history, it became in vogue to adopt a Whig interpretation of the past, take the Glorious Revolution as the most important turning point, and to project orthodox economic theory back onto history. Daron Acemoglu and James Robinson's recent book, *Why Nations Fail*, is a typical example of the new institutionalist literature, which features the above-mentioned points. The book deserves to be praised for its grand scale analysis and endeavour to combine political and economic analyses, which had been strictly separated by mainstream economic thinking. However, the reader who is mildly well versed in history is very disappointed by the authors' selective and reductionist journey back into the past. The vagueness of the central concepts, namely inclusive and extractive political and economic institutions, renders the proposed theory adaptable to any historical case. A closer look, nonetheless, reveals that precisely because of this ambiguity the theory remains uninformative when it comes to *explaining* concrete historical developments. For instance, qualifications such as providing a level playing field, establishing the rule of law, securing property rights, and shaping right economic incentives prove to be too abstract and naïve for theorising the role of the state. This failure becomes apparent in the finest case study of the book, namely when the authors characterise the post-1688 political and economic institutions in England.

As discussed in detail in the second part of this work, Great Britain owed its economic supremacy in the eighteenth and nineteenth centuries to developing a peculiar fiscal-military state, which survived at least into the mid-nineteenth century. The British perceived and fulfilled well the necessities of the global mercantilist paradigm. Regardless of whether this was the intended goal at the beginning, the single most important task of the British state from the immediate aftermath of the Glorious Revolution onwards turned out to be waging war first for providing the country's security, then for limiting the power of the French, and finally for establishing its global hegemony. The role of military power is best expressed in the

following statement of an MP in 1734-5: “We all know, that what now makes a Nation formidable, is not the Number nor riches of its Inhabitants, but the number of Ships of War provided with able Seamen, and the number of regular and well disciplined Troops they have at their command.”²⁷⁹ This strategic shift was enabled and sustained by a growth in government, especially in its fiscal departments, and the rise of modern sovereign borrowing. In other words, the British state extracted ever increasing resources from its citizens in the form of (indirect) taxes, which meant that the burden of continuous warfare was borne by ordinary people, who did not have a say in government policies, for they had no access to Parliament. The British citizens of the empire were not the only victims of the fiscal-military state. Trade was conducted within a mercantilist paradigm, i.e. at the expense of competitor powers and trade partners. Consequently, slavery, plundering, and colonial and imperialist policies were an integral part of the strategy, which provided Great Britain with worldwide economic supremacy in the nineteenth century. Nor was the behaviour of the British state at home really inclusive, as shown in the previous chapter.

My point definitely is not to assess the eighteenth and nineteenth century institutions with contemporary standards, and thereby condemn them as strictly extractive. On the contrary, I claim that it is many economists from the new institutionalist current, and in this case Daron Acemoglu and David Robinson, who try to project today’s (or better yet, the mainstream economic theory’s) principles onto the past, and read the entire history through rose-coloured glasses as economic theory in retrospect. It is surely a positive development that increasingly more economists are interested in history, and try to re-integrate economic and historical analyses. However, when it comes to studying history, they should cease to do so in a selective manner in order to just export their ideology to the realm of history. Maybe, they should first start by recognising that they do have an ideology and underlying values. The current crisis of mainstream economics cannot be alleviated by its legitimisation through historical myths, but rather by its radical critique. Instead of focusing on the huge gap between economic theory and reality, AR opt for applying it in historical analysis. I would like to be able to designate their work ‘as good economics as bad history’²⁸⁰, however, what I unfortunately find much more appropriate is ‘bad economics *and* bad history’.

²⁷⁹ Quoted after *Brewer, The Sinews of Power*, 24.

²⁸⁰ The term comes from *Everest-Phillips, The Myth of ‘Secure Property Rights’*. Good Economics as Bad History and Its Impact on International Development.

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6. Appendix

6.1 Abstract

Eine der interessantesten Fragen der Wirtschaftsgeschichte ist, wie die Wohlstandsdifferenzen zwischen einzelnen Ländern und Regionen entstanden sind. Um die Thematik aus einer historischen Perspektive zu analysieren, ist es notwendig, sich mit der industriellen Revolution auseinanderzusetzen, die die Tendenz zum stetigen Wachstum anleitete. Dementsprechend interessieren sich immer mehr Historiker_innen und Ökonom_innen für die Frage, warum sich die industrielle Revolution um 1800 in England vollzog.

Der Neo-Institutionalismus ist eine der einflussreichsten theoretischen Rahmenbedingungen, von der in den letzten Jahren wichtige Beiträge zur Debatte ausgegangen sind. Daron Acemoglu und James Robinson, zwei der prominentesten Vertreter dieser Denkschule, haben mit ihrem 2012 erschienen Buch *Why Nations Fail* den Anspruch, die ganze Menschheitsgeschichte von der neolithischen Revolution bis zur Gegenwart entlang von Institutionen zu erklären. Dementsprechend gelten inklusive politische und ökonomische Institutionen, die die Teilhabe an ökonomischen und politischen Prozessen ermöglichen, als *der* Schlüssel zu nachhaltigem Wachstum. Sichere Eigentums- und Vertragsrechte, Rechtsstaatlichkeit und Herstellung von gleichen Ausgangsbedingungen für alle (inklusive

ökonomische Institutionen) stellen notwendige, aber nicht hinreichende Bedingungen für ökonomische Entwicklung dar. Viel entscheidender ist ein hohes Maß an Inklusivität der politischen Institutionen (d.h. fortgeschrittener Pluralismus und Zentralismus), da es in letzter Instanz die politischen Institutionen sind, die bestimmen, was für ökonomische Institutionen in einem Land herrschen.

Vor der Glorious Revolution 1688 in England setzten sich in keinem Land inklusive politische und ökonomische Institutionen durch. Erst in England entstanden durch diese Revolution jene Art von Institutionen, die die richtigen Anreize für Investitionen und Innovationen schafften, somit die englische Wirtschaft im 18. Jahrhundert stark ankurbelten, und letztlich zur industriellen Revolution führten, so Acemoglu und Robinson.

Diese liberale Geschichtsauffassung, die die Rolle von Kriegen, Merkantilismus, Protektionismus, Kolonialismus und Imperialismus verschleierte, ist eine Entstellung bzw. Verdrehung der Geschichte. Um ihre eigene ideologische Position zu rechtfertigen und als durch die Geschichte bestätigt darzustellen, fokussieren die beiden Autoren selektiv nur auf gewisse Aspekte und schließen die nicht erwünschten Seiten systematisch aus. Die undeutliche und extrem abstrakte Definition zentraler Konzepte wie die der inklusiven und extraktiven Institutionen ermöglichen den Autoren, einzelne nationale und regionale Ergebnisse in Bezug auf ökonomische Entwicklung ex post den jeweiligen inklusiven und extraktiven Institutionen zuzuschreiben.

Im Gegensatz zur angeblichen Inklusivität der englischen Institutionen nach 1688, herrschte mindestens bis zur Mitte des 19. Jahrhunderts ein *fiscal-military state*, dessen wichtigste und im Grunde beinahe einzige Aufgabe die Kriegsführung war, um seine Handelsbeziehungen nach einem merkantilistischen Weltbild zu erweitern. Rasant steigende Ressourcen wurden in Form von Steuereinnahmen vom eigenen Volk extrahiert, um die Militärausgaben finanzieren zu können, die wiederum dazu dienten, neue Kolonien zu besetzen und ihren Reichtum zu plündern, Monopolstellung und ungleiche Handelsverträge einzuführen bzw. beizubehalten, kurz gesagt die internationale militärische, politische und ökonomische Hegemonie Englands herzustellen. Auch zu Hause war der englische Staat nicht so inklusiv. Günstige Rahmenbedingungen für Kapitalakkumulation wurden mithilfe von staatlicher Unterstützung durch den Ausschluss von wesentlichen Bevölkerungsteilen vom parlamentarischen System, massive Enteignung von Land, untragbare Arbeitszeiten und -bedingungen gebildet.

Kurz, Unterdrückung, Macht, Krieg, Handel und Reichtum waren eng miteinander verbunden. Für mehr als eineinhalb Jahrhunderte nach der Glorious Revolution ist also der Liberalismus in England nichts anderes als ein Mythos.

One of the most interesting questions of economic history is, how huge regional and cross-country wealth differences came into being. One has to deal with the Industrial Revolution in order to analyse the issue from a historical perspective, since the tendency of sustained growth began with it. Consequently, increasingly more historians and economists are now taking up the question of why the Industrial Revolution took place in Britain around 1800.

Neo-institutionalism constitutes one of the most influential theoretical frameworks that made significant contributions to this debate. The much-lauded latest book of two neo-institutionalist scholars, Daron Acemoglu and James Robinson's *Why Nations Fail*, reads the entire history from the Neolithic Revolution up to the present merely with institutional glasses, and claims that it is nothing but political and economic institutions that determined economic development throughout history. The authors claim that inclusive political and economic institutions, which enable and facilitate participation in political and economic processes, are *the* key to sustained growth. Secure property rights, rule of law, and a level playing field (inclusive economic institutions) are a necessary but an insufficient condition for economic development. Inclusive political institutions (pluralism and sufficient centralisation) play a more fundamental role in that they determine which economic institutions prevail in a country.

The first set of inclusive political and economic institutions were established in England with the Glorious Revolution of 1688, and in turn stimulated the English economy over the eighteenth century, finally resulting in the Industrial Revolution, so argue Acemoglu and Robinson.

Such liberal history writing overlooks the role of wars, mercantilism, protectionism, colonialism, and imperialism, and thus distorts history. The book is extremely selective in its case studies, which serve the purpose of justifying the authors' ideological position, and present the authors' position as having been confirmed by history. The undesired aspects are systematically concealed. The fact that central concepts such as inclusive and extractive institutions are vaguely defined helps the authors in attributing the success or failure of a country ex-post to respective inclusive and extractive elements.

In this work I argue that contrary to the alleged inclusiveness of British institutions after 1688, a *fiscal military state* prevailed/dominated at least until mid-nineteenth century. Its primary aim by far was waging war in order to expand its trade relations within a mercantilist world view. Accordingly, it extracted huge resources in the form of taxes in order to finance soaring military expenses, which in turn served for seizing new colonies and plundering their riches,

establishing monopoly position in international trade, and imposing unequal treaties, or in other words, consolidating Britain's military, political, and economic hegemony. Nor was the British state inclusive at home. It created a favourable framework for capital accumulation through excluding a large proportion of society from the parliamentary system, expropriation of land, and unacceptably poor working hours and conditions. In short, repression, power, war, trade, and wealth were closely related. For more than a century after the Glorious Revolution liberalism was nothing but a myth in Britain.

6.2 Curriculum Vitae

Personal

Name: Baki Güney Isikara

Citizenship: Turkish

Current

- Master's student of economic and social history at Vienna University (year of entry: 2011-12).

Education

- 2013: Master's thesis: "The Roots, Processes and Outcomes of Financialisation: A Radical Critique with Focus on the Turkish Case", received A+.
- 2011 (October) – 2013 (September): University of Economics and Business, Economics, MA. Special focus on international economics, labour and organisational economics, money-credit-finance, economic development, and regulatory economics. Received A+ in all of them. Graduated with honors.
- 2011: Bachelor thesis: "The Transition from Feudalism to Capitalism. A Marxist Analysis", received A+.
- 2007 (October) – 2011 (February): University of Economics and Business, Economics and Social Sciences (Focus on Economics), BA. Special focus on institutional, industrial and spatial economics.
- 2002-2007: Saint George Austrian High School, Istanbul/Turkey. Gained the 3rd highest GPA among 120 students of that year. Received Austrian Matura Degree by passing the Austrian Matura Exam and received the Turkish High School Graduate Diploma.

- 1998-2002: SEV Elementary School, Istanbul/Turkey
- 1994-1998: Ilhami Ahmed Ornekal Elementary School, Istanbul/Turkey

Language Skills:

- Turkish, native speaker
- German, fluent
- English, fluent
- French, basic knowledge

Software Skills:

- Microsoft Office programs, good
- EViews, good

Extracurricular Experience

- 2004-2007: Taught mathematics to middle school students and prepared them to the highschool entrance exam
- I have translated a number of papers from English and German to Turkish and vice versa, and a memorial book from Turkish to German