Introduction

This is a book about an ancient process (globalization) and a modern set of economic institutions (capitalism) which are transforming the world. It is best to begin with the new.

The Origins of "Capitalism"

Both economic historians (like Richard Tawney) and sociologists (like Max Weber) have identified the distinctive institutions of capitalism as the midwife of modernity, culminating in the rolling Industrial Revolution. Economists (like Sir John Hicks), however, preferred to talk of the rise of the market economy as the distinctive feature of modernity, in part because of the Marxian connotations of the word "capitalism" and the sundry and unnecessary intellectual baggage it thereby carries. All are agreed that the rise of the West from among a host of (probably richer) ancient Eurasian agrarian civilizations was associated with the rise of capitalism. There are continuing disputes about the nature and timing of this Great Divergence in the relative fortunes of the Eurasian civilizations (see chapter 1).

What Is Capitalism?

But what is capitalism? As the French economic historian Jean Baechler has cogently argued in his important book *The Origins of Capitalism*, neither Marx's nor Weber's outline of the distinctive features of capitalism allows us to differentiate its essence from the various cited features as they are to be found throughout human history and in many different cultures. For Marx, capitalism was "defined as the conjunction of capitalist ownership of the means of production with the wage laborer who has neither hearth or home."[1] But as Baechler shows, while this might have been true of the full-blown industrial capitalism that was in full flower in Victorian England when Marx was writing, capitalism itself predates this phenomenon.

Nor is capitalism to be identified with markets, profit seeking, banking, bills of exchange, and business firms, for instance. For these are all found in ancient civilizations. Thus

> in ancient Mesopotamia there was the *Karum* . . . entrepots and commercial houses where importers, exporters, provisioners, and bankers all conducted their affairs. Occasionally these houses functioned as commercial tribunals . . . the Assyrian tablets dating from the 20th and 19th centuries B.C. [from] Cappadocia . . . reveal a complete commercial network run by genuine capitalists. In spite of state control, or at least state interference, the *Karum* had their own commercial activities and developed a series of institutions within which capitalist activity, as defined by Max Weber, took place. Banks undertook and granted loans; large warehouses brought together the merchandise of groups of merchants; bank accounts were opened where most of the operations were made by multilateral balancing of accounts. . . . By the beginning of the second millennium, at Ur and then at Larsa, capitalism seems to be entirely free of state control. Private entrepreneurs had replaced the temple and palace as disbursers of loans at interest (33 percent per annum); they made advances to wholesale merchants and directed the copper imports. . . . [By] the sixth to fourth century B.C. . . . in Nippur and Babylon firms were created through the association of capitalists. They took in money deposits, issued cheques, made loans at interest, and most importantly, participated directly in economic changes by investing in numerous agricultural and industrial enterprises. (Baechler 1975, pp. 37–8)

Similar examples can be multiplied from all the ancient agrarian civilizations.

But these agrarian civilizations looked upon these merchant capitalists as, at best, a necessary evil, as commercial activities were universally held in low esteem. Being intermediaries in the economic process, the merchants produced nothing in a tangible way, and were looked upon as parasites who were satisfying the demands of a tiny urban elite by transferring the rural surplus produced by those who wielded the plough to feed the warriors and priests in the towns. Devoted primarily to profit they became immensely rich, but their wealth was not matched by social acceptance or political power. It was only in the western part of Eurasia in the High Middle Ages that this changed, and the capitalists were eventually able to create an economy where their unceasing search for profit became not only acceptable but the norm. Thus, capitalism as an economic system came about when the merchant and the entrepreneur finally were given social acceptance and protection from the predation of the state.

Who Were the Capitalists?

Before I come to my story of how and why this happened in the western edge of Eurasia, we also need to ask: who were these merchants and why were they universally despised in the ancient agrarian civilizations? The answers are also relevant in explaining the ongoing cultural hatred of capitalism and in particular of its supreme embodiment—the United States of America.

The first point worth noting is that these merchant capitalists were a minority in agrarian economies. Their calling necessarily involved assuming risks and valuing novelty, behavioral characteristics that were not common among the settled agrarian communities, who over the centuries would have learned and adapted to the cyclical risks associated with variations in the climate and other quirks of nature. This learned behavior was fixed through social custom (see chapter 6). Novelty seeking and risk-taking behavior could have endangered these socially accepted ways of making a living. But these are precisely the behavioral attributes that successful capitalists need. This became clear when I was interviewing the aged founder of one of India's leading industrial conglomerates in the late 1960s. He had just chosen his successor from among his heirs to run his business when he died. I asked him how he had made the choice. He told me (probably apocryphally) that a few years before he had given each of his possible successors a large sum of money to set up their own businesses. Nearly all of them made some sort of go of this opportunity, except one grandson who after a year came to see him, crestfallen, saying that he had unfortunately lost all that he had been given on a speculative overseas venture. The old man decided that he was the suitable heir to take over his business!

There is now growing evidence that the behavioral traits which predispose some of us to risky and novelty-seeking behavior have a genetic basis. A recent book, *American Mania*, by a colleague, Peter Whybrow, director of UCLA's Neuropsychiatric Institute, summarizes this evidence. He begins by noting that human migration is one major form of risky and novelty-seeking behavior. Only a few of our species left their ancestral home in the African savannahs and began that long walk to the ends of the earth which allowed homo sapiens to colonize the world. Who were these earliest migrants? It turns out they had a particular genetic profile. They had a higher percentage of an exploratory and novelty-seeking gene than those remaining behind. As novelty seeking and risk taking "are . . . behaviors essential to exploration and migration . . . this should be reflected in a distribution pattern of the relevant allele [the D4-7 allele gene] that is similar to the ancient migratory paths of our species."[2] How do we know this? The geneticist Luigi Luca Cavali-Sforza of Stanford University and his colleagues have provided a genetic mapping of the geographical dispersal of homo sapiens from their original home in

Africa.[3] Subsequently, Dr. Chauseng Chen of the University of California, Irvine,[4] found that a coherent pattern emerges from this mapping "where those who stayed close to their original homeland have a higher percentage of the common D4-4 allele in the population and a lower prevalence of the exploratory and novelty-seeking D4-7 allele."[5]

Thus in Africa, from where humans began their worldwide migratory dispersal between ten and twenty thousand years ago, those remaining behind who constitute Africa's current population have "a far higher percentage (between 60 and 80 percent) of the [non-migrant version of the D4 gene] D4-4, compared with those who continued the initial migrant expansion of our species across the Asian continent." Within Africa the Bantu, who have migrated the farthest, have a majority of the migratory D4-7 allele gene. In Asia, those Chinese who migrated from the mainland and Taiwan to South East Asia have a "greater percentage of D4-7 allele in the population than the aboriginal population of Taiwan who stayed behind." As our human ancestors crossed the land bridges linking Asia to the Americas in the Ice Age, we should expect that those who walked farthest down the South American peninsula would have had the migratory gene. This turns out to be so, as "those who pushed into the Southern Hemisphere, the Colombians and members of the Karitiana, Surul, and the Ticuna tribes—carry a *preponderance* of the [migratory] D4-7 allele."[6] By contrast, in Japan the frequency of the migratory gene is very low and in parts of East Asia does not exist at all.

This "migration" gene, as we may call it, is also found in those who evince the most extreme form of risk-taking and novelty-seeking behavior to which the gene predisposes its bearers: addictive behavior which often descends into manic depression (bipolarity).[7] Risk taking and novelty seeking are of course also the hallmarks of the merchant and the entrepreneur. For both migrants and entrepreneurs are "mavericks . . . who run at the edge of the human herd. Migrants are a self-selected band of seekers—those of adventurous and curious mind—who in their restless approach to life lie at the extreme of the bell-shaped curve of behavioral distribution." So the migrant gene will be rare. As even during the great disruptions of human history caused by the four horsemen of the Apocalypse "for every two individuals who sought their salvation in migrant flight, ninety-eight remained behind to accept what fate would bring."[8]

It seems likely, therefore, that the capitalists of yore carried this rare migrant gene like their cousins who migrated from the homeland. It would explain why immigrant communities have often produced the merchants and entrepreneurs in so many countries, and why America with three centuries of continuing and substantial immigration would have a higher proportion of the migratory gene in its population, which by predisposing its bearers toward novelty seeking and risk taking would make it the capitalist country par excellence.

But novelty seekers do not make good farmers. Having over the centuries honed agricultural techniques to the natural variations of soil and place and the rhythms of the climate, the ancient sedentary agrarian civilizations of Eurasia would take a dim view of the novelty seekers and risk takers—the merchants and entrepreneurs in their midst. Though the commerce and trade these capitalists undertook would remain a necessary part of the economy, it would not command social approbation. The periodic raids on its merchants' wealth by the predatory state would not have been unpopular in these ancient agrarian civilizations. Thus, though these maverick capitalists existed in all the ancient Eurasian civilizations, it was only in one that they came to be given their head, and their novelty-seeking and risk-taking behavior eventually came to be the economic norm. This marked the emergence of capitalism which led to the Great Divergence between the West and the Rest.

The Great Divergence

My own story of this Rise of the West is contained in my book *Unintended Consequences* based on my Ohlin lectures. Part of this story is summarized in chapter 6. It contends that the Great Divergence was due to a legal revolution in the eleventh century due to Pope Gregory VII, who in 1075 put the church above the state and through the resulting church-state created the whole legal and administrative infrastructure required by a full-fledged market economy. Many of the specific institutions of capitalism, as we have seen, predate this papal revolution. But they were insecure and most often based on the trust engendered within the extended families of traders and merchants.[9] Furthermore, they did not have the legal protection of the state, which more often than not looked upon them as milch cows for their own predatory purposes. The eleventh-century papal revolution, by creating the church-state, provided a legal bulwark and administrative system whose reach, unlike most of the political states, covered the whole of Western Christendom. It allowed the novelty-seeking and risk-taking capitalists with the migratory gene to securely pursue their enterprise over a larger space and with myriads of strangers. It is thus, in my view, properly looked upon as initiating that capitalism which has changed the world.

This dating of the Great Divergence to the eleventh century also fortunately meshes with the quantitative evidence Angus Maddison has laboriously assembled for the world economy since the beginning of the Christian era. Hicks's identification of the rise of the market economy with the medieval European city-states, where the movement from a revenue to a market economy became manifest, also fits into this time frame. For, although merchants and markets (in the form of "fairs" and shopkeepers) have been ubiquitous in all the Eurasian agrarian civilizations for millennia, it was only when the peculiar needs of a mercantile economy, "the need for protection of property and the need for the protection of contract" were systematically met in a political system that the market economy could take off. These needs were best met in states where "the rulers are themselves merchants or are deeply involved in trade themselves."[10] The city-states of medieval Europe were trading states par excellence and were the seedbeds for the rise of the market economy.

"By the end of the fifteenth century," Joseph Schumpeter in his *History of Economic Analysis* tells us, "most of the phenomena we are in the habit of associating with that vague word Capitalism had put in their appearance, including big business, stock and commodity speculation and 'high finance' to all of which much people reacted much as we do ourselves." Adding in a footnote, "owing to the importance of the financial complement of capitalist production and trade, the development of the law and the practice of negotiable paper and of 'created' deposits afford perhaps the best indication we can have for the rise of capitalism."[11] But these institutions, which Schumpeter rightly notes were in full flower by the late fifteenth century, did not arise spontaneously. As Harold Berman shows in his important book *Law and Revolution*, they were the result of the papal legal revolution of Pope Gregory VII of 1075 when he proclaimed: "Let the terrestrial kingdom serve—or be the slave of—the celestial,"[12] which inaugurated the church-state.

Berman has shown how the whole Western legal tradition derives from the development of both canon and secular law during the eleventh to thirteenth centuries under the aegis of the Roman church. For the rise of the market economy the most important was the development of the "law of the merchant"—the *lex mercatoria*. "The church-state set an example for the city-state, and church law set an example for city law and for commercial law."[13] Berman lists many of the features that we currently associate with the modern institutional infrastructure for trade and commerce as having arisen in these three centuries of the High Middle Ages. They include:

> the invention of the negotiability of bills of exchange and promissory notes; the invention of the mortgage of movables (chattel mortgage); the development of a bankruptcy law which took into account the existence of a sophisticated system of commercial credit; the development of the bill of lading and other transportation documents . . . the invention of the bottomry loan; . . . the replacement of the more individualistic Graeco-Roman concept of partnership (societas) by a more collectivist concept in which there was joint ownership, the property was at the disposition of the partnership as a unit, and the rights and obligations of one partner survived the death of the other; the development of the joint venture (commenda) as a kind of joint-stock company, with the liability of each investor limited to the amount of his investment; the invention of trademarks and patents; the floating of public loans secured by bonds and other securities; the development of deposit banking.[14]

In short, all the essential legal infrastructure for a modern commercial and industrial economy: the institutions of capitalism!

It was during this time that the Roman church formed into a church-state, a law-state that also "developed the governmental institutions and the bureaucratic apparatus needed to make this legal system work: a professional judiciary, a treasury, a chancery. This was the first modern system of government and law. It was eventually emulated by the secular polities that took form in the succeeding generations"[15] in Western Europe. This was the Great Divergence which led the West to outpace and eventually overtake its other Eurasian peers in generating modern intensive economic growth. It was only with the progress of globalization under the British Empire in the nineteenth century that these institutions of capitalism came to be transferred—however haltingly—to the rest of the world, while the current period of globalization can be seen as the latest phase in completing this globalizing of capitalism.

Changing Material and Cosmological Beliefs

The rise of capitalism also involved changes in the *material* beliefs (how best to make a living) of the West. These were succinctly summarized by Tawney, by contrasting the attitudes to the material environment—of a pre-industrial agrarian economy shared by all the ancient Eurasian civilizations and the new attitudes generated by capitalism: "between the conception of society as a community of unequal classes with varying functions, organized for a common end, and that which regards it as a mechanism adjusting itself through the play of economic motives to the supply of economic needs; between the idea that a man must not take advantage of his neighbour's necessity, and the doctrine that 'man's self-love is God's providence'; between the attitude which appeals to a religious standard to repress economic appetites, and that which regards expediency as the final criterion."[16] It is the atavistic pre-modern attitudes which have carried over to our day and are still being used to question the moral basis of capitalism (chapter 6).

I have argued in *Unintended Consequences* that in the High Middle Ages there was also a change in what I have called the *cosmological* beliefs of the West. Cosmological beliefs concern the world view of a civilization: how people should live. They provide its moral anchor. They are transmitted through the socialization processes in childhood by harnessing the powerful emotions of shame and guilt. Most Eurasian civilizations were shame-based and had similar family values, for agrarian civilizations required stable settled families to operate their settled agriculture. To maintain this stability all these cultures sought to limit the common human but ephemeral passion of love as the basis of marriage. Their values were communalist. It was the first papal revolution of Gregory the Great in the sixth century which changed these hitherto communalist values to the individualist ones which have come to characterize and distinguish the West from the Rest. This papal revolution, by promoting love as the basis of marriage and advocating the independence of the young, led to the rise of individualism in the West. But to curb the dissolution of family bonds and the resulting instability in family formation this would have caused, the Church created a fierce guilt culture in the Middle Ages. In this guilt culture, sex was sinful and the marriage bond—albeit based on love—was sacrosanct. They thus put a lid on the human passions which their individualism had unleashed. But, once the Christian God lost his universal sanctity in the West with the Darwinian revolution, this theological underpinning of the traditional Eurasian family values was removed and the West gradually reverted to the family values of its nomadic hunter-gatherer ancestors. These traditional and common Eurasian values in the domestic domain have been further undermined in our own day by the technological advances in contraception which have allowed sex to be separated from procreation, and to the rise of feminism.

Though for contingent reasons (see chapter 6) these changes in the material and cosmological beliefs of the West were conjoined, there is no necessary connection between the two. One of the major conclusions of *Unintended Consequences* was that for the Rest it is possible to accept the material beliefs of the West which have led to the rise of capitalism without accepting its cosmological beliefs. Much of the opposition to globalization in the Rest is due to its belief that embracing global capitalism will also lead to losing its soul. But as the examples of Japan, and increasingly China and India show, acceptance of the West's material beliefs by joining the global capitalist bandwagon need not entail abandoning their own ancient cosmological beliefs—their own special morality. The opposition to globalization in the countries of Islam for instance is based on the erroneous belief that adopting Western capitalism will also mean adopting Western ways of living, particularly in the domestic domain. They are against globalization and not necessarily against capitalism.

By contrast, the many Western anti-globalizers marching through the streets of Porto Allegre are not against globalization per se, but against globalizing capitalism. It is capitalism they hate for many of the same atavistic reasons it has been under attack since the Middle Ages. In addition, the erosion of the cultural constraints on capitalist activity promoted through the guilt culture the Christian church created in the Middle Ages, the unbridled individualism which was unleashed, has been castigated on moral grounds. But, with most of the Western critics subscribing to the same individualism whose fruits they criticize, they too have erroneously linked the material and cosmological beliefs of the West. They are against capitalism—the material beliefs of the West—when it is the cosmological beliefs—the unbridled individualism of which they themselves are the products—which should be their real target.

Globalization

Unlike the modernity of capitalism, globalization is an ancient cyclical phenomenon that has been associated with the rise and fall of empires. For the essence of globalization is the creation of a common economic space amongst hitherto loosely linked or autarkic regions. The Pax generated by empires has provided this common economic space and led to those gains from trade emphasized by Adam Smith and thereby to what can be labeled Smithian intensive growth.[17] Thus, the Graeco-Roman empires linked the areas around the Mediterranean, the Abbasid empire of the Arabs linked the worlds of the Mediterranean and the Indian Ocean, the Mongol empire linked China and Central Asia with the Near East, the various Indian empires created a common economic space in the subcontinent, while the expanding Chinese Empire linked the economic spaces of the Yellow River with those of the Yangtze. But, until the creation of the British Empire in the eighteenth and nineteenth centuries, the imperial sway was usually limited to particular regions, and the resulting economic integration was not truly global. The first truly global empire was that of the British, and it was the nineteenth century which saw the emergence of the first truly global economy—the first liberal international economic order (LIEO).

Till the emergence of the British Empire the other ancient empires were agrarian organic economies, which were dependent upon the products of land. As this was fixed and subject to diminishing returns, the Smithian impulse from greater economic integration petered out. So, each of the empires had its economic climacteric, as with stagnant technology and the binding land constraint, they could not generate what I have labeled Promethean growth—which depends upon converting an economy based on the energy derived from the products of limited land to one which uses the unlimited energy provided by fossil fuels. Thereafter they were in a "high level equilibrium trap" with only extensive growth occurring—with output keeping pace with population growth and per capita income stagnating. We have no quantitative evidence for all the ancient empires, but heroic attempts have been made to piece together the per capita incomes and population of the three major empires at the beginning of the Christian era (India, China, and Rome) and are summarized in table I.1.

India, which had reached its climacteric after it was united under the imperial Mauryas in the third century B.C., was by the beginning of the Christian era probably the richest and most populous. Thereafter, its per capita income fluctuated around this "high level equilibrium" for the next two millennia (till the late nineteenth century). Population and the standard of living fell in the long periods (sometimes centuries) during which the country was engulfed by wars against invaders or else between feuding Indian chieftains trying to establish another pan Indian empire.[18]

TABLE I.1
GDP and Population for Ancient Powers, 0 AD

	GDP (in million of 1990 US$)	*Population (in 000s)*	*GDP per capita*
Roman Empire	20961	55000	381
China	26820	59600	450
India-1	33750	75000	450
India-2	55146	100000	551

Sources: Maddison, Angus. (2001). Tables B-21, p. 264, B-18, p. 261, B-10, p. 241 for China and India-1; Goldsmith, R.W. (1984) Sept. for the Roman Empire (tons of gold converted into US$ at the average 1990 price); Lal, Deepak (1989) for India-2 (1965 $ converted into 1990 $ using GDP deflator).

The Chinese saw their efflorescence under the Sung in the eleventh century. This was based on the linking of the river valleys of the Yellow and Yangtze rivers, an agricultural revolution in wet rice technology, and the linking of the rural economy through a national hierarchy of markets. Above all there were remarkable scientific and technological advances, so much so that China had developed all the ingredients necessary for an Industrial Revolution.[19] But, because of "the closing of the Chinese mind,"[20] the incipient industrial revolution never occurred. There was no Promethean intensive growth and per capita income stagnated. China then experienced extensive growth into the modern period, with output rising with population at 0.4–0.5 percent per year over these four centuries. It too had reached a high-level equilibrium trap, but at a higher per capita income than India's.

The third of our ancient civilizations, Rome, reached its climacteric in the reign of Augustus (29 B.C.–A.D.14), who replaced the Republic with the Principate. The figures shown in table I.1 are Raymond Goldsmith's estimates for A.D. 14, the date of Augustus's death. They probably represent the per capita income level when the Roman Empire reached its high-level equilibrium trap.[21] Nevertheless, until the expansion of the United States and Russia in the mid-nineteenth century, it was the largest political, economic, and monetary unit in the Western world. Its population and national product too were not surpassed by any Western economy until the nineteenth century. It was the largest Western economic unit for nearly a millennium.[22]

But, unlike the Chinese, the Roman Empire declined, and despite various attempts no one since has succeeded in establishing imperial hegemony over Western Europe. The causes of the decline of the Roman Empire were ultimately economic.[23] The extension of the empire to its natural boundary meant that the average costs of maintaining the empire were rising and thus the sustainable rents it could garner were declining. As the treasures looted in the previous wars of conquests and the steady supply of slaves dried up—with the empire having absorbed most of the civilized Western world—foreign plunder no longer offered an independent source of revenue. As the past "rents" acquired during the empire's growth had been in part committed to a vast expansion of what we would today call a welfare state—which could not be cut without causing domestic disorder—and with no expansion of the domestic tax base, the empire faced an endemic fiscal crisis. It tried to close the "deficit" by levying the inflation tax through debasement of the currency. But this was not enough, and the state had to raise the burden of taxation above the sustainable rate, as toward the middle of the fourth century this "tax pressure grew heavier . . . the tendency to evasion—illegal or legitimate—on the part of high officials and large landowners was increased."[24]

The endemic fiscal crisis also led to the problem of maintaining the old military organization, as the "scarcity of means . . . did not allow a satisfactory treatment of the men in military service, the area of recruiting was enlarged just in time to prevent the legions being filled with the poor and desperate. . . . In this way, for budgetary reasons the sword passed in the early Empire from the hands of the Italici into those of provincials and from them, in the late Empire, into the hands of the barbarians . . . who served in autonomous military formations under their own chieftains . . . this system . . . turned out to be less costly than to equip anew, and to maintain, regular troops."[25] But these fiscal exigencies which led the empire to let the barbarians inside the gates sealed its doom.

This vicious circle, whereby the creation of "politically determined entitlements to income" leads to an endemic fiscal crisis, was to be observed later in the post-Renaissance mercantilist states of Europe and in our own times in the neo-mercantilist states of the Third and Second Worlds.[26] Three alternative outcomes ensued from these historical fiscal crises of the state: reform and economic liberalization to recover the tax base (as in England in the eighteenth and nineteenth centuries, and much of the Third World since the 1980s); revolution (as in France in 1789, and in much of the Second World in 1989); or collapse of the state (as in Rome and in many post-independent African countries).

The Chinese and Indian imperial states survived these endemic fiscal problems which led to the periodic overthrow of a dynasty till another competitor was able to recreate the empire. By contrast, the decline of the various gunpowder European empires created after the Renaissance merely reflected the changing balance of economic and military power in their metropole's struggle for the mastery of Europe, for these empires were an overseas extension of this struggle.

But, before the revolution in administration of the sixteenth century and the growing monetization of the economy, the power of any state to tax was very limited compared to modern states. Thus, Goldsmith notes of the Roman Empire that,

> reflecting its economically liberal policies, very close to those which would later be called "laissez faire," but also due to limitations of an as yet only partly monetized economy, the share of the expenditures of central and local governments in the early Roman empire was very low, probably not above 3 percent for the imperial government and on the order of 5 percent for all government units. This is not only far below the figures to which we have become accustomed since World War I in developed countries, but also below those in less developed countries, where the share of public expenditure in 1960 averaged 8 percent, a ratio similar to that in England in 1688 and in the United States and in France in 1820.[27]

The decline of empires was followed by both domestic disorder and a disintegration of the enlarged economic spaces they had created.[28] Thus, the Roman Empire had through its Pax brought unprecedented prosperity to the inhabitants of the Mediterranean littoral for nearly a millennium. With its demise, the ensuing disorder and the destruction of the imperial economic space led to a marked fall in the standards of living of the common people inhabiting the fallen empire. Thus, as Finer notes:

> If a peasant family in Gaul, or Spain, or northern Italy had been able to foresee the misery and exploitation that was to befall his grandchildren and their grandchildren, on and on and on for the next 500 years, he would have been singularly spiritless—and witless too—if he had not rushed to the aid of the empire. And even then the kingdoms that did finally emerge after the year 1000 were poverty stricken dung heaps compared with Rome. Not till the full Renaissance in the sixteenth century did Europeans begin to think of themselves as in any ways comparable to Rome, and not till the "Augustan Age" of the eighteenth century did they regard their civilization as its equal.[29]

Similarly, the periodic collapse of Chinese empires has led to periods of warlords and widespread disorder, until the Mandate of Heaven was passed on to another imperial dynasty which restored order. The Chinese have therefore always placed a very high value on the order provided by their successive empires. In our own times, the death of the nineteenth-century liberal economic order (LIEO) built by Pax Britannia on the fields of Flanders led to nearly half a century of economic disintegration and disorder, because the British were unable and the Americans were unwilling to maintain an imperial global Pax (see chapter 1).

After the fall of Rome, the "poverty stricken dung heaps" of a politically disunited Europe began their slow ascent. It was the great legal revolution of Pope Gregory VII in the eleventh century,[30] with the creation of a transnational legal and commercial infrastructure for the market economy (see chapter 6), which eventually led to the European miracle. The other great agrarian civilizations—China and India—did not suffer any absolute

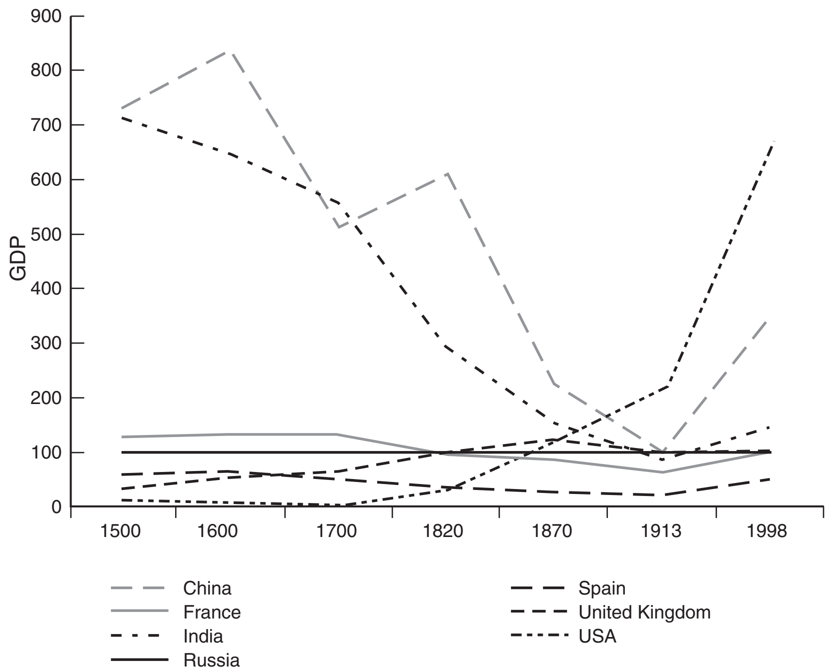

Figure I.1: GDP for Major Countries 1500–1998.

economic decline. But with the Great Divergence accompanying the slowly rolling Industrial Revolution, they were slipping relatively to the countries of the West. This can be seen from table I.2, and figure I.1, which normalizes the relative GDPs of India and China and the major Western countries around Russia (with a value of 100) from 1500 to 2000.

These ancient civilizations, and other parts of what is today called the Third World, were to experience the full force of the rising economic and military strength of the European gunpowder empires after the voyages of discovery in the sixteenth century. After the period of direct and indirect Western imperialism in the nineteenth century, it has taken nearly a century and a half for the ancient civilizations of India and China to come to terms with the West—by recognizing that they can modernize without Westernizing (chapter 6). Since the 1980s they have joined the globalization bandwagon with impressive gains in their standards of living, including of their poor (chapters 5 and 6).

Furthermore, since the nineteenth century, the mutual gains from globalization have greatly expanded. Before the nineteenth century LIEO fostered by the British, primitive methods of transportation, limited economic integration. The British LIEO, coinciding with the Industrial Revolution and

TABLE I.2
GDP, GDP Per Capita and Population for Major Countries, 1500–2000 (Million 1990 International $)

	Country								
Year	*China*	*France*	*India*	*Netherlands*	*Russia(1)*	*Spain*	*United Kindom*	*USA*	*Germany*
	GDP (million 1990 International $)								
1500	61,800	10,912	60,500	716	8,475	4,744	2,815	800	0
1600	96,000	15,559	74,250	2,052	11,447	7,416	6,007	600	0
1700	82,800	21,180	90,750	4,009	16,222	7,893	10,709	527	0
1820	228,600	38,434	111,417	4,288	37,710	12,975	36,232	12,548	0
1870	189,740	72,100	134,882	9,952	83,646	22,295	100,179	98,374	71429
1913	241,344	144,489	204,241	24,955	232,351	45,686	224,618	517,383	237,332
1998	3,873,352	1,150,080	1,702,712	317,517	1,132,432	560,138	1,108,568	7,394,598	1,460,069
	GDP per capita (1990 International $)								
1500	600	727	550	754	500	698	714	400	0
1600	600	841	550	1,368	553	900	974	400	0
1700	600	986	550	2,110	611	900	1,250	527	0
1820	600	1,230	533	1,821	689	1,063	1,707	1,257	0
1870	530	1,876	533	2,753	943	1,376	3,191	2,445	1,821
1913	552	3,485	673	4,049	1,488	2,255	4,921	5,301	3,648
1998	3,117	19,558	1,746	20,224	3,893	14,227	18,714	27,331	17,799
	World Population for Major Countries (in 000s)								
1500	103,000	15,000	110,000	950	16,950	6,800	3,942	2,000	0
1600	160,000	18,500	135,000	1,500	20,700	8,240	6,170	1,500	0
1700	138,000	21,471	165,000	1,900	26,550	8,770	8,565	1,000	0
1820	381,000	31,246	209,000	2,355	54,765	12,203	21,226	9,981	0
1870	189,740	72,100	134,882	41,814	83,646	22,295	100,179	98,374	39231
1913	437,140	41,463	303,700	6,164	156,192	20,263	45,649	97,606	65,058
1998	1,242,700	58,805	975,000	15,700	290,866	39,371	59,237	270,561	82,029

Source: Maddison, Angus (2001), Tables B-21, p. 264, B-18, p. 261, B-10, p. 241.
(1) refers to the former USSR area

its invention of the steam engine, led through the development of the railways, the steamship, and the telegraph, to a substantial fall in global transport costs. This had important implications for the extent of economic integration that could be achieved as compared with other past empires. The goods which were traded along the new channels created by past agrarian empires had to be of high value, because of the high costs of transport and communications. These "non-competing" goods—"luxury" goods (like Chinese porcelain or Dacca muslins) or more generally consumed primary products (like spices, tea, tobacco, coffee)—were not usually produced in the areas to which they were trans-shipped. Much domestic production in the areas linked by an empire would, therefore, not have been affected by the new imports. The main growth effects would come through the spread of knowledge and technology and the monetary effects of settling the trade balances between the newly linked regions.

The nineteenth-century LIEO for the first time saw domestic production being affected by a convergence in the domestic and foreign prices for the mass of goods consumed. It led to specialization along lines of comparative advantage and "Smithian" growth. The distinctive nineteenth-century pattern of trade arose, where the "North"—mainly Western Europe—specialized in the new industrial products and experienced Promethean intensive growth, while the "South"—which included the current Third World and the areas of "new" settlement in the Americas and Australasia—specialized in primary products and experienced Smithian intensive growth. This "colonial" international division of labor has been the target of economic nationalists in the South ever since, and was discussed in detail in *The Poverty of "Development Economics."* As we document in chapter 1, this nineteenth-century pattern of trade generated spectacular Smithian intensive growth in the South.

In the current phase of globalization, this process has gone even further with the fragmentation of production processes, so that countries and regions specialize not in "cars" or "shoes" but in the components that make up these products. The convergence of domestic and foreign prices of competing traded goods leads to countries specializing in producing and exporting the goods which use more of their abundant factors of production and importing those using more of those which are scarce. This leads to income-distribution effects with, ceteris paribus, the returns to the country's abundant factor rising relatively to that of the scarce. Thus, in a country with a lot of labor and little capital, opening up trade in competing goods will raise wages relative to profits. In the nineteenth century and current periods of globalization, these distributional effects have led to resistance to globalization from the scarce factors being hurt by the opening up of trade. They have sought to use the political process to protect their incomes. We examine these distributional effects in chapters 2 and 3. With the revolution in information technology, various services that were locally provided, as they could not be traded, are now being traded internationally and being produced where the costs are the lowest. Thus, many workers in service industries whose wages were protected by distance—being set by local demand and supply—find that the IT revolution's banishment of distance has made them compete with workers in a global labor market. The international "outsourcing" of services has added to the atavistic fear of foreign trade and globalization.

The backlash that has arisen against both the nineteenth century and current periods of globalization has led the critics to articulate alternative panaceas. In the nineteenth century, with the rise of socialist thought, the alternative was a planned collectivist economy in contrast to the market-based economy promoted by the British LIEO. This continued to carry resonance in much of the Third World in the post–Second World War era. My *The Poverty of "Development Economics"* was a critique of the *Dirigiste Dogma* on which it was based. But, since the collapse of the Second World with its countries of "really existing socialism," this support for the suppression of the market is no longer plausible. So the critics of global capitalism have now taken a different tack, which can be called the *New Dirigisme:* to create "capitalism with a human face"—a "third way" between capitalism and socialism. This New Dirigisme is based partly on economic arguments (see chapters 3, 4, 5) but more on ethical, cultural, and environmental claims (see chapters 6, 7, 8). The major purpose of this book is to argue against this New Dirigisme, and also to question the route the current imperial power—the United States—has taken in not wholeheartedly supporting the twin principles of laissez faire and unilateral free trade (correctly upheld by its British predecessor), but instead creating a whole host of international agencies to promote its LIEO. These international institutions, I will argue, no longer serve their initial purpose and are proving to be counterproductive in globalizing capitalism (see chapters 3, 4, 5). But before that we need to see how we got to where we are today.