

The Very Long Run – Economic Growth and Development Before 1820

Lecture 2

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Introduction

- Throughout history, the global economy has evolved over thousands of years, influenced by various forces, including trade, technological advancements, and institutional changes.
- This chapter aims to explore the long-run economic developments that have shaped human civilization from 10,000 BCE to 1820 CE.
- Trade has always been an essential aspect of human interaction, allowing societies to exchange goods, knowledge, and culture, fostering economic growth and specialization.
- The concept of globalization, often considered a modern phenomenon, has deep historical roots, as civilizations have always sought to expand their economic reach beyond their immediate borders.

Introduction

- ① The global economy has evolved over time due to trade, technological advancements, and institutional changes, shaping human civilization from 10,000 BCE to 1820 CE.
- ② This chapter explores long-run economic developments, emphasizing trade as a driver of growth and highlighting the historical roots of globalization.

The Ancient Economies

- Before industrialization and modern globalization, trade was already a crucial component of ancient economies.
- Early civilizations such as the Sumerians, Phoenicians, and Greeks actively engaged in trade, facilitating the exchange of essential goods such as metals, textiles, and agricultural products.
- The Greeks, for instance, established city-states that heavily depended on trade for sustenance, exchanging surplus goods with distant regions.
- The Phoenicians, known for their advanced maritime capabilities, connected different parts of the Mediterranean world, ensuring a continuous flow of goods and cultural exchanges.

The Ancient Economies

- ① Even before industrialization, trade played a vital role in ancient economies, enabling civilizations to exchange essential goods such as metals, textiles, and agricultural products.
- ② Maritime traders like the Phoenicians and commercial city-states such as the Greeks facilitated economic and cultural exchanges across the Mediterranean.

Trade in Roman Empire

- The Roman Empire developed one of the most sophisticated trade networks in ancient history, spanning vast territories across Europe, North Africa, and Western Asia.
- Roman infrastructure, including an extensive network of roads and maritime routes, allowed for the efficient movement of goods such as grain, olive oil, and luxury commodities.
- The empire's legal and financial systems provided the necessary institutional stability to support long-distance commerce, ensuring trust and predictability in transactions.
- Rome's economy thrived due to its ability to integrate diverse regions into a single market, benefiting from the comparative advantages of different provinces.

Trade in the Roman Empire

- ① The Roman Empire established a vast and sophisticated trade network across Europe, North Africa, and Western Asia, supported by extensive roads and maritime routes.
- ② Institutional stability, provided by Rome's legal and financial systems, enabled long-distance commerce, integrating diverse regions into a unified market.

The Rise of Islam

- The spread of Islam in the 7th century significantly influenced trade and commerce across vast regions, connecting Africa, the Middle East, South Asia, and Europe.
- Islamic traders established vast networks that facilitated the exchange of goods, ideas, and culture, making the Islamic world a center of economic activity.
- Financial instruments such as letters of credit were developed, allowing merchants to conduct long-distance trade with security and trust.
- The Middle East emerged as a commercial hub, bridging Eastern and Western economies and ensuring the continuity of trade routes.

The Rise of Islam

- ① The expansion of Islam in the 7th century connected Africa, the Middle East, South Asia, and Europe, transforming trade and commerce.
- ② Islamic traders established vast networks and financial innovations like letters of credit, making the Middle East a key commercial hub between East and West.

The Silk Road

- The Silk Road was a vast and intricate network of trade routes that connected China, Central Asia, the Middle East, and Europe, facilitating the movement of goods and ideas.
- Luxury goods such as silk, spices, and precious metals traveled through these routes, shaping the economies of various civilizations.
- Alongside goods, knowledge in medicine, astronomy, and art was exchanged, leading to advancements in multiple fields.
- Despite high transportation costs and frequent geopolitical conflicts, merchants continued to trade due to the high demand for exotic goods.

The Silk Road

- ① The Silk Road connected China, Central Asia, the Middle East, and Europe, enabling the exchange of luxury goods, knowledge, and culture.
- ② Despite high transportation costs and geopolitical conflicts, trade thrived due to the strong demand for silk, spices, and precious metals.

The Mongol Empire

- The Mongol Empire, under the leadership of Genghis Khan, created a period of stability that allowed trade to flourish, known as the Pax Mongolica.
- The Mongols controlled vast territories, ensuring the safety of merchants and travelers along the Silk Road, reducing trade barriers.
- This stability led to an unprecedented level of economic integration between Europe, the Middle East, and Asia, fostering cultural and commercial exchanges.
- The Mongols' policies of religious tolerance and trade promotion encouraged the spread of knowledge and technology across Eurasia.

The Mongol Empire

- ① The Mongol Empire established the Pax Mongolica, ensuring stability and security along the Silk Road, which boosted trade and economic integration.
- ② Their policies of religious tolerance and trade promotion facilitated cultural exchanges and the spread of knowledge and technology across Eurasia.

Trade Policies in China

- During the early 15th century, China was a dominant maritime power, engaging in extensive trade with regions as far as Africa and the Middle East.
- The voyages of Admiral Zheng He showcased China's naval capabilities and facilitated the exchange of goods, culture, and knowledge across continents.
- However, the Ming Dynasty shifted toward isolationism, limiting foreign trade and focusing on internal economic development rather than global expansion.
- This policy change led to a decline in China's global economic influence, allowing European powers to expand their trade networks unchallenged.

Trade Policies in China

- ① In the early 15th century, China, led by Admiral Zheng He's voyages, was a dominant maritime power, facilitating global trade and cultural exchange.
- ② However, the Ming Dynasty's shift to isolationism reduced foreign trade, weakening China's global economic influence while European powers expanded their networks.

European Voyages

- The 15th and 16th centuries marked a period of European exploration and expansion, driven by the search for new trade routes to Asia.
- Portuguese explorers, such as Vasco da Gama, pioneered maritime routes around Africa, bypassing overland trade networks dominated by Muslim merchants.
- Spanish expeditions, led by figures like Christopher Columbus, initiated contact with the Americas, leading to the exchange of goods, cultures, and populations.
- These voyages laid the foundation for European colonial empires, fundamentally altering global trade and economic systems.

European Voyages

- ① During the 15th and 16th centuries, European explorers sought new maritime trade routes to Asia, with the Portuguese navigating around Africa and the Spanish reaching the Americas.
- ② These voyages initiated global exchanges of goods, cultures, and populations, laying the foundation for European colonial empires and reshaping global trade.

The Columbian Exchange

- The Columbian Exchange refers to the widespread transfer of plants, animals, technology, and diseases between the Old World and the New World following European exploration.
- Crops such as potatoes, maize, and tomatoes transformed diets and agricultural productivity in Europe and Asia, contributing to population growth.
- In contrast, Old World livestock, including horses and cattle, reshaped indigenous economies and societies in the Americas.
- The introduction of European diseases, such as smallpox, had devastating effects on native populations, leading to significant demographic shifts.

The Columbian Exchange

- ① The Columbian Exchange facilitated the transfer of crops, animals, technology, and diseases between the Old and New Worlds, reshaping global economies and societies.
- ② While new crops boosted agricultural productivity and population growth, European diseases caused devastating demographic shifts among indigenous populations.

European Mercantilism

- Mercantilism was the dominant economic philosophy in Europe from the 16th to the 18th centuries, emphasizing state control over trade and wealth accumulation.
- Nations sought to maximize exports and minimize imports to achieve a favorable balance of trade, often through protective tariffs and monopolies.
- Colonial expansion played a crucial role in this system, providing European powers with exclusive access to valuable resources and markets.
- The mercantilist approach contributed to intense economic rivalries among European nations, ultimately influencing global conflicts and colonial policies.

European Mercantilism

- ① From the 16th to the 18th centuries, mercantilism shaped European economies by promoting state control over trade, maximizing exports, and restricting imports.
- ② Colonial expansion provided resources and markets, fueling economic rivalries that influenced global conflicts and colonial policies.

The Dutch and British Trading Empires

- The Dutch East India Company (VOC) and the British East India Company were among the most powerful trading entities of the early modern period.
- These corporations controlled key trade routes and resources, establishing monopolies over spices, textiles, and other valuable commodities.
- The Dutch dominated Southeast Asian trade, while the British expanded their influence in India, shaping global commerce for centuries.
- Their economic strategies laid the groundwork for modern multinational corporations and global supply chains.

The Dutch and British Trading Empires

- ① The Dutch and British East India Companies dominated global trade by controlling key routes and monopolizing valuable commodities like spices and textiles.
- ② While the Dutch led in Southeast Asia and the British expanded in India, their economic strategies influenced modern multinational corporations and global supply chains.

Atlantic Slave Trade

- The transatlantic slave trade was a brutal system of forced labor that transported millions of Africans to the Americas between the 16th and 19th centuries.
- European merchants exchanged manufactured goods for enslaved individuals in Africa, who were then transported under horrific conditions to work on plantations.
- The triangular trade system linked Europe, Africa, and the Americas, fueling economic growth for European powers at the cost of immense human suffering.
- The legacy of this trade system has had profound social, economic, and political impacts that persist to this day.

Atlantic Slave Trade

- ① Between the 16th and 19th centuries, the transatlantic slave trade forcibly transported millions of Africans to the Americas, fueling European economic growth at immense human cost.
- ② The triangular trade system connected Europe, Africa, and the Americas, leaving lasting social, economic, and political consequences that persist today.

The Great Divergence

- The Great Divergence refers to the widening economic gap between Western Europe and other regions, particularly China and India, from the 18th century onward.
- Factors contributing to this phenomenon included technological advancements, institutional reforms, and the rise of industrial capitalism in Europe.
- Colonization and global trade played a significant role, as European nations secured resources and markets that fueled their economic dominance.
- The divergence set the stage for the Industrial Revolution, reshaping global power dynamics and economic development trajectories.

The Great Divergence

- ① The Great Divergence describes the growing economic gap between Western Europe and regions like China and India from the 18th century onward.
- ② Driven by technological advancements, institutional reforms, and global trade, this divergence paved the way for the Industrial Revolution and reshaped global power dynamics.

Industrial Revolution and Trade

- The Industrial Revolution, beginning in the late 18th century, transformed production processes, leading to unprecedented economic growth and technological innovation.
- Mass production, mechanization, and improved transportation systems reduced costs and expanded global trade networks.
- The demand for raw materials from colonies increased, reinforcing the economic relationships between industrialized nations and resource-rich regions.
- These changes laid the foundation for modern industrial economies, influencing economic policies and labor markets worldwide.

- ① The Industrial Revolution revolutionized production through mechanization and improved transportation, expanding global trade networks.
- ② Rising demand for raw materials strengthened economic ties between industrialized nations and resource-rich regions, shaping modern industrial economies.

Impact of Colonization on Economies

- Colonization reshaped economic structures globally, with lasting effects on institutions, trade networks, and wealth distribution.
- Extractive colonial policies often led to resource exploitation and economic dependency in colonized regions, hindering long-term development.
- Some economies, such as those in North America, benefited from settler colonialism, fostering early industrialization and institutional development.
- The long-term economic impacts of colonization remain evident today, influencing income disparities, governance structures, and development trajectories.

Impact of Colonization on Economies

- ① Colonization reshaped global economic structures, with extractive policies causing resource exploitation and economic dependency in many regions.
- ② While settler colonies like North America benefited from institutional development, the long-term effects of colonization continue to influence income disparities and governance today.

Trade Cost and Integration

- Trade costs, including transportation and tariffs, have historically influenced the extent of economic integration between regions.
- The development of railroads, steamships, and canals in the 19th century significantly reduced trade costs, facilitating greater economic interdependence.
- Lower trade barriers enabled specialization and comparative advantage, allowing nations to focus on efficient production and exchange.
- Economic integration has played a crucial role in shaping global prosperity, though disparities in trade benefits remain a persistent issue.

Trade Cost and Integration

- ① Trade costs, such as transportation and tariffs, have historically shaped economic integration, with 19th-century innovations like railroads and steamships reducing these barriers.
- ② Lower trade costs enabled specialization and comparative advantage, fostering global economic interdependence while also creating disparities in trade benefits.

Key Takeaways

- ① **Invest in Trade Infrastructure:** Strong transportation and logistics networks facilitate economic growth and integration (e.g., Roman roads, Silk Road).
- ② **Strengthen Institutions and Financial Systems:** Stable governance, legal frameworks, and financial innovations enhance long-distance commerce (e.g., Roman legal system, Islamic credit instruments).
- ③ **Avoid Protectionist Policies:** Isolationism can limit economic potential, while open trade fosters growth (e.g., Ming Dynasty's trade restrictions vs. European colonial expansion).
- ④ **Adapt to Technological and Institutional Changes:** Nations that embrace industrialization and reform gain long-term advantages (e.g., Industrial Revolution, Great Divergence).

Key Takeaways

- ① **Promote Fair Trade and Address Historical Inequalities:** Policies should mitigate the long-term effects of exploitation and resource extraction (e.g., Atlantic Slave Trade, colonial economies).
- ② **Encourage Economic Integration While Managing Risks:** Lower trade costs and globalization boost prosperity but must be balanced with equity-focused policies (e.g., 19th-century steamships, railroads).