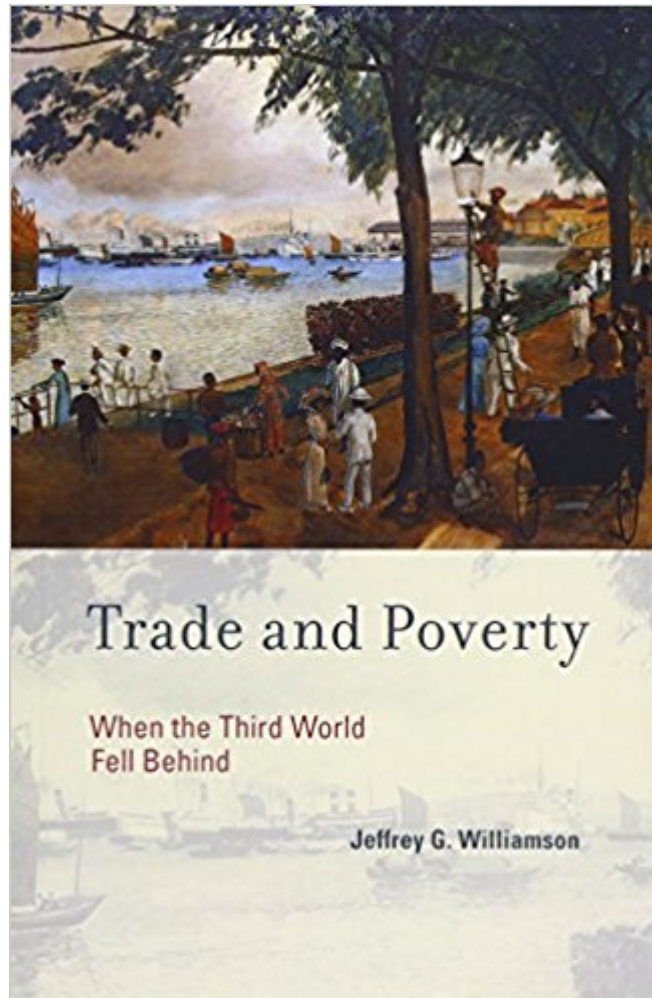


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# Trade And Poverty: When The Third World Fell Behind (MIT Press)



## Synopsis

Today's wide economic gap between the postindustrial countries of the West and the poorer countries of the third world is not new. Fifty years ago, the world economic order -- two hundred years in the making -- was already characterized by a vast difference in per capita income between rich and poor countries and by the fact that poor countries exported commodities (agricultural or mineral products) while rich countries exported manufactured products. In *Trade and Poverty*, leading economic historian Jeffrey G. Williamson traces the great divergence between the third world and the West to this nexus of trade, commodity specialization, and poverty. Analyzing the role of specialization, de-industrialization, and commodity price volatility with econometrics and case studies of India, Ottoman Turkey, and Mexico, Williamson demonstrates why the close correlation between trade and poverty emerged. Globalization and the great divergence were causally related, and thus the rise of globalization over the past two centuries helps account for the income gap between rich and poor countries today.

## Book Information

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## Customer Reviews

*Trade and Poverty* is undoubtedly an important and authoritative work, one that should take the current discourse on globalization and divergence to a new level. (EH.net) Our leading economic historian has chosen just the right moment to distill his life's work. Other economists have been spreading awareness that history matters far more than we thought in today's development

outcomes, but we are amateurs compared with Williamson. He carefully analyzes the seductive correlation between the first great globalization boom in the nineteenth century and the great divergence at the same time that played a huge role in giving us today's wealth and poverty of nations. Did this first wave of globalization benefit both rich and poor nations, but the former more than the latter? Or did it actually hurt the periphery? The answers could not be more relevant for today's globalization and development debates, and they are here for the taking in Williamson's magnum opus. (William Easterly, Professor of Economics, New York University, author of *The Elusive Quest for Growth* and *The White Man's Burden*) The definitive neoclassical account of the emergence of modern world inequality. Jeff Williamson throws down the gauntlet to the institutionalists and other doubters. Impossible to ignore. (James Robinson, David Florence Professor of Government, Harvard University) Williamson is the most distinguished historian of globalization. In this book he uses powerful theoretical arguments and massive quantitative evidence to argue that the divergence between rich countries in the core and poor countries in the periphery, as well as the large income gaps between rich and poor households in the developing world, were caused by the first wave of globalization. This is a fascinating book, which should appeal particularly to economic historians and scholars of globalization, political economy, and economic growth. (Elhanan Helpman, Galen L. Stone Professor of International Trade, Harvard University)

Jeffrey G. Williamson is Laird Bell Professor of Economics Emeritus at Harvard and Honorary Fellow in the Department of Economics at the University of Wisconsin--Madison. He is the author of *Globalization and the Poor Periphery before 1950* (MIT Press, 2006). He is the coauthor (with Kevin O'Rourke) of *Globalization and History: The Evolution of a Nineteenth-Century Atlantic Economy* (1999) and (with Timothy J. Hatton) of *Global Migration and the World Economy: Two Centuries of Policy and Performance* (2006), all published by the MIT Press.

This book is a concise summary of a large volume of scholarly work by the foremost scholar of 19th century globalization, Jeffrey Williamson. Williamson's major question is whether or not the pattern of 19th century globalization contributed to the enormous divergence between rich, industrialized nations and the "poor periphery" of the 3rd world. Williamson's conclusion is that it did and he identifies 3 19th century mechanisms contributing to this divergence. The first was de-industrialization. In a nice example of Ricardian comparative advantage in trade, European industrialization resulted in declining costs of manufactures and enormously increased demand for

primary products. Coupled with markedly declining transport costs, this encouraged metropolitan specialization in manufacture and peripheral specialization in primary products (grain, mining output, etc.), with a large net loss of proto-industrial manufacturing in the periphery. This pattern also increased inequality in the periphery, eroding or precluding the development of institutions that would favor industrial growth through the empowerment of local elites or colonial overlords who focused on rent-seeking as opposed to industrial or proto-industrial development. Finally, the pattern of industrial core - peripheral primary producer enhanced peripheral susceptibility to volatile commodity price fluctuations which modern experience has shown to inhibit long-term growth.

Williamson is careful to specify that the huge expansion of trade in the 19th century globalization did increase economic growth everywhere, as predicted by classic Ricardian theory, but that there were qualitatively different consequences of this growth in the primary producer periphery and the industrial core with the trade boom of globalization markedly reducing the peripheral potential for industrialization and long-term robust growth. This is a short but reasonably dense book. Williamson is summarizing a great deal of prior research which relied on a variety of econometric analyses. He is a solid writer. Some technical terminology is used but its not hard to master. Williamson also presents and relies on a couple of relatively simple but not necessarily intuitive economic models for some of his analysis. These require a bit of effort to understand but are not terribly difficult either. A great deal of the analysis is presented in charts and table which enhance understanding but this is not the usual historical monograph. Considering the volume of information presented, its hard to fault Williamson for not doing more, but some historical contextualization would have been illuminating. The processes he describes were not inevitable and often the result of deliberate and aggressive imperialism and should be placed against the background of successful 18th century mercantilism. I think Williamson may have missed some opportunities to expand the analysis. For example, his arguments about the mechanisms of globalization induced peripheral growth impairment would be strengthened by the existence of an exception that proves the rule. There is such a exception; the 19th century USA. The USA pursued aggressive tariff protection, had stable and relatively powerful governments that invested in education and physical infrastructure, and as David Hounshell has shown, an effective albeit inadvertant Federal industrial R&D policy. The USA had the advantage of being a relatively rich country at the beginning of the 19th century but a relatively favorable starting point doesn't always help as shown by the 20th century experience of Argentina or contemporary Russia. The increasing concentration on primary production in the periphery with the strong tendency to specialize in a few primary products also had other serious consequences such as the desctruction of somewhat diversified peasant agriculture in parts of Asia with increasing risk of

famine. For the latter, see Mike Davis' very interesting Late Victorian Holocausts.

Prof. Williamson's summary of many admirable empirical studies of global trade and patterns of income growth in the 1800s leavens a great deal of cleverness with a certain amount of wisdom. The clever part is seeing how economists' traditional, neoclassical trade theory can be used to explain relative changes in incomes received by owners of mines and plantations, on the one hand, and incomes of manufacturers, on the other hand, during the great expansion in global trade between roughly 1820 and 1913. It is not very surprising that mine and plantation owners in regions that expanded trade with Britain gained much more than traditional manufacturers did, as the vastly improved British manufacturing industry added to demand for inputs from mines and plantations while competing successfully for the traditional manufacturers' markets. The concentration of wage income in traditional manufacturing sufficed to hold the benefits from expanded trade accruing to common workers below the benefits received by wealthy mine and plantation owners. Williamson's ability to reproduce this unsurprising pattern of results with the mathematical trade model sketched on pages 55-57 is at least a partial vindication of the effort put into thousands of basic trade theory courses taught in Economics Departments over the decades. The wisdom in *Trade and Poverty* comes in distinguishing the forest from the trees. Williamson does not lose sight of the fact that, with all their divergences, incomes rose in all regions, and indeed makes a point of mentioning it repeatedly (belying the possible inference from the book's title that poverty only arose when the Third World traded). He also makes it clear that trade in the period he focuses on is not the whole of the story. Looking back, he notes that Britain's ability to drive change in the 1800s, and the divergence between "core" and "periphery" incomes more generally, derived from a centuries-long process dating back to the Middle Ages. Looking forward, he notes that the rest of the world has made the transition from the 1800s' episode to an entirely different position as of the date of the book's publication in 2011. Most importantly, Williamson properly identifies "education, capital goods, R&D, and learning by doing" (rather than trade, or its absence) as the motors of industrial development (pages 228-229). Hopefully, his readers will take his point, rather than imagining that isolation provides an alternative for late-industrializing regions. (I am a little surprised that Williamson does not refer the reader to a good study of trade and industry policy, like that of Little, Scitovsky, and Scott.)

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