CHAPTER 2

ECONOMIC DEVELOPMENTS

2.1 TRADITIONAL ECONOMIC CONDITIONS

Poverty was the norm during the Middle Ages. Infant mortality rate was 50% and sometimes half the surviving children died before reaching adulthood. As late as 1700, the overall life expectancy was 30 years of age.

Subsistence farming was the dominant occupation historically and famine was a regular part of life. One-third of the population of Finland, for example, died in the famine of 1696 – 97. France, one of the richer agricultural lands, experienced eleven general famines in the 17th century and sixteen in the 18th century.

Contagious diseases decimated towns and villages: smallpox, measles, diptheria, typhoid, scarlet fever, bubonic plague, and typhus.

Political and economic freedoms associated with the Protestant Reformation and biblical work ethic gradually began to change the economy of Europe as innovation, hard work, frugality, and entrepreneurship became the norm.

2.2 SOCIETAL INSTITUTIONS NEEDED FOR COMMERCE AND A PROSPEROUS ECONOMY

A prosperous economy needs a moral system as a base for reliance on a complex system of expectations and contracts. This was found both in traditional Catholic morality and in the Protestant Reformation of the 16th century. A modern economy could not function without confidence in people living up to their agreements with a sense of individual responsibility towards the following:

1) Credit
2) Representations as to quality
3) Promises to deliver products or to buy them when produced
4) Agreements to share profits
5) Honoring a bank check or bill of exchange
6) Obligations of contracts – written or verbal.

The legal system in society reinforced individual morality:

1) Legal enforcement of contracts and property claims
2) Bills of exchange and banking (checks)
3) Insurance – and payment of claims
4) Recognition of property rights

5) Avoidance of confiscatory taxation.

Innovations in business arrangements abounded. Joint stock companies enabled enterprises to accumulate capital from many investors. Double entry bookkeeping provided a check on clerical accuracy, enabling managers to detect errors. Banknotes were used as a medium of exchange. The divided European political structure enabled merchants and businessmen to compete as they sought to locate in places with a favorable business climate.

2.3 MERCANTILISM

Basic assumptions of mercantilism were as follows:

1) Wealth is measured in terms of commodities, especially gold and silver, rather than in terms of productivity and income-producing investments.

2) Economic activities should increase the power of the national government in the direction of state controls.

3) Since a favorable balance of trade was important, a nation should purchase as little as possible from nations regarded as enemies. The concept of the mutual advantage of trade was not widely accepted.

4) Colonies existed for the benefit of the mother country, not for any mutual benefit that would be gained by economic development.

The philosophy of mercantilism had mixed results in the economy of Europe. On the one hand, the state encouraged economic growth and expansion. On the other, it tended to stifle entrepreneurship, competition, and innovation through monopolies, trade restrictions, and state regulation of commerce.

As a generalization, taxes were low enough not to discourage economic expansion, since the expectations of government involvement domestically in society were small. There were relatively few administrative officials in a day when communication and transportation were slow and thus did not impede economic activities effectively. Compare France, one of the most bureaucratic states of Europe in the 18th century, with France in the 20th century. Then, 12,000 civil servants meant one bureaucrat for every 1,250 people. Today it is one for every 70 people.

The wars of the 17th and 18th centuries involved dynastic disputes, balance-of-power struggles, and mercantilistic competition for trade, raw materials, and colonies. The economic was involved, but it was not as important a factor as the more traditional power politics of international competition. It would have been less of a factor without some of the philosophical assumptions of mercantilism.

In the 19th century, more thought was directed toward encouraging economic initiative by average citizens to the mutual benefit of the entire country. Adam Smith's *The Wealth of Nations,* published in 1776, led the way to a more *laissez-faire* approach. Smith wrote at the beginning of the American War for Independence:

> "To prohibit a great people ... from making all that they can of every part of their own produce, or from employing their stock and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind."

It was the Dutch and the English who led the way towards the concept of productivity as a measure of national wealth. As a result, Holland became one of the most productive countries in the world in the 17th century and England in the 18th and 19th centuries. There was always a certain ambivalence, however, in the English attitude, as laws such as the Navigation Acts indicated. Restrictive laws were passed in the early Industrial Revolution.

In France, Jean Baptiste Colbert (1619 – 1683), economic adviser to Louis XIV, used the government to encourage economic productivity and aided in the prosperity of France. But his dictatorial regulations were also counter-productive. For example, he forbade the emigration of skilled French workers and specified in detail methods of production. He also believed that foreign trade was a fixed quantity rather than one that grew with demand and lower prices. France, as most states, had high protective tariffs.

The lowering of interest rates also stimulated investment and productivity. Here England led the way: 1600: 10%; 1625: 8%; 1651: 6%; 1715: 5%; 1757: 3%.

2.4 GROWTH OF TRADE

Expansion of Europe's overseas trade resulted from the discovery of an all-water route to Asia around Africa; the discovery of the Western Hemisphere as an area of settlement and trade; the need for spices for the preservation of foods; and desire for luxury goods from the Far East and the Near East.

Population growth expanded domestic markets far in excess of overseas trade. European population at the beginning of the seventeenth century was 70 million; by the end of the eighteenth century it had doubled. Productivity and economic growth increased even faster during the same period.

Innovative scientific and technological discoveries and inventions stimulated trade. Likewise, three-masted trading vessels lowered the costs of transportation and made possible trading over greater distances. Canal and road building also stimulated trade and productivity.

Capitalist systems of banking, insurance, and investment made possible the accumulation of capital essential to discovery and economic growth.

Urbanization was both a cause and a result of economic growth. Urbanization requires and creates a network of market relationships. Towns whose trade prospered increased in population; towns which did not prosper in trade quickly stagnated. Additionally, urbanization provided the opportunity and market for commercial services such as banking, insurance, warehousing, and commodity trading, as well as medicine, law, government, and churches.

2.5 AGRICULTURAL CHANGES

Feudal/manorial changes began in Europe, especially in England, and were replaced by absentee landlords and by commercial farms. Urbanization, increased population, and improvements in trade stimulated the demand for agricultural products.

The design of farm implements was improved. All-metal plows came into use in England as well as horse-drawn cultivators. Drainage and reclamation of swamp land was expanded. Experiments with crops, seeds, machines, breeds of animals, and fertilizers were systematically attempted.

2.6 IMPROVEMENTS IN TRANSPORTATION

The construction of canals and roads was of fundamental importance (Railroads were not developed until the 1830's).

The canal lock was invented in Italy in the 17th century; Holland then began building canals.

The major rivers of France were linked by canals during the 17th century. England's coastwise shipping made canals less pressing, so it was not until the 18th century that canals were built there.

All-weather roads were constructed after the mid-18th century when John Macadam (1756 – 1836) discovered that a gravelled and raised road-bed could carry vehicles year round.

2.7 INDUSTRIAL TECHNOLOGY

Thomas Necomen in 1706 invented an inefficient steam engine as a pump. James Watt, between 1765 and 1769, improved the design so that the expansive power of hot steam could drive a piston. Later, Watt translated the motion of the piston into rotary motion.

The steam engine became one of the most significant inventions in human history. It was no longer necessary to locate factories on mountain streams where water wheels were used to supply power. Its portability meant that both steamboats and railroad engines could be built to transport goods across continents. Ocean-going vessels were no longer dependent on winds to power them.

At the same time, textile machines revolutionized that industry.

John Kay introduced the flying shuttle in 1733. James Hargreave invented the spinning jenny in 1770. Richard Arkwright perfected the spinning frame in 1769. Samuel Crompton introduced the spinning mule in 1779. Edward Cartwright invented the power loom in 1785.

2.8 FACTORS IN SUSTAINED ECONOMIC GROWTH

Innovation was a key element:

1) Innovation by extension of trade and discovery of new resources
2) Innovation by lowering costs of production
3) Innovation by introducing new products and new ways of doing things
4) Innovation in organizing production and marketing methods
5) Overcoming resistance to innovation.

The development of free enterprise stimulated new ideas. This was made possible where the state was not excessively involved in the economy. In England the Puritan Revolution of the 1640's challenged the royal right to grant monopolies and trade privileges. The English common law afterwards adopted the principle of free enterprise open to all. With free enterprise came the responsibility for risk-taking with the possibilities of losses as well as profits.

Free movement of populations provided necessary labor resources. People "voted with their feet" and found their way to new jobs. Many moved to England from Europe. The population of England in 1700 was about 5.5 million and only 6 million by 1750. The economic growth during the last half of the century increased the population of England to 9 million by 1800, a fifty percent growth in a half century. Because of the Industrial Revolution of the 19th century, this figure doubled to 18 million by 1850.