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Book review

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Power and Plenty: Trade, War, and the World Economy in the Second Millennium, Princeton, New Jersey: Princeton University Press, \$39.50, 624 pages.

The subtitle of *Power and Plenty* informs the reader that the book analyzes the interplay of Trade, War, and the World Economy in the Second Millennium. But what the subtitle cannot convey to the reader, nor any review of the book, are the details with which the authors present their analysis.

The book is divided into ten chapters. Chapter one offers an introduction to the book. Chapter two describes the world economy at the turn of the first millennium. Here we learn that one thousand years ago the Arabs had “unified the Byzantine possession of Egypt, Syria, Palestine, and North Africa with the Sassanian territories of Mesopotamia and Iran” (p. 48), and had created a vibrant free market economy within their vast Empire. At the same time, the Chinese under the Sung dynasty were experiencing a “thriving, bustling, and buoyant” economy (p. 62). If one had looked at the world economy in the year 1000, one would have never foreseen the rise of the West relative to the Rest. How did this transformation take place? Findlay and O’Rourke offer an answer to this question towards the end of the book, to which we will return.

Chapter three to chapter ten analyze the world trade in successive periods: from the year 1000 to 1500 (the economic consequences of Genghis Khan); 1500 – 1650 (the discovery of the New World); 1650 – 1780 (the age of mercantilism); the Industrial Revolution; 1780 – 1914 (the Great Specialization); 1914 – 1939 (deglobalization); late twentieth century (reglobalization); and globalization at the dawn of the twenty-first century.

Although the book is a work in history (the weekly publication *The Chronicle Review* listed the book in the history section, not economic section), it should be quite appealing to international trade economists who have an interest in history. The authors, two prominent scholars in the field of international trade, draw on their expertise and apply many trade theories to historical events. Early on the authors note:

The three great world-historical events of the second millennium, in our account, are the Black Death of the fourteenth century and the differing responses to it, the “discovery” and incorporation of the New World into that of the Old at the turn of the sixteenth century, and the Industrial Revolution at the turn of the nineteenth.” (P. xxi)

Over a period of three years in the middle of the fourteenth century the Black Death killed about twenty-five million Europeans, roughly a quarter to a third of the population. Findlay and O’Rourke note that the plague “was undoubtedly the greatest catastrophe to strike the Western World during the last millennium, not even excluding the two world wars of the twentieth century” (p. 111). And it was at least as devastating to the Islamic World. What were the economic consequences of this calamity? Findlay and O’Rourke explain:

With diminishing returns to labor, we would expect a rise in the real wage and thus a decline in the rent per acre and the return to physical capital. Furthermore (by the well-known Rybcznski theorem in trade theory), we would expect a rise in the relative price of land-intensive goods, since the output of the former would contract and that of the latter expand if relative product prices were held constant. With per capita income rising we would also expect a boom in markets for luxury goods and a relative decline in markets for more basic goods such as food and other necessitates. (P. 112)

While it is hard to accept the claim that the real income of the survivors and with it the demand for luxury goods rose following the most devastating catastrophe in history, the authors present data supporting the predictions of the Rybcznski theorem quoted above.

A graph on page 112 shows that between the years 1350 and 1500 the index of “Real English building wages” soared from 35 to 100! Moreover, “urban real wages increased by as much as 100% in Egypt, Byzantium, and the Balkans as well as in Western Europe” (p. 113). Although some scholars believe that the per capita income over the period 1000 to 1800 remained stagnant¹, Findlay and O’Rourke provide so much data from various sources that the weight of the evidence is in their favor.

The Fisher Equation ($MV = PQ$), Findlay and O’Rourke note, predicts that the Black Death caused inflation because while the money supply did not change, output declined forcing prices to rise. Although it is not clear why and how in the midst of the devastation of the Black Death the velocity of money should have remained constant, the data support the theory. In fact “the simple general equilibrium ...predicts that the European price level should have initially increased after the Black Death; then declined, as a result of the Bullion Famine; and finally increased again.” According to the authors, “This is exactly what seemed to have happened.” (p. 117).

A detailed analysis of the other two momentous events – the discovery of the New World and the Industrial Revolution – constitutes the rest of the book. The voyages that took European to various parts of the world, in particular to the Americas, ushered in the Age of Mercantilism roughly from the year 1650 to 1780. International relations in this period involved colonialism, slavery, and war, driven to a considerable extent by the erroneous mercantilist doctrine that wealth is a zero-sum game. But the lessons of history are not easily learned. The mercantilist mindset that caused so much damage in the past continues to direct the trade policies of many countries.

¹ For example, see Robert Lucas Jr.’s paper, “The Industrial Revolution: Past and Future,” which is available at http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3333

Chapter six, a fascinating narrative, focuses on questions such as: Why did the Industrial Revolution emerge in England? What caused it? Why did it happen in the latter part of the eighteenth century? Why did it not happen in other places and other times? Although answers to these questions remain controversial, Findlay and O'Rourke present some key insights in light of both history and theory. They point out that "episodes of remarkable economic expansion" had occurred in the past including

the Golden Age of Islam in the last centuries of the first millennium, the impressive upsurge in China under the Sung dynasty in the eleventh and twelfth centuries, the general prosperity under the *Pax Mongolia*, the rapid recovery in Europe...after the Black Death, the export-led boom during the Age of Commerce in Southeast Asia from 1400 to 1650, the Dutch Golden Age of the seventeenth century, and the great Qing expansion in eighteenth-century China... (p. 338)

What distinguishes the economic growth that resulted from the industrial Revolution from the past episodes is that "this burst of creativity did not peter out, but was sustained for the duration of the nineteenth century and beyond." Findlay and O'Rourke argue that "international trade was a key reason why the British Industrial Revolution was different." Moreover,

a given domestic stimulus to growth, such as the new technologies of the Industrial Revolution, led to a greater rise in incomes as a result of the opportunities afforded by international trade. By helping the economy escape from resource constraint, trade ensured that technological change translated into a more sustained growth experience than would otherwise have been possible...the extent of technological change itself depended at least to some extent on the openness of the economy to trade. Both arguments rely crucially on the well-known fact that trade systematically raises the elasticities of supply and demand facing an economy. (p. 339)

As the book progresses and moves closer to our time, its economic content increases simply because more writings by economists are available. In particular the last two chapters of the book provide a thorough analysis of globalization.

In summary, this book is indispensable for scholars who seek answers to questions such as: How did the world economy evolve into its present form? What events shaped its current characteristics? What roles did trade play in shaping the modern world economy? *Power and Plenty*, an exemplary feat of scholarship, fully answers all these questions.

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