25. Institutional and Non-Institutional Explanations of Economic Differences

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Economists have long been concerned with the explanation of differences across countries in levels of national income, population, and per capita incomes, as well as in their rates of growth. Because many of the processes of economic development operate over long periods of time, those studying the sources of these differences have quite naturally turned to the historical record for relevant evidence. Their concern with economic history thus comes not only from a desire to achieve a better understanding of the past, but also from a belief that such knowledge can serve as a guide for policymakers striving to improve the economic and social conditions of currently less developed nations. Many scholars have set about making contributions to knowledge through detailed investigations of the processes of growth in individual countries. Others have sought to discern what factors were crucial through comparative studies, focusing on issues such as why nations differed with regard to the timing of the onset of growth or how and why their records of achieved rates of growth varied over a long period of time.

Recently considerable attention has been given to the question of why European nations and some of their overseas offshoots expanded more rapidly than did the economies of Asia, Africa, and Latin America after the eighteenth century, either generating new gaps in levels of income and rates of growth, or else greatly widening whatever differentials may have previously existed (see Table 1).[1] Previously the principal focus of historians examining the basis for differences in long-term economic performance had been with what led Great Britain to accomplish an Industrial Revolution sometime after the middle of the eighteenth century, and ahead of its European rivals (see Table 2).[2] Given the greater similarity of economic, political, and social structures among the

[1] Among a vast literature, see North and Thomas 1973; North 1981; Rosenberg and Birdzell 1986; Jones 1987; Landes 1998; Engerman and Sokoloff 1997 and 2002; Pomeranz 2000; Acemoglu, Johnson, and Robinson 2001 and 2002; and Easterly and Levine 2003. For even earlier discussions, see Weber 1958 and 1961; and Sombart 1969.

[2] See, for example, Hartwell 1971.

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Table 1. Levels of Per capita GDP and interregional differences, 1500–1998. (1990 dollars)

	1500	*1820*	*1870*	*1913*	*1950*	*1973*	*1998*
Western Europe	774	1232	1974	3473	4594	11534	17921
Western Offshoots	400	1201	2431	5257	9288	16172	26146
Japan	500	669	737	1387	1926	11439	20413
Asia (excl. Japan)	572	575	543	640	635	1231	2936
Latin America	416	665	698	1511	2554	4531	5795
Eastern Europe	483	667	917	1501	2601	5729	4354
Africa	400	418	444	585	852	1365	1368
World	565	667	867	1510	2114	4104	5709
Interregional Spreads	2:1	3:1	5:1	9:1	15:1	13:1	19:1

Source: As calculated in Maddison 2001.

Table 2. Per capita GDP in Western Europe, 1500–1998. (1990 dollars)

	1500	*1600*	*1700*	*1820*	*1870*	*1913*	*1998*
Austria	707	837	993	1218	1863	3465	18905
Belgium	875	976	1144	1319	2697	4220	19442
Denmark	738	875	1039	1274	2003	3912	22123
Finland	453	538	638	781	1140	2111	18324
France	727	841	986	1230	1876	3485	19558
Germany	676	777	894	1058	1821	3648	17799
Italy	1100	1100	1100	1117	1499	2564	17759
Netherlands	754	1368	2110	1821	2753	4049	20224
Norway	640	760	900	1104	1432	2501	23660
Portugal	632	773	854	963	997	1244	12929
Spain	698	900	900	1063	1376	2255	14227
Sweden	695	824	977	1198	1664	3096	18685
Switzerland	742	880	1044	1280	2202	4266	21367
United Kingdom	714	974	1250	1707	3191	4921	18714
Total Western Europe	774	894	1024	1232	1974	3473	17921
World	565	593	615	667	867	1510	5709

Source: As calculated in Maddison 2001.

European nations than those between Europe and the rest of the world, the factors highlighted in the discussions of the development of the Industrial Revolution are rather different from those generally featured in the broader geographic comparisons. In both cases, however, what the economists and economic historians are seeking to explain is why some nations in today's world remain poor, relatively and absolutely, and what conditions can be changed in order to achieve success in spurring growth and improving the welfare of the respective populations. It is this problem that the recent study of institutions has sought to help resolve and that probably represents its most significant contribution.