The Role of Trade and Empire in European Economic development to ca 1870

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In recent years there has been a great deal of interest among historians in the role of trade and empire in the origin of the industrial revolution and the relative economic success of Western European growth from the early modern period to the late twentieth century. The rise of the East Asian economies in the second half of the twentieth century, and especially the dramatic economic growth of China beginning in the 1970s, has produced a flood of scholarship in comparative world economic history. Earlier explanations of Western economic dominance were rooted in explanations, which bore the stamps of Western exceptionalism. They argued that there was something special about Western Europeans, such as their culture and the representative nature of their political institutions, especially since the two most successful economies in early modern Europe were Britain and the Dutch Republic, both of which rejected political absolutism in the seventeenth century, which was prevalent in Europe before the sweeping away of much of Western Europe's old regime by the French Revolution and Napoleon. The older explanations emphasized Europe's scientific revolution, the Enlightenment, and the nature of its religion. In Britain, Adam Smith and his followers created an economic model, classical economics, which argued that British economic growth was primarily a consequence of the pursuit of economic efficiency through individual initiative, the division of labor and free trade. Others, such as the historical economists in Germany and elsewhere, argued that during the 19th century Britain's economic success was greatly helped by its vigorous pursuit of mercantilist and imperialist policies by which the state used protectionist measures and military power to support its merchants and industrialists. Already in the mid-19th century. Karl Marx, and other socialists had begun to argue that the chief source of the West's economic success was to be found in capitalism's inherent exploitation, which, according to its Leninist version, led to the inevitable exploitation of the peoples and resources of the less developed world. According to Marxist historians, it was Imperialism, accompanied by Western racism, which had made the West economically successful.

During the 1960s economic historians began to use sophisticated economic theory and a growing body of historical statistical evidence to try to explain the origin and maintenance of Western economic success. The predictions that China would become the world's largest economy in the very near future has led to the growing popularity of studies in comparative world history, which seeks to explain the 'Great Divergence'[1] of economic wealth between the West and the rest of the world after about 1800. The topic has produced a large body of scholarship during the last several decades. Within European history, the topic of the Little Divergence, or when and why Northwestern Europe became significantly wealthier than the rest of Europe, has also produced much discussion.[2] A good introduction to the role of trade and empire in Europe's economic success, to which this essay is heavily indebted, is a chapter by Kevin H. O'Rourke, Leandro Prados de la Escosura, and Guillaume Daudin, "Trade and Empire."[3]

At the beginning of the first millennium it was not at all obvious that Western Europe would become the center of world trade. Situated at the edge of Eurasia, its exports consisted largely of forest products and slaves. It was not well connected to the rest of Eurasia and its economic contacts were primarily with the Islamic world. By the 18th century, Europe was no longer marginal to world trade, but had become its center. It was now in direct contact with all of Eurasia, most of coastal Africa and controlled much of North and South America. Its ascendancy over the Western Hemisphere was particularly important because of its wealth of gold and silver, which it used in its trade with Asia, and its trade of colonial products produced largely by plantation economies with slaves from Africa. As Jacob Viner pointed out in 1948,[4] the pursuit of power and plenty went hand in hand. Trade profited merchants but also provided revenue for

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[1] The phrase was made popular by Kenneth Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World Economy* (2000

[2] J. L.van Zanden, *The Long Road to the Industrial Revolution: The European Economy in a Global Perspective, 1000-1800* (2009).

[3] Stephen Broadberry and Kevin O'Rourke, eds., *The Cambridge Economic History of Europe,* Vol. 1: *1700-1870*, (2010). pp. 96-121. See also the excellent study by Ronald Findlay and Kevin O'Rourke, *Power and Plenty: Trade, War and the World Economy in the Second Millennium* (2007).

[4] Jacob Viner, "Power versus Plenty as Objectives in Foreign Policy in the Seventeenth Century," *World Politics* I: 319-61.

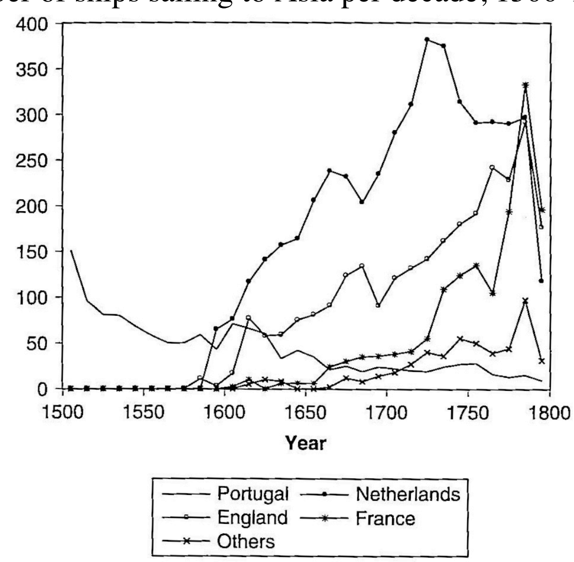
the state. European states pursued rival mercantilist measure, which led to a period of warfare over empire and trade, especially between the Dutch and the Spanish and Portuguese, the English and Dutch in the 17th century, and then the English and the French in the 18th century. While the Spanish and the Portuguese held on to Latin America in the 18th century, the Dutch replaced the Portuguese in the Indian Ocean and Southeast Asia in the 17th century and remained dominant in Europe's Asian trade until the late 18th century. They not only controlled the spice trade but also played an important role in inter-Asian trade. The British concentrated on establishing themselves in India and became the major exporter of Indian textiles to Europe, Africa and the Americas during the 18th century. By the late 18th century their military victories in India made them territorial governors and during the 19th century they won sovereignty over all of India.

When William of Orange became king of England 1688, the struggle for supremacy in international trade and empire turned to competition between Britain and France. A series of wars between France and Britain finally led to the defeat of the French in North America in 1763 and the strengthening of Britain's position in India, Africa and the Caribbean. Meanwhile Russia defeated Sweden in the Baltic, expanded to the Black Sea in the south and to the Pacific in the east. All these powers pursued mercantilist policies to secure power and plenty by protecting local industries against foreign competition, protecting shipping by not allowing foreign merchants to trade with its colonies or the mother country, and promoted colonial policies that sought to extract as much profit as possible from their colonies. Empires especially sought to control access to precious metal supplies, slaves, the cultivation, marketing and processing of tropical products, the trapping of furs and the marketing of these in Europe, seeking a monopoly in the shipping and marketing of spices, and naval control over trade routes.

During the early 19th century, many of these mercantilist measures diminished or ended with the adoption of a freer system of international trade. This movement toward free trade was partly a consequence of Britain's success. Britain's removal of the French from North America allowed the North American colonies to pursue independent policies, which ultimately led to their independence. Britain's victory in the Napoleonic wars ensured its victory over France and other European powers in overseas trade and ushered in a long period of peace in Europe, while its industrial revolution provided it with a dominant manufacturing position for several generations. The smaller economies of Denmark and the Netherlands lowered their tariff barriers in 1797 and 1819 respectively. The first large economy to begin the liberalization of its trade was Britain in the 1820s, culminating in the establishment of nearly complete free trade in 1846. By the 1850s trade liberalization also took place throughout most of Western Europe, but failed to catch on in the Russian, Austro-Hungarian, and Ottoman Empires. Although the late nineteenth century saw the beginning of increased protectionism in Germany and France under the name of neo-mercantilism, most of Western Europe saw a remarkable movement towards free trade during the 19th century. While European empires declined in Latin America during the 19th century, Europe's imperial control over Africa and Asia expanded dramatically. Nonetheless, international trade and investment became much freer and dramatically larger in volume during the 19th century.

From the shipping data in the figure below, Jan de Vries calculated that the tonnage returned from Asia to Europe grew by 1.01% per annum during the 16th century, 1.24% in the 17th century, 1.16 % during the 18th century, and 1.1% over the three centuries as a whole.

Number of ships sailing to Asia per decade, 1500-1800



Source: O'Rourke, de la Escosura, Daudin, p. 98

Other historians have come up with somewhat different numbers on the volume of trade but it is reasonable to conclude, from the currently available data, that European trade with Asia and the Americas grew at about one per cent per annum over a period of three centuries so that during this period the maritime economies of Western Europe had become much more open to the rest of the world. Since West European GDP grew at an average rate of about 0.4% per annum during the period, this implies that world trade became much more important in the Western European economies.

As shown in the tables below, the wars of the French Revolution and Napoleon, from 1792 to 1815, saw a dramatic increase in the relative importance of Britain's international trade compared to other European states but a decline in overall European trade to GDP ratios. From 1830 Europe's foreign trade began to grow again. Between 1820 and 1870 Europe's trade grew nine fold and its trade to GDP ration doubled.

European Trade in 1790
(ROW=Rest of the World)

	Imports		Exports		Reexports	Reexports	Total	Share rest of world
	From Europe	From ROW	Toward Europe	Toward ROW	Toward Europe	Toward ROW		
	£ million							
Britain (1784–86) (including trade with Ireland)	11.3	11.5	6.3	7.3	2.8	0.8	**40.0**	49%
France (1787)	12.8	11.7	9.7	5.3	6.0	0.4	**45.9**	38%
Netherlands (using 1770 trade composition)	9.3	3.6	8.3 (including reexports)	0.7 (including reexports)	3.8 (colonial goods) 2.4 (European goods)		**21.9**	20%
Spain (1788–92) (ROW: Americas)	7.2	2.8	3.5	1.9	1.4	2.2	**19.0**	36%
Portugal (1796–1806) (ROW: Brazil)	4.6	2.7	1.4	1.3	3.9	1.4	**15.3**	35%

Source: O'Rourke, de la Escosura, Daudin, p. 103

The European Merchant Fleet in 1790

	Tons	Percentage
United Kingdom	881,963	26.2%
France	729,340	21.6%
Netherlands	397,709	11.8%
Denmark and Norway	386,020	11.4%
Italy, Trieste, and Ragusa	352,713	10.5%
Hamburg, Bremen, Lubeck, Rostock, Dantzig, and Prussia	181,308	5.4%
Sweden	169,279	5.0%
Spain	149,460	4.4%
Portugal	84,843	2.5%
Russia	39,394	1.2%
Total	3,372,029	100%

Source: O'Rourke, de la Escosura, Daudin, p. 104

European Real Foreign Trade, 1820-1870

	1820	Growth 1820–1870
	$million 1990	
Austria	47	+894%
Belgium	92	+1,245%
France	487	+621%
Italy	339	+427%
Spain	137	+550%
Switzerland	147	+653%
United Kingdom	1125	+988%
Weighted average		+793%
United States	251	+12,010%

Source: O'Rourke, de la Escosura, Daudin, p. 104

Entrepôt (goods that are imported and then exported) and special trade

	Retained imports (1) = total imports – Reexports	Domestic exports (2)	Reexports (3)	Special trade (4) = (1)+(2)	Special trade as a share of total trade = 100*(4)/[(4)+(3)+(3)]
	£ million				
Britain (1784–86)	19.2	13.6	3.6	32.8	82%
France (1787)	18.1	15.0	6.4	33.1	72%
Netherlands (using 1770 trade composition)	6.7	9.0	6.2	15.7	43%
Spain (1788–92)	6.4	5.4	3.6	11.8	62%
Portugal (1796–1806)	2.0	2.7	5.3	4.7	31%

Note: Retained imports are computed assuming that the value of a good is recorded identically when it is imported and re-exported. Special trade excludes both re-exports and non-retained imports.
Source: O'Rourke, de la Escosura, Daudin, p. 104

Exports plus Imports as Share of GDP in Europe, 1665-1890

	c. 1655	c. 1720	c. 1755	c. 1790	1820	1830	1840	1850	1860	1870
Austria						11.4%	14.2%	13.2%	18.7%	29.0%
Belgium							19.0%	26.7%	31.3%	35.6%
Denmark					7.5%	17.5%	27.5%	36.5%	29.7%	35.7%
Finland									20.7%	31.7%
France		5.5%	14%	20%	9.8%	8.2%	10.7%	13.0%	20.2%	23.6%
Germany								19.2%	23.2%	36.8%
Greece									42.7%	45.6%
Hungary										19.4%
Italy									16.1%	18.3%
Netherlands	85%	82%	84%	110%	33.0%	25.8%	53.4%	64.0%	96.4%	115.4%
Norway										33.9%
Portugal								42.4%	33.9%	33.7%
Spain				16%		6.0%		8.5%	10.6%	12.1%
Sweden						5.7%	6.8%	13.8%	20.0%	29.4%
United Kingdom		19%	20%	24%	21.4%	18.8%	25.2%	27.8%	41.8%	43.6%
Best guess at total European trade-to-GDP ratio					13.5%	11.5%	15.4%	18.1%	24.8%	29.9%
Ibid., net of intra-European trade						3.8%		6.4%	8.9%	9.2%

Note: The Ottoman Empire, Albania, Bulgaria, Romania, and Serbia are not included in 'total Europe.' 'United Kingdom' before 1800 includes only England and Wales.
Source: O'Rourke, de la Escosura, Daudin, p. 106.

Composition of European Overseas Imports from Asia, 1530-1780
Imports from Asia to Lisbon, 1513-1610 (% by weight)

	1513–19	1523–31	1547–8	1587–8	1600–3	1608–10
Pepper	80.0	84.0	89.0	68.0	65	69.0
Other spices	18.4	15.6	9.6	11.6	16.2	10.9
Indigo	0.0	0.0	0.0	8.4	4.4	7.7
Textiles	0.2	0.0	0.0	10.5	12.2	7.8
Misc.	1.4	0.4	1.4	1.5	2.2	4.6
Total	100.0	100.0	100.0	100.0	100.0	100

Source :O'Rourke, de la Escosura, Daudin, p. 108

Imports of Dutch East India Company into Europe, 1619-1780 (% by invoice value)

	1619–21	1648–50	1668–70	1698–1700	1738–40	1778–80
Pepper	56.5	50.4	30.5	11.2	8.1	9.0
Other spices	17.6	17.9	12.1	11.7	6.1	3.1
Textiles	16.1	14.2	36.5	54.7	41.1	49.5
Tea and coffee				4.2	32.2	27.2
Drugs, perfumes, and dye-stuffs	9.8	8.5	5.8	8.3	2.8	1.8
Sugar		6.4	4.2	0.2	3.7	0.6
Saltpetre		2.1	5.1	3.9	2.6	4.4
Metals	0.1	0.5	5.7	5.3	1.1	2.7
Misc.		0.2	0.1	0.4	2.3	1.7
Total	100.0	100.0	100.0	100.0	100.0	100

Source: O'Rourke, de la Escosura, Daudin, p. 108

Imports of English East India Company into Europe, 1668-1760 (% by volume)

	1668–70	1698–1700	1738–40	1758–60
Pepper	25.25	7.02	3.37	4.37
Textiles	56.61	73.98	69.58	53.51
Raw silk	0.6	7.09	10.89	12.27
Tea	0.03	1.13	10.22	25.23
Coffee	0.44	1.93	2.65	
Indigo	4.25	2.82		
Saltpetre	7.67	1.51	1.85	2.97
Misc.	5.15	4.52	1.44	1.65
Total	100	100	100	100

Source: O'Rourke, de la Escosura, Daudin, p. 108

Estimated annual sales of colonial imports, England and the Netherlands, 1751-54

	Total sales (1000 pesos)	Percentage of sales	
		From Asia	Of total
Textiles	6750	41.7	21.1
Pepper	1100	6.8	3.4
Tea	2800	17.3	8.7
Coffee	1000	6.2	3.1
Spices	1850	11.4	5.8
Misc.	2700	16.7	8.4
Total from Asia	16200	100.0	50.5
		From Americas	Of total
Sugar	8050	50.8	25.1
Tobacco	3700	23.3	11.5
Misc.	4100	25.9	12.8
Total from Americas	15850	100.0	49.5
Total overseas imports	32050		100.0

Source: O'Rourke, de la Escosura, Daudin, p. 109

Recent studies in economic history suggest that international trade increased economic growth in Europe during the 17th and 18th centuries. Moreover, the economies of Atlantic Europe—England, France, the Netherlands, Spain and Portugal—enjoyed more economic growth between 1500 and 1800 than the rest of Europe or Asia. Douglas Allen concluded "that the international trade boom was a key development that propelled northwestern Europe forwards."[5] Economic historians, however, do not agree how the mechanism by which trade and empire encouraged economic growth actually worked in practice, but the statistical evidence available suggests that it did. Voltaire argued more than two hundred years ago that "trade, which has made richer the citizens of England, has helped to make them free, and this freedom has, in turn, enlarged trade."[6] Some modern economic historians have argued that trade strengthened the role of merchants in government and thus property rights and other institutions favorable to economic growth in countries such as the Dutch Republic and Britain. By contrast, it has been argued that the gold and silver from the Spanish and Portuguese empires fortified

[5] Quoted in O'Rourke, de la Escosura, Daudin, p. 108
[6] Quoted in O'Rourke, de la Escosura, Daudin, p. 112.

their absolute governments and did little to promote reform and thus limited their domestic economic development.

One of the perennial topics concerning the relationship of trade and empire with economic growth has been its connection to the industrial revolution in Britain. One persistent strand of thought, which derives its inspiration from classical economists from Adam Smith to Karl Marx, makes the assumption that economic growth primarily depends on investment, which depends on savings, which in turn depends upon profits. This tradition assumes that landlords did not invest much money in commerce and industry while the workers were too poor to save. Thus, investment would have to come largely from business profits. In 1944, Eric Williams argued in his famous book, *Capitalism and Slavery*, that the industrial revolution in Britain was financed with the profits from the Atlantic slave trade. The evidence for his argument consisted of telling the stories of various individuals who profited from slavery and then invested their funds in domestic British industry. The critical responses to his argument offered quantitative studies that demonstrated that the profits from slavery invested in British domestic industry were too small too have had a decisive role in the causation of the industrial revolution.[7]

Recently Joseph Inikori suggested that we should take a broader Atlantic view of the role of slavery and British economic development. He argued that Britain's extensive Atlantic trade system was heavily dependent upon African slavery during the period 1650 to 1850. It was not just the profits from the slave trade, as some have argued, that helped fuel British industrialization. Instead, Inikori explains that slavery was fundamental to the entire trade system. Slaves produced such important raw materials as cotton, tobacco, sugar, rice, and many other products, whose production were not only profitable in themselves, but these products were processed in England, served to develop manufacturing in England, and were widely re-exported to other countries. He notes that the technical innovation and dynamic manufacturing industries in the regional economies of Lancashire, Yorkshire, and the West Midlands especially benefitted from their close connection to the Atlantic economy. For example, cotton constituted 2.9% of

[7] S. L. Engerman, "The Slave Trade and British Capital Formation in the Eighteenth Century: A Comment on the Williams Thesis," *Business History Review* 46 (1972): 430-43; P. K. 'O'Brien, ""European Economic Development: The Contribution of the periphery," *Economic History Review* 35 (1982): 1-18.

value added to British manufacturing in 1770 and 29.2% in 1831. In 1854-56, raw materials from Africa and the Americas constituted 43.3% of England's imports. The bulk of these raw materials were produced by slave labor. He estimated that the export commodities produced by slaves in all of the Americas amounted to 69% of exports in the 17th century, 80% in the 18th century and 70% by the mid 19th century The slave trade and the goods that slaves produced in America also had an important impact upon he development of Britain's shipping industries, as well as on the growth of its financial and insurance services. In addition, Inikori notes that the growing demand for British exports in the Americas was dependent upon the growing wealth of American consumers, which in turn was heavily dependent upon wealth produced by slave labor.[8]

In another well-known study, Ralph Davis noted that almost 60% of British textile exports during the late 18th century went to non-European countries.[9] Recently economic historians have pointed out that the more fundamental problem with the Williams thesis is that "technological change rather than capital accumulation was the ultimate driving force behind the industrial revolution." They argue that "growth is ultimately a supply-side phenomenon, and indeed, if growth had been due to rising overseas demand, then Britain's terms of trade should have increased during the Industrial Revolution, whereas in fact they fell, reflecting the cost-reducing nature of the innovations concerned."[10] In other words, the volume of a nation's trade in itself does not necessarily increase economic growth. Nonetheless, international trade mattered for a small economy such as Britain during the industrial revolution. Cotton textiles were the key sector in British industrialization. During the industrial revolution almost all the raw cotton used for manufacturing in Britain came from the Americas. As European demand for cotton increased, the price of American cotton also increased. However, the almost unlimited supply of American land and slave labor made raw cotton a fairly elastic raw material, and thus minimized the price increases for British cotton importers. At the same time the growing demand for British textiles in the Americas and other parts of the world meant that the price of textiles actually decreased

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[8] Joseph E. Inikori, *Africans and the Industrial Revolution in England: A Study in International Trade and Development* (2002).
[9] Ralph Davis, *The British Industrial Revolution and British Overseas Trade* (1979).
[10] O'Rourke, de la Escosura, Daudin, pp. 118-19.

because of the technical innovations in the textile industry in Britain. Since research and development of technical innovation was expensive, British manufacturers could now spread this cost over its expanding world-wide demand for its manufactured products. As Pomeranz pointed out in *The Great Divergence*, Europe's access to the raw materials of the Western Hemisphere during the industrial revolution was an advantage not shared by China's economy during the period of Britain's industrial revolution. The industrial revolution began in Britain at a time when European nations pursued mercantilist policies designed to exclude others from their protected markets both in Europe and in their overseas territories. Britain's military victories over the French and other European imperial competitors "was one ingredient in explaining its subsequent rise to economic prominence. It was certainly not on its own a sufficient condition – since domestic conditions had to be right in order to spur innovation in the first place – but possible a necessary one."[11] During the early 19th century Britain was the world's leading manufacturer with the largest international trade and by the 1840s it was confident enough to abandon its mercantilist policies and adopt a system of free trade and imperial expansion that has been called "the imperialism of free trade."[12] Chronology is crucial in history and it is important to remember this when discussing the connections between trade, empire and sustained economic growth. Sustained economic growth did not originate in early modern Europe's greatest imperial powers, such as Spain, or the Hapsburg or Ottoman Empires, or even in the France of Louis XIV, Western Europe's largest state. Rather sustained economic growth took place first in Europe's greatest trading nations, the Dutch Republic and Britain, and it did so before the industrial revolution. Historians can not agree on exactly how international trade and empire are connected to the Great Divergence but it seems unlikely that there were not many

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[11] O'Rourke, de la Escosura, Daudin, p. 121.

[12] Friedrich List, was an early advocate of German unification through a national system of political economy in the early 19th century. Later in the century the English historical economist, William Cunningham, explained the idea in his historical writing. On the history of the idea of the imperialism of free trade, see Bernard Semmel, *The Rise of Free Trade Imperialism: Classical Political Economy the Empire of Free Trade and Imperialism 1750-1850* (1970) and Gerard M Koot, *English Historical Economics, 1870-1926: The Rise of Economic History and Neomercantilism* (1987).

connections between the trading empires and the economic precociousness of the area around the North Sea.