

## How important is a country's historical path in determining its long-run economic development?

The large inequality in incomes of various countries didn't just emerge overnight. It was created due to numerous factors — history being one of them (Acemoglu, 2017). A multitude of factors such as colonialism, war, culture, religion and pre-existing laws influence the growth of an economy in the long run.

One of the major factors, for example, is colonialism. It is a phenomenon whereby European countries explored, conquered, settled, and exploited large areas of the world (Nowell, 2020). European aliens had colonies in present day Canada, Australia, India, Brazil, Libya, Western Africa etc. They had two sets of colonisation policies, extractive and inclusive (Acemoglu D., 2013). Under extractive institutions, the subjects were never provided proper property rights, and the main aim was to transfer as many resources as possible to the coloniser. This is best exemplified by India, a former British colony. On the other hand, Europeans created some very inclusive institutions, sometimes referred to as “Neo Europes,” where the government spent on public welfare and provided property rights. Primary examples of this include Canada, Australia and the USA. (Acemoglu, 2017)

The colonisation strategy was influenced by the feasibility of settlements. It is obnoxious how the preferences of Europeans 200 years ago have long lasting impacts on the long-run economic development of countries across the globe. I will explain the repercussions of having extractive or inclusive colonization policies with the examples of India and Australia respectively.

The British conquest of India was the invasion and destruction of high society by a trading company that was careless of art and greedy of gain. As the British economic historian Angus Maddison demonstrated, at the beginning of the eighteenth century, India's share of the world economy was 23%, as large as all of Europe. In 1700, Mughal emperor Aurangzeb's treasury collected €100 million in taxes alone. By the time of independence, this share decreased to below 3%. The British industrial revolution was based on the destruction of Indian manufacturing industries and exports. Indian textiles were substituted with British textiles and, ironically, Indian raw materials were used by the British only to export finished goods back to India for higher prices. Indians had no property rights and taxation was basically disguised theft. After this deindustrialization of the Indian economy, the manufacturing sector has never grown and currently only accounts for 14% of its GDP (World Bank, 2020). The imperial rule left India as one of the poorest, illiterate and diseased third world country. The indigenous judicial and parliamentary system became extinct and British policies, that were mainly created for the ease colonising, have been adopted (Tharoor, 2016).

The hasty departure of the British from India left carelessly drawn borders between India and China and India and Pakistan. This has been a huge cost to the Indian economy for years. Time, money and energy have and are being spent on disputes over Aksai-Chin, Arunachal Pradesh, and Kashmir. Underdevelopment in postcolonial societies is itself a cause of conflict. The uneven distribution of resources skewed to the priorities of the colonizers have

left some neglected regions and others better served with roads, railways, telecommunications, bridges and canals. This has created, in some parts of India, conditions of desperate poverty, ecological collapse and unemployment far beyond the control of the existing government (Tharoor, 2016). There are large differences in the development trajectories of areas which had different land tenure systems under British colonial rule: areas which were put under the control of landlords still lag behind in the provision of public goods such as schools and roads compared to areas in which control rights in land were given to small cultivators (Abhijit Banerjee, 2008). This only epitomises how important India's historical path has been for its current levels of development.

On the other hand, Australia was Britain's "settler" colony. Generally, regions located strategically along trade routes and regions free of fatal tropical diseases are favoured by colonizers. When they inhabit such places, the indigenous populations are displaced. In Australia, most of the initial inhabitants were ex-convicts from Britain and land was owned by the jailors. There was no existing "rule of law" against the arbitrary powers of the landowners (jailors). Naturally, the settlers wanted institutions, and property rights like the ones that existed in Britain. When the establishment of European-like institutions did not arise naturally, the settlers were ready to fight for them against the wishes of the home country. After the late 1840s, the British government allowed for some constitutional reforms. Ministries were formed by governors through elections and the legislative system was set up. The structure of the Australian economy became highly capitalistic and there was a spike in public spending by 1870 (Acemoglu D. a., 2017). Since the institutions established in the past were inclusive in nature, the country experienced development in technology and human capital, accumulation of physical capital and establishment of democracy. This led to high growth rates for the country and compounded over time to give substantially higher Gross Domestic Product in Australia as compared to other extractive British colonies at that time.

This indicates how important the nature of investment by the colonizer is, on the long run economic growth patterns. For instance, greater focus on infrastructure leads to more modernized infrastructure today. In addition, the public spending patterns also remain relatively similar pre and post colonialism. This means that served as extractive colonies have lower levels of public spending whereas countries which were inclusive colonies have larger levels of public spending (Huillery, 2009).

Being ruled by western colonizers left countries with established Parliamentary systems. In fact, India and the United states, two of the world's largest democracies were former European colonies. With established institutions and exposure to the west, the countries will grow in the long run.

The World War II had huge economic ramifications for countries across the globe. Although some were gainers and some were losers, the whole world economy benefited from the immense technological development during the war. China, for instance, has experienced "catch-up growth" because of the same.

The United States benefited greatly from the war. Before the war, USA was suffering from the great depression and the unemployment rates were as high as 25%. However, when the war started, more people were needed to produce food and weapons for the men in the army

leading to more employment. As more people were fighting, jobs were taken by women increasing their labor force participation (Library of Congress, 2020). The gross national product of the U.S. as measured in constant dollars, grew from \$88.6 billion in 1939 to \$135 billion in 1944 (Tassava, 2020). After the war USA was not only established as the world leader, but also experienced tremendous development in standards of life and per capita income. The high growth rates and the economic development enabled the government to increase its fiscal spending which explains the persistent growth of the US economy.

The strength of the economic recovery following the war varied throughout the world, though in general, it was quite robust. West Germany, Italy, France and the UK experienced an economic down turn immediately after the war, however rebounded quickly in the coming decades and raised their production to pre-war levels (Harrop, 1992). China, following the conclusion of its civil war, was essentially bankrupt. By 1953, economic restoration seemed fairly successful.

I have presented two major factors from a multitude of factors like colonialism, World Wars, Civil wars, culture, religion and pre-existing laws. Most countries, in their history, have faced war and colonialization (and often war to prevent colonialization). Both the factors have positive and negative economic repercussions. We don't face the risk of all-out war or all-out colonialism today, however, we still face the consequences of the historical hand that was dealt to us centuries ago.

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