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### **The Second Economic Revolution and its connection to the First**

Both “Economic Revolutions” as coined by North resulted in extraordinary change in mechanisms of society. The formal institutional structures were either created, as in the first, or revised, as in the second. Innovation and incentive played key roles in both. Before I describe the connection more in-depth, I will focus my attention on the Second Economic Revolution.

The events leading up to this milestone were filled with the many additions and recordings of caches of knowledge. This included a better understanding of the world, increased utilization (innovation) and depletion of resources (scarcities), and the growth of population (demographics) and a technological base that formed. Arguably, the technology and advancements in societies were in part due to that population being motivated (holding incentive) by the surrounding events; i.e. war, control of the state, and the emergence of increased property rights. The first beginnings of the scientific disciplines; religious institutions were losing their grasp on the state, were allowing scholars to explore their surroundings from a different perspective.

This held great importance for the world because modern economic (and social and political) structures were completely rewritten based upon the innovative approaches to comprehending and synthesizing information that took place in The Second Economic Revolution. Granted much of what is current was based upon the results of the First Economic Revolution, but the Second Economic Revolution has created a world that is entirely different than the 1,000 plus years preceding it. It is truly a fraction (200 years

tops) of a fraction (10000 years) of human existence out of the hunter/gathering society (millennial). As mentioned earlier, the First Economic Revolution created the foundation for formal institutions like the State, the establishment of order in the sense of mainly a political and economic sphere, and the formation of specialized classes other than the most primitive forms.

Both are similar because they redefined the concept of the distribution of resources, and as a result created, perhaps, a path-dependency that led to involvement by the state. For example, in the First Economic Revolution the State eventually was required to negotiate and trade the resources under its control for the purpose of survival against other existing States. In this sense, the State was a defense against external threats. Likewise, the Second Economic Revolution had to regulate the allocation of resources, but instead had to cooperate with not only external threats, but also had to defend against the likelihood of an internal threat of 'self-destruction.' North argues that the free-market must be regulated to protect the economic structure from exhausting itself, and he describes this in great detail in his theories. Just one example is the internal discussions and agreements between farmers in the United States during the 18<sup>th</sup> and 19<sup>th</sup> centuries. In both revolutions the State has been a key actor.

By looking at the comparisons between the two economic revolutions, I can see that key indicators may exist. As a theory that should be more carefully examined later, it may be possible to better predict when the Third Economic Revolution will occur. Looking at the common differences and similarities; i.e. population growth, further subdivision of specialized skills, and further institutions (formal and informal) that motivate the everyday citizen, may be indicators that the next revolution is on its way.