



THE RISE OF EUROPE: ATLANTIC TRADE AND INSTITUTIONAL CHANGE, AND FRANCHISE EXTENSION

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ABSTRACT

The paper delineates and critically analyses two important developments related to the economic growth of Europe – Atlantic trade and the related institutional change in the colonial era and the extension of voting rights in the nineteenth century.

KEYWORDS: *colonialism, Atlantic trade, institutions, franchise extension*

INTRODUCTION

The contemporary world was shaped by the rapid economic growth that Western Europe saw in the nineteenth-century. Its genesis was the economic, political, and social development of Western Europe over the preceding centuries. Specifically, between 1500 and 1800, Western Europe experienced a historically unprecedented period of sustained growth, the “First Great Divergence” (i.e., the first major sustained divergence in income per capita across different regions globally), surpassing Asia and Eastern Europe. But the causes and timing of this growth are subject to debate.

The nineteenth century was a period of fundamental political reform and unprecedented changes in taxation and redistribution. During the late nineteenth and early twentieth centuries, the franchise was extended in most Western societies. Democratization was followed by increased redistribution, and in most cases, by the downturn of the Kuznets curve.

If democratization is likely to lead to increased taxation and redistribution, why should the elite extend the franchise? The elite were forced to do so because of the threat of revolution.

OBJECTIVES

The paper aims to throw light on the causes and repercussions of Atlantic trade. It also aims to critically analyse the reasons for the extension of franchise in West Europe.

West European growth during this period resulted, in part, from the indirect effects of international trade on institutional development. Although there were some improvements in economic institutions in the late medieval and early modern period, rapid economic development was made possible because of the emergence of political institutions extending security of property rights to a

majority of people and allowing free entry into profitable businesses. This constrained the power of the monarchy and allied groups since groups that favored them, that is commercial interests outside the royal circle, became sufficiently powerful politically.

Extending the franchise acted as a commitment to future redistribution and prevented social unrest. In contrast to democratization, the promise by the elite to redistribute in the future, while maintaining political power, would not have been credible.

METHODOLOGY

This favorable institutional change occurred from 1500, and especially from 1600, onward, in countries with no absolutist initial institutions and easy access to the Atlantic, especially Britain and Netherlands. These changes did not take place in countries with highly absolutist institutions such as Spain, Portugal, and to a large extent France, where the monarchy was able to closely control the expansion of trade. Consequently, in these countries, the early profits from Atlantic trade and plunder benefitted the monarchy and groups allied with it. So there is an important interaction between initial institutions and Atlantic trade, which is the pattern in the data. Those countries with no absolutist initial institutions, grew faster than those with absolutist monarchy.

There is a potential link between democratization and the Kuznets curve. Rising inequality often associated with industrialization increases social unrest and induces democratization. This further leads to redistribution and mass education, and reduces inequality. In many Western economies, the peak of the Kuznets curve coincides with the extension of the franchise.

RESULTS

This divergence is attributed to the growth of nations with access to the Atlantic Ocean, who used it as a medium to engage in trade including colonialism and

slavery with New World and Asia. These nations referred to as the Atlantic traders include Britain, France, the Netherlands, Portugal, and Spain. They took advantage of the discovery of the New World and the passage to Asia around the Cape of Good Hope in early fifteenth century. However, the associated profits were not large enough to be directly responsible for the process of growth in Europe.

Institutional change, even when socially beneficial, will be resisted by the losing social groups. Consequently, the process of institutional change involves significant conflict between different groups—in the European context, between the monarchy and its allies, versus commercial interests outside the royal circle. So these commercial interests on becoming economically powerful through the Atlantic trade plowed back some of these profits to support the conflict against the Crown.

This evidence weighs against the most popular theories for the rise of Europe, which emphasize the continuity between pre-1500 and post-1500 growth and the emphasize certain distinctive European characteristics, such as culture, religion, geography, and features of the European state system.

The analysis stopped before West European industrialization, did not investigate why some successful Atlantic nations, like the Dutch, did not industrialize early, while Britain and some non-Atlantic nations such as Germany did. The reasons are interstate competition, “defensive modernization” responses of certain European nations, and, possibly, the adverse effects of oligarchies on industrialization.

Also, the process of early modern European growth is multifaceted. It should also consider many other important aspects of the social and economic development of Western Europe.

The model can be interpreted in the present - day scenario as underlining the importance of institutional development in an economy's growth. Suppose a policy is introduced by the government eg reduction in tax rate to increase FDI flows in a particular sector. This would correspond to a rise in Atlantic trade in the present model. But the ultimate change has to come from institutional growth. And this is easier the more active is the media, the more political competition there is, the more transparency and accountability there is, the less powerful a particular interest group is. All this would correspond to non-absolutist initial institutions. The states with such conditions would grow more than states with absolutist initial institutions. An analogous question can be asked about the reasons for the lower growth seen in East Europe and non-Atlantic traders. The impact of colonization and slavery on the colonies can be looked into, like the ‘Reversal of Fortune’ paper. Extensions can be made to not only include the pathway of colonialism and slavery but also indentured labour. The analysis mainly looks at secure property rights. Other types of economic reforms can be considered eg innovation in financial markets, technological innovations. The role of other economic groups eg nobility, peasants, not only merchants should also be looked into. The underlying causes of initial institutions being absolutist and no absolutist should be explored. The analysis is at an aggregative level. It can be disaggregated depending on the type of colonization in different countries. The colonization

in Americas involved slavery on sugar and cotton plantations as did many Asian countries including Indonesia, which was different from the trade based colonization in India. This was different from the use of Australia as a prison to send European criminals. The individual contribution of all these to European profits can be assessed.

There are three alternative theories for the extension of the franchise. The first, Enlightenment view, is that the elite's social values changed. The second theory is that political competition within the elite led to one of the factions, in an attempt to increase its support, bringing new groups into the political system. The third is that the middle class was the driving force, hoping to shift the future balance of power. Although all three stories are likely to have contributed to democratization in Europe in the nineteenth century, especially to the extension of the franchise to women, the paper's interpretation is that in Britain, France, Germany, and Sweden, the threat of revolution was the major factor in the extension of the franchise to the poorer segments of the society.

Other reforms, as well as constitutional restrictions, also affect the future balance of political power. The separation of powers was introduced as a way of restricting future policies. Similarly, relations with international institutions can act as commitment devices to future policies.

Also, redistributive programs often differ in how easily they can be reversed. In most countries, for example, social security entitlement programs appear to be more difficult to cut than other redistributive programs. This raises the question of whether there was a commitment motive in play when these programs were instituted. There are also major differences in the form of redistribution across countries. In Britain, education increased substantially after the franchise due to increased government support. In contrast, in Germany early redistribution was via the welfare state. The reasons for these differences should be investigated, and whether the same forces are also important in shaping the differences in the extent and form of redistribution today.

The reasons for extension of voting rights to women should be investigated into more detail. The model assumes the revolution is always successful. However, this assumption is often not borne out in practice. The same question can be asked about other regions of the world, which might throw up other reasons for the extension. The model focuses on just the extension of voting rights to the poor. However, only this will not guarantee full political and economic participation of the poor. Even a reduction in inequality is not sufficient for the full development of their capabilities. The model focuses on homogeneous agents. But agents differ in the degree of their political power. Also heterogeneity will allow us to incorporate the alternative theories, based on the ideologies of different groups. One group which purely be in favor of extension because of the threat of revolution while another might be motivated to do so based on political competition. A technology based on increasing returns to scale can also be examined.

CONCLUSION

Atlantic trade was an essential input in the wave of colonialism. The resultant prosperity for the merchant groups induced further institutional changes which was responsible for the rise of Western Europe as a whole. And this development later was instrumental in the extension of voting rights to the poorer sections of society in Western Europe.

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