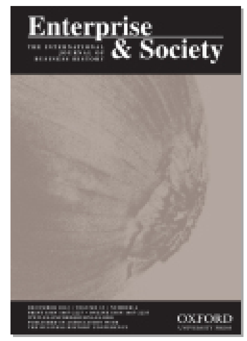
Trade and Poverty: When the Third World Fell Behind (review)



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Jeffrey G. Williamson. *Trade and Poverty: When the Third World Fell Behind*. Cambridge, MA: MIT Press, 2011. xi + 301 pp. ISBN 978-0-262-01515-8, $35 (cloth).

This book contains some simple and powerful ideas and tells a simple and schematic story. Jeffrey Williamson's theme is shifts in the terms of trade and their effects on "the divergence between western Europe and the rest" (3). His temporal focus is the nineteenth century, and his spatial focus is the world. Productivity gains in manufacturing (the British industrial revolution) caused a historic fall in the prices of the manufactured goods relative to agricultural goods after the late eighteenth century. This effect was intensified by the conjoint revolution in transportation, which drastically reduced the cost of shipping bulk goods, and by the adoption of liberal trade policies. The result was a historic shift in the terms of trade, as the prices of agricultural and other raw materials increased relative to the price of the manufactures, fostering a historic trade boom between the new manufacturing core and the "poor periphery" of commodity producers. This "terms of trade boom" ended for most commodity-producing countries, depending on the commodities involved, in the 1860–1890s. It was a "magnificent gift" of cheaper manufactured goods from England to the poor periphery (32). But beware of such gifts! The trade boom encouraged countries to specialize in commodity exports and had negative side effects: deindustrialization; increased social inequality; rent-seeking by elites; and resulting political distortions. Although growth and gains of trade at the level of whole national economies continued everywhere, growth was much faster in the core manufacturing countries. Thus, "the third world fell behind." This gap was worsened in the next historical phase, by the great depression in the terms of trade for commodity producers, which began in the late nineteenth century and intensified after World War I. Reindustrialization also began in many countries at this time. The task of the poor periphery now is to industrialize (or reindustrialize); in fact, this is happening across many regions that formerly specialized in commodity exports.

This theoretical narrative deserves serious thought. To my eyes, the data Williamson offer also tell a different story concerning some of its pivotal junctures.

First, when Williamson aggregates the whole "poor periphery" (but excluding China [too different] and Africa [insufficient studies]), terms of trade in the nineteenth century indeed showed an overall rise, to a final peak in the early 1890s (Figure 3-2). But a closer look reveals a distinct stair-step profile: almost all of this increase came in two concentrated surges, the first around 1815–1824, the second around 1867–1874. There was a forty-year plateau in between. Terms of trade for commodity producers fell back after 1877, staged a final rally at the end of the 1880s, and then collapsed in the 1890s, reversing all of the increase since the 1860s. (Williamson present the data here as graphs; one has to dig elsewhere for the numbers.)

This picture is very interesting because of something Williamson does not bring into analysis: the two great surges in commodity-producer terms of trade were precisely the moments of the first great booms in core-country lending to "third world" countries. These brief booms ended in the first great Third World Debt Crises, which broke in 1825 and in 1874–1875 (Christian Suter, *Debt Cycles in the World Economy*, 1992). Another international lending boomlet came in the late 1880s, and another bust followed. Williamson's aggregated story thus finds some remarkable confirmation.

On the other hand, aggregation has its problems. Williamson leaves China out—as he says, China's historic profile is so different and its demographic weight is so great that to have included it would have drowned out the whole story presented. China was different (in line with its labor-intensive development path as sketched by Kaoru Sugihara) and it may be legitimate to exclude it. I have already offered one reason for thinking that Williamson's aggregated picture means something. China raises other doubts though. The one great terms-of-trade "boom" that China experienced came in the twenty-year run-up to the Opium War of 1839, a period of silver outflow, deflation, and depression (Man-houng Lin, *China Upside Down*, 2007). Were any other "booms" this bad? India was also exceptional. In fact, when Williamson shows the data by regions, one is struck by the differences. These range from a big rise and early fall in the terms of trade for peripheral Europe and the Ottoman Empire, to a long, relatively steady rise for Southeast Asia right through the nineteenth century (but this too divides into multiple patterns when one looks at individual country data). Latin America is closest to the aggregate pattern. For other places, aggregation may efface the actual historical process.

Williamson modifies the story in detail in closer views of Mexico, India, and the Ottoman Empire. India underwent deindustrialization but no secular increase in the terms of trade. Instead, the overall trend was flat, with two great cycles of increase and collapse, in the 1810–1820s and 1850–1860s. This needs further interpretation. Williamson singles out negative supply-side forces such as climatic worsening. He also touches on the question of imperialism. Mexico was exceptional in its resistance to deindustrialization, fostered by active pro-industrial policies. China and Japan followed their own courses. The story may fit best for much of Latin America, Southeast Asia, and the Ottoman Empire. All of this is a stimulus to further research.

Much more could be said about this book, which is both stimulating and problematic. Williamson's style is breezy and provocative, and there is some danger that nonhistorian economists will repeat as demonstrated fact conclusions based on numbers that are often guesswork. These include even such basic things as population statistics for earlier years, not to mention conjectural estimates of industrial output. Treating all numbers as quantitative data can give a spurious "numericity" to the analysis especially for the eighteenth century. Readers will want to further verify conclusions for any particular place before applying them, but as an overall picture, Williamson presents a strong, clear thesis that is very constructive for conceptualizing and framing future work.

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Ángel Calvo. *Historia de Telefónica: 1924–1975. Primeras décadas: tecnología, economía y política*. Barcelona and Madrid: Ariel-Fundación Telefónica, 2010. 569 pp. ISBN 978-84-08-09893-5, €18 (paper).

The wave of privatization of state-owned telecommunications monopolies (known as Post, Telegraph, and Telephone [PTT]) in the 1980s, with the notable exceptions of countries like the United States and Spain, prompted scholars to write several histories of this industry in the 1990s. Scholars in economics and technology, business, and economic history have researched the impact of telecommunications in economic growth, the determinants of their diffusion and of the making of national networks, the role of states on these processes, and the influence of the rise of telecommunications on management practices. The Spanish case has not been out of the research agenda. However, literature has traditionally focused on the dawn of telecommunications in the country (i.e., before the arrangement of the national telephone monopoly in 1924) or on very recent times, coinciding with the end of the monopoly and the internationalization of its holder, Telefónica. The *Historia de Telefónica* by Ángel Calvo constitutes one of the most comprehensive studies of this sector in Spain for the