

Czego uczy nas historia gospodarcza?

12 ROZMÓW NA TRUDNE CZASY

Has the Rich North always been rich?

Discussion between Prof. Paweł Grata and Dr. Kamil Kowalski
from the University of Łódź

Paweł Grata: Good morning. Welcome to the latest talk in the series "What does economic history teach us? 12 Conversations for tough times", which is organised as part of a project under the programme of the Minister of Science and Higher Education, The Social Responsibility of Science. The project is being carried out by the Department of Economic and Social History of the Institute of History at the University of Rzeszów. My guest today is Dr Kamil Kowalski, an economist and economic historian from the University of Łódź, with whom we will be discussing the division of the world into a rich North and a poor South. Why such a division, why such geographical criteria in describing economic reality?

Kamil Kowalski: Actually, for most of the time we haven't had such a problem on Earth, because for most of the time man has been on Earth, life on this Earth has been sad, poor, lonely, animal, sunless and just short, as Hobbes said in 1651. But nowadays, Earth is a land of inequality, we live in times of inequality, which requires the provision of certain analytical categories. For this reason we need a certain apparatus to describe those who are richer, who are poorer, but at the same time in such a way that these people are not stigmatised. Up until the Second World War, this was not taken care of excessively, people simply spoke of backward areas, they spoke of barbarism, whereas after 1945, certain categories emerged that would not stigmatise these people. We have had some successes and some failures in these categories. One of the first was the category of the third world. It appeared in 1952, but it still indicated which world was the best, the average good and the worst. The best world, therefore, was to be the liberal world, centred around the United States. The worse world was the communist world, centred around the Soviet Union, and the third group included those countries that did not belong to either the first or the second world. The role of these countries grew after 1945 for a simple reason. They became members of the United Nations, where they had a vote equal to any other country. Consequently, their political power was reckoned with in the General Assembly, and their support was therefore sought, allowing them to sometimes win certain political disputes. In subsequent years, the category of developing countries emerged. and the most recent category is the one proposed in 1981, that of emerging markets. However, this is a category that has a major drawback, namely that it includes countries as diverse as Poland, China and Russia, and it is difficult to point out that the economic problems, the economic challenges of these countries are the same.



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Those divisions you spoke of, however, were more value-laden in terms of level of economic development, not geographically. So where did this idea come from - rich North, poor South?

For the reason that the North-South divide appears to be an objective divide, and therefore one that affects no one. It is a certain statement of geographical fact, but there are some reefs here, there are some pitfalls, because in the countries classified as Global South and also Global North, we find countries that are not geographically located in the North and in the South. Let us give a few examples here, let us perhaps indicate how this line runs, so to indicate from the west of the world, it would be along the southern border of the United States, in Europe it would be along the Mediterranean and the Black Sea, and moving eastwards it would be along the southern border of Russia and China. So here we have in the global South all of Africa, all of South America, from North America we have Mexico, while in Asia we have all of Asia including China, which is worth noting, which is included in the global South. This excludes two important Asian countries, namely Israel and South Korea. The global South also includes Oceania, while Australia and New Zealand are excluded from this contractual area. The basis for this division is therefore not just geography, but also the level of income in the country. As economists, we have quite a significant problem with this, because for one reason we very much like to look at the gross domestic product indicator, usually per head. The reason we use it is that every country other than North Korea provides such data to the United Nations, so it is easily comparable. However, problems arise from the very construction of this indicator, which captures the production of final goods and services, but tells us nothing about the quality of life in that country, and nothing about the level of wealth. Another problem with gross domestic product is the methodology for calculating it, or, to be more precise, the methodology for comparing it. Are we to compare gross domestic product in nominal terms, which creates problems with numerous exchange rates? How do we compare them? Bringing these exchange rates down to the US dollar does not solve this problem. And we cope by using the purchasing power parity method. That is, we use a nominal exchange rate, a theoretical nominal exchange rate, which equates the baskets of goods and services in two countries so that they are worth the same amount. Let me explain this using the example of Poland. If we calculate the GDP of the Republic using the purchasing power parity method, then GDP per capita is USD 52 000, which puts Poland as a richer country than Portugal and therefore higher than the European Union average. For example, GDP per capita calculated in purchasing power parity for France is USD 57 000, so USD 57 000 compared to USD 52 already looks very good. For Germany it is USD 60 000, for the United States it is USD 82. So it looks very good. Why does this GDP look so good for Poland and the countries in this basket of wealth in general? It is because



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there is relatively cheap food and relatively cheap services in these countries. This means that for the same unit of currency we can get roughly the same good shave in both Poland and Portugal.

Yes, it is quite an understandable division, quite an understandable stratification, the use of *per capita* income levels across countries. The question, if this is true, we assume that in such a general approximation, indeed this North is richer than the South, with the exception of Australia, New Zealand, Korea, Israel. That question is, why is this the case?

Actually, until the industrial revolution we had a certain equality of poverty, we had a certain democracy of poverty in the world. The Industrial Revolution was the cut-off point, the point from which these income scissors opened. On the other hand, it would be an oversimplification to say that the rich were those countries that very quickly adopted the effects of the Industrial Revolution. and the poor who did not. All this was forged on a certain institutional anvil, which was in turn forged in earlier years. If I were to point to the most important earlier processes that led to this income divergence of Europe and the world in subsequent years, it would even be the events of the 14th century, the divergence of Europe associated with the great plague, the plague in the middle of the 14th century, when some countries experienced a significant reduction in population, but which resulted, for example, in an increase in wages in the cities and an increase in demand for food in the countryside, which resulted in an increase in demand for food production in other countries and the export of that food, which in turn resulted in an increase in the area under cultivation in those countries. It just so happened that in Poland we were in this group of countries, which resulted in an increase in manorial farms, while impoverishing the country as a whole, i.e. the group that gained was the nobility, but it was not a democratic distribution of wealth. The situation was different in the countries of the West, where, as a result of the Great Plague, a *de facto* important bourgeois stratum developed into a merchant stratum, which had a very great impact during another important event affecting the distribution of wealth in the world, that is, the great geographical discoveries. At the time of the great geographical discoveries, England sent its envoys to the New World who could afford to do so. In other words, these were not just expeditions financed by the British crown, but by merchants who already had a certain percentage of wealth accumulated at the time, while the countries of the East did not have this. For this reason, England was the country where the great industrial revolution could happen, while it could not happen in Eastern Europe.

And in Eastern Europe and also in other parts of the world, because, after all, the old Chinese civilisation was left behind at some point.



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Yes, this was indeed the case. The question can be asked, why did this happen? I think the most popular explanation, among which there is a consensus among scholars, is that China, at its own request, closed itself off to contacts with the world, considering that it did not want to take part in transmaritime or transoceanic expeditions, seeing them as a threat. They did not, therefore, discount this great step, which Europe did, unfortunately, and I say this with sadness, at the expense of the countries that were being conquered, which determined the permanent poverty of these countries for the next few centuries, a situation that unfortunately continues to this day. And this income divergence is very much seen in the distribution of wealth between North and South America. Both of these continents were subject to colonisation by Europeans. However, for certain reasons, it turned out that South America perpetuated poverty as a result of these conquests, North America, I mean the United States and Canada, this is due to certain specific factors that occurred at the time. One can even speak of a certain amount of luck here, namely that the English colonists who found their way to what is now the United States did not, for one thing, encounter any significant deposits of ore, either gold or silver. As an aside, one may ask how history would have turned out if they had reached North America from the west and encountered Californian gold. Probably history would have turned out differently. On the other hand, the second factor was that they did not encounter dense population centres in North America north of the Rio Grande River. So there was no one to conquer, no one to force them to work, so they withdrew from these areas very quickly. This political, economic and social vacuum was only filled by the British, who tried to follow the methods of the Spanish or Portuguese conquistadors, but found neither gold nor these population centres, so they had to....

get to work...

...Which, we should add, they did not want to do, that was not the plan. They were aware of the Spanish and Portuguese scenarios in South America, they wanted to repeat them, but it didn't work out, so *nolens volens* in North America north of the Rio Grande democracy germinated.

Yes, and what is also important and we need to point this out, this process of colonisation precisely, it seems to me, where it was so purely Anglo-Saxon, enclaves of the rich north in the south actually appear.

Yes, while let us give to God what is divine, to the emperor what is imperial, it was not always the case that this colonisation on the part of the British ended as well as in the case of the modern United States. Numerous African colonies shared a fate



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incomparably worse. We can point here, for example, to Rhodesia and the whole complex of protectorate colonies on which Cecil Rhodes set foot. These countries, these states, failed to produce the seeds of democracy, failed to create a strong central state with pluralistic institutions, which determined their misery for years to come.

The question is why?

This is because they were not given the opportunity for this development. Their natural wealth was exploited, their power was used. Unfortunately, the wealth of Western European countries came at the expense of colonised countries, African countries. This is a great blemish on those countries that colonised.

Here we remember that the 19th century was not only the Industrial Revolution, but it was modern colonialism, which was also one of the elements that supported the development of European economies.

Unfortunately, then, this economic development was twofold. On the one hand, we can rejoice here at the diffusion of technology, which took place both in England and then in France, most rapidly in the United States, right after Britain; while the growth of Britain's wealth was, unfortunately, accompanied by the institutional deterioration of numerous African countries.

It would also be difficult to venture the thesis that India somehow prospered brilliantly under British rule.

This was definitely not the case, for until the period when the British East India Company dominated the Indian subcontinent, India was the largest exporter of textiles in the world. In contrast, as a result of Britain's political decision to promote its own textile industry, textile imports from India were banned to support local British creativity. which, of course, cut off this market for Indian producers. Moreover, the East India Company was forcibly forcing Indians to hand over these factories to the British in an armed manner, which ended, of course, in a decline in the developmental momentum of the Indian subcontinent for years, its subordination to London's political decisions.

That is to say, we can say that the rich North, the poor South, these concepts are relatively new, while they nevertheless reflect the effects of processes that have taken place over several centuries. Beginning with the great geographical discoveries through the first colonisation, then this 19th century colonialism and what was associated with it also in economic terms. A question relating to this



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notion of emerging markets. This is a concept that is very sympathetic to those poorer countries, because we still have a pejorative association with the Third World. It is an eminently offensive concept from the point of view of our historical, economic or even sociological knowledge. The question is, for this group of emerging markets, is there a chance that this divide between rich North and poor South will be bridged?

Just as the terms Global North and Global South are not constitutive in nature, the fact that we started to use this term does not mean that it came into being at that moment, as you said, Professor, it functioned much earlier, and it was only in the 1970s and subsequent years that the term became popular. In the same way, the use of the term emerging markets does not establish the fact that an economy is an emerging one, or that it is to be classified in one group and not in another. It is an expression of a certain, as Gunnar Myrdal called it, linguistic correctness, linguistic diplomacy, when we look for the right designation for countries, not wishing to stigmatise them, and this term, coined by Antoine van Agtmael in 1981, seems to be the most adequate one for today, but it certainly does not close the catalogue, In fact, studies are being written to indicate which of these terms, the third world, developing countries, emerging markets or yet another term, global north, global south, is most commonly used. The most important thing really is the prospect that, whatever we call it, this sphere of the global North will continue to expand. and that this global South will not only shrink in geographical terms. From time to time such successes do occur, but they are very slow. The United Nations distinguishes 45 so-called LDCs, the least developed countries in the world, of which as many as 32 are in Africa. The catalogue of these countries is updated every three years and, unfortunately, the list is shrinking very slowly. In recent years, it has included Butan, Botswana and the Republic of Palau, but these are not the countries we would have expected to disappear from the list, which are large countries that are generators of instability, mainly in Africa or generators of instability in South America, as is the case with Haiti.

At the same time, they are often the source of uncontrolled migration flows, because the level of prosperity or lack of prosperity is also one of the factors determining what happens in the context of the mass population movements we have been experiencing recently. The next question touches a little on the economic past, because the global North, the global South - today this is obvious to us, we understand these concepts, but it was not always like this, the North was not always richer. After all, there are whole millennia, whole eras when the North was poor. What we call today the rich north was backward compared to the south.



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Note that it is the designation global North and global South, they are written in upper case. If they were only geographical designators, they would be written with a lowercase letter. And we can give examples here that confirm what the Professor was talking about, because while we can talk about North Korea, South Korea, yes, that means we have here a poor North, a rich South, we can talk about a poor North Germany, a rich South Germany, but on the other hand we can talk about a rich Italian North and a poorer South Italy. In the UK we have an industrialised, richer southern Britain and an agricultural northern Britain. So here we have to be very careful every time and, going back a long way, we have to remember that great civilisations developed geographically in what we today classify as the South, which would be the river civilisations of Mesopotamia, Egypt, the Indus, China, whose development, if we juxtapose them with that of Europe, was far ahead of that of Europe. Let's give one example here, perhaps just from the Mesopotamian cities themselves, that is Ur, Uruk created 3,500 years B.C., the pyramids at Giza, created 2,500 years B.C., and juxtapose them with the greatest British achievement of the time, the Stonehenge circles of 2000 B.C. what is the level of sophistication of those simple in sum, simply megalithic blocks of Stonehenge, and what is the level of sophistication of the engineering maestri of the pyramids in Egypt. In the millennia that has changed.

And here, too, we must remember that this north, when it started to develop, even before the era of industrialisation, it was very expansive. Europe was expansive, I don't think that's debatable....

Definitely yes. It had important conditions for this, above all geographical access to the oceans, to the seas. It benefited from the naval engineering created by Venice. At the time, attempts were made to reach the Asian continent, understood more as the Middle East initially, and only to reach China and Japan in later years. It was a constant search for the New World. Indeed, it was the case that it was the Europeans who reached the New World, whether it was America or Asia, and it was not the case that these expeditions were from Asia and, for example, towards Britain.

Yes, and then this slow process that we have been talking about has led to Europe becoming the centre of industrialisation and, even more, this predominance of Europe and the civilisation associated with it, North America, so to speak, has led to these divisions deepening. Is it possible to think that this division in some foreseeable future, still in the context of climate change, can it fade away, or will it nevertheless be as it is now, that two or three countries drop off the UN list every three years?



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The first scenario is a Black Swan type scenario, i.e. an event that no one or hardly anyone expects, as was the case with the 2020 pandemic, while the more likely scenario seems to be one in which no significant changes are likely to be expected. That is, it would be the joining, the slow convergence of African countries to the level of the broader West, while this is a prospect of hundreds of years unfortunately. Such is the scale of the divergence of these incomes. Let us give one statistic. In 1820, that is, right at the beginning of the Industrial Revolution, the difference in income between *per capita* income in Britain and India was three times as great as in India. By 1995, by contrast, it was already a 70-fold difference. And it is difficult to expect that these gigantic differences can predictably ...

Add to that the demographic pressure that is there.

Yes, and the ease of transport also works against it. In other words, it is easier to switch from India to the UK than to wait for Godot until the country India becomes rich. So, one can say that paradoxically, technological development, ease of transport will not favour this convergence here.

Yes, it is difficult to find factors that might favour, that we would show today, that will certainly favour this convergence. All the more so because there is also one more thing to mention. Decolonisation took place over half a century ago, this fundamental wave of decolonisation. At the time, there was talk of developing countries trying to catch up and raise their standard of living to that of Western Europe or the United States. And what has happened in these 60 years?

Well, not much, unfortunately. We basically know what conditions need to be met in order to develop. However, it seems to me that we are concentrating too much on this. On passing on this catalogue of recommendations to countries that are not so rich. The more important question, however, is why these countries are doing it wrong, and I will give the example of institutions protecting property rights. In general, we all know that it is good when property rights are preserved, when records are not copied, when books are not copied, there is a consensus on this, but in these countries there is consent to it, and we know that it works badly, because it does not serve to stimulate creators, it does not serve technological development, and yet it happens. Why does it happen? Because it is mostly for the benefit of narrow elites who are not interested in changing *the status quo*. In other words, it's not that we don't know what to do to make it good, because we do, or at least more or less.

We know, history teaches us. There are unambiguous examples. How to create institutions, how they should function, what results they produce.



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Yes, we have both a history of failure and a history of success, but not everyone is interested in that. Sometimes it is better to be the leader of a poor country, but to be in the elite of that country, than to be the leader of a democratic country, running the risk that in 3, 4, 5 years' time the electoral broom will sweep us from the Parnassus of that country.

Unfortunately, it must also be said here that the lack of elites who want to modernise these countries, and who are strong enough to be able to do so, is also probably still the result of colonialism.

With elites, things can vary, as elites very often tend to monopolise wealth, discounting their knowledge advantage, for example, resulting from studying often for foreign money at foreign universities. Ideally, this intellectual advantage of the elite, a certain baggage of social capital, should be translated into the development of inclusive institutions, i.e. institutions that would encourage wider participation of the broad masses of society, both in economic and political benefits. We have examples of countries, the poor of the North, where this mechanism has worked, on varying scales, such as Botswana, which took its chance; we have the example of South Korea, which, with considerable geopolitical help, that is, a certain stimulus from the United States, went ahead, although it took a very long time.

But it was a very poor country.

The democratic way. And it is succeeding and perhaps it is worth learning from these examples. In the case of South Korea, as you say, this starting point after the Second World War, if we compare it with North Korea, was lower, South Korea was a poorer, poorer part of the Korean state than the North. For years, in fact until the end of the 1980s, it was an authoritarian country, and an authoritarian in this hardline version of authoritarianism. I am referring here to the hundreds of victims as a result of the student riots. On the other hand, very important was the gentle hand of Uncle Sam, which is of course a democratic state, which could not allow South Korea to be a country similar to its opponent, North Korea, in the long term. This was accompanied by a very sensible economic policy, that is to say, the support of private initiative very deeply by the state and the emergence of the Chebols, that is to say, the famous conglomerates whose fruits we use at home every day, that is to say, Samsung, LG, until recently Dewoo cars and now Hyundai or Kia. So it can be done, but unfortunately it is relatively rare.

This is the thought that occurred to me in the end, that there are far too few examples of the possibility of this convergence, of the inclusion of the rich, the rich North, let



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us stick to this terminology, to think that in the long term, this division between the rich North and the poor South will be bridged.

Yes, this train, which we can label 'The Rich North', set off on its long journey in the 19th century, when the industrial revolution was developing. It is very difficult to catch up with this train in the 21st century, but let us be optimistic, some countries are succeeding.

And with this rather optimistic conclusion, or expectation, we will end. My guest was Dr Kamil Kowalski from the University of Lodz , economist, economic historian, and we talked about the rich North and the poor South and what results from this division, not only economic. Thank you very much.

Thank you.



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