

THE BIRTH OF PLENTY – HOW THE PROSPERITY OF THE MODERN WORLD WAS CREATED, William J. Bernstein, 2004, McGraw-Hill, New York, 420 pp.

Review*

In the foreword to his book *Banks and Politics in America - from the Revolution to the Civil War* Bray Hammond wrote: “This is a book about politics and banks and history. Yet politicians who read it will see that the author is not a politician, bankers who read it will see that the author is not a banker, and historians that he is not a historian. Economists will see that he is not an economist and lawyers that he is not a lawyer. Had I been any of these, the book would not have been written, probably, and the world, in the opinion of my more critical readers, would have been no worse off.” William Bernstein is a neurologist but *The Birth of Plenty* is not a book on disorders of the nervous system.

At first, economics was just a hobby for Bernstein. He was interested in savings, investment, the whole process of resource allocation, probably with the ultimate goal of fructifying the money he was earning by practising medicine. He decided to share with others the knowledge that he had acquired, so he founded the website efficientfrontier.com, today one of the most popular forums for independent investors. He also wrote two books on investment: *The Four Pillars of Investing* and *The Intelligent Asset Allocator*, which are often quoted in *The Wall Street Journal*.

Several years before he wrote *The Birth of Plenty*, Bernstein had come across a database compiled by an “obscure Scottish economist” Angus Maddison who reconstructed data on world economic growth starting from year 1. It was evident from the data that growth (measured as GDP p.c.) before 1820 was practically nonexistent, and afterwards vigorous and sustained. Bernstein wasn’t satisfied with Maddison’s half-hearted explanations of that change. One question tormented him: Why? Why did economic growth, with technological progress underlying it, suddenly explode when it did? Why didn’t the Florentines invent the steam engines that Da Vinci sketched? Why didn’t the Romans invent the telegraph? Bernstein decided to “uncover the cultural and historical factors that came together during the early nineteenth century and ignited the great economic take-off of the modern world”. He also wanted to offer his readers a framework capable of explaining why any nation, not just the few covered in his book, is wealthy or poor, dem-

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ocratic or totalitarian, weak or powerful, and maybe even whether or not its citizens are satisfied with the lives they lead.

Bernstein's main hypothesis is that institutions - the framework within which human beings think, interact, and carry on business - are the foundation of national economic performance. More specifically, four institutions stand out as prerequisite for economic growth:

- Secure property rights, not only for physical property, but also for intellectual property and one's own person (civil liberties);
- A systematic procedure for examining and interpreting the world – the scientific method, e.g. scientific rationalism;
- A widely available and open source of funding for the development and production of new inventions - the modern capital market;
- The ability rapidly to communicate crucial information and transport people and goods.

Only when all these four factors are operable can a country prosper, because then the obstacles to human creativity are decreased, which makes the number of inventions grow.

At first sight it might seem that Bernstein's hypothesis is not very original, especially to those readers who had an opportunity to take a course in economic history anywhere in the world. True, somebody has already talked or written about all these issues, but the thing that makes *The Birth of Plenty* a fascinating and exciting book is the way in which the author has synthesised existing knowledge, logically structured it and with his simple, easy-going, and intelligent way of writing made it accessible to readers. One rarely does one come across a book in economic history that is a real page turner, a book in which a reader is eagerly anticipating the next page and the next chapter.

The book is divided in three sections: "The Sources of Growth", "Nations", and "Consequences". In the first section the author separately (by chapters) describes the four above mentioned factors. When doing so, he tries to go back to the past as far as he can and track changes for each factor from the selected time period until today. The goal of the second section is to examine the origin of the ever-growing disparities in wealth among countries. The author tries to understand why some nations grew rich earlier, some later, and some not at all. In the first group he focuses on England and Holland, in the second on France, Spain and Japan, and in the last one on the Ottoman Empire and the modern Arab world. The third section consists of a chapter on the connection between religion, wealth, ideology, and democratic development, a chapter on the relationship between economic growth and happiness, then a chapter on inequalities in wealth and the link between wealth and power, and kind of a conclusion.

Since the book is profuse with information that shows the author's erudition, any attempt to describe the book's content in greater detail would be very incomplete. The most impressive part of the book is the one in which the author describes the development of scientific rationalism focusing on Copernicus, Bacon, Brahe, Kepler, Galilei, Newton and Halley. Almost equally memorable is the story about the setup of protection of property rights in England. In the book one can also find reasons for the collapse of the Roman

Empire, discover how Edison financed his invention (the light bulb), how bad the living conditions during the Industrial Revolution were, and how genetic engineering can become an obstacle to future economic growth.

Apart from proving the main hypothesis of the book, the author also tries to give evidence for some other related issues. For example, he thinks that today's economic conditions in Latin America are to a great extent a result of its inadequate colonial past, like genes which are carried from one generation to another. At the same time, he claims that imperialism and natural resources are not crucial for countries' economic performance, rather, it is countries' institutions that matter. He differentiates two questions that nations usually ask. The first one is: What did we do wrong? and the second: Who did this to us? Things tend to go worse when the focus is placed on the second question.

Bernstein also tries to prove that wealth and poverty correlate more with sociological and cultural factors than with religion. As an example, he writes that a Bosnian Muslim resembles more closely a Parisian in dress, mannerism, and sensibility than he resembles his Saudi co-religionist. According to the author, the history of economic failures can most usefully be explained not by religion but by the resistance of traditional cultures to change, in their readiness to empirically test the most cherished beliefs.

Furthermore, the author thinks that wealth leads to democracy, and not vice versa; decades of growth are needed before democracy can bloom in a country. Democratic institutions cannot be simply imported to countries with a servile population; willingness to express one's opinion grows as a country becomes richer.

Throughout the book government pops out in different roles, usually negative. The author stresses rent seeking and corruption by government officials, which is especially pronounced in countries in which the rulers are not adequately institutionally constrained. Bernstein thinks that the rule of law is the most important factor that separates the rich from the poor, and the thing that causes a lot of concern is that today it is the only factor (out of the four mentioned) which is not readily available. Government is in charge of its efficiency and so we enter the vicious circle of government and rule of law.

It is not impossible for an economic historian to write a book similar to *The Birth of Plenty* (for an excellent example see *Wealth and Poverty of Nations* by David Landes), but it seems that Bernstein's somewhat outsider position enabled him to approach this difficult task of describing the birth of plenty of the modern world in only 420 pages in a more relaxed and yet serious manner. This book should be read by every student of economics who feels that macroeconomics, economic development and similar courses do not fully describe the differences in countries' economic performances, that is, all fans of economic history and institutional economics. Maybe the world would be no worse off without this book, but we should still hope that Bernstein will hold on to the renaissance in him and soon present us with another book without which the world would not lose anything.

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