Mixed Fortunes: An Economic History of China, Russia, and the West

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Published by EH.Net (December 2014)

Vladimir Popov, *Mixed Fortunes: An Economic History of China, Russia, and the West*. Oxford: Oxford University Press, 2014. xiii + 191 pp. $40 (cloth), ISBN: 978-0-19-870363-1.

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This is a short, fast-paced, and ambitious book. Its discussion is rich in economic history, but it is first and foremost a book about economic development. The professed goal of the author, a professor emeritus at the New Economic School in Moscow, is “to formulate a tentative new development paradigm about good politics that may be currently replacing the earlier theories of Big Push and import substitution, on the one hand, and Washington (and post-Washington) consensus on the other” (p. 119). He builds the paradigm by drawing from lessons of the past.

The author’s account begins with a new interpretation of the Great Divergence between the West and the Rest before 1950. According to Popov, the West escaped the Malthusian trap not because it was more innovative or entrepreneurial, but because it dismantled traditional collective institutions that kept income inequality low. Since the rich save more than the poor, increased income inequality favored savings and investment, which made possible the rise of the West.

When the same strategy was adopted in Latin America, Sub-Saharan Africa, and the Russian Empire, savings and investment increased at the expense of institutional discontinuity and worsening social inequality. This, however, undermined sustained growth. By contrast, traditional collective institutions were better preserved in East Asia, South Asia, the Middle East, and North Africa. While economies in the latter regions barely grew before the mid-twentieth century, they picked up over time as savings increased. East Asia, in particular, made remarkable strides in closing its developmental gap with the West.

A major highlight of the book is its comparative analysis of Russia and China. Russian history of importing Western institutions dates back to Peter the Great in the seventeenth century, but collective institutions were restored after the communist revolution. By mobilizing social savings, collectivism enabled the Soviet state to rapidly accumulate capital stock and provide the “big push” in development without an increase in social inequality. However, the weakness of central planning in replacing obsolete fixed capital stock meant that Soviet growth inevitably slowed after the 1960s, when a significant portion of the capital stock began to reach the end of its shelf life. As such, market reforms had to be introduced.

Popov argues that Russia was well-positioned to manage this transition given its relatively strong institutions and abundant human capital in the 1980s. But unlike China, which preserved its political institutions when pursuing economic reforms, Russia’s decision to simultaneously embrace political democratization led to the dismantling of previously functioning institutions when these institutions were needed to enforce law and order at a crucial time. The consequences, as we know, were dire. To the author, the diverging reform paths of the two countries were not coincidental — compared with Russia, China’s exposure to westernization was relatively brief, limited to the period of 1840-1949.

What developmental insights does this interpretation of history offer? The author argues that institutional capacity — defined as the ability of the government to enforce laws and regulations and measured in the book using indicators such as the murder rate and the share of the shadow economy — is key. Consider an economy in transition that wishes to reallocate resources from a protected, noncompetitive sector to a competitive sector. If the existing capital stock is non-homogenous and cannot be easily redeployed but labor is mobile between the two sectors, overnight liberalization will lead to a collapse of the protected sector without commensurate growth in the competitive sector. If, however, the state is able to manage the pace of liberalization (e.g., by withdrawing the subsidies received by the protected sector gradually), output collapse can be avoided and savings can be generated to fund investment in the competitive sector.

Strong institutions, however, are only necessary conditions for future growth; policy matters too. While the book advocates a Big Push approach of mobilizing domestic savings for investment, it argues that a stand-alone strategy of import substitution is doomed to fail. Instead, investments should be channeled to promote non-resource, manufacturing exports that would help lift the overall quality standard and technological level of the economy. To this end, the manipulation of exchange rate to undervalue one’s domestic currency — which is effectively a subsidy on exports and a tax on imports — is desirable because it is non-selective and does not require potentially corruptible bureaucrats to select winners.

Many of these arguments are not new and have been made elsewhere, for example, in the author’s earlier work (Popov 2007). The strength of this book is that it provides a framework piecing together these arguments and presenting them as a largely coherent whole. As for weaknesses, the book lacks in regard to its historical discussion. For example, it is not entirely clear how and why income inequality resulted in the economic takeoff of the West but obstructed sustained growth elsewhere. It is also somewhat surprising that the book presents the Chinese communist revolution as a restoration of Chinese institutional traditions from the post-Opium War deviation. Mao’s Cultural Revolution (1966-76), which called for the destruction of the “Four Olds” (old customs, culture, habits, and ideas), presents a specific challenge to this interpretation. Furthermore, in terms of social control, the state that Mao and his party created is unparalleled in Chinese history (Li 2009).

These, however, are quibbles with an outstanding work that focuses on economic development and uses history primarily to shed light on issues of the present and the future. Time will tell if the proposed paradigm will help shape mainstream development thinking, but there is no question that it provides food for thought and deserves to be read by anyone interested in how poor countries can gain ground with their rich counterparts.

References:

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Time Period(s):	General or Comparative 19th Century 20th Century: Pre WWII 20th Century: WWII and post-WWII