COMPTES RENDUS DE LECTURE

Jeffrey G. Williamson, Trade and poverty: when the third world fell behind

Cambridge, Mass. and London, MIT Press, 2011, 320 p.

In his new book, *Trade and Poverty: When the Third World Fell Behind*, Jeffrey Williamson explores how the trade activity increase in the nineteenth century contributed to a persistent divergence in living standards among rich and poor countries. Williamson's central argument is that although the trade boom increased income per capita in developed as w‡ell as in developing countries, the «industrial core» benefited more than the "poor periphery". The gap in average per capita incomes has in fact increased from roughly double in 1820 to 3.5 by 1913. Williamson argues that the structure of the world's globalization movement, in addition to national economic policies, have largely contributed to this divergence.

The book starts with a general description of the nineteenth century trade boom. Williamson advances three main factors that explain the rise in trade's share of global GDP: trade liberalization, falling transport costs induced by technological innovations like the steamship and railroads, and rising standards of living (see Krugman and Venables (1995) for a more recent discussion on these effects). The trade share of global GDP grew from 2 to 17.5 percent during the nineteenth century, and this according to Williamson is largely due to declining trade costs, while rising incomes would account for about 60 percent of the growth in trade volumes.

The second part of the book relies on a twenty-one country historical database of national incomes, aggregate exports and imports, and prices of traded goods. Williamson computes terms of trade indicators that span more than a century, and is able to show how relative prices for traded goods moved over the century and around the world. His main finding is that terms of trade for less developed countries increased by about 3.5 times in the nineteenth century, and then started falling in the first half of the twentieth century. Williamson then explores the potential linkage between rising terms of trade and income in developing countries, as one would suspect that higher export prices would translate into higher GDP growth rates in these countries. Williamson argues that developing countries experienced the reversed trend because of three factors: deindustrialization, inequality and price volatility.

The deindustrialization hypothesis is detailed through an econometric analysis and several historical country case studies. The econometric model links wages in the import-competing sector with relative output prices. Terms of trade boom have the effect of lowering the price of the imported good in the home market, raising the own wage in that sector, lowering profits and inducing deindustrialization. Using his country-level database, Williamson shows that the rising terms of trade in primary exported products favored growth in these products at the expense of the manufacturing, import-competing sector. A well-known phenomenon of «Dutch Disease» occurred, where resources shifted away from manufacturing sectors to the production of primary commodities, inducing a drop in wages in the depressed sectors and massive deindustrialization (Corden, 1984).

As for the inequality effect (used to explain why rising terms of trade did not bring about rising incomes in developing countries), Williamson argues that land and resource owning elites engaged in rent seeking behavior following the boom in terms of trade, which delayed growth. This experience is very similar to more recent accounts of the elites' dominance in peripheral countries, especially Latin America (Dos Santos, 1970).

Finally, the book documents how specialization in a few exported commodities made developing countries particularly vulnerable to price fluctuations. Williamson shows that between the 1860s and World War I, terms of trade volatility was roughly three times bigger for the poor periphery in comparison to the industrial core. Williamson examines the relationship between terms of trade volatility and growth by using fixed-effects regressions on a panel of countries, and finds that commodity price volatility explains roughly half of the gap between core and periphery economic performance between 1870 and 1939. The main channel according to Williamson for such a result to be observed when terms of trade volatility affects public revenues, which in turn lowers public investment. Moreover, volatility impacted households' ability to smooth expenditure, which in turn had an impact on GDP growth.

Overall the book relies on an original database of historical trade and economic accounts for a large sample of countries in the nineteenth century, and uses plausible arguments to advance the core set of assumptions behind the decline in growth in peripheral economies. However the book overly focuses on the impact of terms of trade, without systematically controlling for other factors that might have influenced the divergence in incomes between rich and poor countries (as in Landes, 1998). These include institutional development, climatic effects, wars, and several other effects that would impact the author's findings in what econometricians would call omitted variables bias.

Jad CHAABAN
American University of Beirut, Lebanon
jad.chaaban[at]aub.edu.lb

References

Corden W. Max (1984) Booming sector and Dutch Disease economics: survey and consolidation, *Oxford Economic Papers* 35, November, 359-380.

Dos Santos T. (1970) The structure of dependence, *American Economic Review* 60, 231-236.

Krugman P., Venables, A.J. (1995) Globalisation and the inequality of nations, *Quarterly Journal of Economics* 110 (4), 857-880.

Landes D. (1998) *The wealth and poverty of nations: Why some are so rich and others so poor*, New York, W.W. Norton.