Chapter 5. Religion: Why Don't Islamic Countries Get Rich?

The idea that Islamic countries fail to get rich became a staple concern of the international commentarial after the September 11 attacks on the United States. The hijackers came from affluent families in a relatively well-off country, Saudi Arabia. But economic and state failure in Muslim Afghanistan had provided a headquarters for al-Qaeda, the fundamentalist organization that directed them. And the apparent lack of jobs and opportunities in the Islamic world, creating potential armies of angry young men, gave new resonance to an old concern.

But Afghanistan is, to be sure, an extreme example—and in the recent past it appears to be an exception. Over the past few decades, there has been no systematic tendency for the economies of Islamic countries to grow more slowly than countries dominated by other religions. So are there any questions to be answered here at all?

In fact, there are. Why is the performance of Islamic countries so uneven? Why, despite their relative success over the past fifty years, did they often arrive at the twentieth century poorer than those dominated by other religions? And even more intriguing, why, looking back over the thirteen centuries of Islam's existence, did the economies of its societies initially outperform others before falling behind?

The issue of Islam and growth is really part of a much broader line of inquiry about the effects of religious belief on economic performance: Are some faiths simply better than others for growth? Does Mammon lurk behind the mask of Christ, or Mohammed, or the Buddha? Which prophets are most profitable?

A careful scrutiny of holy books and balance sheets down the centuries suggests that the relationship is complex. The contents of religious dogma or governing philosophies have not by themselves proved to be a systematic impediment to economic success. Faith seems to exercise its influence on growth in a subtler, less deterministic way. Rather than the theology itself, it has more to do with the actions of priests, politicians, monarchs, and bureaucrats exploiting religious doctrine to pursue thoroughly temporal goals of wealth and power.

The argument about which gods are good for growth has built up a fairly lengthy pedigree of its own. The dynastic origin of this debate is *The Protestant Ethic and the Spirit of Capitalism,* a 1905 work by the German sociologist Max Weber. Weber contended that the growth of a modern capitalist economy in early-modern Europe (particularly in the sixteenth and seventeenth centuries) was associated with the low-church Calvinist Protestantism that emerged from the sixteenth-century Reformation and created such movements as English Puritanism. He went on to argue that the cultures of India, China, and the Islamic world had proven themselves inimical to capitalism. Weber's writings have spawned such an extended clan of contributions that it is worth examining the paterfamilias in some detail.

Max Weber is often misrepresented, which is not to say he was right. He kicked off with some analyses of the local Grand Duchy of Baden that showed that Protestants were generally more successful than Catholics in business. (They were also rather better represented in the liberal professions and at the higher perches of public life, so it is a bit suspicious from the start that he focused so intently on the private sector, but let that

pass.) Having gone back to look at the writings of Puritan thinkers after the Reformation, Weber claimed that Calvinist religious belief, while not *causing* capitalism in any simplistic way, helped inspire the mind-set that encouraged it to flourish. This, he thought, explained the economic success of Protestant countries like the Netherlands and England.

Weber's account of the emergence of the Protestant ethic is impossible to disprove, as it would mean spending a large amount of time with seventeenth-century Puritans and a psychiatric diagnostic manual. Calvinism taught that entry into heaven was predestined. Those not chosen by God at the outset would never make it. (Not for them the Catholic satisfaction of knowing that following the sacramental cycle of sin, repentance, and atonement, dying with all sins forgiven would ensure entry to heaven.) This, Weber reckoned, created an "unprecedented inner loneliness" within the individual. The followers of Calvinism, he surmised, filled this void with hard work, perhaps nursing subconsciously the belief that wealth and success would be a sign that

they were among the saved, however contradictory that was to the essential concept of predestination. And because work was a "calling" that glorified God, not a way of getting more money to spend on themselves, they eschewed conspicuous consumption. Puritans were not big on bling. From this rather demented and unhappy drive to fill their lives with order and material success, Weber thought, came a spirit that helped to inspire modern capitalism through a set of attitudes and behaviors: work as a good in itself; impatience with the traditional attitude that labor was a necessary evil and should be limited to earning enough to get by; saving rather than spending wealth.

As amateur psychology goes, it is at least ingenious. It is, of course, next to impossible to prove what seventeenth-century Puritans were actually thinking. As the historian E. P. Thompson used to say, we cannot interview tombstones. But a review of the circumstantial evidence of Puritan attitudes at the time—what people were writing and saying—is not especially favorable to Weber.

A wider reading of the radical Protestant schools of thought of the sixteenth and seventeenth centuries—whose writing Weber himself cites—reveals a large number of sentiments that would struggle to make it into the curriculum of Harvard Business School. While they did not glorify poverty in the way that Catholic social teaching often had, there were frequent echoes of the biblical warning that rich men rarely enter the kingdom of heaven. John Downame, a popular Puritan writer and preacher, argued: "Doth not common experience teach us that worldly prosperity is a step-mother to virtue, those being most destitute of it, who most abound in worldly things, and they most rich in spiritual grace who are most wanting therein?" Richard Baxter, one of the seventeenth-century writers Weber himself often cited as an example of the Protestant ethic, inveighed against the "false rule of them that think their commodity is worth as much as anyone will give."

This attitude traveled to North America with the Puritans. Whatever subsequently caused the United States to become one of the most successful capitalist economies in the world, it was not the theology of its Calvinist colonists. The fathers of the Plymouth Colony railed against the "notorious evil ... whereby most men walked in all their commerce—to buy as cheap and sell as dear as they can." The colony set maximum prices, wages, and interest rates; and the price of a cow was to be set by what the seller was deemed to need for a reasonable return, not what the buyer was prepared to pay.

William Bradford, one of the colony's early governors, said that an increase in material prosperity "will be the ruin of New England, at least of the churches of God there." That it was neither, and that Protestantism continued to flourish in North America alongside a highly successful economy, shows the malleability of theological doctrine when it meets the harsh reality of economic self-interest. Weber tells us that there were complaints about the "greed for profit" of New Englanders as early as 1632, a mere twelve years after the *Mayflower* landed; if so, that was flatly contradictory to what their leaders were saying.

In practice, any association between radical Protestantism and gung-ho capitalism in England seems more likely to have involved the latter driving the former. We saw above, in the chapter on cities, that the holder of licenses and monopolies from the crown under the monarchy were often Catholic, or at least the association was firmly embedded in the eyes of many of those excluded from the privileged elite. So it is not surprising that the smaller merchants and manufacturers would be more comfortable with the religion that also challenged the primacy of Rome.

English Puritanism was strong among small manufacturers of clothing and other goods and in the more economically advanced parts of the country, in and around London and in East Anglia. Indeed, East Anglia was the home of Oliver Cromwell, who became Lord Protector of England during its brief experiment with republicanism. But (as Weber himself accepted) Puritanism changed over time. The more worldly doctrine of the seventeenth-century writers, with their emphasis on hard work and wealth, was much more in line with the capitalist ideal than were the Reformation Puritans of a century earlier. Weber

quotes from one seventeenth-century Protestant tract that appears to encourage capitalistic endeavor. But that, in fact, was the *second edition* of a work first published in the previous century that had originally been silent on the matter. Perhaps it was the spirit of capitalism that inspired radical Protestantism in England, and not vice versa. Scotland, one of the most Calvinist countries in Europe, remained economically backward for centuries after the Reformation.

Protestant England and some districts of the Netherlands did indeed flourish from the sixteenth century onward. But there were no large-scale banking, commercial, or industrial activities in seventeenth-century England or the Netherlands that had not already been achieved in the medieval Catholic cities of Lyons and Augsburg, or in such northern Italian states as Venice and Florence. As we saw in the chapter on cities, those Italian city-states during the Renaissance developed sophisticated prototypes of the toolbox of modern capitalism.

Weber's analysis has not aged well in the century since it appeared. He claimed that at the time of writing (1905) Germans of the Lutheran rather than the Calvinist tradition of Protestantism exhibited an "easygoing congeniality" not to be found in Brits and Americans. "Upon meeting Americans and English, Germans are normally inclined to perceive ... a certain internal constraint, a narrowness of manifest emotional range, and a general inhibitedness," he opined. Today's Germans might be forgiven for finding those characteristics somewhat elusive in contemporary American tourists or visiting English soccer fans.

For fans of the Protestant ethic, the last few decades of the twentieth century must have come as something of a disappointment. Sociologists writing in the Weberian tradition in the 1960s regularly pointed to the underdevelopment of Catholic European countries. They were subsequently undermined by the rapid economic advance of Italy, Spain, and the Republic of Ireland. With the exception of the relative failure of largely Catholic South America (compared with the success of the largely Protestant North American countries), Protestant economic superiority over its Catholic counterpart is an increasingly hard thesis to stand by.

So often are such analyses proved wrong that they struggle to rise above the status of ad hoc rationalizations of current events. Other familiar targets in the past were the religious and cultural traditions of Asia, chiefly Hinduism and Confucianism. An Australian expert invited by the Japanese government in 1915 to assess the country's economic prospects concluded: "Japan commercially, I regret to say, does not bear the best reputation for executing business. ... My impression as to your cheap labor was soon disillusioned when I saw your people at work. No doubt they are lowly paid, but the return is equally so; to see your men at work made me feel that you are a very satisfied easy-going race who reckon time is no object. When I spoke to some managers they informed me that it was impossible to change the habits of national heritage."

Once again, psychology of dubious merit has been deployed to explain why a particular tradition is incompatible with economic growth. In the case of Asian religions, critics often draw on a distinction made by anthropologists. In "guilt societies," governed by religions like Christianity, the norms governing social interaction are internalized within the individual. In "shame societies," inspired by Eastern religions and philosophies like Confucianism, the disapproval of the wider community enforces good behavior. By providing a monitoring mechanism embedded within the self, so the theory goes, guilt societies are better at giving their members the sense of drive and endeavor needed for a flourishing capitalist society.

It sounds vaguely plausible, but, like the Protestant-Catholic distinction, it has recently rather foundered on the rocky coast of fact. Along with those idle, easygoing Japanese, the alleged stagnation of the Oriental mind failed to prevent the swift self-enrichment of a leading East Asian roster of Hong Kong, Taiwan, Singapore, and South Korea, and latterly a second wave including Thailand, Vietnam, and China, not to mention the rapid growth that India has achieved in the past fifteen years.

In fact, so ephemeral are intellectual fashions in this particular field that there was a vogue in the 1980s for arguing the exact opposite. Dozens of business books argued that capitalism actually worked better when imbued with "Asian values"—generally defined as an attachment to social and economic solidarity (as opposed to destructive individualism), as manifested in long-term relationships between governments, investors, and producers (as opposed to the promiscuous free-for-all of Western capitalism). Such rationalizations died off somewhat in the aftermath of the 1997-1998 Asian financial and economic crisis, in which it turned out that some of those "long-term relationships" had also been distinctly dysfunctional.

Having lost rather a large number of bouts, the "Religions determine growth" thesis has nonetheless been hauled out of semiretirement for another shot at the title, this time taking a swing at Muslim (rather than Catholic) beliefs. On the face of it, there is much more promising material to work with in Islam than Papism. Does the Koran not ban usury—the lending of money at interest, an essential element of any modern market economy? Are Muslim countries in the Middle East not a byword for economic stagnation, living off oil earnings rather than producing goods and services? Is the

Islamic addiction to accepting fate rather than trying to make something of oneself not so entrenched that the resigned shrug of *"Inshallah"* ("God willing") routinely accompanies the making of plans and promises in the Middle East?

In truth, while there are some ways in which the theology of Islam seems unsupportive for growth, it has little to do with an intrinsic an-ticommercial bias, and even less to do with the alleged prohibition of usury. More likely, it happens that some societies that adopted Islam proved to be resistant to change and reform, largely for other reasons. And one or two aspects of Islamic religious dogma that were in fact initially advantageous to economic growth failed to adapt and became a hindrance.

First, let's address the recent past. There has been simply no tendency for Islamic societies to grow less quickly than others over the past half-century. This result was established by Marcus Noland of the Peterson Institute for International Economics, one of Washington's most respected think tanks, in a study published in 2003. His paper provoked a cacophony of yelps of surprise among fellow economists but no convincing refutation. Indonesia and Malaysia, for example, have been relatively successful. And when Noland looked at countries with both Islamic and other religious communities, such as Ghana—a good way of isolating the specific influence of religion on growth—he found no evidence that Muslims were doing badly. If anything, Islam appears to be good for growth.

So why did they not do better before the twentieth century? Historically, the underperformance of Islam begins in the twelfth and thirteenth centuries. The religion was founded in the seventh century, in some ways an attempt to purify and unite the "religions of the book"—Christianity and Judaism. It spread and rose very rapidly, filling the space left by the implosion of the Roman empire.

In some respects Islam was a more commerce-friendly religion, at least in its theology, than its main rival, Christianity. There is a widespread belief that the Koran imposes a blanket prohibition on usury—the lending of money at interest. But both in theory and in practice there is little to suggest that this was a major impediment to growth. The specific references in the Koran and other writings are to *riba,* which means "increase" and appears to refer not to the charging of interest per se but to the practice of applying penalty rates—doubling the amount owed in capital and interest if the borrower fails to pay back on time. This prohibition may have been motivated by self-preservation on the part of a new and cash-strapped religion. It accompanies passages concerning the preferability of paying *zakat*, a kind of tax then distributed as alms by the Prophet, rather than lending out money at interest. Certainly the warnings against usury in the Koran are not as strong as those in the Old Testament, and both Christians and Jews have had a long tradition of banking and finance.

There are other commercial restrictions in the Koran, but most refer to excesses of speculation and what might be regarded as profiteering rather than to business itself. Apart from the obvious proscriptions on trading in food and drink banned from consumption by Muslims, in particular wine and pork, the remaining rules on commerce read more like a guidebook on business ethics or a regulatory manual for the futures market than an injunction to practice monastic poverty. Speculation in essential goods like water is forbidden, for example. Also disallowed is entering into a contract for future delivery without knowing specific times and prices. But there is nothing in principle prohibiting such "forward" or "futures" markets, the use of which reduces risk for both

producers and buyers and has become an essential part of modern trade.

The general tone of the Koran and the *hadith*—the associated teachings and deeds of the Prophet Mohammed—is one of conducting business fairly and using the proceeds to support Islam, not of hedging commercial life with prohibitions and treating it with distrust. One tradition reports Mohammed saying: "If thou profit by doing what is permitted, thy deed is a jihad [holy act], and if thou usest it for thy family and kindred it will be a sadaqa [charitable deed], and truly a dirham lawfully gained from trade is worth more than ten dirhams gained in any other way" This rather recalls the dictum of John Wesley, the founder of Methodist Christianity (and a favorite of that apostle of low-church capitalism, Margaret Thatcher): "Gain all you can; save all you can; give all you can." Mohammed is also cited thus: "The merchant who is sincere and trustworthy will [on Judgment Day] be among the prophets, the just and the martyrs." The Prophet Mohammed was, after all, a trader before he became a preacher. And Islam is the only major religion to be founded by a trader.

An Arabic manual of commerce attributed to the eleventh century describes several types of perfectly legal merchants, including one who buys goods when they are cheap and sells them when prices have gone up. Another type arbitrages between two markets by knowing the difference in prices and customs duties between them.

The Koran is open to judicial interpretation in many different ways, not least because there were several schools within Islam, the main two being Sunni and Shia. But in the widely followed Hanafite tradition of Sunni law—which later provided the legal basis for the Islamic Ottoman empire—jurists provided many methods for getting around the theoretical prohibition on usury. Nothing induces theological malleability like a bit of self-interest, and according to one estimate, three-quarters of Islamic religious scholars in the ninth and tenth centuries were themselves active in business.

One familiar ruse was a sale-and-buy-back scheme: I sell my book to you for 120 dirhams, the money to be paid in a year's time. I buy it back for 100 immediately. I keep my book: you have, in effect, borrowed 100 dirhams from me for a year at 20 percent interest. This trick was called a *mohatra* contract, and was so common that it became a standard commercial term used for centuries. Issuing a decree in 1679, the Holy Office of the Vatican condemned the idea that *"contractus mohatra licitus est,"* decreeing that such contracts violated the biblical prohibitions on usury. It doesn't say much for the thesis that Islam was an intrinsically anticommercial religion that its standard lending contracts were too liberal for Christianity to tolerate. Even in the cases where Islamic jurists did come down hard on moneylending, Muslims frequently employed Christian or Jewish communities to do it for them. Where there was a will, there was usually a way around.

Certainly the first several centuries of Islam did not suggest it was inimically opposed to economic development. While European societies were recovering from the collapse of the Roman empire and the trade routes that it had created, a succession of Islamic civilizations proved themselves to be politically, scientifically, economically, militarily, and culturally advanced.

Islam linked the two trading regions of the Mediterranean and the Indian Ocean and turned Arabic into the world's most important trading language. Swahili, a common tongue along much of the East African coast, combines elements of Arabic with African languages. It evolved to serve the extensive trade between the ports of the Middle East and East Africa.

The Arab empire that expanded to control the Middle East from the seventh century onward was followed by the Moorish civilization of North Africa that ruled much of Spain, hanging on in the south until the fifteenth century. After the Mongols had invaded the Middle East and then converted to Islam in the thirteenth and fourteenth centuries, three great Islamic empires established themselves: the Ottoman empire, which took Constantinople from the Christian Byzantine empire in 1453, renaming it Istanbul and expanding across much of Central Asia, North Africa, and the Mediterranean Middle East in the fifteenth and sixteenth centuries; the Saffavid dynasty, based in what is now Iran, which controlled the Arabian pensinsula; and the Moghul dynasty in India. At their height, the Islamic empires were far bigger and more powerful than anything in Europe at the time.

Far from instituting a choking, monolithic theocracy, some of the most successful of these—particularly the Moors and the Ottomans—generally allowed Christianity and Judaism to flourish in their midst.

The Ottoman empire, for example, although based on an Islamic legal code, allowed Christians to be bound by their own laws in cases not involving Muslims; and Christians and Jews were specifically excluded from the classes of people who could be enslaved within the empire. The Ottoman empire also had a lively exchange in ideas as well as goods, absorbing new discoveries about geography and navigation from Europe and developing its own expertise in engineering and astronomy.

Islamic economies were successful in increasing wealth by trade, allowing each economy to specialize in what it did best. They developed a sophisticated set of financial and trading institutions, including forward markets: dates were sold at auction before they were ripe, and wholesale batches of onions, garlic, carrots, radishes, and so on were also sold before being harvested. It seems likely that Italian city-states like Venice imported forms of business contract from the Islamic world, and it's worth noting that the words "tariff," "risk," "traffic," and the French *douanes* ("customs") all have roots in Eastern languages.

So why did the societies of the Islamic civilization stagnate, along with the Chinese, the other serious rival to European economic dominance in the first half of the second millennium? The answer emerges from a more subtle and less fatalist analysis of the role of religion in economic history. What matters, it seems, is less the precise doctrines than the uses to which the religion itself is put, and the willingness of societies to change or reinterpret laws grounded in religious belief.

Islamic economies struggled to increase productivity, or output per head of population. There was no great breakthrough in agricultural efficiency—the advance that would centuries later spur the development of Europe. Businesses and partnerships remained small. There were few examples of substantial private sectors operating genuinely independently of the state. Some did exist, including a medieval Egyptian textile industry. There were also some organized occupational guilds, such as pearl fishing in the Persian Gulf, characteristic of later European capitalism. But they were closely controlled by bureaucrats.

Unlike European cities, Muslim cities were not allowed to develop into autonomous entities, or to pioneer ideas of personal and commercial freedom. They remained centers of religious piety. The Islamic empires did not develop states that were primarily interested in technological progress or productivity. They spent more time fighting over what they already had or trying to seize more through invasion.

But this had a lot more to do with accidents of geography and history than with the theology or "management structure" of the prevailing religion. It was perhaps Islam's misfortune to have been born in the Middle East and maintain its centers of political power there, originally in Mecca and Baghdad. (It may well remain a misfortune today, given the deleterious effect of oil on economic growth, discussed in the previous chapter, but this bad luck somewhat predates the petroleum economy.)

Being in the Middle East meant bad luck on the resource front: shortages of minerals and timber made the transition to a manufacturing market economy much harder than it was in Europe. And, then as now, it was bad for peace. The Islamic world was plagued by destructive raids by marauders that frequently threatened to knock stable, sustained economic development off course. In particular, the growing threat of the Mongols in Central Asia realized its destructive capacity under the rule of Genghis Khan in the thirteenth century. The Mongol invasion laid waste to cities across the Islamic world.

Baghdad, one of the great centers of Islamic rule and culture, fell after a single battle. The Mongols did not destroy Islam: though their East Asian heartlands tended toward Buddhism, they had no specific religious agenda to advance. In fact, by the beginning of the fourteenth century, the Mongols controlling Central Asia and parts of the Middle East had converted to Islam. They rebuilt the cities and rejuvenated them as centers of learning and culture.

Those Muslim leaders who were able to stand up to the Mongols, or take over once the Mongol empire began to retreat, had to be tough military rulers. Islamic regimes were characterized by extending themselves through military conquest, or fending off the threat of same. The Mamluk sultanate that managed to hold back the Mongols from Egypt and Syria was based on soldiers who were bought as slaves, mainly from the Caucasus and around the Black Sea. The Mamluks, whose regime was dominated by a landowning military elite, taxed their cities heavily to raise money for the state.

The Islamic world, notably the Mamluk regime, was hammered quite hard in the fourteenth century by the Black Death (bubonic plague), which the Mongols had inadvertendy helped to spread around the world by securing the overland trade route from the East. And each of the three great Islamic empires that arose after the Mongols—the Ottomans, the Saffavids, and the Moghuls—was centralized and militarized. When necessary, their rulers used Islamic institutions as a means of shutting down debate, or at least they stopped all discussion that threatened the status quo.

By the fourteenth century, Islam was becoming hardened, not opening up further for discussion as the Reformation would do for Christianity in Europe. In the sixteenth century, the Ottoman and Saffavid empires in particular regarded each other with intense rivalry. Each clung fiercely to its own tradition of Islam, the Ottomans being Sunni and the Saffavids Shia. Liberal, questioning forms of Islam, such as the Sufi sect, lost ground rapidly to the fixed certainties of existing Islamic law.

At the same time, Western Europe was edging its way, however slowly, toward restraining the absolute power of the monarch. Different groups— first landowners, and then merchants and manufacturers—were creating alternative bases of power. These conflicts often took place through religious debates within Christianity, especially after the Reformation.

Yet it was the failure of any one denomination to predominate, not the nature of Protestantism itself, that created a comparatively open European civilization with a variety of beliefs. The object of the Reformation was not to create political and religious freedom. It sought to maintain the unity of the Catholic Church while reforming it. Its originator, the German theologian Martin Luther, was also rabidly anti-Semitic and repeatedly incited the persecution of Jews.

Nor did Puritanism, as an organized creed, originally aim at political liberalism. At the time when the monarchy was restored in England (1660) and religious toleration began to spread, the Massachusetts colonists were far more intolerant of other Christian sects than was the English society they had left behind. But Quakers and other such undesirables could go off and found their own homes in Rhode Island or Pennsylvania. It was because the Reformation only *half* succeeded in Europe and North America that it led, inadvertently, to a more pluralistic society. It is worth noting that the Catholic city-states like Florence that preceded Protestant England in capitalist development had also famously been centers of humanist freethinking.

By contrast, the dominant culture in the operation of the Islamic empires tended toward one of military authority: top-down, unquestioning, with a vast amount of power vested in a centralized state. Like the Mamluks, the Ottoman empire was based on a corps of soldiers who started out as slaves. The lack of a well-organized merchant class meant that where Islamic practices might have proved unhelpful to economic growth, there were not enough voices raised to lobby for change. One such practice, ironically, may well have been the Islamic tradition concerning business partnership and inheritance. The irony resides in the fact that it was initially designed to help, not hinder, commerce.

Islamic rules governing business partnerships were created between the seventh and tenth centuries. They drew mainly on customs and practices already established in the countries that came under Muslim rule: there is precious little in the Koran that determines how businesses should be organized. The Islamic partnership generally involved an investor or investors, who bore the financial risk, and a merchant, who undertook trade on the investors' behalf. Unlike the equivalent contract under Jewish law, which required profits and/or risks to be shared equally by investor and merchant, the profit shares in Islamic partnerships could vary. In fact, this flexibility meant that Jewish traders in the Middle East well into the second millennium usually chose to follow Islamic contract law in preference to their own.

But a combination of rules meant that, as time went on and economies became more complex, this form of partnership became increasingly restrictive. One such restriction was the rule that all

payments had to be in cash, and in a single currency. The goods being traded could not be used to settle accounts. The second stipulation was the rule that all partnerships were automatically dissolved on the death of a partner. These laws intersected unhelpfully with the Islamic rules on inheritance, which *were* laid out clearly in the Koran and decreed that at least two-thirds of the estate of the deceased was to be split between individual members of the extended family. While they may have made Islamic societies more equitable, the inheritance rules also made it difficult to create and sustain any large-scale business partnership. The death of a single partner meant the partnership must be broken up and each of the many inheritors could demand their share in cash.

These rules prevented Islamic partnerships building up expertise and economies of scale over time. No one was likely to commit money and time to a business that could collapse at any moment because of the death of one of its many owners. As a result, enterprises tended to be small and short-lived, comprising usually just a handful of partners and covering only one trade mission at a time. As economies became more complex and the reach of trading areas expanded, this put Muslims at a disadvantage to European merchants. As we will see in later chapters, European countries started creating joint-stock companies where many partners could have transferable shares, from which evolved the idea of the business corporation, a body recognized as being legally separate from its owners. No equivalent existed in Islamic law.

Many parts of medieval Christian Europe also had restrictive rules of inheritance that required business enterprises to be split between multiple inheritors. But, crucially, these were modified as time went on, with relatively little resistance from the religious authorities. By the seventeenth century, primogeniture—inheritance preference given to the oldest son—was the dominant practice in Britain and the Low Countries, which were then leading the continent in commercial sophistication. Primogeniture allowed business enterprises to grow with each generation and be passed on intact.

The crucial difference between Islamic societies in the Middle East and Christian societies in Europe was not in the theology of the

respective religions, nor did it depend on where the commercial law based on those religions had started. The difference was that European merchants were powerful enough to have inconvenient laws disposed of, even when that required changing the religious justification of those laws. Their counterparts in Islamic countries, for reasons largely unrelated to the nature of the religion itself, were not.

For a long while, the underlying weakness of this ossification of Islamic regimes was masked by a highly successful series of campaigns of imperial conquest. Like ancient Rome, the Islamic empires extended themselves enormously through excellent bureaucratic organization and military prowess.

The Ottoman empire reached the height of its power under Suleiman (known in Europe as Suleiman the Magnificent) in the sixteenth century, when it extended control across North Africa and became the most powerful political entity in the world. But it failed to extend itself farther into Europe, having been turned back at the gates of Vienna in 1529. The empire did not cut itself off from external influences with non-Muslims. But it did institute religious Islamic *sharia* law as the legal code for all Muslims, and the Islamic educational system became narrower and more doctrinaire.

It also remained a static society. Like the Roman empire before it, the Ottoman empire discovered there was a natural limit to the benefits to be gained merely from organizing the same technologies in a better way. First the lack of innovation began to

constrain expansion, and then it weakened the regime against pressure from outside. Having failed to seize Vienna on the second attempt, in 1683, the Ottoman empire softened. Military discipline weakened, and the battle over the tax revenue from the empire bred corruption and infighting at its center, as it usually tends to do. Rebels tried and sometimes succeeded in setting up breakaway regimes on the peripheries of the empire.

It became increasingly clear that Islamic empires could not compete with economic and military competition from Europe. Napoleons Egyptian expedition at the end of the eighteenth century, in which he defeated Ottoman forces, was followed by increasing interference from the British throughout the nineteenth century, by the end of which the British had in effect seized control of the country. The

Moghuls, similarly, were weakened by revolts from the Hindus, and by the rising British trading presence on the subcontinent in the eighteenth century.

Islamic nations reacted in the same way as they had to the Mongol invasions—maintaining a strong centralized state to defend themselves against economic and political domination from abroad. Many have continued to respond in a similar way ever since. In modern times this has manifested itself as a suspicion of foreign capital—and foreign capitalism. The desire to retain power in the hands of a central authority has strengthened the hand of the state and those who control it.

In this context, Islam has sometimes provided a useful cover to governments wanting to maintain control over their economies and their people. It wraps the familiar economic nationalism of many developing nations in a cloak of religion. Frequently, as in modern-day Iran, the bureaucracy of the state itself, with its ownership and control of industry, has become an interest group struggling against the rise of alternative sources of wealth and power, such as a strong private sector.

But such a role is not inevitable from the nature of Islam. The same defensiveness, interestingly, is also evident among those countries with Muslim populations that have deliberately distanced themselves from their Islamic identity. The secular modernizers of twentieth-century Turkey and Egypt, Mustafa Kemal Atatiirk and Gamal Abdel Nasser, also adopted a defiant economic statism as part of their defining political ideology. Nor is the present Iranian government's control over its economy unique to Islamic theocracies: there is a similar stifling stranglehold in secular Arab republics like Syria and (prewar) Iraq.

And in otherwise fairly similar countries, the dominance of Islam (rather than another religion) rarely seems to predict why one government works and another does not. Malaysia, for example, despite retaining a strong Muslim identity, has been one of the most successful of the second wave of East Asian countries. In recent

decades it has embraced industrialization and used the state to encourage private enterprise and attract foreign direct investment. Indeed, it has been more successful than, say, the Christian Philippines or predominantly Buddhist Thailand.

So the effect of religion on economic development probably owes more to a religion's political role than its theology. Perhaps, rather than its values becoming embedded in the psychology of its followers, religion influences growth mainly through its exploitation by the institutions of power. This should explain why Spain and Portugal underperformed in the first few decades after the Second World War. It wasn't that they were Catholic; it was that until the mid-1970s they were ruled by dictators who helped to

keep them relatively poor and backward, and who aligned themselves closely with the Catholic Church to enhance further their own authority.

For an elegant exposition of how this might happen, we can turn to—well, intriguingly enough, we can turn to Max Weber, whose lesser-known works are, for my money, more interesting and convincing than his Protestant-ethic blockbuster. Weber also compared Indian, Chinese, and Islamic societies, all of which made it some way down the path of economic development and then seemed to stop. Weber's writings here relied less on amateur psychology and the power of internalized ideas and more on the operation of material interests. He awarded an important role to "carriers"—particular groups in society who could find an affinity between certain important religious doctrines and their own interests. In China, Weber said, such doctrines were propagated by bureaucrats; in India they were transmitted by scholars and priests of the high Brahmin caste. And neither group had an interest in disruptive economic change that might have challenged their status in society. As simplifications go, this is not a bad one. And as a motivating force it requires merely the human desire for wealth and power rather than a speculative psychology of personal desolation and fulfillment.

As in the case with Islam, there is the temptation to read across from Hinduism, the predominant religion of India, to the country's social caste system and conclude that it has held India back. As we will see in more detail in a later chapter, the caste system has indeed limited

India's advance, and it continues to distort the country's economic development to this day. But it is hard to see the system itself, or the restrictions on economic activity that followed it, as the natural consequence of the beliefs of Hinduism. Rather, those restrictions look like the result of economic self-interest using a tendentious religious justification.

The evidence for Hindu theology inevitably inducing fatalism and economic stagnation is weak. For one thing, the doctrine itself is fuzzy. Unlike the monotheistic one-book creeds of Islam, Judaism, and Christianity, Hinduism is an accretion of stories, poems, and cults. It has a multiplicity of philosophies, gods (or the multiple representations of a single god), and sects, and has no central authority on doctrine and worship. There is no Hindu Vatican or Synod; there is little irreducible core of Hinduism.

The strand of Hindu belief that looks most antithetical to capitalism says that human souls, while part of an infinite reality, must go through a cycle of birth, death, and rebirth to transcend their conception of themselves as individuals and become part of the greater truth. This, it is supposed, induces fatalism and apathy in the faithful. But in the sacred texts themselves, hard work—and in some parts actually gaining wealth—can be a means of achieving salvation. In the *Mahabharata,* one of the most venerated texts of Hinduism, there appears the unequivocal statement, "Wealth gives constant vigor, confidence and power. Poverty is a curse worse than death. Virtue without wealth is no consequence."

The link between Hinduism and the caste system is also less straightforward than might initially appear. Distinctions between four different *varnas,* or classes of society—the priestly and scholarly Brahmin; the warrior Kshatriya; the merchant and artisan Vaishya; and the manual worker Sudra—are embedded in the traditional Hindu texts. But some ancient texts clearly show that movement between *varnas* is possible. That fluidity gave way to the exigencies of the struggle for economic dominance between different groups in Indian society. In other words, a religious justification was used to

buttress a material advantage of one group of people over another. Thus the originally loose definitions of caste were tightened into a set

of defined groups often based rigidly on occupation, and from which members could not escape.

This owed more to the need to provide a docile agricultural labor force than it did to clear theological prescription. One theory of agricultural development, chiefly used to explain slavery, goes as follows. In agrarian societies with a scarcity of people and plentiful land, it is not possible for these three things to coexist: free labor, free ownership of land, and a nonworking upper class. Where people are sparse on a large amount of land, some way of tying the workers to the land is needed if landowners are to live off their labor. In land-rich North America, for example, free laborers could simply have wandered off and started their own farms rather than work for a subsistence income on the plantations. The ability of plantation owners to sit on their verandas, drinking mint juleps and living off the labor of others, would have been sharply reduced had it not been for slavery.

Various means have been used to tie workers to the land. Less drastic ones than slavery include indentured servitude and limits on migration. But often they required a functioning bureaucratic state to enforce them. On the vast Indian plain, with a sparse and shifting population and a variety of local princely rulers, that state was missing. A hereditary caste system was a more efficient way to prevent laborers from breaking out of the condition into which they were born. (It is notable that religions with objections to the caste system, Jainism and Buddhism, were strong in the Himalayan foothills, where a different, less labor-intensive, form of agriculture prevailed.)

Those with particular interest in propagating the system—the high-caste Brahmins—were much in demand by Indian princes as scholars and bureaucrats, because of their high levels of literacy. What better position to propagate a doctrine that entrenched them and their patrons in a leading role in society? "Legitimation by religion has always been decisive for an alliance between politically and socially dominant classes and the priesthood," Weber wrote. In return for a dominant role running a prince's administration, the priests consecrated his position at the top of society according to what they declared to be the principles of Hinduism.

Over time, just as the Islamic partnership and inheritance system hardened and prevented economies from adapting to new

circumstances, so did the ossification of social strata in India. It is hard for labor to find new ways of specializing when classes of workers are irredeemably bound to a specific occupation. That goes double when those classifications are used to deny selected classes education and other ways to improve their condition.

And, as we will see in a later chapter, once societies become ordered in a given pattern, they can often become stuck that way. Once the caste system was firmly established, it would have required vast amounts of courage and political energy to get out of it. To establish a new casteless community, a lower-caste leader would have had to persuade a higher-caste counterpart who had necessary complementary skills (such as a high level of literacy) also to break the code.

This fits the facts in India rather better than does the notion that Hinduism itself is intrinsically bad for growth. As far as we can tell, the Indian economy grew quite well very early on, and then got stuck. It got to a relatively high per capita income in ancient times, and then remained at about the same level from 300 B.C. right down to the twentieth century. The economic and social system apparently delivered enough prosperity to avoid the kind of cataclysm that occurred in other societies, while not achieving growth in productivity.

Even with big changes in political rule, when the (Muslim) Moghul dynasty swept down from Central Asia in the sixteenth century and eventually took over almost the whole of the subcontinent, the underlying system of economy and caste was left in place. And, as we will see, the British if anything tightened, rather than loosened, the social bindings, finding caste a useful device to exploit for dividing and ruling. The population of the Indian subcontinent increased from around 100 million in 300 B.C., to 125 million in 1600 to 300 million by 1911, and the economy grew along with it, but per capita income was perhaps only 10 percent or so higher in 1947 than it had been two centuries earlier.

Poor Indians were entrapped in poverty, but it is hard to argue that they choose it. In the presence of a powerful economic incentive and the freedom to act on it, any objections raised by religion or culture are often trampled underfoot. In the 1960s there was a series of

scientific agricultural breakthroughs funded by Western institutions, the so-called Green Revolution. Researchers developed new strains of wheat, rice, and other crops with much higher yields than traditional varieties. These were rapidly adopted by growers in India, as in much of the developing world. There were few signs of farmers lounging around their fields, pondering the mysteries of the cycle of rebirth when they could be enriching themselves by responding promptly and substantially to a strong market signal.

In fact, when the Indian economy overall did break out of its feeble low-growth pattern in the 1990s, it was accompanied by the political rise of Hindu fundamentalism. A government led by the hardline Hin-duist Bharatiya Janata Party (BJP) took power in 1998. If anything, it was rather better at achieving economic liberalization than was the secular-led government that succeeded it. India's caste system and stifling bureaucracy are bad for growth and, in particular, bad for widespread poverty reduction. But the connection of this to Hinduism is historical accident and political manipulation, not direct theological cause and effect.

A similar process has been at work in China. Settled agricultural civilization arose in China before it did in India, several millennia before the birth of Christ. Just as agrarian societies coalesced around the Nile and Tigris-Euphrates river valleys, Chinese civilization began in the Yellow River valley with the planting of millet, followed later by rice.

China entered the second millennium not just ahead of Europe in wealth and knowledge but in a position to continue to dominate, and perhaps in an even more advantageous situation than India or the Islamic civilizations. Like Europe, China had a temperate climate, was relatively free of diseases, and had good rainfall and substantial rivers. It had animals that could be domesticated, a long history of political organization, and an established educational system.

By the twelfth or thirteenth century, China was technologically far ahead of Europe. It had developed a water-powered spinning machine, and had worked out how to use coke rather than charcoal to smelt iron. One estimate has it that by the late eleventh century, China was producing 125,000 tons of pig iron annually. Britain would not match this output until the eighteenth century. The list of Chinese technological breakthroughs is long and legendary, from the revolutionary to the mundane: gunpowder, printing, the compass, the wheelbarrow, the stirrup. Advances in one area were catalysts for those in another. Having developed techniques of irrigated-paddy rice farming, far more productive than the prevailing rain-fed "dryland" rice cultivation, the Chinese disseminated them throughout the country in how-to guides printed with wood-block typography.

And then China decided that enough was enough. In one of the most remarkable pieces of self-inflicted damage—or at least conscious self-restraint—in economic history, China deliberately gave up trading with the rest of the world and turned inward. Starting in the fourteenth century, the Ming dynasty, which ruled China then, restricted foreign trade, indeed all foreign contacts. The navy was disbanded, and transporting grain by sea was abolished in 1415. Some lines of technological progress simply ground to a halt: the machine used to spin hemp, for example, was never adapted to cotton. And while the population continued to expand, and hence the economy to grow, China nonetheless ceded to Europe the lead in both scientific discovery and geographical exploration.

The predominant religion in China is Buddhism, but a "Buddha made me do it" explanation looks very weak. Unlike Islam or Christianity, Buddhism did not have a clerical authority that exercised much control over the state. And the moderate and meditative religious doctrine of Buddhism in any case tended to be associated with a generally more laissez-faire attitude toward other religions, as well as toward the intrusion of religion into the economic sphere.

"Confucianism is the culprit" might get us a little closer, not least because Buddhism was not officially introduced in China until the first millennium a.d., whereupon it was synthesized into a distinct form known as Ch'an (also called Zen) Buddhism. The influence of Confucius, the Chinese philosopher of the fifth and sixth centuries b.c., was already widespread.

The writings of Confucius do indeed contain paeans to stability and the maintenance of existing relationships of hierarchy within society. Those with a grudge against him might well argue that his views were inimical to the freewheeling creative destruction and social mobility of capitalist economies. Yet the modern experience of economies with a strong Confucian heritage, starting with Japan and Taiwan and now joined by China and Vietnam, suggests that there is nothing in that heritage that is incompatible with rapid economic growth.

However, certain aspects of Confucian thought proved helpful for one group in society to entrench its power against another. In China, that group was the state bureaucracy. It is a commonplace worn to cliche that Chinese society is riddled with bureaucrats, something that the takeover of the country by state communism in the twentieth century did nothing to diminish. Perhaps less understood is just why the administrative culture is so pervasive. The modern concept of being Chinese is in itself an intrinsically bureaucratic creation.

The Han Chinese, who make up more than 90 percent of the population of modern China, are that peculiar anomaly—an ethnically heterogeneous ethnicity. Their identity was created, or imposed, during the Han dynasty (206 b.c. to a.d. 220), the period when China officially became a Confucian state. Though there are different spoken versions of the Chinese language, the Chinese characters used are the same. Bureaucrats writing down people's names managed to assimilate a diverse group of ethnicities and

tribes into a nationality that came to regard itself as a single people.

The role of state bureaucrats in recording and regulating the economy was already established by the time of the Han dynasty. The reference manuals of a low-level bureaucrat of the Qin dynasty, which preceded the Han, suggest that the regime maintained almost field-by-field records for the crops being grown throughout the empire, the details written on small strips of bamboo and carefully collated and stored. Some even suggest that the accumulated wisdom and practice of the bureaucrats in China play the role that religion does in other countries. Even if this is going too far, the influence handed to the bureaucracy by hardwiring their authority into the very nature of national identity gave them a great deal of power.

In the beginning, administrative skill may well have been good for China's economic development. As we saw with the spread of paddy rice farming, civil servants collected, stored, and disseminated useful information. Bureaucrats were chosen largely on grounds of competence, not family influence. China's famous and grueling system of civil service examinations, a system that began in the seventh century, was designed to ensure that the state was run by the best talent available.

But this class of bureaucrats (mandarins) was not about to countenance threats to its own preeminence, and the unified system of examinations created a powerful drive toward consensus of purpose, philosophy, and interest within the state. Bureaucrats were frequently the enemies of merchants and entrepreneurs, since they had the potential to create rival bases of power and wealth. In the case of China, the mandarins feared and despised both soldiers and merchants and did their best to control both of them. The Chinese mandarinate found it easier to get away with this than others might have. The size and relative geographical isolation of China allowed it to be self-contained and self-sufficient in a way that European regimes were not.

The state's relationship to the creation of wealth was predatory. China's decision to curtail trade was a deliberate one, taken by a relatively strong and centralized state. It came from those who were threatened by the disruption that growth and trade might bring. The precepts of Confucianism might have helped them to legitimize their approach, but they were acting in their own (fairly brutal) self-interest.

It has often been in the interest of those running a state to limit economic growth in order to diminish threats to their own status. Religion is often one of the tools they use. But the very same religions can play a diametrically opposite role: that of drawing together a minority group and turning it into a thriving business community. The success of minority religious communities offers us an interesting test as to whether it is religion itself that hurts economic growth or its abuse by the state or a dominant interest group. Frequently you can take a religious or ethnic community out of a country where the state or an elite uses religion to squash entrepreneurship, transplant that community in a different society, and watch its alleged anticommercial nature melt away.

The religious minority as a thriving business community is a phenomenon observed repeatedly throughout history. The Jews and French Huguenot Protestants of medieval Europe, the Indians in postcolonial East Africa, the Parsees in India itself, the Lebanese in West Africa and Latin America, and the Chinese across Southeast Asia: all have proved to be economically much more successful than the majority culture or religion in which they operate. One of the richest men in the world today, surpassing perhaps even Microsoft's Bill Gates, is reckoned to be Carlos Slim, a Mexican

telecommunications magnate who is the son of Lebanese immigrants.

Their success endures despite resentment and envy. It is frequently the fate of such groups to be targeted by unscrupulous politicians. Appealing to the base instincts of the majority, demagogues will claim that the minority grouping is stealing from the rest of the country. The Asians of East Africa were scapegoated and driven out by thugs like Idi Amin, the murderous dictator of Uganda. Similarly, there is a perpetual growling resentment of the Chinese business families of Southeast Asia. Usually subterranean, the prejudice surfaced in attacks on life and property during the Asian financial crisis of

1997-1998. Jewish prominence in business and finance has been one of the most reliable wellsprings of anti-Semitism throughout their long history of persecution in Europe.

It would appear that the success of such communities owes more to the operation of group sociology than it does to the nature of their particular religious beliefs. Close-knit cultural and religious (and family) groups tend to dominate trade in poor countries because they enjoy a certainty and means of enforcing contracts that the wider economy may lack. Where commercial law does not work well and courts are too slow or too corrupt to enforce contracts, more informal forms of sanction can be very useful. The threat of exclusion from a charmed circle of busi-nesspeople and traders is one such. It is evidently easier to hold such a group together if all members share either a kinship bond or a common religion. A collective identity also gives a signal to outsiders that a member of the circle is backed by the collective sanction of all its members. Cross one trader and you cross them all; should one trader cross you, you can be confident that the other traders will hold her to account.

The operation of group sociology may, in fact, explain some of the traditional success of Jewish business communities within the Islamic and Christian worlds. It is perhaps not so much that they were Jewish as that they were minorities. Moreover, in many Christian countries, they turned to banking and business because they were systematically excluded from the professions, such as law and medicine.

All sorts of religions and cultures can provide group cohesion—even those generally considered a source of failure at home. There is not much sign of the alleged Confucian fatalism of China undermining economic growth among the wealthy Chinese traders of Malaysia or Singapore, nor of fatalist Hindu stasis holding back the successful Indians in Nairobi or Kampala.

Indeed, there are enduringly successful minority Islamic business communities as well. If you want to get the best exchange rate for your foreign currency in modern Nigeria in the mainly Christian areas in the south of the country, you will generally do well to pull up at a roadside mosque. One of many one-man *bureaux de change* will emerge out of the crowd. Proffered dollars are taken and the begowned agent

disappears, his clients displaying a remarkable degree of trust in a country better known for endemic corruption than honest business enterprise. Your confidence will be rewarded when the agent emerges a few minutes later with a wad of well-thumbed naira. Entrepreneurial culture is deeply ingrained in such operators: the rubber band holding together the fistful of currency generally has tucked under it a business card advertising a diverse range of other products and services. One given to me by a money changer in Calabar, in southeastern Nigeria, read "Bureau de Change" below his name, and then, underneath that, in marginally smaller type, "Peas, beans and hats."

Nor are the money changers an isolated example of Islamic business minorities.

The Muslim Hausa ethnic minority has provided some of Nigeria's most successful traders, both before and after independence from the British empire. They brought kola nuts grown in the forest areas in southern Nigeria to sell in the savannah regions of the north, and sent grass-fed cattle the other way. As early as the 1880s, Hausa merchants pioneered the use of steamships to establish a sea trade route to Ghana.

Had Max Weber lived among the Hausa, he might well have concluded that Muslims were good for growth and based his convoluted psychological theories upon the tenets of Islam. Had he visited eastern Africa later in the twentieth century, he might well be scouring the *Mahabharata* for the secrets of commercial success. Had he wandered all over modern-day Southeast Asia, he might well be touting the works of Confucius as the world's first business-management text.

In fact, Weber himself accepted that while the Protestant ethic had helped get modern capitalism going, capitalism now had a momentum of its own and could be adopted by any society. "Victorious capitalism, in any case, ever since it came to rest on a mechanical foundation, no longer needs asceticism as a supporting pillar," he concluded.

It is too easy to infer causality from a casual look at economies and dominant religions. The reality is much more complex and, happily, much more optimistic. Muslim societies can choose to succeed, just as Christian or Jewish societies can, without sacrificing their beliefs.

Religion does not determine economic fate. Islamic countries can get rich. In fact, some do.

Chapter 6. Politics Of Development: Why Does Our Asparagus Come From Peru?

If you are a European, or less so an American, take a look at your supermarket the next time you go shopping. If you live in an area where there is a consistent demand for fresh green asparagus, the chances are that—outside a short growing season in Europe and a slightly longer one in the United States—the asparagus on display will have been flown from Peru.

Even allowing for the fact that fruit, vegetables, and flowers are regularly flown from tropical countries to temperate ones, it may

strike you as odd that, particularly in Europe, a cost-effective industry spontaneously emerged to airlift a perishable green vegetable thousands of miles around the world from the remote western coast of Latin America. Your wonder would not be misplaced.

The development of the world economy may look like an onward march of impersonal market forces, laying all inefficiencies to waste before it. In truth, as we saw in the chapter on water, some industries, but especially agriculture, are shaped as much by politics as by economics. Their sustenance owes much to the fact that small groups of producers who will throw everything into protecting their livelihoods can often win out over much larger interests who care much less.

Sometimes the initial support may make economic sense, but protection continues well after the original rationale has gone. Eventually, the cabals of producers often lose. But if we look at the various rises and falls of textile, sugar, and banana producers, as we will in this chapter, we'll see that the process can take centuries.

And even when they are defeated, it is generally not because society as a whole has grown tired of the cost of cosseting them but because another, better-organized group of producers has come along to beat them in the lobbying game.

In the case of asparagus, the political imperative that first filled European and American supermarkets with the products of Peru is the desire to get kids off drugs, or at least publicly be seen to be trying. Peru, along with other Andean countries, got a special trade deal in 1991 to give its farmers something to do other than grow coca to make cocaine. In the United States, within the same landmass as the Andean cocaine industry, the Peruvian asparagus industry benefited not only from lower tariffs (import taxes) to the United States but also from tens of millions of dollars a year in financial help from the U.S. government. Asparagus is a high-value vegetable suitable for airfreighting, and Peru's farmers seized the opportunity. Exports to the United States and to the EU, which granted similar access to its markets, rocketed.

In vain do the asparagus growers of California, Washington state, and Michigan complain that they are being driven out of business by favored imports from Peru—mainly produced, the farmers argue, in coastal areas well away from the mountainous coca-growing regions. There aren't enough of them; they have the misfortune to come from

states whose farmers, for reasons we will see, punch below their weight when it comes to extracting favors from Congress; and no American politician ever wants to go into an election accused of being soft on drugs. In the meantime, Peru's vegetable industry, with the initial helping hand from trade perks, has become one of the

country's most flourishing exporters.

Asparagus is not alone. The results of determined lobbying often hover somewhere between the comic and the surreal. An entire trade deal between the United States and Singapore, for example, got stuck in a mass of chewing gum. The Southeast Asian city-state had banned the tacky substance lest any discarded gum disfigure any of its otherwise pristine pavements. But a US. congressman from Illinois, where Wrigley is headquartered, threatened to hold up the deal unless the ban was rescinded. The upshot was a painfully constructed compromise. Some forms of chewing gum can now be bought in Singapore, though ostensibly for medicinal purposes, solely from pharmacies, and generally requiring a doctors prescription. To protect dairy farmers, it was illegal for many years to buy spreading margarine in Australia and Wisconsin. (A thriving community of margarine stores sprang up in Illinois just outside the Wisconsin border.)

Meanwhile, at least according to some of the Continent's more excitable newspapers, European women spent the summer of 2005 convulsed with fear that they would have to go braless. The European Commission imposed emergency blocks on Chinese clothing imports to protect Europe's senescent garment industry from cheap competition, raising the prospect of empty shelves in the lingerie stores of London, Paris, and Milan. A delighted press, particularly in the UK, seized on what it called the "bra wars," though in fact bras were a rather small proportion of the threatened garments. ("Why is it that British newspapers are so obsessed with women's underwear?" a European Commission official sighed plaintively to me while the dispute was raging. I was unable to enlighten him.) A patchwork compromise had to be sewn together.

In fact, a sufficiently determined lobby can believe, or at least argue, two opposed things simultaneously. A few years ago, American catfish farmers got cross when cheap Vietnamese catfish started

entering the U.S. market. After initial mutters that the imported catfish might contain traces of the Vietnam War defoliant Agent Orange (and whose fault would that be, exactly?), the farmers hired lawyers and lobbyists who persuaded lawmakers to force the Vietnamese to stop calling their catfish catfish, on the grounds that it was of a different family from the American catfish, though of the same order, *Siluriformes.* The Vietnamese relabeled their exports as *basa* or *tra* (meaning, in Vietnamese, catfish). American consumers, amusingly, appeared to regard the newly renamed catfish as a fancy imported premium product, and sales continued to thrive.

Undeterred, the U.S. catfish farmers changed their strategy. Their lawyers successfully secured import duties on Vietnamese catfish on the grounds that they were being "dumped," or sold at unfairly low prices, in the American catfish market. To do so under U.S. trade law, they needed to prove that Vietnamese catfish were a "like product" to American catfish. Which they did, having previously spent many thousands of dollars in fees to establish that Vietnamese catfish were not, in fact, catfish.

It's not all quite so amusing. Trade lobbies have more serious impacts, such as threatening the future of the planet. Global production of etha-nol and other biofuels has surged in the past few years as the world seeks solutions to oil shortages and the carbon emissions that come from burning fossil fuels. But only some ethanol, such as the sugarcane variety produced in Brazil, is likely to do much good. Ethanol produced from corn, as it is in the United States, is expensive and inefficient. It may in fact even emit more carbon than extracting and burning gasoline. The American corn ethanol industry is kept in business by generous subsidies and high tariffs that keep out cheaper and more.

environmentally friendly Brazilian imports. Iowa, the center of that industry, punches above its weight when it comes to setting policies by being the first to choose presidential candidates in the state-by-state primaries. Genuflecting before the ethanol subsidy program is a ritual that nearly all presidential candidates take part in as the price of trying to get their campaign off to a flying start. (One exception, to his credit, was John McCain.)

In some ways, the Peru example is a slightly unusual one, as it involves farmers from rich countries losing out. Generally, farming is the most protected of all industries. And cotton is one of the most extreme examples. There are probably no more than ten or twenty thousand cotton farmers in the United States, out of a population of 300 million. But the sector, depending on what happens to cotton prices, gets up to $4 billion a year in federal payouts and has managed to resist almost all attempts by other countries to put limits on its subsidies. Indeed, protecting American cotton farmers has been one of the cornerstones of U.S. trade policy for many years. Their disproportionate influence would be breathtaking, were it not so painfully familiar from repeated episodes throughout history.

In some of these cases the debates have been going on for centuries and continue to distort global markets today. The combatants sometimes change sides, a pro-free trade industry becoming protectionist as its interests shift. But over time, the arguments employed and the ability of small lobbies to punch way above their weight have an eerie similarity.

The basic theory that explains why small lobbies can outmaneuver bigger ones owes a great deal to the theorist Mancur Olson, who developed it more than forty years ago. Broadly speaking, the relevant part of the theory goes like this. When many individuals have a similar interest, it makes sense for them to band together to get what they want. But because there are so many of them, it is hard to get them organized. The temptation for each member is to rely on the next to do the work for her. And if everyone thinks like this, nothing gets done. However, when a group of similarly interested individuals is relatively small in number, it becomes easier and cheaper to motivate them into forming an effective lobby. Such groups have also become adept at joining with others to form coalitions. This explains why lobbies of producers are generally much more powerful than groups of consumers. For the latter, the benefit of lower prices is spread across everyone who cares to make a purchase; for the former, the gains from higher prices are captured only by a few.

Like many Europeans, I grew up watching repeated episodes of direct action by French farmers complaining about the threat to their livelihoods. With a flair for theater that suggests many have in fact

missed their metier, the farmers have repeatedly blocked or set fire to trucks containing imported lambs from Britain and dumped tons of surplus vegetables in village squares as a protest against low prices. I have yet to see, and I do not expect to, a mass demonstration of French consumers marching down the Champs-Elysees chanting in unison (in French, obviously): "What do we want? Somewhat cheaper sugar! When do we want it? Phased in over a seven-year period!"

Just as Olson's theory predicts, within the farming community it is the concentrated lobbies that have the clout. This is on open display in the so-called Doha round of trade talks, which were launched in 2001 in the eponymous capital of the Gulf state of Qatar and stuttered painfully in the years following, with agriculture proving a

particular stumbling block.

It has been calculated that the effect of reforming farm subsidies in the Doha round of talks would cause an average fall in the overall household income of Japanese farmers of just 1.4 percent, and in the United States it would be statistically indistinguishable from zero. For most farming households, agriculture is actually a sideline—they derive most of their income from other work. But those losses would be concentrated in the big farms that scoop up most of the subsidies and the benefits of trade protection, and that have the money and the clout to organize politically. Agricultural liberalization would cut the income of the wealthiest 10 percent of American rice farmers by 19 percent, and the wealthiest 10 percent of cotton farmers by 10 percent. Moreover, because the value of the subsidies is reflected, or "capitalized," in the land the farmers own, their removal would also seriously reduce the value of their assets, by 26 percent for the rich rice farmers and 12 percent for cotton growers. Subsidies and protection have a ratchet effect: once they are given, it is hard to take them back.

International trade has often been the ground on which these fixtures are fought out. Historically, import tariffs are generally one of the earliest types of levy that governments have managed to exact, with income and sales taxes following later. It is easier to tax goods passing through a port than it is to keep records of the incomes of everyone in the country, still less every time something is bought or sold across an entire economy. But in rich countries that original justification has long

since ceased to wash. Tariffs in most economies have become explicitly protectionist, raising the price of cheap imports to prevent higher-cost domestic producers from being undercut.

So what are the reasons why tariffs persist? One is simply the effect of inertia: once protection is in place, it is politically painful to remove it. Both domestic producers and those, like the Peruvian farmers, who have privileged access usually argue vociferously against across-the-board reductions in tariffs. Another obvious reason is that they are specifically what lobbyists ask for. Because tariffs can be varied between goods, they are a good way of targeting protection on a particular industry. And it is easier for that industry to defend the continuation of a tax, which raises government revenue, rather than a public subsidy, which evidently gives it away.

So what kind of industries tend to get protected? Intriguingly, they tend to be those that are failing, not those that are succeeding. When I took over as trade editor at the *Financial Times,* it struck me after a short while that covering most of the high-profile international trade disputes—textiles, clothes, shoes, steel, sugar—was a little like touring a retirement home peopled with the decrepit has-beens of European, American, and Japanese farming and manufacturing, who spent their time doddering about, complaining about the insolence of the young foreign whippersnappers pushing them aside.

It has often been remarked that governments trying to "pick winners" to support with public money often pick badly. But such an unerring tendency for rich countries to support failing industries with tariffs suggests that, rather than governments picking losers, it is losers that somehow manage to pick government trade policy.

Somehow, declining and shrinking industries seem to lobby harder for protection than do expanding and successful industries. Perhaps the best explanation lies in exactly what the returns for those industries are—that is, what they get for their time, effort, and money spent on lobbying.

Trade protection creates "economic rent," a concept we encountered in the oil and

diamonds chapter, by holding domestic prices above world market levels. In expanding industries, new companies will enter the market if prices are kept high and compete away the rent of the incumbents. But in declining industries, where it costs companies a lot to enter the market—setting up steel plants, investing in research and development, building brand loyalty through advertising, and so on—the existing companies can appropriate some of that rent. And in some industries, like sugar farming in Europe, governments stop other domestic producers entering the market by means of quotas or other restrictions.

Steel producers protected by tariffs can enjoy a few more years of profits. Software houses protected by tariffs would merely encourage a lot more people to set up software houses. In fact, this asymmetry is so pervasive that protecting losing industries rather than successful ones is written into the rules that govern world trade. Under the laws of the World Trade Organization, the Geneva-based body that provides a negotiating chamber and a court of appeal for the rules of international trade, governments have several tools with which to protect their home industries. They can use special import tariffs known as antidumping and countervailing duties (the refuge of the American catfish farmers) if those industries can show they are being seriously damaged by subsidized or unfairly low-priced competition from abroad. They can impose emergency "safeguards" through duties or quotas (the resort of the European bra-makers), if there is a sudden flood of imports. No similar support is possible for exporters that might be expanding more quickly if trading partners were trading more fairly.

So industries that will fight hard for protection tend to be ones in which import penetration (the share of the market taken by foreigners) is increasing. Employing a lot of unskilled workers who might find it hard to get jobs elsewhere also helps, as they will all tend to vote solely on whether they are being protected. And once an industry does have protection, it tends to lobby harder to keep it, as the alternative is to undertake costly adjustment as it is undercut by cheaper imports.

This explains why certain industries ask for protection; it does not quite address why they get it. Success depends on their level of organization and their ability to threaten governments with political pain if they are betrayed. That in turn often depends on how many companies are in the industry and how geographically concentrated

they are. It can also depend on how well a sectional special interest can pass itself off in the theater of press and public opinion as having the country's interests at heart.

Farmers tick many of these boxes. To fulfill the last criterion, they have become adept at wrapping their cause in the flag of nationhood and appealing, however misleadingly, to traditions of rural life. National identity often lives in the landscape. The hymn "America the Beautiful" celebrates "amber waves of grain." The French farmers, adept at scooping up big chunks of the European Union's generous farm subsidies, appeal to their country's reverence for the *terroir* in which the roots of their food and wine traditions are deeply sunk, even though the typical French subsidy recipient looks out onto a giant flat fertilizer-soaked agroindus-trial wheat farm in the Paris basin, not a dreamy panorama of misty lavender fields in Provence. The Japanese have an attachment bordering on the spiritual to the geometric beauty of the rice terraces that elegantly contour the green hills of their country's interior.

There are, too, more prosaic reasons for farmers' power. As we saw in the water chapter, they can claim, sometimes even with justification, that keeping some food production at home will help protect the country in case a war or some other disaster cuts off imports. They are also often very good at lobbying, frequently being concentrated in ways that maximize their power, and skilled at building coalitions. The U.S. cotton interest, for example, has power beyond its size partly because it is spread among a number of smaller southern states. Since every state has two senators, regardless of size, cotton commands a disproportionate bloc in the Senate. In 2006, ten southern senators wrote to the U.S. trade representative's office threatening to vote against any deal in the Doha round that made radical changes in the U.S. cotton support program. The six states they represented have a combined population of less than 33 million. California, by contrast, where many of the asparagus growers live, and which receives a disproportionately small share of government farm subsidies, has just two senators for 36 million people. American cotton growers are part of a powerful coalition with other heavily subsidized farmers. They also have managed to co-opt many U.S. textile producers. In theory the textile interests should prefer cheaper imported cotton to the expensive domestic variety, but they

have been bought off through a special government compensation program.

Indeed, the textile and clothing industry is not far behind farming in its ability to stage protracted defenses of an uncompetitive position. Mass-production clothing is cheap to set up and employs a lot of unskilled labor. It is also a ferociously competitive arena and hence even small shifts in costs or efficiency can put a whole national industry rapidly at risk.

So it is not surprising that the modern debates over free trade more or less began with an antecedent of the bra wars, the "Calico Law" controversy that dragged on for decades in the late seventeenth and early eighteenth centuries. It set English textile and clothing manufacturers against importers and provoked the most extraordinary political and intellectual ferment—particularly remarkable since formal theories of free trade were not elaborated until a century or so later.

At the time, one of the dominant beliefs in England about trade was "mercantilism"—broadly, that exports were an intrinsic good, as they strengthened the country, earned money in the form of precious metals from abroad, and helped build up the naval expertise on which an island nation depended. Modern-day economists would shudder at this, arguing that exports are a necessary evil. What matters is what we consume, not what we make, and exports are merely the good stuff we have to sell to foreigners in order to pay for what we want in return. It doesn't specifically benefit the Chinese to ship iPods to America rather than use them themselves: they do it to earn dollars to import the oil and aircraft and so on that they need. However, this was a time when trade often followed the mail-gloved strong arm of the state, and the distinction between the military navy and the merchant navy was less clear than it is now. Without a functional international market in place, it was more justifiable to think of exports as evidence of strength. The argument about their importance in building up shipping was later accepted even by Adam Smith, generally a staunch supporter of free trade.

For England to expand its trade in the mid-seventeenth century, for example, the Lord Protector, Oliver Cromwell, had had to eschew the standard practice of conducting wars against religious opponents. He launched, instead, the first in a series of sea battles against the Dutch,

the other big Protestant power in Northern Europe, to keep open trade routes in the North Sea and the English Channel for English merchants to exploit. These

were accompanied by the Navigation Act, the first in a series of laws that aimed to boost the English navy at the expense of the Dutch, who at this time, with a better fleet and a better system of trade finance, offered shipping and credit on better terms. Among other things, the laws required that all goods shipped to and from England's colonies be carried in English ships. Sugar, tobacco, and other English colonial products destined for foreign markets had to be taken to England first and taxed there before being moved on.

But the logic of mercantilism went beyond merely encouraging English shipping and trade, ultimately to arrive at an absurd conclusion. The wealth of England, as we saw in the chapter on water, had largely been built on wool. As the seventeenth-century poet John Dryden wrote: "Tho' Jason's fleece was fam'd of old, / The British wool is growing gold." But wool would not last forever. In the seventeenth century, the East India Company, a trading concern that would later run India as a contracted-out British imperial possession, first tried and failed to break the Dutch stranglehold on pepper imports from East Asia. It then turned what started as a sideline into one of its main operations—the import of cotton cloth, generally known as "calico," from India. Unsurprisingly, once people got a feel for cool, smooth cotton rather than hot and itchy woolens—think first of underwear—they went mad for it. Calico from India and linens from elsewhere, such as continental Europe, became fashionable.

Comfort and style were also cheap: clothes made of Indian calicoes were a third or a sixth the price of wool. In 1620, the East India Company imported 50,000 pieces of calico in total; by 1690, they were bringing in 265,000 neckcloths alone from just one of their three main producing areas, Madras.

Indian silk cloth also began to threaten the livelihoods of the weavers who imported silk thread to work themselves. The most visible were the Huguenots, French Protestants escaping religious persecution, who had become one of the East End of London's many successive waves of immigrants. Toward the end of the seventeenth

century, there were around a hundred thousand of them in Spitalfields, an East End neighborhood today being swallowed up by London's financial district.

Big Wool and the silk weavers swung into action, and the last three decades of the seventeenth century witnessed a furious campaign of petitions to Parliament, endless polemical pamphlets, and, increasingly, mass demonstrations. The East India Company fought back with its own torrent of propaganda. And each insisted vehemently that they alone had the national interest on their side. A tract of 1696, poetically titled "An English Winding Sheet for Indian Manufacturers," complained of the calico trade: "In the end it must produce (except to the patentees) empty houses, empty purses, empty towns, a small, poor, weak and slender people, and what can we imagine the value of our land?"

The last point was a key one. The woolen industry has many of the attributes useful for getting trade protection: a substantial but often geographically concentrated and well-organized set of workers, with few immediate opportunities for employment elsewhere. But its lobbying power was improved by connections to a group who had more political clout: the better-ofF types who owned the land on which sheep grazed and who had lent money to the weavers. Local gentry and weavers were often bound together by links of debt, employment, and, sometimes, marriage. Younger sons of local gentry were often apprenticed to master craftsmen. If the wool industry went down, landowners would get hurt along with it.

The counter-lobby, meanwhile, had to overcome awkward charges of self-serving

hypocrisy. The East India Company must have struggled to keep a straight face when arguing that what was good for the Company was good for the country. Sir Josiah Child, a politically well-connected grandee at the company, periodically unleashed his own volleys of rebuttal to the weavers' arguments, speaking in the name of Free Trade. In a polemic of 1681, pointedly titled "The East India Trade Most National," he claimed that the petitions against Indian textiles were the work of malcontents with a personal grudge against the Company, or of

individuals who had been bribed by merchants doing business with Turkey or other countries disadvantaged in the English market.

But the company was itself a monopoly, having exclusive rights to trade with the East Indies (South and East Asia), and owned by a limited number of "joint-stock" investors. Indian calicoes imported by the East India Company may have been cheaper than British wool or cloth from Turkey, but they also enjoyed freedom from competing English importers in Asia. As John Cary, a mercantilist writer, argued: "The proposition that trade should be free, I allow, if it is thereby meant that trade should not be monopolised by Joint Stocks." An association of linen drapers who dealt in Indian calicoes also pushed for free trade, and was less vulnerable to accusations of hypocrisy (if not thinly disguised self-interest) but it was the East India Company that took the lead in lobbying.

Parliament at this time was dominated by the landed gentry, but some were amenable to persuasion, and Sir Josiah spread money liberally around the more malleable members. The East India Company's accounts for 1691 showed a remarkable special item of £11,372 for "secret service," a euphemism for the greasing of palms.

Thus a pattern emerged that would be repeated hundreds of times in trade disputes down the centuries. Two groups of producers, one with an interest in cheap imports and one in defense of domestic production, both argued for their particular interests and claimed that theirs was identical with that of the nation as a whole. For the wool and silk weavers, think today's South Carolina textile producers, or European sugar farmers, or the Caribbean banana growers. For the linen drapers and the East India Company, think Wal-Mart, or the Brazilian ethanol industry, or the U.S. fruit companies Del Monte and Chiquita. The voices of the consumers who had to don woolen underwear (and today's equivalents who have to buy overpriced bras, sugar, and bananas), if indeed they were raised, were barely heard.

Workers and landowners with their livelihoods at stake have a way of making sure they get attention. The composition of the protectionist alliance met two of the conditions that make trade lobbies effective: it was concentrated enough to campaign well, but broad enough to plausibly claim widespread support. Their first big victory was a resolution by Parliament in 1678 commanding all English people to wear only woolen apparel during winter, defined as the period between All Saints' Day (November 1) and the Feast of the Annunciation (March 25). And if it was hard to force the living to wear wool, the dead would complain less: all corpses for burial, Parliament said, must henceforth be wrapped in woolen cloth.

The East India Company, which had close links to the crown, lost one of its most important champions when King James II, the last of the Stuart house of monarchs, was deposed in 1688. Sir Josiah was a Tory, a party that had emerged out of the supporters of the monarchy, and the Company was widely regarded as a Tory stronghold. So when the opposing Whig Party won power in Parliament in 1695, its enemies were both economic and political. Petitions from around the country poured into Parliament: the silk weavers of Canterbury, the wool weavers of Norwich (who claimed that 100,000 people depended on their industry), the yarn makers of Cambridge. A bill of 1696 that would have prohibited "all wrought silks, Bengalis, dyed, printed or stained calicoes of the product of India or Persia or any place within the charter of the East India Company which shall be imported into this kingdom" did well in the House of Commons but died in the upper House of Lords, dominated as it was by Tory magnates.

After another bill was drawn up in 1697 and once again stalled, the protectionists' anger got personal. A demonstration of Spitalfields weavers managed to force its way into the lobby of Parliament, and on its way back to East London tried to break into East India House, the company headquarters in Leadenhall Street in the City of London. Three were jailed. In March, a deputation of three thousand weavers threatened Sir Josiah Child's own house in Wanstead in East London, and in April another demonstration outside East India House ended in a riot and the building was again assaulted.

In 1700, a bill finally passed that banned the wearing of manufactured silks or printed or dyed calicoes from Persia, China, and

the East Indies. Some elements of the free trade coalition, such as traders who bought calicoes for re-export to Europe, were placated by the creation of a system of bonded warehouses. Peace returned and all was well with the woolen industry. Or rather, in another pattern to become wearily familiar in trade disputes, it wasn't. No sooner had one hole in the dike been stopped up than another one sprang open. Because imports of plain cotton cloth were still allowed, as a petition to Parliament in 1703 plaintively explained, the Act "hath rather occasioned the figuring, printing and staining of calicoes here in England to the detriment of our woolen manufactures."

An excise duty, or sales tax, on printed cottons and linens was imposed, and then doubled. But still the imports kept coming and the wool and silk weavers suffering. Without the East India Company to blame, they were reduced to venting their fury on the consumers, who had failed dismally to change their predilections as required. The summer of 1719 witnessed numerous incidents of "calico-chasing": gangs of weavers roaming the streets of London, tearing cotton clothes off the backs of hapless female passersby and triumphantly parading their captured trophies around the streets on the tops of poles.

The onslaught of petitions started up again, pinging into Parliament from all corners of the country. Most likely there was some surreptitious central coordination by the well-organized London weavers: the wording of the complaints was suspiciously uniform, and some emanated from towns with no weaving industry at all. Still, it worked. The "Calico Bill" that passed in 1721 showed just how ridiculous a law a truly determined lobby could achieve.

It banned not just the importing but the wearing or use in furniture or furnishings of all printed, painted, or dyed calicoes—except, as a concession to consumers, those unfashionably dyed all blue. It would be tempting to record this for posterity as the all-time historical high-water mark for textile protectionism, were it not outdone by an even more draconian law of the same period in France

that made the smuggling of contraband textiles a capital crime on the third offense. Three strikes and you're dead.

I noted at the beginning of this chapter that political protection can defy market forces for decades, or even centuries, if the lobby backing special treatment is sufficiently

strong. But when an overwhelmingly superior product comes along, it's hard to keep it out for very long. So it was with the woolens lobby. The ban on imported manufactured cottons merely set English printers to work on linen or fustian (a linen-cotton blend): Scottish linen-makers had managed to get an exception for their product in the Calico Bill.

And in a fine example of necessity being the mother of invention, the compulsory wearing of hot, heavy clothing spurred the development of spinning machinery for English manufacturers to make their own cotton cloth. Twelve years after the bill was passed, John Kay made a significant breakthrough in weaving technology with the creation of the flying shuttle. Within fifty years of that, a trio of inventions—the spinning jenny, the spinning mule, and the water frame—were on the way to mechanizing textile production. British manufacturers could now beat handmade Indian cloth on grounds of cost as well as political expediency.

They also became adept at mechanizing the printing of cotton. Appropriately enough, one of the first great factories for calico printing in Lancashire, which would rapidly become the world center of the industry, was set up by one Robert Peel. It was his grandson of the same name who, as prime minister in the mid—nineteenth century, came under the influence of England's new weavers—this time the free-trader cotton kind rather than the protectionist wool variety—to execute one of the most dramatic moves in trade policy in history.

The repeal of the Corn Laws in 1846, as we saw in the chapter about the United States and Argentina, was a defining moment. Britain turned away from centuries of propping up its landowners and turned toward supporting its industrialists. As G. K. Chesterton described in "The Secret People," his gloriously nutty narrative poem of English history as witnessed by the disenfranchised poor, the

political eclipse of the landowners was so rapid as to seem inexplicable:

> The squire seemed struck in the saddle; he was foolish, as if in pain.
> ...
> We only know the last sad squires ride slowly
> towards the sea, And a new people takes the land:
> and still it is not we.

A lavish system of support for agriculture was rapidly withdrawn. Such a dramatic transformation necessarily involved creating an overwhelming force to shift a previously immovable interest. One of those theaters of war, the sugar industry, remains a battleground for trade politics today, of which more later.

The repeal of the Corn Laws is one of those turning points that seems so inevitable in retrospect—Britain was rapidly industrializing and becoming the workshop of the world—that it is worth recalling just how remarkable a political act was the actual decision. The Corn Laws were repealed in 1846 by a Conservative prime minister whose party had come to power in 1841, publicly united in a desire to protect landowners. Only a third of the Conservative members of Parliament actually voted for the repeal bill when it came before them, and the bill relied on support from the Liberal opposition. The government fell within a month, and the Conservative Party was left divided over trade for decades. Why did it happen?

The short answer: Because Peel feared the alternative was revolution. The landowners were a powerful lobby, and well ensconced in the House of Lords, which had the power to block legislation. But the brilliance of the campaign for repeal involved knitting together an alliance of interests that seemed not merely to possess serious

firepower within a newly reordered political system but to have created an unnerving threat to overthrow it.

The original purpose of the Corn Laws, various versions of which were passed in the seventeenth and eighteenth centuries, was to regulate the price of food such that farmers could always make a living and the poor could always afford to buy it. ("Corn" in this context is understood in the traditional British usage, meaning bread grains, such as wheat and barley, not maize.) But its overall effect was generally to hold prices up, benefiting the landowners. At the beginning of the nineteenth century,

agricultural protection looked fairly secure. A new version of the law passed in 1815 in response to a drop in food prices—itself influenced by the end of the Napoleonic Wars, which had damaged international trade—banned grain imports when the domestic price fell below 80 shillings a quarter (a "quarter" being a unit of weight equal to 28 pounds). The government of the time had more than the usual interest in protecting the landowners, from whom they had borrowed heavily to fund their European military campaigns.

But rapid change in the British economy was compressing the landowners into a minority. The industrialization that accelerated in the nineteenth century led to extraordinary growth in population—and increasingly this was a population that lived in towns and wanted cheap food, not a rural population eager to see high produce prices. The population of Britain increased from 12.6 to 18 million between 1811 and 1841, and the country, which had ceased to be self-sufficient in food as far back as the 1760s, grew further beyond the capacity of its farmers to feed it. Their employers, particularly the cotton textile mills, had a vested interest in lower food prices, as it meant their employees could buy the same food for lower wages, and more generally, in spreading the doctrines of free trade, as they were the most competitive textile exporters in the world.

The political framework was also changing. The Great Reform Act of 1832 increased the parliamentary seats allotted to industrial cities and swept away many of the "rotten" or "pocket" boroughs—constituencies with small and easily bribed electorates that could in effect be bought and sold, and which tended to rest in the control of local landowners. Especially in the cities, evangelical Christian movements were also pushing for religious and political change, and would provide a bountiful fountainhead of reformist fervor.

The lobby that began pressing for reform got support from both the middle classes, who owned and ran Britain's growing factories, and the working classes, who labored in them. It was led by the Anti-Corn Law League, a pioneering national-level political pressure group. In organization and tactics, the League was way ahead of its time. Like so many trade lobbies to come after it, it sometimes masqueraded as a consumer-focused organization seeking cheaper food for the poor. But it was a producer interest—the manufacturers, and notably the cotton

mill owners—that provided its core leadership, its money, and its organizational clout. Founded in London in 1836 as the Anti-Corn Law Association, it had, by 1838, found a natural home in Manchester, the center of the textile industry in Lancashire, in northwest England.

The two main leaders of the League were later to become some of the most famous advocates for free trade in history: Richard Cobden and John Bright. Cobden, who pursued the campaign against the Corn Laws from a prominent position in Manchester political life—he became member of Parliament for Stockport in 1841—was credited by Robert Peel with the repeal of the laws, "acting, I believe, from pure and disinterested motives." Of course, as textile manufacturers, Cobden and Bright came to the campaign with a very particular commercial interest. As we have seen, the ideal trade lobby is one that is sufficiendy well concentrated to be able to campaign coherently, yet sufficiently broad—or capable of portraying itself as such—to pass itself off as representative of the nation. The Anti-Corn Law League was a very good example.

In its vanguard were the textile manufacturers of Lancashire. Textile mills clustered in the county for a variety of reasons. It had convenient access to the great port of Liverpool, which enabled cotton to be brought in and clothing shipped out. It was near the Lancashire coalfields, which provided fuel for the steam-powered looms that replaced water-powered weaving. And the damp northern climate helped prevent yarn from snapping as it was being spun. As the total number of power looms doubled in England between 1835 and 1850, Lancashire's share increased from 67.5 to 79.1 percent. By 1846, 70 percent of the League's donations above £100 came from Lancashire.

But export-oriented industries of various sorts were broadening and spreading around the country. As the Industrial Revolution progressed, demand soared for semifinished manufactured goods, such as iron bars and girders, which served as inputs for other industrial processes. And as industrialization and the railway boom began to be exported elsewhere, such as North America and continental Europe, so did the components needed to construct it. Published directories of

city-dwellers for the period show that all occupations were spreading out across many urban centers, with one exception: landowners.

The stark division between landowners and industrialists was in any case something of a caricature. One of the reasons that Britain's aristocracy has endured for so long, without any of the messy unpleasantness of decapitation that was visited upon its counterpart in the French Revolution, is its ability to adapt. The British nobility had, as long ago as the sixteenth century, started investing in industries outside their traditional agricultural interests, including the mining of coal, lead, and salt, and had taken advantage of the transport opportunities provided by the canal system to sell raw materials such as timber and gravel over long distances.

For most, this remained a sideline to their main activities of farming, or at least collecting the rent from tenant farmers. But diversification accelerated markedly in the nineteenth century, not least because of the growing sophistication of financial markets. The Bank of England, at that point a private entity, had been created in 1694 to help the government borrow money to fight the French. Trading in stocks boomed in the 1830s and 1840s as controls on companies setting up and selling shares were lifted, and the new railway companies took advantage. Something between a fifth and a quarter of share offers in the "railway mania" investment boom were snatched up by landowners. Indeed, railway companies wishing to avoid landowners objecting to their planned routes often found it prudent to reserve a certain portion of each new share offer to buy them off. And so, even though the House of Commons (and more so the House of Lords) remained dominated by aristocrats, some had taken a stake in the country's economic future rather than cling exclusively to the rewards to be had from owning its economic past.

The Anti-Corn Law League used a combination of propaganda and aggressive campaigns of electoral manipulation that would have done credit to any modern Washington lobbyist. It made thousands of objections to the registration of known protectionist voters when the electoral rolls came up for review each year, and registered its own supporters as the number of eligible seats and voters increased after the 1832 parliamentary reform. By canvassing support in the urban constituencies where its backing was strongest, and reporting the results back to its headquarters, the League often had a better idea of the electorate's views than either of the two main political parties.

The League's propaganda used every line of rhetoric it possibly could to promote free trade. With those who would benefit directly, like the cotton manufacturers, it appealed to their self-interest. With those, such as tenant farmers and agricultural laborers, who might have been tempted to see the issue as one of the countryside versus the city, they argued that the effect of the Corn Laws was merely to raise the price of land—and thus their rent. And with those who might have lost out financially, it invoked morality and Scripture. It was wrong on principle, the League said, to support an aristocratic monopoly. John Buckmaster, a free-trade agitator who toured country towns and villages, trying to recruit farm laborers and craftsmen to the cause of repeal, employed a prototype "What would Jesus do?" campaign. "If the Corn Laws had been in evidence when Jesus Christ was on earth," he rather presumptuously declared, "he would have preached against them."

Perhaps its most important success was to win over the temporary allegiance of the Chartist movement. Working-class protesters were part of the coalition of the disenfranchised that had managed to force the 1832 Reform Act through Parliament by adding the force of mass meetings and even violence against property to the cause. Nottingham Castle, property of the Duke of Newcastle, who had initially opposed parliamentary reform when the bill reached the House of Lords, was burned to the ground by an angry mob in 1831. But unlike the leading lights of the League, the working and lower-middle classes remained (literally) disenfranchised by the Reform Act, failing the property qualification, which was still required to have a vote.

The Chartist movement, so named for its list of demands (the People's Charter), emerged in 1838 to push for deeper electoral reform. It demanded suffrage for all adult males, and equally sized parliamentary constituencies elected by secret ballot. While they, too, were viscerally opposed to the aristocratic monopoly of the landowners, the Chartists did not wish merely to replace one class of overlords with another. Their suspicions about the motives of the League members were aroused when many of the textile magnates who backed it nonetheless resisted the Factory Acts, which shortened hours and restricted child labor in the cotton mills.

In 1842, the Chartists called a series of industrial actions, known as the Plug Strikes, to try to induce the industrialists to support them. The League responded that they should concentrate on the issues on which they agreed. In an address "To the Working Men of Rochdale," intended to persuade them to return to work, John Bright argued that the Chartist leaders were imperiling progress by asking for too much. "For four years past they have held before your eyes an object at present unattainable and urged you to pursue it," he said. "Your first step to entire freedom must be commercial freedom—freedom of industry." The League argued vehemently against the position that lower food prices would merely be used as an excuse to lower wages. They got enough support to carry the day. The backing of thousands of voteless citizens might not have been the determining factor in shifting the tally in the House of Commons. But it may well have played an important role in persuading the Lords, for whom the memory of the disturbances around the Reform Act were still vivid.

Meanwhile, the opposition to reform, the Anti-League (also known as the Agricultural Protection Society), came much later onto the scene than the League itself, not emerging until 1844. Loyalty to the Conservative Party and a reluctance to campaign openly against Robert Peel restrained the protectionists until it became clear that he was irrevocably decamping to the free trade side. And organizationally they were no match for the free traders. By 1845 the League had an annual budget of £250,000, while the core of the Anti-League, the Essex Agricultural Protection Society, had raised just £2,000.

Protection for farmers was in fact gradually reduced over some years, but the repeal in 1846 stands out in the history books as the pivotal moment. The final push was helped by a disastrous harvest in 1845 and famine in Ireland, which required emergency imports of grain and finally got the message through to the Commons and the Lords that continuing to protect landowners ran an increasingly large risk of serious unrest. When it came to a head, Parliament chose the certainty of limited damage from repeal over the uncertainty of what might happen if they did not. Revolutions and rebellions spreading across Europe in the 1840s showed what happened when hungry and vulnerable emerging working and lower-middle classes demanded a modicum of power and did not get it.

According to Richard Cobden (admittedly, not an unbiased source), Peel reacted with something like satisfied vindication when news arrived in the House of Commons in 1848 that France had erupted in a second revolution that overthrew the restored monarchy and once again instituted a republic. That, Peel reportedly responded, was what came of ignoring entirely the wishes of those who did not have a vote. "It was what this party behind me wanted me to do in the matter of the Corn Laws," he said, speaking of his own Conservative Party, "and I would not do it."

To succeed, the free traders had a series of formidable lobbies to overcome. One of the most prominent was the sugar planters, whose demise is a fine example of how trade interests can endure at length but not necessarily forever. Like so many other industries that boasted of the contribution they made to the nation, England's Caribbean sugar industry rose to prominence almost entirely under the wing of the state. The great sugar aristocracy of Britain got fat on artificial financial

sweeteners. Historically, Islamic conquest had spread the cultivation of sugar from its ancient growing grounds in India and the Tigris-Euphrates valleys to Sicily, Cyprus, Rhodes, and North Africa. Later, during the era of European empires, sugar plantations went farther west and south, searching out the tropical heat and water in which the crop luxuriates. It was carried to the Canary Islands and the Azores, and, finally, taken to the Americas. By 1516 the Caribbean colony of Santo Domingo was shipping sugar to Spain. The harvesting of this crop requires large amounts of labor, and so sugar also brought with it slavery, first to the Mediterranean and then, notoriously, to the Caribbean.

Having previously taken a refreshingly direct but not indefinitely sustainable strategy of stealing sugar from Spanish ships through privateering (essentially state-licensed piracy), England used its naval and military power to create its own sugar islands in the seventeenth century. It seized Jamaica from the Dutch and drove Portuguese sugar out of the Northern European market. Oliver Cromwell, he of militarist mercantilism, was so delighted to hear of the capture of Jamaica that he took the rest of the day off.

But just as the Indian cotton business preached free trade while instituting a monopoly, so did sugar. In fact, it created two. In 1660, sugar from the Caribbean was made an "enumerated" commodity, which could not be exported directly from the colonies to continental Europe or North America but had to be landed (and taxed) in England first. The colonies were also dissuaded from processing the sugar themselves by prohibitive tariffs on refined sugar, as opposed to the raw treacle-like molasses, and from making manufactured goods that would compete with English exports. Thus the trade went: slaves from Africa to the West Indies, sugar from the West Indies to England, finished goods from England to Africa and to the colonies.

Since they were, at this point, highly competitive, the sugar planters were all for being able to sell their produce to any market they could find, and so they lobbied. The governor of Barbados in 1666 argued: "Free trade is the life of all the colonies. ...
Whoever he be that advised his Majesty to restrain and tie up his colonies is more a merchant than a good subject." (An interesting

distinction.) But the temptation for England to extract profit from the colonies was too high and the pressure from the sugar refiners of Britain, centered in London and Bristol, too great.

Our friend Sir Josiah Child of the East India Company popped up again, this time with arguments that made it clear that the interests of colonies should be subservient to the center: "All Colonies or Plantations do endamage their Mother-Kingdoms, whereof the Trades of such Plantations are not confined by severe Laws, and good execution of those Laws, to the Mother-Kingdom." Apart from a small concession in 1739, when they were allowed to export directly to ports south of Cape Finisterre, in Spain, all sugar had to go via England. The crown also excluded Scottish ports from the colonial trade, one of the reasons that the Scots, after trying (and failing) to set up their own New World colonies, were forced to merge their kingdom with England. After the Act of Union in 1707 the trade was permitted and Glasgow established a thriving sugar refining business.

In compensation, the West Indian colonies were given their own monopoly—an almost complete control of the British market with much lower import duties than were levied on sugar from elsewhere. The state further helped them out by increasing demand. From 1731 on, sailors in the Royal Navy were given a daily ration of rum, which rose to a pint a day by the late eighteenth century, a practice not abandoned until the 1970s. Generous allocations of sugar were later given to the impoverished inhabitants of government-run almshouses.

So instead of being allowed to engage in free trade, the Caribbean colonies were channeled down a particular route. They pumped out sugar and other enumerated crops like tobacco, for which their British market was protected, and were discouraged from trying anything else. As time went on, the sugar plantations began to lose their competitive edge, as monopolies tend to, and their relative prices rose, as monopolists' prices tend to. Rising prices did not much affect their sales in the protected domestic market, but it did help lose Britain some of the French sugar market, as France decided it needed a Caribbean sugar industry of its own.

The argument can plausibly be made that early on, the mercantilist creation of the sugar islands did indeed help strengthen the British nation, not least in fostering the expansion of its fleet. Relying on Portugal, Spain, or the Netherlands for sugar supplies would have meant placing Britain at the mercy of a military opponent that might be tempted to use their sugar profits to attack British ships. And some research suggests that,

at least initially, sugar islands like Jamaica paid for themselves by providing havens for smugglers and for the English privateers who preyed on Spanish shipping.

But as cheaper sugar became available from around the world, particularly from Latin America, in the eighteenth century, the question increasingly arose: Just whom did this arrangement benefit? That it enriched sugar landlords with plantations in the Caribbean, as well as the sugar refiners and rum distillers back in Britain, is certain. That it benefitted the nation as a whole became an increasingly untenable argument.

By the end of the eighteenth century, probably 8 to 10 percent of the total income of England came from activities in the West Indies. But that did not mean the nation as a whole was better off. There were certainly costs involved: namely, the loss of alternative uses to which the heavy investment in the Caribbean could have been put, the higher price of sugar at home, and the burden of maintaining what for the years 1763—1775 was an average of nineteen warships and between three and seven regiments of soldiers in the Caribbean.

That the English paid dear for their sugar was not in doubt. The average price of sugar in London in 1765 was a third higher than in Nantes, in France. When Britain briefly captured the Caribbean islands of Guadeloupe and Martinique from the French in 1759, the influx of cheaper sugar meant that the price of sugar in London fell by a quarter. The historian Robert Paul Thomas calculates the total profit from the British West Indies at £1.45 million a year in the 1770s. But the money invested in the Caribbean could have raised a minimum return of £1.3 million if invested elsewhere. Taking into account an annual cost to consumers from more expensive sugar of £383,000, plus the price to

taxpayers of maintaining the soldiers and sailors at £413,000, the West Indian colonies had in fact become a drain on Sir Josiah's "Mother-Kingdom."

The reality of the situation took a while to sink in, thanks to the political power of the concentrated beneficiaries versus the diffuse bearers of the burden of cost. In the eighteenth century, the sugar lobby in England sprayed money around merrily on themselves and their cause.

The ostentatiously wealthy West Indian planters, many absentee landlords who spent more time oozing through the salons of London than tramping the fields of Jamaica, became stock figures of eighteenth-century English society. Their sons filled the elite public schools of Eton, Westminster, Harrow, and Winchester. *The West Indian,* a play that opened in London in 1771, begins with a huge reception for a planter coming home to England. One servant remarks admiringly: "They say he has rum and sugar enough belonging to him, to make all the water in the Thames into punch."

In the unreformed Parliament before 1832, political power was relatively straightforward to buy. Three brothers from the Beckford family, one of the great plantation-owning dynasties, were MPs at the same time in the mid-eighteenth century. A London-based agent for the colony of Massachusetts reported in 1764 that fifty or sixty West Indian-influenced members of Parliament held the balance of power in the Commons. In 1830, one West Indian planter spent £18,000 getting himself elected from Bristol. And like most landowners, the sugar planters were well represented in the House of Lords: Charles II had made thirteen Barbados plantation owners into baronets in a single day in 1661.

The undoing of the sugar lobby came when the costs of protection multiplied and the lobby's opponents started to organize. Sugar was originally a luxury enjoyed by the

rich. But as the population grew and moved into the towns, the need for concentrated and nonperishable calories rose rapidly. Along with three other imported stimulants—tea, coffee, and tobacco—sugar helped to fuel the workers of the Industrial Revolution. Per capita sugar consumption increased fivefold in the nineteenth century, creating an enduring sweet tooth throughout the English population. George Porter,

a sugar broker of the mid-nineteenth century, wrote of sugar in 1851: "Long habit has in this country led almost every class to the daily use of it, so that there is no people in Europe by whom it is consumed to anything like the same extent."

The costs of cosseting the West Indian planters continued to rise. New sources of cheap sugar—Hawaii, the Philippines, Cuba, Mauritius—multiplied, and British sugar lost yet more foreign markets. During the European wars of the early nineteenth century, when the British blockaded continental ports and cut off sugar supplies from the French Caribbean, Napoleon responded by planting sugar beet across Northern Europe.

Expensive Caribbean sugar had become more than an annoyance. Because it made up a significant part of the working-class diet, wages had to be higher than they would otherwise have been to enable factory workers to eat. As such, it was one of the main targets of the industrialists, one of whose rallying cries was a call for the "free breakfast table"—that is, for British workers to be allowed to buy the cheapest food possible. One speaker in Parliament in 1844 estimated the cost of protected sugar to the country at £5 million a year.

It was not a coincidence that the same free trade liberals who inveighed against the Corn Laws had also frequently spoken out against slavery, which was finally outlawed in the British empire in 1834. The attack on slavery was also an attack on the sugar monopolists. (Less honorably, the textile manufacturers benefitted nonetheless from the continuation of slavery in the southern United States, which helped keep their cotton imports cheap.)

Eric Williams, a historian who later became prime minister of the Caribbean nation of Trinidad and Tobago, said that by the late eighteenth century, sugar planters were sleepwalking to disaster. "The chasm was yawning at the feet of the sugar planter," he wrote, "but, head held proudly in the air, he went his way mumbling the lesson he had been taught by the mercantilists and which he had learned not wisely but too well." The sugar lobby had broken the cardinal rules of protection maintenance. It had threatened to become a serious drag on the whole economy, and had irritated a highly organized rival lobby—and a lobby of exporters at that. The abolition of slavery undermined the sugar business (though the slaveowners, naturally, were compensated

from the public purse for the inconvenience suffered). Through an act passed in 1846, the same year as the repeal of the Corn Laws, the duties on sugar from all sources were gradually equalized, and later all sugar import tariffs were reduced.

And so today's world trade in sugar is a free market. Or at least it might have been, except that once more some vigorous competitors from an earlier era dug in their claws and transmuted into protected sloths in a later one. Those Napoleonic continental sugar beet farms are still with us. Indeed, they are now protected by tariffs and subsidies under the European Union's common agricultural policy, despite the fact that their output is now wildly more expensive than cane sugar from Brazil, Thailand, or Australia. They have also been joined by British sugar beet farming, which was rapidly expanded by state subsidy in the 1930s to bail out farmers hit by the Depression and to guard against a renewed blockade as the prospect of another European war loomed. Trade politics abounds in ironies, and one is that the same European Union credited with ending Europe's internal wars preserves the very sugar farms whose existence it should have rendered unnecessary.

Until some partial reform a couple of years ago, the price of sugar in Europe was three times the world average. (It is now merely twice.) And yet the EU exported far more massively subsidized sugar than it imported, dumping it cheaply on global markets. Also still with us are the sugar growers in Mauritius. Once part of a rush of low-priced sugar that undercut the Caribbean sugar islands, they themselves also cannot compete with Brazil and Thailand and now rely on preferential access to the European market, reflecting the fact that Mauritius, too, was a European colony. The red-ink profiles of European empires no longer sprawl across maps of the world, but their faded outlines can still be seen in the patterns of global commodities trade. The EU maintains an elaborate system of preferential access to its market for its former colonies—a way, perhaps, of assuaging its postcolonial guilt. The attitude might be summed up as: "We're very sorry about those three centuries of imperial subjugation. Got any sugar?"

In the end, in contrast to nineteenth-century Britain, it was neither a consumer revolt nor rival domestic lobbies that forced reform in the EU's sugar regime. The intractability of agricultural reform in wealthy

countries reflects an odd dynamic. As countries become richer, they spend a lower proportion of income on food, and so the effect of artificially higher prices becomes less irksome to consumers. Had the sugar farmers managed to inflict serious damage on their economies and bring widespread inconvenience—as did the coal miners, who made Britain shiver in the dark by forcing a series of power shortages during the 1970s—they might well have provoked the backlash that the coal unions eventually faced.

When a loaf of bread costs, as it did in England in 1800, a quarter of a day's pay for a construction laborer, there will be riots when it doubles. When it takes, as it does in Britain today, about ten minutes' work at the minimum wage to buy one, fewer people will notice the cost to them of food subsidies. The EU Common Agricultural Policy is currently reckoned to cost an average family about a thousand euros a year—not negligible, but not enough to get them marching down the Champs-Elysees. No political party has been swept to power in Europe in recent times by promising to get tough on agriculture.

Nor are there very strong rival producer lobbies within the EU. Unlike the nineteenth-century textile magnates, no call center or software house is going to argue that expensive sugar is significantly cutting into its employees' standard of living. Meanwhile, food companies receive some official EU compensation for the higher cost of using European sugar. And when the food industry, which uses sugar as an input, tried to discuss the need for cutting its price, the sugar lobby was right on hand to block them. Within the British Food and Drink Federation, an industry association, sugar beet interests managed to stop the organization calling for cheaper sugar. Jonathan Peel, the director of European and international policy at the Federation at the time, and a descendant of the same family as Sir Robert, found it hard to replicate the success of his illustrious forebear. "I remember thinking that not much had changed in a hundred and seventy years," he told me. Ludicrously expensive sugar is a luxury that EU consumers and taxpayers could quite easily have afforded to retain.

What helped to force reform was a new phenomenon: complaints from a lobby overseas—Brazilian sugar growers—who had recourse to

the World Trade Organization. They obtained a WTO ruling that the EU tariff and subsidy regime was illegal under WTO rules. When the regime was partially reformed, though still leaving prices inside the EU well above world levels, the clout of the European farmers relative to their former colonies was painfully evident. European sugar farmers were offered by the European Commission an estimated €6 billion as a buyout. The former colonies were given less than a quarter of that to help them adjust, with just €200 million in the first year.

The WTO's predecessor, the General Agreement on Tariffs and Trade, was created by a treaty signed in 1947, part of the apparatus of economic global governance designed after the Second World War. But even the farsighted architects of that edifice had to cope with the effects of lobbying. As we have seen, two of its other main elements, the International Monetary Fund and the World Bank, were created at a conference in Bretton Woods in New Hampshire. Why New Hampshire? To buy off the opposition of an isolationist senator from that state who might otherwise have opposed their existence. Trade politics really does get everywhere.

Litigation at the WTO also illustrates the vehemence and persistence with which vested interests will defend the economic rent they have been extracting. One of the most bitter disputes in world trade over the past few years is, literally, bananas. The low-cost "dollar banana" countries of mainland Central America, such as Ecuador, Honduras, and Panama (favored, in WTO disputes, by the United States), were up against the relatively picturesque but more expensive smallholder bananas from former European colonies in the Caribbean.

Appropriately enough, the banana industry in the Caribbean was encouraged by European colonial masters as a replacement for the declining sugar industry. I once visited a former sugar mill in St. Lucia that had ended operations in 1941, just as the severe restrictions on transatlantic trade as a result of the Second World War began to bite. It then became a banana plantation. It is now a museum.

The economic rent that the two sides were fighting over was considerable. The money to be made out of bananas was gigantic, and was reflected strongly in the lobbying power that each side could bring to bear. The remarkable story of United Fruit, the company that created and ran most of the banana plantations in Central America, has been oft told. It managed to get a government overthrown (Guatemala in 1954) for the insolence of proposing to nationalize some unused land owned by United Fruit. The power of the industry has entered the lexicon: such countries are, of course, "banana republics." For decades United Fruit operated almost as an alternative state within Central America, its ubiquitous power and presence earning it the local nickname El Pulpo ("the octopus").

On the European side was more than a guilty desire to help out former colonies. The companies that controlled the banana trade into Europe took a big cut on the way and thus appropriated much of the economic rent for themselves. The fact that two of the banana-growing islands, Guadeloupe and Martinique, are technically part of France and send delegates to the French National Assembly also meant that Europe's most formidable agricultural lobbying country had a particularly strident dog in the fight.

Working out the power of lobbies and who gets hurt by what has now become a science. Since the only sanction the WTO has for violations of its rules is to place retaliatory blocks on imports, governments that have won cases will try to go after those

interests that will inflict the most political pain on their antagonists. When the United States was authorized by the WTO to retaliate against the EU for its recalcitrance on reforming its banana regime, it decided in 1999 to threaten to block imports of Scottish cashmere. It calculated that the British interest in helping its banana-growing former colonies might be outweighed by the need to save a symbolic endangered industry—and one based in a country that voted overwhelmingly for the Labour government that had recently come to power.

Similarly, European retaliation for illegal U.S. tax breaks went after oranges—a fruit grown in the famously marginal electoral state of Florida—and the politically and symbolically important target of Harley-Davidson motorcycles. When the tiny island nation of Antigua and Barbuda won a WTO case against the United States for blocking online gambling services operated from the island, it threatened to ignore U.S. copyrights and patents, thus arousing the wrath of industries like pharmaceuticals, movies, and music that depend on intellectual property rights. Those industries happen to be some of the most active in America's trade lobby.

However much one side dresses up its arguments by appeals to the economics of free trade, and the other side to the need to keep poor workers in employment—or preserve the countryside, or keep the country self-sufficient—the outlines of their self-interest show sharply through. The Caribbean sugar interests went from being free traders to protectionists as they lost competitiveness. The English textile industry oscillated from being protectionists in the calico wars of the eighteenth century to free traders in the battle over the Corn Laws in the nineteenth, only to return to protectionism in the twentieth century as they were once again undercut by cheap clothing from Asia. The effects of these distortions are evident on every supermarket shelf and market stall in Europe, America, and Japan.

Good advice to any foreign agricultural lobby trying to get access to the markets of the rich countries would be to threaten to dig up the existing crop and plant coca instead. Alternatively, let it be known that your country is a hotbed of Islamist radicalism. Pakistan, as a reward for being a U.S. ally, was surreptitiously given the same antinarcotics trade deal as Peru, before India spotted the subterfuge and complained.

And the coca trade is a good entry point to look at how trade has evolved to create the oddly unbalanced and far from flat world of the present day—and one in which the seamless free market of the economics textbooks fails, once again, to operate.