

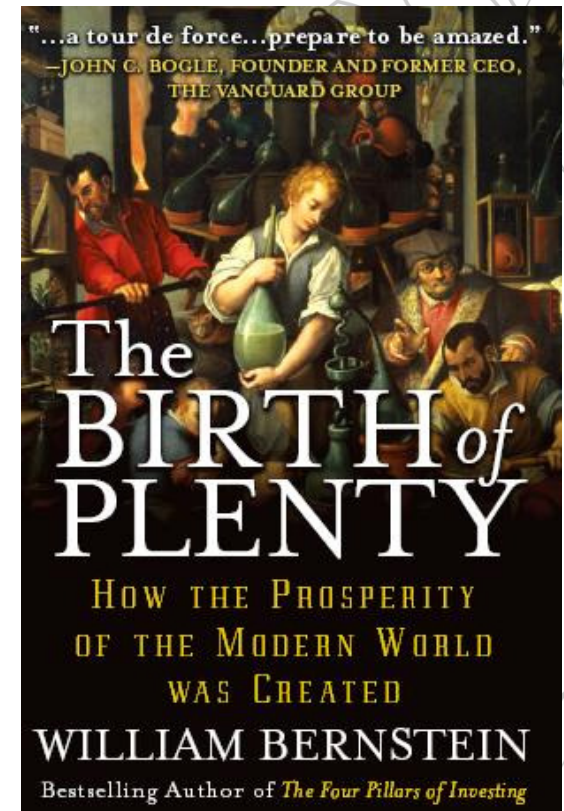
The Birth of Plenty How the Prosperity of the Modern World was Created, William Bernstein © 2004

Bernstein provides a fascinating economic history of the world with particular focus on four factors he believes are critical for societies to prosper:

- 1. Property rights (to protect effort & invention)**
- 2. Scientific rationalisation (to avoid retribution)**
- 3. Capital markets (to fund innovation)**
- 4. Transport and communication (necessary to convey goods, labour and information)**

These factors came together to make the period around the 1820s the greatest transformation in human history.

Bernstein suggests the “winners” of economic history are first Holland then England, followed by runners up France, Spain and Japan. Left behind is the Ottoman Empire, the modern Arab world, Africa and Latin America.



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“Before 1500 [including to varying degrees before the 1820s in the Western World], the well being of the average human being was stagnant. The roots obvious.

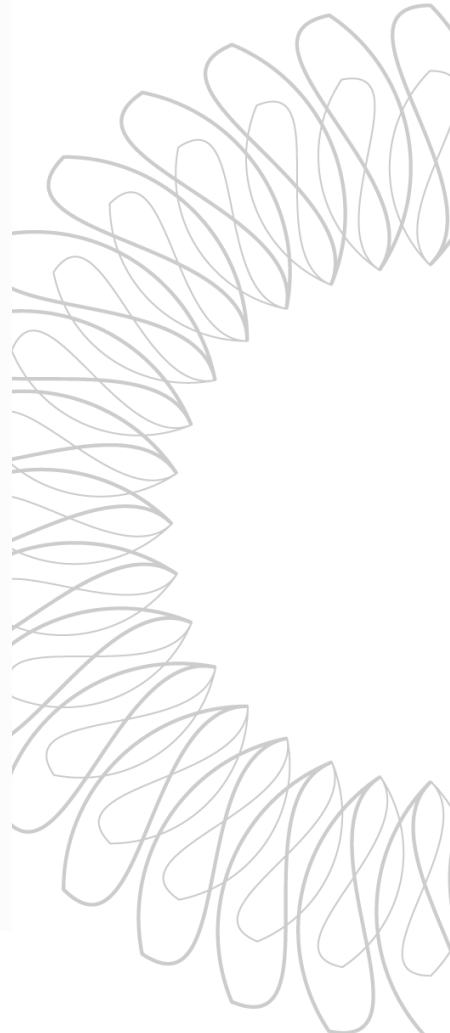
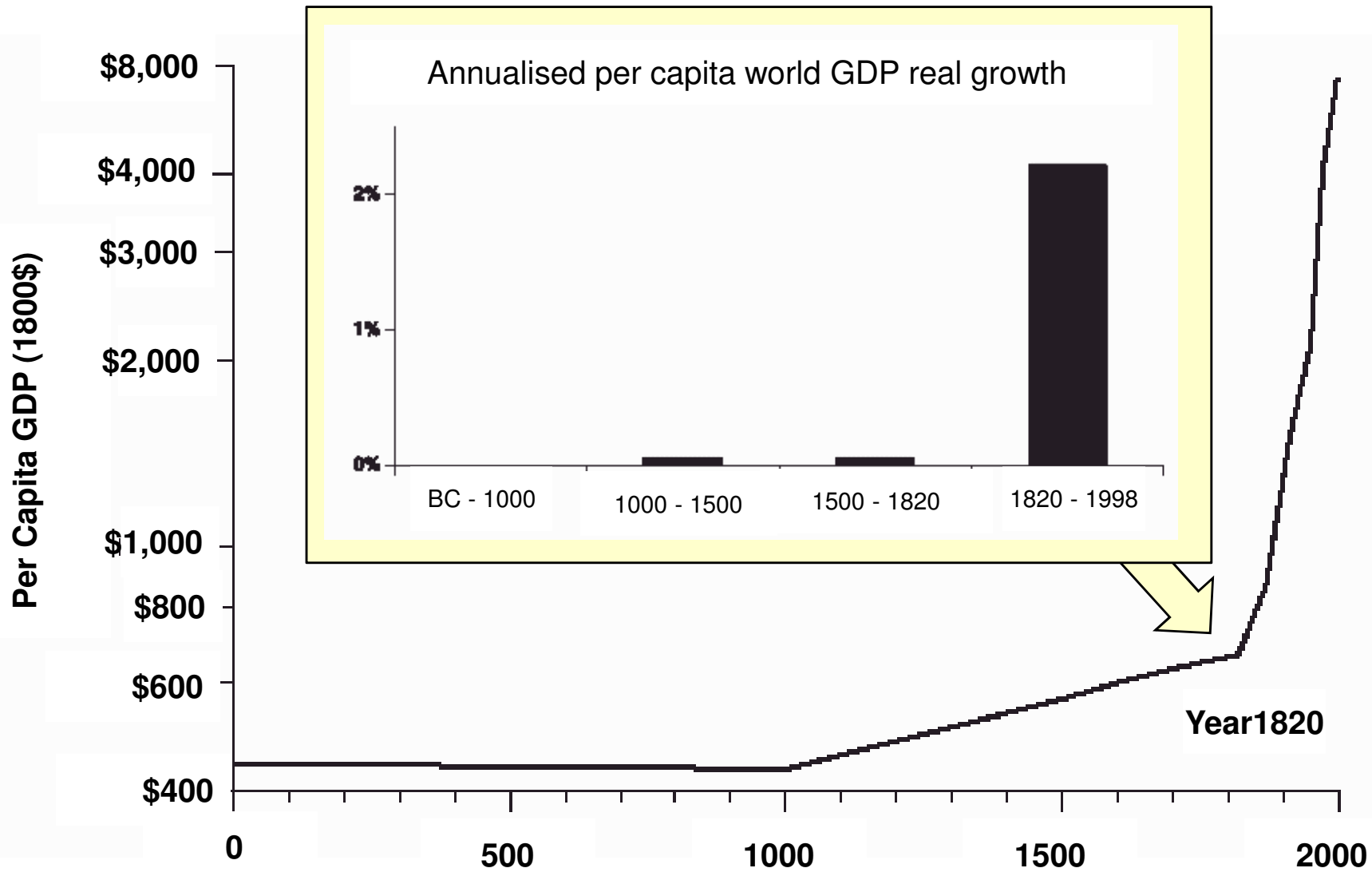
First there was no incentive to create wealth since it was not safe from the depredations of the feudal aristocracy, the state, the Church or common criminals.

Second, no European dared to think creatively or scientifically, since original thoughts often condemned their creator to oblivion both in this world and the next.

Third, even had wealth-creating inventions and services been conceived, the capital necessary for their development was unavailable.

Finally, had such inventions been produced in large number, their inventors could not have advertised and inexpensively transported their wares to consumers in distant cities.”

Per person output took off around 1820



Property rights

“The Magna Carta marked ground zero for the explosion of individual personal and property rights”. Established as a response to King John of England’s seizing of property and violation of the nation’s implicit code of conduct – the common law

- **A fragile democracy existed in 500 BC in the Greek hill country of Attica. There about 100,000 small farmers valued private property and Timocracy (voting based on land holdings). This broke down after small farmers were put off their land unable to pay taxes to fund the expensive 400BC Peloponnesian War.**

In Roman times “paterfamilia” meant the senior male family member held the power of life and death over every family member. The civil and property rights of ordinary Romans without connection to the Emperor were precarious. Roman Law provided the Privy Council to pursue the monarch’s divine rights.

- **The collapse of the Empire can be traced to end of empire building and the neglect of the domestic economy, including the inefficiencies of large estates.**

Medieval guilds were cartels that restricted entry into a trade or profession and kept prices high - were less a guarantor of professional standards. The granting of monopolies, especially in Spain and France, raised state revenues but stunted innovation and inhibited competition (a culture of which still exists today).

- **“The economic activity of Japan tended to flow to wherever the Samurai were absent” - accelerated by the Meiji Restoration in 1868 and post WWII reforms**

Reason

Until four hundred years ago the natural world was a terrifying place. Religions arose to console suffering and promise a more agreeable hereafter.

- **“Most religions functioned as a monopoly – extracting gold, property and status from their adherents in exchange for approbation in this world and salvation in the next”**

The Renaissance in Italy began simply because it was geographically close to the fall of the Constantinople. The Turks brought Byzantine treasures including ancient Greek manuscripts and mathematical principles – including the number zero.

1600s work of Copernicus, Brahe, Bacon, Galileo, Kepler, Newton and Halley unlocked the secrets of the cosmos (and science) and “at a stroke, the Church’s role as the guardian of all knowledge was rudely and publicly wrested away”

- **“Man was no longer wholly captive to forces beyond his comprehension... freed European intellect from Western Christianity’s stranglehold”**

Capital markets

Debt not equity was the preferred method of financing in ancient history

Government bonds introduced in Renaissance Italy for citizens to fund wars

Capital shifted to the north to 17th century Holland where “everybody got into the act”

The state invented the “Obligatien” [short term notes], “Losrenten” [perpetual bonds like Italian “Prestiti”] and “Lijfrenten” [annuities that ended with death]

- **In 1956 a Losrenten issued in 1624 to Elsken Jorisdochter for 1,200 florins to fund dike repair was presented back to the government for payment**

The modern joint stock company is often traced back to the formation of the Dutch East India Company (VOC) to fund spice trade travels to South East Asia (including along the West Australian coast where many ships wrecked).

- **However in 1150 AD a water mill in Bazacle Southern France divided its ownership and profits into shares, with prices recorded since 1400. The company traded on the Paris Bourse until 1946 when it was nationalised for its hydroelectric power.**

Innovation traveled next to the UK, including with William of Orange and financier families the Barings and Hope. The financing of individual ventures flourished when the UK Debtors Prison was closed (meaning you were no longer jailed for not repaying debt).

- **An English entrepreneur could “freely pursue any commercial idea he chose”**

Power, speed and light

Until about 1000 AD human muscle powered all work - about 1/10th of a horsepower (bhp). The invention of a proper harness extended this to 1 bhp. The next great power invention was the waterwheel optimised in the 1500s which raised this to about 5 bhp. The invention of the steam engine by Newcomen and Watt in the late 1700s changed everything – automated factories, furnaces for metallurgy, steam turbines for ships and locomotives and eventually electricity generation.

Steam travel broke down distances and “brought into balance the markets for three fundamental economic inputs – land, labour and capital”

- **Steam power moved masses of people and goods across oceans and land becoming the first step of “Globalisation”**

Electrification flourished in the early 1800s once it could be reliably produced.

Not long after, the “relay” was invented enabling long distance communication. First alongside railways then across the Atlantic in 1858.

“Today we think of our own time as being one of uniquely rapid technological change. Nothing could be farther from the truth. A person transported in time from 1825 to 1875 would be speechless after witnessing the swiftness of rail travel and the instantaneous global communication brought within a half century”

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