The consequences of the industrial revolution mean that we are now neither willing to abandon market mechanisms nor embrace the market without some form of state intervention to promote equality.

May 17 2012

The spread of capitalism and the creation of a global economy led to unprecedented prosperity, but also great inequality, by the start of the twentieth century. **Richard Pomfret** *argues that consequences of the industrial revolution still dominate long-term economic and political developments, and that while the extent of government involvement is, rightly debated, the principle that it is the role of public policies to mitigate inequality is still relatively unquestioned.*

Economic changes may take decades or centuries to work their way out, and hence are poorly reported by the media or understood by policymakers who focus on the short-term. In my recent book, The Age of Equality: The twentieth century in economic perspective I argue that the consequences of the industrial revolution still dominate long-term economic and political developments. The spread of capitalism and creation of a global economy led to unprecedented prosperity, but also great inequality by the start of the twentieth century. The challenge in the twentieth century was to establish an economic system that balanced prosperity and equality. State control over resource allocation and unconstrained market outcomes are both options that have been rejected in favour of combining market mechanisms with state intervention to promote greater equality of opportunity and outcome.

In the 1800s, a handful of countries, initially in Western Europe and lands settled by Europeans, illustrated the potential of market economies to increase output to unprecedented levels. The formula was no secret and other European countries and Japan were experiencing high levels of economic growth by the end of the century. Traditional societies loathe to increase individual liberty fell behind, while countries which prospered in the Age of Liberty came to dominate a global economy, and their empires spanned the world.

By the early 1900s success was breeding tensions, centred on the distribution of the fruits of prosperity. Tensions between established and rising economic powers fuelled a world war of unmatched battlefield killing. In the decade 1910-20 the dynastic empires centred in Beijing, Saint Petersburg, Constantinople, Vienna and Berlin collapsed. In Russia and later in Germany new regimes emerged which rejected unfettered capitalism in favour of state-controlled economies aimed at benefitting workers (Communism) or the nation (Fascism). The market economies with democratic political systems and individual liberties were slow to respond to the challenges.

Conflict between systems erupted in a war which saw the defeat and discrediting of Fascism by 1945, and in a cold war which ended with the disintegration of central planning and widespread rejection of Communism. The winner was the market economy, but not the unbridled capitalism of the 1800s. Successful high-income countries introduced measures to protect those disadvantaged in a market economy (the old, the disabled, the involuntarily unemployed) and to promote equality of opportunity (through public education and healthcare). The extent and nature of these welfare state measures varied from cradle-to-grave support in Scandinavia to more limited provision in the USA, but all provided basic schooling and accepted responsibility for the destitute.

Outside the high-income countries, the interventionist government policies adopted by modernizing countries in the mid-20th century (from import-substituting industrialization to full-blown central planning) were jettisoned in its final decades, following the lead of the Asian tigers (South Korea, Taiwan and Singapore) whose economies embraced “Asian values” but clearly involved resource allocation driven by world prices and a welfare state. Today few countries remain outside the global economy, because allowing world prices to be the primary guide of domestic resources brings much greater prosperity than any alternative. At the same time, no market economy exists without state intervention.

By the end of the century, the idea that the desirable economic system was market-based with government intervention to promote some degree of equality of opportunity and of outcomes was dominant worldwide. The actuality was of greater prosperity than ever before, and greater equality than a century earlier within and across countries. Life expectancy has doubled in every region of the world, and today's range of material goods and available services would be incomprehensible to a pre-1914 time traveller. Despite the rhetoric of some commentators and politicians, neither abandoning the market mechanism nor allowing distribution to be determined solely by market forces is acceptable to the population.

Many states remain autocratic and unequal, but such regimes have been under increasing pressures for change, especially in Africa and in the Arab world. Some high-income countries have experienced growing inequality in recent decades, notably the USA, but relevant political debates are about incremental reform, rather than abandoning either the market economy or government provision of social services. The extent of government involvement is, rightly, debated (in the early twenty-first century focusing on healthcare in the USA and on tertiary education in Western Europe) and aging populations raise concerns about support for the elderly, but the principle of public policies to mitigate inequality is unquestioned

Richard Pomfret will be speaking at the Policy Exchange event, The Age of Inequality *on 22 May. [Further details](#).*

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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Richard Pomfret has been Professor of Economics at the University of Adelaide since 1992. Before coming to Adelaide, he was Professor of Economics at the Johns Hopkins University School of Advanced International Studies in Washington DC, Bologna (Italy) and Nanjing (China). He previously worked at Concordia University in Montréal and the Institut für Weltwirtschaft at the University of Kiel in Germany. He has also held visiting positions at universities in Australia, Canada, China, France and the USA.

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