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Editor's note: Special issue on government and economic development in history

Taking the long view has recently become more popular in economics, and it has been encouraging to see this approach receiving recognition with the award of the Nobel Memorial Prize in Economics to Claudia Goldin in 2023 for her work on the place of women in the labour market, followed by the award of the prize in 2024 to Daron Acemoglu, Simon Johnson and James A. Robinson for their research on how political and economic institutions have had long-lasting effects, shaping economic disparities worldwide. This special issue brings together historical research on government and economics to shed new light on the ways in which government interventions and policies have shaped economic development throughout history.

From the late seventeenth century, the ability of British governments to raise regular annual revenue made it possible for the British state to borrow on favourable terms, which gave it an advantage over other states to finance wars (the fiscal-military state) but also the building of infrastructure for economic development during peacetime (Brewer, 1989). The same fiscal infrastructure contributed to the rise and management of the British Empire. Gardner and Husain (2025) explore the implications of this for the well-known "empire effect", whereby all British colonial governments were able to borrow on terms that were better than those offered to the governments of independent countries. They find that this effect did not simply follow automatically from the fact that colonial governments were subsidiary units of the British government, were part of imperial monetary arrangements or adopted particularly sound policies. They find that it required cooperation and coordination between the Crown Agents, a body conducting financial transactions for British Colonies, and the Treasury in London, to keep colonial bond prices high and interest rates low, even as constitutional changes in the colonies during the first half of the twentieth century made investors nervous. Gardner and Husain show how maintaining access to foreign capital at favourable rates for colonies that were less attractive to investors required extensive behind the scenes intervention by the Crown Agents using reserve funds that they held on behalf of other colonies. This ability of colonies to borrow at low rates played a key role in their economic development.

Palma and Sissoko (2024) show how the institutions of the British fiscal-military state operated during the Seven Years' War of the mid-eighteenth century, again with spillovers to economic development during peacetime. Using a dataset from the Bank of England minutes, they show how the financial system was transformed in beneficial ways for economic development over the long run. As the quantity of government debt was increased to finance the war, this put upward pressure on interest rates, which initially caused some crowding out of private investment. Over time, however, the Bank of England learned that an increase in short term lending to government could be combined with an

increase in short term lending to the private sector. This became possible because the increase in government obligations had the effect of increasing liquidity in the money market as the higher rates drew in foreign funds to the City of London. In the long run, the higher levels of government spending therefore led to an increase in private sector investment (crowding in) rather than a decrease (crowding out). This crowding in was made possible through a process whereby the Bank of England learned how to make effective use of its balance sheet. Thus in the Bank of England balance sheet over the war years (1756-1763), short term lending to the government increased by 50 per cent, while short term lending to the private sector more than quadrupled, just as the British economy entered the crucial phase of the Industrial Revolution.

Economics historians have placed much emphasis in recent decades on the role of institutions in economic development. Following Douglass North's (1990: 3) definition of institutions as the rules of the game, this has inevitably led to a focus on the role of government and its interaction with the private sector. Pamuk (2024) examines the experience of state-led industrialization in Turkey since the nineteenth century, where although above-average rates of industrialization were achieved, performance remained well below that of the most successful East Asian countries during the post-World War II period. Pamuk notes that most studies of state-led industrialization have focused on the more successful countries in the context of a favourable international environment, which leads to an over-optimistic assessment of the policy. He argues that outcomes depend on both the international environment and domestic political economy. For much of the period from the mid-nineteenth century, the international environment was shaped by the early industrializers in ways that were not favourable to Turkey, and the situation was exacerbated by geopolitical difficulties faced by the Ottoman Empire and Turkey. Domestic political economy factors were also less favourable than in post-World War II East Asia, with the existence of intra-elite divisions based not only on economic interests and ethnic differences, but also on different preferences over religion and secularism and a very high share of the labour force in agriculture limiting the strength and stability of the political coalition backing industrialization. In contrast to the successful East Asian countries, in Turkey a fragmented and poorly organised private sector was often dependent on the public sector and politicians, making it difficult to develop regularised ties and institutions of consultation and cooperation.

Dothan, Kovac and Spruk (2024) also examine the interactions between government and the private sector, but from a different angle. They explore how the effects of the presence of US administrative authorities in parts of Mexico during the Mexican-American War of 1846-1848 had persistent effects on transaction costs. This echoes a

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study by [Acemoglu, Cantoni, Johnson and Robinson \(2011\)](#), which examines the effects of institutional reforms introduced after the French Revolution in areas conquered by Napoleon. In order to demonstrate the lasting effects of the presence of US administrative authorities during the war, Dothan, Kovac and Spruk exploit the spatial variation in their presence across different states and cities of Mexico. Using propensity score and nearest neighbour matching techniques, they show that US presence had a positive influence on long term property rights and contracting institutions in Mexico. During the period 2006-2015, states and cities which came under US administrative authorities during 1846-1848 had less complex procedures for starting a business, faster and more reliable procedures for dealing with construction permits, markedly better land administration, substantially lower costs of contract enforcement, shorter duration of the contract enforcement procedures and significantly improved quality of the judicial process.

In contrast to the other papers in this special issue, which focus on the role of institutions, [Ma and Rubin \(2024\)](#) turn to the role of ideology in determining economic change. Ideology is defined as the shared framework of mental models through which one perceives the mapping of inputs to outputs, and tends to diffuse in a “top-down” process that can be determined by elites. This is contrasted with culture, a customary set of beliefs and values, which is transmitted through a “bottom-up” process via parents, peers or other adults such as teachers. Culture is thus much slower to change than ideology. Ma and Rubin see ideology as the crucial difference in understanding the contrasting paths to the modern economy in late nineteenth century China and Japan. New technologies and production processes require complementary ideological inputs valuing certain things such as new types of education, willingness to adopt from cultures previously seen as inferior, and openness to new ways of doing things. They argue that societies with centralised political institutions are less likely to adopt new ideologies and that ideological adoption is less likely to occur when the “ideological distance” between societies is large. Tokugawa Japan, with its decentralised feudal regime, made a decisive turn towards the West with the Meiji Restoration of 1868. China, by contrast, with its highly

centralised political regime, showed only a lethargic response to Western imperialism at this time with the weak Self-strengthening policies. However, Japan’s naval victory over China in 1894-95, which could not be justified under the prevailing Imperial Chinese ideology, acted as a catalyst for China’s subsequent ideological change. But even then, this change occurred through borrowing from the culturally closer Japan rather than directly from the culturally more distant Western nations.

This long run historical approach to government and economics helps to anchor the subject in its institutional context while at the same time making explicit use of an appropriate theoretical framework.

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