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REVIEW ESSAY

Inevitable decline? A review of Bas van Bavel, *The Invisible Hand? How Market Economies have Emerged and Declined since AD 500* (Oxford, 2016)

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Van Bavel, Bas. The Invisible Hand? How Market Economies have Emerged and Declined since AD 500. Oxford University Press, New York, 2016. ix, 330 pp. £ 35.00

INTRODUCTION

Bas van Bavel is distinguished professor at the University of Utrecht and a prolific writer. He is best known for his *Manors and Markets: Economy and Society in the Low Countries, 500–1600* (Oxford, 2010) and has now vastly extended the scale and scope of his research with this highly ambitious *The Invisible Hand? How Market Economies have Emerged and Declined since AD 500*. The title of the book is somewhat misleading, in two respects. It suggests that the book is about market economies since AD 500, but, as the author himself explicitly indicates in the text, it discusses "only" economies in which *factor* markets became dominant. Moreover, in its empirical analysis it concentrates heavily on three *pre-industrial* economies: Iraq, AD 500–1100; central and northern Italy, AD 1000–1500; and the Low Countries, AD 1100–1800. The *Epilogue* of some forty pages, in a text totalling 287 pages, is devoted to markets in modern states: England, the United States, and Western Europe in the period 1500–2000. That is quite substantial for an epilogue, but not sufficient to deal in any depth with such a huge topic. On industrialized societies with modern economic growth, it provides only sketchy information: the period after 1950 is dealt with in thirteen pages. Nevertheless, considering the long *Introduction* and the equally long *Conclusion*, both of which contain many wide-ranging general claims about markets, growth, and inequality, any reader may be excused for thinking the book contains a thesis about how factor-market economies evolve in general. Looking at its reception, that is indeed what most readers have done. Given that Van Bavel explicitly states that he regards history as a laboratory for testing social-science hypotheses, I decided to review this book as a general thesis about the functioning of factor-market economies and not as an analysis of specific historical phenomena.[1] I fully realize that, in doing so, I am not doing sufficient justice to the author's erudition and to the rich and knowledgeable case studies in his book. Moreover, in my *empirical* comments on the specific case studies, I will focus on Van Bavel's analysis of the situation in the Low Countries and England. These are the regions I feel most competent to comment upon. I do not think this is being unfair to Van Bavel. His case studies are all identically structured, follow exactly the same pattern of analysis, using the same categories, and they all have the same strengths and weaknesses. My general comments apply to all cases, but I assume I can illustrate my claims more efficiently by not continuously taking all those cases on board.

From the outset, the author makes it clear which ideas he *does not* endorse. To begin with, there is the idea that factor-market economies were something exceptional and that they emerged only recently in history. He also rejects the idea that the existence of highly developed factor markets would be a necessary precondition for economic growth. The economies he analyses had already experienced growth before they became mature factor-market economies. He explicitly opposes the idea of "a single and unilinear development towards the market economy or a one-way transition to a market economy" (p. 274). The pièce de résistance of his book is the idea that developed factor markets always stimulate economic development and growth. We encounter that claim, for markets *in general*, in recent publications by, among other, Douglass North, John Wallis, Barry Weingast, and Daron Acemoglu and James Robinson, who focus almost exclusively on what they consider to be the right institutional preconditions for a functioning market economy and seldom wonder whether such an economy and its institutions might not, over time, develop quite different characteristics with negative effects.[2] Strikingly, we also find ample – indeed, almost exclusive – attention being paid to the positive macro-economic impact of the rise of the market in the work of scholars such as Robert Brenner, who think along classic Marxist lines. Its "negative" side,

1. See Bas van Bavel, "History as a Laboratory to Better Understand the Formation of Institutions", *Journal of Institutional Economics*, 11:1 (2015), pp. 69–91, and Daniel Curtis, Bas van Bavel, and Tim Soens, "History and the Social Sciences: Shock Therapy with Medieval Economic History as the Patient", *Social Science History*, 40:4 (2016), pp. 751–774.
2. Douglass North, John Wallis, and Barry Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (Cambridge, 2009); Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York, 2012).

which is so prominent in the work of Marx himself, receives much less attention.[3]

For scholars such as North, Wallis, Weingast, Acemoglu and Robinson, "the market", freedom, equality, and democracy are mutually reinforcing. Here, too, Van Bavel disagrees. Not just because, in his view, freedom and equality in time come before markets, but also because developed market economies would (almost) inevitably face growing economic and political inequality (pp. 286 and 265). He regards the market mechanism as amoral: it might be socially embedded in its organization, but it is *not* so in its outcome (pp. 266–267). In that respect, it lacks an endogenous self-correcting mechanism. It does, however, erode the norms and values and the associate organizations that supported it in its emergence, and, even worse, it is almost impossible to remedy its (socially) unwanted effects through political means once it has become dominant, because economic elites then take over public decision-making.

THE RISE AND DECLINE OF FACTOR MARKETS

That brings us to the core of Van Bavel's book: factor-market economies go through what he calls "a cycle" that ends in decline. He is convinced that the three cases he studied in depth and the other ones he studied more casually show a similar succession of phases or stages. He distinguishes four of them: one in which social revolts create a situation in which no social group is able any longer to dominate the exchange and allocation of land, labour, and capital; then one in which factor markets become more important, with still primarily positive effects; then one in which they are dominant and inequality begins to increase; and then finally a phase of decline (p. 253). As preconditions for the possible *emergence* of such a cycle, he points to "an already well-developed economy, relatively well-functioning systems of exchange and allocation outside the market, relatively high levels of wealth and welfare, and the presence of well-developed output markets and trade networks" (p. 252). This succession of phases is not a mere coincidence, but one due to a "mechanism" whose fateful consequences he likes to refer to as almost "inevitable" (for example, pp. 250, 265, 276, and 286) or virtually "unstoppable" (p. 271). The focus in this review is on the last and most controversial phase, that of decline. So much has been written about the positive, "dynamizing" effects of the market

3. Robert Brenner, "The Agrarian Roots of European Capitalism", *Past and Present*, 97 (1982), pp. 16–113. See also Robert Brenner and Christopher Isett, "England's Divergence from China's Yangzi Delta: Property Relations, Microeconomics, and Patterns of Development", *Journal of Asian Studies*, 61:2 (2002), pp. 609–662, in which the authors claim that because it was less of a "market economy" Qing China had less potential to develop and grow than England on the eve of its industrialization.

mechanism – which, as such, Van Bavel does not deny – that it is superfluous to repeat the "obvious" here. In my view, analysing how that mechanism can undermine itself and its positive effects is much more rewarding and relevant at the moment.

Van Bavel is not the first person to question the relationship between "the market" and "growth". In fact, Adam Smith, the father of market economics, was not at all convinced that the market would guarantee permanent development and growth. In his view, market economies would enter a "stationary state". He was also very aware of the tendency of merchants to collude, and considered commercial societies fragile.[4] His work, moreover, contains an irreconcilable contradiction that one should keep in mind when evaluating Van Bavel's claims. In Smith's invisible-hand model no manufacturer or merchant is able to achieve the upper hand. As soon as someone raises the price of his product, someone else undercuts him, and the price tends to return to its "natural" level. In such a setting, there is no increase in inequality and no market distortion. His famous pin-factory example, however, emphasizes the advantages of specialization, and thus of economies of scale: the larger the market, the more producers can specialize and lower the price of their pins. This fosters monopolization, as the larger producer is systematically at an advantage.[5] I assume a similar argument underlies Van Bavel's decline story, but he never explicitly says so. Marx, of course, like Braudel, was convinced there was a tendency in capitalism – in which factors of production have become commodities – to produce monopoly, manipulation, and inequality. They both have an evident influence on Van Bavel's thinking. That also is the case with Giovanni Arrighi. Van Bavel refers to his *The Long Twentieth Century*[6] as perhaps "most akin to the present book" (p. 276). A recent publication that, admittedly, deals almost exclusively with end-product markets is Victoria Bateman's *Markets and Growth in Early Modern Europe*. Van Bavel does not refer to it, although its conclusions do have a bearing on some of his claims.[7]

4. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (originally London, 1776), pp. 111–112, 145, 781–788. I have used the Liberty Fund edition published in Indianapolis in 1981.
5. David Warsh, *Knowledge and the Wealth of Nations: A Story of Economic Discovery* (New York, 2006), pp. 45–47.
6. Giovanni Arrighi, *The Long Twentieth Century: Money, Power and the Origins of Our Times* (London and New York, 1994). See, however, my comments later on in this article. I missed reference to Charles Kindleberger, *World Economic Primacy, 1500–1990* (Oxford, 1996), which contains several observations relevant to Van Bavel's project.
7. Victoria Bateman, *Markets and Growth in Early Modern Europe* (London and Brookfield, 2012).

DEFINITIONS AND LACK OF MEASUREMENT

The two core terms in Van Bavel's book are "factor market" and "decline". In principle, defining a factor market is straightforward and unproblematic. Measuring and comparing – over time or between regions – the extent to which an economy is a factor-market *economy* is not. How important should the market be as an allocation mechanism for factors of production to warrant the term "factor-market economy"? What does it mean that factor markets have become dominant? (See, for example, pp. 209–211, 237–250.) Van Bavel could have expanded more on this. It is striking in this context that he himself – at least in the book – prefers to avoid the concept "capitalism", which recently seems to have been rediscovered by so many economic historians. (p. 24, n. 7; for his interpretation see pp. 273–274). The term "decline" is not defined strictly or in operational terms, but these, in my view, are its most important, interconnected, characteristics: increased capital accumulation in the hands of a small elite that manipulates the market and uses coercion on its own behalf; oligarchization, i.e. the formation of a small increasingly closed economic and political elite; financialization, i.e. the emergence of a large financial sector that invests relatively little in production at home, exports capital, and increasingly acquires political leverage; and, finally, a macroeconomic downturn manifesting itself in stagnating growth (or even a decrease) in GDP per capita, and in a stagnating or even worsening standard of living for ordinary labour.

In references to his book in the media in the Netherlands and Belgium, and in interviews with Van Bavel, very gloomy interpretations of the "decline thesis" – that Van Bavel apparently endorses – abound. He is supposed to have claimed that "The Western market economy will not be around much longer"; "Capitalism is on its last legs"; "The free market will end up in ruin"; "We have a century of decline ahead of us"; "In history all market economies go through a cycle and – after a period of florescence – decline and even disappear"; "Capitalism always perishes because of inequality"; "Real capitalism destroys itself"; "From now on things will only get worse in our capitalist society"; "According to my analysis we are already past the point of no return".[8] In this review, I will stick to the claims he actually makes in the book, though, obviously, such quotes in the media are not irrelevant when it comes to the book's reception and impact.

None of the phenomena Van Bavel refers to when discussing "decline" is easily measurable, in particular for pre-industrial, pre-statistical periods. In principle, claims with regard to GDP and standards of living are the least problematic, in the sense that there is ample literature discussing how to measure them, *when* one has the necessary information. When it comes to inequality in incomes or wealth, two other core elements in Van Bavel's

8. I found all these quotes by looking for references to Van Bavel and his book on Google.

definition of decline, there again exist well-tried ways of measuring them, for example Gini coefficients. Van Bavel uses these measurements, but not very systematically. Increasing market manipulation and coercion – and their impact – are more easily illustrated than actually measured. Van Bavel does not put much effort into developing and using measures. The same goes for "oligarchization" and "financialization". From a methodological perspective, I have three general comments to make about "decline" as explanandum in Van Bavel's book. Firstly, it refers to a configuration of phenomena that need not necessarily develop neatly in parallel and in the same direction. Real GDP per capita does not necessarily develop parallel to real wages per capita. The same goes for inequality in income and inequality in wealth. Van Bavel, of course, is aware of that, but he does not dwell on the implications. Secondly, and this in my view is a major problem, in his case studies Van Bavel presents his thesis in a way that often makes it hard to distinguish between causes, symptoms, and effects of decline. Thirdly, Van Bavel could have strengthened his argument by including more graphs, tables, and figures in his book, to enable the reader to actually see and compare the development of the core variables in his argument over time.

SOME COMMENTS ON CHRONOLOGY

Van Bavel posits a causal connection between the extension of the factor-market economy and economic development. That implies a chronology. His illustrations on page 253 for Iraq, Italy, and "the Low Countries" and on page 257 for Iraq, Italy, Holland, and the United Kingdom are not very precise and not very illuminating when one looks for "proof" of that causal connection. Looking in more detail at the two cases I am most familiar with and for which we have rather good data, the Dutch Republic and Great Britain, and again focusing on the phase of decline, I have doubts about Van Bavel's periodization.[9] For the Dutch Republic, Van Bavel claims that decline had already begun to set in just a couple of decades into the "golden" seventeenth century. In their recent analysis of the growth of the national income of Holland 1347–1807, Jan Luiten van Zanden and Bas van Leeuwen write "the familiar pattern of growth before ca. 1670 [*sic* PV] and stagnation or even decline afterwards, is not that obvious. […] What is perhaps most striking […] is the continued increase of GDP in the eighteenth century, in particular in its second half".[10] They also point to an increase in physical capital stock per capita after 1720 and of human capital

9. The periodization of the phases in Iraq and Italy in the chapters dealing with them is also quite "flexible".

10. Jan Luiten van Zanden and Bas van Leeuwen, "Persistent but not Consistent: The Growth of National Income in Holland 1347–1807", *Explorations in Economic History*, 49:2 (2012), pp. 119–130, 123.

formation beginning in the 1660s.[11] All of which does not tie in neatly with Van Bavel's periodization. Publications I consulted for information on the development of real wages also come up with figures that qualify or even contradict it.[12] Van Bavel does not seem to be entirely sure about decline himself: "In the Golden Age, real wages in Holland remained fairly constant and did not undergo the erosion found in other parts of Western Europe at the time, but neither did they rise above the late medieval levels" (p. 205). As such, the fact that many thousands of poor foreigners continued to flock to Holland, though in smaller numbers than before, in the second half of the seventeenth century and in the eighteenth century, need not contradict Van Bavel's pessimism, but it does qualify it.

Looking at the development of GDP or real wages per capita in Great Britain for the period 1700–1914 that Van Bavel briefly discusses, the actual chronology of events does not fit his thesis neatly either.[13] When it comes to average welfare for England he writes: "The decline in average welfare is reflected in the decrease of average height [...] starting around 1730, with the low reached at around the mid-nineteenth century" (p. 225). This is what he writes about the development of its income and wealth:

> The share in the national income of the wealthiest part increased, slowly, from 1688 to 1801, and sharply rose in the next half century, and the share of capital owners in national income rose to an unprecedented high of more than forty per cent, reached in the mid-nineteenth century. Wealth inequality, even though already at a high level in Britain, continued to rise until the outbreak of the First World War, as the top one per cent owned almost seventy per cent of total wealth. This process was halted, and even reversed, from the mid-nineteenth century onwards, and even more clearly from the First World War, starting with the rise of real wages. Between the 1860s and the 1920s, real wages in England more than doubled. (pp. 225–226)

Of course, no one expects a neat year-to-year correlation between developments in factor markets and the indicators referred to here, but one might

11. *Ibid.*, pp. 125–127.
12. I refer to Jan de Vries and Ad van der Woude, *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500–1815* (Cambridge, 1997), ch. 12, and Jan Luiten van Zanden, *The Long Road to the Industrial Revolution: The European Economy in a Global Perspective, 1000–1800* (Leiden [etc.], 2009), p. 247.
13. Here, too, I refer to a number of texts for further information that does not always endorse Van Bavel's claims: Stephen Broadberry *et al.*, *British Economic Growth, 1270–1870* (Cambridge, 2015); Gregory Clark and Neil Cummins, "Inequality and Social Mobility in the Era of the Industrial Revolution", in Roderick Floud, Jane Humphries, and Paul Johnson (eds), *The Cambridge Economic History of Modern Britain. Volume I. 1700–1870* (Cambridge, 2014), pp. 211–236; Joel Mokyr, *The Enlightened Economy: An Economic History of Britain 1700–1850* (New Haven, CT [etc.], 2009); Hans-Joachim Voth, "Living Standards and the Urban Environment", in Roderick Floud and Paul Johnson (eds), *The Cambridge Economic History of Modern Britain. Volume I: Industrialisation, 1700–1860* (Cambridge, 2004), pp. 268–294.

wonder whether, overall, Van Bavel's chronology is not so "flexible", and in some instances questionable, that it becomes impossible to actually reconstruct the links between cause and effect in his thesis.

EXPLANATIONS FOR THE PRE-INDUSTRIAL WORLD

What, then, explains the decline of factor-market economies? Given that this ought to be the central question of his book, Van Bavel is surprisingly unspecific in answering it. My "(re)construction" of the argument underlying his thesis – which is nowhere presented as such or spelled out in detail – is as follows. In an economy where factors of production have become commodities, the fact that some, for whatever reason, own more of them leads to a further increase in inequality of wealth and income. In turn, this leads to market distortion and less growth (or less potential for growth), which, in turn, leads to financialization and further oligarchization. These again have negative effects on growth and on the real wages and welfare of ordinary labour. Even if this argumentation, which contains several separate steps, is correct – which I certainly consider *possible* – it is *not* self-evident, and Van Bavel should have paid more attention to spelling it out. Increasing inequality in the possession of wealth does not *necessarily* have negative effects on growth, wealth, or wages at a macroeconomic level.[14] Nor can one – at least, in my view – simply claim the opposite, that "the more equality in wealth, the better it will be for the economy". Schumpeter, I think with good reason, seriously doubted whether creative destruction, and thus economic progress and economic growth, would be compatible with perfect, "atomistic" competition and pointed to positive effects of monopolistic – or oligopolistic – practices and economies of scale.[15] This indicates that there may be certain thresholds where effects change, *and/or* that there may be other factors at play. The same goes for oligarchization or financialization. The fact that one can easily imagine certain things to have certain effects does not mean they necessarily and always have them. As Van Bavel does not extensively discuss the assumed links at a general, abstract level, I will analyse how he deals with them in a couple of specific cases, to try to find potential strengths and weaknesses in his approach and methods.

Let us look at Van Bavel's analysis of Dutch decline. Not surprisingly, he eliminates or at least substantially qualifies causes of decline that cannot easily be connected to inequalities in the factor market. He refers to the state of technology and a decrease in technological innovation, but these do not

14. If only because the owner of that wealth need not be its manager.

15. See, for example, Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London, 1943), chs 6–8. Even though he would certainly not deny that too much protection – but, again, how much would that be? – against the "perennial gale of creative destruction" would be bad for development and growth.

play a prominent part in his analysis. The same goes for the effect of climatic change. He regards that as only limited. He refers to the negative consequences of rising import restrictions and mercantilist policies in neighbouring countries, but then tones down their importance. He does not refer at all to international economic or military developments, which must have been very important for an open, service-oriented economy such as that of the Dutch Republic at the time. The possible negative effects of demographic change, including the impact of massive immigration on real wages, or, later, of a stagnating or even declining population, are not discussed. The way in which Van Bavel relativizes or ignores the importance of these factors is unconvincing. They clearly were of major importance for decline. The same goes for his other case studies of decline: can one so easily ignore other possible causes?

For *all* the *pre-industrial* cases that Van Bavel deals with, I would structure an explanation of decline differently and not give priority to developments in factor markets. Increasing inequality in those markets might certainly have been an additional, contributory element, but I do not consider it to have been as crucial as Van Bavel believes it was. In my view, decline would also have set in *without* inequality in wealth. The three pre-industrial market economies that Van Bavel analyses were all what Wrigley calls "advanced organic economies" in which the role of fossil fuels and minerals was still minor.[16] The bulk of their growth was not Schumpeterian, i.e. it was not driven by technological innovation. It was caused primarily by Smithian specialization, including structural changes in the allocation of labour from lower- to higher-income sectors. This means it would peter out because of decreasing returns. Those decreasing returns are reinforced by "Cardwell's Law", the empirical regularity that no society remains at the cutting edge of technological creativity for very long.[17] Advanced organic economies are destined for what Adam Smith called a "stationary state".[18]

In time, the structural features referred to above, combined with more "incidental" factors such as international competition, including violent conflict, an unfavourable international business climate, demographic developments, and other negative influences, turn their "Golden Ages" into

16. E.A. Wrigley, *Continuity, Chance & Change: The Character of the Industrial Revolution in England* (Cambridge, 1988).

17. Joel Mokyr, "Cardwell's Law and the Political Economy of Technological Progress", *Research Policy*, 23:5 (1994), pp. 561–574. For the Dutch case see Karel Davids, *The Rise and Decline of Dutch Technological Leadership: Technology, Economy and Culture in the Netherlands, 1350–1800* (Leiden, 2008).

18. One can also find this or similar concepts in the work of Thomas Malthus, David Ricardo, and John Stuart Mill. For a general analysis see Steven Durlauf and Lawrence Blume (eds), *The New Palgrave Dictionary of Economics* (2nd edition; Basingstoke [etc.], 2008).

transient "efflorescences".[19] In advanced organic societies the scope for profitable investment in actual production easily hits concrete limits or decreasing returns. In his discussion of the Dutch case – as well as the Iraqi and Italian cases – Van Bavel points to decreasing investment in agriculture, manufacturing, and infrastructure, but he does not consider the possibility that this occurred (at least partly) because the scope for further major investment was simply becoming narrower. One example is investment in infrastructure, such as the extension of canals and cities, the drainage of lakes, or land reclamation. A slowdown in population growth, and a decline in population even more so, could of course easily have a negative effect on investment too. The internal logic of advanced organic economies, in which there is no sustained growth, plus adverse incidental factors referred to earlier on provide sufficient explanation for the bulk of the decline that Van Bavel postulates in his pre-industrial case studies. I personally fail to see how a more equal ownership of capital and capital goods could have successfully counteracted the structural and incidental forces referred to earlier on. I do not categorically exclude the possibility that the fundamental technological breakthroughs that we associate with the Industrial Revolution were absent in advanced organic societies *because of* the inequality in their factor markets. This certainly is an interesting hypothesis, but at the moment no more than that. To test it we would in any case have to conceive of a mechanism that produces such a causal connection. I was unable to find such a mechanism in Van Bavel's book.

AGENCY, ELITES, AND INTERNATIONAL CAPITALISM

His use of terms such as "mechanism" and "inevitable" gives Van Bavel's text a deterministic flavour. On the other hand, the reader cannot help thinking that "the elites" are somehow to blame, too, and could – or even should – have acted otherwise. Van Bavel at times seems undecided about the relevance of elite behaviour: was it an effect of economic decline, a cause, or both? Is this how we should interpret the question mark in the book's title? Let me illustrate his indecisiveness – or this inconsistency – again for the Dutch case. For the Netherlands, he suggests at various points that elite behaviour was a "rational" response to a decrease in the profitability – in absolute or relative terms – of investing in agriculture or industry. For example, he claims that in the seventeenth century there was a "relative decline of labour-saving and productivity-enhancing investments" because "investments in industries and technology remained risky compared to those in real estate, while the profits were limited compared to those made

19. Jack Goldstone, "Efflorescences and Economic Growth in World History: Rethinking the 'Rise of the West' and the Industrial Revolution", *Journal of World History*, 13:2 (2002), pp. 323–389.

in trade, coercive activities, financial speculation, and state debts" (p. 201). On the next page, he writes that investing in agriculture and industry in Holland during the Golden Age declined because the situation there became less "favourable" and that "investments in labour-saving technology [...] remained relatively limited, because wealth found other more attractive outlets". On page 203, we read that in the seventeenth century in rural areas, too, if factor markets had become dominant, "economic growth came to a standstill [...] as opportunities for further specialization, increases in scale, and capital investments had been exhausted, and investments shifted to acquiring landed property, status, and political power". What the elites did, in *all* the cases discussed, was "logical":

> We have observed how, in the last phases of the cycle, the market framework becomes less favourable, leading to the economic decline of the area. Elites thus become tempted to develop non-economic, coercive instruments, and to "invest" the capital they have accumulated in public debts, in family foundations, or in acquiring public offices, or to spend it on the fine arts, which generates social capital and prestige. What they do is logical in this phase of the cycle, and there is no need to invoke any moral decadence. (p. 279)

On pages 202–203, however, in discussing why development and growth came to a standstill, Van Bavel mentions the fact that "Holland elites shifted their capital in the seventeenth century increasingly to more secure and relatively profitable public debts, investments abroad, and the acquisition of privileges and public offices" and claims that this was more important (as a factor in causing decline) than the fact that the region continued to adhere to free trade in an increasingly mercantilist environment and than the state of its technology.[20] This suggests that elite behaviour was an independent *cause* of decline.

Whether it was primarily effect – as I would claim – or cause, one can in any case discuss whether elite behaviour made decline worse and whether, in terms of their personal interest and the economy at large, there had been rational alternatives. Financialization is clearly not to Van Bavel's liking. He apparently does not consider finance, and more generally the service sector, to be part of the "real" economy and writes about "diverting capital from productive uses to speculation and financing non-productive activities, including war making", which "contributed to economic stagnation", and

20. Half a page later, he claims that alternatives for the elites to acquiring property, status, and political power had simply been exhausted. This ambivalence reminds one of the debate about the book by Maarten Prak and Jan Luiten van Zanden on the Dutch "polder model", where, at several points, the question was raised as to whether a weakening of the "polder model" led to a less dynamic, more stagnant economy, or the other way around. I refer to the discussion in *BMGN / Low Countries Historical Review*, 129:1 (2014) on Maarten Prak and Jan Luiten van Zanden, *Nederland en het poldermodel. Sociaal-economische geschiedenis van Nederland, 1000–2000* (Amsterdam, 2013).

about "the leaking away of money to unproductive uses" (p. 201).[21] Most economists would hesitate to describe activities that were often quite profitable as "unproductive" and wonder how the elites might have invested their capital in a more "productive" way. In his discussion of financialization, Van Bavel pays ample attention to the growth of government debt and claims this growth was, in his words, driven by the supply of money that would otherwise have been idle. One might wonder how exactly that "drive" works. The elites could have decided not to lend their money to the state: would that have had a positive effect on the Dutch economy, given the existing extremely competitive and bellicose state system? Losing a war is not normally good for the economy. Increasing foreign investment is another characteristic of periods of decline in Van Bavel's thesis. For investors it presumably will have been the rational thing to do. One might, moreover, seriously ask whether the world would be a better place if capital exports from rich countries to poorer ones were to be restricted or even prohibited. Van Bavel's focus on endogenous development can easily conceal the fact that the decline of one economy can be contemporaneous with and connected with the rise of another, in the past as well as at this very moment. Current debates about the economy in the West tend to be gloomy, but many economies in the rest of the world are experiencing unprecedented growth, helped by investment from the West. The world as a whole is certainly becoming wealthier, and, when we compare its different nations, *less* unequal.[22] That does not, of course, mean that decline *à la* Van Bavel does not exist. It just puts it more into perspective.

Here, the approach of Arrighi, by whom Van Bavel says he has been inspired, seems more adequate. Arrighi, too, is convinced that capitalist economies go through cycles. In his view, each cycle begins with a major expansion of trade and/or industry, followed by a period of increasing competition and falling profits as technologies and institutions are copied elsewhere. From the very beginning, connections between the state and economic elites are close. In response to falling profitability, investment is switched to financial services. This financialization is followed by the emergence of a new geographical centre and a new cycle of accumulation. The advantage of Arrighi's approach, as compared with the almost exclusively internal approach of Van Bavel, is that he analyses how and why the major centre of capitalist accumulation and innovation moved from one region to another (from Florence to successively Venice, Genoa, the Dutch Republic, Britain, and the United States); how and why in that process the size and complexity of the capitalist network increased; and, crucially, how and why

21. For similar claims in relation to Iraq and Italy, see Van Bavel, *The Invisible Hand?*, pp. 68, 93, 138, and 141.

22. Branko Milanović, *The Haves and the Have-Nots: A Brief and Idiosyncratic History of Global Inequality* (New York, 2011).

elites from one core were involved in the rise of the next, in a process in which "the autumn" of an old hegemonic centre becomes "the spring" of a new one.[23]

That brings me to some comments on Van Bavel's "elites". He tends to write about them in undifferentiated terms. That can easily be misleading. Let me refer to the case of industrializing Great Britain, the case I recently studied. Agricultural elites there were likely to have interests quite different from those of the new industrialists; traders of the monopolistic chartered companies were often opposed to traders who were not "insiders"; the interests of the City could be different from those of many producers; the same can be said of producers of cotton and producers of wool. Van Bavel realizes, of course, that things are not that simple and explicitly states that elites closed ranks in times of decline (p. 268). Some more concrete information would nevertheless have been helpful. Who closed which ranks? Are we talking about a "persistent" group? Did the top floor of the social-stratification hotel always have the same occupants? Did ownership also mean economic activity?

Whereas elites are great accumulators, and, as such, the bad guys, they are contrasted with self-organizing groups that tend to be presented in a much more positive light. Van Bavel clearly harbours great sympathy for self-organizing groups and implies – though he never explicitly makes that claim – that in an economy where they prevail inequality and decline are less of a problem. Personally I am more sceptical here and would differentiate between "insiders" and "outsiders". Many groups of people who are not normally characterized as "elites", for example members of guilds or commons, or "ordinary" urban citizens, also tended to *exclude* others, and for that very reason many "outsiders" at the beginning of the cycle described by Van Bavel were only too happy that the market mechanism became more important. In periods of stagnation and decline, we tend to see a hardening of social distinctions, with insiders *at all levels* of the social ladder trying to defend their vested interests. It is – as Van Bavel actually shows in his descriptions of decline – not just the "elites" that, by closing ranks and by pursuing risk-averse strategies, can cause negative consequences for economic development.[24]

23. See Arrighi, *Long Twentieth Century*. Arrighi was strongly influenced by Braudel. Van Bavel refers to Braudel's interpretation of capitalism, describing it as a stage that was "inescapably following up on it and ended in the decline of the market economy" (pp. 273–274). That is an idiosyncratic reading of Braudel, for whom capitalism was not a normal outgrowth of the market economy. From its very beginning it functioned according to a different logic in which collusion, manipulation, and non-transparency held centre stage and in which capitalists as a rule did *not* invest heavily in production and fixed capital, but tried to keep their capital mobile and their hands free. For an analysis, see my "Europe and the Rest: Braudel on Capitalism", in Guillaume Garner and Matthias Middell (eds), *Aufbruch in die Weltwirtschaft. Braudel wiedergelesen* (Leipzig, 2012), pp. 81–144.

24. See, for example, Mancur Olson, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT, 1982).

WHAT ABOUT ECONOMIES WITH MODERN ECONOMIC GROWTH?

Van Bavel's actual analysis is largely confined to societies that did not experience modern "industrial" economic growth. He presents his thesis, though, as if it were valid, too, for societies that did. Considering the huge differences between these types of growth and the societies in which they exist, that is a bold assumption – and one that I do not share.[25] An obvious reason not to endorse such an encompassing claim is suggested by the pre-industrial period. I am not convinced that decline in the three pre-industrial societies studied by Van Bavel was caused primarily by the fact that their factors of production had become fully commodified. For the industrial period, Van Bavel simply does not present sufficient specific and adequate data and a sufficiently sound argument to convince me. He basically repeats what I already found problematic for the pre-industrial period. Which, of course, does not *exclude* the possibility he might be right for the industrial world.

In any case, the logics at play in societies without and societies with modern economic growth are quite different at first glance. Modern economic growth is defined as more substantial, sustained, and innovation-driven than pre-modern growth. It evidences several different and "conflicting" dynamics. It would seem that in a modern globally competitive economy of permanent creative destruction oligarchization is less likely, and problems of distribution will be less pressing than in a fairly stagnant pre-industrial world. On the other hand, real innovators or people with a unique talent can enjoy a natural monopoly at least for some period of time, and, in a global market, accumulate large amounts of capital, and political leverage. The fact that, in the West, over the past few decades, innovation as the engine of growth has begun to falter, at least according to several scholars, may have a similar effect.[26] The role and size of the state and of financialization have increased tremendously. The service sector that Van Bavel does not include in the real economy when analysing pre-industrial economies currently "produces" some eighty per cent of GDP in OECD countries. Even more so than in pre-modern cases, it is unclear how ownership of wealth and actual economic development are linked to one another. The manager and the shareholder have in large part pushed the owner-entrepreneur aside. One can

25. I lack space here to explain *in extenso* why. I refer the interested reader to Branko Milanović, *Global Inequality: A New Approach for the Age of Globalization* (Cambridge, MA [etc.], 2016), ch. 2.

26. For the fierce current debate about "the end of growth", see, for example, Tyler Cowen, *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better* (New York, 2011); Robert Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living Since the Civil War* (Princeton and Oxford, 2016); Lawrence H. Summers, "The Age of Secular Stagnation: What It Is and What to Do About It", *Foreign Affairs*, 15 February 2016.

certainly find periods with high inequality in wealth in modern economies, but it would be quite a challenge to neatly correlate them to periods of decline. Even if that were possible, one would still have to show what mechanism is at work ensuring those correlations actually are causal relations. Again, and I want to emphasize this, I do not deny that inequality in wealth can be a cause of decline in modern economies. My claim is that Van Bavel does not show *what* exactly causes inequality, *how* inequality causes decline, and how important it is compared with other causes.

CAN DECLINE BE AVOIDED?

Van Bavel is a pessimist when it comes to the scope for avoiding decline in mature factor-market economies. In his view, the market does not correct itself, and in such economies the countervailing power of civil society and the state is severely diminished. He argues that "mature market economies [...] change from being open and equitable to become unequal and distorted" and claims that in all the cases he studied material inequality "translated into inequality in political influence and decision-making power" (pp. 265 and 264). Elite divisions might help in combating the negative effects of this tendency to oligarchization, but he thinks elites tend to close rank precisely in the final phases of the cycle (p. 268). In his view, even the state succumbs to elite power: "None of the different types of states or government systems in the long run was able to sustain or protect the relatively broad system distribution of property and power found initially in these societies that became dominated by factor markets" (p. 269). He claims that in all three cases he investigated, and also in the modern cases he only touched on, the state did not act to check developments. When capitalism is triumphant, it and the state mutually reinforce each other. In brief, Van Bavel endorses the position that there exists "a fundamental incompatibility of market-dominated economies, or capitalism, and democracy and material equity" (p. 269).

But, if the cycle postulated by Van Bavel is all but inevitable and unstoppable, why is not all wealth and all power concentrated in one hand, in the developed factor-market economies that have already existed for centuries? In his view, the Dutch economy had already begun its decline in the seventeenth century. However, on the worldwide inequality-adjusted human development ranking for 2014 the Netherlands is listed as number two. The United Kingdom ranks number thirteen, Italy number twenty-four, the United States number twenty-eight, and Iraq number ninety.[27] Van Bavel never discusses what happens after a supposed decline, i.e. after a cycle has

27. I took these figures from the *Human Development Report 2015*, published by the United Nations Development Programme (New York, 2015).

run one full course. That is striking, as a cycle is normally defined as "a number of related events that happen again and again in the same order".[28] Apparently what – at least in Van Bavel's view – has gone down, can come up again. In his *Global inequality* Branko Milanović distinguishes between malign and benign forces that reduce inequality, and that thus might start a new cycle as described by Van Bavel.[29] Much attention has been paid to the malign ones. Walter Scheidel is very pessimistic and regards violence as basically the only effective leveller, but less "catastrophist" scholars, including Mancur Olson and Thomas Piketty, too, point to the major importance of wars, revolutions, and external shocks as triggers for redistribution.[30]

If factor markets do indeed have the effects Van Bavel claims, and if the market mechanism is indeed amoral and non-self-correcting, then countervailing powers have to be primarily extra-economic and thus a matter of politics. For the societies that Van Bavel has studied in depth, a critic might comment that it is not surprising that the elites had things their own way, because those societies were not democratic. Even if that claim exaggerates the importance of universal suffrage and other formal characteristics of modern democracy, the question of whether democracy really makes no difference is certainly justified, as is the question of how it could emerge and persist in mature factor-market economies. Van Bavel never discusses politics in great detail, but he does point out that the main cause of higher wages in Great Britain in the period 1860–1920 was the growing self-organization of workers and the threat of revolution (p. 226). Pressure from below, then, and in numerous other cases, could apparently have effect. According to him, we are currently again heading for a world in which economic inequality is being turned into political inequality. Whatever its outcome, the current backlash against the "elite" in the Western world shows that this need not be the case and that maybe "the economic elites" cannot simply manipulate "the masses" through "their" media. There certainly are reasons to be pessimist. There are always reasons to be on the alert, but Van Bavel tends to fatalism.

CONCLUDING REMARKS

Van Bavel definitely has a point. Personally, I would not talk about "inevitability". However, the probability that factor-market economies will

28. *Longman Dictionary of Contemporary English*.
29. Milanović, *Global Inequality*, p. 56. Here, Milanović distinguishes between societies with stagnant mean incomes and societies with growing mean incomes.
30. Walter Scheidel, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century* (Princeton, NJ [etc.], 2017); Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, 2014) [originally in French, *Le Capital au XXIe siècle* (Paris, 2013)]; Olson, *The Rise and Decline of Nations*.

produce inequality and that this inequality will, in turn, have negative effects on the efficiency of markets and on the economy at large is certainly high. The optimism of the bulk of institutionalist social scientists and historians who tend to identify markets with growth and general wealth is mistaken. Van Bavel's critique of the idea that the market mechanism will take care of itself is also fully justified. The relevance and timeliness of his project to find certain patterns in the development of factor-market economies through a comparative, long-term analysis is evident. You do not have to be a pessimist to argue that, for some time to come, advanced factor-market economies in the West will be characterized by stagnation, decline, and polarization more than by growth and social harmony.

Unfortunately, the project's execution falls short of the high standards of what I would consider historical social science. Van Bavel's approach reminds one of Marx's search for the laws of motion of capitalism. Even if such laws exist – which I consider very probable – they will never simply evolve. Actual history is always a confluence of necessity, contingency, and agency. I would have liked to read more about the conjuncture and relative importance of these elements, just as I would have appreciated more information on differences between economies without and with modern economic growth, on the importance of the international context, and on democracy. To satisfy a historical social scientist, the structure of the book's argument should have been laid out more explicitly and step by step, and its thesis formulated in a way that makes it possible to actually test and refute it. Narrating a couple of fairly similar stories about rise and decline is not the same as building a theory of rise and decline. I sincerely hope Van Bavel will continue his highly relevant and interesting analysis, but I also sincerely hope that, in doing so, he will give more consideration to methodological issues.