Werner Plumpe
THE COLD HEART
The History and Future of Capitalism


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Even before the financial crisis it had become fashionable to make capitalism responsible for just about everything that went wrong anywhere in the world. Renowned economic historian Werner Plumpe repudiates this view by walking us through the history of capitalism and showing how many problems have been solved by the capitalist market economy alone.

Capitalism isn't a system, he explains, but a kind of economy which focuses on consumption, the consumption, in fact, of those who are not well off and for centuries were left to fend for themselves. Without them, economically successful mass production would be impossible. This was widely criticised at first, yet Plumpe shows how the capitalist way of managing the economy reacted and is able to change constantly.

As an idea, capitalism has had more profound consequences than perhaps any other; we can't escape it even if we refuse to engage with it. There's no evil, nefarious plot at its core, nor is it the sum of all the negative phenomena concomitant with our form of society. Plumpe describes capitalism as a constant state of revolution, as embodying continual innovation and renewal that is as good or bad as we choose. Capitalism is and always was what we make of it.

- An English sample translation is available.
- Plumpe's previous title on German economic and business history was sold to the US (Palgrave).

Werner Plumpe, born in 1954 in Bielefeld, is a professor of economics and social history at the Johann Wolfgang von Goethe University in Frankfurt. He was chairman of the German Association of Historians until 2012. Since 2010 he has written three books on economic crises, how he became rich and on the Great Depression. Werner Plumpe also received the 2014 Ludwig Erhard Prize awarded for writing on economic issues.

Werner Plumpe

A COLD HEART

Capitalism: The History of an Ongoing Revolution

English sample translation by Stuart Vizard

Rowohlt ● Berlin

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Introduction

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Capitalism is booming. Ever since the financial crisis of 2008 if not earlier, the subject has dominated the worlds of non-fiction books and newspaper supplements, where capitalism is almost always cast in the role of the villain. The suspicion is that at the root of the crisis which is still very much with us lie those very characteristics which seem to be what capitalism is all about – greed, an obsession with profit and unbridled excess. It isn't just that, time and time again, these qualities cause crises, bring about social hardship and lend a dangerous fragility to our lives; no, it's much more than that – they also hold our very fates in their hands. Capitalism has no future anyway, or so the almost unanimous consensus would have us believe; either it will lead to disaster or humanity will manage to cast it off in the nick of time.[1]

Not all voices are quite so apocalyptic, though they are all critical. However, hardly anyone asks how an economic system – assuming for a moment that capitalism is one – with evidently so few friends could have spread and thrived as successfully as it has. There is no shortage of explanations of how "capitalism" itself ensures that there are no effective alternatives to "it"; that "it" is violent and repressive; that "it" buys political decisions and holds politics itself to ransom; that "it" has left such an indelible mark on the institutional structures of our world that we no longer notice ourselves carrying out "its" business. However, aside from the problem that capitalism here is being made into an actor possessing its own free will, the answer already lies in the supposed explanation – capitalism is powerful because it's powerful. Its various incarnations, transformations and variations are merely manifestations of its diabolical nature; what lies behind its thousand faces is always the same – the Devil himself. Whether it appears sporting a cold grin in the USA, decked out in social camouflage in Continental Europe or as a brutal exploiter in China or Africa, ultimately these are all just charades intended to deflect criticism or undermine opposition. One of the few things that both European and North American critics are able to agree on is that it shows its true colours in neoliberalism and the global financial market capitalism closely associated with it. Whenever capitalism is left to its own devices, it's ruthless.

These explanations are essentially tautological and so don't offer much in the way of explanation at all. Above all, they shift the focus onto the historical transformation of the economy which, at best, then resembles a technologically-driven change of clothes, a change which lasts up until the moment when technological progress outgrows capitalism. That, at least, is the Marxist conviction, but here, too, any idea of what a post-capitalist or non-capitalist economy might actually look like is sadly lacking. Though the majority of capitalism's critics don't now wish to see a return to real socialism, it's still anyone's guess quite how an economy might be organised which, on the one hand, can feed, clothe and supply the needs of a population which already stands at almost eight billion people and, on the other, can do without productivity growth, a market-based coordination of

[1] Paul Mason, *Postcapitalism: A Guide To Our Future*; Robert Misik, *Kaputtalismus. Wird der Kapitalismus sterben, und wenn ja, würde uns das glücklich machen?* (Berlin 2016).

economic activities, an allocation of goods through a free determination of prices and private ownership. Paul Mason's utopia, where modern information technology sets us free from labour, scarcity and the market economy through the technologically possible cornucopia of almost freely available goods, is as endearing as it is unrealistic – a modern-day fairy tale about some mythical land of plenty.

By now it must have become clear that today's criticism of capitalism in no way addresses the reality of our everyday economic situation, but has instead, to put it bluntly, constructed a fictional world in which the forces of good are doing battle with a self-made spectre of capitalism – so far with nothing much to show for it, alas. Nevertheless, the anti-capitalist furore is dogged in its belief that if it hasn't happened yet, it's only a matter of time until it does. Capitalism has a tendency to destroy itself – of that you can be certain. So there are still grounds for hope, and this hope can spur people on to fight for a post-capitalist world. However, the empirical evidence of the reality of the modern-day economy only partially backs this up at best; this ever pernicious, contradiction-ridden, self-destructive capitalism still doesn't provide us with an adequate explanation of the way in which economic ends are pursued today. But this doesn't concern the critics. Most of their arguments aren't in any case based on observing and analysing conditions as they exist today. The sources of today's criticism of capitalism are almost always much older than the modern-day economy, and are to be found in the traditions of the moral philosophy and theology of the pre-capitalist era.

In Marxist literary theory in the 1970s, a fairy tale written by Wilhelm Hauff entitled "Heart of Stone" – from which this book takes its title – was read as an example of early capitalist criticism in literature.[2] Hauff's story from 1827 employs traditional motifs to play up to his readers' expectations rather than providing us with any more or less true reflection of the economic situation of his time. Thus, Hauff contrasts Holland, which stands for the modern economy, with the traditional world of the Black Forest, and juxtaposes modern excess with prudent living. Ultimately, the fairy tale reflects the view of the older economic order in which the good housekeeper was held up to be the apotheosis, while its criticism of capitalist Holland plays on all the equally well-known images of depravity, over-indulgence and an all-consuming lust for money. Crucially, to write his story, Hauff didn't need any real-life experience of capitalism. A cursory glance at "Patriotic Fantasies" by the essayist Justus Möser, who enjoyed widespread popularity throughout Germany in the latter half of the 18th century, would easily have furnished him with enough critical arguments against money and the markets.[3]

Justus Möser, on the other hand, was by no means the conservative torchbearer he was later made out to be, as if the lawyer from Osnabrück had recognised and rejected capitalism even before it existed. Möser's arguments belonged to an older tradition of money critique which had nothing to do with capitalism – which was quite unknown at the time – when it referred to the diabolical power of money.[4] Criticism of money can be traced all the way back to Aristotle, but it was above all the practical philosophy and theology of the High and Late Middle Ages which addressed the rise of the

[2] See articles in Ernst Osterkamp, Andrea Polaschegg and Erhard Schütz, eds., *Wilhelm Hauff oder die Virtuosität der Einbildungskraft* (Göttingen 2005).
[3] Justus Möser, *Patriotische Phantasien*, in Möser, *Sämtliche Werke*, vol. 4/5, (Osnabrück 1945).
[4] Jerry Z. Muller, *The Mind and the Market. Capitalism in Western Thought* (New York 2002).

money economy in towns in the 13th and 14th centuries.[5] The rejection of the money economy wasn't just related to the ban on charging interest, but to any economic activity which involved making money. Though, in principle, the need for commerce was never disputed, it was nevertheless believed to pose a real danger to the salvation of a person's soul because it seemed to make it particularly easy to succumb to the sins of usury (*usura*) and avarice (*avaritia*). Long before capitalism triumphed, earlier moral philosophy and theology were certain that it was the very nature of money and the money economy which led people to stray from the straight and narrow. The age-old fear of the money's diabolical nature merely took on a different aspect in the 19th century, but at its heart it was still the same and has been ever since.

It's no coincidence, then, that these elements are to be found fully preserved in Marx's vision, though transformed in their own special way. If the old world still seemed restrained to him, capitalism essentially opened the floodgates to a frenzy of activity which might lead to the abyss or, if we were fortunate, to communism. To Marx, the old world was by no means ideal and from a world-historical perspective it was backward; however, limits to exploitation had been set by how much the feudal lord was able to consume (Marx employs the colourful image of stomach walls), limits which ceased to apply with a capitalism whose sole concern was the accumulation of more and more money. This notion that the unbridled nature of capitalism – feared by the old and laid bare by the young – was one of its defining characteristics isn't only confined to Marx; it also appears in Karl Polanyi's work[6] and in much of the current growth-critical literature.[7] But it's precisely because people adopt older, money-critical semantics when criticising current conditions that they fail to notice what it is that's actually new about this type of economic activity which now goes by the name of capitalism.

To return to Marx, the capitalist, too, has stomach walls, just as the feudal lord did. If it's true that he acquires limitless wealth, then it certainly isn't for his own private consumption, nor is it, at least in most cases, to show off just how rich he is with palaces, parks, firework displays and mistresses. The capitalist – let's call him this for the sake of simplicity – does something quite different with his wealth, something which fundamentally sets him apart from his wealthy predecessors and from the rich who squander their money. He turns his wealth into capital – a situation which Marx perceives with absolute clarity – by *not* consuming it and by investing it in productive assets; in other words, he uses it to create what Marx calls surplus value. He doesn't do this for altruistic reasons; instead, he ties the preservation of his wealth and the means to increase it further to investments in production for human mass consumption – and only for mass consumption, as the traditional consumption of luxury goods of the past hadn't been substantial enough to make this type of economic activity viable at all. Whereas the ordinary folk had ultimately only been of interest to the old feudal lords as serfs whom they could squeeze dry, in capitalism they turned into customers. This makes a world of difference.

Criticism of capitalism which resorts to older semantic traditions and problematises the consequences of money acquisition for the salvation of the upper classes largely ignores the new reality. To them, the lower classes remain the squeezed poor, but this very perspective fails to take

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5 Jacques Le Goff, *Money and the Middle Ages*; Martha C. Howell, *Commerce before Capitalism in Europe, 1300–1600* (Cambridge 2010).
6 Karl Polanyi, *The Great Transformation. The Political and Economic Origins of Our Time*.
7 Robert Skidelsky and Edward Skidelsky, *How Much Is Enough? Money and the Good Life*.

account of the fundamental change which took place in the economy from the 17th century onwards; indeed, it caricatures it. Similarly, Socialist criticism also fails to see the reasons for why something new arose and was able to prevail. Though Marx's analysis that capitalism was all about "producing more and producing more productively"[8] is quite true, there remains a curious reticence about the growth of mass consumption necessarily associated with it.

The term "capitalism" is therefore used in this book with a great deal of circumspection – not as a designation and criticism at the same time, but primarily only as a kind of shorthand to denote what newly emerged in the economy from the 17th century onwards.[9] This can easily be done with Marx when focusing on the transformation of monetary wealth into capital and the spread of commodity production, but this is only one aspect of the term capitalism. The question of how exactly the meaning of the term should be fleshed out, of whether there is any reason to keep the term at all or whether it might not be better just to abandon it altogether, can only be answered at the end.

The first thing that any unbiased look at the modern economy reveals is a curious paradox. Capitalism is very much alive and kicking in spite of, or perhaps precisely because of, the criticism which has been continually levelled at it from its earliest beginnings. Its expansion, which started off in a small handful of European cities, took place under a constant barrage of criticism which was at its most strident in those very same centres. This criticism in all its different forms was and still is of central importance to the history of capitalist economic activity. It provides us with the fundamental reason for why, in practice, it isn't possible to talk of capitalism in the singular because numerous variations of the modern economy emerged, not least as a result of critical debates about how it should be organised. Capitalism, therefore, never had any single, uniform appearance. This was down to the various different technological and ecological conditions which also developed in very different ways from region to region over time. Most importantly, though, the institutional organisation of the economy reacted to the constant criticism, albeit in very different ways both regionally and nationally.

In this sense, the term "capitalism" doesn't denote any uniform practice, and the geographical and temporal variations aren't just superficial phenomena concealing some kind of "essence" of the economy. On the contrary, the remarkable thing about the capitalist mode of economic activity is its plasticity, which also includes its openness towards political organisation. This plasticity may well remind the critics of capitalism of a hydra – if change or one of the many crises cut off one of its heads, another will always grow back in its place, one which might look surprisingly different. So it was that the criticism of capitalism in the first half of the 19th century, and to some extent much later, took the impoverishment of the proletariat as its starting point, only to realise, by the turn of the 20th century, that capitalism, the welfare state and mass consumption were anything but mutually exclusive. These new incarnations, again differing from region to region, occurred and have been occurring ever since. "Varieties of Capitalism"[10] is the name given to what has by now become an entire field of research in which various different forms of capitalism have been identified, though the jury is still out as to whether there are more similarities or differences.

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[8] Jonathan Sperber, *Karl Marx: A Nineteenth-Century Life*.
[9] *Enzyklopädie der Neuzeit*, vol. 6, s.v. 'Kapitalismus' (by Werner Plumpe), column 362–370.
[10] Peter A. Hall and David Soskice, *Varieties of Capitalism. The Institutional Foundations of Comparative Advantage* (Oxford 2008); Bruno Amable, *The Diversity of Modern Capitalism* (Oxford 2003).

This problem, however, largely resolves itself if we conditionally accept a further assumption. Since Karl Marx[11], but in particular since the works of Werner Sombart[12], the prevailing thesis which is accepted today almost as a matter of course has been that capitalism is an economic system with distinct characteristics whose combined effect determine its structure. This "system" is by no means only confined to the economy, but instead – and this is where Marx's influence still prevails today – forms the basis of the entire structure of society. "Capitalism" therefore not only denotes a type of economic activity, but society as a whole. Werner Sombart condensed these assumptions into the thesis that all economic activity takes place within systems which are themselves in turn fundamentally shaped by it. These systems are, he argues, characterised by certain legal, technological and spiritual factors – capitalism by positive law, science-based technology and the prevalence of a pronounced acquisitive behaviour, and the feudalism which preceded it by the importance of lineage, trial-and-error technology and ultimately an orientation towards adequate "subsistence" determined by background and social factors.

It was also Sombart who assigned an historical dimension to these systems, again following Marx. His definitions of Early, High and Late Capitalism played a central role in the social sciences right up until the 1970s, and his notion of an economic system aging and naturally fading away enjoyed widespread popularity. Even today, the historicity of each of the practices leads to their inevitable end – everything which has a beginning must also have an end. Fernand Braudel[13] and Immanuel Wallerstein[14] can be mentioned in this connection because of their well-known advocacy of a view which was never at issue in the Marxist tradition in any case.[15]

As much as the notion of capitalism aging might be a source of political hope and encourage theoretical conjecturing about what comes after it, the empirical evidence for it is flimsy. Characteristics which are regarded today as being typically capitalist have a much longer history. Nineteenth-century research into the classical world made the case for a capitalism of antiquity based on sound, if ultimately unconvincing, arguments. In the same tradition, shortly after the Second World War Henri Sée published a book about the origins of "modern capitalism" – a title which only makes sense if it's possible to talk of an old capitalism.[16] Recently, Peter Temin skilfully exposed the structures which underpinned the Roman market economy.[17] In his view, price-determining markets aren't only a defining characteristic of a capitalist economy, but are clearly much older. Fernand Braudel also recognised this when he made a categorial distinction between market economy and capitalism, but this is like trying to differentiate between oak and tree. It's much more the case that every form of capitalism involves a market economy, but not every market economy is necessarily capitalist.

This already shows how difficult it is to establish clear distinctions between supposed systems which, historically-speaking, never existed in any pure form. For Georg von Below, who was highly

[11] Karl Marx, *Grundrisse: Foundations of the Critique of Political Economy*.
[12] Werner Sombart, *Der moderne Kapitalismus*, 3 vols. (Leipzig 1902/1927); Sombart, Einführung in Begriff und Wesen des Wirtschaftssystems, in Bernhard Harms, ed., *Kapital und Kapitalismus. Vorlesungen gehalten in der Deutschen Vereinigung für Staatswissenschaftliche Fortbildung*, vol. 1 (Berlin 1931), 77–84.
[13] Fernand Braudel, *The Dynamics of Capitalism*.
[14] Immanuel Wallerstein, *Historical Capitalism*.
[15] See, for example, Maurice Dobb, *Studies in the Development of Capitalism*.
[16] Henri Sée, *Modern Capitalism: Its Origin and Evolution*.
[17] Peter Temin, *The Roman Market Economy* (Princeton 2013).

critical of Sombart's sociologising economic-historical speculations, modern economic activity is above all defined as capitalist because it involves capital-intensive economic activity and not because other characteristics (spirit, technology, the law) would make clear system distinctions necessary. Modern research is in agreement that the distinctions which Sombart made between feudalism and capitalism don't square with the facts. There is no clear-cut dividing line to capitalism for the simple reason that even the notion of there being a preceding feudal system has been more or less abandoned.[18] Nowadays, it's at best a utopian fantasy to assume that we will be able to do without price-determining markets in the future. Socialism has shown that there can only be functional equivalents of state distribution to functioning markets at best as regards the price of economic productivity. It wasn't capitalism which came to an end, then, but the attempt to do without it. This doesn't mean that we have to accept that there are no alternatives, but we must insist upon and espouse solutions which are viable. And in order to outline these possibilities, it's necessary to have at least a basic working knowledge of what capitalism is.

The question which needs to be asked, then, is this: how is it possible to talk of a capitalist economy or capitalist economic activity from an historical perspective if there is no capitalist system? What exactly does the underlying concept of capitalism consist of here?

Beneath the surface of strict system distinctions, we find a range of characteristics which allow us to infer changes in economic practices from the 17th century onwards. Whether these are qualitative changes in economic thought and in corresponding institutions or quantitative changes in everyday economic behaviour, at all events it makes sense to differentiate between capitalist and non-capitalist practices. The most crucial novelty was the combination of market economy structures and a capital-intensive production of goods which began and rapidly spread from the 18th century onwards. Aside from a small handful of exceptions, such capital intensity wasn't a feature of the older world, at least not as a generally applicable criterion. This changed, at first through the coming together of the merchant class and production in the putting-out system, becoming much more manifest later on in the context of industrial production.

The term "capitalism" only makes sense on the basis of this fusion of market and capital, though this combination implies further characteristics which constitute modern economic activity. Capital intensity makes it possible to produce goods on a grand scale; for this, available technologies are used and the incentive to develop new technologies is created. As a general rule, an increase in labour productivity is required if there is to be any possibility of mass producing low-cost goods in the first place. This in turn is only worthwhile if a high volume of sales is assured. The demand from rich and affluent households alone is too low for this to be the case; in the past, this demand generally meant that only handmade luxury goods were produced whose high prices guaranteed the livelihoods of the craftsmen who made them, but ruled out the possibility of expanding production to any great extent and taking advantage of economies of scale. The central pillar and precondition for capitalist mass production is the demand from the non-wealthy population whose numbers could be said to have skyrocketed from the 17th century onwards thanks to a succession of advances in the supply of

[18] *Enzyklopädie der Neuzeit*, vol. 3, s.v. 'Feudalgesellschaft' (by Wolfgang Schmale), column 971–978; *Geschichtliche Grundbegriffe*, vol. 2, s.v. 'Feudalismus' (by Otto Brunner), 337–350.

agricultural commodities. They gradually formed the mass market which capital-intensive production both requires and ensures.

As well as capital intensity, then, the orientation of production towards mass consumption is also a central characteristic of the capitalist economy. Previously, this kind of orientation was an exception at most, whereas now it became the rule. The fact that this type of economic activity gathered momentum and managed to establish itself undoubtedly also had to do with characteristics which the early literature on the subject had placed a great deal of emphasis on, namely private ownership, the profit motive and social inequality. However, the fact of their existence isn't the issue here – after all, they've been around much longer than capitalism has – but rather what their specific function is under capitalist conditions. The lust for material possessions and the greed for profit had been denounced since classical times as being harmful to society, and although social inequality wasn't in itself condemned by Christianity, wealth was certainly believed to place the salvation of a person's soul in jeopardy. Poverty, on the other hand, was often seen as being a state of grace, at least theologically-speaking. Under the new conditions, private ownership was now a precondition for the accumulation of capital (owners were quite simply too rich to consume their wealth) and facilitated the transition to a capital-intensive economy. Moreover, it forced what Marx refers to as expanded reproduction because, under the conditions of competition in a market economy, only capital-intensive production is successful which is able to stand firm in the face of market competition. At any rate, assets which are invested in production can only survive if a proportion of the annual return flows back into the renewal and improvement of production. Making a profit and reinvesting it are conditions for the continuation and perpetuation of a capitalist economy which are made necessary by the competition mechanism.

If the first steps towards capitalist production were still an adventure (and in fact, the first major industrial capitalists were often compared to adventurers), competition ultimately forced private owners into a similar behaviour which, once it became routine, quickly lost its adventurous character. Equally, the time-honoured squandering of wealth became a threat to livelihoods, just as monopolies jeopardised the functioning of the market mechanism. If "bourgeois ideology" now not only frowned upon idleness and wastefulness but also upon monopolistic activity, then the functional constraints of the new economic practices also came to be reflected in it.

Something similar can be said when appraising social inequality, that is, the wide disparities in wealth and income. Here, too, the conditions required for capitalism to function must be considered. Poverty isn't in itself a characteristic of capitalism, but social inequality is. The rapid growth of the poor lower class from the 17th century onwards provided, in fact, the quantitative needs to which capitalist mass production was the answer. However, the perpetuation of poverty isn't necessary for the continuation of mass production and might actually be detrimental as it limits demand from those with enough spending power. An increase in this demand is, on the other hand, vital, and in spite of all the pessimistic prophecies of doom in the early 19th century, the history of capitalism is in fact the history of a continuous, if erratic, increase in mass spending power.

However, since this mass spending power affects the cost structure of production for the simple reason that it generally makes the latter more expensive, its expansion is limited; in the long run, it cannot increase faster than productivity. It's also limited in expanded reproduction because there's always a proportion of production which isn't for consumption but for making further investments possible. This accumulation of capital in the hands of certain private owners may appear on the surface to be a case of distributive injustice and which it may well have been or still be in certain individual cases. And yet, this is, in fact, a functional requirement of the modern economy, which has to withdraw part of its output from current consumption in order to preserve its performance capability. Private ownership and the private appropriation of part of the value added legitimised by it are and will always be in this respect a necessary condition for the saving of an economy which is vital for it to function; indeed, this is the only way that they themselves are justified. This is what John Maynard Keynes meant when, in the early 1920s, he wrote that the only justification for the truly great social inequality which existed in the pre-war years was the high investment rates of the time.[19] If social inequality is an essential feature of capitalism at all, then it's in the specific form outlined here, a form which is quite distinct from previous configurations. In capitalism, inequality serves to maintain expanded reproduction; it isn't necessarily associated with poverty and can be influenced politically. Under certain specific conditions, it can become a social scandal, though this is by no means unavoidable.

Speculation, too, appears in a different light when viewed in capitalism as it's understood here. Speculative behaviour has been known and frowned upon since antiquity, generally-speaking because it was associated with people taking advantage of desperate situations which, by creating supply shortages, the greed for profit had more often than not been instrumental in bringing about. This attitude has stayed with us to this day, but at the heart of capitalist activity there lies a different kind of speculation, namely that of not knowing at the time of production whether what is being produced will actually find a market at all while at the same time deciding to produce it anyway. To this extent, mass production for anonymous markets is of necessity speculative; the only other alternative would be the production-to-order which characterised the craftsmanship of the past, but which was the single greatest obstacle to the development of productivity. This speculative factor, meanwhile, not only makes it possible to seize opportunities as they arise and increase productivity; it also makes the economic process prone to crisis as there is no guarantee that the speculation will pay off. This, along with opening up the possibility of decentralised decision-making and the accumulation of capital, represents another essential aspect of private ownership – it serves as a cushion and a limit to crisis phenomena. Crises may well be wide-ranging and long-lasting; however, they're only ever a true threat to the survival of individual businesses whose demise does nothing to weaken the capitalist cohesion, but instead actually improves the chances of the remaining or new market participants.

The social and societal impact of crises isn't, however, limited enough to prevent critics of capitalism – if they haven't already subscribed to the old view that wealth and acquisition are to be condemned – from seizing on it. Capitalism, they argue, is the cause of the crises, which makes it a threat to the very existence of both human beings and the political system. This often overlooks the fact that getting in the way of the economic structural change which occurs through crises and adjustments for the sake of supposed social security and political stability usually has the opposite effect. Great Britain was plunged into a severe structural crisis in the 1970s as a result of clinging on to its industrial traditions, and today's France is dogged by impasses arising from the fact that market

[19] John Maynard Keynes, *The Economic Consequences of the Peace*.

exchange processes are ignored. This may very well be for sound social and political reasons, but the economic consequences of structural conservative action also have to be considered.

The economic and social consequences of distorted or delayed structural change, however, seem now as then to have been forgotten. Post-capitalist utopias are again in great demand, and for another, more important reason. Since Karl Marx at the latest, the idea was formed that, as far as the capitalist economic system and its supposedly contradictory structures were concerned, it wasn't just a question of economics, but of the evolution of society itself. From then on, people not only began speaking of a capitalist economy, but of capitalist societies whose entire structure was "determined" by the organisation of their economies; ultimately, the purpose of everything was to perpetuate the unjust and only occasionally functional structures and to preserve an economy based on exploitation which served the few but harmed the many.

This set a completely new tone because, previously, the importance of the economy had scarcely been recognised. The economy in our modern sense of the word was essentially unknown before the 18th century; it was only later that the notion emerged of a field of activity possessing its own set of rules which had to be respected in the interests of efficiency.[20] Prior to that, economic acts had mainly been a subject for moral philosophers and theologians to mull over; "the economy" didn't have a voice of its own, or if it did, it was still just a whisper. The fact that money played a major role in everyday life was self-evident, but knowledge about where it actually came from, how it was created and how much of it was really out there was very sketchy indeed. And it was money whose importance was being criticised while at the same time people were seeking to possess it at almost any price. It was the attitude of the Church which set the tone of the debates, an attitude which had been highly ambivalent since the High Middle Ages. On the one hand, the Church condemned money and all the possible practices it opened up, in particular the charging of interest. On the other hand, the Church effectively made it into the key to the Gates of Heaven. From the Middle Ages onwards, the Church of Rome was instrumental in driving modern financial methods forward while at the same time denouncing them for being a corrupting influence.[21] Equally, the Church turned the salvation of the soul into a commercial enterprise through its sale of indulgences and the associated practice of confession while proclaiming that the pursuit of money jeopardised this very salvation.[22] According to Ferdinand Gregorovius, it was Aeneas Sylvius Piccolomini, later to become Pope Pius II, who wrote: "There is nothing to be gained from the Roman Curia without money. For even the ordination of priests and the gifts of the Holy Spirit are sold. The pardoning of sins is only conferred for money."[23] Nor did the early modern State have too many qualms about commercialising high office – simony was widely practised until well into the 18th century.[24] In this respect, then, it was the emerging State, like the Church, which prostituted itself and not the economy, which "colonised" areas which were actually foreign territory to it.

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[20] Otto Brunner, Das „ganze Haus" und die alteuropäische Ökonomik, in Brunner, *Neue Wege der Verfassungs- und Sozialgeschichte*, 2nd expanded edition (Göttingen 1968), 103–127.
[21] Leonhard Bauer and Herbert Matis, *Die Geburt der Neuzeit. Vom Feudalsystem zur Marktgesellschaft* (Munich 1992), 41ff.
[22] Jacques Le Goff, *Your Money or Your Life. Economy and Religion in the Middle Ages*.
[23] Ferdinand Gregorovius, *History of the City of Rome in the Middle Ages*, vol. 3.
[24] *Enzyklopädie der Neuzeit*, vol. 1, s.v. 'Ämterkauf' (by Ronald G. Asch), column 327–330.

We know of no such perceptions of the general importance of money from the economy of the late-mediaeval and early-modern world. The guides to household management which flourished across Continental Europe were interested in the sound and sustainable running of a household and viewed money as being an expedient at best.[25] Merchant manuals of the late-mediaeval and early-modern world are best practice handbooks for trade – and only trade – and otherwise recommend leading a conscientious, Christian life;[26] they don't contain even the slightest suggestion of economic imperialism. In the 18th century, the economy also came under an increasing number of attacks of a moral philosophical kind and had to be defended above all through works which pointed out the benefits of free economic activity to the individual and the State.[27] It was only with the rise of liberalism in the 19th century that calls to intervene in the shaping of the economy were roundly rejected and its right to autonomy was vehemently upheld, but even then, the related literature didn't see itself as offering a social theory blueprint, but instead preached the virtue of prudence governed by reason.[28]

The notion of the economy being the basis and thus determinant of everything that constitutes society doesn't therefore come from the economy itself or the gradually emerging field of economic science; it was born of the social theory of the 19th century. Its notion of capitalism didn't so much take up the economic self-image or economic reality of the time as put forward a holistic concept which has its source and roots elsewhere, namely in Hegel's philosophy of history, which, through Marx's elaboration, turned a specific notion of economy into something more akin to an earthly deity. Marx turned the world right side up again, from its intellectual head onto its economic feet, or so he at least claimed to have done with great success. The thing which has made these assumptions seem so plausible right up to the present day was and still is above all the widening importance of money which, in a situation where livelihoods were dependent to an ever greater extent on market supply, supposedly became the key for the whole world.[29]

Against this backdrop, the central question for earlier economic and social theory, and for the economic historiography following in their wake, was how such an economic and social system could have come about historically. This, in turn, led to a wealth of ideas which the concept of capitalism had already gone towards shaping. Something arose which could supposedly be clearly defined historically, namely the capitalist system, which was beset by contradictions and crises right from the start, even though it appeared, to Marx at least, to be historically necessary as a transitional phase. Ultimately, it all came down to a set of anachronistic assumptions which criticism had immunised against further inquiry, as already mentioned above.

A serious analysis of the historical genesis of what later came to be called capitalism was therefore difficult because the genesis had to square with the prerequisite structural evidence. Its beginnings were ultimately much less harmful than they appear in Marx's theories of primitive

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[25] Otto Brunner, *Adeliges Landleben und europäischer Geist. Leben und Werk Wolf Helmbards von Hohberg 1612–1688* (Salzburg 1959).
[26] Hans P. Hansen, *Die Mentalität des Erwerbs. Erfolgsphilosophien amerikanischer Unternehmer* (Frankfurt am Main 1992), 15–30. See also Iris Origo, *The Merchant of Prato: Daily Life in a Medieval Italian City*.
[27] Georg Eckert, Händler als Helden. Funktionen des Unternehmertums in der Neuzeit, *Historische Zeitschrift* 305 (2017), no. 1: 37–69; Albert Hirschman, *The Passions and the Interests: Political Arguments for Capitalism before its Triumph*.
[28] Emma Rothschild, *Economic Sentiments. Adam Smith, Condorcet and the Enlightenment* (Cambridge 2002).
[29] Georg Simmel, *Philosophie des Geldes*, in Simmel, *Gesamtausgabe*, vol. 6 (Frankfurt am Main 1989); Paschen von Flotow, *Geld, Wirtschaft und Gesellschaft. Georg Simmels Philosophie des Geldes* (Frankfurt am Main 1995).

accumulation, Weber's inner-world asceticism and "iron cage" or even Wallerstein's world system and Beckert's war capitalism in which violence and coercion always have an integral part to play.[30] Markets instead first developed in population centres, and it was always an increase in the population which resulted in profound changes in everyday economic behaviour. Ultimately, it was a question of increasing the volume of goods, whether by ever more efficient labour or by cultivating fallow land. Another possibility was without doubt plunder, though this had no lasting impact. Although various different regions and states in Europe profited greatly from early colonial plunder, it was by no means the biggest plunderers who made a beeline to capitalism. British piracy under Elizabeth I is legendary to this day, as is the corrupt East India Company; however, they did nothing to increase the size of the British economy. In fact, the early centres of activities which resemble what happens in a capitalist market are to be found in places where larger population concentrations developed – in parts of southern and western Europe such as Naples, Rome or the cities of Northern Italy, as well as at an early date in Paris and later on in London. This wasn't unique to Europe; similar market formations also occurred in Asia, though institutional forms were radically different.[31]

What impact these market formations have ultimately depends, this book will argue, on the elasticity of supply of the surrounding economic structures, that is, on the economic actors' responses and possibilities to respond to the opportunities to act associated with the market formation. The violent appropriation of resources certainly plays a role in this, but it generally cannot improve the elasticity of supply, let alone create it. This is also indicated by the remarkable fact that, as a rule, economic structural change isn't bound by political frontiers – at least it wasn't at the time of the emergence of the modern economy. Nation states aren't a suitable framework in which to describe the evolving capitalist dynamics. Since Sidney Pollard's work on industrialisation[32] at the latest, it has become clear that it's regional factors which make economic structural change possible and have such a profound impact on it. The State, or rather at the time, the rulers, might well have been able to influence the conditions, but they couldn't artificially create the potential. If this is missing, the ruler is also powerless, quite apart from the fact that, if in doubt, they have to do the right thing. The example of Spain teaches us an important lesson in this respect. The kingdom was without doubt the greatest and most efficient plunderer, especially of Latin America's precious metals, but didn't know how to make the most of what it had, at least as far as the transformation of its own economy was concerned.

It would, of course, be equally inappropriate to speak of regional inevitabilities which occur almost automatically under certain circumstances. Elasticity of supply is, to begin with, only a potential which exists to be exploited, and it isn't a fixed value, but can itself vary during structural change. Moreover, regional differences lead to new competitive situations which are often of vital importance to further development. The "Great Divergence"[33], that is, the unravelling of European and Asian economic development from the 18th century onwards, wasn't only the consequence of the greater elasticity of supply of certain regions of Europe and the determination of individual European states to

[30] For a particularly lucid account, see Joseph A. Schumpeter, *Capitalism, Socialism und Democracy*.
[31] Peer Vries, *Escaping Poverty: The Origins of Modern Economic Growth*; William N. Goetzmann, *Money Changes Everything. How Finance Made Civilization Possible* (Princeton 2016).
[32] Sidney Pollard, *Peaceful Conquest. The Industrialization of Europe, 1760–1970* (Oxford 1981).
[33] Kenneth Pomeranz, *The Great Divergence. China, Europe and the Making of the Modern World Economy* (Princeton 2000). On the criticism of Kenneth Pomeranz's theses, see: Peer Vries, *State, Economy and the Great Divergence. Great Britain and China, 1680s–1850s* (London 2015).

secure and further strengthen their position in international trade by force if necessary. It also ultimately led to different initial conditions for further structural change by shaping the opportunities to act of the various competing regions in different ways – not in terms of hard determination, but in terms of a reinforcement of disparities which, while not quite making it impossible to overcome them, nevertheless made it much more difficult.

Regionally different elasticities of supply are thus a condition, requirement and consequence of economic structural change. Their use depends on contingent circumstances; this use can then create path dependencies which are difficult to break, but which themselves in turn possess an ambivalent importance for structural change – as is very apparent from many old industrial regions of Europe. Resource-rich locations, such as the coal fields of Europe, can develop very quickly in a very short time, but they can just a quickly decline if, due to technological advances, their products are no longer in demand. The availability of low-cost energy, i.e. coal, was a crucial factor for potential in the 18th century; two hundred years later, the situation is quite different. Nevertheless, this brings us to very heart of the problem – how is the respective elasticity of supply to be achieved, how is it used, which dynamics are triggered by it and which technological change is facilitated by it which might in turn substantially alter the initial conditions?

It's true that progress and backwardness are fixed patterns of economic change; however, since the development always differs depending on where and when it occurs, these characteristics are by no means permanently assigned to certain specific places or regions, but instead constantly redistribute themselves. Economic structural change always contains an element of chance whose importance is subject to fluctuations, but is always a given. Equally, the fact that certain areas and states of Europe became pioneers of the modern economy in its capitalist form isn't the inevitable result of some constellation of superiority or another which existed from the outset, but rather the result of a coming together of a wide range of different factors which coalesced in certain places into a strong dynamic which lent them permanence. This history cannot therefore be explained with recourse to any rules of economic development; it must be told from a very specific point of view, namely its uniqueness. And for this reason alone, it makes sense to take Europe as our starting point and to make "Europe's special path" (as Michael Mitterauer puts it) the focus, at least for the beginning of our narrative, as there is no doubt that this continent played a pioneering role.

Previous accounts which simply traced the modern economy back to factors which already existed in Europe in any case and found expression in industrialisation no longer stand up to scrutiny today because they're tautological. They explain dominance by assuming it was already there.[34] And yet the evidence doesn't necessarily have to be wrong just because it's badly presented. Moreover, it's important to take the situation in other parts of the world into account, in particular their specific integration into the European world economy which emerged from the 16th century onwards. However, none of this alters the fact of Europe's truly unique development, which this book will try to shed some light on. Europe didn't get its role naturally, but for historical reasons which lost their importance with the rise of North America which, if not already in the 19th century then certainly by the 20th, had a much

[34] For a typical example, which is nevertheless backed up by a large amount of sound empirical evidence, see: David S. Landes, *The Wealth and Poverty of Nations*.

stronger dynamic and took over the "leadership role" which had until then been played by Europe. But this dynamic didn't last forever either. Although both North America and Europe are among the wealthiest regions in the world today, they're no longer necessarily regions with the strongest dynamics. A European world economy no longer exists today, and nor does North American one. Since the second half of the 20th century at the latest, and especially since the turn of the millennium, the global economy has become multipolar in the course of globalisation. Regional differences haven't disappeared; today, instead, they're being shaped by other regions. And this picture will change again.

The uniqueness of the process of change can only be explained historically, especially if we want to demonstrate its longer-term aspects. However, this makes it sound easier than it actually is. Considering the multifariousness of the change and the countless factors which played and still play a role in it, any history of capitalist change must, strictly speaking, also be a history of the global economy in its various different aspects and guises. However, this is impossible to cover within the pages of a single book. For this reason, it makes sense to set limits. Taking European experiences as a starting point is, therefore, also a pragmatic approach which, in due course, will give way to a global economic perspective, fully recognising that the emergence of the global economy itself is a product, a consequence, of the European expansionist dynamic which it's ultimately eclipsing.

In referencing Europe in this way, however, the intention isn't to adopt the same old patterns of argument of the past. This has already been emphasised with respect to the notion of capitalism, which was used for the mostly causal explanations given for Europe's rise. According to this, it was either violence, coercion and the greed for profit or religion, rationalism, nationalism and even technological know-how and inventiveness along with the institutional structures typical to Europe which made Europe's economic rise possible. Recently, American historian Steven G. Marks has put the emergence and establishment of capitalism down to efficient information management which, he claims, worked better in some parts of Europe than it did in other parts of the world.[35] There is something to be said for all these factors, but it was already clear to Max Weber that causal explanations won't get us very far because they reduce a complex process of change to a simple cause-and-effect relationship. Far from trying to make his own reflections on the spirit of capitalism fit some universal explanatory model, he instead preferred to ask "what concatenation of circumstances" had determined Europe's special path, in which the connection of Protestantism and capitalism he sketched out then played a role.[36]

The process of change considered in this book isn't meant to come across as being causeless; it's just that there was no *one* cause which determined it, but a coalescence of many factors which, for the most part, would have made very little impact on their own. This unique coalescence within a special historical constellation is therefore the very aspect requiring explanation. In doing so, certain decisions have to be made and certain criteria laid down. Europe as the starting point, the 17th century as the pivotal century, the special importance of the Netherlands and Great Britain – all of these assumptions will shape the following account. The capitalist dynamics which

[35] Steven G. Marks, *The Information Nexus. Global Capitalism from the Renaissance to the Present* (Cambridge 2016). Marks, too, overlooks the fact that the organisation of information channels, aside from the fact that it wasn't of any great significance by itself, would itself first have to be explained, something which isn't at all possible with the efficiency of information channels.
[36] Michael Mitterauer, *Why Europe? The Medieval Origins of Its Special Path*.

flourished within this time and space are in relation to their effect, both open and undefined. The seed of what later came to be called capitalism didn't exist from the outset and then germinate and thrive as nature intended. Nor were there any visionary, proactive actors who did what they did because it was the right thing to do, thereby affirming what later came about, indeed anticipating it. The fact that the reasons which led to a development aren't – and cannot possibly be – identical to the reasons for its later functionality was something which Joseph Schumpeter[37] was already aware of. Capitalism didn't arise because policymakers and the economy wanted it; instead, it's the result of a process of trial and error, a new economic practice which, at first, was only discernible in bits and pieces and in isolated cases, but which proved its worth and was copied. Capitalism isn't – as already discussed – a fixed system possessing its own persona and the ability to act of its own accord, a criticism of capitalism which is regularly levelled at it today when people talk of capitalism doing this or allowing that. Capitalism has no interests of its own; it's a kind of order within whose framework individual actors pursue their own interests with varying degrees of success. These interests aren't necessarily the same as those of the order's framework itself, and can even pose a threat to it, such as the pursuit of monopolies or the elimination of competition. Capitalism, therefore, is both an order and a bunch of practices made possible by this order which, ultimately, are permanently fixed by institutional rules based on a changing perception of the world. In this respect, this bunch of practices constantly alters its appearance, either because some things succeed, others are discarded, and something new is added; or because ideas of what constitutes moral behaviour shift in response to changes in economic practice and these require new rules; or because of the rules themselves, which have to be constantly adapted to what is practicable and normatively desired. It's only within this praxeological framework, so to speak, that the characteristics of capitalism mentioned earlier (capital intensity, mass production and consumption, private ownership, social inequality, etc.) can provide us with a complete picture of the dynamics of this kind of economic activity, and it's only once we have this picture that it becomes clear why the complex story of capitalism can only be told in a certain way.[38]

In this respect, the suggestion that capitalism is characterised by contradictions may well be true, but then again it doesn't really mean very much. That the factors already mentioned change in different ways and that something which is attractive in practice can at the same time be institutionally prohibited are only contradictory if uniformity of some kind or another is a requirement. If, on the other hand, a dynamic co-evolution of semantics, institutions and practices is considered to be the norm – which the dynamics of this kind of economy are mostly due to – then there is little point in highlighting the contradictions and suggesting that they will be the downfall of capitalism. Such criticism has nothing to do with the reality of the framework of the capitalist order. Economic actors cannot ruin capitalism, even if they threaten the way the markets work through monopolistic behaviour. None of them is important enough to do this; each economic actor is reliant on the support of rule-making policymakers without whom no monopoly status can exist in the long term. And policymakers are equally reliant on the support of a thriving economy, just as much as they are on the support of the public, without which they cannot hope to govern for any length of time.

[37] Joseph A. Schumpeter, Gustav von Schmoller und die Probleme von heute, in: *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft* 50 (1926), 337–388.
[38] On this, see also Jürgen Kocka's working definition in Kocka, *Capitalism: A Short History*.

What's crucial is that capitalism as an economic practice has no centre from which it's controlled, but instead arises out of the aforementioned process of interaction. This lack of a centre, the absence of a warm, beating heart, is the real secret which underlies capitalism's ability to change and, from the point of view of its critics, to survive. Crises never affect capitalism as such; instead, they always affect individual actors whose replacement within this decentralised world of economic activity is for the most part quite simple and, in fact, possibly even improves the opportunities for others to act and is all in all a driving force for structural change. When looked at in this way, regular economic crises are ultimately a way for capitalism to shed its skin.

All the prophecies of doom about capitalism's imminent demise which have dogged it since its earliest days and especially in times of economic crisis come to nothing because they're based on something which doesn't exist, namely a capitalist system with fixed structures which will come tumbling down at some point. This isn't to say that capitalism wouldn't be threatened, but the threat relates to the sound functioning of its practices, in particular the role of the markets and the importance and function of money. If it's true that there are serious problems with capitalism nowadays, these are above all down to government policies which uphold economic structures which, without their support, would never have been able to survive in the markets (the rescue of the banks), thereby also denaturing the function of money (the interest rate policy of the central banks). To then shift the blame for these measures onto financial capital – which, though it welcomes the support, could never have brought the situation about on its own – might just about be an understandable act of treachery from a politically tub-thumping point of view. However, not wishing to accept the risks involved in its practices is essentially an assault on capitalism. One thing which must be clear by now is that replacing market activity with state intervention ultimately means replacing one evil with another.

A capitalist economy, then, is characterised by decentralisation and a variety of more or less autonomous actors that are bound to one another through price-determining (labour) markets. The behaviour of these actors is guided, at least in principle, by price signals. *Homo economicus* is above all a caricature of economic theory rather than what actually happens in the real world, though budget rationality is a useful behavioural criterion in economic contexts. Moreover, none of the actors is too big to fail; on the contrary, it's precisely this lack of systemic importance which is a necessary precondition for capitalist dynamics to function since the risk of not succeeding in the market plays a major role in the constant improvement of one's own economic performance. The ability to fail in specific situations is a condition for success overall. In this respect, private property is also necessary as, on the one hand, it's a condition for the (relative) autonomy of a large number of actors and, on the other, it forces these actors through the risk of loss to invest their assets in improvements to the economic process and ultimately limits the risks of loss, at least as long as the State doesn't believe that it has to prevent failure.

Price-determining markets and autonomous actors which act according to price signals emerge spontaneously given certain conditions. Institutional regulations can, however, make this not entirely risk-free behaviour more likely and eventually lead to it becoming an established form of behaviour. Meanwhile, for capitalism to emerge within this framework, the possibility of capital-intensive mass production is required. The conditions for this possibility are mass markets with a wide range of customers and technological capabilities which allow mass-produced products to be manufactured and supplied by taking advantage of economies of scale.

It was precisely this chance which arose more and more often in the 17^{th} century and which was first seized upon by people in large towns and cities and then by entire countries such as the Netherlands and above all Great Britain, where the economic and technological conditions were especially favourable for the emergence of the industrial factory system which became the very embodiment of nascent capitalism in every respect. The successes of this kind of economy were initially the source of much wide-eyed wonder; after all, they allowed a small country like the Netherlands to stand up militarily to the global might of a country like Spain, and ultimately laid the foundations for the dominance of England, which had long been seen as hostile and backward, over its Continental rivals, in particular vibrant and prosperous France. Economic success of this kind became the condition for the development of state power which then did much to sustain this success from the 18^{th} century onwards. This is where the development began which is still going on to this day and forms the subject of this book.

Chapter One

“What concatenation of circumstances” (Max Weber) – The emergence of capitalism

Economic historians agree that changes took place in the economy of Northwestern Europe and then across the rest of the world over the course of the 17th and 18th centuries which led to a fundamental transformation of economic activity. This transformation was unparalleled. It not only ended the long pattern of development of a relatively static and, in terms of performance, limited economy, but also destroyed the comparatively widescale uniformity of global economic phenomena which had dominated until then. There had always been regional differences, not least because of differing ecological and geographical circumstances. But now, this was the start of something new, an economic dynamic which very quickly went beyond the confines of the world which had existed until that time.

According to the not undisputed figures of Angus Maddison, which might nevertheless serve as an initial guide, worldwide per capita income in the year 1500 (as expressed in international dollars using the benchmark year of 1990) stood at 566 dollars. The wealthiest European regions were in Italy (1100 dollars) and the Low Countries (present-day Belgium: 875 dollars; the present-day Netherlands: 761 dollars), with Great Britain and France still lagging behind. The figure for China (600 dollars) is misleading as it’s used entirely indiscriminately to refer to a large geographical area as a whole; if we were to take account of regional differences, it’s likely that the figures for individual regions in southern China would exceed the highest European figures.[39] By around 1500, prior to Europe’s colonial expansion, regional differences began to emerge. Thus, the estimated per capita income for Africa of 414 dollars was only a third of that for Italy, whereas it was about the same as that for Latin America and Eastern Europe. However, the extent of the regional differences was still comparatively small. This was to radically change over the course of the next two hundred years.

While the Chinese economy grew – by a not inconsiderable annual rate of change in GDP of 0.41% between 1500 and 1820 – it stagnated when measured against per capita income as the performance per capita didn’t rise overall because of the growth in population from 103 million to 381 million people. The overall economic performance of Western Europe, with its annual growth rate of 0.40%, by no means increased any more rapidly than China’s did over the same period; however, Western European per capita performance rose on average from 798 to 1243 dollars between 1500 and 1820. The reason for this was that the population in Western Europe during this period “only” doubled from around 48 to 114.5 million people, while in China it almost quadrupled.[40] In China, the growth rates of per capita income were negligible, whereas in Western Europe they clearly increased, if only by a small percentage, from an annual growth of 0.13% before 1500 to 0.14% between 1500 and 1820.

[39] Angus Maddison, *Contours of the World Economy 1–2030 AD. Essays in Macro-Economic History* (Oxford 2007), 382; Dieter Kuhn, *Ostasien bis 1800* (Frankfurt am Main 2014).
[40] Maddison, *Contours of the World Economy 1–2030 AD*, 376.

The crucial factor, however, lay above all in the fact that the picture in Europe was highly differentiated. The Netherlands and Great Britain gradually became pioneering growth centres which led the way for the rest of Western Europe and ultimately for the emerging world economy as a whole which, without these two countries, wouldn't have been possible at all. In both of these countries, or to be more precise in these large geographical areas, growth rates increased sharply between 1500 and 1820. This not only affected overall economic performance, which grew twice as fast in Great Britain as it did in China between 1500 and 1820; per capita income also increased significantly – in the Netherlands from 0.12% to 0.28% and in Great Britain from 0.12% to 0.27%. The remarkable thing is that other European regions weren't even able to keep up with this on the whole very modest acceleration in growth; that said, their growth rates were still higher than China's. Only France, Germany and Italy had lower growth rates than China; however, the increase in per capita income in France and Germany stood higher than in China.[41]

What emerged during this period later developed into a dramatic gulf. After 1820, growth in Western Europe continued to accelerate and reached proportions which were truly worthy of the name "Industrial Revolution". While Western Europe dramatically took off, other parts of the world stagnated or maintained the same sluggish pattern of development that they had always had. China in particular fell significantly behind over the course of the 19th century. This gulf in development – the "Great Divergence" – had been widening since the 17th century, but it only become a gaping chasm in the 19th century. The frontrunners in the world economy were now those states where capitalist practices hadn't just emerged early on, but had come to dominate, in particular in Northwestern Europe and, though it initially went unnoticed, in North America. The figures for the USA in the 18th century were already above the global average and also higher than those of Great Britain and the Netherlands. Over the course of the 19th century, the USA – which was to become the epitome of capitalism – would go on to far outstrip all other states and regions in terms of dynamism.[42]

By the outbreak of the First World War, Western Europe accounted for around one third of the world economy's overall performance (in 1500: 15.5%) and the so-called Western Offshoots, i.e. the USA, Canada, Australia and New Zealand, accounted for 21.3% (in 1500: 0.5%). Asia's share (excluding Japan) had dropped from 61.8% to 22.3%. China, which had made up around a quarter of global economic performance in 1500, fell far behind over the course of the 19th century in particular; by 1913, its share was just 8.8%, a truly alarming downturn which was only surpassed by the decline suffered by India. The figures for the subcontinent shrank from one third of global economic performance in around 1500 to just 7.5% in 1913.[43]

These figures are at best a guide and nothing more. But they do reveal a dramatic change. From the 17th century at the latest, the longstanding static development of global economic structures gave way to something new. This wasn't just reflected in a sharp increase in population numbers worldwide, but

[41] ibid., 383.
[42] ibid.
[43] ibid., 381.

above all in changes in living conditions and a rising standard of living, at least in the long run. But it's the regional differences which are striking here. Although India and China during this period both managed to ensure basic subsistence for their rapidly growing populations, the standard of living of the majority of people stagnated or even declined. The danger of Malthusian catastrophes – that is, of situations where it was no longer possible to provide enough food for the existing population – wasn't only not averted, but, on the contrary, it continued to increase during this time.

Unlike in Northwestern Europe and North America. Here, too, the danger of food crises increased as the population grew. Indeed, Thomas Malthus's population theory from around 1800 regarded their occurrence as highly likely. He couldn't just point to the large number of regional famines which had occurred in Europe during the 18th century[44]; history itself had shown that, with sustained population growth, large-scale, widespread famines were virtually inevitable. Economic development in Northwestern Europe and North America didn't quite refute Malthus, but it did in some ways go towards undermining his fears. Instances of famine declined and the last great Malthusian catastrophe to befall Western Europe came in the run-up to the Revolution of 1848. Thereafter, catastrophes of this kind occurred only sporadically or in the aftermath of wars as a result of the increased economic performance capability of Northwestern Europe. This meant that a scourge of humanity had been eradicated which, for centuries, had been regarded as being unavoidable. So whatever the figures may be when looked at individually, the fact remains that the shift in economic activity from the 17th century onwards represented a dramatic break which is tied up closely with the emergence and spread of capitalist practices.

At this point, we could inquire not only into the causes of Europe's development, but also into the reasons why China and India didn't follow suit in spite of the fact that they were certainly in a position to do so in terms of their economic potential. However, the answer to this last question, which has been the subject of a wide range of studies, would only contribute to our understanding of the history of capitalism if the reasons for its not occurring in certain parts of the world also went towards explaining its rise in others. The attempt to establish this link – that is, to establish the reasons for the economic backwardness of certain regions by working back from the successes of Northwestern Europe – has a long history. There is indeed a link between the rise of Great Britain's textile industry and the decline of India's, but it only goes so far. The destruction of a branch of industry through discrimination in one place doesn't explain the rise of capital-intensive production methods in another. It no doubt improves their chances, but it doesn't shed any light on their rise. Looking at China is even less helpful. Though here, too, the negative impact of unequal agreements may in their details be very instructive, colonial penetration of the vast Chinese economy was far too small to explain its torpor.[45] Moreover, there are the contemporaneous dynamics in Western Europe which aren't accounted for by unequal agreements, but by Western Europe's remarkably high elasticity of supply. This still needs to be resolved.

[44] Wilhelm Abel, *Massenarmut und Hungerkrisen im vorindustriellen Europa. Versuch einer Synopsis*, 3rd edition (Hamburg, Berlin 1986).
[45] Jürgen Osterhammel, *China und die Weltgesellschaft. Vom 18. Jahrhundert bis in unsere Zeit* (Munich 1989); more generally Vries, *Escaping Poverty: The Origins of Modern Economic Growth*.

The comparison between Western Europe and other parts of the world is nevertheless helpful, not least because it allows us to put the record straight on the longstanding, widespread myths about the causes of Europe's rise. Especially since the debate about the causes of the "Great Divergence" instigated by Kenneth Pomeranz and others, the naturally-occurring, favourable conditions in parts of Europe – in particular the large deposits of coal and their convenient location for easy transportation – have been highlighted,[46] but this is essentially nothing new. In the 1980s, Eric Lionel Jones had already drawn notable comparisons between the history of the economy in Europe and other parts of the world which emphasised one thing in particular – Europe's path was special, and as such must and can only be explained with reference to itself.[47] Jones also drew attention to a crucial point which has, to a certain extent, been side-lined by the debate about the "Great Divergence" and has been specifically attacked by the argument that Europe was by no means the world economy-leading region until well into the 18th century: "The gulf between East and West may have been widening by industrialisation."[48] It was certainly not favourable coal deposits and the readiness to resort to violence alone which led to Northwestern Europe's rise.

[46] Pomeranz, *Great Divergence*; Robert Allen, *The British Industrial Revolution in a Global Perspective* (Cambridge 2009).
[47] Eric L. Jones, *The European Miracle: Environment, Economies and Geopolitics in the History of Europe and Asia*.
[48] Jones, *The European Miracle*.