Entangled Worlds or Cultural Bifurcation? Comments on the Intellectual Origins of the Great Divergence and Modern Economic Growth, c. 1500–2000 AD

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ABSTRACT

Der Autor untersucht die Geschichte ökonomischer Theorien über die Verursachung regionaler Differenzen und ihre Anwendung seit 1500 und fragt nach den Wegen, die solche Theorien genommen haben und nach dem Wechselverhältnis mit den unterschiedlichen Kontexten in Asien und Europa. Damit wird ein Rahmen entfaltet, der es erlaubt, die Dynamik des Verhältnisses von wirtschaftlichen Ideen und Akteuren sichtbar zu machen und weiter zurückzuschauen, wenn es um die Ursprünge der Great Divergence geht. Der Autor kritisiert den häufig sehr engen Blickwinkel, den Ökonomen und Wirtschaftshistoriker nutzen, um globale Unterschiede und wirtschaftliches Wachstum zu erklären. Dies führe dazu, dass die Divergence als eine Anomalie der Zeit ab 1750 gesehen wird. Dabei wird jedoch das Wie mit dem Warum verwechselt und eine unterkomplexe Erklärung der angenommenen Kausalitäten geliefert. Stattdessen plädiert der Beitrag dafür, die Verwurzelung der Unterschiede im Verhältnis der Menschen zur Wirtschaft und in ihrer Wahrnehmung der kosmologischen Ordnung zu sehen. Er sieht das beginnende 16. Jahrhundert als den Zeitpunkt, an dem sich in Europa die Weltwahrnehmung zu ändern begann und sich damit Ideen eines modernen Kapitalismus ausbreiten konnten. An die Stelle einer auf die Vergangenheit gerichteten Zeitwahrnehmung trat nun die Idee einer offenen und steuerbaren Zukunft, woraus Hume und Smith wirtschaftstheoretische Konsequenzen ableiteten. Ideen, die in China prominent waren, wie etwa das Stabilität und Nichteinmischung verheißende *wu-wei*, wurden in Europa durchaus rezipiert, aber in der bald entstehenden Praxis hochinterventionistischer Wirtschaftspolitiken bald völlig anders interpretiert. Dazu kam es offensichtlich in China aus einer ganzen Reihe von Gründen nicht.

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I

The last four or five centuries have seen one of the most fundamental economic transformations in recorded human history. Between c. 1500 and 2000 AD, Western European per capita gross domestic product (GDP) – the most commonly accepted, yet also inherently ahistorical, measure for cross-sectional and inter-temporal comparisons of economic wealth – grew by a factor of at least 21. The lion's share of this growth fell within the post-1800 period, related to the phenomenon commonly known as industrialization.[1] Between 1820 and 2000 AD, a period for which we have better and slightly more reliable data, world population increased by 500 per cent, whilst world GDP rose by somewhere around 800 per cent. This amounted to a previously unheard-of expansion not only of overall economic wealth – and social inequality – but also human ingenuity and productivity. Whilst *all* world regions have experienced significant increases in income over the past two centuries, notable world-regional differentials have emerged. The highest growth rates are found in northwestern Europe and North America. Between 1800 and 2000 AD, the income gap between the US and the African average widened from a factor of 3 to a factor of 20. Whilst at the dawn of the early modern period (1500 AD) Europe and China may have stood head-to-head in terms of economic wealth and productivity, by the twentieth century a wide gap in wealth had opened, with northwestern Europe emerging and becoming 5 or 6 times as wealthy as China. The pattern has been reversed only fairly recently. These transformations – varyingly known as "industrial revolution," "Great Divergence," or sometimes (by scholars dubbed as "Eurocentrist") "European miracle"[2] – represent intrinsic features of modernity and the rise of the modern world economy.

But why did Europe grow so rich whilst other world regions did not?[3] Historians' narratives of modern economic growth and global economic divergence have rested on variables such as real wages, GDP, or GDP per capita, with the latter two being ahistorical

1 During this period, some countries have taken the lead whilst others have fallen back, sometimes catching up again later. Pre-1900 GDP figures presented in A. Maddison, Monitoring the World Economy 1820–1992, Paris 1995 (with constantly updated information on the panel data to be found on the Maddison Project website: http://www.ggdc.net/maddison/maddison-project/home.htm) and discussed, for example, in P. Malanima, Pre-modern European Economy: One Thousand Years (10th–19th Centuries), Leiden 2009, have been subject to debate (and speculation). They need to be viewed with a pinch of salt: neither GDP nor GDP per capita nor ways of measuring the latter strictly speaking existed before the 1900s; see M. Schmelzer, The Hegemony of Growth: The OECD and the Making of the Economic Growth Paradigm, Cambridge 2016 and D. Philipsen, The Little Big Number: How GDP came to Rule the World and What To Do About It, Princeton 2015. Derived from a partly circular way of reasoning – mainly by projecting backwards hypothetical per capita GDP figures from c. 1900 thousands of years back in time, usually based upon urbanization figures and some non-quantitative evidence on possible total factor productivity growth rates – the Maddison figures only present the broad historical and dimensions of long-term productivity change according to the most reliable inductive stories we have by historians.

2 Eric L. Jones, The European Miracle: Environments, Economies, and Geopolitics in the History of Europe and Asia, 3rd ed., Cambridge / New York 2003.

3 I have dealt with the problematical nature of such projected backwards "per capita GDP" in a forthcoming contribution to the Handbook of Transregional Studies.

propositions because concepts of "the economy" and "GDP" were only fully developed long after 1900 AD.[4] Resource and capital endowment, technology, and, very recently, differential patterns of state involvement in the economy have been the usual suspects for explaining economic modernization and divergence over the past four centuries or so.[5] Much less has been said about culture and ideas. When culture was considered by economists and economic historians, it was often in relation to institutions accounting for variations in national and world-regional economic wealth through social norms and cultural practices.[6] Some scholars have highlighted cultural bifurcation in social norms and kin structure, affecting the nature of contract enforcement and thus possibly causing later divergence between China and "the West."[7] The cultural inclination attributed to Europeans towards economic and military *competition*, manifested by the market and the tournament, have likewise been cited as crucial factors that set Europe apart from the rest.[8] Others have mentioned the rise of "bourgeois values and dignity"[9] and the eighteenth-century Enlightenment as a revolution in attitude towards more rational thinking about the economy and the market.[10]

Whilst not in any way disregarding such models – apart from the fact that the last-mentioned one (the cultural enlightenment hypothesis[11]) obviously represents a teleology or progress-orientated interpretation of history – the present paper sketches contours of an alternative approach towards, and a critique of, prevailing interpretations of global divergence and modern economic growth. This will take us back at least five hundred years. In

4 Phillipsen, Little Big Number; Schmelzer, Hegemony of Growth.

5 Landes, The Wealth and Poverty of Nations; P. Vries, State, Economy and the Great Divergence: Great Britain and China, 1680s–1850s, London 2015; id., Governing Growth: A Comparative Analysis of the Role of the State in the Rise of the West, in: Journal of World History 13 (2002) 1, pp. 67–138; K. Pomeranz, The Great Divergence: China, Europe, and the Making of the Modern World Economy, Princeton, NJ 2000; R. Bin Wong, China Transformed: Historical Change and the Limits of European Experience, Ithaca 1997; J.-L. Rosenthal / R. Bin Wong, Before and Beyond Divergence. The Politics of Economic Change in China and Europe, Cambridge 2011; P. Parthasarathi, Why Europe Grew Rich and Asia Did Not: Global Economic Divergence, 1600–1850, Cambridge 2011; D. Acemoglu / James Robinson, Why Nations Fail: The Origins of Power, Prosperity, and Poverty, New York 2012.

6 For example, D. C. North, Institutions, Institutional Change, and Economic Performance, Cambridge 1990; id., Understanding the Process of Economic Change, Princeton 2005; id., J. J. Wallis and B. R. Weingast, Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History, Cambridge 2009, or A. Greif, Cultural Beliefs and the Organization of Society: A Historical and Theoretical Reflection on Collectivist and Individualist Societies, Journal of Political Economy, 102 (1994) 5, pp. 912–50; id., Institutions and the Path to the Modern Economy: Lessons from Medieval Trade, Cambridge 2006, id. and G. Tabellini, Cultural and Institutional Bifurcation: China and Europe Compared, in: American Economic Review, 100 (May 2010), pp. 135–140.

7 Greif, Cultural Beliefs and the Organization of Society, and id. and G. Tabellini, Cultural and Institutional Bifurcation.

8 For example, P. T. Hoffman, Why Did Europe Conquer the World?, Princeton, NJ 2015; Landes, Wealth and Poverty of Nations, and on a different tune, combining military struggle with geography and relative prices for labour (wages) and capital (interest rates), see Rosenthal / Wong, Before and Beyond Divergence.

9 D. N. McCloskey, The Bourgeois Virtues: Ethics for an Age of Commerce, Chicago, Il 2006; id., Bourgeois Dignity: Why Economics Can't Explain the Modern World, Chicago 2010; id., Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World, Chicago 2016.

10 For example, J. Mokyr, The Enlightened Economy: An Economic History of Britain, 1700–1850, New Haven 2009. A radically different approach to capitalist mentality was formulated by W. Sombart, Der moderne Kapitalismus; historisch-systematische Darstellung des gesamteuropäischen Wirtschaftslebens von seinen Anfängen bis zur Gegenwart, Vols. I, II. 4th ed. Munich / Leipzig 1921/1928.

11 Mokyr, Enlightened Economy.

fact, the long-term view is crucial when it comes to studying phenomena such as European industrialization, the rise of the modern economy, and also the Great Divergence.[12] Strikingly, such a long-term perspective has been absent from most narratives.[13] This has led to the somewhat foreseeable yet eminently trivial interpretation of both global economic divergence as well as the emergence of modern economic growth after 1750 as some sort of grand world-historical anomaly that needs explanation. But if we look back over the last two millennia, observing that China in the twelfth century may have been as highly developed, in terms of technology and living standards, as Europe was around 1700 or 1800 AD, the mere question "why Europe grew rich whilst Asia did not"[14] becomes trivial. We can give an answer using the words of the first Chinese premier, Zhou Enlai, who, when asked about the consequences of the French Revolution, said that it was "too early to tell."[15] Modern historians and economists are often stuck within their self-inflicted narrow frameworks of presentism[16] and their short-term perspectives. But historical processes have a "deep history", a history that is explained as having meaning only when considering trajectories that span several centuries, if not millennia. Thus the "Rise of Europe"[17] may be, world-historically speaking, only a footnote within a deeper human history of several hundreds or thousands of millennia of European culture and economy at the periphery (which may extend to those centuries or millennia yet to come, if the world remains intact).

If we accept, for the time being, the problematic framework traditionally chosen by historians in order to explain global divergence for the past three centuries, it appears as though most of the recent grand narratives are still flawed inasmuch as they provide explanations of *how* this divergence may have been achieved by portraying, and occasionally mistaking, such explanations as actual *causes* of this divergence – the *why*. The latter, obviously, is very different territory. And although historians have correctly emphasized that we should not propel causation in history too far,[18] we may try and look for deeper and more immediate, that is to say non-proximate, explanations of the origins

12 For a long-term view of the great divergence, see, for example, J. M. Hobson, The Eastern Origins of Western Civilisation, Cambridge 2004, or U. Menzel, Die Ordnung der Welt: Imperium oder Hegemonie in der Hierarchie der Staatenwelt, Berlin 2015; with regard to the European industrial revolution, J. L. van Zanden, The Long Road to the Industrial Revolution. The European Economy in a Global Perspective, 1000–1800, Leiden / Boston 2009.

13 Exceptions are to be found in A. G. Frank and B. K. Mills, The World System: Five Hundred Years or Five Thousand?, London / New York 1993, A. G. Frank, ReOrient: Global Economy in the Asian Age, Berkeley 1998, or Menzel, Ordnung der Welt.

14 Parthasarathi, Why Europe Grew Rich; Landes, Wealth and Poverty of Nations; Jones, European Miracle; Pomeranz, Great Divergence; Bin Wong, China Transformed.

15 I have found this quote in R. Nisbett, The Geography of Thought. How Asians Think Differently… and Why, New York et al. 2003, p. 13.

16 F. Hartog, Regimes of Historicity: Presentism and Experiences of Time, New York 2015.

17 W. H. McNeill, The Rise of the West: A History of the Human Community, Chicago 1963.

18 R. Bin Wong, Causation, in U. Rublack (ed.), A Concise Companion to History, Oxford 2011, pp. 27–56, and with regard to useful knowledge and discourses about the Great Divergence, see id., Roy Bin Wong, Useful Knowledge and Economic Change: What Are We Explaining?, LSE Global Economic History Network Conference, working paper (2004), http://www.lse.ac.uk/economicHistory/Research/GEHN/Conferences/conference4.aspx (accessed 17 February 2016).

of the Great Divergence and modern economic growth. Just a few clues will be offered here. Social norms, for instance, far from being causes of or primary origins for global economic divergence rather explain observable variances in developmental patterns over time. They can be important when it comes to *structuring* reality by means of informal institutions. This may even include an immediate future horizon.[19] Therefore, they give us a picture of *how* divergence has unfolded over time. But such cultural norms as social conventions tell us only very little about peoples' *interpretation of the prevailing cosmological order* and how this cosmological order may change through active human intervention. Would this not be much more important when it comes to *explaining*, rather than *monitoring*, processes of divergence? True, North has developed a model of studying humans' cosmological order by linking changes in humans' perception of the cosmological order and the dynamic adjustment, or non-adjustment, of human institutions to such changes.[20] Humans adapt their belief structures (regarding the cosmological order) to prevailing or *changing* material-economic conditions. This may potentially lead to *an improved understanding* of the cosmological order in itself.[21] The post-1660 Newtonian revolution in science and technology seems to be a good example of this.[22] Once again, this only gives us information about improvements in the knowledge of the *how-to-do* but nothing on the deeper meaning and ontology of such processes. What about people's fundamental desires, intentions, and incentives that fill such changes in the "know-how" schedule with meaning? And how do they interact with the economy and the evolution of economic knowledge and reasoning? Can we not expect them – as value judgements – to have been at least as important, if not much more important, than cultural habits and social norms when it comes to explaining processes of global economic divergence and modern economic growth? Cultural norms and social habits, as they are usually framed by institutional economists and historians, rarely explain such alterations, that is to say changes in economic reality after a turning point or "critical juncture" is reached, which means there is no turning back; such "critical junctures" may crucially determine future chances of growth and development for centuries to come.[23]

One may instead argue that such critical junctures require a switch in people's *cosmology*. And such a critical juncture was reached in Europe around 1600 AD through the fundamental alteration in people's moods of thinking about the future (briefly discussed in the next section). A related question is what about the economic *ideas* that underlined, accompanied, and supported processes of growth and development, industrialization and uneven global development? What made Europe rich whilst making others poorer?[24]

19 Greif, Institutions and the Path to the Modern Economy, and Greif/Tabellini, Cultural Bifurcation. The business outlook of merchants and merchant partnerships in medieval and early modern Europe was usually short-lived, extending to one or two years usually.

20 D. C. North, Understanding the Process of Economic Change, Princeton 2005.

21 North, Understanding the Process of Economic Change; D. Lal, Unintended Consequences: The Impact of Factor Endowments, Culture and Politics On Long Run Economic Performance, Cambridge 1998.

22 J. Black, The Power of Knowledge: How Information and Technology Made the Modern World, New Haven 2014.

23 Acemoglu/Robinson, Why Nations Fail.

24 E. S. Reinert, How Rich Countries Got Rich – And Why Poor Countries Stay Poor, New York 2007; Parthasarathi,

What about differences in economic "theories" and political economy regimes, and competing paradigms of what "the state" was and what it should – or should not – do in the economy? These phenomena should be studied within a global and holistic perspective, adopting a deep-time approach as well as a cross-sectional and global perspective on modern economic growth. Consideration should be given to the embeddedness of political economy within the wider realms of culture, including temporal-spatial variations therein. In this way, one would need to seek out new questions and epistemic strategies relating to major processes of global economic divergence over the last few hundred years, as well as narratives and perspectives on one of the most fundamental transformations in recorded human history: Europe's road to wealth in global perspective. The next section will offer a preliminary strategy for discussing such epistemic changes by drawing on the example of the perception of the future in the European mindscape as it developed after the beginning of the seventeenth century. This may have been one of the possible origins of modern economic growth (1600–2000 AD).[25] Some global implications in terms of possible divergences as well as convergences in economic thought will be dealt with in another section, before a penultimate section provides more detail on early modern German economic discourses on silver and European's "fear of imports" in a global perspective. The last section provides a conclusion.

II

Wir arbeiten für unsere Nachkommen! (We work for *posterity!)* – Thus wrote Daniel Gottfried Schreber, professor of economics (cameralism) at the University of Leipzig from 1764 until 1777, in the preface to his translation of Swedish cameralist Anders Berch's magnum opus *Inledning til Almänna Hushålningen, innefattande Grunden til Politie, Oeconomie och Cameralwetenskaperna* (1747/63).[26] With this brief statement, Schreber, inadvertently, provided a pertinent answer to one of the primordial questions in the modern social sciences: Why did Europe grow so rich over the last half-millennium (especially after 1800 AD) whilst others did not? And why did this process happen so suddenly and rapidly, compared to the thousands of years of zero or little growth that had come before?[27] One possible answer is because the future as a manageable entity had now entered the European economic mindscape.

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25 This being with the obvious contention that, as a real thing, modern, that is to say Kuznetsian economic growth, did not exist prior to about 1900. A good discussion can be found in P. Vries, Wirtschaftswachstum, in: Markus Cerman et al. (eds.), Wirtschaft und Gesellschaft. Europa 1000–2000 (VGS-Studientexte 2). Innsbruck/Vienna/Bolzano 2011, pp. 76-103. Nevertheless, this should not prevent us from looking for pretexts of this modern paradigm in pre-modern economic discourse.

26 Stockholm: Lars Salvius, 1747; Ger. Transl. Anleitung zur allgemeinen Haushaltung in sich fassend die Grundsätze der Policey-, Oeconomie- und Cameralwissenschaften, Halle 1763.

27 G. Clark, A Farewell to Alms: A Brief Economic History of the World, Princeton, NJ 2007 is, perhaps, overly pessimistic on chances of growth before 1800; other historians, such as Jan de Vries, would take issue with this by

Whilst many scholars today would call for an end to growth, acknowledging its ecological shortcomings and psychological rifts,[28] the idea that unlimited economic growth is possible in principle *as well as* desirable is still prevalent. It has dominated public discourses for the best part of the last two centuries. Since the days of Karl Marx and Max Weber, the grand narratives of European economic supremacy have fed on this story.[29] Scholars have linked its rise to the eighteenth-century Enlightenment. All of a sudden, it is said, northern Europeans' lives were subjected to radical acceleration.[30] Their timetables became crowded ever since they discovered the virtues of capitalism, free markets, bourgeois values, and optimal theories of resource allocation, with "optimal" often denoting comparability to the modern neoclassical paradigm,[31] implying that these insights were alien to non-Europeans. But what if this story is wrong? In fact, it seems as though the idea of *infinite economic growth* – an early precursor of modern growth discourses[32] – has a much deeper history. As a cultural code, it is older than the Enlightenment. And it does not have as much to do with the rise of modern capitalism as suggested by many;[33] capitalism had been in Europe since the Renaissance.[34] Rather, it was related to a fundamental cultural and epistemic change that occurred right at the same time when a profoundly new mode of economic thinking gained ground c. 1600 AD.[35] This gives rise to the assumption that these two fundamental epistemic shifts – one cultural, the other economic – were related.[36]

pointing to some period of remarkable economic dynamics in many places within Europe (and elsewhere) even before industrialization. See J. de Vries / A. van der Woude, The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500–1815, Cambridge 1997 and J. de Vries, The Industrious Revolution: Consumer Behavior and the Household Economy, 1650 to the Present, Cambridge 2008; and P. Kriedte, H. Medick / J. Schlumbohm, Industrialization before Industrialization: Rural Industry in the Genesis of Capitalism, Cambridge 1981.

28 For example, Philipsen, Little Big Number; T. Sedláček / O. Tanzer, Lilith und die Dämonen des Kapitals. Die Ökonomie auf Freuds Couch, Munich 2016.

29 Parthasarathi, Why Europe Grew Rich, introduction.

30 H. Rosa, Social Acceleration: A New Theory of Modernity, New York 2013.

31 For example, Landes, Wealth and Poverty; J. Mokyr, The Enlightened Economy: An Economic History of Britain, 1700–1850, New Haven 2009, ch. 4.

32 Schmelzer, Hegemony of Growth.

33 For example, L. Neal, Introduction, in: id. and Jeffrey G. Williamson (eds.), The Cambridge History of Capitalism, Vol. I: The Rise of Capitalism: From Ancient Origins to 1848, Cambridge 2015, pp. 1–23.

34 Sombart, Der moderne Kapitalismus.

35 E. S. Reinert / P. R. Rössner, Cameralism and the German Tradition of Development Economics., in: E. S. Reinert, J. Ghosh / R. Kattel (eds.), Elgar Handbook of Alternative Theories of Economic Development, Cheltenham / Northampton 2016, pp. 63-86; P. R. Rössner, New Inroads into Well-Known Territory? On the Virtues of re-discovering Pre-Classical Political Economy, in: id. (ed.), Economic Growth and the Origins of Modern Political Economy: Economic Reasons of State, 1500–2000, London / New York 2016, pp. 3–25; id., Manufacturing Matters: From Giovanni Botero (c. 1544–1617) to Friedrich List (1789–1846), or: The History of an Old Idea, in: H. Hagemann, Stephan Seiter / E. Wendler (eds.), Through Wealth to Freedom, Milton Park / New York 2016.

36 Research by the present author will connect new research in the economic sciences and the history of economic reasoning (most recently essays in Rössner (ed.), Economic Reasons of State) with new findings in the cultural and intellectual history of early modern Europe, especially A. Landwehr, Geburt der Gegenwart: Eine Geschichte der Zeit im 17. Jahrhundert, Frankfurt/Main 2014; H. D. Kittsteiner, Die Stabilisierungsmoderne: Deutschland und Europa 1618–1715, Munich 2010.

On the one hand, we find the rise of modern, proactive or new economic thinking around 1600 AD,[37] sometimes called "Renaissance economics,"[38] most often being, but ultimately unhelpful, similar or identical to what has been labelled "mercantilism"[39] and "cameralism." Writers under this paradigm often entertained the idea that *infinite growth was possible in principle*. This was a profoundly modern paradigm of thinking but was no product of the Scottish Enlightenment, as suggested by some historians.[40] This new economic thinking was concerned with the rise of modern markets, manufacturing, and the proactive role that the state should and did play in the process of growth and development.[41] The vocabulary employed in these texts addressed fundamentally new questions of growth, development, and proactive resource management; increasing employment; promoting manufacturing and import substitution; public banks; the abolition of monopolies and rent seeking; exchange rate manipulation; and, most importantly, *future planning* and prospective economic thinking. This was a mode of economic reasoning we look for in vain in any of the pre-1600 European economic texts and genres.[42] From about the same time onwards, we also observe a *cultural* landslide change in Europe: the "discovery of the present."[43] Until the seventeenth century, most interpretations, cultural visions, and religious discourses had adopted a teleological and backward-orientated vision of time and the future, featuring an "Armageddonist" perspective on human history that essentially determined the cultural outlook on future horizons. The future was either short, bleak, or generally predetermined by the past and God's chosen order as laid out in the hidden signs of the Bible. Reformers such as Martin Luther or Jean Calvin would often play variations of the "Armageddonist" tune in order to drive home their point: the world as they knew it was deemed – or doomed – to end.[44] In this particular future view, there was not much room for economic *development* – in the sense of conscious human effort and *agency* directed at future betterment beyond the usual common time frame. This was provided by the next weeks and months or the next harvest – perhaps the next one or two years of business in the case of merchants, merchant partnerships, and merchant firms. Historical demographer Arthur E. Imhof sketched an interesting "psychogram" of the early modern mindscape. Time horizons extended into eternity and were soteriologically framed. The *hic et nunc* of the present material world did not carry as much meaning and ontological significance as the Everafter, on which most people's

37 Essays in Rössner (ed.), Economic Reasons of State; E. Reinert / Ph. Rössner, Cameralism and the German Tradition of Development Economics.

38 E. S. Reinert, The Role of the State in Economic Growth, in: Journal of Economic Studies 26 (1999), 4/5 pp. 268–326.

39 Regarding mercantilism, the literature is near endless; see P. R. Rössner, Heckscher Reloaded? Mercantilism, the State and Europe's Transition to Industrialization (1600–1900), The Historical Journal, 58 (2015) 2, pp. 663–683.

40 Mokyr, Enlightened Economy, ch. 4; A. Sandmo, Economics Evolving: A History of Economic Thought, Princeton 2011.

41 Rössner (ed.), Economic Reasons of State, introduction and other essays therein; for the post-1800 period, L. Magnusson, Nation, State and the Industrial Revolution: The Visible Hand, London / New York 2009.

42 E. Reinert / Ph. Rössner, Cameralism and the German Tradition of Development Economics.

43 Landwehr, Geburt der Gegenwart.

44 Ibid., see also P. R. Rössner, Martin Luther on Commerce and Usury, London / New York 2015, introduction.

endeavours and efforts were focused.[45] The European textual record after 1600, however, looks different.[46] New literary genres and institutions emerged, such as newspapers or the blank calendar (a personal diary with blank pages for future events). Fire and marine insurance schemes were now developed and turned into productive financial tools. The rank and place of *news* as a category in European discourse and cultural perception changed considerably. Newspapers now grouped together news and information relating to actors, events, and developments, usually political and religious, that were completely unconnected to one another. They did so in a chronological, spatial, as well as social manner (range of actors concerned), creating a fundamentally new "timescape" (Landwehr): time now progressed in an open way, into an open future, driven by multiple versions and visions of people's contemporaneity.[47] Characteristic of the new landscape of news and information management that emerged after c. 1600 was the proliferation of the mundane. Even "random" things now were classified as "news." A wider and more open-access *market* for news thus arose. These phenomena represent what one cultural historian has labelled the "Birth of the Present."[48] They demonstrate a fundamentally changed conception of time as an open-ended flow of events and of risk and chance entering the human equation, and, most importantly, the new vision of the *future as a manageable entity*. This new timescape of the present rested upon the understanding that the future was principally malleable, potentially for the good, by not only human agency and will but, above all, careful management. Can we not expect such fundamental changes in the *cultural* paradigm to have significantly impacted upon – or interacted with – Europeans' visions of *economy*?

Why is this significant? First, if it is true that industrialization, globalization, and the emergence of the modern economy – all of which have a long pre-history[49] – rested upon a new mode of thinking that predated the Enlightenment, then we may speculate whether the eighteenth-century economic Enlightenment authors such as Adam Smith or David Hume, usually heralded as the intellectual forefathers of economic modernization, are actually the right protagonists in this story.[50] Chances are they were, if anything, marionettes in the play.[51] Secondly, pan-European discourse exhibited considerable and expected national and regional idiosyncratic variation. Only after 1945 did economics attain a clear and canonized shape as an academic discipline, to be homogenized under an epistemic paradigm, which we may term Anglo-Saxon or "neoclassical." But before the twentieth century, the German and other continental cameralists may be classified as "mainstream," in the same way as this applies to modern general equilibrium theory

45 A. E. Imhof, Die verlorenen Welten. Alltagsbewältigung durch unsere Vorfahren, Munich 1983; id., Die Lebenszeit. Vom aufgeschobenen Tod und von der Kunst des Lebens, Munich 1988.

46 Landwehr, Geburt der Gegenwart 2014; see also Kittsteiner, Stabilisierungsmoderne.

47 Landwehr, Geburt der Gegenwart.

48 Ibid.

49 Van Zanden, Long Road.

50 For example, Mokyr, Enlightened Economy, ch. 4; Sandmo, Economics Evolving.

51 E. Reinert, Role of the State; id., How Rich Countries Got Rich; E. Reinert / Ph. Rössner, Cameralism and the German Tradition of Development Economics.

and neoclassicism.[52] Third, whilst modern scholars have adopted a critical stance towards economic rationality and the often assumed ability to forecast the economic future,[53] no one could deny that it was exactly this assumption or thinking bias[54] of a forecastable future that gave rise to considerable positive economic externalities over the last four centuries of European economic history. This "thinking error" or illusion of being in control (of the future) has considerably stimulated human economic ingenuity. It did so by the proverbial "schemes" and projects, and the rise of insurance and financial mathematics since the seventeenth century. Without doubt, the new cultural-economic programme of post-1600 AD Europe represents a cornerstone of European economic wealth until modern times. To what extent did this programme influence processes such as the Great Divergence? This is another important question of ultimately global significance. We should be clear that this was an open, two-sided or mutual process, with ideas travelling between Europe and Asia, rather than from one direction to another. The Sinophilia of eighteenth-century German economists was proverbial but hardly ever studied in a systematic way.[55] Others have pointed to the possible origins of physiocracy, and therefore modern economic liberalism, in ancient Chinese economic thought.[56] Much more systematic work is needed here: first, by means of a systematic comparison of early modern European with extra-European (for example, Indian or Chinese) economic thought; second, with regard to formulating a possible hypothesis regarding certain developments (and possible divergences) in economic thought as a possible origin point of global economic divergence.

III

We find two distinct and competing economic paradigms buried within the last thousand years of recorded global history. On the one hand, there was an "Eastern" ideal of

52 For the infinite growth discourses in mid-seventeenth century Sweden, see C. Wennerlind, The Political Economy of Sweden's Age of Greatness: Johan Risingh and the Hartlib Circle, in: Rössner (ed.), Economic Reasons of State, pp. 156–185, for England, C. Wennerlind, Money: Hartlibian Political Economy and the New Culture of Credit, in: P. J. Stern / C. Wennerlind (eds.), Mercantilism Reimagined: Political Economy in Early Modern Britain and Its Empire, Oxford 2014, pp. 74–79. For divergent traditions in Germany, see B. Schefold, Der Nachklang der historischen Schule in Deutschland zwischen dem Ende des zweiten Weltkriegs und dem Anfang der sechziger Jahre, in: id., K. Acham, and K. W. Nörr (eds.), Erkenntnisgewinne, Erkenntnisverluste. Kontinuitäten und Diskontinuitäten in den Wirtschafts-, Rechts- und Sozialwissenschaften zwischen den 20er und 50er Jahren, Stuttgart 1998, pp. 31–70.

53 The economic future, for example, in financial market analysis; see, for example, Sedláček / Tanzer, Lilith und die Dämonen des Kapitals; D. Kahneman, Thinking, Fast and Slow, New York 2011.

54 Kahneman, Thinking, Fast and Slow.

55 See Johanna Menzel, The Sinophilism of J. H. G. Justi, in: Journal of the History Ideas, 17/3 (1956), pp. 300–310, and some remarks in U. Adam, The Political Economy of J. H. G. Justi, Berne 2006.

56 C. Gerlach, Wu-Wei in Europe. A Study of Eurasian Economic Thought, Working Papers of the Global Economic History Network (GEHN), 12/05 (2005). Department of Economic History, London School of Economics and Political Science, London; J. M. Hobson, The Eastern Origins of Western Civilization, Cambridge 2004, pp. 194–201; J. Daly, Historians Debate the Rise of the West, London / New York 2015, p. 129. J. Goody, The East in the West, Cambridge 1996.

stability through government non-interference, a discourse sometimes called *wu-wei*.[57] Some would maintain that it became diffused across early modern Europe by means of commerce and cultural transfer, mainly through the early modern Netherlands (Amsterdam was, until the eighteenth century, Europe's door to the world, succeeded by Hamburg and London).[58] Western thinkers and politicians, from Gottfried Wilhelm Leibniz to Jean-Baptiste Colbert, were proverbially Sinophile; Johann Heinrich Gottlob von Justi, Germany's most famous and most prolific Cameralist of all times and most influential economist of the eighteenth century seem to have been significantly influenced by Chinese political and economic thought.[59] Even though we should probably not venture as far as suggesting, in the words of Tan Min, that "Chinese economic thought should be celebrated not only as a glorious achievement in its own right, but also as one of the main intellectual origins of modern political economy,"[60] the parallelism of *wu-wei* and physiocracy are striking and may have represented early foundations of global modern liberal supply-side economics and neoclassical economic thought. During the seventeenth and eighteenth centuries, intercontinental cultural transfer and intellectual cross-fertilization between Europe and China were quite intense. Ideas migrated and mutated over time, following idiosyncratic variation across space(s). Perhaps ancient Chinese thinkers deserve to be called, in Rothbard's words, "the world's first libertarians."[61] The French physiocratic view emphasized action by non-action in the marketplace, mirroring Eastern Confucian propositions of "ruler(s) who reign but do not rule" (*wu-wei*), something which may have considerably influenced government policies towards the economy in early modern China.[62] But there were also liberal influences in eighteenth-century mainstream European economic thought – that is mercantilism and cameralism. A prime example is Johann Wolfgang von Goethe, Germany's well-known poet, civil servant, and economist, who during his career as an individual and civil servant in the services of the Saxon dukes subscribed to four of the current (and competing) economic theories and "schools" of his age: cameralism, physiocracy, Smithian liberalism, and the emerging Older Historical School.[63] Before c. 1945, there was much more variation and compe-

57 See previous note.

58 Gerlach, Wu-Wei in Europe.

59 Hobson, Eastern Origins, p. 199; Menzel, Sinophilism of J. H. G. Justi; Adam, Political Economy of J. H. G. Justi. On Justi see also A. Wakefield, The Disordered Police State: German Cameralism as Science and Practice, Chicago, Il 2009, and E. S. Reinert (with K. Carpenter), German Language Economic Bestsellers before 1850. Also Introducing Giovanni Botero as a Common Reference Point of Cameralism and Mercantilism, in: Rössner (ed.), Economic Reasons of State, pp. 26–53.

60 T. Min, The Chinese Origin of Physiocratic Economics, in: C. Lin, T. Peach and W. Fang (eds.), The History of Ancient Chinese Economic Thought, London / New York 2014, pp. 82–97, at p. 97.

61 M. Rothbard, as quoted in Z. Madjid-Sadjadi, China, in: V. Barnett (ed.), The Routledge Handbook of the History of Global Economic Thought, Milton Park / New York 2015, pp. 294–395, at p. 297. See also Min, Chinese Origin, for an overview.

62 See also P. Vries, Economic Reasons of State in Qing China: A Brief Comparative Overview, in: Rössner (ed.), Economic Reason of State, pp. 214–219, with remarks on economic dogma, as well as Vries, State, Economy and Great Divergence, for a comparative overview on Chinese and English practices of state intervention in the economy, c. 1680–1850.

63 Far from being undecided – as the modern interpretation would see it, under the framework of culturally homog-

tition than unity in European and global economic thought, which has only recently moved towards global convergence by European-driven homogenization, in an almost cultural-imperialist manner across the world, apart from heterodox tendencies, which are also inclined to be disaggregative and manifold. The developing classical propositions laid the discursive foundations of the modern post-1800 market economy and, in many ways, the post-1945 international ideological economic order in the West.

But was the evolution of modern economic knowledge and the modern economy really *that* simple? There was another tradition or economic canon, once prominent but nowadays forgotten – a paradigm with a likewise ancient pedigree. We may call it "Renaissance economics" (E. Reinert), "mercantilism," "Enlightenment economics" (S. Reinert), or "economic reason of state" (Weststejn & Hartman). It was prevalent in the writings of a sixteenth-century Italian Jesuit named Giovanni Botero (c. 1544–1617). But it may have had earlier roots in later medieval Europe, perhaps in the economic policies of the Upper Italian trading republics of Genoa and Venice – exactly these places in which, according to F. Braudel and Werner Sombart, modern capitalism first emerged. This was not a coincidence; the two developments were functionally related. Capitalism emerged in tandem with states and temporal authorities that wanted to be strong and economically interventionist.[64] It placed heavy emphasis on manufacturing with a call for a proactive state in the economic process in order to raise the nation's wealth. Since the fourteenth-century Renaissance and well into the twenty-first century, this programme of state interventionism continued to make Europe rich.[65] And contrary to modern economic discourse that almost habitually stated that the opposite was best practice (markets always work best when left alone: the "invisible hand argument"), state interventionism (usefully measured by government expenditure as a share in GDP) continuously grew over the last millennium, from modest levels of 5 to 10 per cent for most European "states" around 1500 AD to 50 to 60 per cent of the GDP for the richer and developed nations of today's world (2014). European economic practice in many ways represented a stark counterpoint to the *wu-wei* (China) or physiocrat (France) model of economy, which tended to emphasize agriculture and non-interference by rulers and governments as true or only sources of economic wealth. In practice, Europeans nearly constantly counteracted such theoretical propositions, even more so after c. 1800 AD, when liberal and "free-trade" ideas gained ground in the public debates whilst states' economic policies became even more interventionist than pre-1800. This cognitive distortion is one of the striking paradoxes in recent European history.[66] They did so with

enized modern economics – Goethe acknowledged the practical virtues and theoretical insights of each of those competing "schools" in economics. See B. Schefold, Goethe's Economics. Between Cameralism and Liberalism, in: Rössner (ed.), Economic Reasons of State, pp. 79–100. On heterodox economics, see, for example, the Other Canon (www.othercanon.org).

64 I am currently developing a book-length longue durée narrative on state interventionism and modern European growth, c. 1400–2000 AD.

65 Reinert, Role of the State; id., How Rich Countries Got Rich.

66 On the other hand, see F. Trentmann, Free Trade Nation: Commerce, Consumption, and Civil Society in Modern Britain, Oxford 2008.

manifestly obvious benefit. The first industrialization took place in Europe, not Asia, under considerable and strong support of proactive governments (post-1688 England and post-1800 Germany, Flanders/Belgium, Austria, Italy, Sweden, etc.). Asian governments on the hand were much leaner and fiscally weaker, and much less inclined to interfere in the economy during the early modern period, which may be an important factor in explaining economic divergence.[67]

As Peer Vries has recently noted:

> *Qing rulers wanted to be considered "benevolent rulers" who confined themselves to "controlling from afar" and have a policy of* wu-wei *or rather* wu-wei erzhi*, literally: "Order and equilibrium will be achieved without the ruler's intervention." This principle even became the appropriate description of the ideal Confucian ruler: "One who reigns but does not rule." In the prevailing political philosophy, government and administration should consist of a small group of people who broadly define the rules, competences and resorts and leave the actual implementation of policies and the details to those locally responsible. Local administrators in turn were supposed to delegate and take local conditions into consideration, which meant that at their level administration and politics were almost indistinguishable. Next to these ideological reasons for having "lean government" there also were practical ones: the realm was simply too big and too populous to be actually and effectively ruled from one central point. Trying to do so, on top of that, would mean that the ruling Manchus had to involve many more non-Manchus in their ruling, something they were not really keen on. Those who already had a job as official normally also were not fond of getting many new colleagues, never mind their "ethnicity."*[68]

Thus, whilst the Chinese state may not necessarily have been as weak as it has occasionally been portrayed in the literature,[69] it nevertheless acted on a different rationale than European temporal authorities; a rationale, since the dawn of the early modern age, that emphasized the virtues of non-interference with the economy. Moreover, manufacturing – one of the key ingredients to modern European growth since the 1400s[70] – was deliberately neglected and seen as an inferior activity by the early modern Chinese emperors.[71] In both regards, European conditions were strikingly different since the Renaissance. Since the dawn of the early modern period, the emerging fiscal-military states of Europe placed an increasing emphasis on *taxing* their people, often related to the financing of wars, with the share of taxes in total economic activity significantly increasing from c. 1400 to 2000.[72] With this came an increased pressure to refine methods of collecting

67 Vries, Nation, State and Great Divergence.

68 Vries, Economic Reasons of State in Qing China, p. 210.

69 A point highlighted in Rosenthal / Bin Wong, Before and Beyond Divergence, ch. 7.

70 Reinert, How Rich Countries Got Rich, ch. 3.

71 Vries, Economic Reasons of State in Qing China, p. 208.

72 In some areas, such as the Upper Italian city republics or seventeenth-century England, this share may even have reached levels beyond 10 per cent; eighteenth-century Britain emerged at even higher levels, turning into the most highly taxed economy of its age. C. M. Cipolla, Before the Industrial Revolution: European Society and Economy, 1000–1700, New York 1979.

taxes as well as monitoring the tax base, something that is borne out of the increasingly refined sets of customs accounts, port books, national economic-demographic censuses (since mid-sixteenth century in Spain and Saxony), and emerging national trade statistics (since 1696 in England).[73] In this regard, many European states seem to have interacted much more directly and actively with the economy than the Chinese Empire.[74]
Similarities to the Chinese pattern may be observed elsewhere. The Mughal emperors in India (post-1526), whilst actively interfering with the economy in certain sectors such as manufacturing and the running of state manufactories, also effectively carried out a more or less laissez-faire approach. Taxation levels were moderate, as was economic extortion in general.[75] By the late thirteenth and into the fourteenth century, cities such as Delhi numbered amongst the biggest urban conglomerates within the Muslim world. The sultanate was a sophisticated market economy and levels of taxation extracted from the native peasantry were large enough to keep a prodigious quantity of coin in circulation to make commerce flourish, both regionally as well as in terms of this region's integration into international trade circuits.[76] Whilst Muslim attitudes to commerce and economy are said to have been more relaxed in many ways than Western scholasticism, the same probably applies to Buddhism, which may in fact have taken a far more positive attitude towards business and economic behaviour than is usually acknowledged.[77] Clearly this was a different political economy and cultural perception of the economy, compared to post-1400 "mercantilist" Europe and the European fiscal-military state emerging after the Renaissance.[78] Ancient Indian thought often highlighted the duty of the rulers to promote the well-being of their common wealth through some active interference but mostly through moderate and fair levels of taxation.[79] Confucian economic thought evolved along similar lines – the lower the tax rate, the higher potential total tax yields.

73 For sixteenth-century Spain, see C. M. Cipolla, Between two Cultures: An Introduction to Economic History, New York 1991. For eighteenth-century Britain, see the discussion of the history of new state departments, as well as the types of records produced, in P. R. Rössner, Scottish Trade in the Wake of Union (1700–1760). The Rise of a Warehouse Economy, Stuttgart 2008, chps. 2 and 3.

74 Vries, Nation, State and Great Divergence.

75 T. Raychaudhuri, The State and the Economy 1: The Mughal Empire, in: Id. / I. Habib (eds.), The Cambridge Economic History of India: Volume 1, c.1200–c.1750, Cambridge 1982, pp. 172-192; P. Parthasarathi, State Formation and Economic Growth in South Asia, 1600–1800, in: Rössner (ed.), Economic Reasons of State, pp. 189–203.

76 See I. Habib, Non-Agrarian Production and Urban Economy, in Cambridge Economic History of India Vol. I, pp. 76–92, and S. Digby, The Currency System, in ibid., pp. 93–101, and id., The Maritime Trade of India, in: ibid., pp. 125–162; Tirthankar Roy, Capitalism in India in the Very Long Run, in: L. Neal / J. G. Williamson (eds.), The Cambridge History of Capitalism, Vol. 1: The Rise of Capitalism: From Ancient Origins to 1848, Cambridge 2015, pp. 165–192.

77 A. K. Dasgupta, A History of Indian Economic Thought, London / New York 1993, pp. 13–21.

78 J. Glete, War and the State in Early Modern Europe: Spain, the Dutch Republic, and Sweden as Fiscal-Military States, 1500–1660, London / New York 2002; B. Yun Casalilla / P.-K. O'Brien (eds.), The Rise of Fiscal States: A Global History, 1500–1914, New York 2012; W. Reinhard, Geschichte der Staatsgewalt: eine vergleichende Verfassungsgeschichte Europas von den Anfängen bis zur Gegenwart, Munich 1999; M. L. van Crefeld, The Rise and Decline of the State, Cambridge 2000.

79 See, for example, B. Chandrasekaran, India, in: Barnett (ed.), Handbook of the History of Global Economic Thought, pp. 323–326, at pp. 324–325.

This can be considered supply-side economics not far from the "Laffer Curve."[80] No German cameralist from the sixteenth to eighteenth century would have taken issue with any of these propositions: tax levels should be moderate and the market should be free, enabling entrepreneurship to flourish under a comparatively liberal political economy regime. Only a healthy and wealthy commercial population would make the state rich and its coffers full.[81] In India, the Mughal emperors may even have had a stronger inclination towards interfering with the economy than usually assumed. But the crucial difference to early modern mercantilist Europe was, in the words of Parthasarathi, that "the Mughal state cannot be said to have had a trade policy per se, save to encourage commerce."[82] In Europe, on the other hand, import substitution and infant industry protection strategies were applied since the late fifteenth century.[83] Other scholars have noted the positive attitude in Buddhism towards economy and commerce as well as capital accumulation – an attitude more positive perhaps than most medieval European churchmen and sixteenth-century Protestants ever were. In contrast, some historians of economic thought have emphasized the lenient and laissez-faire attitude towards the market revealed in the writings of the later medieval European churchmen such as Bernardino di Siena.[84] Whilst Buddhist scholars knew market and price regulation for some commodities – as did the medieval European scholastics – they also favoured low taxation and generally seem to have exhibited a relatively relaxed attitude towards commerce and profit-making (as did some of the later medieval scholastics, for instance the monks of the mid-sixteenth-century Spanish School of Salamanca, which had been dubbed by some as the first supply-side and laissez-faire "economists").[85]

Perhaps there was, after all, not so much variance in European-Asian economic *thought*, especially when it came to market regulation, wages, and prices for goods, but rather pronounced differences in terms of *applied economic policy*, especially relating to customs, tariffs, taxes, and trade restrictions, which were used in Europe as means of protecting and promoting infant industries since the late fifteenth century. Thus what people *do* within the economy may often differ from what they *think about* the economy. An interesting question would be why is it that modern capitalism – which according to Braudel and Sombart originated in Renaissance Italy – emerged in those areas of the world that

80 See also Madjid-Sadjadi, China, pp. 297–298, and M. Tao, Confucian Thought on the Free Economy, in Lin, Peach / Fang (eds.), History of Ancient Chinese Economic Thought, pp. 153–165.

81 J. Backhaus, Mercantilism and Cameralism: Two Very Different Variations on the Same Theme, in: Rössner (ed.), Economic Reasons of State, pp. 72–78.

82 Parthasarathi, State Formation and Economic Growth, p. 194.

83 E. Reinert, Role of the State.

84 Dasgupta, History of Indian Economic Thought, On the European Scholastic theologian-economists, see O. I. Langholm, The Legacy of Scholasticism in Economic Thought. Antecedents of Choice and Power, Cambridge 1998; D. Wood, Medieval Economic Thought, Cambridge 2002, esp. 132–152 and R. de Roover, Scholastic Economics: Survival and Lasting Influence from the Sixteenth Century to Adam Smith, in: The Quarterly Journal of Economics 69 (1955), pp. 161–190.

85 Dasgupta, History of Indian Economic Thought, ch. 3.

were perhaps more negatively inclined towards business, profit-making, and trading than China and India?

As usually, one needs to differentiate: as Langholm and others have shown, the medieval European churchmen (scholastics) were not at all opposed to commerce, free markets, and the business of profit-making. They were, in fact, especially during the later period, rather market liberal.[86] Only when business went over the top and profits exceeded the boundaries given by the notion of societal stability and the "common good" would the scholastic churchmen have seen the need to intervene (as do most modern economists, including the market radicals).[87] Perhaps global traditions in economic thought did not differ radically in terms of the basic parameters of economy and commerce. Another important caveat is that there always were – even nowadays – considerable differences between economic thought and economic practice. The early modern European societies provide an excellent example of this. Again the means of interfering with the economy may have been weaker here than in certain parts of contemporary Europe, especially post-1688 England. England, however, would have been the *Sonderweg*, as it had a significantly stronger state apparatus and thus much stronger means of effectively interfering with the economy than most other European states.[88] A good case study is exhibited by early modern Spain. As Regina Grafe has argued, in seventeenth- and eighteenth-century Habsburg Spain mercantilist ideas of domestic industry promotion and protection circulated widely and were actively promoted. The institutional structure of multiethnic and regionalized Spanish society, however, prevented the adoption of an economic policy at the national level that could have effectively promoted Spain's common wealth in the way the mercantilist writers intended. Grafe argues that a strong tradition of political and institutional fragmentation created a bias towards promoting municipal policies at the expenses of the royal or national interest. This prevented Spain from fully unfolding the "good" mercantilist policies of infant industry protection and import substitution that would make post-1707 England and Scotland rich.[89] A similar example is provided by the Prussian case. As Burkhard Nolte has found, literally all measures aimed at creating a unified and uniform Prussian market under Frederick the Great (r. 1740–1786), using a mercantilist ratio of state-building, ultimately failed, as did attempts at effectively promoting domestic industry.[90] But does this mean that mercantilist ideas were wrong or ineffective? Or did they simply unfold in bad contexts? As Magnusson argues, Prussia managed after the 1830s to undergo one of the fastest transitions towards industrialization ever experienced in history – but only after basic restrictions on individual economic

86 See previous paragraph.

87 P. R. Rössner, Burying Money? The Monetary Origins and Afterlives of Martin Luther's Reformation, in: History of Political Economy 48 (2016) 2, pp. 264–265.

88 W. J. Ashworth, Customs and Excise. Trade, Production, and Consumption in England 1640–1845, Oxford 2003; Parthasarathi, Why Europe Grew Rich and Asia Did Not, ch. 5; Reinert, How Rich Countries Got Rich, ch. 3.

89 For Scotland, see P. R. Rössner, Merchants, Mercantilism, and Economic Development. The Scottish Way, c. 1700–1815, in: Annales Mercaturae, 1 (2015) 1, pp. 97–126.

90 B. Nolte, Zölle und Akzise im friderizianischen Preußen. Intention und Durchsetzung staatlicher Merkantilpolitik, in M. Isenmann (ed.), Merkantilismus. Wiederaufnahme einer Debatte, Stuttgart 2014, pp. 197–221.

activity were lifted with the abolition of feudalism, villeinage, and the manorial system in the wake of the legal reforms of 1806 and 1811. The restrictive legal-institutional system in situ (which was called *Agrarverfassung* in German) – and not mercantilist, or cameralist, ideology – hindered economic entrepreneurship and the incentives of people to productively engage with the market. Many contemporary mercantilist and cameralist writers sought to redress and abolish this problem: arguably, the cameralist writers were as market liberal as the authors of modern "neoclassical" faith. In the early modern European view, markets were "unfree," not because of the restrictive government policies but because there were restrictions posed on economic entrepreneurship by the unholy agrarian system of the manorial economy. This gave the individual "feudal" landlords the power of arbitrage, extraction, rent-seeking, and other forms of market distortion, at the expense of the common good. Only a strong ruler who would fight back these rent-seeking predators of the native nobility would make the market "free."[91] Today, this "prince" or strong ruler has been replaced by the numerous regulations detailing how "perfect" markets (such as stock exchanges) should work – rules that are, in terms of numbers and differentiation, much more dirigiste and interventionist than any of the early modern cameralist and mercantilist European states ever were.

This cameralist vision of the "free market" is not at all far from modern concepts of "good" or "perfect" markets.[92] As Stiglitz argues in his most recent book, every government – for the pre-industrial period, we may replace the term "government" with "temporal authority" – has *some* economic policy, unwittingly or deliberate, of interfering with the economy.[93] But in order to create the "free market," one usually needs a strong and proactive government together with well-designed strategies of intervention.[94] There are no governments that do not interfere with the economy as such; rather, it is the degree of interference – as well as the efficiency or lack of efficiency of economic regulation – that varies across countries and over time, which may explain differences in countries' macroeconomic performance. The historical record seems to suggest that it was those countries and states with strong and interventionist governments that would, in the long run, witness the highest and most protracted trajectories of economic growth: post-1688 England; the US, Germany, Belgium, France, and some other continental latecomers in the nineteenth century; as well as post-1960 South Korea and China.[95] So, in fact, eco-

91 B. P. Priddat, Kameralismus als paradoxe Konzeption der gleichzeitigen Stärkung von Markt und Staat. Komplexe Theorielagen im deutschen 18. Jahrhundert, in: Berichte zur Wissenschaftsgeschichte 31 (2008), pp. 249–63; S. R. Epstein, Freedom and Growth. The Rise of States and Markets in Europe, 1300–1750, London 2000.

92 See also B. Harcourt, The Illusion of Free Markets: Punishment and the Myth of Natural Order, Cambridge, Ma 2011.

93 J. Stiglitz / B. Greenwald, Creating a Learning Society: A New Approach to Growth, Development, and Social Progress, New York 2014.

94 P. R. Rössner, Freie Märkte? Zur Konzeption von Konnektivität, Wettbewerb und Markt im vorklassischen Wirtschaftsdenken und die Lektionen aus der Geschichte, in: Historische Zeitschrift 303 (2016), pp. 349-392.

95 H.-J. Chang, Kicking Away the Ladder: Development Strategy in Historical Perspective, London 2003; Reinert, How Rich Countries Got Rich.

nomic ideas may be expected to make a historical difference, if occasionally unintendedly and within a duration of several centuries.

IV

Some of the inherent rationales of the European mercantilist-"economic reason of state" programme of political economy[96] may be explained by the idiosyncratic circumstances of the political, physical, and fiscal geography of early modern Germany – the region where "cameralism" flourished during the early modern period. In order to appreciate the rationale of such political economy, we need to turn our eyes upon the shiny white metal – silver. At the beginning of the early modern period, German silver mines, including, for matters of simplicity and historical sense, the mines in the Austrian Tyrol as well as Bohemian Joachimsthal, produced up to 80 per cent of Europe's silver output.[97] Between 70 and 100 per cent of this silver was usually exported to southern, northern, and western Europe.[98] A lot of it then travelled around the African coast through the Indian Ocean to China.[99] When the newly discovered South and Central American silver mines began to yield significant quantities after the mid-sixteenth century, European supplies gradually decreased in relation to total world supply.[100] The German mines were crucial to the emerging world trade and global economy. Alongside Japan, which exported considerable quantities of silver to China, Europe was the world's most important supplier of that metal. The great silver boom (1470–1620), which originated from the Central European mines, and after c. 1550 continued in American mines, coincided with the monetary expansion commonly known as the "Price Revolution." This may have been a globally shared trajectory considering the fact that systems of monetary circulation and taxation in India and China switched to a silver standard about the same time (post-1470). In China, a silver currency was also reintroduced.[101] Lieberman has identified further "strange parallels" of economic development between India and Southeast Asia and Western Europe during this period.[102] The economic and social consequences of this

96 Rössner (ed.), Economic Reasons of State. The term is borrowed from Hartman and Weststejn.

97 E. Westermann, Zur Silber- und Kupferproduktion Mitteleuropas vom 15. bis zum frühen 17. Jahrhundert, in: Der Anschnitt, 5–6 (1986), pp. 187–211; most recent figures in J. Munro, The Monetary Origins of the 'Price Revolution', in: D. O. Flynn, A. Giráldez / R. von Glahn (eds.), Global Connections and Monetary History, 1470–1800, Aldershot / Burlington 2003, pp. 1–34.

98 P. R. Rössner, Deflation – Devaluation – Rebellion. Geld im Zeitalter der Reformation, Stuttgart 2012, chap. II.

99 A. G. Frank, ReORIENT: Global Economy in the Asian Age, Berkeley 1998; J. de Vries, Connecting Europe and Asia: A Quantitative Analysis of the Cape-route Trade, 1497–1797, in: Flynn, Giráldez / Glahn (eds.), Global Connections and Monetary History, pp. 35–106.

100 Munro, Monetary Origins, tables and discussion for the most recent comprehensive survey on European production.

101 D. O. Flynn / A. Giráldez, Arbitrage, China and World Trade in the Early Modern Period, in: Journal of the Economic and Social History of the Orient, XXXVIII (1995), pp. 429–428; id./id., Born with a "Silver Spoon": the Origin of World Trade in 1571, in: Journal of World History, VI (1995), pp. 201–221.

102 V. Lieberman, Strange Parallels. Southeast Asia in Global Context, c. 800–1830, Vol. 2: Mainland Mirrors: Europe, Japan, China, South Asia, and the Islands, Cambridge 2009, pp. 1–122; 560–561; 647–648.

increasing connectivity between these two world areas arguably also mark the beginnings of the Great Divergence. As silver was an important economic resource both in Asia, as well as Europe, especially for currency, global competition for this scarce resource increased.

During the early modern period, Germany, as well as many other continental European economies, faced repeated pressures on per capita silver supplies. These were the result of an emerging global trade and payments deficit. Between the early 1500s and the nineteenth century, public discourse repeatedly observed and commented upon a net decrease in German silver stocks. Undoubtedly, it is impossible to test this in quantitative terms because economic data on silver flows and stocks are as speculative as all the other economic data for the period concerning output, prices, interest rate, and employment. Notwithstanding, it probably matters much less whether contemporaries were "correct" in their observation of global silver flows (and chances are that they were), and much more that as a result of shifting silver balances a rich economic discourse arose in the German lands that believed in this silver drain – a discourse that represents the foundations of modern European political economy. This discourse has come to be known by various denominations and idiosyncratic shapes: sometimes as "monetarism" (a slightly unfortunate term because it is ambivalent[103]), "bullionism," "mercantilism," "Colbertism" (in France), or "cameralism" (in Germany).[104] Following recent collaborative research efforts, a new terminology is suggested here: "economic reason of state" theory. This economic discourse very often evolved around the question of resource management, and more specifically how to cope with structural shortages and / or a decline in supplies of silver per capita? Because silver was a general purpose means of payments, a shortage of silver usually equalled a structural negative balance of payment (gold after 1500 AD carried much less relevance in trade and the settling of balances and payments).

Around 1500, south-central German, Tyrolean, and Bohemian silver mines exported approximately 16 tons of pure silver per year via Lisbon, Venice, and Antwerp into the Baltic Sea region, Levant, Africa, India, and China.[105] This often equalled the entire annual output of the German mines. Global price differentials in the gold-silver ratio offered the merchants, companies and firms that were engaged in intercontinental trade considerable arbitrage opportunities, as silver fetched an increasing price the further east it went. When brought via Lisbon and the Cape of Good Hope to the Indian Ocean/ Southeast Asian realms, its price, measured in terms of units of gold, increased by 50 per cent; it doubled in price when it had finally reached China.[106] German, as well as many

103 Monetarism also refers to a school of thought that sees changes in monetary stocks as a prime mover for changes in economic activity, including prices, incomes, and employment.

104 Rössner, Heckscher Reloaded?, and id., New Inroads into Well-Known Territory, for a new approach to rethinking cameralism in a European perspective.

105 Rössner, Deflation – Devaluation – Rebellion, ch. II.

106 D. O. Flynn / A. Giráldez, Cycles of Silver: Global Economic Unity through the mid-18th Century, in: M. A. Denzel (ed.), From Commercial Communication to Commercial Integration. Middle Ages to 19th Century, Stuttgart 2004, pp. 81–111, at p. 83.

other European, merchants rushed to export an increasing quantity of silver from west to east (c. 1500–1800), where it not only fetched a better price in terms of gold but also in terms of trade, especially measured in spices. The "Price Revolution," or great expansion of population and total economic activity (per capita GDP stagnated), between 1470 and 1620 was paralleled by American silver imports, which allowed inflation to reign, allowing prices to rise in the face of a decrease of per capita economic resources in the real sector of the economy. Before the American silver arrived after the 1550s, however, the story was different from the usual neo-Malthusian model,[107] which is often used to "explain" the "Price Revolution." The neo-Malthusian model predicts that a decreasing per capita supply of resources (mainly foodstuffs) leads to inflation in the general price level.[108] Between 1470 and 1530, population did indeed increase, whilst both per capita resources (goods) as well as silver supplies per capita (that is to say the amount of money in circulation per capita of the population) *decreased* in the German lands. But rather than causing inflation at that time, this situation led to *deflation* in the price level, and arguably a depression in terms of wages, living standards, and economic activity, something for which ample evidence has been collected and discussed elsewhere.[109] This suggests that a monetarist model may be a better explanation for some of the more significant macroeconomic trends in Germany in the early Reformation.[110]
The ramifications of this are much broader. Silver was the general means of payment in Germany. The Rhenish florin, or goldgulden, that is to say a gold coin from around 1500 AD usually containing 2.5 grams of pure gold, had by 1500 all but vanished from circulation. It was substituted following the 1480s by a large silver coin minted as the exact equivalent to one florin, or goldgulden. This was the *Groschen so einen Gulden* gilt (literally a "groat equalling one florin"). It attained its nickname of thaler (dollar) after the Bohemian mining town of Joachimsthal, called in contemporary colloquial language simply *Das Thal* (literally "the valley," today Jàchymov in the Czech Republic), where large quantities of silver were discovered and minted into coin after 1516. The anchor currency, in the German lands the Reichsthaler, or rix-dollar, was now expressed in terms of silver rather than gold content.[111] Literally all coins – from the small change penny (Lat. denarius, d.) and heller (half-penny) to groats (groschen) and batzen (middle monetary layer or segment) up to large full-bodied silver coins equivalent to the Rhenish florin/gulden – contained at least *some* silver. Their price on the financial (exchange rate against other coins and currencies) and goods market (i.e., measured in terms of basket

107 W. Abel, Agrarkrisen und Agrarkonjunktur in Mitteleuropa vom 13. bis zum 19. Jahrhundert, 3rd ed. [Berlin 1935] Hamburg / Berlin 1978; id., Agricultural Fluctuations in Europe from the Thirteenth to the Twentieth Centuries, London 1980.

108 Abel, Agrarkrisen.

109 Rössner, Deflation – Devaluation – Rebellion, pp. 97–310

110 Ibid., pp. 166–250.

111 B. Sprenger, Das Geld der Deutschen. Geldgeschichte Deutschlands von den Anfängen bis zur Gegenwart, 3rd ed., Paderborn et al. 2003, ch. 7; M. North, Das Geld und seine Geschichte. Vom Mittelalter bis zur Gegenwart, Munich 1994, pp. 71–86.

of consumables one particular coin would buy) was determined by the coins' intrinsic value, that is to say their silver content.[112]

The problems faced by Europeans in the light of a structurally negative balance of silver/payments may be framed using the simple Fisher equation, which tells us that monetary mass, defined by the product of the amount of money in circulation multiplied by its velocity, must equal total economic activity (or transaction volume), measured in monetary terms, multiplied by the price level (which is a dimensionless variable).[113] Because the non-monetized and non-market sector within the economies of sixteenth-century Europe may have been substantial, using the Fisher equation poses a certain epistemic risk to the historian. Nevertheless, the Fisher equation illustrates some of the broader and general implications of silver mining trends and possible economic consequences. With per capita silver money supply declining in per capita terms in the German lands (c. 1490–1540) and a declining velocity[114] vis-à-vis an increasing total population, prices in the market economy may be expected to decline. Indeed, available grain price data show deflation between 1490 and 1530 as well as around 1620 (the period immediately preceding the Thirty Years' War and the "Kipper and Wipper" hyperinflation from 1619 to 1623) and, again, during the years around 1660 to 1680 (wars against the Turks, sometimes nicknamed as the "second Kipper inflation"). These times were phases of monetary contraction, occasionally with bad harvests, bad sales for artisans and merchants, stagnant real wages, and decreases in public expenditure – times we would associate with the modern notion of depression.[115] Silver resources became scarcer, whilst outflows to the Baltic Sea region and Asia were pronounced. Curiously, these were also times when European discourse produced some of the finest works regarding economic analysis.

"One cannot deny that buying and selling are necessary," Luther stated in his great economic treatise of 1524: *Von Kauffshandlung vnd Wucher* (On Commerce and Usury[116]). Additionally, he declared, "Lest every member of society be entirely self-sufficient, commerce is necessary." But Luther found the emerging global trades of his day disturbing. He called them *auslendische kauffs handel* (literally "foreign trade"), "which bring from Calicut, India, and such places, wares such as costly silks, gold-work and spices, which minister only to luxury and serve no useful purpose, and which drain away the wealth of land and people."[117] This concept of superfluous luxury is something Luther shared

112 Rössner, Deflation – Devaluation – Rebellion, ch. III.

113 Mathematically this can be written, in its simplest form, as MV=PT.

114 See Rössner, Deflation – Devaluation – Rebellion.

115 For example, G. Parker, Global Crisis: War, Climate Change and Catastrophe in the Seventeenth Century, New Haven 2013; J. de Vries, Economy of Europe in Age of Crisis, Cambridge 1976; P. R. Rössner, The Crisis of the Reformation (1517): Monetary and Economic Dimensions of a Change in Paradigm, in the Proceedings of the International Conference / Settimane di Studio of the Istituto Datini in Prato/Florence (2016), pp. 259–285 (in print).

116 The American translators of Luther's works chose *On Trading and Usury*, which is the commonly known title of the pamphlet in the English-speaking world. This is a rather unfortunate translation. A new translated and commented edition of Luther's Von Kauffshandlung vnd Wucher (1524) is to be found in Rössner, Martin Luther on Commerce and Usury.

117 Rössner, Martin Luther on Commerce and Usury, p. 176.

with the early English, Italian, and German mercantilists and cameralist authors up until the seventeenth century. Thereafter, later mercantilists developed a more relaxed outlook on the virtues of luxury imports, acknowledging that particular (bilateral) trade balances may be negative and that luxury goods allowed into the country – as long as they could not be produced domestically and as long as the *aggregate* or overall balance of trade remained positive, that is to say as long as there were other branches of the domestic economy that counterbalanced luxury imports – could cause a positive or net-influx of bullion. Luther went on:

> *We have to throw our gold and silver into foreign lands and make the whole world rich while we ourselves remain beggars. England would have less gold if Germany let it keep its cloth, and the king of Portugal, too, would have less if we let him keep his spices. Calculate yourself how much gold is taken out of Germany, without need or reason, from a single Frankfurt fair, and you will wonder how it happens that there is a heller left in German lands. Frankfurt is the gold and silver sink through which everything that springs and grows, is minted or coined here, flows out of Germany. If that hole were stopped up we should not now have to listen to the complaint that there are debts everywhere and no money; that all lands and cities are burdened with charges and ruined with interest payments.*[118]

Alongside Wall Street and Canary Wharf, the Frankfurt Börsenviertel still ranks amongst the top financial places of the world, much more so now than during Luther's times. It is the very last sentence that is much less frequently cited in the literature than the others. Luther seemed to hint here at a situation of monetary contraction, that is to say an economic depression, which would explain why interest rates (if his observations were correct) were increased in the first two decades of the sixteenth century. Luther made similar remarks in his *Address to the Christian Nobility* (1520). In the same year that his *Kauffshandlung* appeared in print, a small book was published by popular preacher Johann Eberlin von Günzburg entitled *Mich wundert, dass kein Gelt ihm land ist. Ein schimpflich doch vnschedlich gesprech dreyer landtfarer vber yetz gemelten tyttel* (I Wonder Why there is so Little Money in Germany, 1524). Ulrich von Hutten and the Imperial Knights (*Reichsritterschaft*), highly educated but impoverished robber barons (*Raubritter*) who played an important role in the early Reformation public discourse, sung a similar tune. In his *Vadiscus* dialogue (1519/20) of the "Romans" (meaning the Curia/Papal Court), von Hutten reported how Rome devised new means of "taking away" money from the Germans day after day. It was three things in particular, von Hutten wrote, that anyone returning from Rome would bring: "bad conscience, an upset stomach, an empty purse." And there were three things everyone at Rome desired: "short Mass, good coins, having a good time."[119] Here von Hutten hinted at what has become colloquially

118 Rössner, Martin Luther on Commerce and Usury, p. 176.

119 R. Bentzinger (ed.), Die Wahrheit muß ans Licht! Dialoge aus der Zeit der Reformation, Leipzig 1982, p. 46, 52, 72–74.

known as Gresham's law (spontaneous debasement). If coins of differing amounts of precious metal circulate alongside each other at the same denomination level (for example, groschen or batzen) and same face value, rational actors will separate out the good money and replace it with bad money in domestic circulation. The bad money remained in Germany according to von Hutten. Recent empirical research has demonstrated that this caused significant imbalances and asymmetries in payment and social relations, contributing to popular unrest and revolts, especially during the many peasant wars that shook the German lands between the 1450s and the mid-1520s.[120]

Because luxurious clothes usually had to be imported, often from Italy, as Luther himself pointed out in his piece *Italian Clothing is Better Than German* (1538), possible multiplying effects of the spending on domestic manufactures for consumption were foregone.[121] The debates of the Imperial Diet in Nuremberg in 1522 recognized the importance of the export of (good) money, as did the Imperial Knights in 1523 in their complaints.[122] In this apparent "fear of goods" (Heckscher), Luther and his contemporaries thus followed a rather common bullionist stance, which had developed in Europe since the fourteenth century.[123] But Luther also made an interesting reference here to the question of development by using England for comparison. England had achieved an improvement in its export position regarding manufactures only very late (after the 1470s), and partly due to a new economic policy or outlook, manifested in Henry VII's customs reform in 1485.[124] By the early sixteenth century, the process of substituting manufactured woollen cloth for raw wool exports was already in full swing. It arguably laid the foundations for later export-led growth in the English (and Scottish) textile industries, not only within the woollen sector but also in the linen and more importantly the cotton industry of the late seventeenth and eighteenth centuries.[125] Luther may have been aware here, if implicitly, that it would be desirable to have a native cloth industry with a positive net contribution to exports. But in the present example, he did not distinguish between spice imports from Portugal (something which did Portugal no great service, as spices were primary / unprocessed goods with little potential for adding value), and cloth imports from England (which were manufactured and thus carried a higher share of value added in the final price and thus *could* have made a positive contribution to sustained and balanced growth and development in England[126]). Philip Wilhelm von Hörnigk (1640–1714), who seemed to have developed the idea of relative underdevelop-

120 Rössner, Deflation – Devaluation – Rebellion.

121 Luther's Works, ed. H. Lehmann, Vol. 54, Table Talk, ed. T. G. Tappert 1967, Nr. 3956, p. 298.

122 G. v. Schmoller, Zur Geschichte der national-ökonomischen Ansichten in Deutschland während der Reformations-Periode, Zeitschrift für Gesamte Staatswissenschaft 16 (1860), pp. 461–716, at pp. 635–638.

123 Wood, Medieval Economic Thought, pp. 125–131.

124 Reinert, How Rich Countries Got Rich, ch. 3.

125 Parthasarathi, Why Europe Grew Rich, ch. 5.

126 This is because the elasticity of demand for manufactured goods is higher than for primary goods (such as food or raw material inputs). Therefore, if incomes increase, manufactures will attain a share in increased demand that is proportionally larger than demand for foodstuffs and primary goods. Thus manufactured exports have a higher growth potential than primary exports.

ment in more detail in his *Oesterreich über alles, wann es nur will* (Austria Over All, If She Only Will, 1684), picked up on this, writing what would become one of Europe's best-selling economics books prior to Adam Smith's *Wealth of Nations* (1776). In this classic pamphlet, Hörnigk identified a "small divergence" within Europe following the late Middle Ages. Whilst beginning with the now age-old lament about the loss of specie and foreign exchange of luxury imports, especially to France,[127] he said that in about a hundred years or so France, England, and the Netherlands would have stood at about the same level of wealth as the German lands. But after that date, Germany had lost out compared to the other three. This would place the reference point for Hörnigk's small divergence somewhere in the middle of the sixteenth century.

Hörnigk's observation ties in with modern research on European urbanization and real wages. In the longer run, throughout the sixteenth, seventeenth, and eighteenth centuries, the German lands became progressively less developed than the Atlantic fringe and the Italian sea ports. The latter had been the richest and economically most advanced region of Europe in the Middle Ages. Contemporary discourse and economic legislation picked up on this continuously, leading to a deep history of European understanding and theories of state intervention in the economy that would make Europe grow rich eventually, certainly in the post-1800 period, but with an important pretext from the period between the 1400s and 1800s.[128] The German *Reichspolizeyordnung* (Imperial Economic Policy Ordinance) of 1548 issued a general export ban on raw wool, as well as the admonition to "wear only domestically manufactured cloth." The Imperial Resolution of 1555 sounded similar.[129] To what extent such laws and edicts could be enforced effectively is another matter; the evidence suggests that they were largely unenforceable. What matters, however, is that people had *thought* and would continue to think – in Germany's case well into the late nineteenth century – along these lines since very early times. Luther and the contemporaries, in the wake of the imperial reform movement (*Reichsreform*), which included a whole range of economic policy matters such as currency, cloth production, trade policy, and restrictions to be coordinated or regulated on the imperial level, entertained the idea of *relative wealth* fluctuating both over time (economic growth) as well as varying across a spectrum of countries (relative economic development). They also entertained the notion (Luther less so) that the state could, and should, do something to alter the process. Luther and his contemporaries were first-hand witnesses of the beginnings of Europe's "small divergence" in the early modern age; they were the first to develop processes meant to relieve this state of underdevelop-

127 Philipp Wilhelm von Hörnigk, Österreich ueber alles wann es nur will, Nuremberg 1684, pp. 18–19. See the new edition: Philipp Robinson Rössner (ed.), Austria SUPREME (if It So Wishes)'. A Strategy for European Economic Supremacy (1684), transl. Keith Tribe. With a book-length introduction (c. 100 pp) by P. R. Rössner, London / New York, expected 2016).

128 Reinert, How Rich Countries Got Rich; Role of the State.

129 Schmoller, Zur Geschichte der national-ökonomischen Ansichten, p. 650s; F. Blaich, Die Reichsmonopolgesetzgebung im Zeitalter Karls V. Ihre ordnungspolitische Problematik, Stuttgart 1967, pp. 17–37; F. Blaich, Die Wirtschaftspolitik des Reichstags im Heiligen Römischen Reich. Ein Beitrag zur Problemgeschichte wirtschaftlichen Gestaltens, Stuttgart 1970, pp. 135–153.

ment. It is a well-known fact that cameralists – especially Johann Heinrich Gottlob Justi (1717–1771) to the nineteenth-century German Historical School in Economics from Friedrich List (1789–1846) to Gustav Schmoller (1838–1917) and Wilhelm Roscher (1817–1894), developed a fine set of axioms and full theory about economic development within or starting out from a context of underdevelopment.[130] They need no further discussion here as enough has been said on this.[131] But it is important to know that these discourses of the nineteenth century – most famously laid out in Friedrich List's *National System of Political Economy* (1841) – had a "deep history" that dates back to the Renaissance. Clearly, development early on was on the people's mind and more specifically it was related to a changing monetary supply (silver) and possible strategies of alleviating or solving the "silver" problem. European economic reasoning firmly rested upon this "hunger" for silver. Were its aggressive mercantilist policies based upon this rationale as well? And were these also causes for global economic divergence?

V

This takes us back, by ways of a conclusion, to the more global dimension. Following the sixteenth century, central European economies suffered from a pressure on silver balances. A lot of the German silver went to Asia and ultimately India and China, but also into the Baltic Sea region and the Levant. Mercantilist or bullionist discourse was essentially concerned with managing the balance of payment. It was, from its axiomatic base, essentially a reactive rather than proactive political economy, a reaction to ongoing processes (balance of payment constraints, sometimes underdevelopment vis-à-vis others that fared better) and an increase in the global connectivity and imports from Asia. Mercantilism could – and would – later on be turned into a proactive strategy by actively encouraging the development of export-orientated industries, protectionist measures, and strategies aimed at increasing knowledge transfer, innovation, and the adding of value to the domestic economy. Mercantilist policy apparently did just that for eighteenth-century England,[132] but it is frequently overlooked that the origins of mercantilism are much earlier, emerging from a distinct "fear of goods" that was essentially a fear of silver flowing out of the country. German economic authors since the times of Luther had every reason to be fearful of that: too much of an outflow of silver created too many problems, both economic as well as social. China and Europe developed distinct systems of political economy. The Europeans were more mercantilist and bellicose, emphasizing international trade (which could be a source of fiscal revenue) and political rivalry as a means to get rich, whilst the Chinese economic discourse placed more emphasis on

130 Reinert, How Rich Countries Got Rich.

131 Ibid.; J. Burkhardt and B. Priddat, Geschichte der Ökonomie, Frankfurt-on-the-Main 2009; K. Tribe, Strategies of Economic Order: German Economic Discourse, 1750–1950, Cambrigde 1995, introduction.

132 For example, Chang, Kicking Away the Ladder; Parthasarathi, Why Europe Grew Rich; Vries, Nation, State and Great Divergence.

domestic stability, grain storage, and stable agrarian development. Europe's "silver problem" since the age of Martin Luther may have played a role in these global variances of political economy.

Thus whilst in many ways European and Asian economic thought may have shown similarity over the past millennium, it was in the realm of economic policy where divergence becomes most notable, and this divergence may, on the European side, have been informed or triggered by a notorious fear – the fear of a silver outflow but also different ways of thinking about the state and the economy. The silver fear gave rise to useful and beneficial policies of import substitution, infant industry protection, and the promotion of value-added activities across the entire economic spectrum. These policies would, perhaps, make Europe grow rich, whilst Asia did not. Perhaps these policies were derived from a new cultural perception of the future as a manageable entity which seems to have engrained itself firmly into the European mind since the 1600s.

Therefore it is beneficial to look at ideas in the same way as politics, institutions, geography, and resource endowment when it comes to explaining processes of global economic divergence over the last 500 years.[133] Apart from economic ideas and theories, different contexts have also mattered considerably. Future research may therefore want to address the following questions. (1) Which role did ideas play in the process of economic growth and global economic divergence over the last millennium? (2) To what extent did theories of economic growth and development overlap or diverge? (3) Why did they often notably diverge from economic practice? To what extent can modern economic thought be ascribed to "cognitive dissonance" (Boldizzoni)?[134] (4) Eastern and Western economic paradigms seem worlds apart and yet, were they really? What about other Chinese political-economic and legal-philosophical paradigms, such as legalism (which emphasized the need for states to support manufacturing and industrial production)? What about learning processes, travelling ideas, and cultural transfer between East and West?

133 Parthasarathi, Why Europe Grew Rich and Asia Did Not.

134 F. Boldizzoni, The Domestication of the Economic Mind: A Response to the Critics, in: Investigaciones de Historia Economica – Economic History Research 9 (2013), pp. 71–74.