

THE CULTURE OF PROSPERITY | APRIL 2015

An Introduction to the History of Capitalism 600-1900 AD

Executive Summary

This executive summary is based on *An Introduction to the History of Capitalism 600-1900 AD*. The publication is a collection of lectures given during the first year of the Legatum Institute's History of Capitalism series, a three-year course that investigates the origins and development of one of the most transformative movements of thought and endeavour.

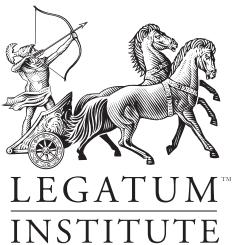
INTRODUCTION

by Hywel Williams

The essays in this publication are based on lectures that were delivered at the Legatum Institute during 2014 as part of a course of study entitled "History of Capitalism". This inauguration of a three-year syllabus provided five scholars with an opportunity to outline the chief features of a movement of endeavour and thought that has transformed the human condition.

Lucid exposition, intellectual originality, and narrative skills of a high order are evident in the pages that follow, and the Institute is indebted to the five historians whose essays, here assembled, constitute a chronological introduction to capitalism's variegated history. The *caravanserai* of early medieval Arabia and Palestine; urban civilisation and financial innovation in Spain and Italy during the central Middle Ages; north-west Europe's sixteenth-century access of wealth, together with the emergence of an Atlanticist dimension to the "early modern" world economy; colonial exploration, maritime adventure, and plunder beyond compare in the eighteenth century, most notably in the case of the East India Company; industrialisation's Promethean energy which, after its initial appearance in the valleys of south-east Wales, went on to claim the "developed world" as its domain: themes such as these, zestfully explored in our essayists' prose, illustrate the range and depth of the Legatum Institute's investigation into capitalism's origins and evolution.

Capitalism is one of history's most famous "isms", but its significance cannot be grasped by those who conceive of it as an abstract and impersonal force. That determinist approach was part of a fashionable consensus in Western historiography during the mid to late twentieth century. Human agency, individual ideas, and the shifting pattern of day-to-day events were accorded a less central role in the narratives penned by historians. In their place came the social and economic forces which were now acclaimed as the historian's true focus. These long-term tendencies and structures were supposed to be the motor of history since they determined the shape of events. However, the entrepreneurial spirit, the energy behind capitalism's historic journey, cannot be categorised so simplistically.



Ideas that once seemed original and daring have a habit of turning into orthodoxies. And orthodoxies breed, in turn, a counter-reaction. The attempt to reduce historical experience to a series of socio-economic laws can now be dismissed as a dingy little episode in the history of ideas. Historical writing in our time has re-embraced narrative and chronology, the biographies of individual personalities, the unpredictability of events, and speculative thought that is inspired by the imagination rather than being determined by its context.

As a result of this recovered freedom, the history of capitalism has acquired a new and more generous dimension, and it can no longer be limited to the nineteenth and twentieth centuries. This particular "ism" is not an example of a general economic law, nor is it a predetermined historical phenomenon. Capitalism's history ought to be understood rather as an aspect of the life of the mind and spirit. Those who wish to do justice to the subject's intellectual depth need to be prepared therefore for a journey that explores political life and thought, the history of the visual arts, literary self-expression, scientific discovery, religious intuition, and philosophical insight as well as those features of material existence that are investigated by the historian of economic advance.

The wealth of evidence presented in the pages that follow show that "capitalism" is not limited to industrial societies. The term perhaps eludes a universal or essentialist definition, but it is invariably associated with ownership of private property, capital accumulation, wage labour, competitive markets, legally binding contracts in relation to services, and agreements concerning prices. Many of these attributes can be seen at work in the economic history of the central Middle Ages in Europe. The Latin word *capitale*, a derivative of *caput* (head), gained currency during the centuries that followed the late fifth century collapse of the western Roman empire. *Chattel*, an English term for moveable property, records a similar application and derivation. In the mid-thirteenth century *capitale* was being used to describe a merchant's stock of goods and by the 1280s its meaning had extended to include the entire assets of a firm or business engaged in trade. "Capitalist", in the sense of an individual who owns capital, had established itself in English usage by the mid-seventeenth century. A history of the word alone explains why a narrative account of capitalism needs to extend over a millennium and a half of recorded human history. Research work presented during the second year of this syllabus suggests that some features of capitalist endeavour, globalisation for example, may be witnessed in societies that are more ancient even than those of Greece and Rome.

Capitalism's deep roots, together with its capacity for renewal, raise the possibility that this is a phenomenon whose history is coeval with that of settled, urban civilisation. Viewed within this long-term perspective, capitalist ways of living and of thinking seem natural rather than contrived, and the twentieth century planned economy by contrast, appears aberrant. The classic form of capitalism adopted in the West has been grounded in that civilisation's custodianship of the notion of human dignity, the rule of law, and the right to privacy. Collectivism annulled these dignities.

The history of capitalism can only be really understood in an international dimension and with a multidisciplinary focus. These are the defining attributes of the work of the Legatum Institute in all its programmes of study, and that thematic attention to varieties of "prosperity"—*eudaimonia* as Aristotle termed it—is the means by which a deepened appreciation of historical knowledge may shape our thoughts about the present and guide our aspirations for the future. It is therefore particularly appropriate that the study of capitalism's history should have found its focus and inspiration at the Legatum Institute.

ESSAY SUMMARIES

The full essays, summarised here, can be found online at www.li.com/publications

Early Islam and the Birth of Capitalism

by Benedikt Koehler

Koehler proposes that the prophet Mohammed deserves a place in economic history. Islam, as both a religion and a state, supported the attitudes that characterise capitalist endeavour through political and institutional developments. Financial incentives and institutions to support entrepreneurs reinforced Mohammed's precept that trade should be fair and competitive. European Christians, in contact with the Islamic world through trade networks, gained access to monetary reform, new arithmetical techniques, corporate and trust structures, legal frameworks for protection of property and institutions for training business skills. These models were later replicated in Venice and Genoa.

A Global Transition: From the Mediterranean to the Atlantic

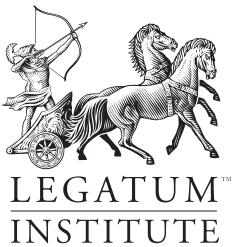
by David Abulafia

Abulafia argues that the new set of economic relationships created by the transformative catastrophe of the Black Death were responsible for the remarkable developments in trade and banking in late medieval and Renaissance economies. The trade networks of the Florentine families within this context provided the platform for the expansion of banking, epitomised by the activities of the Bardi, Peruzzi and Acciaiuoli families, who were larger, though less famous, than the Medici. Abulafia demonstrates, using the example of sugar—in great demand after the Black Death—how these conditions anticipated the launch of great Atlantic business enterprises.

The Changing Axis of Economic Power in the Early Modern Period

by Victoria Bateman

Bateman explores the economic conditions in the centuries before the Industrial Revolution, when Europe, more specifically the Netherlands and England, challenged the economic dominance of the East for the first time. She explains how this change coincided with the “first feminist wave”, a further corollary to the transformative catastrophe of the Black Death. Bateman explains Mokyr’s Enlightenment theory—a conversion in mindset to an open and cooperative scientific enquiry provoked and sanctioned advancement both technological and individual—and links this to continued high wages in the aftermath of the Black Death, necessitating a level of efficiency that could not be found in the workforce.



Making Money, Making Empires: The Case of the East India Company

by Huw Bowen

Bowen analyses interconnected developments in England in the seventeenth century which had profound effects on the global economy: swift European expansion through plantation settlements and the establishment of colonies; emergence of joint stock companies that facilitated this aggressive colonialism and commercialism; and the creation of monopolies granted to trade overseas. The East India Company combined all these factors, and illustrates the emergence, transformation and consolidation of commercial power into an imperial agency, and eventually into an armed force. Bowen concludes that while the EIC was a precursor to the modern firm with corporate goals, it gave full rein to its employees' private enterprise. What was a monopoly on paper was, in fact, a rampant and extensive range of private enterprises across a territorial and maritime empire.

Industrialisation: Why Britain Got There First

by Nicholas Crafts

Contrary to popular myth, Britain's first industrial "revolution" was one of very modest growth performance, especially compared to modern rates. Furthermore, steam power, far from being responsible for the increase in productivity in the eighteenth century, would not have a dramatic impact until 1850. Crafts argued that the combination of high wages, cheap capital and coal, along with the "great synergy" of the Enlightenment, offers the most plausible explanation as to why Britain became the world leader in industry. More than any other economy, it was able to take advantage of its endowment of human and physical resources, and had adaptable institutions, as well as already being one of the richest countries in the world by the eighteenth century.