History | *Book Review*

Corporate responsibility

The roots of European economic success

By Paul Seabright

A detail from "Panel with Phoenixes in a Garden" from the Qing dynasty | © Sepia Times/Universal Images Group via Getty Images

IN THIS REVIEW

Two Paths to Prosperity
Culture and institutions in Europe and China, 1000–2000
544pp. Princeton University Press. £35 (US $39.95).
Avner Greif, Joel Mokyr and Guido Tabellini

Ruthless
A new history of Britain's rise to wealth and power
464pp. Yale University Press. £25 (US $38).
Edmond Smith

When Marco Polo visited China in the late thirteenth century, he reported that Hangzhou was "the greatest city that is or ever was in the world", and that the revenue of the Great Khan from the salt tax was "greater than that of any Christian king". But by the time of Adam Smith, 500 years later, it was widely believed that China had become a stagnant economy, falling ever further behind western Europe.

Why? The explanation for this reversal of fortune is one of the oldest puzzles in economic history, occupying not only Smith, but Charles de Montesquieu, John Stuart Mill, Karl Marx, Max Weber, Angus Maddison, David Landes and a host of others in recent years. A new book by the heavyweight team of Avner Greif, Joel Mokyr and Guido Tabellini (hereafter GMT) takes up the baton, and it's reasonable to ask what they can add to this already long tradition. Reading their book together with a very different work, which focuses only on the British rise to wealth and empire, brings the answer into surprisingly clearer focus.

There's not a lot of dispute that China in the year 1000 was well ahead of Europe by most measures (income per capita, urbanization, scientific innovation, industrial development, bureaucratic competence and fiscal capacity). There's great dispute, however, about when the reversal of fortune happened, and why.

Kenneth Pomeranz and others have claimed that, as late as the mid-eighteenth century, the most advanced parts of China (especially the Lower Yangzi) were as developed as the most advanced parts of Europe (especially England and the Netherlands). It was only Europe's proximity to the Atlantic, and thus to the new world and its abundant land, minerals and enslaved people, that later made the difference (with important help from British coal). An accident of geography, with few relevant differences in culture or institutions.

GMT (along with most other economic historians) disagree, about timing and about causes. Historical measures of GDP per person are not foolproof, but the best ones we have suggest that Europe had probably caught up with China by 1400 and was well ahead by 1700. Western Europe was already more urbanized than China by 1500, and the share of output raised in taxes was well ahead of China's by then. So what made the difference? Two things: institutions, and the culture that sustained them. In other words, it was the European continent's software, not its hardware.

The software difference was due to Chinese society's being dominated by clans, whereas European societies built a rich array of corporations (understood as voluntary associations, not necessarily as legal constructions in the modern sense). In societies all over the world, people live in families, and in very poor societies they do much of their productive work in families as well. But families are a constraining way to make a living.

Even small communities like villages need to solve collective problems (such as providing irrigation, keeping order, cleaning the streets). So people in villages need to work co-operatively with others outside their families. And anyone with grander ambitions than subsistence farming – trading, or manufacturing, or innovating – needs to be able to trust strangers on a much larger scale than the village.

Clans (which are large units composed of individuals descended from a common ancestor) are a partial solution to the problem of trusting strangers. Travellers can rely on fellow clan members in distant towns, and clans have often co-operated effectively to provide public goods. But clans don't help you to connect with strangers outside your clan – they may even discourage you from trying. This is where corporations come in. Unlike clans, corporations are voluntary organizations which, in principle, people can apply to join regardless

of kinship ties (though they often apply exclusionary rules in practice). People can join more than one corporation. And, importantly, they can leave a corporation that isn't helping them and look for another that will.

It is GMT's contention that during the second millennium CE, European society came to develop a richer ecosystem of corporations than China did, instead of which clans grew in strength in Chinese society. That had not been true in the immediate aftermath of the Roman Empire's collapse. In fact, the instability and chaos of that collapse meant Europe was in worse shape than China in 1000 CE. China had been famously chaotic in the Warring States period between the fifth and third centuries BCE. But by the time of the Song dynasties at the end of the first millennium CE, it had enjoyed long periods of stability. It had built a powerful bureaucracy, recruited through the meritocratic examination system and committed to a unified Confucian governing culture.

Chinese emperors in the Song dynasties enjoyed an average tenure of twenty-eight years, significantly longer than the twenty or so years reported by other scholars for contemporary European monarchs, let alone the twelve- to fifteen-year tenures of rulers in the Islamic world. Stability also led to a surge in migration to the cities, to which the growth of clans was a natural response. In Europe, though, the response to urbanization was different. European societies built networks of corporations, and it was thanks to these that trade, urbanization, manufacturing and innovation caught up with, then overtook, their Chinese equivalents. Although corporations such as merchant associations existed in China, the centralized Chinese state felt threatened by them (as it did by many social and economic innovations). It therefore tended to encourage associations that were founded on lineages and to discourage the rest.

China's greater centralization and political stability, on this view, were a short-term benefit, but a long-term liability. That view is not new to GMT – it's there in Montesquieu, Mill, Weber and Landes, and is at the heart of Walter Scheidel's excellent book *Escape from Rome* (2019) – but they add some important twists. First, the centralized state actively favoured the growth of clans. This was partly intentional, as in the importance given to lineage in various Confucian-inspired rules for local governance, and in the military recruitment policies initiated under the Ming dynasty, which placed responsibility on lineages for providing soldiers. It was partly the by-product of the competitive incentives generated by other policies. These included the civil service examination, for which clans grew in importance, because, as the authors explain, "When a member of a clan passed the Imperial Civil Service Examination, his glory and political influence were assets to the entire clan".

GMT also draw on recent work by Jonathan Schulz, Joseph Henrich and others (following an earlier argument by Jack Goody) claiming that Europe's openness to corporations was a gift from the early medieval Church. Beginning in the late fourth century, the Church implemented measures forbidding cousin marriage and requiring the consent of the parties to a marriage, measures that were tightened over subsequent centuries. They argue that this weakened the power of clans and created a space of cultural openness to membership in corporations. The Church itself was a corporation, and fostered the growth of other religious corporations such as monasteries, cathedral chapters and mendicant orders. But there came to be many others, including

craft and merchant guilds, self-governing cities, universities, professional societies and, eventually, politically representative bodies, parliaments and corporations in the modern economic sense.

GMT are aware that many corporations whose contribution to economic development was initially positive could later exert a baleful restraint on innovations that they saw as a threat (something Sheilagh Ogilvie has long argued for the medieval guilds). It was not a specific type of corporation that gave Europe its edge over China, because European corporations evolved over time. Rather, it was the openness to institutional churn that enabled European societies to continue innovating, often in defiance of the very Church that (they claim) had set such innovations in motion.

There is controversy over several of the steps in GMT's causal argument, which I won't rehearse here (for instance, whether the Church's rules on marriage really weakened European kinship ties as much as they claim). But their book is exemplary in making that causal argument explicit, detailed and chronological, thereby setting up a framework in which the causal chain can be assessed against the streams of historical data that are becoming ever more available (with a lot of help from AI). In this, as in other ways, Greif, Mokyr and Tabellini are fine members of the corporation of economic historians, busily creating more work for their colleagues to do.

If they make a powerful case for the contribution of Europe's institutional software to its eventual rise to economic dominance in the eighteenth to twentieth centuries, where does that leave explanations based on geographical hardware? Are they thereby superseded? Not at all. Current alarm over shortages of advanced chips for AI models, and the demands of power generation for data centres, have underlined the fact that when software develops fast enough, hardware constraints can matter too. The fact that institutions were essential for Europe's economic development doesn't mean geography wasn't essential as well. By the late eighteenth century, the innovations created by Europe's corporations had become hungry for resources, of which the European continent did not have enough (cotton, most obviously). GMT say disappointingly little about this. There is no entry for "slavery" in their index, for instance, though the topic is mentioned briefly in the text.

A very different book takes up the role of slavery and natural resources in the specific case of Britain. The subtitle of Edmond Smith's *Ruthless* ("A new history of Britain's rise to wealth and power") might suggest that it is aimed at readers who still think Britain's wealth and empire were built on fair play and a love of cricket – surely by now an endangered species. The dust jacket claims that "the first industrial nation was founded on ruthless exploitation", and the word "ruthless" is sprinkled liberally in the text. But other than keeping readers on message, it doesn't seem to explain very much.

The book is better than this makes it sound. The text acknowledges a richly varied set of motives behind Britain's rise, including scientific and geographical curiosity, a passion for craftsmanship, status ambition and many others. There are informative chapters on such activities as sheep-farming and coalmining, and the grim realities of slavery and the armaments trade are given their due coverage. For once, the word "ruthless"

does carry some weight, for in these domains many British entrepreneurs needed to avert their eyes systematically from the victims of their enterprise.

But Smith doesn't even begin to suggest – how could he? – that Britain's economic and military rise were caused by an increase in ruthlessness compared to previous centuries, or that the British were more ruthless than the French or the Spanish or the Chinese (let alone the Belgians). The book is mostly about innovation, and explaining innovation by ruthlessness is about as helpful as explaining plane crashes by gravity.

Smith's book is a strictly narrative history, and thus a long way from the careful statement of hypotheses that runs through the work of GMT. But there's a hypothesis lurking in the narrative all the same, which is that innovation was (and is) an exercise in teamwork; it was almost never the fruit of solitary genius. It's rare for teams to be built once the innovation has been found. Instead, the key to innovation is building a culture of teamwork in which ideas can first take root, then be transformed into working innovations.

PREVIOUS ARTICLE NEXT ARTICLE

In the British industrial Midlands, that meant bringing together mining engineers and craftsmen and financiers and watchmakers and traders and shipbuilders and hydraulic engineers. It meant asking them to take a chance on collaborating with individuals they barely knew, in pursuit of speculative outcomes many of which might never materialize. A culture of corporations, in fact, and therefore precisely the kind of culture that GMT analyse.

Smith's book never asks why Britain came to have such a culture, though he documents compellingly its rich fruits. Attention to that question is the considerable achievement of GMT's book, and a reason why their work deserves to be studied carefully for a long time to come. But cultures can be fragile things, and the economic historians of future decades may be arguing about the reversal of fortune that led to Europe being so dramatically overtaken by China in the twenty-first century.

Paul Seabright is Professor of Economics at the Toulouse School of Economics. His books include The Divine Economy: How religions compete for wealth, power, and people*, 2024.*

Keep reading

Twentieth-century history & later | *Book Review*

No exit

Letters that shed fresh light on the predicament of the Jews under the Nazis

By Caroline Moorehead

History | *Book Review*

Imperial measures

Spain, France and their colonial pasts

By Krishan Kumar

Early modern history | *Book Review*

Bifurcated lives

Early modern England's relationship with strangers

By Clare Jackson

Medieval history | *Book Review*

An equal footing

The practical wisdom of premodern textbooks

By Mary C. Flannery

The TLS Newsletter

Join 40,000 readers to enjoy a regular dose of inspiration and motivation, delivered to your inbox every Thursday.

You information will be used in accordance with our Privacy Policy

Your email address

Send

Home

Regular Features

The Archive

Explore

Categories

About Us

Shop

SUBSCRIBE TO THE PODCAST

Google Podcasts Spotify Apple Podcasts