

## The invisible hand?: how market economies have emerged and declined since AD 500

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### Abstrak

The book offers a radical departure from the conventional wisdom of economists and economic historians by showing that factor markets and the economies dominated by them, the market economies, are not modern, but existed at various times in the past. They are not always rising, but after some time they stagnate and decline again. They are not uniform, but consist of very different combinations of institutions embedded in very different societies. They create flexibility and high mobility in the exchange of land, labour, and capital, and initially they generate economic growth, although they also build on the growth already generated by these societies in the previous period using other exchange and allocation systems. The dynamism that results from the rise of factor markets leads to the rise of new market elites who accumulate land and capital and use wage labour extensively to make their wealth profitable. In the long run this creates social polarization and a decline of average welfare. As these new elites gradually translate their economic wealth into political leverage, it also creates institutional sclerosis, and makes these markets stagnate or decline again. This process is analysed for the three major, pre-industrial examples of successful market economies in western Eurasia: Iraq in the early Middle Ages, Italy in the high Middle Ages, and the Low Countries in the late Middle Ages and the early modern period, and more succinctly for England and the United States in the modern period.