# Spotlight 1.1

## Power concentration and state capture: Insights from history on consequences of market dominance for inequality and environmental calamities

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The organization of markets, their functioning, their interaction with the state and their broader effects on an economy and society develop slowly. While debates on inequality are dominated by developments spanning a few decades, and often even a few years, observing and analysing how inequality emerges, how it concentrates power and how it can lead to the capture of markets and the state call for a much longer, historical perspective. Such a long-term approach may have seemed irrelevant for issues pertaining to the market economy, since it was widely held that the market economy was a modern phenomenon, having developed only from the 19th century on, closely associated with modernization. Recent economic historical work, however, has changed this idea, by identifying several market economies much earlier in history.[1]

Nine market economies, from antiquity to the modern era, have been identified with certainty, and six of them have sufficient data to investigate them well (table S1.1.1). This is thus not an arbitrary set, but these are all known cases of economies with dominant markets, which can be followed over a long period. This allows a better understanding of how market economies develop, something that theoretical and formal work and short-period cases studies cannot do.

All six market economies displayed a similar evolution. In each of three cases analysed in depth—Iraq, Italy and the Low Countries[2]—markets emerged in an equitable setting and became dominant, with an institutional organization that allowed easy market access to broad groups within society. The opportunities that market exchange offered further pushed up economic growth and well-being, with the fruits of growth fairly evenly distributed. As markets became dominant, and especially the markets for land, labour and capital, inequality also grew in a slow process as ownership of land and capital became more concentrated. Wealth inequality in these cases grew to Gini index of 0.85 or higher[3] from substantially lower levels.

TABLE S1.1.1

**Certain and possible cases of market economies**

| Location | Period | Date | Note |
|---|---|---|---|
| Babylonia | Ur III / old-Babylonian period | c. 1900–1600 BCE | Possible case |
| Babylonia | Neo-Babylonian period | c. 700–300 BCE | Limited data |
| Athens/Attica | Classical period | c. 600 BCE–300 BCE | Possible case |
| Italy | Roman period | c. 200 BCE–200 CE | Limited data |
| Iraq | Early Islamic period | c. 700–1000 CE | |
| Lower Yangtse | Song period | c. 1000–1400 CE | Limited data |
| Italy (Center and North) | | c. 1200–1600 CE | |
| Low Countries (especially the West) | | c. 1500–1900 CE | |
| England | | c. 1600– | |
| United States (North) | | c. 1825– | |
| Northwestern Europe | | c. 1980– | |

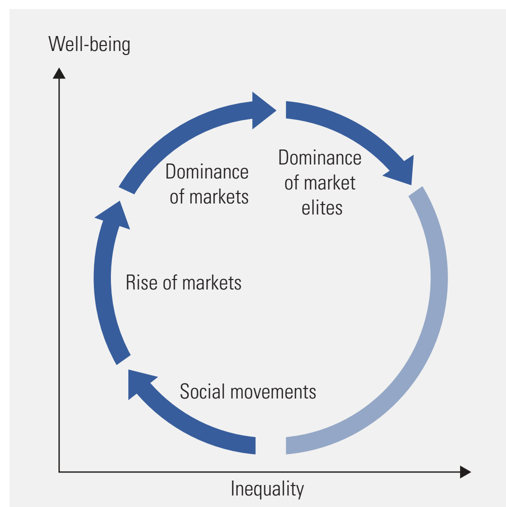
**Source:** Bas van Bavel (Utrecht University, The Netherlands).

As inequality grew, economic growth initially continued, but it became ever less translated into broad well-being. With the stagnating purchasing power of large shares of the population, lagging demand and the declining profitability of economic investments, owners of large wealth increasingly shifted their investments to financial markets. They used their wealth to acquire political leverage through patronage and buying political positions or by acquiring key positions in the fiscal regime, bureaucracy and finance and through their dominance in financial markets and their role as creditors of the state. Over the course of 100–150 years markets became less open and equitable, through both large wealth owners' economic weight and their ability to skew the institutional organization of the markets.[4] As a result, productive investments declined, the economy started to stagnate and economic inequality rose further, coupled with growing political inequity and even coercion.

Each of the market economies started from a very equitable situation, with relatively equal distribution of economic wealth and political decisionmaking. This was the result of a long preceding period of smaller and bigger revolts and forms of self-organization of ordinary people—in guilds, fraternities, associations, corporations, commons and companies (figure S1.1.1).[5] Their organization enabled them to break existing inequities and forms of coercion and to obtain a more equitable distribution of wealth and resources. They also won the freedom to exchange their land, labour and capital without restraints by elite power, thus opening the opportunity to use the market to this end. Their struggles and forms of self-organization were thus at the base of the rise of factor markets—and the rise happened within a relatively equal setting, ensuring that large groups could access the market and benefit from market exchange.

FIGURE S1.1.1

**Description of the stages in the development of the historical market economies**




**Source:** van Bavel 2016.

This formative, positive phase was also found in the more familiar, modern cases of market economies: England, where the market became dominant in the 17th century, and the northern United States, in the first half of the 19th century. Both were the most equitable societies of the time, with large degrees of freedom, good access to decisionmaking and relatively equal distribution of land and other forms of wealth.[6] Market economies were thus not the base of freedom and equity, as some theories would have it, but rather developed on the basis of earlier-won freedom and equity. The market subsequently replaced the associations and organizations of ordinary people as the allocation system, a process that sped up when market elites and state elites came to overlap and jointly, and often deliberately, marginalized these organizations. This reduced ordinary people's opportunities to defend freedom, their access to decisionmaking power and their grip over land and resources.

The allocation systems that prevailed before the rise of the market, whether the commons or other associations, had mostly included long-term security and environmental sustainability in their functioning, as ensured by their rules. But the market does not do so explicitly.[7] And in these other systems, cause and effect, and actor and affected person, were more closely linked, because of their smaller scale. In markets they are less so. This poses a risk, since in a market economy, owners of land, capital and natural resources are often far detached from those affected by damage from exploiting resources. They also face fewer constraints on exploitation than systems with more divided property rights.

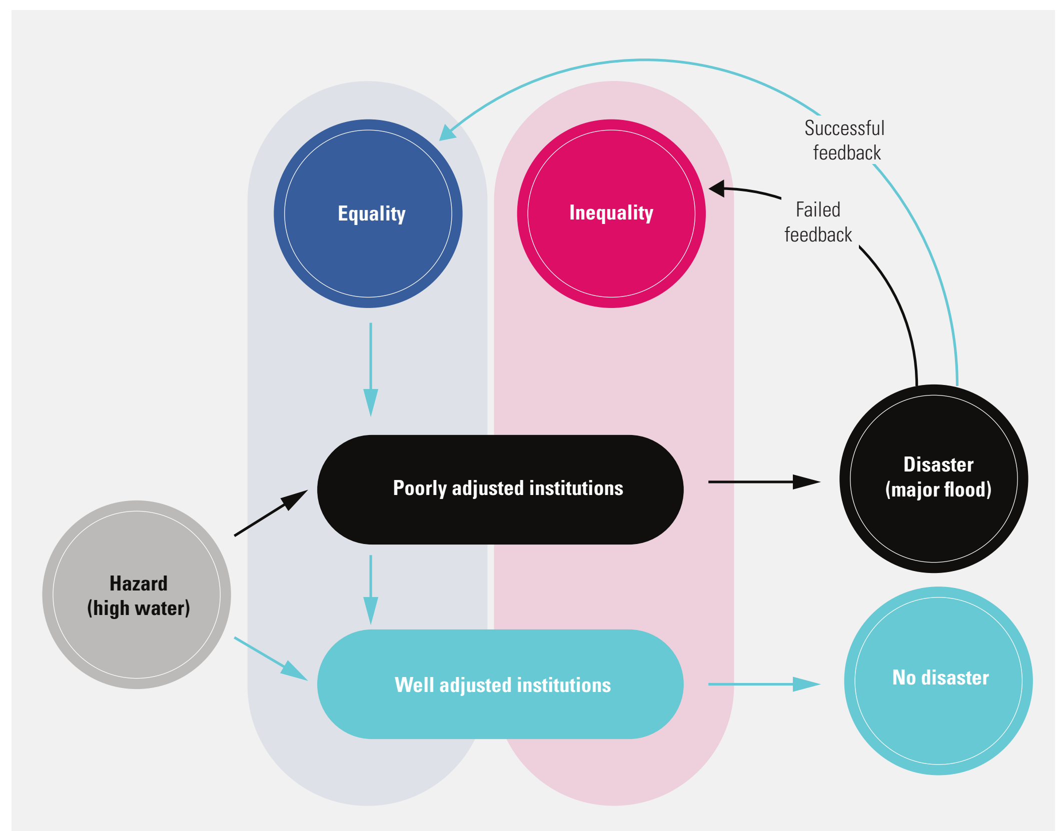
In coastal Flanders, a mature market economy in the 14th–16th centuries, land was

accumulated by investors who did not live in the area. These absentee investors changed the logic of coastal flood protection from long-term security to low cost and high risk, increasing the flood risk and further marginalizing the local population.[8] More generally, all cases of market economies in their later, downward phases experienced grave ecological problems, from the salinization and breakdown of essential irrigation systems (medieval Iraq) to increasing floods and famines (Renaissance Italy) to malaria and floods (coastal Low Countries), even though the later, modern market economies increasingly avoided the negative effects of ecological degradation by acquiring resources overseas.

To see the interaction among market economies, material inequality and vulnerability to natural shocks, look at three of the most market-dominated parts of the Low Countries (coastal Flanders, the Dutch river area and Groningen) over the very long run in confronting the hazard of high water tables.[9] Growing material inequality increased the incidence of serious floods, not directly, but through the institutional framework for water management. Only where this institutional organization was adapted in line with growing material inequality were disastrous effects avoided (figure S1.1.2). This adaptation did not happen automatically or inevitably, however, even when a society was confronted with major floods.[10] When both property and decisionmaking rights were widely distributed, chances were best that institutions for water management were adapted and adjusted to changing circumstances to reduce the risk of flood disaster. When wealthy actors and interest groups controlled property rights over the main resources and held decisionmaking power, however, they upheld the prevailing arrangements to protect their particular interests, even if this actually weakened a society's coping

FIGURE S1.1.2

**Linking the hazard of high water to flood disasters: Economic and political equality enhances the chance of institutions becoming adjusted to circumstances and preventing disaster**




Source: Adapted from van Bavel, Curtis and Soens (2018).

capacity. And if some adaptation in these cases did take place, it was often aimed at increasing the capacity of the economic system to recover production levels after a shock—but at the expense of segments of the population that were no longer included in decisionmaking.[11] The risk of these negative outcomes happening and of institutions being poorly adjusted to ecological and social circumstances was high in market economies with high wealth inequality, where the grip of a small group of private owners over natural resources was strongest and decision-making power became concentrated in their hands.

How relevant are these observations for developments today? The historical cases where markets emerged as the dominant allocation system for factors of production (land, labour and capital) all showed an accumulation of wealth in the hands of a small group, which then also concentrated political power, shaping incentives in markets that increased inequality and environmental calamities. Today, even in parliamentary democracies, economic wealth again seems to be translated into political leverage—through lobbying, campaign financing and owning media and information—whereas mobile wealth owners can easily isolate themselves, for say, social disruption or environmental degradation.[12] History shows that these developments are not aberrations or accidental events. And perhaps they require broader and deeper consideration of a wider range of policy actions to curb the concentration of economic and political power. The concentration of economic power (wealth), the first stage, is easiest to curb. But after the establishment of economic power and its translation to political dominance, this is far harder to do.

## Notes

1 This is true even if the market economy is defined in a very strict way—that is, as an economy where not only goods, products and services, but also inputs (land and natural resources, labour and capital) are predominantly allocated by way of the market.
2 van Bavel 2016. For an analysis of long, cyclical patterns of rising and declining inequality see also Turchin and Nefedov (2009).
3 van Bavel 2016 (see pp. 72–73 on Iraq, 128 on Florence in 1427 and 194–195 on Amsterdam in 1630).
4 This is true even in (relatively) inclusive political systems, in contrast to the argument by Acemoglu and Robinson (2012), where they are assumed to form a virtuous cycle.
5 van Bavel 2019.
6 For the United States, see Acemoglu and Robinson (2012) and Larson (2010). To be sure, a position obtained at the expense of the native population.
7 On the nonembeddedness of market outcomes, see Gemici (2007).
8 Soens 2011.
9 van Bavel, Curtis and Soens 2018.
10 See also Rohland (2018).
11 Soens 2018.
12 Gilens and Page 2014; Schlozman 2012.