Preface

This book is the outcome of nearly lifelong learning. At the age of 17, I decided to study economics. Now, 60 years later, I am still fascinated by new developments taking place within the discipline. In the 1950s and 1960s neoclassical theory dominated the academic field. The theory of economic growth, which originated from this source, presented a rather optimistic picture of the real world. It appeared that sufficient welfare could be realized by an adequate amount of savings. Later on this picture had to be amended. On closer inspection technological development was not as self-evident as assumed in neoclassical growth theory. Starting from the alternative assumption that technological progress is endogenously determined by economic conditions, a whole new stream of publications could emerge.

From the beginning of my career the theory of economic growth has had my full interest, as appears from a number of publications, of which the most important ones are reprinted in Sjak Smulders (ed.), *Growth Theory in Historical Perspective. Selected Essays of Theo van de Klundert* (Edward Elgar Publishing, 2001). As an aside I would like to mention that – unlike most of my work – my first academic publication, written in 1961, focused on the analysis of a partial oligopoly. In Chapter 7 of the present book I refer to this article not as a kind of curiosum, but to illustrate the tenability of some of our insights.

Returning to the process of economic growth, I must conclude that the introduction of endogenous technological change in models of a neoclassical flavour is not the end of the story. Empirical research reveals that technological development exhibits strong irregularities. The introduction of complex systems in the form of general purpose technologies may induce long waves, which have large societal consequences. New wealth is created, but creative destruction may go along with poverty elsewhere.

This observation urges a closer inspection of capitalism. Karl Marx, and at a later stage Joseph Schumpeter, maintained that the accumulation of capital has radical consequences. These thoughts always triggered my interest, although I was well aware of the shortcomings in the analyses of both economists. Marx as well as Schumpeter predicted the collapse of the capitalist system, but reality is quite different. Capitalism is hit by many crises, but survives one way or the other by changing the rules of the game

as the circumstances require. In his time Karl Polanyi (1944) understood better than anyone else the essence of capitalism. However, during the neoclassical era, which coincides with an upswing in the terminology of the theory on long waves, there was no interest in analyzing the capitalist system. Even the term ‘capitalism’ was in decline as John Kenneth Galbraith (2004) observes in his last published book.

The 1990s witnessed a revival of institutional economics initiated by Nobel Prize laureate Douglass North (1990) and others. Institutional economics shows the shortcomings of neoclassical theory, thus setting the stage for a reappraisal of capitalism. In my book written in the Dutch language *Vormen van kapitalisme* (Uitgeverij Lemma, 2005) emphasis is put on the relevance of institutions under different historical circumstances. However, something is still lacking in this approach. Institutions are man-made and as such depend on the distribution of political power in society.

In this connection, thoughts may go again back to Marx, but the old ideas on the class struggle have to be replaced by a broader spectrum of opposing forces. In Western democracies citizens have equal rights, but this does not imply that everyone has the same influence in the political arena. Economic wealth and power can be used to acquire political power. As a consequence, in the course of history varying economic elites are confronted with citizens, who have to solve their problems of collective action. The resulting power balance strongly depends on the economic circumstances. In times of deep recession or even depression there may be a majority opting for more regulation. In contrast, if extensive regulation stands in the way of innovation the call for more economic freedom may be loud and clear.

In modern Political Economy interesting mathematical models are constructed to illustrate the impact of economics on politics, but a canonical form is not yet developed. In this sense the theory falls short of neoclassical analysis, where many flowers breed on the same ground. Nevertheless, the basic notions of political economy as well as those of institutional economics have inspired me throughout the present book. I am also convinced that these notions may be useful in understanding the causes of the recent economic crisis.

In a comprehensive analysis of capitalism attention must be paid to different countries, giving rise to a number of questions. What are the causes of economic backwardness? Under which conditions are countries in a position to catch-up with or leap-frog the leading economies? To answer these questions again an appeal has to be made to institutional economics. Catching-up of developing countries in the course of time also has important consequences for the distribution of political power in the world as a whole. This could imply that the way the world deals with economic crises

and the allocation of scarce resources (including climate change) will no longer bear a typical Western stamp. This makes it relevant to investigate whether different varieties of capitalism are viable. The question is not new as the discussion on the relative merits of the Anglo-Saxon model and the Rhineland model, to use the popular terminology of Michel Albert (1991), shows. In this respect our analysis builds upon the results discussed in *Vormen van kapitalisme*. A new aspect is the emergence of different varieties of state capitalism. Whether such varieties are viable in the long-run is a much debated, but still open question.

When writing the book I benefited from the critical and constructive comments of a number of colleagues with whom I worked together at Tilburg University. Henk van Gemert, Ad van de Gevel, Ton van Schaik, Sjak Smulders and Martin van Tuijl read all or most of the chapters in the course of time. I am extremely grateful for their penetrating questions and suggestions for improving the text. In the original set-up the book was written in Dutch, because this put me in a position to express my ideas making full use of what a language has to offer. As a first approach this is satisfactory, but after discussing matters it became clear that I had to change the language in order to reach a much larger audience. Very special thanks go to Martin van Tuijl and Sjak Smulders for their help with the translation into English while preserving the original intentions. In retrospect, the English version is better than the original, because the translation offered an opportunity to improve the exposition and to express my ideas in a more effective manner within the economic literature. Of course none of the colleagues mentioned above are at fault for any remaining errors and weaknesses.

The digital revolution came in a later phase of my life. Therefore, help with word processing and the construction of figures was more than welcome. Corina Maas, Ella Muñoz, Mirjam Schermij and Nicole van de Ven processed my text with dedication and professional competence. Without their unremitting efforts the book would never have been completed. I am also indebted to the Department of Economics of Tilburg University for providing me with the facilities necessary to do the required research.

In the final stage of the process things must run smoothly. Sjak Smulders of Tilburg University and Matthew Pitman and Elizabeth Clack, editors for Edward Elgar Publishing, helped me through this hectic period, for which I am very grateful.

Words can hardly express my gratitude to my wife Theresa, who supported me fully during the period in life that is supposed to be reserved mainly for leisure activities. I have dedicated this book to my eldest son Michel, who deserves nowadays more than anyone else a token of sincere sympathy.