

ECONOMIC BACKWARDNESS
IN
HISTORICAL PERSPECTIVE

A Book of Essays

ALEXANDER GERSCHENKRON



THE BELKNAP PRESS
OF HARVARD UNIVERSITY PRESS
Cambridge, Massachusetts, and London, England

Acknowledgments

I am indebted to the following for the kind permission to reprint my essays in this volume:

1. University of Chicago Press for "Economic Backwardness in Historical Perspective," *The Progress of Underdeveloped Countries*, B. Hoeslitz, ed., 1952.
2. *L'industria*, Milan, for "Reflections on the Concept of 'Prerequisites' of Modern Industrialization," no. 2, 1957.
3. The International Economic Association for "Social Attitudes, Entrepreneurship, and Economic Development," *Economic Progress*, Leon H. Dupriez, ed., Louvain, 1955.
4. *Journal of Economic History* for "Notes on the Rate of Industrial Growth in Italy, 1881-1913," December 1955.
5. *Rivista Storica Italiana* for "Rosario Romeo and the Original Accumulation of Capital," LXXII, no. 1, 1960.
6. Harvard University Press for "Problems and Patterns of Russian Economic Development," *The Transformation of Russian Society*, C. Black, ed., 1960.
7. Harvard University Press for "The Problem of Economic Development in Russian Intellectual History of the Nineteenth Century," *Continuity and Change in Russian and Soviet Thought*, E. Simmons, ed., 1955.
8. *Review of Economics and Statistics* for "Soviet Heavy Industry: A Dollar Index of Output, 1927/28 to 1937," May 1955.
9. *L'Economie Appliquée* for "Notes on the Rate of Soviet Industrial Growth" ("Notes sur le taux de croissance actuel de l'industrie soviétique"), October-December 1953.
10. Harvard University Press for "Industrial Enterprise in Russia," *The Corporation in Modern Society*, E. S. Mason, ed., 1960.
11. *American Slavic and East European Review* for "A Neglected Source of Economic Information on Soviet Russia," February 1950.
12. *World Politics* for "Reflections on Soviet Novels," January 1960.
13. University of Chicago Press for "Notes on *Doctor Zhivago*," which appeared in *Modern Philology*, February 1961.
14. The International Economic Association for passages in the Postscript to this volume from "The Early Phases of Industrialization in Russia."
15. *Journal of the American Statistical Association* for "Problems of Measuring Long-Term Growth in Income and Wealth," December

FOR GONGELINE

© Copyright 1962 by the President and Fellows of Harvard College
All rights reserved

Fourth Printing, 1979

Contents

	Introduction	I
1	Economic Backwardness in Historical Perspective	5
2	Reflections on the Concept of "Prerequisites" of Modern Industrialization	31
3	Social Attitudes, Entrepreneurship, and Economic Development	52
4	Notes on the Rate of Industrial Growth in Italy, 1881-1913	72
5	Rosario Romeo and the Original Accumulation of Capital	90
6	Russia: Patterns and Problems of Economic Development, 1861-1958	119
7	Economic Development in Russian Intellectual History of the Nineteenth Century. <i>Annex</i> : Realism and Utopia in Russian Economic Thought, A Review	152
8	Some Aspects of Industrialization in Bulgaria, 1878-1939	198
9	Soviet Heavy Industry: A Dollar Index of Output, 1927-1937	235
10	Notes on the Rate of Industrial Growth in Soviet Russia	254
11	Industrial Enterprise in Soviet Russia	270
12	A Neglected Source of Economic Information on Soviet Russia	296
13	Reflections on Soviet Novels	318
14	Notes on <i>Doctor Zhivago</i>	341
	The Approach to European Industrialization: A Postscript	353
	Appendix I: Description of an Index of Italian Industrial Development, 1881-1913	367
	Appendix II: Industrialization in Bulgaria, Basic Data and Calculations	422
	Appendix III: Problems of Measuring Long-Term Growth in Income and Wealth	436
	Index	445

INTRODUCTION

A general approach of this kind inevitably imparts a measure of inner cohesion. Still, a group of essays is not a monograph. It represents a series of successive explorations. Accordingly, it depicts the processes of research more clearly than its results. The latter are likely to change — sometimes imperceptibly — from essay to essay. Perhaps the Postscript at the end of this volume will serve to point out some of those changes and to discuss both the limits of the approach and the possible paths of future research.

The last six essays deal with the problems of economic and social change in Soviet Russia. As is intimated in Chapter 1, Soviet evolution may be considered a special case within the general pattern of European economic development. But the differences are formidable and the hiatus between the two groups of essays is undeniable. For in Russia the individual elements in the pattern have been both magnified and distorted beyond all recognition. The reasons for the deviations are not necessarily "ideological," in the customary sense of the term. It can be argued (as in Chapter 11) that viewing the Soviet economy as "socialist" does little to advance our understanding of that economy. Nor is the very high rate of growth in itself its characteristic feature. Rather, it is the fact that the policy of rapid industrialization has been inaugurated and maintained by a totalitarian dictatorship and that the mechanics of dictatorial power have come to dominate the economic processes; this has created curious incongruities and actually prevented, or at least delayed, the mental adjustment of the population to the normalcy of a fully industrialized society.

This is the main point made in the "Reflections on Soviet Novels" (Chapter 13) which, therefore, should not be approached as an effort in literary criticism. The latter description might apply with more justice to the last essay in the collection. The reader may, however, consider "Notes on *Doctor Zhivago*" in conjunction with the preceding essay: precisely because of the specific deficiencies of the Soviet value system, Pasternak in his bold protest against dictatorial oppression rejects "material" progress and shows nothing but disdain for the fruits thereof.

Although much in Soviet economic development is thus *sui generis*, there are aspects of Soviet economic research which relate it rather closely to studies of European industrializations. It is the

INTRODUCTION

quantitative measures of growth which provide a common theme for the two groups of essays. This requires brief explanation.

Because of the inadequacies of official Soviet indices of output and income, Western scholars have tried to develop some more satisfactory gauges. Among these attempts belongs this writer's construction of a dollar index of output of heavy industries in Soviet Russia during the 1930s. The respective studies are summarized here in Chapter 9. Whatever the light they may have cast on processes of Soviet industrialization, they rather dramatically revealed the quantitative significance of the index-number problem over long periods, and particularly in times of rapid growth. Since the general approach to European industrial history as presented in this volume deals with processes of long-term change, and also focuses on periods when the rate of growth was relatively high, the greater awareness of the effects of changes in the weighting system has been useful far beyond the area of Soviet statistics.

It may be added that an economic historian, once the importance of the index-number problem has been called to his attention, does not necessarily view it — as does the statistician — simply as a regrettable failure of our tools. He will realize that the long-run changes in weights of output indices are themselves an integral part of economic history and as such a very worthwhile object of historical study. The reader will see, therefore, that Chapter 9, in addition to summarizing this writer's five statistical studies of Soviet output, also attempts to place the index-number problem within the framework of historical processes of industrialization.

It is, furthermore, fair to say that preoccupation with the inadequacies of Soviet statistics has sharpened our eye not only for the index-number problem but also for a number of relatively simple but important general requirements of satisfactory index making. In particular, the present state of the procedures used in otherwise very respectable studies for deflating long-term national-income data at current prices in a number of continental countries appears woefully inadequate. This point is made more specifically in a short review which is attached to this volume as Appendix III. Data on industrial output are more reliable than those on national income, but they, too, are capable of considerable improvement. The first remedy would

INTRODUCTION

seem to lie in ruthless publicity. Those who present statistical series on long-term economic change must offer the reader an unobstructed look into the statistician's laboratory. Accordingly, this writer's indices of Italian and Bulgarian output (Chapters 4 and 8) are supported by rather complete statements on sources, nature of the raw data, and methods of computation, which the reader will find in Appendices I and II.*

The general importance of these statistical problems must not be underrated. But in the present context they also serve to emphasize the fact that such unity as this volume possesses lies not only in the affinity of the themes treated but also, even though less conspicuously, in the methods of research that have been applied.

* So far these appendices have been available only in mimeographed form.

I

Economic Backwardness in Historical Perspective

A HISTORICAL approach to current problems calls perhaps for a word of explanation. Unlike so many of their predecessors, modern historians no longer announce to the world what inevitably will, or at least what ideally should, happen. We have grown modest. The prophetic fervor was bound to vanish together with the childlike faith in a perfectly comprehensible past whose flow was determined by some exceedingly simple and general historical law. Between Seneca's assertion of the absolute certainty of our knowledge of the past and Goethe's description of history as a book eternally kept under seven seals, between the *omnia certa sunt* of the one and the *ignorabimus* of the other, modern historical relativism moves gingerly. Modern historians realize full well that comprehension of the past — and that perforce means the past itself — changes perpetually with the historian's emphasis, interest, and point of view. The search is no longer for a determination of the course of human events as ubiquitous and invariant as that of the course of the planets. The iron necessity of historical processes has been discarded. But along with what John Stuart Mill once called "the slavery of antecedent circumstances" have been demolished the great bridges between the past and the future upon which the nineteenth-century mind used to travel so safely and so confidently.

Does this mean that history cannot contribute anything to the understanding of current problems? Historical research consists es-

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

essentially in application to empirical material of various sets of empirically derived hypothetical generalizations and in testing the closeness of the resulting fit, in the hope that in this way certain uniformities, certain typical situations, and certain typical relationships among individual factors in these situations can be ascertained. None of these lends itself to easy extrapolations. All that can be achieved is an extraction from the vast storehouse of the past of sets of intelligent questions that may be addressed to current materials. The importance of this contribution should not be exaggerated. But it should not be underrated either. For the quality of our understanding of current problems depends largely on the broadness of our frame of reference. Insularity is a limitation on comprehension. But insularity in thinking is not peculiar to any special geographic area. Furthermore, it is not only a spatial but also a temporal problem. All decisions in the field of economic policies are essentially decisions with regard to combinations of a number of relevant factors. And the historian's contribution consists in pointing at *potentially* relevant factors and at *potentially* significant combinations among them which could not be easily perceived within a more limited sphere of experience. These are the questions. The answers themselves, however, are a different matter. No past experience, however rich, and no historical research, however thorough, can save the living generation the creative task of finding their own answers and shaping their own future. The following remarks, therefore, purport to do no more than to point at some relationships which existed in the past and the consideration of which in current discussions might prove useful.

THE ELEMENTS OF BACKWARDNESS

A good deal of our thinking about industrialization of backward countries is dominated — consciously or unconsciously — by the grand Marxian generalization according to which it is the history of advanced or established industrial countries which traces out the road of development for the more backward countries. "The industrially more developed country presents to the less developed country a picture of the latter's future."¹ There is little doubt that in some

¹ Karl Marx, *Das Kapital* (1st ed.), preface.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

broad sense this generalization has validity. It is meaningful to say that Germany, between the middle and the end of the last century, followed the road which England began to tread at an earlier time. But one should beware of accepting such a generalization too wholeheartedly. For the half-truth that it contains is likely to conceal the existence of the other half — that is to say, in several very important respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country.

It is the main proposition of this essay that in a number of important historical instances industrialization processes, when launched at length in a backward country, showed considerable differences, as compared with more advanced countries, not only with regard to the speed of the development (the rate of industrial growth) but also with regard to the productive and organizational structures of industry which emerged from those processes. Furthermore, these differences in the speed and character of industrial development were to a considerable extent the result of application of institutional instruments for which there was little or no counterpart in an established industrial country. In addition, the intellectual climate within which industrialization proceeded, its "spirit" or "ideology," differed considerably among advanced and backward countries. Finally, the extent to which these attributes of backwardness occurred in individual instances appears to have varied directly with the degree of backwardness and the natural industrial potentialities of the countries concerned.

Let us first describe in general terms a few basic elements in the industrialization processes of backward countries as synthesized from the available historical information on economic development of European countries² in the nineteenth century and up until the beginning of the First World War. Thereupon, on the basis of concrete examples, more will be said on the effects of what may be called

² It would have been extremely desirable to transcend the European experience at least by including some references to the industrialization of Japan. Unfortunately, the writer's ignorance of Japanese economic history has effectively barred him from thus broadening the scope of his observations. The reader must be referred, however, to the excellent study by Henry Rosovsky, *Capital Formation in Japan, 1868-1940* (Glencoe, 1961), in which the validity of this writer's approach for Japanese industrial history is explicitly discussed.

"relative backwardness" upon the course of industrial development in individual countries.

Tension
The Tension
of industrialization

The typical situation in a backward country prior to the initiation of considerable industrialization processes may be described as characterized by the tension between the actual state of economic activities in the country and the existing obstacles to industrial development, on the one hand, and the great promise inherent in such a development, on the other. The extent of opportunities that industrialization presents varied, of course, with the individual country's endowment of natural resources. Furthermore, no industrialization seemed possible, and hence no "tension" existed, as long as certain formidable institutional obstacles (such as the serfdom of the peasantry or the far-reaching absence of political unification) remained. Assuming an adequate endowment of usable resources, and assuming that the great blocks to industrialization had been removed, the opportunities inherent in industrialization may be said to vary directly with the backwardness of the country. Industrialization always seemed the more promising the greater the backlog of technological innovations which the backward country could take over from the more advanced country. Borrowed technology, so much and so rightly stressed by Veblen, was one of the primary factors assuring a high speed of development in a backward country entering the stage of industrialization. There always has been the inevitable tendency to deride the backward country because of its lack of originality. German mining engineers of the sixteenth century accused the English of being but slavish imitators of German methods, and the English fully reciprocated these charges in the fifties and sixties of the past century. In our own day, Soviet Russia has been said to have been altogether imitative in its industrial development, and the Russians have retorted by making extraordinary and extravagant claims. But all these superficialities tend to blur the basic fact that the contingency of large imports of foreign machinery and of foreign know-how, and the concomitant opportunities for rapid industrialization with the passage of time, increasingly widened the gulf between economic potentialities and economic actualities in backward countries.

The industrialization prospects of an underdeveloped country are frequently judged, and judged adversely, in terms of cheapness

of labor as against capital goods and of the resulting difficulty in substituting scarce capital for abundant labor. Sometimes, on the contrary, the cheapness of labor in a backward country is said to aid greatly in the processes of industrialization. The actual situation, however, is more complex than would appear on the basis of simple models. In reality, conditions will vary from industry to industry and from country to country. But the overriding fact to consider is that industrial labor, in the sense of a stable, reliable, and disciplined group that has cut the umbilical cord connecting it with the land and has become suitable for utilization in factories, is not abundant but extremely scarce in a backward country. Creation of an industrial labor force that really deserves its name is a most difficult and protracted process. The history of Russian industry provides some striking illustrations in this respect. Many a German industrial laborer of the nineteenth century had been raised in the strict discipline of a Junker estate which presumably made him more amenable to accept the rigors of factory rules. And yet the difficulties were great, and one may recall the admiring and envious glances which, toward the very end of the century, German writers like Schulze-Gaevernitz kept casting across the Channel at the English industrial worker, "the man of the future . . . born and educated for the machine . . . [who] does not find his equal in the past." In our time, reports from industries in India repeat in a still more exaggerated form the past predicaments of European industrializations in the field of labor supply.

Under these conditions the statement may be hazarded that, to the extent that industrialization took place, it was largely by application of the most modern and efficient techniques that backward countries could hope to achieve success, particularly if their industrialization proceeded in the face of competition from the advanced country. The advantages inherent in the use of technologically superior equipment were not counteracted but reinforced by its labor-saving effect. This seems to explain the tendency on the part of backward countries to concentrate at a relatively early point of their industrialization on promotion of those branches of industrial activities in which recent technological progress had been particularly rapid; while the more advanced countries, either from inertia or from unwillingness to require or impose sacrifices implicit in a large investment program, were

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

more hesitant to carry out continual modernizations of their plant. Clearly, there are limits to such a policy, one of them being the inability of a backward country to extend it to lines of output where very special technological skills are required. Backward countries (although not the United States) were slow to assimilate production of modern machine tools. But a branch like iron and steel production does provide a good example of the tendency to introduce most modern innovations, and it is instructive to see, for example, how German blast furnaces so very soon become superior to the English ones, while in the early years of this century blast furnaces in still more backward southern Russia were in the process of outstripping in equipment their German counterparts. Conversely, in the nineteenth century, England's superiority in cotton textile output was challenged neither by Germany nor by any other country.

To a considerable extent (as in the case of blast furnaces just cited), utilization of modern techniques required, in nineteenth-century conditions, increases in the average size of plant. Stress on bigness in this sense can be found in the history of most countries on the European continent. But industrialization of backward countries in Europe reveals a tendency toward bigness in another sense. The use of the term "industrial revolution" has been exposed to a good many justifiable strictures. But, if industrial revolution is conceived as denoting no more than cases of sudden considerable increases in the rate of industrial growth, there is little doubt that in several important instances industrial development began in such a sudden, eruptive, that is, "revolutionary," way.

The discontinuity was not accidental. As likely as not the period of stagnation (in the "physiocratic" sense of a period of low rate of growth) can be terminated and industrialization processes begun only if the industrialization movement can proceed, as it were, along a broad front, starting simultaneously along many lines of economic activities. This is partly the result of the existence of complementarity and indivisibilities in economic processes. Railroads cannot be built unless coal mines are opened up at the same time; building half a railroad will not do if an inland center is to be connected with a port city. Fruits of industrial progress in certain lines are received as external economies by other branches of industry whose progress in

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

turn accords benefits to the former. In viewing the economic history of Europe in the nineteenth century, the impression is very strong that only when industrial development could commence on a large scale did the tension between the preindustrialization conditions and the benefits expected from industrialization become sufficiently strong to overcome the existing obstacles and to liberate the forces that made for industrial progress.

This aspect of the development may be conceived in terms of Toynbee's relation between challenge and response. His general observation that very frequently small challenges do not produce any responses and that the volume of response begins to grow very rapidly (at least up to a point) as the volume of the challenge increases seems to be quite applicable here. The challenge, that is to say, the "tension," must be considerable before a response in terms of industrial development will materialize.

The foregoing sketch purported to list a number of basic factors which historically were peculiar to economic situations in backward countries and made for higher speed of growth and different productive structure of industries. The effect of these basic factors was, however, greatly reinforced by the use in backward countries of certain institutional instruments and the acceptance of specific industrialization ideologies. Some of these specific factors and their mode of operation on various levels of backwardness are discussed in the following sections.

* THE BANKS *

The history of the Second Empire in France provides rather striking illustrations of these processes. The advent of Napoleon III terminated a long period of relative economic stagnation which had begun with the restoration of the Bourbons and which in some sense and to some extent was the result of the industrial policies pursued by Napoleon I. Through a policy of reduction of tariff duties and elimination of import prohibitions, culminating in the Cobden-Chevalier treaty of 1860, the French government destroyed the hothouse in which French industry had been kept for decades and exposed it to the stimulating atmosphere of international competition. By abolishing monopoly profits in the stagnating coal and iron produc-

tion, French industry at length received profitable access to basic industrial raw materials.

To a not inconsiderable extent, the industrial development of France under Napoleon III must be attributed to that determined effort to untie the strait jacket in which weak governments and strong vested interests had inclosed the French economy. But along with these essentially, though not exclusively, negative policies of the government, French industry received a powerful positive impetus from a different quarter. The reference is to the development of industrial banking, under Napoleon III.

The importance of that development has seldom been fully appreciated. Nor has it been properly understood as emanating from the specific conditions of a relatively backward economy. In particular, the story of the Crédit Mobilier of the brothers Pereire is often regarded as a dramatic but, on the whole, rather insignificant episode. All too often, as, for instance, in the powerful novels of Émile Zola, the actual significance of the developments is almost completely submerged in the description of speculative fever, corruption, and immorality which accompanied them. It seems to be much better in accord with the facts to speak of a truly momentous role of investment banking of the period for the economic history of France and of large portions of the Continent.

In saying that, one has in mind, of course, the immediate effects of creating financial organizations designed to build thousands of miles of railroads, drill mines, erect factories, pierce canals, construct ports, and modernize cities. The ventures of the Pereires and of a few others did all that in France and beyond the boundaries of France over vast areas stretching from Spain to Russia. This tremendous change in economic scenery took place only a few years after a great statesman and a great historian of the July monarchy assured the country that there was no need to reduce the duties on iron because the sheltered French iron production was quite able to cope with the iron needs of the railroads on the basis of his estimate of a prospective annual increase in construction by some fifteen to twenty miles.

But no less important than the actual economic accomplishments of a few men of great entrepreneurial vigor was their effect on their environment. The Crédit Mobilier was from the beginning engaged

in a most violent conflict with the representatives of "old wealth" in French banking, most notably with the Rothschilds. It was this conflict that had sapped the force of the institution and was primarily responsible for its eventual collapse in 1867. But what is so seldom realized is that in the course of this conflict the "new wealth" succeeded in forcing the old wealth to adopt the policies of its opponents. The limitation of old wealth in banking policies to flotations of government loans and foreign-exchange transactions could not be maintained in the face of the new competition. When the Rothschilds prevented the Pereires from establishing the Austrian Credit-Anstalt, they succeeded only because they became willing to establish the bank themselves and to conduct it not as an old-fashioned banking enterprise but as a crédit mobilier, that is, as a bank devoted to railroadization and industrialization of the country.

This conversion of the old wealth to the creed of the new wealth points out the direction of the most far-reaching effects of the Crédit Mobilier. Occasional ventures of that sort had been in existence in Belgium, Germany, and France herself. But it was the great eruptive effect of the Pereires that profoundly influenced the history of Continental banking in Europe from the second half of the past century onward. The number of banks in various countries shaped upon the image of the Pereire bank was considerable. But more important than their slavish imitations was the creative adaptation of the basic idea of the Pereires and its incorporation in the new type of bank, the universal bank, which in Germany, along with most other countries on the Continent, became the dominant form of banking. The difference between banks of the crédit-mobilier type and commercial banks in the advanced industrial country of the time (England) was absolute. Between the English bank essentially designed to serve as a source of short-term capital and a bank designed to finance the long-run investment needs of the economy there was a complete gulf. The German banks, which may be taken as a paragon of the type of the universal bank, successfully combined the basic idea of the crédit mobilier with the short-term activities of commercial banks.

They were as a result infinitely sounder financial institutions than the Crédit Mobilier, with its enormously swollen industrial portfolio, which greatly exceeded its capital, and its dependence on favorable

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

developments on the stock exchange for continuation of its activities. But the German banks, and with them the Austrian and Italian banks, established the closest possible relations with industrial enterprises.

A German bank, as the saying went, accompanied an industrial enterprise from the cradle to the grave, from establishment to liquidation throughout all the vicissitudes of its existence. Through the device of formally short-term but in reality long-term current account credits and through development of the institution of the supervisory boards to the position of most powerful organs within corporate organizations, the banks acquired a formidable degree of ascendancy over industrial enterprises, which extended far beyond the sphere of financial control into that of entrepreneurial and managerial decisions.

It cannot be the purpose of this presentation to go into the details of this development. All that is necessary is to relate its origins and effects to the subject under discussion. The industrialization of England had proceeded without any substantial utilization of banking for long-term investment purposes. The more gradual character of the industrialization process and the more considerable accumulation of capital, first from earnings in trade and modernized agriculture and later from industry itself, obviated the pressure for developing any special institutional devices for provision of long-term capital to industry. By contrast, in a relatively backward country capital is scarce and diffused, the distrust of industrial activities is considerable, and, finally, there is greater pressure for bigness because of the scope of the industrialization movement, the larger average size of plant, and the concentration of industrialization processes on branches of relatively high ratios of capital to output. To these should be added the scarcity of entrepreneurial talent in the backward country.

It is the pressure of these circumstances which essentially gave rise to the divergent development in banking over large portions of the Continent as against England. The continental practices in the field of industrial investment banking must be conceived as specific instruments of industrialization in a backward country. It is here essentially that lies the historical and geographic locus of theories of economic development that assign a central role to processes of forced saving by the money-creating activities of banks. As will be shown presently, however, use of such instruments must be regarded as specific, not to back-

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

ward countries in general, but rather to countries whose backwardness does not exceed certain limits. And even within the latter for a rather long time it was mere collection and distribution of available funds in which the banks were primarily engaged. This circumstance, of course, did not detract from the paramount importance of such activities on the part of the banks during the earlier industrialization periods with their desperate shortages of capital for industrial ventures.

The effects of these policies were far-reaching. All the basic tendencies inherent in industrial development in backward countries were greatly emphasized and magnified by deliberate attitudes on the part of the banks. From the outset of this evolution the banks were primarily attracted to certain lines of production to the neglect, if not virtual exclusion, of others. To consider Germany until the outbreak of World War I, it was essentially coal mining, iron- and steelmaking, electrical and general engineering, and heavy chemical output which became the primary sphere of activities of German banks. The textile industry, the leather industry, and the foodstuff-producing industries remained on the fringes of the banks' interest. To use modern terminology, it was heavy rather than light industry to which the attention was devoted.

Furthermore, the effects were not confined to the productive structure of industry. They extended to its organizational structure. The last three decades of the nineteenth century were marked by a rapid concentration movement in banking. This process indeed went on in very much the same way on the other side of the English Channel. But in Britain, because of the different nature of relations between banks and industry, the process was not paralleled by a similar development in industry.

It was different in Germany. The momentum shown by the cartelization movement of German industry cannot be fully explained, except as the natural result of the amalgamation of German banks. It was the mergers in the field of banking that kept placing banks in the positions of controlling competing enterprises. The banks refused to tolerate fratricidal struggles among their children. From the vantage point of centralized control, they were at all times quick to perceive profitable opportunities of cartelization and amalgamation of industrial enterprises. In the process, the average size of plant kept

growing, and at the same time the interests of the banks and their assistance were even more than before devoted to those branches of industry where cartelization opportunities were rife.

Germany thus had derived full advantages from being a relatively late arrival in the field of industrial development, that is to say, from having been preceded by England. But, as a result, German industrial economy, because of specific methods used in the catching-up process, developed along lines not insignificantly different from those in England.

THE STATE

The German experience can be generalized. Similar developments took place in Austria, or rather in the western sections of the Austrian-Hungarian Empire, in Italy, in Switzerland, in France, in Belgium, and in other countries, even though there were differences among the individual countries. But it certainly cannot be generalized for the European continent as a whole, and this for two reasons: (1) because of the existence of certain backward countries where no comparable features of industrial development can be discovered and (2) because of the existence of countries where the basic elements of backwardness appear in such an accentuated form as to lead to the use of essentially different institutional instruments of industrialization.

Little need be said with reference to the first type of country. The industrial development of Denmark may serve as an appropriate illustration. Surely, that country was still very backward as the nineteenth century entered upon its second half. Yet no comparable sudden spurts of industrialization and no peculiar emphasis on heavy industries could be observed. The reasons must be sought, on the one hand, in the paucity of the country's natural resources and, on the other hand, in the great opportunities for agricultural improvement that were inherent in the proximity of the English market. The peculiar response did not materialize because of the absence of the challenge.

Russia may be considered as the clearest instance of the second type of country. The characteristic feature of economic conditions in Russia was not only that the great spurt of modern industrialization came in the middle of the 1880s, that is to say, more than three

decades after the beginning of rapid industrialization in Germany; even more important was the fact that at the starting point the level of economic development in Russia had been incomparably lower than that of countries such as Germany and Austria.

The main reason for the abysmal economic backwardness of Russia was the preservation of serfdom until the emancipation of 1861. In a certain sense, this very fact may be attributed to the play of a curious mechanism of economic backwardness, and a few words of explanation may be in order. In the course of its process of territorial expansion, which over a few centuries transferred the small duchy of Moscow into the huge land mass of modern Russia, the country became increasingly involved in military conflicts with the West. This involvement revealed a curious internal conflict between the tasks of the Russian government that were "modern" in the contemporaneous sense of the word and the hopelessly backward economy of the country on which the military policies had to be based. As a result, the economic development in Russia at several important junctures assumed the form of a peculiar series of sequences: (1) Basic was the fact that the state, moved by its military interest, assumed the role of the primary agent propelling the economic progress in the country. (2) The fact that economic development thus became a function of military exigencies imparted a peculiarly jerky character to the course of that development; it proceeded fast whenever military necessities were pressing and subsided as the military pressures relaxed. (3) This mode of economic progress by fits and starts implied that, whenever a considerable upsurge of economic activities was required, a very formidable burden was placed on the shoulders of the generations whose lifespan happened to coincide with the period of intensified development. (4) In order to exact effectively the great sacrifices it required, the government had to subject the reluctant population to a number of severe measures of oppression lest the burdens imposed be evaded by escape to the frontier regions in the southeast and east. (5) Precisely because of the magnitude of the governmental exactions, a period of rapid development was very likely to give way to prolonged stagnation, because the great effort had been pushed beyond the limits of physical endurance of the population and long periods of economic stagnation were the inevitable consequences.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

The sequences just mentioned present in a schematic way a pattern of Russian economic development in past centuries which fits best the period of the reforms under Peter the Great, but its applicability is by no means confined to that period.

What must strike the observer of this development is its curiously paradoxical course. While trying, as Russia did under Peter the Great, to adopt Western techniques, to raise output and the skills of the population to levels more closely approaching those of the West, Russia by virtue of this very effort was in some other respects thrown further away from the West. Broadly speaking, placing the trammels of serfdom upon the Russian peasantry must be understood as the obverse side of the processes of Westernization. Peter the Great did not institute serfdom in Russia, but perhaps more than anyone else he did succeed in making it effective. When in subsequent periods, partly because of point 2 and partly because of point 5 above, the state withdrew from active promotion of economic development and the nobility emancipated itself from its service obligations to the government, peasant serfdom was divested of its connection with economic development. What once was an indirect obligation to the state became a pure obligation toward the nobility and as such became by far the most important retarding factor in Russia's economic development.

Readers of Toynbee's may wish to regard this process, ending as it did with the emancipation of the peasantry, as an expression of the "withdrawal and return" sequence. Alternatively they may justifiably prefer to place it under the heading of "arrested civilizations." At any rate, the challenge-response mechanism is certainly useful in thinking about sequences of that nature. It should be noted, however, that the problem is not simply one of quantitative relationship between the volume of the challenge and that of the response. The crucial point is that the magnitude of the challenge changes the quality of the response and, by so doing, not only injects powerful retarding factors into the economic process but also more likely leads to a number of undesirable noneconomic consequences. To this aspect, which is most relevant to the current problem of industrialization of backward countries, we shall advert again in the concluding remarks of this essay.

To return to Russian industrialization in the eighties and the nineties of the past century, it may be said that in one sense it can be

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

viewed as a recurrence of a previous pattern of economic development in the country. The role of the state distinguishes rather clearly the type of Russian industrialization from its German or Austrian counterpart.

Emancipation of the peasants, despite its manifold deficiencies, was an absolute prerequisite for industrialization. As such it was a negative action of the state designed to remove obstacles that had been earlier created by the state itself and in this sense was fully comparable to acts such as the agrarian reforms in Germany or the policies of Napoleon III which have been mentioned earlier. Similarly, the great judicial and administrative reforms of the sixties were in the nature of creating a suitable framework for industrial development rather than promoting it directly.

The main point of interest here is that, unlike the case of Western Europe, actions of this sort did not per se lead to an upsurge of individual activities in the country; and for almost a quarter of a century after the emancipation the rate of industrial growth remained relatively low. The great industrial upswing came when, from the middle of the eighties on, the railroad building of the state assumed unprecedented proportions and became the main lever of a rapid industrialization policy. Through multifarious devices such as preferential orders to domestic producers of railroad materials, high prices, subsidies, credits, and profit guaranties to new industrial enterprises, the government succeeded in maintaining a high and, in fact, increasing rate of growth until the end of the century. Concomitantly, the Russian taxation system was reorganized, and the financing of industrialization policies was thus provided for, while the stabilization of the ruble and the introduction of the gold standard assured foreign participation in the development of Russian industry.

The basic elements of a backward economy were, on the whole, the same in Russia of the nineties and in Germany of the fifties. But quantitatively the differences were formidable. The scarcity of capital in Russia was such that no banking system could conceivably succeed in attracting sufficient funds to finance a large-scale industrialization; the standards of honesty in business were so disastrously low, the general distrust of the public so great, that no bank could have hoped to attract even such small capital funds as were available, and no

bank could have successfully engaged in long-term credit policies in an economy where fraudulent bankruptcy had been almost elevated to the rank of a general business practice. Supply of capital for the needs of industrialization required the compulsory machinery of the government, which, through its taxation policies, succeeded in directing incomes from consumption to investment. There is no doubt that the government as an *agens movens* of industrialization discharged its role in a far less than perfectly efficient manner. Incompetence and corruption of bureaucracy were great. The amount of waste that accompanied the process was formidable. But, when all is said and done, the great success of the policies pursued under Vyshnegradski and Witte is undeniable. Not only in their origins but also in their effects, the policies pursued by the Russian government in the nineties resembled closely those of the banks in Central Europe. The Russian state did not evince any interest in "light industry." Its whole attention was centered on output of basic industrial materials and on machinery production; like the banks in Germany, the Russian bureaucracy was primarily interested in large-scale enterprises and in amalgamations and coordinated policies among the industrial enterprises which it favored or had helped to create. Clearly, a good deal of the government's interest in industrialization was predicated upon its military policies. But these policies only reinforced and accentuated the basic tendencies of industrialization in conditions of economic backwardness.

Perhaps nothing serves to emphasize more these basic uniformities in the situation and the dependence of actual institutional instruments used on the degree of backwardness of the country than a comparison of policies pursued within the two halves of the Austrian-Hungarian monarchy, that is to say, within one and the same political body. The Austrian part of the monarchy was backward in relation to, say, Germany, but it was at all times much more advanced than its Hungarian counterpart. Accordingly, in Austria proper the banks could successfully devote themselves to the promotion of industrial activities. But across the Leitha Mountains, in Hungary, the activities of the banks proved altogether inadequate, and around the turn of the century the Hungarian government embarked upon vigorous policies of industrialization. Originally, the government showed a considerable

interest in developing the textile industry of the region. And it is instructive to watch how, under the pressure of what the French like to call the "logic of things," the basic uniformities asserted themselves and how the generous government subsidies were more and more deflected from textile industries to promotion of heavy industries.

* THE GRADATIONS OF BACKWARDNESS

To return to the basic German-Russian paradigm: what has been said in the foregoing does not exhaust the pattern of parallels. The question remains as to the effects of successful industrializations, that is to say, of the gradual diminution of backwardness.

At the turn of the century, if not somewhat earlier, changes became apparent in the relationship between German banks and German industry. As the former industrial infants had grown to strong manhood, the original undisputed ascendancy of the banks over industrial enterprises could no longer be maintained. This process of liberation of industry from the decades of tutelage expressed itself in a variety of ways. Increasingly, industrial enterprises transformed connection with a single bank into cooperation with several banks. As the former industrial protectorates became economically sovereign, they embarked upon the policy of changing alliances with regard to the banks. Many an industrial giant, such as the electrical engineering industry, which could not have developed without the aid and entrepreneurial daring of the banks, began to establish its own banks. The conditions of capital scarcity to which the German banks owed their historical position were no longer present. Germany had become a developed industrial country. But the specific features engendered by a process of industrialization in conditions of backwardness were to remain, and so was the close relation between banks and industry, even though the master-servant relation gave way to cooperation among equals and sometimes was even reversed.

In Russia the magnificent period of industrial development of the nineties was cut short by the 1900 depression and the following years of war and civil strife. But, when Russia emerged from the revolutionary years 1905-1906 and again achieved a high rate of industrial growth in the years 1907-1914, the character of the industrialization processes had changed greatly. Railroad construction by

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

the government continued but on a much smaller scale both absolutely and even more so relatively to the increased industrial output. Certain increases in military expenditures that took place could not begin to compensate for the reduced significance of railroad-building. The conclusion is inescapable that, in that last period of industrialization under a prerevolutionary government, the significance of the state was very greatly reduced.

At the same time, the traditional pattern of Russian economic development happily failed to work itself out. The retrenchment of government activities led not to stagnation but to a continuation of industrial growth. Russian industry had reached a stage where it could throw away the crutches of government support and begin to walk independently — and, yet, very much less independently than industry in contemporaneous Germany, for at least to some extent the role of the retreating government was taken over by the banks.

A great transformation had taken place with regard to the banks during the fifty years that had elapsed since the emancipation. Commercial banks had been founded. Since it was the government that had fulfilled the function of industrial banks, the Russian banks, precisely because of the backwardness of the country, were organized as “deposit banks,” thus resembling very much the type of banking in England. But, as industrial development proceeded apace and as capital accumulation increased, the standards of business behavior were growingly Westernized. The paralyzing atmosphere of distrust began to vanish, and the foundation was laid for the emergence of a different type of bank. Gradually, the Moscow deposit banks were overshadowed by the development of the St. Petersburg banks that were conducted upon principles that were characteristic not of English but of German banking. In short, after the economic backwardness of Russia had been reduced by state-sponsored industrialization processes, use of a different instrument of industrialization, suitable to the new “stage of backwardness,” became applicable.

IDEOLOGIES OF DELAYED INDUSTRIALIZATIONS

Before drawing some general conclusions, a last differential aspect of industrialization in circumstances of economic backwardness should be mentioned. So far, important differences with regard to the

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

character of industrial developments and its institutional vehicles were related to conditions and degrees of backwardness. A few words remain to be said on the ideological climate within which such industrialization proceeded.

Again we may revert to the instructive story of French industrialization under Napoleon III. A large proportion of the men who reached positions of economic and financial influence upon Napoleon's advent to power were not isolated individuals. They belonged to a rather well-defined group. They were not Bonapartists but Saint-Simonian socialists. The fact that a man like Isaac Pereire, who contributed so much, perhaps more than any other single person, to the spread of the modern capitalist system in France should have been — and should have remained to the end of his days — an ardent admirer of Saint-Simonian doctrines is on the face of it surprising. It becomes much less so if a few pertinent relationships are considered.

It could be argued that Saint-Simon was in reality far removed from being a socialist; that in his vision of an industrial society he hardly distinguished between laborers and employers; and that he considered the appropriate political form for his society of the future some kind of corporate state in which the “leaders of industry” would exercise major political functions. Yet arguments of that sort would hardly explain much. Saint-Simon had a profound interest in what he used to call the “most numerous and most suffering classes”; more importantly, Saint-Simonian doctrines, as expanded and redefined by the followers of the master (particularly by Bazard), incorporated into the system a good many socialist ideas, including abolition of inheritance and establishment of a system of planned economy designed to direct and to develop the economy of the country. And it was this interpretation of the doctrines which the Pereires accepted.

It is more relevant to point to the stress laid by Saint-Simon and his followers upon industrialization and the great task they had assigned to banks as an instrument of organization and development of the economy. This, no doubt, greatly appealed to the creators of the *Crédit Mobilier*, who liked to think of their institution as of a “bank to a higher power” and of themselves as “missionaries” rather than bankers. That Saint-Simon's stress upon the role to be played by the banks in economic development revealed a truly amazing — and

altogether "unutopian" — insight into the problems of that development is as true as the fact that Saint-Simonian ideas most decisively influenced the course of economic events inside and outside France. But the question remains: why was the socialist garment draped around an essentially capitalist idea? And why was it the socialist form that was so readily accepted by the greatest capitalist entrepreneurs France ever possessed?

It would seem that the answer must again be given in terms of basic conditions of backwardness. Saint-Simon, the friend of J. B. Say, was never averse to ideas of laissez-faire policies. Chevalier, the co-author of the Franco-English treaty of commerce of 1860 that ushered in the great period of European free trade, had been an ardent Saint-Simonian. And yet under French conditions a laissez-faire ideology was altogether inadequate as a spiritual vehicle of an industrialization program.

To break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development, a stronger medicine is needed than the promise of better allocation of resources or even of the lower price of bread. Under such conditions even the businessman, even the classical daring and innovating entrepreneur, needs a more powerful stimulus than the prospect of high profits. What is needed to remove the mountains of routine and prejudice is faith — faith, in the words of Saint-Simon, that the golden age lies not behind but ahead of mankind. It was not for nothing that Saint-Simon devoted his last years to the formulation of a new creed, the New Christianity, and suffered Auguste Comte to break with him over this "betrayal of true science." What sufficed in England did not suffice in France.

Shortly before his death, Saint-Simon urged Rouget de Lisle, the aged author of the "Marseillaise," to compose a new anthem, an "Industrial Marseillaise." Rouget de Lisle complied. In the new hymn the man who once had called upon "enfants de la patrie" to wage ruthless war upon the tyrants and their mercenary cohorts addresses himself to "enfants de l'industrie" — the "true nobles" — who would assure the "happiness of all" by spreading industrial arts and by submitting the world to the peaceful "laws of industry."

Ricardo is not known to have inspired anyone to change "God

Save the King" into "God Save Industry." No one would want to detract from the force of John Bright's passionate eloquence, but in an advanced country rational arguments in favor of industrialization policies need not be supplemented by a quasi-religious fervor. Buckle was not far wrong when in a famous passage of his *History* he presented the conversion of public opinion in England to free trade as achieved by the force of incontrovertible logic. In a backward country the great and sudden industrialization effort calls for a New Deal in emotions. Those carrying out the great transformation as well as those on whom it imposes burdens must feel, in the words of Matthew Arnold, that

. . . Clearing a stage
Scattering the past about
Comes the new age.

Capitalist industrialization under the auspices of socialist ideologies may be, after all, less surprising a phenomenon than would appear at first sight.

Similarly, Friedrich List's industrialization theories may be largely conceived as an attempt, by a man whose personal ties to Saint-Simonians had been very strong, to translate the inspirational message of Saint-Simonism into a language that would be accepted in the German environment, where the lack of both a preceding political revolution and an early national unification rendered nationalist sentiment a much more suitable ideology of industrialization.

After what has been just said it will perhaps not seem astonishing that, in the Russian industrialization of the 1890s, orthodox Marxism can be said to have performed a very similar function. Nothing reconciled the Russian intelligentsia more to the advent of capitalism in the country and to the destruction of its old faith in the mir and the artel than a system of ideas which presented the capitalist industrialization of the country as the result of an iron law of historical development. It is this connection which largely explains the power wielded by Marxist thought in Russia when it extended to men like Struve and in some sense even Milyukov, whose Weltanschauung was altogether alien to the ideas of Marxian socialism. In conditions of Russian "absolute" backwardness, again, a much more powerful

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

ideology was required to grease the intellectual and emotional wheels of industrialization than either in France or in Germany. The institutional gradations of backwardness seem to find their counterpart in men's thinking about backwardness and the way in which it can be abolished.

CONCLUSIONS

The story of European industrialization in the nineteenth century would seem to yield a few points of view which may be helpful for appreciation of present-day problems.

1. If the spurtlike character of the past century's industrialization on the European continent is conceived of as the result of the specific preindustrial situations in backward countries and if it is understood that pressures for high-speed industrializations are inherent in those situations, it should become easier to appreciate the oft-expressed desires in this direction by the governments of those countries. Slogans like "Factories quick!" which played such a large part in the discussions of the pertinent portions of the International Trade Organization charter, may then appear less unreasonable.

2. Similarly, the tendencies in backward countries to concentrate much of their efforts on introduction of the most modern and expensive technology, their stress on large-scale plant, and their interest in developing investment-goods industries need not necessarily be regarded as flowing mainly from a quest for prestige and from economic megalomania.

3. What makes it so difficult for an advanced country to appraise properly the industrialization policies of its less fortunate brethren is the fact that, in every instance of industrialization, imitation of the evolution in advanced countries appears in combination with different, indigenously determined elements. If it is not always easy for advanced countries to accept the former, it is even more difficult for them to acquiesce in the latter. This is particularly true of the institutional instruments used in carrying out industrial developments and even more so of ideologies which accompany it. What can be derived from a historical review is a strong sense for the significance of the native elements in the industrialization of backward countries.

A journey through the last century may, by destroying what

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

Bertrand Russell once called the "dogmatism of the untravelled," help in formulating a broader and more enlightened view of the pertinent problems and in replacing the absolute notions of what is "right" and what is "wrong" by a more flexible and relativistic approach.

It is, of course, not suggested here that current policies vis-à-vis backward areas should be formulated on the basis of the general experience of the past century without taking into account, in each individual instance, the degree of endowment with natural resources, the climatic disabilities, the strength of institutional obstacles to industrialization, the pattern of foreign trade, and other pertinent factors. But what is even more important is the fact that, useful as the "lessons" of the nineteenth century may be, they cannot properly be applied without understanding the climate of the present century, which in so many ways has added new and momentous aspects to the problems concerned.

Since the present problem of industrialization of backward areas largely concerns non-European countries, there is the question of the effects of their specific preindustrial cultural development upon their industrialization potentialities. Anthropological research of such cultural patterns has tended to come to rather pessimistic conclusions in this respect. But perhaps such conclusions are unduly lacking in dynamic perspective. At any rate, they do not deal with the individual factors involved in terms of their specific changeabilities. At the same time, past Russian experience does show how quickly in the last decades of the past century a pattern of life that had been so strongly opposed to industrial values, that tended to consider any nonagricultural economic activity as unnatural and sinful, began to give way to very different attitudes. In particular, the rapid emergence of native entrepreneurs with peasant-serf backgrounds should give pause to those who stress so greatly the disabling lack of entrepreneurial qualities in backward civilizations. Yet there are other problems.

In certain extensive backward areas the very fact that industrial development has been so long delayed has created, along with unprecedented opportunities for technological progress, great obstacles to industrialization. Industrial progress is arduous and expensive; medical progress is cheaper and easier of accomplishment. To the ex-

tent that the latter has preceded the former by a considerable span of time and has resulted in formidable overpopulation, industrial revolutions may be defeated by Malthusian counterrevolutions.

Closely related to the preceding but enormously more momentous in its effects is the fact that great delays in industrialization tend to allow time for social tensions to develop and to assume sinister proportions. As a mild example, the case of Mexico may be cited, where the established banks have been reluctant to cooperate in industrialization activities that are sponsored by a government whose radical hue they distrust. But the real case in point overshadowing everything else in scope and importance is, of course, that of Soviet Russia.

If what has been said in the preceding pages has validity, Soviet industrialization undoubtedly contains all the basic elements that were common to the industrializations of backward countries in the nineteenth century. The stress on heavy industry and oversized plant is, as such, by no means peculiar to Soviet Russia. But what is true is that in Soviet Russia those common features of industrialization processes have been magnified and distorted out of all proportion.

The problem is as much a political as it is an economic one. The Soviet government can be properly described as a product of the country's economic backwardness. Had serfdom been abolished by Catherine the Great or at the time of the Decembrist uprising in 1825, the peasant discontent, the driving force and the earnest of success of the Russian Revolution, would never have assumed disastrous proportions, while the economic development of the country would have proceeded in a much more gradual fashion. If anything is a "grounded historical assumption," this would seem to be one: the delayed industrial revolution was responsible for a political revolution in the course of which the power fell into the hands of a dictatorial government to which in the long run the vast majority of the population was opposed. It is one thing for such a government to gain power in a moment of great crisis; it is another to maintain this power for a long period. Whatever the strength of the army and the ubiquitousness of the secret police which such a government may have at its disposal, it would be naive to believe that those instruments of physical oppression can suffice. Such a government can maintain itself in power only if it succeeds in making people believe that it performs

an important social function which could not be discharged in its absence.

Industrialization provided such a function for the Soviet government. All the basic factors in the situation of the country pressed in that direction. By reverting to a pattern of economic development that should have remained confined to a long-bygone age, by substituting collectivization for serfdom, and by pushing up the rate of investment to the maximum point within the limits of endurance of the population, the Soviet government did what no government relying on the consent of the governed could have done. That these policies, after having led through a period of violent struggles, have resulted in permanent day-to-day friction between the government and the population is undeniable. But, paradoxical as it may sound, these policies at the same time have secured some broad acquiescence on the part of the people. If all the forces of the population can be kept engaged in the processes of industrialization and if this industrialization can be justified by the promise of happiness and abundance for future generations and — much more importantly — by the menace of military aggression from beyond the borders, the dictatorial government will find its power broadly unchallenged. And the vindication of a threatening war is easily produced, as is shown by the history of the cold-war years. Economic backwardness, rapid industrialization, ruthless exercise of dictatorial power, and the danger of war have become inextricably intertwined in Soviet Russia.

This is not the place to elaborate this point further with regard to Soviet Russia. The problem at hand is not Soviet Russia but the problem of attitudes toward industrialization of backward countries. If the Soviet experience teaches anything, it is that it demonstrates *ad oculos* the formidable dangers inherent in our time in the existence of economic backwardness. There are no four-lane highways through the parks of industrial progress. The road may lead from backwardness to dictatorship and from dictatorship to war. In conditions of a "bipolar world" this sinister sequence is modified and aggrandized by deliberate imitation of Soviet policies by other backward countries and by their voluntary or involuntary incorporation in the Soviet orbit.

Thus, conclusions can be drawn from the historical experience of both centuries. The paramount lesson of the twentieth century is

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

that the problems of backward nations are not exclusively their own. They are just as much problems of the advanced countries. It is not only Russia but the whole world that pays the price for the failure to emancipate the Russian peasants and to embark upon industrialization policies at an early time. Advanced countries cannot afford to ignore economic backwardness. But the lesson of the nineteenth century is that the policies toward the backward countries are unlikely to be successful if they ignore the basic peculiarities of economic backwardness. Only by frankly recognizing their existence and strength, and by attempting to develop fully rather than to stifle what Keynes once called the "possibilities of things," can the experience of the nineteenth century be used to avert the threat presented by its successor.

Reflections on the Concept of "Prerequisites" of Modern Industrialization

Introduction

THE concept of historical prerequisites of modern industrialization is a rather curious one. Certain major obstacles to industrialization *must* be removed and certain things propitious to it *must* be created before industrialization can begin. Both in its negative and its positive aspects, the concept seems to imply, if not the historical inevitability of industrialization, at least the notion that it must proceed in a certain manner; that is to say, through certain more or less discrete stages. Along with it goes the idea of the uniformity of industrial development in the sense that every industrialization necessarily must be based on the same set of preconditions. What is meant, of course, is not the common-sense notion that in order to start an industrial plant certain very concrete things are needed. The concept refers to long-run historical changes.

It would be easy to reject the concept out of hand as a classic example of historical determinism and to leave it at that. This, however, might be regrettable. To be sure, determinism, historical or other, is beyond the boundary line that circumscribes scientific endeavors. It is quite possible that complete knowledge of the world would reveal to us that every event has been inevitably preordained. It may not reveal that at all. How can we know what we would know if we knew? At the same time, however, we cannot approach historical reality except through a search of regularities and deviations from regularities, by conceiving events and sequences of events in terms of

constructs of our mind, of patterns, of models. There is an infinite variety of possible models, each one of them subject to change and rejection. And yet, as long as we think in terms of a given model, we are all determinists in the sense that we pose a certain interrelation, or sequence, of events and phenomena which is "inevitable." Within this "denaturalized" meaning all scholarly work is deterministic, except that we remain determinists subject to notice, as it were, in the never-ending process of constructing models and discarding them.

Therefore, it may be quite worthwhile to look more closely into the question of prerequisites of industrial development, however rigid the concept may appear on the face of it. It is precisely the purpose of the following pages to discuss the connotations of the concept and to see whether or not it can be divested of its dogmatic character and perhaps be placed within some broader and less stringent explanatory patterns.

I

Although the concept of prerequisites seems to have rather firm connotations, the individual factors that have been considered prerequisites have been rather loosely defined. Very frequently, a rather curious procedure has been followed. One first takes a look at something like an "ideal type" of preindustrial economy, say, the medieval economy in Western Europe of the fourteenth century, and emphasizes a social framework within which the opportunities for growth were rather restricted. Thereupon, in a cinematographic shift, attention is moved to a modern industrial economy. The change in landscape naturally is striking. The inventory of economic progress is enormous: a large politically and economically unified territory; a legal system assuring the rights of the individual and satisfactory protection for property; a store of technological lore; increase in productivity in agriculture rendered possible by the elimination of the open-field system and distribution of common pastures; availability of labor supply of various skills; an entrepreneurial group willing and able to calculate and to innovate; availability of capital for long-term investment; nonexistence of guild restrictions; wide and absorptive markets; and so forth and so on.

Then, with a slight twist of the pen, all those basic traits of a

modern economy are declared to be "prerequisites" of industrial development. This, no doubt, has rather discouraging implications as far as development of backward countries is concerned. Have they really to create all those conditions *before* they can embark upon the process of industrialization? Obviously, some of the factors listed are not prerequisites at all, but rather something that developed in the course of industrial development. Moreover, what can be reasonably regarded as a prerequisite in some historical cases can be much more naturally seen as a product of industrialization in others. The line between what is a precondition of, and what is a response to industrial development seems to be a rather flexible one. It might be possible to indicate some regularities according to which the relevant phenomena might be found on the one or the other side of that line.

As was said before, the idea that there are some fundamental prerequisites of industrial development implies a view of that development characterized both by a high degree of generality and by specific discontinuities. Let us select from the rather hybrid listing of various prerequisites the one of "capital availability" and try, with the help of this example, to discuss at some length the nature, the validity, and the usefulness of the concept.

When availability of capital is turned into a prerequisite it assumes the form of "original accumulation of capital," a concept given currency in Marx's famous Chapter 24 in Volume One of *Das Kapital*. There, Adam Smith's concept of previous accumulation hitched to the period of production of the firm, so matter-of-fact and so short-run, was turned into a magnificent historical generalization. It referred to an accumulation of capital continuing over long historical periods — perhaps over several centuries — until one day the tocsin of the industrial revolution was to summon it to the battlefields of factory construction.

The concept found a considerable resonance in terms of a large body of literature. Perhaps its last faint echo, mainly designed "to amuse the curious," was Keynes's reference to Drake's booty as the fount and origin of England's foreign investment.¹ We are concerned here neither with the specific treatment of the problem by Marx nor with the further discussions and controversies in which Sombart's

¹ John M. Keynes, *A Treatise on Money* (London, 1930), II, 156-157.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

somewhat grandiloquent and, alas, so thoroughly unsuccessful attempt to "solve the riddle of bourgeois wealth"² played such a large part. It matters little that Marx chose to connect his concept so intimately with the early land-enclosing movements in England, to place so much emphasis upon the redistribution of *existing* wealth, and to allow himself to be deflected into the question of preindustrial accumulation of labor. Modern research has cast a good deal of doubt on some of Marx's empirical findings, particularly on his evaluation of the English enclosures in the sixteenth century. The relative significance of the alleged sources of original accumulation — piracy and wars, exploitation of colonies, trade, enclosures, urban rents, influx of precious metals — is rather immaterial for our purpose, except of course for one basic fact: industrial profits could *not* be regarded as a source of original accumulation without negating the very nature of the concept. And this is indeed the problem.

If for the moment we consider original accumulation analytically rather than historically, and try to perceive the pattern of industrial development of which the concept is an integral part, the pertinent question is: why should development proceed in this fashion at all? Why should a long period of capital accumulation *precede* the period of rapid industrialization? Why is not the capital as it is being accumulated also invested in industrial ventures, so that industry grows *pari passu* with the accumulation of capital? To the extent that this happened, Marxian "originality" of accumulation would be reduced to the modest size of Smithian "previousness." In other words, nothing would remain of the specifically Marxian concept. Therefore, if one wishes to defend it one must exclude the contingency of a gradual industrialization and assume that, for one reason or another, industrialization either comes as a big spurt or does not come at all. There must be a certain specific discontinuity about the development which makes it possible to discern with reasonable clarity the beginning of the process.

In the light of the discussions in recent years, it is not difficult to think of conditions which would make for a "rapid spurt or nothing" situation. One can either argue technologically, as it were,

² Werner Sombart, *Der moderne Kapitalismus: Die vorkapitalistische Wirtschaft* (Munich-Leipzig, 1928), I:2, 581f.

PREREQUISITES OF MODERN INDUSTRIALIZATION

from the point of view of the minimum capital needs of an industrializing economy, having in mind the technologically required minimum size of the individual industrial firm and the availability of technologically required inputs which represent outputs of other firms. These considerations of indivisibility *cum* complementarity appear on the supply side and were presented with particular clarity and ingenuity in Dahmén's concept of development blocks.³ Alternatively, or conjointly, one can argue from the demand side, postulating an industrial development along a broad front as the necessary condition of successful industrialization; the new enterprises created in the process in different branches of the industrial economy sustain their growth by the mutual demand for each other's products. If industrialization comes as a spurt, it must demand considerable capital and is therefore predicated upon the existence of sizable "preindustrial" accumulations of capital. In the spurt these accumulations appear essentially as claims on current output and render possible a deflection of resources from consumption to investment which is sufficiently large to sustain the high rate of industrial growth. This is a rather self-contained view in which the prerequisite and the resulting industrialization are indeed logically connected.

On the other hand, the idea that a conjunction of many different factors is necessary for successful industrialization lies on a somewhat different, though obviously related, plane. It may make sense to say that industrialization cannot begin as long as, say, most of the population is held away from industrial employment by a rigid system of serfdom. The sudden abolition of the institution may indeed adumbrate the beginning of industrial development. Such a beginning may be marked clearly enough. But one could not on the basis of such a reasoning *alone* argue that the capital requirements of such an industrial development will be particularly high. One would have to introduce some additional considerations in order to make this plausible. The abolition of serfdom may have released some latent entrepreneurial talent, some pent-up demand, and the like. But discontinuities of this sort do not stem from the nature of the process of industrialization.

³ Erik Dahmén, *Svensk industriell företagarversksamhet* (Stockholm, 1950), I, 70.

One would look in vain in Marx's discussion for any explicit mention of the fundamental connection between preindustrial accumulation of capital and the subsequent industrialization. Curiously enough, the only explanation provided refers to the abolition of feudal restrictions, that is to say, to a rather incidental circumstance (incidental from the point of view of the concept). But this is of little interest. It cannot be gainsaid that the concept of original accumulation, if properly restated, has a rather modern touch. It testifies to the brilliance of Marx's intuition.

Moreover, the intuition is not just analytical. It is also historical. The more we learn about the nature of the industrialization process in a number of now advanced countries, the greater becomes the assurance with which we can assert that in very many cases the industrial development, after a certain period of preparation, assumed the form of a big spurt, during which for a fairly considerable length of time the development proceeded at an unusually rapid pace. Whether we look at the history of modern industrialism in England, France, Germany, Russia, or Italy, we can discern such upsurges in the growth of industrial output. Actual historical cases cannot, of course, conform with precision to the postulates of an analytical pattern. It is only with a grain of salt that those spurts of industrialization can be regarded as truly "initial." And still, bearing the necessary qualification in mind, it does make sense to say that most of the important industrializations in Europe started in the form of more or less violent industrial revolutions.

Perhaps a few words on that controversial term may be in order. The concept of the Industrial Revolution in England has been frequently criticized. What happened was very much in the nature of what Huizinga once called "inflation of historical concepts." Just as the concept of the Renaissance, originally securely anchored in the sixteenth century, was torn away from its moorings and allowed to drift backward into the preceding centuries, so also the start of the Industrial Revolution began to be shifted from the eighteenth to the seventeenth century, and further on into still earlier periods, the original meaning melting away in the process. All this was done in veneration of historical continuity which was, and perhaps still is, a fashionable concept with some writers. Now, historical continuity is

used rather confusedly in at least three different senses. Continuity may mean that the historical roots of a given phenomenon reach very far back into the past. That, of course, is indubitably true as a general proposition and is, in fact, the basic justification of all historical work. Yet it says little about the actual course of historical processes, in particular whether such a course is revolutionary or evolutionary. To give an example from political history: Peter Struve, the great Russian economic historian, once remarked that the Russian political revolutions of this century occurred *because* Empress Anne, in 1730, had torn to shreds the draft of a constitution presented to her for signature by members of the high aristocracy.⁴ This view may or may not be valid, but, assuming for a moment that it is, the fact that the roots of an event must be sought in a remote past does not necessarily make it evolutionary. As revolutions go, the Russian revolutions of 1905 and 1917 were revolutionary indeed. At the same time, continuity is used to indicate periodic recurrence of events on a broad historical scale. It is in this sense that one — again rightly or wrongly — operates with concepts like neomercantilism, particularly when, as in the case of Lipson,⁵ it connotes the return to the "normalcy of planning," a fulfillment of a natural pattern in the course of which the wind returneth according to its circuits. Finally, continuity is also made to imply a very gradual change, the degree of which is hardly perceptible, in the sense of the motto, *natura non facit saltus*, Alfred Marshall chose for his *Principles*. Now, one may abhor revolutions and any rapid change; alternatively, one may find history without revolutions insufferably dull. The problem, however, is not one of personal likes and dislikes. Nor is it simply one of ascertaining the correct facts. In a sense, speed and changes in speed are arbitrary concepts. To the extent that we deal with measurable phenomena, they depend on the specific averaging techniques used in determining the rate of speed and acceleration. They depend on the length of the period chosen. These choices in turn must depend on the requirements of the problems under study. What is a revolution for one purpose may be seen as a very gradual change in another. A concept is as good as what can be

⁴ *Sotsial'naya i ekonomicheskaya istoriya Rossii* (Social and Economic History of Russia) (Paris, 1952), p. 314.

⁵ E. Lipson, *A Planned Economy or Free Enterprise* (London, 1946).

Introduction

THE essays in this volume were written and published in various journals and symposia between 1951 and 1961. Revision of the original texts has been held down to a minimum. The piece on the speed of Soviet industrialization (Chapter 10) is the only one that has been largely rewritten. The other essays remain unchanged, save for some added or deleted footnotes, numerous but small editorial changes, and in one case (Chapter 6) the elimination of two final sections, the subject matter of which has been shifted to another chapter.¹

A volume of this sort is exposed to two dangers threatening from opposite directions: lack of inner cohesion and repetitiousness. Neither has been fully avoided, and some brief discussion of the ways in which the individual pieces are interrelated may be in order. The first eight essays deal with problems of European industrial development in the nineteenth century. The writer's general ideas on the subject were laid down as early as 1951 in a paper which appears now as Chapter 1 of this collection. The reader will find the same ideas restated in several of the subsequent chapters, where they serve as springboards either for further elaboration of the general theme (as, for instance, in Chapter 2) or for treatment of case studies of industrialization in individual countries (Italy, Russia, and Bulgaria). These essays are dominated by the general hypothesis that very significant interspatial variations in the process of industrialization are functionally related to the degree of economic backwardness that prevailed in the countries concerned on the eve of their "great spurts" of industrial growth. In this fashion, the industrial history of Europe is conceived as a unified and yet graduated pattern.

¹ The two pieces "Rosario Romeo and the Original Accumulation of Capital" and "Some Aspects of Industrialization in Bulgaria" (Chapters 5 and 8) appeared in Italian only. The essay "Notes on the Rate of Industrial Growth in Soviet Russia" (Chapter 10) appeared in French only.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

discovered with its help. If by "revolution" we understand in the first instance nothing more than a sudden upward change in the rate of growth of industrial output and if, in addition, such accelerations in speed as we do ascertain can be regarded as an independent factor in the process of growth because important characteristics in the process of industrialization tend to vary significantly with changes in speed, then economic historians can ill afford to ignore the existence of industrial revolutions. And indeed the revolutions which stare out at the historian from many of the long-term indices of industrial output in Western Europe cannot be ignored precisely because so many important factors of industrial development are so peculiarly correlated with those big spurts of early industrialization.

So far so good. But perhaps not good enough as far as the concept of original accumulation is concerned. True, the existence of initial periods of rapid growth *prima facie* speaks in favor of the concept. If no such periods were ascertainable, the concept could have been dismissed out of hand. As it is, further discussion is in order. There is still the question of whether in actual fact original accumulation can be considered as having materially aided the countries concerned during the period of their rapid industrial growth.

II

Before we touch on this crucial aspect of the problem, a few specific difficulties with the concept of original accumulation might be briefly mentioned. Also, this concept has been subject to "inflation," the beginnings of the process being shifted farther and farther back to the very start of the modern era and, with some writers, even farther back to the high noon of the Middle Ages.

A good deal of historical material assembled in support of the concept actually purports to show that in some earlier historical periods some people managed to become quite wealthy. But over long historical periods wealth is not only created but also destroyed. The Fuggers had acquired an amount of wealth that was unprecedented in the history of Europe. That wealth was largely acquired through connections with political powers but it was also destroyed by these connections. The South German wealth accumulated at the turn of the

PREREQUISITES OF MODERN INDUSTRIALIZATION

fifteenth and sixteenth centuries had written an important page in the story of European economic development. Export of technology and of modes of business organization from South Germany fertilized far-away areas. Those activities broke the period of deflationary pressures that had greatly contributed to the economic stagnation of Europe in the preceding period. But all this hardly fits any reasonably understood concept of original accumulation. The wealth of the Fuggers, dissipated in power politics and war finance, went up in the smoke of innumerable battlefields and was given the *coup de grâce* in the Spanish bankruptcies.

If we could assume for a rash moment that Sombart was right in his theory of urban rents as a source of medieval wealth, one still would have to ask: "What of it?" There would be still an obligation to follow through the history of that wealth up till the time of the great upsurge of German industrialization in the second half of the nineteenth century. Naturally, no one has attempted to do that, and one may be right in supposing that we know what the answer would be without too much investigating. In other words, the concept of original accumulation is not just a magnificent generalization; it is *too* magnificent a generalization, in the sense that in order to accept it one has to make abstraction from equally magnificent details, such as the economic impact of the Thirty Years' War upon Germany.

It is extremely doubtful, therefore, whether thinking in terms of very long historical periods of preparation for the industrial spurt makes good historical sense. On the other hand, when the period of original accumulation is foreshortened and reduced to a less extravagant length, other difficulties remain. It is easy to say that a wealthy country will find it easier to launch the period of rapid industrialization. As an abstract statement such a proposition is unexceptionable. In historical reality, however, simple availability of wealth will be helpful for industrialization only if it is assembled in the hands of the people who either will be willing to invest it in industrial ventures themselves or, alternatively, are willing and able to pass it on in one form or another to those who are immediately engaged in industrialization. In any case, it must be wealth in a form which either directly or through some financial transformation is capable of being so passed on. One can think of many historical cases where wealth, even though

potentially available and available in an appropriate form, will not in fact reach the industrial entrepreneurs. An inveterate tradition of hoarding may constitute an effective barrier. Apprehensions on the part of the landowning classes lest industrial development deprive them of their position of pre-eminence within the community may have similar effects. Merchants who have a good deal of liquid capital at their disposal may be quite unwilling to make their capital available for industrial ventures because such ventures would disrupt the putting-out system in which they may have direct and important interests. In short, there is no assurance at all that previously accumulated wealth will in fact be made available for industrial investment finance.

The problem, however, is not so much that "original accumulation" must be further qualified before it can serve as a historical prerequisite of modern industrialization. It is rather to find out under what special conditions the concept, even when duly qualified and deprived of its original magnificence, can be regarded as a true prerequisite of industrial development, and under what conditions it may be difficult, impossible, or unnecessary to attribute a great deal of significance to it. With this question we approach the second previously mentioned implication in the concept of prerequisites of industrial development: namely, the assumption of a uniform process of industrialization evolving in such a way that the industrialization, when it occurs anywhere on the globe, repeats in all essential characteristics a process of industrialization that had taken place previously in some other country or region. It would seem that such an assumption leads to a much too simplified view of industrial processes in general, and particularly in their initial phases.

This, of course, is not to raise once more the specter of the "unique and individual" in history. Enough has been said before to suggest that the point is not to reject broad patterns as such, but to select patterns appropriate to the problem. Moreover, up to a point, a uniform pattern of industrial development is quite reasonable. Industrialization everywhere means increase in the volume of fixed capital; it means changes in technology, economies of scale, transformation of agricultural laborers and small artisans into factory workers; it means appearance of men, willing and able to exercise the entrepreneurial function.

Time and again the industrial development of Europe has been described in terms of a general pattern constructed upon the empirical material gleaned from English economic history. Such an approach is not without merit. Precisely because there are common features in all industrializations, it possessed and still possesses some explanatory and even predictive value. To concentrate upon these general aspects of industrialization may be quite useful for some purposes. But it is equally true, as always when the level of generality is pitched very high, that as one moves deeper and deeper into the subject one is bound to come across things in one area or another that do not fit the general model. When that happens, the historian, after he has refused to ignore the uncomfortable irregularities, is faced with two alternatives. He may regard those things as exceptions and treat them as such. Or else he can attempt to systematize the deviations from the original pattern by bringing them into a new, although necessarily more complicated, pattern. This is not something peculiar to economic history; rather, it is the path along which all scientific progress must move. Perhaps the historian who deals with broad and important phenomena has reason to be particularly aware of the problem and to remember that in principle every historical event that takes place changes the course of all subsequent events. The Industrial Revolution in England, and for that matter in other countries, affected the course of all subsequent industrializations.

This writer has felt for some time that some additional insights and a more profound understanding of the processes of European industrializations can be obtained if, instead of working with an undifferentiated uniform pattern of industrialization, one would consider the processes of industrial development in relation to the degree of backwardness of the areas concerned on the eve of their great spurts of industrialization. Such a view has distinct advantages inasmuch as it makes it possible to regard crucial features in the industrial evolution of the individual areas not as specific peculiarities, idiosyncrasies, or exceptions to the norm, but as part and parcel of a system of gradations of backwardness. Such a view has a direct bearing on the question of preindustrial accumulation and the problem of prerequisites of industrial development in general.

It is not necessary to present here more than the briefest possible

outline of this general conception, and the reader may find a fuller treatment elsewhere.⁶ But two relevant points may precede such a summary. The question as to what is "an intelligible area of study" is faced in any attempt at interpretive history. Intelligibility, of course, must be defined in terms of the problem at hand. Simon Kuznets once detailed the reasons for which a country, taken as a political unit, should be regarded as a basic area of observation in studies of economic development. He referred to the fact that neither the subdivisions within the country nor blocs of several countries constituted more significant units; he mentioned that data are usually available in terms of "states," and he clinched his argument by saying that a country presented a compact "bundle of historical experience." All this is indubitably correct.

Yet it is equally true that one cannot understand the industrial development of any country, as long as it be considered in isolation. Backwardness, of course, is a relative term. It presupposes the existence of more advanced countries. Moreover, it is only by comparing industrialization processes in several countries at various levels of backwardness that one can hope to separate what is accidental in a given industrial evolution from what can be reasonably attributed to the historical lags in a country's development. And, finally, it is only because a backward country is part of a larger area which comprises more advanced countries that the historical lags are likely to be overcome in a specifically intelligible fashion.

The other point refers to the measurability of backwardness. Is it an operational term? If the levels of output or income per capita of the population could be regarded as a satisfactory measure of backwardness, one would not be too far away from a satisfactory solution. In fact, one would be just as far away as the availability and quality of the data and the index-number problem would allow. Even so, serious problems of measurement must be encountered. Projecting outputs of different countries against the screen of the price system of one given country may lead to a widely different ranking of countries as compared with the ranking that would result from the use of the price system of another country. In practice, only the price system of the most advanced country in the group could be chosen because of

⁶ See Chapters 1, 4, 7, and 8 of this volume.

the more limited range of output and accordingly of available price data in a more backward country.

But can a definition in terms of per-capita output suffice? Obviously, the level of per-capita output may be the result of unfavorable climatic conditions or of poor endowment with natural resources. While not impossible, it would be hazardous indeed to weigh the output data by the reciprocals of resource endowment and climatic propitiousness. Moreover, such conditions which make for high or low output in a preindustrial branch of the economy may, within limits, become more or less relevant after the big structural change has been ushered in and the industrialization launched.

Finally, it is not clear that output, however measured, is a fully satisfactory gauge of the degree of backwardness. One might want to define the degree of backwardness in more dynamic terms. And that would involve asking to what degree a country at a certain moment had developed the preconditions for subsequent economic development. Assume a country A where, say, per-capita output and resource endowment are equal to those of country B, but in the latter country a much larger percentage of the active population is illiterate, thus creating an obstacle to a rapid acquisition of industrial skills; or assume that in country B, for religious reasons, the people consider urban ways of life displeasing to the Lord and are deeply rooted in the soil, while such sentiments are quite alien to the inhabitants of country A, where there is a great and widespread willingness to respond to the call of pecuniary incentives. Would it not make good sense to include such factors, and many others of similar importance and bearing, in the concept of degree of backwardness? Obviously, this would be a hopeless enterprise. There is no precise system of weights by virtue of which disparate factors could be brought together over a common denominator; nor could we possibly determine the precise quantities of the pertinent factors to which those weights could be applied. One has to conclude, however reluctantly, that "degree of backwardness" defies exact measurement. But just how discouraging is a conclusion of this nature? It is important to have drawn it to prevent misleading notions and false hopes. On the other hand, it is far from clear that a high degree of precision is required for the purposes of historical analysis.

The purpose of such analysis is to associate certain differences in the historical process with the absence or presence of certain features in the economies concerned. If the cases with which we have to deal are sufficiently discrete and if, in addition, the individual factors on the whole tend to point in the same direction, then we may hope, without aspiring to any exact measurement, to be able to wield our material in such a fashion as to glean from it some meaningful and not altogether unimportant answers. And, indeed, as we look upon the economic scenery of nineteenth-century Europe, riveting our attention, say, to the midpoint of that century, few would disagree that Germany was more backward economically than France; that Austria was more backward than Germany; that Italy was more backward than Austria; and that Russia was more backward than any of the countries just mentioned. Similarly, few would deny England the position of the most advanced country of the time. Whether we think of levels of output, the degree of technological progress achieved, the skill of the population, the degree of its literacy, the standards of honesty and the time horizon of the entrepreneurs, or a number of other similar factors, we get roughly identical answers. In practice, we *can* rank the countries according to their backwardness and even discern groups of similar degree of backwardness.

The main proposition we can then make with regard to countries so ranked is that, the more delayed the industrial development of a country, the more explosive was the great spurt of its industrialization, if and when it came. Moreover, the higher degree of backwardness was associated with a stronger tendency toward larger scale of plant and enterprise and greater readiness to enter into monopolistic compacts of various degrees of intensity. Finally, the more backward a country, the more likely its industrialization was to proceed under some organized direction; depending on the degree of backwardness, the seat of such direction could be found in investment banks, in investment banks acting under the aegis of the state, or in bureaucratic controls. So viewed, the industrial history of Europe appears not as a series of mere repetitions of the "first" industrialization but as an orderly system of graduated deviations from that industrialization.

III

To return at length to the main problem of this essay, we may ask what happens to the concept of uniform prerequisites of industrial development in a world that is far from being uniform. In particular, what happens to the concept of preindustrial accumulation of capital? We have seen that what makes preindustrial accumulation of capital potentially meaningful is the discontinuity of industrial development. We have suggested that, the higher the degree of backwardness, the more discontinuous the development is likely to be. Does this mean that, the more backward a country, the more important was the previously accumulated wealth? Could this conclusion be further strengthened if one considers that in nineteenth-century Europe the capital-output ratios tended upward and, accordingly, the later a country industrialized, the higher was the rate of growth during its big upsurge of industrialization and the greater were its capital requirements per one percent of increase in output?

There is little doubt that in reality the opposite seems to have taken place. The building of factories in England no doubt benefited considerably from the existence of manifold sources of private wealth. One of the characteristics of the English development was that, in conditions of considerable antecedent progress, there was much willingness on the part of individuals to invest in industrial pursuits. But, in the more backward countries on the European continent, neither the size of previous accumulations nor the sympathy with industrial development was consonant with the much greater capital requirements of a delayed industrialization. The focal role in capital provision in a country like Germany must be assigned not to any original capital accumulation but to the role of credit-creation policies on the part of the banking system. It is true that the banks also collected and passed on to entrepreneurs both current savings and some previously created assets that could be converted into claims on current output, but this is much less significant.

When one moves on to even more backward areas where the spurts of industrialization were even more delayed and even more violent, such as Russia in the last decade of the century, one again would find it difficult to attribute a crucial role to any preindustrial

accumulations of capital. There it was the budgetary policies of the state that must be considered as the strategic factor in capital supply. This is not to say that this was the only available source. Capital imports were considerable. Preindustrial wealth played some part. Plowed-back profits could not be denied all importance even in the early stages of the process. Much remains to be done in the study of capital formation in Russia in the nineteenth century. But this much seems clear: all the other sources do tend to pale into insignificance compared with the role of budgetary finance of the new and growing industrial enterprises. If a somewhat sweeping expression is permissible, one might say that original accumulation of capital was not a prerequisite of industrial development in major countries on the European continent.

It would appear, therefore, that not very much has remained of the concept of original accumulation of capital. First, it had to be reduced temporally by limiting the length of the periods to which it could be reasonably applied. Then, it had to be further reduced, this time spatially. One might want to conclude that there is no general set of prerequisites valid for all times and climes and that each case must be studied independently. Yet it would be unfortunate if this negative conclusion were taken as a renunciation of a comparative approach to the problem. The framework which has been sketched out in the preceding paragraphs would seem to open up different possibilities. As has been intimated before, one way of defining the degree of backwardness is precisely in terms of absence, in a more backward country, of factors which in a more advanced country served as prerequisites of industrial development. Accordingly, one of the ways of approaching the problem is by asking what substitutions and what patterns of substitutions for the lacking factors occurred in the process of industrialization in conditions of backwardness.

One thing is obvious. Illiteracy and low standards of education, and the resulting difficulty in training skilled labor and efficient engineers, can be overcome to some extent by immigration from more advanced countries and to some extent by using the training facilities of those countries. The same is true, even more importantly, of the lack of a store of technical knowledge. It can be imported from abroad. In this sense, however, one can say that in a backward country there

exists a "prerequisite" to industrial development which "the" advanced country did not have at its disposal, that is, the existence of the more advanced countries as sources of technical assistance, skilled labor, and capital goods. In addition, the existence of capital-abundant areas abroad has a bearing on the problem of original accumulation. To the extent that capital can be imported from abroad, the importance of previously created domestic wealth is *pro tanto* reduced. It is true, however, that the *tantum* never was excessively large. Even in Russia of the 1890s, according to this writer's computations, capital imports constituted but a relatively small portion of total capital made available for the purposes of industrialization; this is true even if very low capital-output ratios are assumed for calculating total capital formation during the period. On the other hand, capital import, unlike transformation of previously created wealth into titles on current output, implies the possibility to invest without lowering the rate of current consumption; similarly, the opportunities for imports of capital goods from abroad, if they are financed by such previous accumulations of bullion and plate as may exist in the backward country, also avoid reduction in levels of consumption. That is something which neither the credit-creating policies of banks nor the government policies of tax-financed expenditures can achieve. It is another question that a government engaged in the policy of vigorous industrialization, as was the Russian government in the 1890s, was in a position to tap otherwise inaccessible founts of credit.

Considerations of this sort, however, do not begin to exhaust the range of possible substitution patterns. The question as to why industrialization occurred under the aegis of the banks in the moderately backward areas in Central Europe and under that of the state in the more backward areas farther east can at least partly be answered in terms of absence or presence of certain prerequisites. What effectively prevented banks from engaging in industrial investment in Russia of the nineteenth century was *inter alia* the impossibility of building up an effective system of long-term bank credit in a country where the standards of commercial honesty had been so low and where economic, and particularly mercantile, activities and deceit were regarded as inseparably connected. "He who does not cheat does not sell," taught the economic wisdom of the folklore. Well-staged and repeated

bankruptcies were regarded as almost normal steps on the road to wealth. In these circumstances, the government even felt impelled to issue specific injunctions against involvement of banks in long-term credit operations.

In a sense, in Russia the activities of the government effectively substituted for the lacking prerequisite of minimum acceptable standards of commercial honesty. The existence of the prerequisite in Central Europe made possible a different, much more decentralized type of industrialization finance. But one could go further and inquire into the reasons of the differences in standards of commercial honesty in, say, Germany and Russia. To be sure, many an answer to such a question could be found. For instance, the badly delayed emancipation of the Russian peasantry must have had a good deal to do with it. The institution of labor services bred mendacity and deception. The serf-entrepreneurs had many excellent reasons to deceive their owners. The legal uncertainty with regard to peasants' property rights was hardly designed to educate the mass of the population in the spirit of respect for contractual obligations. Yet probably no less important was the absence in Russia of a tradition of urban independence. A sociology of economic honesty still remains to be written, but there is little doubt that over large areas of Europe the historical experience of the craft guilds, with their attempts to increase and to maintain standards of quality and reliability, was of considerable importance in forming the business ethics of the community. One could argue, therefore, that in a country like Germany it was the historical training school of the craft guilds that served as a prerequisite to industrial development by making it possible to substitute the prerequisite of original accumulation by the more efficient banking policies rather than by the less efficient and more costly bureaucratic controls. When in the seventeenth century a keen foreign observer, Yuri Krizhanich, cogitated on the ways and means to reform the sloth and dishonesty of the Russian artisans and traders, the introduction of craft guilds suggested itself to his mind as the most natural remedy.⁷ An attempt to create the guilds by government fiat, as was later tried by Peter the Great, could not yield the same positive results as did their

⁷ *Russkoye gosudarstvo v polovine XVII veka* (The Russian State in the Middle of the Seventeenth Century) (Moscow, 1859), pp. 28f.

spontaneous evolution in Western Europe. One might say, then, that in Russia the government's policies of industrialization also had to function as a substitute for the missing prerequisite of craft-guild experience.

To give another example: cause and effect are usually intermingled in the discussion of the relationship between the enclosure movement and the industrial progress in England. But it is clear that the latter was materially aided by the growth of productivity in English agriculture that took place during the eighteenth century. But here again government action may be regarded as a substitute, however unpleasant, for the prerequisite of increases in food supplies. To be sure, the transformation of virgin steppes in the south of Russia into arable widened the food basis somewhat. Still, the period of the rapid industrial spurt in Russia in the last decade of the century occurred in conditions of a grave crisis in agriculture. To some extent, the crisis was caused by the fact that industrialization was financed, and, among other things, food supplies to the cities and for export were made available, through confiscation of peasant income and to some extent even through capital depletion. It is true, of course, that all such processes were later dwarfed by the agrarian policies of the Soviet government and its incomparably more ruthless exploitation of the Russian peasantry. Yet the Soviet case is a very peculiar one, and for many reasons prerevolutionary Russia seems to provide a much more "normal" case for a discussion of specific patterns of substitution in the process of industrialization.

Along with increases in food supplies, the increase in supply of labor for the needs of the nascent industries is usually mentioned as the factor which imparts to agrarian reforms the character of a prerequisite. The deliberate preservation and even strengthening of the Russian village commune through the emancipation procedure of the 1860s and several subsequent measures certainly tended to inhibit the formation of an industrial labor force in Russia. Permanent renunciation of the right to land allotment involved considerable financial losses; a member of the village commune working in cities was subject to recall to the village; for decades, departures for work in towns required permissive action on the part of village authorities and family heads. All these were serious impediments to a movement

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

which in any circumstances had to overcome a good deal of ingrained reluctance and inertia.

The finality which attended the move of a landless laborer from the East Elbian estates to the Ruhr Valley was more seldom reproduced in Russia. As a result, a labor force permanently committed to the factory increased much more slowly than might have been the case otherwise. But, to some extent, this deficiency was substituted for by specific entrepreneurial decisions with regard to the volume and character of capital investment in Russian factories. The difficulties in creating a reliable and steady labor force were at least partly compensated for by a choice of more labor-saving equipment in a number of industrial branches. At the same time, in other branches of industry the large labor-force turnover was met by the introduction of more modern machinery, simpler in operation, for which the necessary learning time was shorter and therefore more reasonably related to the prospective duration of employment. In this way, what might be called the basic propensity of a backward country to concentrate on the areas of most recent technological progress, and thus to utilize a specific advantage of backwardness, was further intensified.

IV

It has not been the purpose of the foregoing pages to present more than a few examples; nor has it been intended to qualify and elaborate the relationships touched upon. The purpose rather has been to point out the great elasticity and variability in the industrialization processes that are known from historical experience. It would seem that the lack of something that might be regarded as a *general* set of prerequisites of industrial development does not necessarily diminish the heuristic value of the concept of prerequisites. It is precisely by starting from that concept and by trying to understand how a given country managed to start its process of industrialization despite the lack of certain prerequisites that one can arrive at some differentiated and still coordinated view of industrialization in conditions of graduated backwardness. As we look at the later stages of the process, we find that what may have functioned as a prerequisite and, in a sense, as a "cause" of industrialization in one country appears as an effect of industrialization in another. This serves to reinforce and to complete

PREREQUISITES OF MODERN INDUSTRIALIZATION

the present approach to industrial development. This process of belated "normalization" of the development is also likely to be understood more clearly if it is related to the degree of backwardness of the areas concerned.

On the other hand, there is, of course, no intention to infer that absence of certain "prerequisites" should be regarded in any way as "advantages of backwardness." It is largely the existence of such advantages that makes it possible to overcome the lack of preconditions for economic progress. But the process as a rule was a costly one. It would be a fruitful undertaking in research to explore and perhaps to measure and compare the difficulties, the strains, and the cost which were involved in the various processes of substitution which have been discussed in the preceding pages. The sovereign disregard for the human cost of such substitutions has been perhaps the most characteristic feature of Soviet industrialization over some three decades.

At the same time, however, it may be in order to suggest that past historical experience may justify a measure of optimism with regard to the general prospects of industrialization of backward countries. What is meant is not simply that past industrializations occurred in the face of considerable obstacles and deficiencies. In viewing the historical record one cannot fail to be impressed with the ingenuity, originality, and flexibility with which backward countries tried to solve the specific problems of their industrial development. There is no *a priori* reason to suppose that the underdeveloped countries which today stand on the threshold of their industrial revolutions will show less creative adaptation in compensating for the absence of factors which in more fortunate countries may be said to have "preconditioned" the initial spurts of rapid industrial growth. One can only hope that in drafting the maps of their own industrial progress they will be eager to select those paths along which they will be able to keep down the cost and to increase the yield in terms of human welfare and human happiness.

Social Attitudes, Entrepreneurship, and Economic Development



"SOCIAL attitudes" is not a very precise term. It must be treated with restraint. Otherwise it will quickly expand to embrace the whole ambit of governmental economic policies — a topic very properly assigned to a special session of this conference.¹ We shall deal here essentially with the significance for a country's economic development of popular evaluations of entrepreneurs and entrepreneurial activities; that is to say, of the general climate of opinion within which entrepreneurial action takes place. Even when so restricted, the problem remains vast, and a great deal of patient monographic research is necessary before any firm conclusions can be reached. The following impressionistic remarks, therefore, purport to do no more than to present briefly some general lines of thought that have been pursued so far, to issue some warnings against too ready an acceptance of certain abstract models, and to illustrate these warnings by reference to some segments of European economic history of the nineteenth century. With regard to the latter, the emphasis is on earlier stages of industrialization rather than on conditions in mature economies. Except for a brief allusion, the question as to what extent European historical experience can be used for elucidating the current problems of underdeveloped countries must likewise remain outside the scope of this paper.

Research on the problem under discussion is still in its infancy.

¹ The reference is to the "Round Table" of the International Economic Association on Economic Progress, 1953.

However, the Harvard Research Center in Entrepreneurial History under the able leadership of Arthur Cole has devoted, over several years, much time and thought to an "entrepreneurial approach to economic history," and it has paid a good deal of attention to the question of social attitudes toward entrepreneurship. Entrepreneurial research in the United States has received its intellectual stimulus primarily from two sources. It has been, of course, greatly influenced by Schumpeter's theory of economic development, which assigns to the innovating entrepreneur a focal role in the process of economic change. In fact, Professor Schumpeter remained in intimate association with the Research Center at Harvard until his death in 1950, and the wealth of Schumpeterian hypotheses — and intuitions — quite naturally predetermined many of the paths of research to be followed. At a very early stage, however, as the problem of the entrepreneurial position within the community impressed itself upon those working in the field, the need was felt for a more rigorous and comprehensive sociological framework. Such a framework has been developed over a wide range of recent writings in the field of social psychology, anthropology, and sociology and has found perhaps its most powerful systematic expression in the theoretical structure which over the past two decades has been erected by Talcott Parsons and the scholars assembled around him.

Even if the writer felt qualified to do so, there still would be neither need nor possibility to enter within the scope of these pages into a discussion of the Parsonian system. But a few words on some specific concepts to the extent that they have affected entrepreneurial research — and only to that extent — may be in order.² The interest in this respect centers upon the so-called theory of roles. The individual members of the community are seen as performing specific social roles, and it is the role which "for most purposes [is] the conceptual unit of the social system."³ "The primary ingredient of the role is

² The following references (unless otherwise stated) are taken from the symposium, *Toward a General Theory of Action*, edited by Talcott Parsons and Edward A. Shils (Cambridge, Mass., 1951), particularly from the fundamental Part 2, "Values, Motives, and Systems of Action," which comes from the pens of the two editors. The volume, it may be added, provides a most convenient point of entry for an economist who wishes to trespass upon the domain of modern sociology.

³ *Toward a General Theory*, p. 190.

the role-expectation,"⁴ which denotes what role individuals expect each other to perform. Compliance with role-expectation is enforced through positive and negative sanctions (rewards and retributions). The role expectancies and sanction patterns are institutionalized into generalized value systems of the community. In a well-integrated society these values are "internalized in personality systems," that is, they are accepted and adopted by the individuals. As a result, the value system becomes the crucial determinant of action.⁵

One cannot suppress some wonderment as to why these particular concepts should have proven attractive to those interested in explaining the process of economic *change*. It does seem that these concepts essentially pertain to a static system. Of course, the system is still in evolution. Parsons' writings and those of his collaborators are shot through with multifarious warnings. In *Toward a General Theory of Action*, it is said explicitly that the work has not proceeded far beyond the "categorical" stage on the road to the formulation of the general "laws" of the system (pp. 50-51). One is warned that the "empirical significance of selective or value standards as determinants of concrete action may be considered problematical and should not be prejudged" (p. 63), that there are dangers in imputing "too much rigidity to behavior" and in overestimating its "uniformity within a given society" (p. 225). Most importantly, it is emphasized that very often "many of the most important seeds of social change" (p. 179) lie in the failure to maintain social integration at the achieved level. The impression is that the static character of the system is well recognized. Still it is claimed that, "in principle, propositions about the factors making for maintenance of the system are at the same time propo-

⁴ *Ibid.*

⁵ Parsons may be quite unwilling to accept the last sentence of this paragraph as a correct reproduction of his views. Elsewhere (*The Social System*, 1951), he explicitly rejects the "dominant factor theories which were so popular a generation ago" (p. 493). Yet, time and again, it is said that "value orientations" are used as "major point of reference" (p. 484); that "the primary emphasis of this volume has been on the integration of social systems at the level of patterns of value orientations as institutionalized in role expectations" (p. 350); and so forth. It would seem that from a methodological point of view the substantive outcome is the same, and value orientations when so used do in fact assume the role of the "dominant factor." The difference may lie in the greater awareness of the limitations of the approach, but its locus then is without rather than within the system.

sitions about those making for change" (p. 231). Thus social dynamics is said to be included within the framework; and it is essentially in the conflicts between value systems—in an analysis of what Florence Kluckhohn called dominant, variant, and deviant (that is, prescribed, permissive, and proscribed) values (p. 415)—that the processes of change will be sought. This, however, is still a promise. For the time being it seems fair to say that it is the social state rather than social change to which main attention is addressed.⁶

Nevertheless, it is both the static and the nascent dynamic elements in the system that have excited the interest of entrepreneurial research. This is clearly in evidence in the pioneering symposium volume *Change and the Entrepreneur* which was prepared by the Entrepreneurial Research Center.⁷ Thus in this volume Arthur Cole attaches explicit significance to the degree of social approval which the entrepreneur's striving for economic gain will receive in a given economic milieu, and he refers to various social systems from India to France where entrepreneurial activities labor under various degrees of disapproval (pp. 87-88). In his stimulating contribution, Leland H. Jenks⁸ concerns himself in more detail with role factors, that is, with prescriptions concerning appropriate behavior of individuals who occupy a set of special positions. And, in dealing with the specific behavior of men like the elder Morgan or Cyrus McCormick, he stresses that whatever the importance of accidental factors in the make-up of

⁶ Perhaps a word on the system as a whole may go unsuppressed. The system is presented as a social-equilibrium system, thus evoking comparisons with the general-equilibrium concept in economics. But time and again it appears that the concept of equilibrium is extended so far as to become coterminous with that of organized society; what, then, is actually discussed is not so much a set of equilibrium conditions as a set of minimum conditions of social existence, which would mean that most important and most variegated social processes might take place without any change in the basic variables that enter into the system.

⁷ Harvard University Press (Cambridge, Mass., 1949). A good deal of water has gone down the Charles River since the publication of this volume. In quoting the views expressed by the contributors there is, of course, no intention to suggest that those views are necessarily still held in exactly the same form by the writers concerned. In fact, this would be most unlikely in a new and vigorously expanding field. But the volume in question remains the only reasonably full statement of problems in entrepreneurial research that is available, and it is used here for this reason. A new venture of the same kind incorporating the thought and the research experience of the intervening years would seem extremely desirable.

⁸ "The Role Structure of Entrepreneurial Personality."

individuals their actions cannot be adequately understood unless they are placed within the context of the cultural patterns of their society (pp. 131-132). But Jenks moves a step beyond and places particular stress on the dichotomy of personal and social roles and the possibility of discrepancy between them. It is the existence of such discrepancies, he says, that is indicative of the fact that significant social change is in the making (p. 138). One would expect, therefore, the concept of entrepreneurial deviance to emerge as the primary device for understanding entrepreneurial behavior and the entrepreneur's role as an innovator. But we are quickly led back to the fold. It is again the "social roles" and the sanctioning acts by which the expected behavior is enforced that assume a central position in the explanatory mechanism. And all we are left with is the fact that in the case of entrepreneurs social roles are peculiarly "indistinct" and "flexible" which, we are told, is in turn the result, among other things, of the fact that the entrepreneurial position "entails the function and opportunity for introducing novelty into the economic structure" (p. 147).

Finally, mention must be made of the essay by Thomas C. Cochran in the same volume.⁹ Cochran's essay, which is enclosed within the same conceptual framework, is of particular interest from our point of view because of his specific redefinition of deviant behavior. He speaks of sanctions designed to "encourage deviant behavior" (p. 160). Thus, the concept of deviance is divorced from the discrepancy between social and personal roles, and deviant behavior becomes fully consonant with social role-expectations. Obviously, deviance means something else to Cochran than it does to, say, Florence Kluckhohn, who identifies it with socially proscribed behavior.¹⁰ In Cochran's mind deviance is simply associated with innovation and is seen as an integral part of the dominant value system.

Where does all this lead? Are we witnessing here a new theory of social change *in statu nascendi*? How can an economic historian use the analytical tools, with which he is being so generously supplied, in his attempts to elucidate empirical processes of economic change and, in particular, to understand entrepreneurial behavior? Surely, only very tentative answers can be given to these questions.

⁹ "Role and Sanction in American Entrepreneurial History."

¹⁰ *Toward a General Theory*, p. 415.

A dynamic theory? It seems that it allows of economic change in a twofold fashion. On the one hand, a well-integrated society in which economic innovating has become a generally accepted mode of behavior fits the system to a nicety. Since the process of innovation gives rise to what Schumpeter called "creative destruction,"¹¹ the process of change, one may suspect, will still involve dissident personal values of the victims of economic change, but these may be either neglected or else the community assumed to be integrated to a point where even the loser in the process has so thoroughly "internalized" the social standard of value that

Mit dem Geschick in hoher Einigkeit,
Gelassen hingestuetzt auf Grazien und Musen,
Empfaengt er das Geschoss, das ihn bedraeut,
Mit freundlich dargebotnem Busen
Vom sanften Bogen der Notwendigkeit.

Be that as it may, it is this type of "built-in" dynamism that apparently was in Cochran's mind. On the other hand, there is the original, nondenaturalized concept of deviant behavior on the part of the entrepreneur. This concept is intimated, but all too soon abandoned, by Jenks in his discussion of discrepancies between personal and social roles.¹²

Both concepts are, of course, meaningful per se. But it may be noted in passing that in Cochran's society the Schumpeterian concept of innovation loses a good deal of its interest. Innovation is regarded by Schumpeter as a "distinct economic function," *inter alia*, because of the environment's resistance to innovators and innovating processes.¹³ Once the resistance of the environment is lowered, "personality and will power must count for less."¹⁴ In other words, specific

¹¹ See in this connection the interesting treatment by Redlich of what he calls the "daimonic" entrepreneur: Fritz Redlich, *History of American Business Leaders* (Ann Arbor, 1940), I, 2-6, and "The Business Leader as a Daimonic Figure," *American Journal of Economics and Sociology*, January-April 1953.

¹² It may be mentioned that Parsons is well aware of the two types of processes of change. He speaks of "processes within the system" and "processes of change of the system" and objects to a confusion of the two in the common term "dynamics" (*The Social System*, p. 481).

¹³ J. A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York, 1942), p. 132. See also, *Business Cycles* (New York and London, 1939), I, 100.

¹⁴ *Capitalism*, loc. cit.

entrepreneurial research offers less opportunity for understanding the processes of social change in such a society. At any rate, Cochran's society has little resemblance to economies which stand at the threshold of industrialization and are heavily burdened with traditional resistances to economic development.

In a sense, deviance which spurns the established value patterns may indeed be regarded as a dynamic force making for economic change. But it is at this point that our theories, both general and entrepreneurial, leave us in the lurch. For, though it may make sense in certain historical situations to take a dominant system of social values for granted, it is much less satisfactory to accept the deviant behavior as given. If we deal with an agricultural community based on century-long traditions, we may be willing to accept those traditions as given without caring much about the whys and the wherefores. But if suddenly deviant values make their entry upon the economic scene, the urge for further explanation is irresistible. We cannot help asking whence the change in value orientations: what has caused the sudden outburst? There is nothing within the theoretical framework that provides the elements of such an explanation beyond, perhaps, some implicit and inchoate ideas about the tolerable degree of tension between deviant and generally accepted behavior. In general, the concept of deviance is taken up gingerly and dropped abruptly, and the accent shifts back to the dominant value system as the determinant of action and to the social sanctioning of entrepreneurial behavior. Thus, the questions with which we are left focus on the problem of social approval.

How important is social approval for the emergence of entrepreneurial activities? In particular, what is its importance at the crucial stages of economic development when a country's economy becomes engaged in a sudden spurt of economic development? Should lack of social approval be regarded as a serious retarding factor? Does it affect in a significant manner the contents of entrepreneurial activities and make for adaptations in entrepreneurial attitudes which can be said to influence speed and character of a country's economic development? These questions cannot be answered, of course, except on the basis of extensive empirical research. In default of such research, the

following remarks must be taken as highly tentative impressions from scattered, but perhaps relevant, historical material.

The theoretical formula is persuasively simple: social approval of entrepreneurial activity significantly affects its volume and quality. At times, it even appears as though social approval were regarded as a prerequisite for successful entrepreneurship. But doubts are bound to arise the moment historical material is approached. One might recall the dramatic pages in Augustin Thierry's *Tiers État* which deal with the *fermiers généraux*. Hated and despised, their very existence a slap in the face of all the prevailing standards of goodness and decency, perpetually accused and at times subject to monstrous persecutions, they nevertheless progressed and prospered economically and socially, their entrepreneurial vigor remaining unshaken.¹⁵ *Toujours maudits et toujours nécessaires*, cursed and indispensable, they continued their activity, indulging their greed and maturing their frauds. Why did not social disapproval erase the shame of that office from the face of France? Perhaps because a system of social sanctions is often too weak unless reinforced by the sanctions of the state, and the latter may or may not reflect the dominant value system. Or, perhaps, because the system of social values was not to be taken too seriously; perhaps because behind the articulately expressed but ineffectual value system lay another, an actually operational, system. Possibly so, but we must take care. We have set out to examine the determinants of social action. If we begin to deduce social values from the presence of certain actions, we have closed a vicious circle and at the same time have foreclosed the road to a reasoned explanation.

Let us take a brief glance at Russian conditions in the second half of the nineteenth century. After the emancipation of serfs in the early sixties of that century, former serfs and sons of former serfs are known to have engaged on an unprecedented scale in various entrepreneurial activities, including, it might be added, the magnificent venture of constructing and operating the merchant fleet on the Volga River. Again, there is little doubt that their activities were at variance with the dominant system of values, which remained de-

¹⁵ *Essai sur l'histoire de la formation et de progrès du tiers état* (Paris, 1856), I, 108-110.

terminated by the traditional agrarian pattern. The Good Life which God intended for man to lead implied tilling the land, which belonged to God, and receiving the divine blessing of its fruit. The Good Life certainly did not mean craving for riches, did not mean laying up treasures on earth where moth or rust doth corrupt. In innumerable adages, fairy tales, and songs, the wisdom of the folklore insisted upon the unrighteous origin of wealth. And still the activities went on unchecked, great fortunes were amassed, and great entrepreneurial innovations were successfully launched.

There is no doubt that throughout most of the nineteenth century a grave opprobrium attached to entrepreneurial activities in Russia. The nobility and the gentry (*dvoryanstvo*) had nothing but contempt for any entrepreneurial activity except its own. And despite some notable exceptions, it failed to make a significant contribution to modern industrial development. Divorced from the peasantry, the entrepreneurs remained despised by the intelligentsia. The latter's aversion to mercantile pursuits was, if anything, even stronger than that of the peasantry, even though the roots of that aversion doubtless lay in the value system of the peasantry. In a sense, the populism of the intelligentsia was a conscious attempt to espouse the standards of values of the "people." Hence came the intelligentsia's aversion to the bourgeoisie, the acquisitive class. Throughout long decades of the nineteenth century, there was only one among the great figures in Russian intellectual life who did not quite share this negative attitude — Belinski, who, at least at one point, refused to believe that a country that had no bourgeoisie could conceivably prosper. And still it was Belinski who at the very same time used his most fiery vocabulary to decry the merchant, the "base, despicable, vulgar creature who serves Plutus and Plutus alone."¹⁶

But what of the value system of the entrepreneurs themselves? Were they deviants? They certainly were, as far as their behavior was concerned. But since we are precluded from inferring values from action, we must still ask whether or not they were deviants in the sense that their own standard of values was different from the dominant one. And this appears highly dubious. It took a long time before something like an independent standard of values of the

¹⁶ V. G. Belinski, *Pis'ma* (Letters) (St. Petersburg, 1914), III, 329.

Russian businessman developed. They knew full well that by accepted standards their life was a sinful one, and they tried seriously to make amends by donations to the church — "the graft payments to God," as those donations were cynically and probably unjustly called by Vladimir Solovev. It is much more sensible and in accordance with such evidence as we have from letters and memoirs to speak of a profound malaise resulting from the discrepancy not between two value systems but between the dominant value system and a social action that was at variance with it. It is out of this conflict that emerged the figure of the "repentant merchant" (which followed that of the "repentant nobleman" of the pre-Emancipation times), a figure so impressively depicted in Chekhov's *Cherry Orchard*. And the fictitious figure of Lopakhin appears multiplied in the reality of the early twentieth century in the shape of merchants and industrialists who supplied generous funds to revolutionary organizations, including the Bolshevik Party, of whom Savva Morosov, the leading textile industrialist, was an outstanding but far from solitary example.

No one can deny that some changes in this situation took place in the last decades of the nineteenth century. An independent value system of the entrepreneurial group indeed began to evolve. One need only compare the uneasy despotism of the merchant types in Ostrovski's plays with the much more civilized and self-reliant figures of Gorki's *Foma Gordeyev*. And a somewhat parallel change is clearly in evidence in the attitudes of the intelligentsia, as it broke away from the traditional populism and turned with the same radical fervor to the tenets of Marxism. Paradoxical as it is, it was Marxism in Russia which for large strata of intelligentsia, of which revolutionary groups of course constituted but a small minority, brought about at the turn of the century some reconciliation with the bourgeoisie and replaced in their minds the picture of a despicable mercenary by that of a builder and innovator. But one cannot fail to be impressed by the lateness and incompleteness of this development.

What shall one conclude from all that? That social attitudes toward entrepreneurs, that value systems whether dominant or deviant, are unimportant, that they do not influence the development at all? This almost surely would be a wrong inference. First of all, it could be argued that the existence of widespread social attitudes in

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

Russia which were so patently unfavorable to entrepreneurship greatly reduced the number of potential entrepreneurs and thereby reduced the rate of economic development in the country.¹⁷ There is little doubt that there is some plausibility to such an argument. Even in the twentieth century, Russian university students showed a good deal of contempt for work associated with practical pursuits and particularly with business activity. When they went to Western universities, they quickly developed scorn for their student colleagues whose attitudes they regarded as glaringly materialistic. "Career" remained a shameful word in the vocabulary of a Russian student. This attitude presumably retarded in some measure the industrialization of the country. Yet it did not prevent the brilliant period of rapid industrialization in the 1890s, when the annual rate of industrial growth was in the vicinity of 9 percent.

It seems more reasonable to suggest that the effect upon economic development of the lingering preindustrial value systems, of aversion to entrepreneurs and to new forms of economic activity in general, was somewhat different. It is likely in some measure to have contributed in Russia — and elsewhere in the history of European industrializations — to the specific compression of industrialization processes into periods of rapid growth. Precisely because some value systems do not change readily, because economic development must break through the barriers of routine, prejudice, and stagnation, among which adverse attitudes toward entrepreneurship are but one important element, industrialization does not take place until the gains which industrialization promises have become, with the passage of time, overwhelmingly large, and the prerequisites are created for a typical upsurge.¹⁸ An adverse social attitude toward entrepreneurs may thus indeed delay the beginning of rapid industrialization. But, viewed over a somewhat longer period, more important than the mere fact of delay is the fact that the character of the industrialization process is affected by those attitudes. At the same time, it would be clearly untenable to try to explain these

¹⁷ This point was frequently and effectively made by Hugh Aiken in the writer's seminar.

¹⁸ If I were writing this today I should not have spoken of "prerequisites" as much as of "patterns of substitution" for the missing prerequisites. See Chapter 2 of this volume. [A. G., 1962]

ENTREPRENEURSHIP

spurts of rapid industrialization in backward countries — the result of a lag in social attitudes. Technological progress, growing advantages of what Nurkse has called "balanced growth," and sudden institutional changes — all these combine to achieve the effect.

Before some general conclusions are drawn, let us shift the scene and follow for a few moments some other empirical work which has been influenced by the general theoretical structure discussed in the preceding pages. The reference is to France and to attempts to explain the problem of the relatively low rate of economic development in that country. It is essentially the work of David S. Landes and John E. Sawyer that is of interest here.¹⁹

The thesis is simple: the character of entrepreneurial behavior in France has been a very important, perhaps the main, retarding factor in France's economic development and that behavior has been largely shaped by the prevailing value system in the country. It is in these terms that must be seen and explained the French entrepreneur's alleged aversion to risk and credit engagements, his conservative spirit, his dislike of sharp competitive practices, his interest in high profits rather than in large sales, the family character of the French enterprises and their small-scale size, to name only the few important points. In addition, the social status of the businessman is said to be low and hence comes the desire of the best talent in France to turn to the "traditional honorific careers."²⁰ It is essentially the stress on the strength of the *ancien régime* survivals in the cultural pattern of modern France which Sawyer has added to the picture.

It is perhaps somewhat unfair to seek the source of these views exclusively in general theoretical concepts. In part it is the *tertium comparationis* chosen by the two authors that appears to have influenced their thinking. Throughout, the comparison is with the United States. Obviously such a comparison is quite adequate if all that the

¹⁹ See Landes, "French Entrepreneurship and Industrial Growth in the Nineteenth Century," *The Journal of Economic History*, May 1949, pp. 45-61; and "French Business and the Businessmen in Social and Cultural Analysis," in *Modern France*, Edward Mead Earle, ed. (Princeton, 1951), pp. 334-353. Sawyer, "Strains in the Social Structure of Modern France," in *Modern France*, pp. 293-312; and "The Entrepreneur and the Social Order, France and the United States," in *Men in Business*, William Miller, ed. (Cambridge, Mass., 1952).

²⁰ Landes, "French Entrepreneurship," p. 56.

writers wished to convey was the indubitable differences that exist between the American and the French economies. But if what they were after was an explanation of the peculiar "weakness of French industry and commerce," the comparison with the United States is hardly a very helpful one, and the proper comparison ought to have been with countries of similar geographic size, position, and historical background, which nevertheless showed a higher rate of economic growth. Germany was the natural choice, and at least an explanation for shunning the obvious ought to have been provided.

Once the comparison is made with Germany, most of the factors mentioned by Landes find their counterpart in the German economy. The strength of preindustrial social values was, if anything, greater in Germany than in France. The family firm remained strong, and the lower entrepreneurial echelons, whose numbers bulked large, behaved in a way which was hardly different from that in France. The pronouncement made at the turn of the century, that modern economic development had transformed the top structure of the German economy while everything beneath it still remained medieval, was, of course, a deliberate exaggeration. But there was some meaning in that exaggeration. Such as it was, it applied to France as much as to Germany.²¹

²¹ In the original edition of this paper I presented some figures to show that in Germany as in France the small shop was overwhelmingly predominant as far as the number of industrial enterprises was concerned. David Landes rightly criticized a specific deficiency of my data without being able, however, to controvert the point I was trying to make. For, in the end, I believe, we both agreed that in Germany and France before the First World War 94.59 and 97.98 percent, respectively, of all enterprises in industry and mining occupied no more than 10 persons. It is, furthermore, of interest that the "small establishments" in this category were truly small, the average number of those employed per such establishment having been 1.6 in France and 2.0 in Germany (the French figures refer to 1906 and the German figures to 1907). It is another matter that in that period the modern large-scale industry in Germany consisted of larger plants than was the case in France. But this has nothing to do with the untenable view that the small *boutique* was in any significant way more peculiar to France than to Germany. See Alexander Gerschenkron, "Some Further Notes on 'Social Attitudes, Entrepreneurship, and Economic Development,'" *Explorations in Entrepreneurial History*, December 1954. The reader must be referred to two interesting critical comments that have been directed against the present essay: Thomas C. Cochran, "Social Attitudes, Entrepreneurship, and Economic Development: Some Comments," *Explorations in Entrepreneurial History*, February 1954; and David S. Landes, "Social Attitudes, Entrepreneurship, and Economic Development: A Comment," *Explorations in Entrepreneurial History*, May 1954. [A. G., 1962]

Of course, the picture presented is onesided in any case. In order to maintain his thesis, Landes has to relegate vast and most significant fields of French entrepreneurial endeavor, such as railroads, mines, the iron and steel industry, automobile production, banks and department stores, to qualifying footnotes and dependent clauses. On the other hand, a comparison with Germany would have brought out that in the nineteenth century French entrepreneurial vigor in some fields was doubtless in excess of that in Germany. The question of exact priority for the introduction of department stores is perhaps still a matter of a rather useless dispute,²² but that the French supplied a whole series of momentous entrepreneurial innovations to the field is beyond doubt; so is the fact that at least until the end of the century Germany still lagged in this respect behind her neighbor to the west. It was a great French entrepreneur, Felix Potin, whom the alleged French value standards did not prevent from coining the famous altogether "American" phrase, "Des affaires avant tout, le bénéfice viendra ensuite," and who successfully carried through his great innovations in retailing long before such ideas began to take hold in Germany.²³ At any rate, when Landes is struck by the far-reaching degree of specialization in French food retailing, which rightly seems so un-American to him, he should also have expressed his astonishment about the presence of the same phenomenon in Germany. Somerset Maugham justly claimed that, to know one foreign country, one must also know at least one other foreign country and added that "Arnold Bennett has never ceased to believe in a peculiar distinction of the French to breakfast off coffee and rolls."²⁴ This seems very sound advice for the field of comparative economic history.

It is true, of course, that the German rate of industrial growth in the second half of the nineteenth century exceeded that of France. Some of the factors which must in large measure have accounted for the difference in the speed of growth are obvious. One is surely the lack of a coal basin comparable to the Ruhr at a time when coal exercised all or nearly all of the locational pull in iron and steel making.

²² See Ralph M. Hower, *History of Macy's of New York, 1858-1919* (Cambridge, Mass., 1943), pp. 411f.

²³ G. d'Avenel, *Le mécanisme de la vie moderne* (Paris, 1902), pp. 174f.

²⁴ *A Writer's Notebook* (New York, 1949), p. 153.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

The prevalence of the family farm with its unfavorable effects upon the flow of labor to industry is another. It may or may not be true that, when everything is said and done and a distribution of emphasis among the individual factors concerned is attempted, some differences in entrepreneurial behavior between France and Germany may be found very much worthy of mention. But to assume that such differences, if any, need necessarily be explained in terms of roles, role-expectations, and value orientations is surely unwarranted. Clearly, variations in entrepreneurial behavior may have nothing to do with the dominant value system and the degree of social approval. They can be, and no doubt are, the result of varying income levels, living conditions, degree of endowment with natural resources, and so on.

And, in a sense, the same applies even to comparisons with the United States. There can be no doubt that differences in "dominant value systems" can be easily discerned between France and the country whose economy has remained largely, though by no means completely, free from the influences of precapitalist traditions. Ernest Renan once adverted to those differences in forceful sentences:

Nous sommes une race des gentilshommes; notre idéal a été créé par des gentilshommes, non comme celui de l'Amérique, par d'honnêtes bourgeois, de sérieux hommes d'affaires. Les personnes qui poursuivent si avidement l'idéal américain oublient que cette race n'a pas notre passé brillant, qu'elle n'a pas fait une découverte de science pure, ni créé un chef-d'oeuvre, qu'elle n'a jamais eu de noblesse, que le négoce et la fortune l'occupent tout entière.

Les meilleurs choses (par exemple, les fonctions du prêtre, du magistrat, du savant, de l'artiste et de l'homme de lettres sérieux) sont l'inverse de l'esprit industriel et commercial, le premier devoir de ceux qui s'y adonnent étant de ne pas chercher à s'enrichir, et de ne jamais considérer la valeur vénale de ce qu'ils font.²⁶

These sweeping statements cannot lay claim to absolute accuracy and one should beware easy generalizations.²⁶ But this is not the

²⁶ "Philosophie de l'histoire contemporaine: La monarchie constitutionnelle en France," *Revue des Deux Mondes*, November 1, 1869, p. 93.

²⁷ Modern research, for instance, has assembled considerable evidence to show that even the American merchants in mid-nineteenth-century frontier regions held merchandizing in low esteem and tried to escape from it as soon as possible into more honorific careers. See, for instance, Lewis E. Atherton, *The Pioneer Merchant in Mid-America*, University of Missouri Studies, April 1, 1939, pp. 30-31.

ATTITUDES, ENTREPRENEURSHIP, AND DEVELOPMENT

point. What is important to note here is that, even in this classical case of differences in "value systems" between the United States and France, there is an obvious need for a good deal of careful and undogmatic research before one can begin to form some idea as to just how much significance can be reasonably imputed to those differences as against the host of other incomparabilities between the two countries.

Perhaps some conclusion can be drawn from the foregoing discussion. A rigid conceptual framework is no doubt useful in formulating questions, but at all times it evokes the peril that those questions will be mistaken for answers. There is a deep-seated yearning in the social sciences for the discovery of one general approach, one general law valid for all times and all climes. But these attitudes must be outgrown. They overestimate both the degree of simplicity of economic reality and the quality of scientific tools. As the economic historian organizes and interprets his material, all he can hope for is the discovery of limited patterns of uniformity which may possess explanatory value for some places and periods but may be utterly inapplicable to others. And this is fully true of the sets of concepts which have been discussed above. It seems reasonably clear that the chances for their usefulness are greatest when applied either to stagnant primitive communities in which no development takes place at all or to well-integrated advanced societies with well built-in dynamic elements. Paradoxical as it may sound, the analysis hitched to a general standard of values is best adapted to, say, the Navaho Indians on the one hand and to the present American society on the other. This perhaps explains the strong affiliation that exists between anthropology and modern sociology; and perhaps also the strong though illusory feeling, so frequently expressed, that *plus ça change, plus c'est la même chose*²⁷ — illusory because it overlooks the fact that the conceptual schemata may have held much less well for the intervening stages of the development. At any rate, serious doubts are permissible about whether the theory of roles in its present form and everything that it implies can be of much use for understanding processes in the economies within which a rapid change in economic

²⁷ For example, Cochran, in "Role and Sanction in American Entrepreneurial History," p. 174.

systems is in the making; more concretely, within the economies which experience a specific initial upsurge in the rate of growth of industrial output.

But the reservations must go farther. The preceding discussion may have seemed at times to have skirted perilously the old question of precedence: does capitalism "create" the capitalist spirit or does the capitalist spirit "create" capitalism? Nothing could be more unfortunate than for work in economic history once more to be dragged down into the depth of metaphysical or at least hopelessly abstract arguments. The question cannot be: are social values important or unimportant? It must read first of all: what is the degree of persistence in value systems, what is their propensity to change in response to what factors? In dealing with periods of economic transformation which in themselves imply a considerable degree of diversity in values within a given community, one should least of all try to evoke the impression of a unified and general normative system. If something like "coefficients of changeability" — however crude such a measure must be — is attached to various value systems, one cannot fail to discover that the range of such coefficients must be wide indeed. Some values do not seem to change at all over long periods of time. The attitude of peasants who cling to the land even under unfavorable economic circumstances and, even when at length forced into urban occupations, still keep looking back over their shoulders, ready to return to the land at the earliest possible chance, are surely determined by values whose change is exceedingly slow. It is perfectly reasonable to attribute to the existence of such values the well-known difficulties experienced by young industrial countries in building up a reliable permanent labor force in industry. On the other hand, the same hardly could be said of entrepreneurial values. The volatile group of entrepreneurs — composed of men who by definition are "ganz besonders traditions- und beziehungslos . . . und dem System der überindividuellen Werte . . . ganz besonders fremd"²⁸ — may not be oriented in their actions by any discernible set of values. There may be, as was pointed out above, a far-reaching divorce between their actions and the general value system to which they may still adhere.

²⁸ J. A. Schumpeter, *Theorie der wirtschaftlichen Entwicklung* (Munich-Leipzig, 1926), p. 134.

And, finally, even if a discernible set of special values can be attributed to the entrepreneur, these values are likely to be so recent in origin, so liable to further change, that it would seem highly unsatisfactory to take these values as a basis for interpreting economic action and economic change.

Precisely because in historical reality we are confronted with important cases where entrepreneurs did not appear as disciplined actors performing their preassigned roles in well-structured sociological plays, but entered the historical stage in response to the challenge of great changes in the economic and social environment, it becomes imperative in dealing with the problem of entrepreneurial values to examine their relationship to the environment in the broadest sense of the term. The Russian entrepreneurs of the 1860s and the subsequent decades and the French entrepreneurs of the 1850s have no doubt wrought great economic changes, but it is the emancipation of the peasantry, in the one case, and the establishment of the Second Empire with its liberalizing policies, in the other, that would seem to explain those changes much more readily and simply than would any reference to value systems.

But to say all those things does not imply at all that the conceptual framework used should be banned altogether from the area of entrepreneurial research. Economic historians must at all times try to combine the use of analytical tools provided by economic theory with those supplied by the other social sciences. Eli Heckscher once even defined economic history as characterized by an interest "in the interplay of economic and other influences on the actual course of events."²⁹ But too enthusiastic an acceptance of abstract sociological models may tend to discredit the value of interdisciplinary approaches to economic history, and the "theory of roles" may be a case in point. What is suggested here, therefore, is that a serious effort should be made to try to establish through empirical research the spatial and temporal limitations within which the use of such an approach is reasonable and defensible. The discovery of these limits

²⁹ Eli F. Heckscher, "David Davidson," *International Economic Papers*, no. 2 (London-New York, 1952), p. 126. See also, Heckscher's *Historieuppfattning, materialistic och annan* (Stockholm, 1944), pp. 30-31; and W. K. Hancock's emphasis on the basic "impurity" of economic history, *Economic History at Oxford* (Oxford, 1946), p. 5.

will in itself push the research work into discovery of other sets of propositions and hypotheses, which may be more promising in treating situations, and historical sequences which differ widely from those for which the conceptual framework originally was designed. And it is then that one may begin to hope for a synthesis, that is, for a plausible distribution of emphasis among a variety of factors yielded from pursuit of a variety of approaches.

The crying need for further research should effectively excuse the lack of any substantive conclusions to this essay. But perhaps one or two general impressions may be in order. It would seem that adverse social attitudes toward entrepreneurs and entrepreneurships do not emerge as a major retarding force upon the economic development of European countries in the nineteenth century. This seems also true of Russian industrialization prior to World War I, although in that country one might have expected hostility to entrepreneurs to be of more consequence than in the more advanced countries. In general, one cannot help being impressed by the rapidity with which the numbers of native entrepreneurs multiplied in nineteenth-century Russia and also by the speed with which their behavior became more and more consonant with Western practices.

The temptation is great, of course, to argue from the Russian experience to the present conditions in underdeveloped countries and to arrive at somewhat more optimistic prognostications than those currently in use. But it may be hazardous to succumb to such a temptation. Russia until the First World War had benefited greatly from the presence of foreign entrepreneurs. It is true that some degree of animosity against foreign entrepreneurs and technicians was in clear evidence. But such animosity remained within moderate limits and, if anything, served as a stimulus to native entrepreneurial talent. It may well be that conditions in some of the underdeveloped countries are less favorable in this respect.

Moreover, adverse social attitudes to entrepreneurship in Russia stemmed largely from "preindustrial" value orientations, and those anticapitalist attitudes which usually arise with the spread of the industrial economy did not seem to affect entrepreneurial activities in any marked degree. Quite to the contrary, as mentioned before, the effects of prerevolutionary Marxism on attitudes toward entrepre-

neurs was presumably positive. It is quite possible that in underdeveloped countries today the strength of preindustrial values and the resulting lack of sympathy with entrepreneurs is greater than it was in Imperial Russia. And, on the other hand, it is perhaps more likely that those values will more readily coalesce with modern anti-capitalist sentiments and persuasions and that, unlike Russia before 1914, such a combination may find effective expression in acts and policies of the governments concerned. Count Witte's state of the 1890s stood aloof from popular attitudes. But this is much less likely to be true of backward countries in the second half of the twentieth century. Perhaps the generalization may be ventured that adverse social attitudes toward entrepreneurs do not significantly affect the processes of industrialization unless they are allowed to become crystallized in governmental action.

*Notes on the Rate of Industrial Growth
in Italy, 1881-1913*

It is obvious that in the decades following its political unification Italy's economy remained very backward in relation not only to that of England, but also to the economies of industrially advancing countries on the continent of Europe. The same conclusion will result, whatever gauge one may choose for the purposes of comparison, be it qualitative descriptions of technological equipment, organizational efficiency, and labor skills in individual enterprises; or scattered quantitative data on relative productivity in certain branches of industry; or the numbers of persons employed in industry; or the density of the country's railroad network; or the standards of literacy of its population. It is true that there were very large differences in this respect among the individual regions of the Peninsula, but according to Pantaleoni's computations, which — subject to a considerable margin of error as they are — probably give a correct idea of the order of magnitudes involved, the private per-capita wealth of the richest and most advanced areas in northern Italy in the second half of the eighties was still very much below one half of the contemporaneous figure for France as a whole.¹

At the same time, it is equally undeniable that by 1914 a great industrial transformation had taken place in Italy. Under these

¹ Maffeo Pantaleoni, "Delle regioni d'Italia in ordine alla loro ricchezza ed al loro carico tributario," *Scritti vari di economia*, 3rd ser. (Rome, 1910), pp. 242, 252.

circumstances, it seemed legitimate to inquire whether and to what extent the processes of industrialization, when at length launched in the country, betrayed the same characteristic features as those displayed by other relatively backward European countries of the nineteenth century. In other words, the present writer approached the Italian material with a series of historical questions or expectations in mind, some of which may be summarized as follows:

1. The process of modern industrialization in conditions of considerable economic backwardness was likely to assume at a fairly early stage the form of a big initial push, showing a relatively high rate of industrial growth. The beginning of such a period may have been aided by coinciding with the turning point at the bottom of an international cycle, but the push was specifically "long-term" in its nature and therefore not coterminous with short-run fluctuations: once begun, it was likely to make the country fairly immune to the next cyclical recession.

2. In the course of such an initial industrial upsurge, a backward country typically tended to favor output of producers' goods as against that of consumers' goods because in conditions of the period it happened to be in the field of the former that recent technological process had been most rapid. Heavy industries, therefore, offered far-reaching opportunities for utilizing as far as possible the advantages inherent in a late arrival upon the industrial stage.

3. Along with the productive structure of industry, its organizational structure was also likely to be affected in the direction of a considerable stress on concentration in various forms.

4. These basic features of delayed industrializations were likely to be reinforced by the use of specific institutional instruments, such as the investment policies of banks and various policies of the state. In cases of very great backwardness the role of the government was more prominent and the banks did not participate in the process until a certain degree of industrial progress had been achieved.

The following pages, then, purport to discuss the process of Italian industrialization before 1914 in terms of its conformity with, or deviation from, the pattern just described. Admittedly, this is a rather narrow approach and, in addition, only a few of the pertinent aspects of the problem can be touched upon here.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

I

The approach as sketched in the preceding section called first of all for some measurement of the rate of growth of Italian industry during the period under review. It necessitated, therefore, the construction of an index of Italian industrial output for the years 1881-1913, the choice of the initial year being essentially determined by statistical availability.

A detailed description of the index has been included in this volume (see Appendix I). The reader will find there, along with a complete statement on source materials and methods of computation (some of which unfortunately had to be rather involved), some critical evaluation of the deficiencies of that index as well as a comparison with some previous attempts in the same direction by French and Italian scholars. Let it therefore be mentioned briefly that the index comprises six main series which have been combined by using as weights the writer's estimates of value added pertaining to the years 1902-1903.²

There is no question that the paucity of the underlying data and the manifold uncertainties of the weighing process detract seriously from the value of the computations. Nevertheless, it seems that the index serves sufficiently the present purpose, which is to obtain a general view of the speed of the Italian industrialization in various periods and subperiods before 1914.

Table 1 shows the aggregate index for the whole period. The development of the six index industries over the period is presented in Table 2.

² The six series are:

- (1) mining,
- (2) metalmaking,
- (3) engineering,
- (4) textiles,
- (5) chemicals,
- (6) foodstuffs.

Also two alternative computations based on weights derived from data on employment and horsepower, respectively, have been prepared. The results as presented in the following are all in terms of an index based on value-added weights.

Table 1. Index of Italian industrial output, 1881-1913

1881	54	1891	67	1901	104	1911	174
1882	57	1892	64	1902	109	1912	182
1883	64	1893	70	1903	114	1913	184
1884	63	1894	72	1904	117		
1885	65	1895	73	1905	126		
1886	67	1896	75	1906	139		
1887	73	1897	78	1907	152		
1888	74	1898	86	1908	163		
1889	72	1899	92	1909	168		
1890	72	1900	100	1910	169		

Table 2. Index of output of six industries, 1881-1913
(1900 = 100)

Year	Mining	Metalmaking	Textiles	Engineering	Chemicals	Foodstuffs
1881	71	22	54	62	9	63
1882	79	18	53	76	11	65
1883	80	27	62	92	13	68
1884	77	25	58	90	15	70
1885	77	40	61	94	17	69
1886	72	55	65	98	20	68
1887	68	66	73	118	22	67
1888	70	91	73	115	24	67
1889	71	119	71	96	26	69
1890	72	91	80	79	28	71
1891	76	72	73	62	28	70
1892	82	56	72	53	27	68
1893	80	67	85	58	26	69
1894	79	65	93	59	31	65
1895	72	68	93	62	42	66
1896	79	70	94	62	49	67
1897	90	77	93	65	56	69
1898	92	95	101	72	61	80
1899	88	101	104	89	72	86
1900	100	100	100	100	100	100
1901	103	103	105	100	102	106
1902	100	99	114	98	110	111
1903	107	120	111	108	115	120
1904	106	127	119	121	121	112
1905	108	170	124	144	132	115
1906	103	212	136	171	159	119
1907	99	218	153	196	185	122
1908	98	283	142	247	228	127
1909	93	346	136	261	257	128
1910	95	374	122	276	281	130
1911	89	377	128	287	260	141
1912	96	392	142	280	276	146
1913	98	381	134	272	281	166

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

The choice of subperiods into which a fairly long stretch of growth should be divided is necessarily arbitrary. For the purposes of a presentation that aims at isolating the big upsurge, an inspection of the data seems to yield the following division:

1881-1888	Moderate growth
1888-1896	Stagnation
1896-1908	Very rapid growth
1908-1913	Reduced rate of growth

The rates of growth implied in the index for these subperiods are given in Table 3.

Table 3. Annual average rates of growth of Italian industrial output for 1881-1913 and subperiods

Period	Percentage change
1881-1888	4.6
1888-1896	.3
1896-1908	6.7
1908-1913	2.4
1881-1913	3.8

Note: computed on the assumption of a geometric rate of growth between the first and the last years of the specified periods.

Table 4 presents, for the same periods, the rates of growth implied in the indices of output of the six industrial groups.

Table 4. Annual average rates of growth of the six index industries for 1881-1913 and subperiods (percentage change)

Industry	1881-1888	1888-1896	1896-1908	1908-1913	1881-1913
Mining	0.0	1.3	1.8	0.0	1.0
Metalmaking	22.0	-3.2	12.4	6.1	9.3
Textiles	4.4	3.2	3.5	-1.2	2.5
Engineering	9.2	-7.4	12.2	2.0	4.7
Chemicals	15.1	9.4	13.7	1.8	11.3
Foodstuffs	.9	0.0	5.5	5.5	3.1

Note: see Table 3, note.

THE RATE OF INDUSTRIAL GROWTH IN ITALY

II

One point seems to emerge with sufficient clarity from the data contained in the preceding tabulations: Italy did have its period of a big industrial push. While there may be some questions concerning the exact choice of the initial and terminal years for the individual subperiods, it seems appropriate to locate the period of the great push between the years 1896 and 1908. Before 1896 lay the years of a laborious return from the low of 1892 to the level of 1888. After 1908, the rates of growth of all the index industries but one were greatly reduced.

Rather characteristic for such a period of "long-term" growth is the ease with which it rode horse and foot across the intervening depression of 1900. It may be instructive in this connection to take a glance at Wesley Mitchell's diagrammatic "Conspectus of Business Cycles in Various Countries" for the period concerned.³ The United States and Canada remained untouched by the depression of 1900, but elsewhere its effects were grave, particularly on the continent of Europe. It broke the back of the long industrial push in Russia and it affected severely the countries in Central Europe which, as a result of the long tariff war with France, had become Italy's principal trading partners. There is little doubt that the capacity of these countries to absorb Italian exports was considerably diminished; at the same time, the competition of their industrial products with domestic goods in Italian markets was intensified. And yet the effect on Italian industrial development, although discernible, seemed almost negligible. Very similarly, a few years earlier Russia, then in the midst of her great industrial upsurge, felt no more than a light ripple of the wave of the severe international depression of the early nineties; her rate of industrial growth remained unaffected on the whole.⁴

At the same time, the period was characterized by a rapid increase in the share of producers' goods in total output, even though to some extent the change must reflect the workings of the accelerator. This is shown clearly in Tables 2 and 4. For the six index industries,

³ Wesley Mitchell, *Business Cycles: The Problem and its Setting* (New York, 1927), p. 445.

⁴ Alexander Gerschenkron, "The Rate of Industrial Growth in Russia since 1885," *The Tasks of Economic History*, Supplement VII (1947), 151.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

that share was 28 percent of the index total (using value-added weights) in 1896. It had been at the same level in 1881, although 1888 showed a higher percentage. But by 1908 the share of producer goods, so computed, had jumped to 43 percent and was to reach 47 percent in 1913.

All this is quite in accordance with the expectations set forth in section one of this essay. This, no doubt, is comforting. But the disappointments are just around the corner.

It is implied in what has been said earlier that the rate of growth in a backward country during the early periods of its industrialization may be assumed to vary directly with the degree of the country's industrial backwardness. The more belated the big industrial upswing, the stronger it is likely to be when it comes. It seems that, considering the great delays in Italian industrialization on the one hand and similar periods in other countries on the other, the rate of industrial growth in Italy during 1896 and 1908 was lower than what might have been expected. It may be noted that Germany of the nineties was far beyond its period of initial growth and still its annual average rate of industrial growth for the years 1888-1896 amounted to almost 5.5 percent, which was indeed lower than the Italian rate in 1896-1908 but not very significantly so. When it comes to countries like Sweden, Russia, or Japan, the pertinent rates are a good deal higher than the Italian rate. Swedish industry grew at a pace of almost 12 percent a year between 1888 and 1896; Japan, between 1907 and 1913, showed an annual rate of growth of 8.5 percent; Russia of the nineties increased its industrial output at the rate of more than 8 percent a year.⁵

True, comparisons of this sort are precarious and too great a reliance on them is hardly warranted. But this is not the whole story. The method of computing rates of growth as used in the foregoing fastens attention on the initial and terminal years of each period and does not take into account the history of the intervening years. An inspection of the behavior of the index in the course of the period 1896-1908 suggests some differences as compared with cases of the

⁵The German and Swedish rates have been computed from data given in *Industrialization and Foreign Trade* (League of Nations, 1945). For the Russian and Japanese rates, see Gerschenkron, p. 156.

THE RATE OF INDUSTRIAL GROWTH IN ITALY

great spurt in other European countries: the industrial growth in Italy, while free from any severe setbacks, seems to have proceeded in a less uniform and more jerky fashion, denoting perhaps a more delicate state of public confidence and greater entrepreneurial uncertainties and hesitations. It may be useful to ponder a little some of the reasons that may have prevented Italy's big industrial push from displaying its full potential force.

III

It is not intended, of course, to supply here a comprehensive list of all the retarding forces that may have influenced the industrial development of Italy around the turn of the century. Anything beginning with the poor endowment of natural resources and ending with the mysteries of national or regional character might legitimately go on such a list. Such a broad discussion would overstep the limits set to this paper and probably not shed much additional light on its specific subject. The purpose of this section is rather to concentrate upon those factors that may be of some significance from the point of view of the general pattern of development as described earlier.

As mentioned before, the historical experience of European countries seems to warrant the generalization that in cases of very considerable backwardness the policies of the state tended to play a very important positive role during the years of the big upsurge of industrial development. In the classical case of Count Witte's Russia of the nineties, it would seem altogether meaningful to regard the policies of the government as the strategic factor, primarily responsible for the great spurt in industrialization of the period. Nothing comparable seems to have taken place in Italy. Not that the successive Italian governments showed no interest in the industrial future of the country. At one time or another, the government helped to launch some important industrial enterprises, the huge steelworks at Terni (1884) being perhaps the outstanding example. Government orders did play some role in the development of Italian industry. There was the policy of subsidies to shipbuilding and navigation which was initiated in 1885⁶ and extended in a somewhat revised

⁶See "Legge concernante la marina mercantile," *Raccolta ufficiale delle leggi e dei decreti del Regno d'Italia*, LXXIX, no. 3547 (December 6, 1885).

form in 1896; there was the partial waiving of governmental royalties flowing from the iron-ore mines on Elba. State aid of this nature there certainly was; yet what strikes the observer of these policies is not only their desultory character, not only the fact that they were rather less than more in appearance during the period of the great push of 1896-1908, but primarily the onesided nature of the government's interest in industrial development — that is to say, its concentration on the least deserving branches of industrial activity.

The ineptness of governmental industrialization policies becomes quite obvious as one moves from the measures just mentioned to a consideration of the Italian tariff, which must be viewed as the real *pièce de résistance* of those policies. One might rightly wonder how much importance one should in general ascribe to tariff policies in the history of European industrializations. In some cases it was not the tariff, but its abandonment, or at least reduction, that opened the road to industrialization. In other cases, the tariff seemed subordinate to the great variety of more direct and more vigorous measures that were taken by the government. At any rate, it would seem difficult to attribute much positive influence to the tariff structure that existed in Italy during her big industrial upswing. In fact, it is more reasonable to regard that tariff as one of the obstacles in the road of the Italian industrialization.

The pillars of Italian protectionism were three: grain, cotton textiles, and iron and steel. In the case of grain the march of protection began in 1887 when the tariff on wheat was raised from a nominal level to 3 lire per quintal. The first step was taken gingerly. Uncandidly, the purpose of the increase was said to be a purely fiscal one.⁷ The lawmakers' consciences were far from easy. The measure was unpopular and had to be adopted against the recommendations of the detailed report prepared by the special parliamentary committee on Agrarian Inquiry.⁸ But thereby the dam was broken.

⁷ See the speech by Minister of Finance Magliani, July 5, 1887. *Camera dei Senatori, Discussioni*, Sessione 1886-87 (Rome, 1887), p. 1461.

⁸ "Atti della Giunta per la inchiesta agraria e sulle condizioni della classe agricola," *Relazione finale sui risultati dell'inchiesta redatta per incarico della Giunta dal Presidente, Conte Stefano Jacini* (Rome, 1884), XV, Fascicolo I; also, "Atti della Commissione d'Inchiesta per la revisione della tariffa doganale," *Relazione del Senatore Lampertico* (Rome, 1885), I. *Parte Agraria*, Fascicolo I, p. 184.

Further increases followed, and by 1895, with a duty of 7.50 lire per quintal, Italy's wheat production had become the most heavily protected among the major countries of the continent.⁹ True, this policy was part and parcel of a widespread European response to changed conditions of wheat supply in the world markets. But two things must be remembered. On the one hand, Italy's agriculture had at its disposal methods of adjustment that were not available to an equal degree north of the Alpine wall; on the other hand, if Germany with its rapidly developing industry could afford (economically, not politically) the luxury of agrarian protectionism, Italy with its much less favorable conditions never should have dared subject the tender plant of its industrial growth to the rigors of a protectionist climate in agriculture.

But what about the industrial side of the tariff? It need not be gainsaid that, at least in principle, Italy's industrialization could have been aided by a rationally conceived and executed tariff. Such policies would have had to start from the basic fact that in a historical period in which coal exercised the main locational pull, a country deprived of the mineral, forced to obtain it (on an average) at a price twice as high as that in the coalmining countries, and thus laboring under the disadvantage of high cost in industry and transportation, should have concentrated on those branches of industrial endeavor in which the expenditure for coal was small in relation to other cost items. Furthermore, a backward country, so disabled, should have felt particularly keenly the need to promote output of new products and new industries. The vast and variegated area of engineering offered the greatest promise in this respect.

What happened in fact was the adoption in 1878 of a tariff chiefly devoted to the protection of cotton textiles and ferrous metal-making. The former was an old industry with a moderate rate of modern technological progress and accordingly relatively limited possibilities in a backward country on the European continent; the

⁹ Ghino Valenti, *Granaglie, produzione, commercio, regime doganale*, Comitato nazionale per le tariffe doganale e per i trattati di commercio (Rome, 1920), p. 97; and H. Liepmann, *Tariff Levels and the Economic Unity of Europe* (London, 1938), pp. 64, 68, 72, 81, 87. In 1913, the Italian wheat duty amounted to 41.5 percent ad valorem. The corresponding figures for France, Germany, and Austria were 34.5, 38, and 36 percent, respectively.

latter was a coal-consuming industry par excellence. While a variety of engineering products was included in the tariff, the rates imposed on those products as a rule were such as to provide the machinery industry at best with a partial compensation for the duties accorded to iron and steel.¹⁰

It is true that the rates on machinery were generally increased in 1887. The cases of protectionism in reverse were eliminated and a margin of genuine protection created. But that margin, if computed ad valorem, was almost negligible. Moreover, it should be noted that the important branches of textile and agricultural machinery came to be protected by duties hardly in excess of those on steel; that the rates on machine parts were very low, thus encouraging assembling of machines rather than their production within the country; that, finally, the rate on "nonspecified" machinery — the very area of innovations — was particularly low. None of this should cause surprise, since tariff makers everywhere as a rule protected the existing and vocal interests, while the promise of future innovations tended to lie beyond their range of vision.¹¹ As one follows the parliamentary debates on the tariff of 1887, one is struck by the fact that it was with respect to engineering alone that the speakers found it advisable to pay their respects to the liberal tradition inherited from Cavour. That tradition was quickly forgotten as soon as they turned to cotton textiles and iron and steel.¹² But this is not the end of the story. During the debates, Minister Magliani promised that the excesses of the Tariff Act would be mitigated in the course of the subsequent negotiations on commercial treaties.¹³ Yet, if a generaliza-

¹⁰ Thus, for example, the rate on steel was 10 lire per quintal while that on locomotives was 10, that on railroad freight cars 9, and on steam engines 8 lire per quintal. "Legge che approva la tariffa doganale d'importazione e d'esportazione," *Raccolta ufficiale delle leggi e dei decreti del Regno d'Italia*, LIII, no. 439 (May 30, 1878).

¹¹ "Legge che riforma la tariffa doganale," *Raccolta ufficiale delle leggi e dei decreti del Regno d'Italia*, Parte Principale, Series 3a, LXXXV, no. 4703 (July 14, 1887).

¹² A good example among many is the Report of the Committee on Tariff Inquiry, the industrial part of which was written by V. Ellena: "Atti della Commissione d'Inchiesta per la revisione della tariffa doganale," II. Parte Industriale, *Relazione del Deputato V. Ellena* (Rome, 1886), 242, 361, 420.

¹³ Atti parlamentari, Camera dei Senatori, Sessione 1886-87, July 9, 1887 (Rome, 1887), p. 1621. Incidentally, a few weeks earlier, in order to allay the un-

tion is possible with regard to those treaties, it is this: the duties on cotton textiles and ferrous metals remained substantially unchanged or at best were slightly changed. The great field of tariff concessions was supplied precisely by the duties on machinery where the slim margins established in 1887 were reduced and sometimes eliminated.¹⁴ The Italian machinery industry was largely left to its own devices.

When in addition it is noted that the equally promising field of the chemical industry, pregnant with many innovational possibilities and well suited to the conditions of the country, was quite ignored by the tariff makers of 1887, the conclusion seems justified that the main action of government policies in the field of Italian industrialization was likely to retard rather than promote its development. The Italian government's participation in, and contribution to, the big industrial push in the country certainly fell far short of what one might have expected on the basis of the industrial history of other backward countries such as Russia or Hungary.¹⁵

easiness of the Lower Chamber with regard to the lopsidedness of the tariff, it was promised that an opportunity for revising the rates on machinery would be provided when the House reconvened after the summer vacation. Such a revision never was undertaken. See *Atti del Parlamento Italiano, Camera dei Deputati, Sessione 1886-87, June 23, 1887* (Rome, 1887), p. 3967.

¹⁴ See, for example, in *Trattati e convenzioni fra il Regno d'Italia e gli altri stati*: treaty with Austria-Hungary, December 6, 1891, XII (Rome, 1892); treaty with Switzerland, April 19, 1892, XIV (Rome, 1895), and July 7, 1904, XVII (Rome, 1907); treaty with Germany, December 3, 1904, XVII (Rome, 1907); treaty with Austria-Hungary, February 11, 1906, XVIII (Rome, 1930).

¹⁵ In his interesting article ("The North-South Differential in Italian Economic Development," *Journal of Economic History*, XXI, no. 3, 314), Richard Eckaus is reluctant to accept this negative appraisal of the Italian tariff because the rates of growth of output in cotton textiles and iron and steel were higher than the average rate of growth for the index-number industries as a whole. But obviously what is called for is a historical judgment rather than a mechanically arithmetical one. The trouble lay precisely in the fact that unsuitable industries were allowed to grow fast at the expense of others. A historian has to take into account not only the impasse in which the unduly swollen cotton industry found itself by the end of the index period, but also the fact that flooding the country with expensive domestic steel necessarily retarded the growth of those branches of industry whose potentialities were great indeed. Considering the magnitudes involved, it is very reasonable to assume that, given lower prices of raw materials and shifts in capital allocations in the proper direction, the rate of growth of the young industrial branches, particularly in engineering, would have been a multiple of the one actually achieved. [A. G., 1962]

Another weakness of the Italian industrialization of 1896-1908 may have derived from the fact that by that time the great period of Italian railroad building was largely a thing of the past. During the years of the great Russian industrialization, 1886-1900, the railroad network increased by more than 70 percent. There is little doubt that during that period the railroads were the fulcrum around which the industrial level of the country was being rapidly lifted. By contrast, the accretion to the Italian railroads during the years 1896-1908 amounted to less than 10 percent. Special circumstances in Italy tended to accentuate the difference. The law of 1885 by which the operation of state-owned railroads was entrusted to three private companies for a period of sixty years foreshadowed a possible discontinuation of the arrangement after only twenty years. The uncertainties created by this provision greatly influenced the investment policies of the companies in the last eight or ten years before 1905, the year in which the agreements could, and in fact did, expire. Partly for this reason, the flow of capital into the special investment funds established under the Act of 1885 was hesitant and insufficient.¹⁰ True, after 1905, when the operation of the railroad system had reverted to the state, ambitious plans were launched to modernize and to expand tracks and rolling stock. These plans, however, matured in the last years of the period 1896-1908 and came too late to change its general character.

One is free to argue that the early completion of the bulk of railroad building was likely to benefit the country's industrialization in subsequent years by releasing to industry capital that otherwise may have been attracted to railroads. But the argument does not carry much force. For the implicit assumption of a unified capital market in Italy seems to do violence to the actually existing conditions. Many a large-scale investor who stood ready to purchase railroad bonds issued or guaranteed by the government was most reluctant to engage his funds in industrial ventures. At the turn of the century, Giulio Einaudi found strong words to castigate this attitude

¹⁰ As a result, a special provision of that act under the terms of which the railroads were compelled to afford an additional preference of five percent to domestic suppliers remained rather ineffective. "Legge per l'esercizio delle reti mediterranea, adriatica e sicula, e per la costruzione delle strade ferrate complementari," *Raccolta ufficiale*, Art. 21, LXXV, no. 3048 (April 27, 1885).

of "veneration of 4 percent."¹¹ The small saver who took his money to the branches of the Postal Savings System or to cooperative banks was even more security-minded; accordingly, his funds went into short-term commercial loans or into financing of public works by municipalities and provinces. It is significant in this connection that the period 1896-1908 was characterized by massive repatriation of Italian securities held abroad. The compartmentalization of the Italian capital market was great, and herein lay one of the specific functions of the big investment banks, whose role is touched upon in the concluding paragraphs of this essay.¹² Thus, absence of large railroad investments did not necessarily mean increased capital availabilities to industry, and the failure of the industrial "push" to coincide with a period of "railroad fever" with its specific stimulations to industrial activities may well have kept the rate of industrial growth below what it would have been, had the Russian situation reproduced itself in Italy.

Another factor, which tends to point in the same direction, deserves mention here. The political situation in Italy at the beginning of the period 1896-1908 was not propitious to quiet economic growth. The disastrous harvest of 1897, coupled with the government's prolonged hesitations to suspend or to reduce the wheat duties, led in the course of the *anno terribile* — 1898 — to unrest and disorders in several regions. These disturbances culminated in the Milan insurrection in May of that year and were followed by two years of repressive policies under the Pelloux governments. Then came the electoral shift of 1900 and the regicide of the same year. A new page in Italy's political history was opened. It was to be overshadowed by the genius of Giovanni Giolitti's conciliatory statesmanship. An integral part of his policy of pacification was the government's adherence to the principle of strict neutrality in wage conflicts. Consequently, the strike waves rose to quite unprecedented heights. Between 1901 and 1913 there was only one year when the number

¹¹ *Un principe mercante, Studio nell'espansione coloniale Italiana* (Turin, 1900), p. 160. A translation into English of this fascinating essay in entrepreneurial economic history by the former President of the Italian Republic would seem very desirable.

¹² See also, Epicarmo Corbino, *Annali dell'economia italiana*, V, 1901-1914 (Citta di Castello, 1938), 423ff.

of days lost by strikes remained below the million mark; in some years of the period it exceeded three and was under four million.¹⁹

Few would begrudge the poverty-ridden Italian laborer the resulting very modest improvements in his economic position. But the difference in historical situations must be pointed out. While in other countries a period of very rapid industrial growth tended to be followed by a period of upward adjustments in the standard of living, in Italy the two processes tended to coincide. Had the industrial upsurge in Italy taken place one or two decades earlier, in all likelihood it would have been much less disturbed by industrial strife. Great delays in industrialization do tend to be compensated for by the rapidity of the ensuing development. Yet the two factors just discussed seem to suggest that the validity of this generalization does not transcend certain limits. Along with the advantages of being late, there are also many definite disadvantages to being very late — a point that may deserve special attention with regard to the underdeveloped countries of our time.

In speaking of the possible sources of the relative weakness of the Italian industrialization of 1896–1908, one final remark may be in order. In studying the periods of rapid initial industrialization of the major countries in Europe, one does not find it too difficult to discern some specific industrialization ideologies under the auspices of which the development proceeded: economic liberalism in England, Saint-Simonism in France, nationalism in Germany, Marxism in Russia of the nineties, all seem to have performed a function in the process and to have performed it well. What strikes the observer of the comparable Italian development is the absence of any strong ideological stimulus to industrialization. Cavour's *liberismo* belonged to an era that was gone. Italian protectionism was an instrument of vested interests and failed to develop into a strong intellectual movement. The nineties in Italy were indeed a period in which Marxism seemed to have captivated the imagination of large strata of the Italian intelligentsia.²⁰ Some aspects of this sudden ideological swing do

¹⁹ See *Annuario Statistico*, 1905–1907, p. 840; 1911, pp. 234–35; and 1915, pp. 313–14.

²⁰ Benedetto Croce, *Storia d'Italia dal 1871 al 1915* (Bari, 1953), p. 157. Croce himself was, of course, a case in point.

evoke comparisons with contemporaneous events in Russia. But, unlike the Russians, the Italian Marxists showed, if at all, a very restrained interest in the problems of industrial evolution of the country, although, misguidedly and somewhat ashamedly, the leaders of the Italian labor movement did lend their support to the existing industrial-tariff structure. It is not at all clear that they, or the Italian public in general, had any desire to speed up the change that was afoot in the land.

The aggregate effect of these disabilities does not seem to be negligible. In particular, as one considers the ineptitudes of the Italian tariff structure, one cannot but marvel at what was actually achieved during those years within the engineering and chemical industries. The Italian entrepreneurs in those branches deserve praise indeed. But if one were to look for a single important factor that succeeded in offsetting at least some of the great obstacles to the country's industrialization, one could not fail to point to the role performed by the big Italian banks after 1895.

These banks were formed or reorganized after the disastrous banking crashes of the early nineties. The most important of them, the Banca Commerciale Italiana, was established in 1894 under German leadership and with German capital, including some Austrian and Swiss participation.²¹

In a sense, the moment was favorable. There were many industrial enterprises that the preceding storm had left stranded or drifting helplessly. They were content to accept the tutelage of the newcomers. Still the task of the latter was not light. The terrifying *vestigia* of the Credito Mobiliare and the Banca Generale — the two giant victims of the great catastrophe — remained unobliterated for a long time afterward. Burdened with these remembrances; surrounded by a distrustful public and an unfriendly scholarly opinion whose somewhat monotonous insistence on the need for prudence at times seemed to verge on folly; denounced as an instrument of foreign economic penetration; faced by the effects of tariff and subsidy policies which they could not ignore, the Italian banks enjoyed a much more limited

²¹ These participations were part of an agreement among the founders designed to preclude institutions like the Austrian Credit-Anstalt from competing with the Banca Commerciale in the field of Italian investment.

ECONOMIC BACKWARDNESS IN HISTORICAL PERSPECTIVE

freedom of action than their counterparts in Germany or Austria. To some extent their interest in cotton textiles and iron and steel was predetermined by governmental decisions, and it was these two industries that found themselves in difficulties after 1908. In the case of cotton it also may have been the German influence that, for some years at least, had guided the Italian banks into a line of activities in which the German banks at home traditionally showed much less interest. It is also true that the Italian banks may have shown more interest than they did in certain innovations such as automobiles. By and large, however, what took place in Italy was a deliberate application of techniques of investment banking as evolved in Germany in the course of attempts to overcome its own economic backwardness.

The Italian investment banks of the previous period, oriented as they were upon French patterns, had never been able to advance fully to the stage of "universal banks" and to become real "department stores" in the field of banking. This was rather dramatically shown by the futility of the attempt to transform the Credito Mobiliare into a commercial bank at a time when its operations were already fully obscured by the shadows of the approaching storm.²² It is possible to surmise that the upsurge of 1896-1908 was largely made possible by the importation of the great economic innovation of German banking in its most developed and mature form. As in Germany, not only capital but a good deal of entrepreneurial guidance was channeled to the nascent and expanding industrial enterprises. As in Germany, the policy was to maintain an intimate connection with an industrial enterprise and to nurse it for a long time before introducing it to the capital market, which as often as not meant placing its stock among the banks' own clients.²³ As in Germany, the banks tried to influence and modernize the methods of interenterprise credit relations. As in Germany, they were ever eager to "discipline production" of industrial branches, which bland phrase meant reduction or abandonment of competition in favor of various monopolistic compacts.²⁴ On the

²² Maffeo Pantaleoni, "La caduta del Credito Mobiliare Italiano," *Studi storici di economia* (Bologna, 1936), pp. 261ff.

²³ See, for example, Banca Commerciale Italiana, *Relazione del Consiglio d'Amministrazione* (Milan, 1905), p. 11.

²⁴ The literature on the activities of the Italian banks during the period under review is very scant. There is nothing even remotely comparable to Pantaleoni's great

THE RATE OF INDUSTRIAL GROWTH IN ITALY

other hand, it would be difficult to discover in Italy *serious* signs of a growing independence from the banks on the part of the industrial enterprises. Such tendencies became very strong in Germany after 1900. Their absence in pre-1914 Italy is not surprising and must be taken to reflect the belatedness of the country's industrialization effort. In these respects at least, the Italian case fits well into the general pattern of European industrialization in varying conditions of economic backwardness.

study of the Credito Mobiliare. The writer, however, had the privilege of access to at least a part of the archives of the Banca Commerciale.

Rosario Romeo and the Original Accumulation of Capital



A few years ago, a young Italian historian, Rosario Romeo, was asked to prepare an evaluative survey of the contribution made by Marxian historians in Italy since the end of the last war. The resulting essay, which was published in *Nord e Sud* in 1956, turned out to focus on Antonio Gramsci's widely accepted views — the so-called Gramsci thesis — of the historical inadequacies of the Risorgimento. Romeo already had referred to the thesis in the concluding chapter of his excellent book on the Risorgimento in Sicily,¹ where in a somewhat vague and hesitating manner he refused to identify himself with Gramsci's position. In the 1956 essay, Romeo's dissent became firm and comprehensive. His critique attracted much attention and received, in its turn, a good deal of criticism. Thereupon, in a second article (published in 1958 in the same journal), Romeo tried to expand and deepen his argument by taking a much closer look at certain pertinent aspects of Italian economic development. The two essays have been made conveniently available in the form of a book on the Risorgimento and capitalism.²

In this history lie both the book's weakness and its charm. Obviously this is not a piece made *aus einem Guss*. Some of the historians whom Romeo treats in his survey dealt with areas or periods other than Italy or the Risorgimento and its aftermath. Certain parts

¹ *Il Risorgimento in Sicilia* (Bari, 1950), pp. 347f.

² *Risorgimento e capitalismo* (Bari, 1959); henceforth abbreviated *ReC*.

of the first essay, therefore, are rather tenuously connected with the main theme of the book: the relation between the economic development in Italy during the twenty-odd years following the unification and the social and political complexion of the liberation movement that preceded it. In addition, the views expressed in the two essays are not always strictly consistent. It might have been more prudent if the author had excised the irrelevancies and smoothed out the inconsistencies before republication. This would have involved a good deal of rewriting, and the reader would have received a more coherent product. Yet obliterating in this fashion the traces of the book's earlier incarnations would have also concealed something else from the reader: the struggle of an independent mind engaged in posing a significant historical problem and in creating an appropriate framework for its discussion. The present form of the book is far from perfect, but it fully reveals the groping freshness of the author's thought which is the most attractive feature of the study.

I

The essence of the Gramsci thesis consists in pointing out the differences between the Risorgimento and the French Revolution. The latter created the bourgeois state, gave it a permanent foundation, and created the modern French nation as a compact entity.³ The Jacobins by pursuing a policy of *faits accomplis* pushed an unwilling bourgeoisie into the position of leadership over all the forces of the nation. Revolutionary Paris would have been swept away by peasant rebellions, but the agrarian policy of the Jacobins made rural France accept the leadership of Paris. It saved the revolution and perpetuated its effects.⁴ But in Italy the Partito d'Azione failed to follow the Jacobin example. Hence the victory of the Risorgimento: the *andata al potere* was consummated without a previous, or at least concomitant, *andata al popolo* which, according to Gramsci, would have meant "ideologically a democratic program" and "economically an agrarian reform."⁵ The lack of vigor of the Italian bourgeoisie in conjunction with the general complexion of post-1815 Europe is said to have been

³ Antonio Gramsci, *Il Risorgimento* (Einaudi, 1949), p. 86.

⁴ *Ibid.*, pp. 73, 84-85.

⁵ *Ibid.*, pp. 65, 70.