The burden of backwardness: the limits to economic growth in the European periphery, 1830-1930*

By Pedro Lains

'[T]he real problem was in starting.'[1]

Convergence of levels of productivity and income per capita is a major feature of European economic history during the period of industrialization from about 1830 to 1930. Yet by 1930 parts of the continent still remained behind and catching-up was far from complete.[2] The experience of the forerunners crucially shows that the main drivers of growth and backwardness can be related, among other factors, to social and political capabilities to grasp the opportunities for growth. Thus, we need to understand better why such capabilities did not develop sufficiently in the backward areas. That is the purpose of this chapter.

We begin with a survey of the two main growth theories that best help us to understand backwardness. However since these theories are essentially based on the successful experiences of the forerunners and early developers, in section two ('How

[1] Milward and Saul, *Development of the Economies of Continental Europe 1850–1914*, 528.

[2] See Gerschenkron, *Economic Backwardness*; Landes, *Unbound Prometheus* and *Wealth and Poverty of Nations*; Bairoch, *Commerce extérieur*; Milward and Saul, *Economic Development of Continental Europe 1780–1870* and *Development of the Economies of Continental Europe 1850–1914*; Pollard, *Peaceful Conquest*; Berend and Ránki, *European Periphery and Industrialization*; Teich and Porter, *Industrial Revolution*; Maddison, *World Economy*; and for recent surveys, Broadberry and O'Rourke, *Cambridge Economic History of Modern Europe*.

it all began') we go back to the drawing-board in order to see whether a closer look at how industrialization spread across the European continent provides further clues for the study of backwardness. Industrialization did spread to the periphery, and its economies were certainly transformed, but that did not happen rapidly enough. In section three ('The burden of backwardness') we argue that the delay was due to the fact that the economic climate in the periphery was simply too adverse and the bridge over the income and productivity gaps was not crossed with the necessary speed to allow for the full convergence of the Continent at the end of the period under scrutiny.[3] We thus conclude that backwardness was not so much the outcome of bad policies or intrinsic social shortcomings, but of the fact that in some countries the burden of backwardness was too heavy to be overcome in the period before 1930. In section four ('The interwar years') we deal with the period from 1914 to 1930 when the periphery began to catch up and we explain this convergence by looking at the economic policies of peripheral states.

1. Models of growth and backwardness

After one hundred years of growth and industrialization in Europe, levels of factor productivity and income per capita still varied considerably. The situation in 1930 could be compared with that at the beginning of the nineteenth century. The major difference was that a significant number of countries which were in the middle of the industrial ranking in 1830, were by 1930 at the top of the list of levels of productivity and income. That group includes countries that had large agricultural economies, and which were transformed into efficient industrial and service economies, namely, the Scandinavian countries, Switzerland and, to some extent, Austria. The most striking

[3] O'Brien, 'Do we have a typology for the study of European industrialization'.

similarity between 1830 and 1930 is that the countries at the bottom of the league were largely the same. These were the Balkan states, Poland, Portugal and, to a lesser extent, Spain and Hungary.[4]

Models of European economic growth for the nineteenth century have largely been based on the analysis of the causes of industrialization which took place in the forerunners, particularly in England. This analysis has changed in scope since the beginning of the discussion of growth models in the 1950s. The first models were based on an analysis of the British industrial revolution during the period from about 1780 to 1830, and focused on the impact of technological innovation in the coal, iron, and textiles industries on the rest of the economy. Some attention was also given to the performance of the agricultural sector and to the impact of the productivity rise in agriculture and the consequent 'release' of labor and capital on the levels of investment and demand in the manufacturing sector. Thus, according to those models, the way that Britain industrialized was successfully replicated in some parts of Europe and not in others depending on the availability of the appropriate range of natural resources and according to the entrepreneurial capacity to absorb the British way.[5]

A second generation of studies searched for alternative models of growth which focused on domestic capabilities and on each country's openness to international markets.[6] As historical reconstruction of data on growth was being crafted, it became evident that there was also growth in other parts of Europe since the beginning of the nineteenth century and in earlier periods. In some cases the rates of growth were quite similar to those of the United Kingdom during its industrial

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[4] See Maddison, *World Economy*, and Lains, 'Southern European economic backwardness'.

[5] See Rostow, *Stages of Economic Growth*, and Landes, *Unbound Prometheus*.

[6] See Gerschenkron, *Economic Backwardness*.

revolution, which were not exceptionally high. Yet growth on the European continent was not necessarily driven by coal, iron or textiles. After all, successful growth depended on developments in a large array of sectors, and the mix of successful sectors varied substantially, depending on the structure of supply as well as demand of any given country. Thus, countries with low levels of rainfall, poor soils, or far from the main routes of international trade, had necessarily poorer conditions for growth. This second generation of studies highlighted the fact that more factors, which were specific to the backward countries, are needed to understand their failure to catch up, and '[t]o explain [...] differences in development merely in terms of the presence or absence of factors which caused the industrial revolution in Britain [...] is hopelessly unhistorical'.[7]

In view of the large number of successful cases the explanations offered by economic historians for output and factor productivity growth and industrialization in nineteenth-century Europe became more complex. It was shown that growth could occur in countries like England or Belgium, well endowed with natural resources such as coal and iron, but also in predominantly agricultural economies, such as the Netherlands or Denmark.[8] Growth could also occur in the context of high population density and rates of population growth, such as Britain and the Netherlands, but also in countries with low rates of population growth such as France. It could occur in countries with large imperial legacies, namely Britain and France, but also in

[7] Milward and Saul, *Economic Development of Continental Europe 1780–1870*, 39. The authors analyze the economic development of continental European countries in their own right rather than by taking the industrial revolution in England as a model. See also Pollard, *Peaceful Conquest*, O'Brien and Keyder, *Economic Growth in Britain and France*, and Mokyr, *Economics of the Industrial Revolution*.

[8] On the role of agriculture, see Lains and Pinilla, *Agriculture and Economic Development in Europe*.

countries with no significant colonial power at the time of industrialization, as was the case of Sweden and Germany. The wider perspective on growth stemming from this second generation of studies provided the grounds for more accurate interpretations of the causes of industrialization and sustained growth. The new evidence shed light on the many different relationships between investment in physical and human capital, technology, and institutional development and economic growth. Concomitantly, they help to explain the persistence of backwardness or slow growth in those parts of Europe that remained behind in certain particularly relevant periods, such as that of 1830 to 1930.[9] The research agenda for understanding backwardness was directed to study why rates of investment persisted at relatively low levels, why technology was not sufficiently developed or sufficiently adapted from experiences abroad, and why the institutional framework was also not sufficiently developed in order to allow for higher levels of growth and catching-up with the forerunners.

Backwardness was too hastily associated with absence of growth which, in turn, was then associated with the absence of the factors of growth that were detected in the industrializing countries, leading to a variety of possible causes of backwardness, such as lack of entrepreneurial capacity, low levels of education of the workforce, insufficient financial intermediation, poor performance of governments in conducting economic matters, poor overall institutional framework, and low levels of expectation regarding development prospects.[10] These factors were certainly present in backward areas of Europe and growth in the developing parts of the continent is certainly related to the overcoming of such negatives factors, but we need to go

[9] See Sylla and Toniolo, *Patterns of European Industrialization*, and Broadberry and O'Rourke (eds.) *Cambridge Economic History of Modern Europe*.

[10] See Bairoch, *Commerce extérieur*, and Berend and Ránki, *The European Periphery*.

beyond establishing correlations and analyze causal links properly if we want to explain the true causes of backwardness.

2. How it all began

Many economic historians argued that industrialization was not a national feature in nineteenth century Europe, as the growth of manufacturing sprouted in different regions across nations.[11] By the same token, the role of the central state should not be overemphasized, as there was not 'a clear path to economic development which could be pursued by the diligent and determined government'.[12] The diversification of the supply of goods that comes with industrialization implies that regions specialized according to their natural endowments. Thus, fertile plains would produce grains, and the woodlands would specialize in a larger range of production, including husbandry and handicrafts. Regional specialization was to some extent also the outcome of the existence of different growth facilitators, such as transport, commercial, credit and information networks. Growth facilitators could be regionally concentrated for a while, and certain regions worked as hothouses of new developments, new ideas, and new investments.

The first regions to industrialize were located in England and in the northern part of Europe across the English Channel, during the period from about 1780 to 1830. Several factors contributed directly to the growth of manufacturing in those areas, namely, the existence of abundant sources of non-animal energy, essentially coal, the availability of labor, and a certain level of demand for industrial products, such as textiles, bricks, or industrial tools. Regions with higher levels of labor

[11] See, for example, Pollard, *Peaceful Conquest*, and Pounds, *Historical Geography*.

[12] Milward and Saul, *Economic Development of Continental Europe 1780–1870*, 114.

productivity in agriculture were more prone to industrialize, as higher productivity allowed the release of labor to industrial occupations, and higher income implied higher levels of purchasing power. The existence of coal was also relevant, because coal was at the time the best source of energy, although in some places the existence of abundant water was important for agricultural but also for industrial use. But other factors intervened crucially at a national level in determining in which regions industrial growth would emerge. Among such factors, we need to consider the existence of a favorable institutional setting that protected investors, manufacturers, and traders, the absence of war or at least of prolonged wars, an integrated communications network, and adequately developed financial instruments.[13] Such a set of characteristics was however more widespread across Europe than the availability of coal and technological knowledge.

Regions could be increasingly industrialized and specialized for long periods of time before becoming fully integrated with the rest of the national economy. That happened for example in the west Midlands, west Yorkshire, and north-west England, regions that 'created a critical mass of manufacturing, service and transport upon which sustained development was dependent'.[14] The proximity to urban areas with higher levels of purchasing-power capacity was a major element in such developments. Accordingly, regions which were more densely populated and closer to cities, roads, waterways, and other networks were in an advantageous position in relation to regions which were further away. These favorable conditions are the outcome of some virtuous circle, because the growth facilitators were there in the first place as the regions had some initial advantages relative to others, namely in

[13] See North, *Structure and Change*.

[14] Stobart, *First Industrial Region*, 3.

geographical location, quality of land or levels of rainfall. But the fact is that there was a regional differentiation in levels of economic potential or in the capacity to increase output per capita. Some of those regions would turn to manufacturing more quickly if they had an additional set of advantages, namely, the availability of certain natural resources, such as 'coal pits and salt works, rivers and fast-flowing streams, agricultural supplies, and sources of skilled labor'.[15]Market infrastructures were clearly less developed in most of southern Europe at the time that industrialization began than in northern Europe. Significant periods of development had taken place in southern Europe in the past, such as during the heyday of colonial trade in Portugal or Spain, or at the time of the substantial trade in livestock that developed later on in the seventeenth and eighteenth centuries in Hungary, Saxony, and around the large cities of southern Germany and Switzerland. But in none of these cases could such episodes of trade expansion be compared, in terms of growth potential, to the intricate network of commerce within the populous areas of northern Europe. According to Pounds (1985), 'it was the absence of a market in much of pre-revolutionary France or in eastern Europe in the first two-thirds of the nineteenth century which, more than any other factor, inhibited economic growth'.[16] The absence of that legacy is a major element in explaining why industrialization did not sprout in the early phases, although it became less and less relevant as substitutes could be imported from abroad, and as innovation, replication and diffusion of new technology became widespread. But the presence of such commercial networks was certainly a major element in explaining the early development of markets for manufactured products.

[15] Stobart, ibid., 219–221.

[16] Pounds, *Historical Geography of Europe*, 2–3. See also Milward and Saul, *Development of the Economies of Continental Europe 1850–1914*, 516–517.

Fossil fuel was relevant but the size of domestic demand may have been as important if not more so.[17] That was because whereas the capital needed for industrial development was still relatively small and could come from many sources in agriculture and trade, markets on the other hand, because of low purchasing power and the lack of commercial networks which rendered transactions more costly, were not available everywhere. This was the case in the early stages of industrialization but changed as requirements for industrial investment increased with technological sophistication. Moreover, the expansion of international trade meant that industrial producers also had to compete successfully with suppliers from other regions. The spread of the use of fossil fuels was very slow as charcoal remained for a long time a better alternative. Apart from England, only in the Saint-Étienne region in the Loire and in Upper Silesia was coal relevant in the early stages of industrial development. Although it is hard to establish what the necessary and sufficient conditions were for speeding up the development of manufacturing, it is important that we pay attention to the possible list of conditions because it would help us to define further the industrialization process. The exercise that we are proposing here calls our attention to the possibility that the conditions that favored the spurt of industrialization may be local, confined to relatively well-defined regional spaces.

The above is fundamentally different from the perspective where the nation is the framework and industrialization is the outcome of the will of governments to make their elites and their subjects or citizens better-off within their national

[17] The role of demand should not be overemphasized, though. See Mokyr, 'Demand vs. supply in the Industrial Revolution'.

territories.[18] Under that perspective, industrialization appears as the outcome of government action, in the form of tariff protection, concession of monopolistic rights, or public investment, competing in the international arena for raw materials and markets. The national perspective predicts that industrialization sprouts in countries which are dominant in the international economy and that have powerful and well-established governments that can fully manage the domestic economy. We have however to recognize that such a predictor is not a very accurate one, because of a number of imperial powers with strong governments that failed to industrialize in the nineteenth century. It is also a perspective that has undergone a number of considerable theoretical and empirical revisions, as we advance in our knowledge about what really happened on the ground.[19]

The regional and national perspectives on industrialization are not mutually exclusive, although we need to sort out which is more in tune with the historical facts in each case in question. The west Jutland region was sparsely populated and poor, although maybe not as poor as sometimes described. Yet there was change, despite 'stubborn peasants and rigid institutions'.[20] One such change was the enclosures during the last quarter of the eighteenth century. Enclosures represented an important institutional change which implied considerable amounts of investment and although there the impact was not as large as in England, they led to the development of the markets for land which would have a large impact in west Jutland in the nineteenth century. From the 1860s onwards, the landscape of the region changed considerably,

[18] See Gerschenkron, *Economic Backwardness*, and Landes, *Unbound Prometheus* and *Wealth and Poverty of Nations*.

[19] For the revision of the role of central states in economic development, see Pollard, *Peaceful Conquest*. See also O'Brien and Keyder, *Economic Growth*.

[20] Eliassen et al., 'Historical regions and regional history', 273–274.

and the moors were transformed into grain fields. That transformation also led to an increase in the population and to the increase of investment in other areas such as the woodlands. These were important structural transformations that apparently had a large impact on output and productivity levels. How this was achieved sheds light on the advantages of being a poor region within an otherwise relatively wealthy country. We have to take into account that such transformations need not only institutional improvements, which can be relatively cheap and feasible in areas where there is some sort of social consensus which translates into the ability to take political action, but they also need investment in physical capital and require know-how and a minimum level of literacy and connection to worlds with better practices. In west Jutland, the needed investment to transform the agricultural landscape came in fact from other parts of Denmark, particularly through an incorporated company, the Danish Moorland Company (det Danske Hedeselskab), that 'provided the farmers with expertise and professional help in their struggle against the wilderness and the manifold activities of the company meant that the moorlands were cultivated at the speed no one had ever imagined'. This was then followed by the immigration of 'enterprising' laborers from the rest of the country.[21]

But not all poorer regions in Europe experienced benefits from the contact with richer regions within the same country. In his analysis of long-run regional inequality trends in France, Brustein (1993) looks for causes of the increasing disparities between the northeast, on the one hand, and the west and the *midi* on the other. One major point the author makes is that the sources of regional inequality date back to the early Middle Ages, following what happened elsewhere under feudal regimes when some areas went through a considerable process of change in

[21] Eliassen et al., ibid., 280.

agricultural production because of better climatic conditions and technological change.[22] Moreover, 'the commercial importance of north-western Europe in the medieval and early modern times had left a legacy of roads and navigable waterways, a system of financial and commercial houses and an economy based on money and exchange'.[23]

During the nineteenth century, industrialization spread throughout the Continent, under different formats. By the end of the century, every European country with no exception whatsoever had a manufacturing sector based on large-scale production in factories and using steam power. There was not a single country that did not produce textiles with the help of at least part of the machinery that had been invented a century earlier and improved since then. Railways, the largest symbol of the new modern age, had reached all the major cities on the continent and connected all the capitals. Also in every country of the continent, there were a large number of people living in urban areas, often in deprived conditions, working for a wage in manufacturing. However, the spread of industrialization was highly uneven and there were big differences in the levels of intensity of the elements mentioned above. There were countries with large geographical areas where these elements dominated, and countries where they could be found only very sparsely. It could be argued that the best predictor for the timing and pace at which the backward areas of Europe adopted or reinvented the new techniques are not national boundaries but the geographical or economic distance of any given region from the pioneers. The pioneers were located in north-western Europe, namely northwest England, the southern Low Countries, the lower Rhineland and parts of northern France, as well in parts of northern Italy or the

[22] Brustein, 'An endogenous explanation', 96–97.

[23] Pounds, *Historical Geography of Europe*, 3.

Czech lands, all of which entered the industrial era more rapidly than did southern France, eastern Germany or southern Ireland. If we take this regional perspective, we can even detect differences in productivity levels which are of course much higher than those that we may find between national averages. By the mid-nineteenth century, central Belgium, the lower Rhineland, and the Swiss plateau were as far apart from mountainous Romania and Macedonia, or the forests of eastern Poland or northern Scandinavia, as developed countries are from third world countries in the present times. Distance was not a matter of importance only in the nineteenth century, as it affected also the development of some of the conditions for industrialization that were mentioned above, particularly those related to communications infrastructure, like roads and waterways, communication networks, and financial intermediation. The lack of development of basic physical and institutional infrastructures was a considerable part of the problem of being backward. Peripheral states contributed to the development of the needed infrastructural framework when industrialization was under way, from mid-nineteenth century onwards.

3. The burden of backwardness

The difficulties that backward countries or regions had to face at the start of their industrialization periods were certainly considerable, and harder to overcome than in the case of the earlier developers.[24] Those challenges were both domestic and international. Domestically, the list included the non-existence of the growth facilitators that existed in the more developed regions of Europe, which have been mentioned before. Internationally, backward countries had to face increasingly more competitive nations which exported cheap manufactured and agricultural goods. The

[24] See Berend and Ránki, *European Periphery and Industrialization*.

tasks which backward countries faced are particularly evident in the Balkan region in the nineteenth century. As the nations in the area became independent, in the period from the 1820s to the 1870s, they had to create a series of basic national institutions virtually from scratch, including the three levels of power: executive, judiciary, and legislative. Such a task was by itself greater in the nineteenth century as the set of institutions which those nations had to replicate in order to become politically integrated into the Continent was more complex than the political institutions of earlier times. And the task was made even more difficult because it had to be carried out in a context of overall backwardness where resources were scarcer and dearer than in the more developed areas of the continent. Moreover, peripheral economies were 'overwhelmingly agrarian, had little capital and inadequate technical and communications infrastructures'.[25] In the decades from about 1870 to 1910, the Balkan countries had to create governments, parliaments, and judicial systems for which they had access to a relatively small tax base and a population with a high degree of illiteracy.

Let us look more closely at Greece to see how those problems materialized. Greece started its existence as an independent country carrying the burdens and the benefits of the Ottoman heritage. The vicissitudes of geography had made the population living in the region dispersed and isolated. As Augustinos states:

> The infrastructure needed to build a national economy was largely missing. Roads, ports, and post facilities were in a primitive state. Banking services would take decades to develop, primarily through investment by Greeks from outside the country. Agriculture, the main productive sector of the economy, was handicapped by poor techniques, abandoned and underdeveloped land, complicated and inexact legal relationships, fractionalized and insecure

[25] Augustinos, *Diverse Paths*, 3. See also Berend, *History Derailed*.

> landholding, and a primitive distribution network that kept it localized. Industry was at the proto-industrial stage with small artisanal and craft enterprises. Commercial wealth was to be found mostly outside the state frontiers among the Greek communities in the major urban centres of Europe and the Near East. The development of political life also reflected the historical conditions from which Greece emerged. Like other subject peoples who were part of the Ottoman imperial world, the Greeks had maintained limited contact with the political authorities through a few communal intermediary bodies controlled by their religious leaders and notables.[26]

The author concludes that because of the size of the task, 'political unification was achieved without social integration'.[27]

In 1833, at the onset of independence Greece was a destitute country ravaged by poverty and lack of infrastructure. McGrew contrasts the hopes that bear on the newly-arrived young king, Otto of Bavaria, and the state of the country after twelve years of wars and 'brutal' military invasion that left the country 'ruined physically, its economy in shambles and its population in misery.'[28] The wars had been particularly violent, with thousands of deaths and widespread use of scorched-earth tactics. When the forces sent by the Ottoman Empire left, the Christian forces took revenge, prolonging the agony of the country. Virtually everything had to be rebuilt from scratch: houses, entire villages, vineyards and olive-orchards. The reconstruction task was even greater because there was a lack of basic infrastructure such as roads and ports, which required the attention of the government, and also a lack of financial and human resources. To aggravate all this, the reconstruction of the old and the

[26] Augustinos, 'Development through the market', 89.

[27] Ibidem.

[28] McGrew *Land and Revolution*, 1.

construction of the new had to be accompanied by the building of the basic national institutions.[29]

But the problems were also felt deeper on the ground. Because of the Ottoman occupation, a large share of the Christian population lived in the mountains with a poor quality of land and with poor communications. The population was scarce and unevenly distributed, with different degrees of density not reflecting differences in soil productivity. Peasants were mostly self-sufficient and lived on a poor diet of barley and maize bread, olives and a few vegetables and milk products. Most clothes were homemade and most tools were wooden, including those used in agriculture. Very little use was made of any artificial fertilizers, the use of manure was far from widespread, and land irrigation was rare. The incentive to increase the levels of investment in the land was reduced, because unused land was abundant, as there were large parts of the territory that were abandoned. The lack of financial capital and financial intermediation further hindered investment in land, new cultures, tools, and animals. The only exceptions to this dim scenario were some stretches of land along the coastline which produced currants, figs, unprocessed olive oil, and other basic foodstuffs for export. The production of manufactures for domestic commercialization was limited to a few coastal areas too, and consisted mainly of silk and leather goods.[30] The abandoned prairies and river valleys had turned into disease-prone swamps and marches. Plague was not unknown down to the end of the eighteenth century, and malaria was still common in the early nineteenth century.

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[29] Ibid., 3–5.

[30] The situation may have been slightly better in previous times, before the Ottoman left, as they are testimonies of abandoned land and infrastructures from the eighteenth century. See McGrew, *Land and Revolution*, 7–8, and Palairet, *Balkan Economies*.

That dim situation was hard to change for many reasons. The main potential factor for change was the distribution of land. The state however was unable to intervene with consistent policies because there was no national register of land ownership and the peasants seized the lands left by the Turks hoping to gain full possession in the future. The state did not have the means to oppose the squatters for lack of means, but it also saw unlicensed cultivation as a major source of taxation. These changes after independence led to a scenario of low population densities, imperfect landownership, and small undercapitalized plots, three factors that militated against the transformation of the agricultural sector. The sector did not attract capital from outside and was even a source of tax revenues which funded the existence of a 'large number of well paid state employees' in the cities.[31] During the decades down to the 1880s analyzed by McGrew there were many changes but agriculture remained backward and industrialization did not gain momentum. According to the author, critics accused the Monarch of failing to impose changes in the structure of property. But the author concludes in a more cautious tone: 'The monarchy of King Otto bears only limited responsibility for perpetuating the wretched state of Greek agriculture. Nominally absolute, its powers in reality were subject to severe constraints. It would have been impossible under prevailing circumstances to carry out any land reforms which required public capital investment, strong administrative controls or adequate property records.'[32] The major source of change would come, however, from population shifts from the mountains to the plains in the last quarter of the nineteenth

[31] McGrew, *Land and Revolution*, 221.

[32] Ibid., 213.

century as safety conditions improved and as the demand from foreign markets increased business opportunities along the coast.[33]

In the Balkans, Greece was not necessarily the most destitute country but the description is quite telling of the high barriers imposed by backwardness on industrialization and economic prosperity. The conditions further north in the Balkan peninsula were worse, as the area was more distant from the economic centre of the continent, had more difficult access to the sea, became independent a few decades later, and was also not connected to the rest of the world by an entrepreneurial emigrant community which, in Greece, was a source of capital, knowledge and overseas contacts. The descriptions of backwardness we may find for the regions that became Bulgaria and Romania are even more striking in what they reveal of the widespread levels of deprivation, poverty, and lack of infrastructure. Deprivation of food, shelter or security, is not the only reason for peasant revolts, as peoples also revolt for lack of political rights. On some occasions, political confrontations exploit peasant revolts, as happened around 1846-1848 in many parts of Europe. Revolts can occur also when levels of satisfaction have been severely affected by rapid changes in overall economic conditions, leading to the reaction against the decline in living conditions and not against absolute levels. Yet peasant revolts do indicate the general feeling of the population regarding the level of satisfaction with their conditions, and the fact is that in the nineteenth century peasant revolts happened above all in the poor regions of Europe, with varying degrees of violence. In Romania, as late as 1888 and 1907, there were two bloody peasant revolts that ‘shook all of Europe’.[34] The problems with Romanian peasants began early with the emancipation conceded

[33] See also Petmezas, ‘Agriculture and economic development’.

[34] Gunst, ‘Agrarian developments’, 29.

following the coup d'état by Prince Cuza against the boyars, the land-owners, in 1864. Emancipation also implied the sale of the land to the peasants and distribution of land by the state. The area which peasants received depended on how many draft animals they had. Peasants had to pay for the land at a price fixed at the time of transfer but they did receive some help from the state in the form of 15-year loans. However when those payments became a burden, the new proprietors, unable to sell the land for a period of time, found themselves imprisoned in the process. Moreover, the land received was in many circumstances not enough for a livelihood and peasants had to supplement their earnings by working on the land of the former landowners. In Wallachia, the poorest part of Romania, peasants paid one-fifth – and by the end of the century one-third – of their crop as rent. This was less of a burden for peasants who owned tools and animals, but for the others it was a heavy price to pay.

As the land which they had purchased so dearly became insufficient to sustain them and their families, the peasants' demand for land increased. At the same time the land which was kept in the hands of the landowners was probably under-used, as can be deduced from the fact that they had difficulties in hiring enough labor. Such imbalances could not be solved by the market itself, apparently, because they were the outcome of the change in the laws governing land ownership and the functioning of the labor market. According to Gunst the problem was more acute in Wallachia, 'where landowner self-managed farming prior to 1864 was not as developed as in Moldavia' and so they did not have the necessary tools and animals to till the land. The author, however, concludes that 'compared to European conditions, Romanian peasants lived in unbelievable poverty and could be considered basically vegetarians, since they could rarely eat meat'.[35] This resulted in revolts as the price of grain fell

[35] Ibid., 33 for both quotations.

and the debt burden increased. The creditors were in many cases tavern-keepers as, unlike in the case of Hungary, the Romanian landowners were undercapitalized and had no money to lend. This meant that the peasants' anger turned against the small shopkeepers and led to the uprising of 1907.

As we move westwards in Europe, the level of backwardness declines. The situation of the peasants in Hungary was better than in Romania partly due to the fact that in Hungary the proportion of peasants who owned the land was smaller. What this meant essentially was that Hungarian peasants were not as indebted as the Romanian peasants who had had to pay for the land they tilled. A further reason was that in Hungary the production for the market was more developed, as was the number of wage-earning laborers. Moreover, in Hungary as industrialization gained momentum it relieved the population pressure on the land, although it was not until the end of the nineteenth century that the agricultural population started to decline in absolute numbers. Hungary also started to build a transport network earlier which had a positive impact on the rural areas, both by providing better communications and an additional source of employment for agricultural labor. Exports of grain to the west, namely to neighboring Austria and southern Germany, expanded, which had a positive impact on the growth of output, the increase in the scale of production and ultimately mechanization, particularly threshing and later on harvesting.

The narratives about backwardness and poverty in the European periphery are all too common. National historiographies have to a great extent contributed to the description of the difficulties which the peoples of those regions faced in terms of bettering their economic prospects. We still however lack a convincing explanation for why these countries did not enter the stream of industrialization at the same time as the rest of Europe. The range of possible explanations is wide and includes both domestic and international factors. Domestically, probably the most common factors to be presented as causes of backwardness are the set of national institutions, including public and private, from excessive government intervention, to the role of landowners.

However, when we consider the whole of the poor periphery of Europe, the shape of domestic institutions alone does not explain backwardness. The diversity of historical experiences, institutional developments, and policy options was relatively large in countries such as Portugal and Bulgaria, or Spain and Romania, and there is not a common pattern which will tell us what exactly went wrong in their institutional development. For example, Portugal was a protectionist country and its state accounts were unbalanced throughout most of the nineteenth century, whereas Bulgaria was a free-trade area and its state finances were balanced in the same period, and yet both remained backward.[36] Thus the causes for the persistence of backwardness have to remain elsewhere.

By the mid-nineteenth century, Portugal was arguably the most backward country in Western Europe.[37] That should come as no surprise if one thinks about its peripheral position within the Iberian Peninsula which was already a peripheral region of Europe. Portugal's peripheral status was reinforced in the nineteenth century by the end of the trade monopoly with Brazil, in 1808, and ultimately with the independence of the former American colony, in 1823. Besides that, the first half of the century was disrupted by the French invasions, and the military and political instability that ensued up to the *Regeneração* coup in 1851. The *Ancien Régime* ended formally in 1820, but it took almost half a century for the new parliamentary monarchy to be consolidated.

[36] See Lains, 'Southern European economic backwardness'.

[37] See ibid.

The bulk of the liberal reforms that were designed in the aftermath of the 1820 revolution, concerning land ownership, the civil and commercial codes, economic liberalization, infrastructure building, and other features of a nineteenth-century type of state, were only fully achieved by well into the 1860s and 1870s. Crucially, the timing of institutional change did not differ substantially from what was happening in the other extreme of the continent, where new nations were being created, following the demise of the Ottoman Empire in Europe.

Thus, by 1850, the Portuguese economy was profoundly backward in many respects. Vast areas of its territory were not put into productive use, large parts of land were left fallow, despite the fact that a large proportion of the labor force was still employed in the agricultural sector and little use was made of fertilizers, either natural or chemical, or of animal power. Similarly the industrial sector was characterized by the predominance of traditional activities and limited use made of mechanization based on coal or other sources of non-animal energy. Roads were bad, ports were scarce and there were no economically useful waterways. The two main cities, Lisbon and Porto, were not connected by railways until 1877, and before that the best link between the country's two largest cities was by sea. By the same token, the state was relatively inefficient, constrained by political instability and scarcity of financial resources which implied low levels of investment in infrastructure and education. The central state gained full control over the southern province of Algarve only in the 1860s as until then the region was ruled by militias.

Portugal's extreme backwardness was partially overcome in the years from 1850 to 1913. In agriculture an increase in the area of land under cultivation, at the expense of fallow land, and changes in the structure of output led to improvements in labor productivity. Land productivity levels did not change in significant ways, as the introduction of new cultivation processes and techniques was relatively slow.[38] In the industrial sector, there were also some productivity gains and changes in structure, which were associated with higher levels of protection. Yet due to highly protective tariffs, both in the domestic and the colonial markets, at the outbreak of the First World War, Portugal had a relatively large share of its industrial labor force occupied in the textile sector, which was relatively inefficient. Moreover, notwithstanding tariff protection, the degree of internationalization of the Portuguese economy increased from at least 1870 to 1914, as foreign trade, capital imports and emigration expanded faster than the rest of economy. Such developments however came to a halt with a balance of payments crisis that culminated in the abandonment of the gold standard in 1891, and partial default by the state in 1892.[39]

The slow pace of economic growth in the decades up to 1914 went together with the slow development of institutions and infrastructures. But there were some positive signs in institutional development too. Firstly, the control of the state over the territory increased significantly and was universally achieved by the eve of the Great War. Secondly, literacy rates rose in significant ways and, at the same time, mortality fell and urbanization increased. Thirdly, the financial system became more developed and widespread. Finally, there was an important effort in building railways, roads and other infrastructure, mainly up to the 1890s. Such developments were made possible by increasing government deficits that were financed either domestically or in the international capital markets. Such positive economic and institutional developments were nevertheless insufficient and Portugal failed to catch up with the levels of income per capita of the forerunners.

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[38] See Lains, 'New wine in old bottles'.

[39] See Lains, 'Growth in a protected environment'.

But at the same time the constraints on industrial growth in the periphery were numerous. For a start, access to capital was difficult, as savings levels and the development of banks were inadequate and industrialists frequently had to compete on the capital markets with governments that in some cases in the periphery resorted more to debt; demand was stronger in the lower level of quality of manufactures; and it was also the case that domestic producers had to compete with more efficient producers from more industrialized foreign countries, both in the domestic and the international markets. Furthermore the labor force had less experience, had lower levels of literacy and in-job training, and thus was less adapted to work in industry. Finally the level of investment in social overhead capital was also lower. There were however some favorable factors. Among those possibly positive factors, was the fact that there was already a pool of foreign technological innovations that could be imported and adapted; industrial capital could also be imported more easily; and finally there were also some export markets for industrial goods which could be exploited by the industrialists in the periphery.

4. The interwar years

The First World War was highly disruptive for the countries that were directly involved, and for the development of the international economy. The huge losses in human life and capital of the countries that entered the war were accompanied by the end of the world economy as it was known by 1914, where free trade, free movements of capital and people, and the gold standard ruled. The peripheral countries in Europe were also affected on these two accounts. Paradoxically, however, in some parts of the periphery, economic growth resumed and eventually reached unprecedented rates in the years following the end of the war, up to about 1939.[40] Thus, Portugal, Spain (up to 1936), Greece, and Romania, had rates of growth which were historically high in the 1920s and 1930s (growth rates of real income per capita above 1.5% per year) and they caught up partially with the levels of income of the more developed areas of the continent. Catching-up was facilitated by the fact that core countries were not expanding rapidly.

A major consequence of the First World War in the periphery as elsewhere was the increase in levels of protectionism, as well as in the role of the state in the economy, either by imposing a more regulated economy or by promoting investment in the agricultural and industrial sectors, and in social overhead capital. The increase in the role of the state went together with the implementation of fascist-type dictatorships, replicating Nazi Germany or fascist Italy, the 'revolution of the right', in Janos's words, which extended across the periphery.[41] This stronger interwar state contrasted with the weaker nineteenth-century liberal state, but they were intrinsically linked. To a certain extent, the twentieth-century dictatorships in the periphery were the zenith of the liberal state that had progressively developed in the previous century, in the sense that it would have been much harder to implement totalitarian or authoritarian regimes without the institutional framework and the state infrastructure that were built, sometimes with some pain, particularly in the last three or four decades before World War I. The same may be stated in regard to the economies that developed under protection after the mid-1920s, which were certainly a result of the slow but persistent growth of industry, agriculture, and services throughout the nineteenth century. To a large extent, the Gerschenkronian state that developed in

[40] See Aldcroft, *Europe's Third World*.

[41] Janos, *Politics of Backwardness*.

Germany, after 1871, and which helped to develop the German economy and was also dependent on the German economy, was replicated in the periphery later on and under the form of dictatorial regimes.[42]

Peripheral states in the interwar period were truly developmental regimes with significant success, as their policies promoted the levels of domestic savings and investment, and the institutional setting for the expansion of a string of modern sectors in the economy. Investments led by the state ranged from road building and electricity supply in Portugal, to land conquest in Greece, or agrarian reform in Romania. States did not work alone, as they were followed by investments by the private sector, and this is the time when larger conglomerates developed also in the periphery, in the industrial, agricultural and financial sectors, namely, in cements, chemicals, energy, and banking.

Patrick O'Brien has argued that the periphery was partially transformed after 1850 or 1870, but that the period up to 1914 was too short for a full transformation into industrial societies akin to those of the European core to take place. While Janos has seen that process of transformation extending into the interwar period and up to 1945, it could be argued that the golden age of growth following the Second World War was the continuation of the process begun after 1850.[43] It certainly is an irony that such positive events occurred under fascism, autarky, and ultimately communism. This conclusion is certainly not optimistic regarding the role of democracy, free trade, and the open society. However the conclusions drawn from history need not be generalized, as the conditions change over time.

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[42] See Good, 'The state and economic development'.

[43] See Janos, *Politics of Backwardness*, 322–323.

Conclusion

Once it was thought that the catching-up of backward countries with the levels of productivity and income of the forerunners was dependent on the prior development of new attitudes by industrialists, landowners, and governments, who would introduce modern machinery, new methods of exploiting the land, and wise policies. Those developments were certainly an important component of the catching-up history of parts of the European continent, but only to a limited extent. A deeper look at how the technological and organizational developments of the forerunners were related to solving opportunities and constraints showed that replication was not what catching-up was all about. Soon it was found that other parts of Europe that eventually caught up followed different paths towards prosperity. Those different paths led large parts of Europe to industrialization in the century of free trade that came to an end with the outbreak of World War I.

But by 1914 there still remained large strips of the continent which were left out of the convergence club and we still need an explanation for those economies that failed to follow the industrialization road. It was in the context of that search for explanations for backwardness that educational and more general institutional explanations sprouted. The rationale for that string of explanations remained unchanged. Accordingly, if backward economies of Europe followed the institutional developments that could be observed in the core countries, the road to prosperity would have been followed much more quickly. Yet, such optimistic counterfactuals fail to take into account that institutional developments in the forerunners were also related to their specific sets of domestic problems.

However it has to be said that in the nineteenth century domestic problems were less important as the development of the international economy made national developments increasingly interconnected. And what happened in the core certainly was a source of inspiration for the backward periphery, which to a great extent took advantage of the wide circulation of ideas, goods, capital, and people across the continent, and across the globe. The reasons why the backward areas did not import the favorable institutional developments are similar to the reasons that they did not import advanced technology, namely, that their domestic settings were simply not fit for such developments. It was therefore not because people in the periphery were less ingenious or less entrepreneurial, but simply because the overall environment was much too backward and the conditions for new ways of doing things were too adverse.

During the second half of the nineteenth century, domestic conditions in the periphery changed, and the institutional and infrastructural setting was slowly implemented in the periphery, albeit at a rhythm that did not allow catching-up. Following those positive developments, paradoxically or not, in a period of autarkic authoritarian regimes, the new conditions were set for the first time ever since industrialization began one century before, and catching-up finally took place. It is important to understand the timing of such developments. Things could have been different at all levels, but by looking closely at the constraints imposed by extreme backwardness, we have to conclude that they could not have been much different.

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* Forthcoming in F. Guirao, F. Lynch and S. Ramírez, *Alan S. Milward and a Century of European Change*, London, Routledge. I would like to thank the very useful comments from the editors of the volume and from Patrick O'Brien.