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978-1-107-03070-1 - An Economic History of Nineteenth-Century Europe: Diversity and Industrialization
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Introduction

Nineteenth-century economic history is flourishing again. New generations of historians and economists have returned to discover its secrets. Since, as Benedetto Croce once noted ([1921] 1960), every history is contemporary because historians are most influenced by the present,[1] the ongoing integration of Europe and the advance of globalization during the recent decades have called attention to the historical roots and outcomes of similar processes in the past. Although "we cannot know everything that happened," and "there is a vast iceberg of the unknown that remains forever hidden" (Ged, 2004, 246), the generation of economic historians working today have made new calculations, applied new theories from other social sciences, especially economics, to history, dug out new sources, and discovered much more about the nineteenth century than did their predecessors one or two generations before. Additionally, the scope of historical interest is also significantly broadened. Virtually all of the specific areas of social sciences became and are part of history, thus society, behavioral patterns, psychological reactions, political choices, and the impact of the laws of economics on economic performance all require consideration and inclusion. This is the basis of ongoing debate over, and formidable challenges to, several previous interpretations.

This work delves deeply into these discussions. Based on my lifelong research on economic backwardness and peripheral economies, and a vast amount of information and evidence produced and accumulated by generations of historians, this book compiles and explains the historical material around a central hypothesis.

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Content and comparative method: pan-European interconnections, major regional differences

The core idea of this book is that Europe's economy has developed in a closely interrelated environment, and that a single country or region's case cannot possibly be understood without those interconnections. Interrelated European development, however, did not produce a similar economic level throughout the continent. Huge regional differences remained characteristic. Some regions achieved high levels of industrialization and progress while others preserved various levels of backwardness.

Europe was a continent of independent nation-states; consequently, most of the economic history books, including several previous economic histories of Europe, have rigorously followed a country-by-country approach.[2] This tradition, however, has been strongly challenged in recent decades. Indeed, industrialization, the driving force of nineteenth-century economic development, and the rise of modern transportation and banking systems, were all transnational. The development of some countries often had a positive impact on others. Trade with Britain held advantages for, and had a stimulating effect on, its less industrialized neighbors. As Sidney Pollard maintains, Britain "was a major channel of transmission of the process of industrialization . . . [which] equipped her rivals . . . The benefits of the British connection for Germany [were] widely recognized . . . " (Pollard, 1981, 183–4).

Ireland's or Denmark's ties to Britain; Hungary's ties to Austria and the Czech lands; Poland, Finland, and the Baltic countries' ties to the Russian Empire: all had a huge influence on these countries' development. Direct British, French, and German investments, and the enormous market that these countries provided (buying about 70 percent of all exported goods), often played a more important role in shaping the economies of Spain, Portugal, and Italy than did the policies and tariff systems of the latter's national governments. It was equally likely that the competition of the more developed neighbor had a negative economic impact on its less developed adjacent areas. Portugal, Romania, the borderlands of Austria-Hungary, and the entire Balkan area are compelling examples. Besides, despite the rise of sacrosanct nation-states in the nineteenth century, national units in Europe were of questionable importance in that period during which borders often changed dramatically.[3]

Technology and innovation, so characteristic of the period, extend across borders and are not contained by national boundaries. As Joseph Schumpeter stated more than seventy years ago: "A process such as railroadization or electrification transcends the boundaries of individual

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countries" (Schumpeter, 1939, 666). Forty years later S. Pollard concurred: "Advanced technology shifted constantly outwards . . . thus . . . driving the whole of Europe" (Pollard, 1981b, 38).

Economic assumptions and the institutions they generated also spread throughout the continent. The theories of Great Britain's Adam Smith and David Ricardo created the economic systems of most European countries.[4] Germany's Friedrich List became the prophet of protectionism throughout the less developed European regions. The free trade system, the gold standard, modern property rights, and a host of other new institutions spread throughout and conquered the continent. At the end of the century, all the countries of Europe had similar economic institutions and legal systems. They all had mixed banking and similarly functioning central banks. Europe had become "Europeanized."

Two clever metaphors illustrate this point quite well. François Crouzet likens European industrialization to "an epidemic [that] took little notice of national borders and crossed them with ease" (Crouzet, 2001, 120). Carlo Cipolla suggests looking at Europe from without. He proposes that a hypothetical "Asian historian" might look at World War I, which ended the "long" nineteenth-century history of Europe, as "the European Civil War" (Cipolla, 1994, 278).

Central to this book's hypothesis is the *comparative method*. Here, however, we must ask what kind of comparison? Hans-Gerhard Haupt and Jürgen Kocka have distinguished two basic types of comparative method, one that aims at "weighing contrasts . . . [and] differences between individual comparative cases," and the other that "focus[es] on . . . generalization and, thus, the understanding of general patterns" (Haupt and Kocka, 2009, 2).[5] This book offers the second type by differentiating various patterns of development and regional types of economic progress.

Comparison is a major source of new knowledge since it compares similarities and differences between countries, regions, or continents. It enables one to measure the roles of various growth factors by comparing their importance and effects in some areas and the lack of them in others. Why did certain factors assist economic development in some countries while they failed to have the same effect in another? Why was an institution efficient here but inefficient there? Why did certain regions follow paths to economic development that were different from those of others? Some new pan-European economic histories have already been published.[6] This book, however, represents a different type of comparative generalization, and discusses various types of paths of modern economic transformation based on strong empirical information in a consistent pan-European economic environment. It also calls attention to the Western European

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impact on economic transformation before and during a strongly Western European-based "British" Industrial Revolution. My findings demonstrate that a prevailing northwest European Enlightenment and technological change penetrated Europe over time, and pan-European integration became the driving force of transformation throughout the continent, although with rather different outcomes. This also clarifies that independent nation-states were not decisive factors of success and failure. While several independent nation-states failed, several (though not all) of the occupied and politically oppressed countries that had became parts of multinational empires had in fact profited from their positions of attachment to more – but also less – developed empires.

The main goal of this book is to present the distinct *regional differences* that characterized the economic paths and their outcomes in the interrelated continent during the century. In addition to the evidence-based description of these differences, it will proffer a complex explanation of their causes. "To take any unit disconnected from others . . . is in itself false," affirmed Lev Tolstoy in his astonishing discussion on history in *War and Peace*.[7] Following this advice, I reject the simplified, sometimes mono-causal argumentations that so often frequent the literature. They overemphasize one or two "main" causes, such as geopolitical factors occasionally combined with natural endowments, or the availability of free labor and capital, or the central role of certain institutions, or the prevalence or lack of certain "virtues" and values. Instead, I try to present the *complexity* of causes and their *combinations*.

I believe in path dependence in a complex way. Paths, however, are not determined strictly by the past. Besides the vertical connections in history, additional important effects and influences arise from the horizontal interrelationships among various regions. The more successful development paths have a demonstrational effect, attracting other regions to emulate that success. Successful development paths also initiate direct connections among regions, offering markets, capital investments, technology transfers, raw materials, and food resources that, in the long run, pave the way to changes in other regions.

Special attention is given here to *knowledge* that expands from one country or region to the other. The role of knowledge has recently received enormous attention in history literature.[8] This discovery is not new. Even the late eighteenth-century observers of the emerging British miracle recognized its central importance. The German Johann Gottfried Herder, in his *Journal Meiner Reise im Jahr 1769*, recognized that England "possessed a number of peculiar advantages," among them "its maritime position, its institutions, its freedom, its *Kopf*" (head, or mind). Emma Rothschild

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noted that "England's destiny, in the view of these foreign observers, [was] determined in substantial part by the *English Kopf*... a revolution which unfolded... in the minds of the people" (Rothschild, 2002, 31–3; italics added).

Knowledge revealed by science is applied to education; education is institutionalized by modern states and permeates new generations. Knowledge may challenge the legacy of the past and effect change and discontinuity. An important intention of this book is to present the interrelationship between the historical past, formed by long-standing and complex social-political and economic developments, and the prevailing situation in nineteenth-century Europe – hence the interrelationship between various paths of development that characterized different regions of an interrelated Europe. I discuss the features of the broad historical – social, political, institutional, and cultural – environment in separate chapters and sections of this book, introducing and describing the economic paths of various specific regions. Historical processes have an almost opaque complexity. Social, political, economic, and cultural spheres, and their embodiment in institutions, are closely and inseparably interrelated. They generate and influence each other.

The early dissolution or non-existence of serfdom in northwestern Europe during the late medieval and early modern periods fostered the development of urban settlement and self-government, liberated these societies from religious fundamentalism, and laid the foundation for the Renaissance, Reformation, scientific advancement, innovation, and education – most of which emerged in the region much earlier than in other parts of Europe. It was here that new institutions arose that facilitated the development of a market economy and modern companies. As a result, people gradually developed new values and attitudes toward work and business. They invested more labor input and turned to the market. This *Zeitgeist* prepared the ground for the rise of merchant capitalism and merchant empires, which in turn paved the way for industrial capitalism. The regions where these characteristics were strongest became the forerunners of transformation. Other areas, which shared similar qualities but developed and emphasized them less strongly, were able to follow relatively soon.

In contrast, industrial capitalism could not gain ground easily in regions where serfdom continued, aristocratic rule endured, obsolete institutions were preserved, social mobility was extremely circumscribed, and the mostly illiterate peasant masses were excluded from society. Similarly, industrialization could not permeate regions where a communal peasant society was preserved and egalitarian values dominated. Hence,

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social-political and economic institutional structures, coupled with the prevailing cultural values, created the appropriate historical environment for a society's modern economic transformation or lack thereof.

Interrelated Europe: four distinctive paths towards modern economic transformation

The closely interrelated European "cape of Asia," with its relatively small territory comprising 9.9 million square kilometers (3.9 million square miles), was hardly a homogeneous economic unit. Given the long-standing core–periphery relations[9] that had emerged during the early modern period, one can clearly differentiate among markedly *diverse regions* within Europe. This simple truth, however, requires some qualification. What does one mean by "region"? Disagreements about regions are many, for there are competing concepts of what a region actually entails.

Some authors, such as Anthony Wrigley and Sidney Pollard, prefer a *micro-regional approach to European history*.[10] This is absolutely legitimate since micro-regional differences in one single country are widespread and significant. Indeed these are sometimes as significant as macro-regional differences between core and periphery. However, within a macro-region hundreds of micro-regional differences would have to be distinguished and discussed and so I will not attempt to combine the two approaches in this book. I will, though, engage with the new economic geography which makes clear that backward and advanced regions within the same country cannot be separated. Advanced urban industry is built on "backward" agricultural regions behind it.

My book represents a rather different and consistent *macro-regional approach*. This is one of the most important novelties of this study. Macro-regions – with major differences in region formation – have been differentiated by several authors. In our *Industrialization and the European Periphery*, György Ránki and I discussed the special characteristics of three peripheries, the Scandinavian, Mediterranean, and Central and Eastern European, in the long nineteenth century (Berend and Ránki, 1982). Sidney Pollard in *Peaceful Conquest* differentiates between four, chronologically defined regions: "the first industrializer," Britain; the "early industrializer advanced western half of the continent;" the third wave of industrializer, "Inner Europe;" and, lastly, the fourth-wave industrializer peripheries, such as Scandinavia, the Mediterranean region, the entire Habsburg Empire, the Balkans, and Russia (Pollard, 1981). In their monumental *Power and Plenty*, Ronald Findlay and Kevin O'Rourke distinguish seven

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world zones, of which only two are European: the "Roman Catholic Western European" and the "Greek Orthodox Eastern European" regions. In this scheme, Mediterranean Europe, Poland, Hungary, and Croatia all belong to Western Europe (Findlay and O'Rourke, 2007).

The Cambridge Economic History of Modern Europe differentiates between advanced and less developed areas or countries, but, rather than making consistent regional distinctions, it employs a "counterpointing" method of noting differences within a unified European environment. At times it creates categories such as Northwestern European – including, among others, Britain, Norway, and Finland – Southern European – where France, Italy, Spain, Greece, and Portugal are together – and Central Eastern European – with Switzerland, Germany, Austria-Hungary, Romania, Serbia, and Bulgaria in one group – in various tables (see, e.g., Broadberry and O'Rourke, 2007, II, 70). These regions, however, reflect geographical units rather than relatively consistent economic regions.

The regional approach in this book offers a new type of comparative analysis. Regarding the advanced, industrialized West European region, it discusses the industrialization process by differentiating between three main variants: the exceptional British, followed by some others; industrialization based on agriculture and food processing; and industrialization based on the second Industrial Revolution, led by the chemical and electric industries from the late nineteenth century. Although "clear types" hardly exist, this distinction sheds light on major sub-regional differences.

The macro-regions, discussed in separate sections and chapters, are composed of countries and parts of countries that exhibited a relatively similar economic performance and reached a relatively similar economic level at the end of the period under review. Chapter 1 presents the rise of the pioneering early modern development of Northwestern Europe, crowned by the Industrial Revolution; Chapter 2 discusses the West European "core," including the Scandinavian periphery that successfully joined; and the focus of Chapter 3 is on the peripheries with their three different types and levels of relative backwardness. At the two ends of the spectrum, by 1913 the least industrialized regions reached only one-third to less than half of the per capita income level of the most industrialized ones. In the regions that followed the most successful path of modern transformation, 35–40 percent of the active population worked in industry, and 25–30 percent in agriculture, prior to World War I. Other regions, trapped in a dead-end trajectory, exhibited 75–80 percent agricultural employment and only 7–10 percent industrial employment. In the former regions life expectancy increased to fifty years; in the latter ones it was fifteen years less. In the

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former regions, illiteracy disappeared; in the latter, it characterized 70–75 percent of the population.[11]

Countries and regions that followed different paths achieved different levels of modern development. I differentiate between *four primary paths of European economic development that created distinctive regional types*, with different levels of economic advancement, in the "long" nineteenth century (see Map I.1). Each path and type was dominant in a geographical area, though almost none of them were homogeneous geographical units.

The *path of successful modernization and industrialization* predominated in Western Europe, albeit in three distinct ways. "Western Europe" in this sense did not comprise the Irish part of Great Britain and the eastern provinces of a united Germany, but it did include the northern parts of a united Italy and the western Austrian-Bohemian part of the Habsburg Empire. The quite homogeneous Scandinavian region, which exhibited backward peripheral economic characteristics until 1870, was able to join the West on the path of successful industrialization because of its non-peripheral social-political-institutional structures.

Vast regions, however, were unable to progress on the main path of successful industrialization and fell behind. Some of them, those that took *the second path*, were able to attain a certain level of modernization, but they did not become industrialized even though they had developed agricultural-industrial structures and had reached medium income levels compared with the rest of Europe. This development trend was most typical in Central Europe and the Baltic area, but Finland and Ireland also progressed in this way.

Some regions tardily took a *third path* to modern transformation around the turn of the century. Their transformations were very late and painfully partial. While modern transformation began during the last two decades before World War I, these regions were unable to eliminate their pre-industrial economy. The regions on this path remained almost entirely agricultural, only partially modernized, and preserved traditional institutions, illiteracy, and a low cultural level. However, some pockets of a modern economy emerged, which paved the way for future development. Russia, the Iberian peninsula, and southern Italy exhibited this development path in the most typical way.

The *fourth path* turned out to be a dead-end entirely. The regions that succumbed to this were characterized by a total lack of industrialization, with only a semblance of modernization in other sectors of the economy. These regions remained behind by a century, exhibiting the lowest income level in Europe, the most traditional demographic trends, and mass

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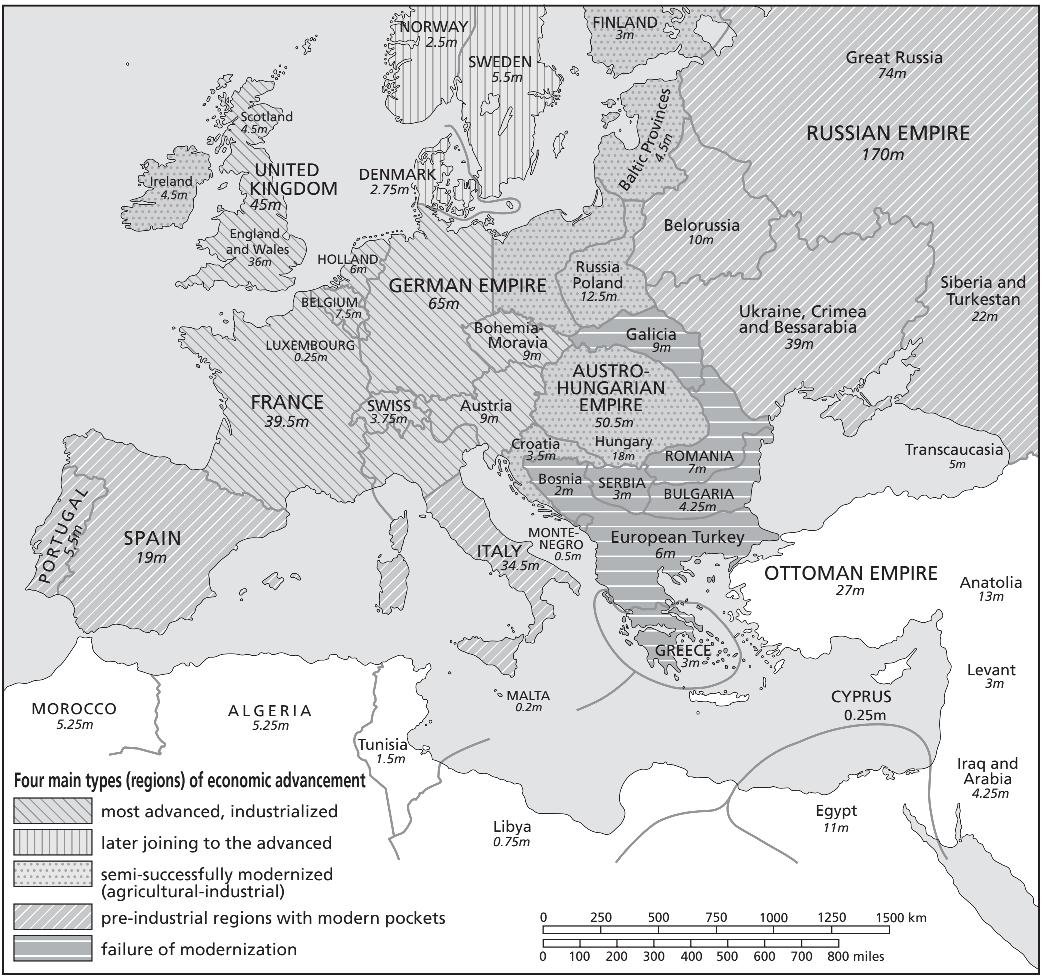

Map I.1 The four main types (regions) of economic advancement (McEvedy, 2002, 37)

illiteracy. This path was dominant in the Balkans and the easternmost and southernmost borderlands of the Habsburg Empire.

The different historical paths and outcomes, and the various development levels, are explained in the context of their past development and the nineteenth-century environment, the level and role of knowledge, culture, behavioral pattern, and the main characteristics of the social-political systems, state activities, and institution-building.

Debates and differences

Covering the economic history of an entire continent over a time-span of more than a century, I naturally confront myriad views and concepts.

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I agree with many and disagree with not a few. This book consequently comprises a number of implicit and explicit debates. Since I am writing for a broader audience, I do not intend to present all of the extensive and, in many cases, unresolved debates that have emerged regarding most of the covered topics. At the given state of research, often a single, simple question is answered in three or four different ways.[12] In my narrative, I will present a view that in many cases incorporates the solid results of previous research, and will mention only some of the debates. In this introduction, however, allow me to review several major conceptual questions that have been subject to debate.

Various paths and regional disparities in nineteenth-century economic performance have caused economic *backwardness*. This is a highly debated historical question. In his seminal work from nearly half a century ago, Alexander Gerschenkron suggests that each European country is somewhat less developed as one goes from the west toward the east and south.

> Few would disagree that Germany was more backward than France; that Austria was more backward than Germany; that Italy 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. (Gerschenkron, 1962, 44)

Based on Gerschenkron's theory that state intervention characterizes countries of severe backwardness, Sidney Pollard discusses in *Peaceful Conquest* (1981b) the separate national cases of the peripheries without classifying them as archetypes. Paraphrasing Lev Tolstoy's famous first sentence in *Anna Karenina* ("All happy families are alike, each unhappy family is unhappy in its own way."), Joel Mokyr expresses the same view: "all rich and successful economies are alike, every economic failure fails in its own way" (Mokyr, 2006, 12). In other words, one cannot generalize economic failures but must discuss each case separately. I disagree. Just as successful economies exhibit certain general patterns and have pursued certain paths to economic success, so too economic failures exhibit certain typical paths and patterns. My regionalization, as briefly discussed above, is thus rather different: based on consistent social-economic development levels, I form three different *types* of backward regions: a few Central European countries, the Baltic areas, Finland, and Ireland are semi-successful by reaching the agrarian-industrial structure and a medium income level within Europe; Russia, Spain, Portugal, and southern Italy remained pre-industrial, but with pockets of modernization; while the Balkan region, together with the borderlands of the Habsburg Empire, failed to modernize or industrialize.

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