

Economic Backwardness in Historical Perspective: A Book of Essays

Posted Thu, 2003-02-13 19:00 by backend

Author:

Gerschenkron, Alexander

Reviewer:

Fishlow, Albert

Project 2001: Significant Works in Economic History

Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: Belknap Press of Harvard University Press, 1962. 456 pp.

Review Essay by Albert Fishlow, International Affairs, Columbia University.

Alexander Gerschenkron: A Latecomer Who Emerged Victorious

Alexander Gerschenkron and his ideas have had, like excellent wine, a remarkable maturing in recent years. Rare is the sophisticated course in political economy that does not assign his model of relative backwardness as a required reading. Rarer still is the doctoral student in economic history who remains uninfluenced by his beguiling hypotheses about the process of historical change within Europe since the Industrial Revolution.

Gerschenkron's Background and Early Career

Fortunately, as a consequence of a wonderful biography, *The Fly Swatter*, by Nicholas Dawidoff, (New York: Pantheon, 2002) his grandson, we know much more about his life than we had previously. Born in Odessa in 1904, he died in Cambridge, Massachusetts in 1978. His early life was eventful. He fled the Bolshevik Revolution with his father in 1920, apparently bound for Paris, but wound up in Vienna instead. The reason was his father's immediate success in finding a position running a turbine factory. There he rapidly learned German, as well as Latin, enabling him to attempt to pass the entrance examination for secondary school within seven months. His failure, only in Latin and geometry, meant he was rejected. That challenge was overcome, months later when he easily gained admission. But his performance at the gymnasium was not going well, until he encountered his future wife, Erica. Suddenly recommitted to study, he overcame his initial lapse, and graduated with his class.

Thereafter he enrolled in the University of Vienna's school of Nationalökonomie in 1924. His early professional career is not recorded in autobiography as was his first 20 years. Indeed, as Dawidoff summarizes it, "he didn't much talk about the period from 1924 to 1938 because that was for him a period of growing frustration and disappointment that culminated in catastrophe."

The University experience was the first of these disappointments. Whatever the strength in economics had been with Bohm-Bawerk, Menger and others who had pioneered in the Austrian school, it was not there in the 1920s. Gerschenkron graduated in 1928, his thesis focusing on Austria's happy future as a Marxist democracy. He married, had a child and took a position representing a Belgian motorcycle firm in Vienna. That was successful, but inadequate. Three years later, he committed himself to politics and the Social Democrats. That ended in

the virtual civil war that terminated the party's existence, and began the process of decline into Anschluss.

Gerschenkron's parents left for England at that time. Four years later, he and his family would exit and join them, and hardly in easy circumstances. But the important novelty, and a decisive point in his career, was the invitation from Charles Gulick, a Berkeley professor whom he had earlier helped in his research in Austria, to come to the United States. His acceptance marked the real beginning of his academic career that subsequently was to flourish over the rest of his life.

But it began equivocally. The finished Gulick book, *Austria from Habsburg to Hitler*, a two-volume work, published in 1948 (Berkeley: University of California Press), was brilliant. There is good reason to credit Gerschenkron's twelve months of continuous research and writing for that outcome. At least Berkeley provided a place for him to return, as he did in September 1939. There he was to stay for only five years before moving on to the Federal Reserve Board. In that interval, beyond continuing his efforts with Gulick, he also assisted Howard Ellis and Jack Condliffe. And he wrote, in long nights of private work, what proved to be his single piece of greatest length, *Bread and Democracy in Germany*, published in 1943 (Berkeley: University of California Press). That book attacked the Junkers for their exploitation of the rest of the German population, and earned him promotion to the rank of Instructor with the opportunity to teach courses. It did not earn him any greater special recognition at Berkeley -- any more than Albert Hirschman's simultaneous efforts there did -- and he moved on to Washington in late 1944.

At the Federal Reserve, he established himself as an expert on the Soviet economy. This was a period when relationships with the Soviet Union became central to the United States, and when there were few others with his knowledge, interest and immense capacity to immerse himself in any and all information. He did well, advancing to head of the International Section, until the decisive moment came in 1948: Harvard offered him a position as a tenured professor, the successor to Abbot Payson Usher. He accepted, and his university career really began.

There were four parts of that career that are relevant. It all began, appropriately enough, with the Soviet Union. At Harvard, Gerschenkron established himself at the new Russian Research Center. In a notable Rand study in 1951, *A Dollar Index of Soviet Machinery Output, 1927-28 to 1937*, he showed that the remarkably high rates of growth of Soviet industrial production owed itself to the index number bias: a Laspeyres index calculated on the basis of 1926-27 weights significantly overstated real expansion. Rapid Soviet growth was not constructed on the basis of false statistics, but rather, inappropriate technique. The "Gerschenkron effect," the difference between calculated Paasche and Laspeyres volume indexes, commemorates his contribution.

Important as the work was at the time, deflating vastly superior Soviet growth, it was not to be the basis of his subsequent fame.

Gerschenkron's Economic History: Understanding Economic Backwardness

His present reputation comes instead from his dedication to European economic history. He

of Harvard economists through his required graduate course in economic history. His erudition and

breadth of knowledge became legendary in its time. Gerschenkron defined an indelible, if unattainable, standard of scholarship for colleagues and students alike.

Backwardness was at the root of his model of late-comer economic development. His hypothesis first took form in a 1951 essay entitled "Economic Backwardness in Historical Perspective." From that brief 25-page contribution to a conference held at Chicago, and later published in *Economic Development and Cultural Change*, were to emerge the central ideas that characterized his subsequent academic career. The essay gave its name to his volume of essays published by Harvard University Press in 1962. It is the opening chapter of that volume, and a significant reason that it was recently selected as one of the most influential works of economic history ever published.

The central notion is the positive role of relative economic backwardness in inducing systematic substitution for supposed prerequisites for industrial growth. State intervention could, and did, compensate for the inadequate supplies of capital, skilled labor, entrepreneurship and technological capacity encountered in follower countries seeking to modernize. England, the locus of the Industrial Revolution, could advance with free market guidance along the lines of Adam Smith. France, beginning later, would need greater intervention to compensate for its limitations. In Germany, the key innovation would be the formation of large banks to provide access to needed capital for industrialization, even as greater Russian backwardness required a larger and more direct state compensatory role.

Gerschenkron's analysis is conspicuously anti-Marxian. It rejected the English Industrial Revolution as the normal pattern of industrial development and deprived the original accumulation of capital of its central force in determining subsequent expansion. It is likewise anti-Rostovian. There were no equivalent stages of economic growth in all participants. Elements of modernity and backwardness could survive side by side, and did, in a systematic fashion.

Apparently, disadvantageous initial conditions of access to capital could be overcome through new institutional arrangements. Success was indicated by proportionally more rapid growth in later developers, signaled by a decisive spurt in industrial expansion.

This model underlay Gerschenkron's extraordinary research into the specific developmental experiences of Russia, Germany, France, Italy, Austria and Bulgaria. Those specific cases, in turn, bolstered his advocacy of a comparative, all-encompassing European structure. "In this fashion," as he wrote in 1962, "the industrial history of Europe is conceived as a unified, and yet graduated pattern."

Over time, and as he read prodigiously and modestly altered the theoretical foundation, the structure of his approach became ever more specific. I summarize it here in four hypotheses:

- (1) Relative backwardness creates a tension between the promise of economic development, as achieved elsewhere, and the continuity of stagnation. Such a tension takes political form and motivates institutional innovation, whose product becomes appropriate substitution for the absent preconditions for growth.

(2) The **greater the degree of backwardness, the more intervention is required in the market economy to channel capital and entrepreneurial leadership to nascent industries. Also, the more coercive and comprehensive were the measures required to reduce domestic consumption and allow national saving.**

(3) The more backward the economy, the more likely were a series of additional characteristics: an emphasis upon domestic production of producers' goods rather than consumers' goods; the use of capital intensive rather than labor intensive methods of production; emergence of larger scale production units at the level both of the firm as well as the individual plant; and dependence upon borrowed, advanced technology rather than use of indigenous techniques.

(4) The more backward the country, the less likely was the agricultural sector to provide a growing market to industry, and the more dependent was industry upon growing productivity and inter-industrial sales, for its expansion. Such unbalanced growth was frequently made feasible through state participation.

The considerable appeal of the Gerschenkron model derives not only from its logical and consistent ordering of the nineteenth- and early-twentieth-century European experience. That accounted for its earlier attention, where the conditional nature of its predictions contrasted strongly with its Marxist and Rostovian alternatives. What has given it greater recent notice has been its broad scale generalization to the experience of the many late late-comers of the present Third World. **His formulation dominates the stages of growth approach because of its emphasis upon differential development in response to different initial conditions.** There is thus the irony of Walt Rostow's demise at the hands of Gerschenkron - does anyone now assign The Stages of Economic Growth? -- when Rostow had been the first choice of Harvard to succeed Usher in 1948.

In Gerschenkron's own hands, his propositions afforded an opportunity to blend ideology, institutions and the historical experience of industrialization, especially in the case of his native Russia, in a dazzling fashion. For others, his approach has often proved a useful starting point for the historical discussion of other parts of the world, such as Henry Rosovsky did with Japan, and others, elsewhere. Always, application of the backwardness approach requires close attention to detail, as well as a quantitative emphasis.

Responses to Gerschenkron's Thesis

The model is, of course, not without its limitations and its critics. History, even of Europe alone, does not in every detail bear easily the weight of such a grand design. In other parts of the world, and in a later time period, larger amendments are frequently required, and sometimes forgotten by current advocates. And somewhat surprisingly, in view of Gerschenkron's own path-breaking essay in political economy, Bread and Democracy in Germany, there is too little special attention to the domestic classes and interests seeking to control the interventionist state. Backwardness can too easily become an alternative, technologically rooted explanation that distracts attention from the state and the politics surrounding it, rather than focusing upon its opportunities and constraints. Ultimately, as well, there are the many developmental failures -- rather than only the successes -- that now loom

failed case, it was not a central part of his theoretical structure. Moreover, important current issues like globalization, the central role of international trade, and education are less significant through much of the nineteenth century in Europe.

Still, the concept of relative backwardness, and Gerschenkron's always insightful and rich elaborations in so many national contexts, represent a brilliant and original approach to economic history that has been perhaps unequalled in the twentieth century. And more recently, with the rise of political economy as a field, his work is widely assigned as required reading. A quick measure of his current influence is the almost 2000 Google references that turn up with the entry of his name.

Gerschenkron's Enduring Influence

His third great contribution came through his students. Dawidoff's *The Fly Swatter*, provides a whole chapter, and more, focused on his role. First, in the 1950s came the students who worked upon the Soviet Union. Then, as his interests concentrated upon economic history, came his direction of the Ford Foundation supported Economic History Workshop at Harvard in the late 1950's and 1960s. His seminar then, and the availability of fellowship support, attracted several Harvard students, and even some from neighboring MIT, to work in the field. Always, too, there were an impressive group of visitors to Cambridge who were invited to speak to the seminar, but never had permanence in its regular activities.

His recruitment techniques were subtle but effective. Economics 233, the course in economic history required of all graduate students, assigned a paper as well as a final examination. That provided a chance for him to assess each student early on through a brief visit to his office. Entry therein was a special occasion: filled as it was with books, journals, documents, maps, etc., it embodied scholarship with a capital S. Few who were recruited could desist, regardless of initial inclinations that were not directed to economic history.

The course was just the introduction. For those who went on in the field more seriously, the regular evening seminar became the focus. There ideas for dissertations were discussed and quantitative techniques evaluated. It was just as the computer was evolving and econometrics was undergoing rapid advance. Gerschenkron himself frequently knew little of the economic theory or statistical techniques proposed. He usually limited himself to a final evaluative comment, and one that either justified further research or implicitly suggested that another topic might be a better eventual choice. That judgment was informed by the previous discussion as well as his sense of the student's intellectual capacity.

Gerschenkron had extremely good judgment or very good luck, or perhaps a combination of both. For the small crop of students who wrote with him over more than a decade went on to leadership as the field of economic history was just changing back from an historical emphasis to an economic one. Cliometrics was the new terminology. Leading universities absorbed his students, who almost always have had productive subsequent careers. Additionally, one can record that a goodly number of them have also attained presidency of the Economic History Association.

It was not his direct dissertation supervision that was responsible. He provided no topic, no suggestion of sources, no regular guidance, no timetable for conclusion. Most of the students chose subject matter far from continental Europe. What these persons gained was proximity to a stellar intellect, and close association with each other as they pursued their research. They also obtained a father figure whom they desperately sought to imitate in their own scholarship and subsequent teaching. Those who survived that complex relationship almost always emerged with deep affection and fond memories, even if the process was far from linear and continuous.

By the mid-1960s, ten of his students, both in Soviet economics and economic history, prepared a Festschrift in his honor. The book, *Industrialization in Two Systems*, was organized and edited by Henry Rosovsky, and published in 1966 (New York: Wiley). Many of the essays are still worth reading. But the dedication, from the Pirke Avot, states their strong feelings perhaps best of all: "The day is short, and the work is great, and the laborers are sluggish, and the reward is much, and the Master is urgent."

A fourth and last relevant observation relates to his general intellect. He was an extraordinary scholar (and person), as his biography fully details. He was an exceptional reader, of good books and bad. In his own writings, his references were varied, and consciously intended to impress: "There was almost always a little Latin, unless there was a little Greek or a little German or a little Russian or a little French or a little Italian; ..." Nor did he exclusively write on economic history. There were his book reviews and other essays, including the one joint work - with his wife -- on the adequacy of the diverse translations of Hamlet's quatrain to Ophelia in sixteen different languages. There were his regular lunchtime performances at the Faculty Club and Eliot House and his interactions with other Harvard scholars. His talents were notable and appreciated: what other economist would have been offered chairs in Italian literature and Slavic studies?

Not surprisingly, upon reaching the mandatory retirement age of 65 in 1969, he was offered a further five years. But those years were not a happy terminus to his long stay at Harvard. The war in Vietnam, and the student reaction, imposed a large cost, as it did to many others who had fled Europe in the 1930s. Long-standing friendships were broken, as with John Kenneth Galbraith. The end of the economic history requirement in 1973 was another major disappointment. Perhaps the greatest one, however, was his inability to publish the great work, the big book that would summarize his brilliant insights into the process of European industrial change, the book that could and would influence political scientists and economists for generations to come. Despite this lapse, Gerschenkron's influence has subsequently blossomed. The collection of essays under review, which opens with the backwardness thesis and closes with appendices on industrial development in Italy and Bulgaria (with reflections on Soviet literature along the way) -- has achieved a hallowed acceptance.

Recent Developments and Gerschenkron's Ideas

The current surge of interest in political economy has brought a second wave of increasing interest in Gerschenkron's insights. As the contemporary world continues to confront the problem of inadequate development, particularly over the last twenty years in Latin America

and greater hope. So does the case of success in Asia.

The rapid pace of development in East Asia, for example, has inspired a whole set of major works over the last fifteen years, seeking to ascertain how a region, apparently condemned to continuing stagnation by religion, language and tradition, could spurt ahead in the 1970s and subsequent periods. Even the recent pause, requiring massive assistance from the IMF and extensive domestic restructuring, has come off with barely a temporary decline.

After all the discussion of major changes supposedly required in the system of international financial flows in the past few years, little has, in fact, happened. The market has continued to distribute something like \$1 trillion, in both capital flows as well as foreign investment, throughout the world. Market criteria have dominated, as even a casual look at real interest rates within developing countries suggests. This has not much altered the pattern of development. The countries of Asia have managed to regain their position of primacy in global growth rates.

With AIDS spreading rapidly throughout Africa, with malaria and other diseases recurring, with environmental degradation threatening, with a demographic transition that will begin to exert the pressure of an aging population, there is no lack of additional new problems that are pressing. On the other side is the reality of declining international assistance from the already developed North.

Failure of economic development to become a global process, as it appeared to do in the 1960s, and for broad convergence in per capita income levels to occur, now constitutes a major intellectual and practical challenge. Should one opt against the pressures of increasing globalization, and return to the industrial protection and import substitution of the past? Should one seek to enhance the role of central direction and decision at the expense of decentralization and private determination? Should one attack the inequality of income and poverty by imposing greater burdens upon the domestic rich and foreign investors? Should one engage in significant land reform? Should one renationalize after the extraordinary privatization that has occurred over the last decade or so?

These new issues are not ones that Gerschenkron explicitly raised. But they are implicit in his efforts to pose the advantages of backwardness. What was an advantage in one historical setting can readily become a disadvantage in another. But the very effort to construct an explicit, and testable, model is what differentiates him from his contemporaries. Shura, as he was better known by those very close to him, is guaranteed a place in the pantheon of economic history.