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Economic Backwardness and the Role of Institutions
An Interpretative Framework

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CONTENT

INTRODUCTION

Our research on developing countries was born out of a genuine interest in the issues they face and a desire to understand how they adapt and overcome economic challenges. We believe that understanding the economic history of developing countries can provide valuable insights into their current situation, and that this knowledge can help inform policy decisions aimed at improving their economic prospects.

To this end, we chose to study the work of Alexander Gerschenkron, a renowned academic and professor of economic history and Soviet studies whose multidisciplinary approach provided a comprehensive and detailed picture of his subjects. Gerschenkron was a multifaceted scholar who wrote on a variety of subjects, including history, economics, politics, sociology, and literature. His work has had a lasting influence on future scholars, and his methodology remains a valuable resource for researchers seeking to gain a deeper understanding of economic history.

In particular, we focused on Gerschenkron's influential work "Economic Backwardness in a Historical Perspective: a Book of Essays," which analyzed industrialization trends in Europe and shaped future research agendas. The book was first published in 1952 as a stand-alone essay, and was later supplemented by 13 other essays until 1962. Through his analysis, Gerschenkron sought to explain why some countries are able to industrialize rapidly, while others struggle to catch up. His work challenged the prevailing view that economic development followed a linear path, and argued that the experience of early industrializers such as Britain was not necessarily replicable in other countries.

In the first chapter of our study, we introduce Gerschenkron and the historical, theoretical, and economic context in which he wrote his book. We discuss his background and intellectual influences, and examine the theoretical assumptions and hypotheses he made in his work. We also consider the historical and political events that shaped Gerschenkron's thinking, including the rise of communism and the two world wars.

In the second chapter, we delve deeper into the key ideas presented in Gerschenkron's book. We examine concepts such as economic backwardness, substitution patterns, the big spurt, and the role of technological borrowing. We seek to elucidate Gerschenkron's thinking on these topics, and to demonstrate how his ideas have influenced subsequent research on economic development.

In the third chapter, we explore the role of society, culture, and institutions in Gerschenkron's framework. We consider how these factors shape economic development, and how they interact with economic policy and technological change. We argue that a multidisciplinary approach is necessary to fully understand the complex dynamics of economic development, and that Gerschenkron's work provides a valuable starting point for such an approach.

In our final chapter, we focus on the New Institutional Economics (NIE), its history, and its correlations with other research fields. The NIE is a branch of economics that seeks to understand how institutions shape economic behavior. We argue that Gerschenkron's work can be fruitfully employed within the framework of the NIE, and that his concepts have important implications for our understanding of economic development. We consider the history of the NIE, and its relationship to other research fields such as political science and sociology.

Our ultimate goal in this thesis is to stimulate curiosity about Gerschenkron's work, and to bring it back to the center of academic debate. We believe that his ideas are still relevant today, and that they have a profound interpretative value, especially for developing countries. By highlighting the multidisciplinary nature of his work, we hope to encourage scholars from a variety of fields to engage with his ideas, and to explore the potential for interdisciplinary research on economic development.

CHAPTER I

Alexander Gerschenkron and the Economics of Backward Countries

1 Introduction to Alexander Gerschenkron's theory

Born in the Ukrainian city of Odesa in 1904, Alexander Gerschenkron was an academic and professor of economic history and Soviet studies who distinguished himself for his eclecticism during his lengthy career and significant impact on future scholars. He has dealt with various topics such as history, economics, politics, sociology, and literature; indeed, borrowing the words of Gootenberg, he was "a highly prolific, eclectic and sometimes rambling writer […]"[1]. This versatility has often emerged in his works, giving life to highly original, intuitive, and brilliant projects. In fact, the great versatility of the naturalized American Russian economist did not stop only with acute hypotheses and insightful intuitions but also conditioned and surrounded his entire methodology, often offering a global picture rich in details and variables. Indeed, it is unsurprising to note that the topics mainly dealt with by the author - the Soviet and Tsarist Russia, the development and role of financial institutions and the industrialisation process of economically backward countries - are deeply imbued with this multidisciplinary approach. The study of European countries around the industrialization process is at the centre of what we can probably define as the milestone of his academic career and undoubtedly one of his most brilliant and influential works. "Economic Backwardness in a Historical Perspective" was published for the first time in 1952[2] in the form of an alone standing essay, and subsequently, starting from that year until 1962, it was enriched by 13 other essays, giving life to what we now know as "Economic Backwardness in a Historical Perspective: a Book of Essays". The importance of this work is underlined by the fact that research goals and agendas were and still are shaped and influenced by Gerschenkron's study of industrialisation tendencies in Europe[3].

[1] Paul Gootenberg, 'Hijos of Dr. Gerschenkron: "Latecomer" Conceptions in Latin American Economic History' in Miguel Angel Centeno and Fernando López-Alves (eds), *The Other Mirror: Grand Theory Through the Lens of Latin America* (Princeton University Press 2001). p. 56

[2] ibid.

[3] Martin Andersson and Tobias Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016) <https://oxford.universitypressscholarship.com/view/10.1093/acprof:oso/9780198737407.001.0001/acprof-9780198737407-chapter-1> accessed 12 July 2022.

1.1 The historical and economic context of "Economic Backwardness in a Historical Perspective"

In the above-mentioned book, Gerschenkron assesses the industrialisation process of various European countries during the 19th century in a comparative fashion depicting them within a precise pattern of "economic backwardness", which ultimately influences and shapes not only their future economic development path but also their institutional and social framework. Industrialization, economic backwardness and the critical role that institutions *can* play are at the centre of a dense plot that Gerschenkron weaves within his book and which, as the pages go on, he deepens and illustrates how these factors are closely related to each other. However, to better appreciate the value of our author's work and approach, it is more than necessary to take a step back and consider the historical context in which the book is written.

1.1.1 The geopolitical and economic aftermath of the Second World War

At the conclusion of WWII, an extensive section of Europe and the globe had been devastated, and a road of development had to be followed. However, as with all major disruptive events, the Second World War had long-term and short-term ramifications that altered many national contexts and, consequently, the overall international scenario. Furthermore, these implications, which we can discern synthetically in a political, economic, and institutional nature, put in motion a series of forces that would have significantly influenced the commercial and geopolitical equilibrium of the world after WWII. These elements resulted in the formation of a number of economically and ideologically diverse geopolitical blocs. As early as 1949, the year the North Atlantic Treaty was ratified, the world could be divided into three distinct groups: the United States-led West, capitalist and liberal; the Soviet Union-led East, socialist and communist, and the rest of the world known as the "third world," which consisted primarily of independent non-ideologically-aligned countries that were frequently classified as developing nations[4] due to their poor economic performance and shallow general development index.

The interaction of commercial and geopolitical issues should be addressed briefly. It is possible to examine the events after WWII from two separate views, economic and political, which, in any case, provide a similar image although originating from different motives. When we examine the political and geopolitical

[4] Future Note: When we use the terminology "developing countries" (or nations), we mean countries with low living standards, poor economic performance, and generally considerable economic deficits. These include Asian, African, Middle Eastern, Latin American, Eastern European, and former Soviet Union countries. The divergence, and hence the differing categorization, stems from the contrast with "developed nations", which include economically advanced capitalist countries such as North America, Western Europe, Australia, New Zealand, and Japan. We will often use other labels to refer to the same groups, such as less developed nations (LDCs) and more developed countries (MDCs). This categorisation is based upon the work of Michael P. Todaro and Stephen C. Smith, *Economic Development* (12. ed, Pearson 2015).

dimensions of the postwar period, we may identify two critical legacies of this watershed event. On the one side, the emergence of ideological blocs, which resulted in escalating tensions culminating with the Cold War era, and on the other, the process of decolonization. The disintegration of European oversea colonies has led to the emergence of new actors on the international stage, each with their own interests. Hence, it is unsurprising that such a massive geopolitical fragmentation may also lead to international fragmentation in trade and commerce.

It is important to remember that commercial fragmentation is substantially the result of two elements that combined led to a substantial slowdown in international trade integration. The first element we can consider is the aggressive diplomatic foreign policies on the part of the West, which almost naturally aimed at creating a clear distinction between the Soviet counterpart and its satellite states. Consider, for example, the 1947 proclamation of the Truman doctrine aimed to "support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures"[5] and the aforementioned North Atlantic Treaty as regards the military sphere. On the other hand, the Export Control Act and Marshall Aid demonstrate the contentious nature on the economic front. The former granted the government authority to control shipments to any country worldwide, not just the East[6]. Moreover, this strategy resulted essentially in an *aut aut* situation since Western countries had to reach a consensus on what goods could no longer be sent to the communist bloc, essentially creating an export blockade, which ultimately aimed at sabotaging any communist economic development[7]. On the other hand, the Marshall Plan has proven to be a tool for influencing and leveraging the economic policies of the adhering nations; in fact, in exchange for financial aid from the US, a series of liberal adjustments geared toward the free market were demanded[8]. Although the goal was to increase economic integration between the US and Europe, such a hazardous step would almost certainly have met URSS' opposition. And so it was. Despite initial participation in the negotiating tables, the Russians soon retired and invited Eastern European countries to do the same. Thus, quoting Churchill, "an iron curtain has fallen over Europe".

The second concurring element in the fragmentation of international commerce was the economic and ideological views of communist nations, most notably the Soviet Union, which guided the countries in its area of influence accordingly. The URSS, and therefore all of the communist bloc's ideologically associated nations, were by definition opposed to free trade or anything that resembled liberal policies; this extended to both commodities and production elements. International economic isolation was a natural result of the mandates imposed by the centrally planned economy and state trade monopolies, utterly disconnected from international commodity and factor prices. Furthermore, the rule of economic isolation remained even within

[5] Ronald Findlay and Kevin Hjortshøj O'Rourke, *Power and Plenty: Trade, War, and the World Economy in the Second Millennium* (Princeton University Press 2007). p.479
[6] ibid.
[7] ibid.
[8] ibid.

the communist block[9] since the Soviet strategy for development focused intensively on the promotion of heavy industry; as a consequence, any labour division, as well as any chance for specialisation and competitive advantage, was prevented from the very beginning. To all this, we must also add the problematic relations with the former allies of the Soviet Union, which further complicated any possibility of trading with the rest of the world. Indeed, the Cold War impeded trade between the East and West significantly. The disagreement would continue to severely constrain East-West business for the next thirty-five years, notwithstanding a drop in tensions after 1954 and a trend toward increasing openness in the 1960s and 1970s. In this light, isolationism appears to be more than a physiological response to a circumstance of great political tension, of which the economic aspect was the most evident symptom. Hence, all considered, the communist block "[…] was a force for world economic disintegration, not integration […]"[10].

On the other hand, if we were to consider the aftermaths of the Second World War from an economic point of view, the overall scenario would not be so different from what we have presented above. Indeed, even if the war's end had nefarious effects on many of the involved countries, it presented a somewhat mixed and much less uniform landscape regarding economic consequences. International commerce undoubtedly suffered a vigorous blow in terms of overall trade contraction; however, as often happens in the face of disastrous situations and circumstances, there are often losers and winners.

Although the overall quantity of post-war trade was far less than before the war, with pre-1938 levels not being recovered until around 1950[11], trading between the individual blocks would have continued if not risen. Indeed, several regions of the world were experiencing notably different economic patterns. For Western European and North American nations, for instance, the end of the war coincided with a gradual shift toward liberalisation and increased openness. All of this starkly contrasts with what was occurring in the world at the time. In the decades after World War II, however, the Atlantic economy was partially re-established. Governments successfully limited labour migration, but they could not properly restrict the flow of foreign capital; hence, the recovery was only partial. Despite being a pale replica of the global economy prior to 1914, the inclusion of the world's most developed economies made this an essential starting point. Nonetheless, the unique nature of this tendency is demonstrated by the fact that this process of increased liberalisation mostly included the Western bloc, with a few "anomalies" in other regions. In fact, Sachs and Warner[12] remark that eight other economies were constantly open during the time (Barbados, Cyprus, Hong Kong, Malaysia, Mauritius, Singapore, Thailand, and Yemen) and five other economies had liberalised by 1970. (Indonesia, Japan, Jordan, South Korea, and Taiwan). Even if some of these countries were small and had a negligible effect on the global economy, the Southeast and East Asian economies mentioned constituted substantial deviations from the protectionist norm of the time. Indeed, the East Asian process and the results these

[9] ibid.
[10] ibid. p. 478
[11] ibid.
[12] Cited in ibid. at p. 492

countries will eventually achieve have seriously challenged conventional development thinking. More specifically, many authors discuss whether or not these countries followed a "Western" model, or allegedly some variations of it, or whether they pursued a unique strategy that emphasised East Asian specificities. That is still up for discussion[13].

So far, it is pretty clear that aside from the "liberal" trend characterising the Wester block, the rest of the world resented harshly from the international trade fragmentation. As stated earlier, it is possible to ascribe this outcome, on the one hand, to foreign and economic policies at least divisive by the West, whereas, on the other hand, the conscious process of isolation from the international market of the communist economies is undoubtedly another factor to keep in mind. However, a third cause should be mentioned: decolonization. Furthermore, it is crucial to highlight that the attitude adopted by these new players on the world stage in terms of economic policies is most likely and to a considerable degree affected by the international political and economic conditions that existed at the time they emerged on the scene.

According to Findlay and O'Rourke, the collapse in British and French economic and military strength throughout the war significantly affected the loss of both nations' colonies. Moreover, the occupancy of their colonial possessions has contributed to a deterioration in the imperial reputation of these nations[14]. A noteworthy element to keep in mind is the role played by nationalism in these circumstances since the nationalist success in one country could and would inspire more revolts in other countries as well as different continents. Hence, nationalism is probably a relevant element to remember when considering the policies implemented by these newly independent countries.

A first factor to explore, and one that might help explain why these newly independent nations have decided to pursue particular policies, is the nationalistic component, more precisely, the desire to assert their own newly gained identity and independence. This newly discovered sense of nationalism has likely driven economic policies that prioritise their own particular countries. In practice, this translates into a series of protectionist and non-liberal policies aiming to boost their production and industrial capacity. Although this is not a universally applicable idea, it is probable that this newfound sense of nationalism has fueled this trend. Moreover, any argument in favour of an international market and economic integration, especially from a liberal perspective, would have been challenging to support fully; particularly if considered that World War II was the third economically significant event that shook the world in the first half of the twentieth century – the other two being the Great War and the Great Depression of the 1930s. This consideration appeared to be even more true for countries that specialised in producing primary commodities. Hence, it is pretty reasonable to understand why a not-so-assuring international economic environment, combined with a nationalism-fueled

[13] For a better grasp of the topic please see Christer Gunnarsson, 'Misinterpreting the East Asian Miracle—a Gerschenkronian Perspective on Substitution and Advantages of Backwardness in the Industrialization of Eastern Asia' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016)
[14] Findlay and O'Rourke (n 5).

ideology, led to highly protectionist and essentially inward-looking economic policies. However, there is more to this story. Several newly independent countries chose to introduce their own currency as well, thus further fragmenting international trade since monetary disintegration also entails trade disintegration. In essence, on the one hand, developed countries' willingness to hold back, or at least limit, capital outflows as much as possible, and on the other hand, third-world countries' monetary fragmentation and protectionist policies have created a situation of quasi-immobility in terms of international capital, preventing, therefore, international investments, loans, and so on; at least until the early 1970s[15].

Nevertheless, the interpretation and understanding of policies directly attributable to third-world countries are only half the story. The other half is constituted by the international circumstances into which these countries enter. Indeed, as cited in Findlay and O'Rourke[16], Sachs and Warner highlight how wartime inflationary finance ultimately led to adverse international macroeconomic circumstances creating a further impediment to trade besides the new political and monetary barriers. However, to understand the bigger picture, some institutional elements must be taken into account. Alongside the war's lingering effects on political economy choices and macroeconomic imbalances and broader ideological and nationalist trends, some choices made by international institutions also contributed to this convoluted global environment. When the International Trade Organization (ITO) collapsed in 1994, the General Agreement on Tariffs and Trade (GATT), signed in 1947 as part of the ITO, became the framework under which nations' economic policies would be managed for almost half a century. Its primary objective was to promote cooperative and win-win agreements to lower trade obstacles such as tariffs significantly. Despite these intentions, the signatory members of the GATT accepted the idea that developing countries could have economic growth without the golden rule of economic openness; thus, Third World countries obtained an exemption from the obligation of free trade, which instead fell to the developed countries stringently. The effects of the Bretton Woods system are another critical factor to consider, which is also related to the monetary fragmentation debate outlined above. In particular, the decision to prioritise monetary independence and fixed exchange rates has further fragmented and immobilised international financial markets. This was a situation that was far from ideal for developing countries. The immobility of global capital meant a lack of investments that had to be made up for through public funding, which, however, would have led to an increase in national inflation. In order to halt the inflation rates, it was necessary to raise interest rates, resulting in an appreciation of the currency, which would eventually complicate exports, provoking a loss of international competitiveness and essentially causing a deficit in the trade balance.

In conclusion, the economic aftermath of World War II, as well as all of the other elements discussed above – nationalism, ideology, political divide and mounting tension, macroeconomic imbalances, capital market immobility, and contradictory or unfortunate choices by international institutions – resulted in an international environment characterised by two distinct trends, particularly from the perspective of third-world

[15] ibid.
[16] ibid. p. 484

countries. On the one hand, rich and developed nations gradually and systematically implemented liberal policies, attempting to enhance economic integration via new institutions and economic agreements. On the other hand, the new and complex challenges that development posed to newly independent countries, particularly the turbulent international political and economic environment, eventually resulted in a highly inward-looking trend that essentially brought developing countries relatively closed to international trade. According to Findlay and O'Rourke, the developing nations' "[...] move away from open markets reflected systemic tensions in the world economy, rather than a series of country-specific events."[17]. This conclusion is an essential factor to remember since it is the foundation of several ideas and prospects of Development economics that will significantly impact the development path of these nations up to the 1980s and 1990s. Indeed, this general scenario of considerable uncertainty, financial closure, and openness in various regions of the globe persisted until the 1980s, when a fresh wave of reglobalisation started to rekindle worldwide economic integration.

1.1.2 The birth of Development Economics

In this section, we shall attempt to describe some of the numerous schools of thought that emerged between the postwar years and the start of the reglobalisation movement in the early 1990s. After outlining the historical background in which Gerschenkron approaches his work, we will try to contextualise the most common theoretical approaches to the development issue. We feel this is a critical process because, in complete accord with De Janvry and Sadoulet, "schools of thought are deeply rooted in the social conflicts of the historical periods in which they emerge and are applied. It is a huge and frequent mistake to critically assess schools of thought out of context, thereby constructing a paper tiger all too easy to belittle and dismiss."[18].

As we have seen in the section above, the consequences of the Second World War were miscellaneous, complex, and highly interrelated. With the appearance of newly independent countries, ideological and economic blocks and intercontinental trade uncertainty, different and various challenges arose for developed and developing countries. In the face of new problems and challenges, new solutions certainly had to be found. Indeed, LDCs had to deal with several fundamental difficulties, such as making the best use of limited resources and ensuring long-term development. Moreover, inefficiencies such as imperfect markets, inadequate consumer information, and structural economic shifts created various equilibria within domestic markets targeting demand and supply, altering, therefore, the outcoming price[19]. In fact, multiple equilibria are undesirable since they often produce inconsistent results in which prices do not reflect the natural

[17] ibid. p.485
[18] Alain De Janvry and Elisabeth Sadoulet, *Development Economics: Theory and Practice* (Routledge 2016).
[19] Todaro and Smith (n 4).

combination of demand and supply, generating negative externalities that eventually hinder or even prohibit economic progress[20]. In response to these concerns, a growing number of development studies have focused their attention on how economically backwards emerging countries may catch up[21]. Indeed, various scholars[22] place the birth of Development economics as a branch of study in its own right in the years immediately following the Second World War. However, on this point, it is important to open a little parenthesis.

Although Development Economics is a sub-discipline of Political Economy, which is a sub-discipline of traditional[23] economics, and although this discipline was quite circumstantial at the beginning since it was born to aid in the reconstruction of war-torn countries and the formation of new states from former colonies[24], its tradition can be traced back to the dawn of classical economics. Indeed, development economics and classical economics used to go hand in hand. Several writers exploring this area were interested in themes that addressed growth as a multidimensional factor. Indeed, Sen claims that development economics cannot be separated from the rest of economics, especially in the early stages, since so much of economics was, in reality, involved with economic development concerns[25]. Interest in development issues has historically been one of the most compelling reasons for studying economics in general[26]. However, over time, these two disciplines that formerly shared a similar ground began to diverge, and classical economics took centre stage. On the other hand, interest in development theory would nearly fade out until the theoretical boom of the 1940s and 1950s. As interest in this field resurfaced after WWII, many linkages to the past were lost, misplaced, or relegated to separate categories. Lewis contends that much of current development theory was already accessible in 1776, the year Adam Smith published "The Wealth of Nations", but that the split between the two disciplines occurred later, partially because:

> "[…] the writers of the seventeenth and eighteenth centuries are often disparaged for being confused and confusing. Much of this is due to misuse of words, as in treating as synonyms for wealth: money, gold, treasure, balance of trade, and balance of payments. With hindsight it is easy to recognize anomalies of language, and to correct for them. We can also deal with misunderstandings due to changes in institutional backgrounds. With

[20] ibid.
[21] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3).
[22] Michael P. Todaro and Stephen C Smith, *Economic Development* (12. ed, Pearson 2015); Amartya Sen, 'The Concept of Developement' in Hollis Chenery and T.N. Srinivasan (eds), *Handbook of Development Economics*, vol 1 (1st edn, North Holland 1988); W Arthur Lewis, 'The Roots of Developement Theory' in Hollis Chenery and T.N. Srinivasan (eds), *Handbook of Development Economics*, vol 1 (1st edn, North Holland 1988).
[23] Traditional economics is an approach that focuses on efficient least-cost allocation of scarce resources, optimal growth, and expansion of goods and services. It prioritizes utility, profit maximization, market efficiency, and equilibrium determination.
[24] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3).
[25] Sen (n 22).
[26] ibid.

> such adjustments eighteenth-century economics was surprisingly advanced."[27].

In light of this consideration, i.e., there is a pre-existing link between classical economics and development economics, it seems less surprising to us that the early writings in development economics concentrated to a large extent on ways to achieve economic growth, focusing specifically on highly quantitative and economic indicators. Indeed, development was primarily viewed economically, zeroing in on boosting measures such as the gross national product (GNP), real per capita gross national income (GNI), industrial or manufacturing output, and total employment. The theoretical tenet was that strong GDP and per capita GNI growth rates would initiate a positive feedback loop which would involve all layers of society; the positive spill-over effect would result in additional jobs, investment possibilities, and better wages, generating more ideal circumstances for the more extensive distribution of economic and social advantages of growth[28]. Basically, if we have to talk about development, it must be done in almost exclusively economic terms as only by acting on these dimensions (GNI, GNP etc.) will it be possible to satisfy, first, and expand the demand and then the internal supply. The economic dimension of development is the only one to consider.

1.1.2.1 Structuralism

So, once these fundamental historical and theoretical foundations have been explained, we may better concentrate on the succession of schools of thought in development economics. Of course, shedding light on these aspects serves a dual purpose: on the one hand, it allows for a better understanding of the historical, economic, and theoretical context into which Gerschenkron fits, and on the other, it helps assist us in identifying more clearly its peculiarities and thereafter appreciating the thought, which we will explore later.

The "pioneers" of development economics – Paul Rosenstein-Rodan, Harvey Leibenstein, Ragnar Nurkse, Albert Hirschman, Raúl Prebisch, Hans Singer, and Gunnar Myrdal[29] – addressed the development issues faced by LDCs through an approach known as "Structuralism". The so-called Prebisch-Singer thesis is the primary consideration and hence the theoretical starting point that would have impacted not just the Structuralist school of thinking but also other theoretical models[30]. The idea was that Third-world nations would have to sell more of their primary commodities[31] to maintain their import levels from the first world over time. Furthermore, exports must be increased even more if they wish to raise imports. The phenomenon that explains this trend was labelled by the authors as declining terms of trade (ToTs). In a nutshell, the

[27] Lewis (n 22). p.28
[28] Sen (n 22); Todaro and Smith (n 4).
[29] De Janvry and Sadoulet (n 18).
[30] Susan Engel, 'Development Economics: From Classical to Critical Analysis' in Susan Engel, *Oxford Research Encyclopedia of International Studies* (Oxford University Press 2010).
[31] e.g., products from fishing, mining, forestry, and agriculture.

explanation was that in competitive primary product marketplaces, there tend to be very few collusion opportunities, which, on the other hand, is much more common where capital tends to be more concentrated, i.e., industries. As a result, prices will grow more rapidly in highly industrialised nations than in less industrialised ones. Indeed, even if prices tended to rise more slowly, which, by the way, is detrimental to LDCs since it cuts profit margins, this did not equate to an increase in the volume sold; in fact, demand for primary products, such as agricultural items, does not tend to grow with wealth – whereas the demand for manufactured goods rises with income[32]. Furthermore, since the primary product's market is highly competitive and suffering from deteriorating ToTs, prices for these low-value-added items seemed to be prone to destabilising price volatility. High levels of price volatility may result in several unnatural equilibria, which, as we have seen, are a significant source of market inefficiencies and negative externalities. Finally, worsening ToTs are also at the root of long-term negative repercussions, most notably the rising technological gap between rich and poor countries. This may be related to the fact that creating primary commodities does not entail a manufacturing process that may encourage industrial output, depriving them of the favourable externalities associated with industrialisation. The worse outcome of developing nations' inability to alter direction, namely their insistence on basing their economies on the sale of primary goods, would have been increasing overall impoverishment[33]. Indeed, Prebish and Singer[34] believed that developing countries should most certainly avoid specialising in primary products. Because of these influential considerations, various schools of thought from the early 1950s and 1960s were concerned with industrialisation and structural shifts. As a matter of fact, it became clear that the only way out of the deteriorating ToTs' bind was to alter the structure of economic production profoundly. And here, we return to all the previously described variables that led, on the one hand, to protectionist policies and, on the other, to the necessity to initiate a swift industrialization process.

Bearing in mind the highly fragmented and unstable international political and economic scenario, the LDCs had to find new strategies to start a consistent process of industrialization. Behind the choice of these policies, there are not only calculations based on international circumstances but also purely national evaluations. In fact, consider that "the very fact that these were newly independent states seems to have fostered a belief that the state should assert its independence by actively pursuing "state-led industrialization" policies that were inevitably inward-looking."[35]. Although we have previously mentioned these elements in painting the post-World War II context, we want to emphasise them again because they help us understand that, on the one hand, what has delineated the international fabric after the war is a two-way movement that originates both in the international community – thus from the top down –, but it also arises from direct choices of developing countries – thus from the bottom up. Returning to this issue, on the other hand, helps us better appreciate why the earliest version of development economics selected this strategy rather than, say, a more

[32] Engel (n 30).
[33] ibid.
[34] Cited in Findlay and O'Rourke (n 5). p. 484
[35] ibid. p. 484

liberal or, at the very least, a less protectionist one. This consideration, in our judgement, is important because it explains why much of the literature of the time was concerned with the challenge of industrialization. Finally, we argue that only by studying these unique conditions can we understand why, in the first place, the idea of development, in *sensu latu*, was inextricably related to economic and industrial progress.

As a result of their distrust of market incentives, structuralists approached the necessary structural transformation[36] from a position of scepticism. To some extent, Keynesianism probably affected their thinking, particularly given its pivotal role in bringing the 1930s Great Depression to an end. However, in terms of governmental interventionism, they have been more "extreme." We feel that this expectation is particularly apparent, specifically when we study some of the major theoretical points of this school and, most importantly, when we evaluate the policy consequences. Indeed, as previously discussed, the theoretical starting point was the notion that economically underdeveloped nations, which rely primarily on exports but have as a side effect worsening ToTs and all that follows, could accelerate the process of industrialization by encouraging and diversifying domestic production toward capital goods and consumer durables[37]. Large-scale industrial investments were necessary to accomplish this crucial transition, notably capitalising on scale economies' positive externalities. On the other hand, making the required changes was no simple matter. Indeed, some *structural* rigidities – thus the term structuralism – distinctive of economically underdeveloped nations would stymie the progress of industrialisation, according to the structuralist viewpoint. As a result, self-sustaining growth would be difficult without greater government interventionist measures. Unquestionably, one of the pillars of this strategy was the need for the state to supervise and coordinate economic growth and resource management. This led to the belief that tighter government controls were needed, particularly over inputs and outputs, investments, and public investment in large-scale projects in basic industries. It also led to significant protection through direct restrictions (such as licencing) and high import-tariff barriers. Hence, import-substitution industrialization (ISI) policies have been a natural outgrowth of the previously mentioned premises – the need for state-led development and inward-looking policies, as well as the assumption that growth may occur without openness. A final worth mentioning note is the fact that in these first years of development economics, i.e., the '50s and the '60s, agriculture was taken for granted, and the dominant focus usually was on rapid industrial development. In retrospect, this assumption will prove to be a severe short-sightedness as regards its development strategies.

Historically, the structuralist approach had its apogee immediately after the Second World War, from 1950 to the end of the 1970s. In fact, in the early 1980s, based on experience, the process was seen as "growth

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[36] As a rule of thumb, henceforth when we use this phrase in the future, we shall infer la Escosura's great definition. That is to say, "a structural transformation consists of a set of changes in the composition of demand, production, trade, and employment, each reflecting different aspects of shifts in resource allocation that takes place as income levels rise. Thus, a development pattern may be defined as any systematic variation in the economic and social structure associated to a rising level of per capita income." (p.3) . This is especially true when applied to Gerschenkron, since we feel these characteristics are present in him, although in an indirect manner.

[37] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3).

without development"[38], and as such, it proved to be a model of transient rather than persistent catch-up in most regions of the developing world. Nations that embraced this strategy often underwent a rapid growth cycle, fuelled by large-scale investments and followed by extensive periods of stagnation and repeated crises. The end outcome was a failure in all aspects of development universally. This was because growth was prioritised over development, so expansion happened without any corresponding development taking place simultaneously[39]. Nevertheless, today, looking back to the 50s, 60s and 70s, "some economists referred to this period as the 'lost decades' for developing countries"[40].

1.1.2.1.1.1 Import-substitution industrialization

The policy prescription for catch-up, encapsulated by the import-substitution industrialization (ISI), advocated for State-involved nurturing of newborn sectors through protective measures such as tariffs, quotas, and multiple exchange rates. State intervention was necessary to create institutions such as financial restraints, resource price distortions and administrative allocation of resources to mobilise substantial amounts of capital to develop large-scale manufacturing industries, as in the advanced countries[41]. Engel argues that ISI policy prescription was driven by the need to access foreign capital and the subsequent necessity on behalf of the state to manage and adequately use these resources[42]. Developing nations viewed ISI policies as an opportunity to create an internal market leading to economic growth and self-sufficiency. The state is leading economic growth via nationalisation, subsidies for manufacturers, higher taxes, and highly protected trade regulations[43]. Indeed, the general *ratio* was that foreign investment would be attracted while economic diversification would be facilitated via the implementation of ISI. The goal of the ISI was to assist local manufacturers in competing against foreign competitors with superior technology, benefiting from economies of scale and forming a more educated and experienced workforce. In terms of the foreign market, the objective was to have an overvalued currency to retain the money at home. The decision to maintain an overvalued currency made perfect sense because an overvalued currency makes it easier to import goods from other countries and ensures political stability by allowing the import of basic goods that the receiving government may be unable to produce or produce in sufficient quantities. This prevents demonstrations from taking place due to the scarcity of this product. However, there are also some relevant drawbacks to maintaining an overvalued currency. First, it may hurt or reduce national export because of the higher cost of the currency. Moreover, due to their artificially

[38] ibid.
[39] Justin Yifu Lin, 'The Latecomer Advantages and Disadvantages A New Structural Economics Perspective' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016).
[40] ibid. p. 53
[41] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3); Lin (n 39).
[42] Engel (n 30).
[43] James H Street and Dilmus D James, 'Institutionalism, Structuralism, and Dependency in Latin America' (1982) 16 Journal of Economic Issues 673.

low value relative to domestic alternatives, imports deter investment and employment in areas that might produce locally to counteract their influence. With an overvalued currency, it becomes more difficult for foreign investors to acquire assets like land, factories, and so forth since foreign monies are worth less in local currency than they would otherwise be[44].

Regarding policy prescriptions, the government should steer foreign investment to certain areas, force international investors to work with local partners, and provide concessional foreign currency or loans to domestic firms. At the end of the day, however, ISI did not revolutionise the economy's structure or only impacted a few sectors; competition led to complaints about poor quality, low productivity, and corruption, and ISI did not generate as many jobs as projected; and it often overlooked rural development[45].

1.1.2.2 The shift in the concept of development in the 1970s and the Washington Consensus

The ISI approach experienced substantial success from the 1930s through the 1950s, resulting in a noteworthy increase in economic growth rates[46]. With the aftermath of World War II and the advent of newly independent nations, several LDCs were able to accomplish their economic development targets, reporting strong per capita income growth rates in the 1960s and 1970s. Despite these accomplishments, the bulk of these nations' inhabitants' standard of living has remained unchanged, with employment, equality, and real incomes for the poorest 40% of the population either stagnant or deteriorating[47]. This sowed dissatisfaction among economists who had previously pushed for adopting the ISI strategy in developing countries. By the mid-1960s, it was evident that the ISI approach alone was insufficient to provide sustained and inclusive economic development. To reach a greater quality of living for everybody, a more comprehensive and integrated strategy that addressed industrial growth and social and institutional aspects were required.

Presumably, the massive famines that struck India during the 1960s, among other things, changed the perspectives adopted so far as regards development. More specifically, the idea that industrial investments were the central pivot on which to rest and around which to build a growth path, thus leaving out other sectors such as agriculture, for example, was revised. This conception was a legacy of the Harrod-Domar model. Indeed, according to this model, structuralist growth may be conceptualised as seeking and saving the greatest output-per-unit-of-capital-productive technology, accumulating capital in industry, and accelerating toward industrial take-off. In order to fund urban businesses, agriculture was obliged to give financial surpluses through coerced deliveries, inexpensive food programmes, and direct taxation. There was no need to increase agricultural production to feed urban workers because of the abundance of farm labour. Those who remained

44 Engel (n 30).
45 ibid.
46 ibid.
47 Todaro and Smith (n 4).

on the farm could maintain production, assuring low-cost food and low nominal wages for city workers[48]. But clearly, this was not the case. There was indeed a contradiction in rather apparent terms, which underlined a disconnect between the theoretical approach and reality. In fact, those impressive growth rates achieved by LDCs during the 1950s and 1960s were, according to the previous definition of development they were indeed developing; however, as poverty grew, so did unemployment and inequality, as well as the fast relocation of individuals from the rural areas to the cities, forming urban slums[49].

Despite structuralists' hopes, the first twenty years of structuralist policies have demonstrated that economic growth and development are not directly proportionate; additionally, growth's beneficial effects have not triggered rapidly enough the needed positive spill-over to lift the most marginal states of society out of poverty. In this regard, the data presented by Littel et al. [50] completely refuted structuralist assumptions. The study examined the postwar experiences of seven developing nations and found that ISI was unfavourable primarily because it did not follow countries' inherent comparative advantage and partly because the bureaucratic capacity to administer ISI was restricted appropriately[51]. Throughout the 1970s, a significant shift in how development should be seen occurred. For instance, the definition of development deepened significantly throughout those years. Indeed, economic progress must take into account concerns such as poverty, inequality, and unemployment. Consequently, the idea of development becomes more complicated, integrating factors such as quality of life and access to fundamental human requirements such as health and education; economic growth could no longer be the sole purpose of economic development[52]. As a result of this period, economists have realised the importance of improving the quality of growth to reduce poverty (by creating jobs, supporting smallholder farming in integrated rural development programmes, and fostering competitive small and medium enterprises)[53], as well as the importance of empowering the state to provide public goods for basic needs and to establish social safety nets for its citizens.

The approach to economic development programmes shifted substantially in the early 1980s. Indeed, in light of the "growth without development"[54] backlash that structuralist countries were experiencing, some believed that the various artificially imposed distortions upon the market for the pursuit of development recommended by the structuralist method were not the appropriate "recipe" for catching up. Although many more factors may be found – such as the one mentioned above – this shift in pace can be simplified to two aspects for the sake of simplicity and what we are concerned about. On the one hand, the ISI's previously recognised flaws became considerably more apparent, with at least noticeable consequences for the respective national economies. Incomes in export-oriented sectors (such as agriculture) fell while revenues in import-

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[48] De Janvry and Sadoulet (n 18).
[49] Todaro and Smith (n 4).
[50] Ian Little, Tibor Scitovsky and Maurice Scott, 'Industry and Trade in Some Developing Countries: A Comparative Study' (1975) 39 Science and Society.
[51] Engel (n 30).
[52] Todaro and Smith (n 4); De Janvry and Sadoulet (n 18).
[53] De Janvry and Sadoulet (n 18).
[54] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3). p. 7

competing sectors (such as manufacturing) increased due to ISI policies, which often had distributional consequences[55]. Because state-owned enterprises never became profitable under ISI policies, governments that adopted them have faced budget deficits[56]. Moreover, since national manufactured goods were not competitive in international markets, and because the agricultural sector (which was competitive in global markets due to lower labour costs) was weakened, they ran current account deficits and had to import more[57]. On the other hand, the second factor that dictated the necessity for a new paradigm to handle the issue of economic growth was the Latin American debt crisis in the early 1980s. Many saw the 1982 crisis as the ultimate evidence of ISI policies' ineffectiveness, especially when contrasted with the quiet triumphs of the East Asian Tigers, who had already moved to EOI policies at the start of the 1970s[58]. Since it was the State that had caused the imbalance both internationally – the balance of payments – and internally – inflation and budget deficits – the answer was no longer state interventionism. Indeed, several countries that introduced them after WWII abandoned ISI policies in the late 1980s. They elected to minimise the government's economic interference and became active WTO members[59].

The change in strategy from earlier policies was (neo)liberalism. As previously stated, the neoliberal success among policymakers largely owes to the historic confluence of the 1970s oil crises and the 1980s debt crisis. Confidence in structuralism started to fade, whereas apparently, there was some truth in neoliberalism. Of course, as regards the success of the neoliberal approach, there are also elements of a more political nature, such as the election of President Regan in the United States (1980, the first term; 1984, the second) and that of Prime Minister Margaret Thatcher in the United Kingdom (1979). However, we limit ourselves to mentioning them and placing them in the general framework, as this is not the right place to explore these issues further. Nonetheless, it is correct to state that parallel to those years' financial crises, Regan and Thatcher's election was a sort of international legitimation of the neoliberal approach. Indeed, historical considerations must not be neglected since neoliberalism should not be seen as a development paradigm but rather as a crisis response to the cumulative impacts of unsustainable disequilibrium in the past.

The neoliberal approach based its policy recommendations on the arguments of gains for free trade by turning back to the Smithian and Ricardian heritage[60]. The spirit of the neoliberal approach to the development question, and therefore the spirit of the policies to be implemented, was ingrained in the Washington Consensus policy package[61]. The policy package did not spring out of anywhere but rather was the culmination of a couple of years of work between the president of the United States, the US Treasury, the World Bank, and the IMF[62]. The 1982 crisis served as a litmus test for these ideas since the conditionality of loans issued

[55] Thomas Oatley, *International Political Economy* (Routledge 2018).
[56] ibid.
[57] ibid.
[58] Engel (n 30).
[59] Oatley (n 55).
[60] Ben Selwyn, 'Trotsky, Gerschenkron and the Political Economy of Late Capitalist Development' (2011) 40 Economy and Society 421.
[61] Lin (n 39).
[62] Engel (n 30).

was the primary means of implementing these new political changes[63]. As the emphasis shifted back to accelerating growth, as in the 1950s, since the debt crisis and recession hampered growth and exacerbated poverty, the implication of the Washington Consensus was a return to liberalism and the beginning of a reglobalisation process. In fact, the principles around which the Washington Consensus revolved were (1) fiscal conservatism, (2) financial deregulation, (3) trade liberalisation, (4) FDI deregulation, and (5) privatisation of state-owned firms[64]. From an ideological and methodological point of view, the Washington Consensus was diametrically opposed to the thought that had characterized the previous decades; in fact, among the ten cardinal principles of neoliberal politics, each is in clear opposition to the structuralist prescriptions[65]. Indeed, neoliberalism recommended that low- and middle-income countries adopt the "idealised" market institutions of high-income countries[66]. These "idealised" market institutions include establishing a robust property rights system, increasing private ownership and restoring balance in the economy's macro fundamentals. However, the policy package envisioned in the Washington Consensus had significant shortcomings that would quickly become apparent. One of these reforms' major flaws was their short-sightedness. The overemphasis on macroeconomic issues meant that the effect of these policies on diverse sectors of the economy and the institutional changes required to execute them were disregarded. Because there was no overarching consideration, the Washington Consensus became a collection of policies better suited to economic stability instead of economic development[67]. For example, not considering the institutional costs of an extensive privatisation process implies going on a series of austerity measures that may be socially too costly to bear if adequate social security funds are not available to support them. Another issue was that there could not be a "lite" version of these reforms since, as the Asian financial crisis of the 1990s revealed, partial implementations of the Washington Consensus could not maintain growth.

Indeed, even if the arguments and recommendations proposed by the neoliberals seemed grounded, slower rates of economic progress and more frequent financial crises were seen in developing nations under neoliberal policies than under structuralist approaches in prior decades throughout the 1980s and 1990s[68]. For instance, due to neoliberalism, many sub-Saharan nations were worse off by the end of the 1980s and even the 1990s[69]. The failure of neoliberal approaches to alleviate poverty in Sub-Saharan Africa, along with the new development challenges posed by former USSR satellites, showed that innovative solutions were required. With these premises, in the late 1990s, within development economics emerged a new strand known as New Institutional Economics (NIE). Over the last decade, NIE has significantly impacted development economics and has been connected with a set of post-Washington Consensus policy recommendations[70].

[63] ibid.
[64] De Janvry and Sadoulet (n 18).
[65] Lin (n 39); De Janvry and Sadoulet (n 18); Engel (n 30).
[66] Lin (n 39).
[67] De Janvry and Sadoulet (n 18).
[68] Lin (n 39).
[69] Engel (n 30).
[70] ibid.

1.1.3 Gerschenkron's approach to industrialisation

Although we considered a longer time frame than our focus, i.e., the year of publication of the book subject of this first chapter, it was nonetheless a necessary premise for two reasons. On the one hand, to better understand the political, historical, and economic *humus* that shapes and deepens the theoretical and practical approach to development, especially for LDCs. On the other hand, most importantly, to better grasp the general circumstances in which the book was written. Finally, all of this was necessary as we deeply agree with Sylla and Toniolo's statement that "Gerschenkron can be fully appreciated as a pathbreaking scholar only in the historiographic context of his time."[71]. Ultimately, the two schools of thought on which we focused mainly and described above still reflect the state of the art as far as this matter is concerned[72]. Keeping these two approaches in mind, as well as the differences in thinking between these two macro schools, will be especially beneficial in the second chapter when we concentrate on the NIE and Acemoglu and Robinson's publications.

As previously stated, "Economic Backwardness in a Historical Perspective" attempts to comprehend the industrialization processes of different European nations in light of the author's supposed pattern of economic backwardness. Gerschenkron's investigation, in particular, may be divided into two halves. First, he was interested in investigating the historical process by which developed nations achieved industrialisation. Second, he attempted to understand how the industrialisation process might occur in backward countries by stressing and isolating specific components he believed were crucial. The most attentive observers will indeed not have escaped the apparent paradox of inserting Gerschenkron into a thesis whose guiding field is Development economics. In fact, we would like to underline immediately that Gerschenkron is not to be considered a development economist. Alexander Gerschenkron was an economic historian, "[…] one of the titans of economic history […]"[73], who was concerned with the empirical analysis of historical reality. Indeed, history in his observations is the first element to take into account and the starting point of his methodology for approaching the industrialisation issue. For instance, in the very opening pages of the book, he declares that:

> "Historical research consists essentially in application to empirical material of various sets of empirically derived hypothetical generalizations and in testing the closeness of the resulting fit, in the hope that in this way certain uniformities, certain typical situations, and certain typical relationships among individual factors in these situations can be ascertained. None of these lends itself to easy extrapolations. All that can

[71] Richard Sylla and Gianni Toniolo, 'Introduction: Patterns of European Industrialization during the Nineteenth Century' in Richard Sylla and Gianni Toniolo (eds), *Patterns of European Industrialization: The Nineteenth Century* (Routledge 1993) p. 13
[72] Selwyn (n 60).
[73] Lee Alston and Bernardo Mueller, 'Economic Backwardness and Catching up Brazilian Agriculture, 1964–2014' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016).

> be achieved is an extraction from the vast storehouse of the past of sets of intelligent questions that may be addressed to current materials."[74].

The concept of continuity and discontinuity in history is the compass that guides the search for and identification of these "certain uniformities" to analyse and evaluate the industrialisation process. The operational definition of these concepts comes down to "[…] restrict[ing] the concept of continuity in such a way as to make it denote *gradualness of change*"[75], whereas "[…] the concept of discontinuity may be similarly restricted to the case of an *increase in the rate of change* from the previously maintained low level."[76]. However, why should this matter when trying to assess the industrialisation process of a country? Gerschenkron responds promptly, stating that:

> "The answer to the question as to why continuity – or rather its absence – in a series of industrial output should be a matter of interest to the historian lies precisely in the fact that occurrence of discontinuities in the series has been specifically associated with a number of other factors which in their totality characterize an important stage in the process of industrialization. […] Thus starting from the discontinuity in the form of a sudden acceleration in the rate of growth allows us to move from one question to the other […]."[77].

As a result, historical observation is the crucial starting point for observing and assessing the presence and quality of what he commonly refers to as the "kink" or "great spurt" to describe the beginning of industrialisation. It is equally important to determine both of these elements. Indeed, on the hand, to be able to observe the discontinuity, and therefore the actual presence of the kink, is relevant because:

> "[…] the kink in the curve can be seen as one of several essential features of the process of industrial growth during certain periods in the history of the economy within which that growth occurs."

On the other hand, it is equally or perhaps more important to establish the quality of the kink as if we consider that:

> "If the seat of the great spurt lies in the area of manufacturing, it would be inept to try to locate the discontinuity by scrutinizing data on the large aggregate magnitudes such as national income or gross national product. Clearly, in a very backward country where agriculture accounts for most

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[74] Alexander Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (1st edn, Belknap Press of Harvard University Press 1962). p. 6

[75] Alexander Gerschenkron, 'On the Concept of Continuity in History' (1962) 106 Proceedings of the American Philosophical Society 195. p. 205 (emphasis added)

[76] ibid. p. 205

[77] ibid. p. 207-208

> of national income produced even a very considerable and very sudden upsurge in the rate of growth of manufacturing will be unable to produce more than a gentle ripple in the rate of growth of national income."[78]

As a result, determining the quality of the kink is critical since knowing the latter's nature allows one to judge if the observation of a discontinuity is significant or not and, therefore, whether the kink occurs or not. Indeed, it is not improbable that:

> "In one case, the rate of growth may have suddenly changed from, say, two to five per cent per year without causing the historian to speak of discontinuities; in another case, a change from two to four per cent may justifiably be regarded as a radical breach of continuity."[79]

So far, it is quite clear that in an effort to describe what drives Gerschenkron's analysis, we are likely to run upon a topic with a historical bent. Indeed, Raup identifies as one of these drivers the following question: "what can economic history teach us about the prerequisites for economic growth?"[80]. As a matter of fact, we agree with Raup and believe that the existence of a central issue that acts as a compass for the bulk of Gerschenkron's analysis is arguably the most significant proof that history plays a vital and guiding role in his inquiry. Moreover, this approach shows how the historical analysis must naturally be integrated into the economic reading as a guideline that puts things in the proper perspective within a coherent system that, over time, may reveal certain patterns common to the elements of the system. This is particularly true if we consider a long-time span.

Indeed, "Economic Backwardness in Historical Perspective" is most likely a fantastic example of this trend due to its two-folded "soul" if we were to borrow Sylla and Toniolo's words. As they point out[81], Gerschenkron stood out due to his unique dualistic viewpoint, which was characterised by a constant dialectic between the two "souls"; on the one hand, there is the economist's soul, which focuses on constructing and interpreting index values and statistics; on the other hand, we can find the historian's soul, which seeks to place the economic narrative in a historical context. This approach appears and develops throughout the book and is a logical outgrowth of the author's proclivity for multidisciplinary study. This book is the result of Gerschenkron's lengthy research of the discrepancies between Western European and Eastern European and Russian industrialization. The soul of the historian will frequently win out, as we have already seen in part and how we will deepen further, particularly when considering and analysing some crucial factors in the intricate array of components that Gerschenkron has employed to build his ideas. Indeed, many authors underline[82] this aspect in Gerschenkron's work. However, this must not deceive us about the depth and quality of economic

[78] ibid. p. 206-207
[79] ibid. p. 208
[80] Philip M. Raup (1963) 45 Journal of Farm Economics 901. p. 902
[81] Sylla and Toniolo (n 71).
[82] Gootenberg (n 1); Sylla and Toniolo (n 68); Albert Fishlow, 'Gerschenkron, Alexander (1904–1978)' in Palgrave Macmillan (ed), *The New Palgrave Dictionary of Economics* (Palgrave Macmillan UK 1987)

analysis; quite the contrary. As Raup observes, "his focus is consistently on the long-term dimensions of development, and on Eastern Europe and Russia, even when the essay of the moment concerns Italy, or the index number problem."[83]. Indeed, within Gerschenkron's work, nothing is considered atomistically, but rather in a systemic way where everything appears to affect and be affected by everything. In fact, not surprisingly, Sylla and Toniolo praise him by arguing that "more than other scholars, Gerschenkron comprehended the varieties of the European experience with industrialization while also understanding that it was a European experience and not merely a variety of experiences."[84].

Following the various but necessary premises, we arrive at the rationale for the choice of the issue of industrialisation. We have long discussed in the previous sections why industrialisation became one of the main priorities for LDCs and how these choices created a domino effect that ultimately altered the whole international scenario. Briefly after the Second World War, the world had changed permanently, and even the rules of the game had been altered in some respects. Indeed, post-conflict rebuilding was a period of opportunity for many nations to break free of economic restraints. In fact, it is no coincidence that in such a brief time, an entire body of literature was developed with the purpose of, on the one hand, guiding the poorest countries towards economic development and, on the other hand, playing a normative role concerning "the recipe for success". In this regard, we recommend reading the first chapter of "*The Strategy of International Development*"[85] to get a sense of the "tone" in which academics in the 1950s and 1960s tackled the topic of development in both developed and emerging nations. Indeed, as mentioned before, throughout the 1950s and 1960s, while Gerschenkron was researching his book, industrialisation was the primary concern of emerging countries[86]. Moreover, the stimulus and interest in this topic were not only a top-bottom priority set out by governments but also a genuine bottom-up interest since the distinctive global historical events of their period encouraged Gerschenkron and his colleagues to comprehend mechanisms of economic progress and stagnation[87]. De la Escoscura describes these scholars as "[…] a generation of applied, historically minded economists" who actively contributed to the "construction of patterns of development that rely on theoretical findings but lack an *a priori* model and, […] are rooted in stylised facts."[88]. Indeed, we feel that these few simple words, particularly the final ones, help explain why there has been such a broad and eclectic output of theoretical approaches to Development Economics. Because there is no "a priori model," any academic who desires to research the topic must start from scratch and draw their own findings. Given these premises, the approach with which the subject is handled and the ensuing methodology become unquestionably important in determining the validity of one model over another. Gerschenkron clearly distinguished himself within this dynamic, considering his considerable wealth among numerous experts.

[83] Raup (n 80). p. 901
[84] Sylla and Toniolo (n 71). p. 3
[85] H.W. Singer, *The Strategy of International Development* (Palgrave Macmillan UK 1975)
[86] Gunnarsson (n 13).
[87] Selwyn (n 60).
[88] Leandro Prados de la Escosura, 'European Patterns of Development in Historical Perspective' (2007) 55 Scandinavian Economic History Review 187. p. 2

A new emphasis on long-term development and a look to the past as a "laboratory of natural experiments"[89] emerged among economists in the decades after World War II. As we have seen, the theoretical tenet that guided their approach and study was the structuralist one, and Gerschenkron was no different. Gerschenkron certainly carries within itself the seeds of structuralist thought[90], particularly regarding the state's role in the development process, as we will see. His view of the industrialization process and the idea that the State should, if necessary, replace market inefficiencies and thereby drive development policies at the forefront are at least akin to early development literature. In this reading, we may also see some components of Keynesian theory, which was so prominent and critical only a few decades ago[91]. However, dismissing his contributions as nothing more than state interventionism and a slew of economic protectionism would be a significant mistake. Indeed, we argue that Gerschenkron was not an aficionado of the state or the state-driven industrialisation but rather a researcher who recognised that a myriad of factors contributed to the industrialisation process, not all of which are quantitative. A fundamental element in the Gerschenkronian approach is that his theory and assumptions are far from the "one size fits all" approach, further supplementing his interdisciplinary thinking. Indeed, as we will discuss later, one of its defining traits is the recognition that the European industrialization process is an organic process that must be considered in its entirety while not forgetting that the observed units – i.e., each individual country and their domestic goings-on – are fundamentally important and unique.

However, the issue now emerges regarding how the previously described ideas of continuity and discontinuity fit together with this mediation between universality and particularity inside the approach. As a starting step, we may look to the author for guidance:

> "Within that field [the industrialisation in Europe], the use of a concept that is attached to changes in the rates of growth has opened new possibilities for promising research. […] It makes it possible to see economic development as a set of intelligible alterations in the rates of growth, which proceeds *modo paulatim*, *modo saltatim*, and to engage in the study of crucial processes of sudden change […]."[92].

Nonetheless, this is just part of the solution we seek. While it is true that detailed monitoring of the variance in growth rates functions as a signal of a change in process or that has already occurred, it does not answer the following question: what are the reasons for these variations in growth rates? Although relevant to the present discussion, this question may seem detached from the previous topic, to which we are currently seeking a response. Nevertheless, this is not the case. It is crucial to remember that most of the literature on economic

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[89] ibid. p. 2
[90] Paul R Gregory, 'The Role of the State in Promoting Economic Development: The Russian Case and Its General Implications' in Richard Sylla and Gianni Toniolo (eds), *Patterns of European Industrialization: The Nineteenth Century* (Routledge 1993)
[91] ibid.
[92] Gerschenkron, 'On the Concept of Continuity in History' (n 75). 209

growth in the 1950s and 1960s had a rather mechanical approach to the subject[93]. There was a propensity to think primarily by exclusion; successful industrialisations in rich nations were watched, and attempts were made to see in LDCs a replication of the same components that promoted success in the first scenario. The primary method was dictated by the classification and the translation of specific prerequisites that characterized the industrialization of the most advanced countries into the most backward ones. However, one possible initial solution to our issue is that the diversity in growth rates is related to the manifestation of the required prerequisites, favouring a natural development process. In part, this is correct. However, as we will see in more detail later, Gerschenkron believes that there are no universal prerequisites that must be met by anybody desiring to embark on an industrialization process — quite the reverse. One of the book's major themes and its approach, in general, is that there is no universal rule; the industrialization process is heavily impacted by several factors, one of which is history. This brings us to close the circle concerning the first issue stated. Given that not everyone starts from the same starting point and that not everyone has the same potential in terms of resources, workforce, and capital, what will determine the success of the industrialization process will be an individual solution to the flaws that would otherwise make this process impossible. Gerschenkron calls these dynamic *substitution patterns for prerequisites*. Indeed, if we were to encapsulate one of the book's inquiries in a question, it would undoubtedly be "[...] in what way and through the use of what devices did backward countries substitute for the missing prerequisites?"[94].

In conclusion, Gerschenkron's idea is a complex and profound theory that nevertheless retains a great lot of fashion today. For the sake of this discussion, though, we might summarise his proposal as an economic theory that attempts to explain how the degree of relative backwardness experienced by a nation right before "the kink" can shed light on some elements of its early era of industrialization. Additionally, this feature is intrinsically linked to the *substitution patterns for prerequisites* we presented briefly before. Unlike many of his predecessors, Gerschenkron seems to approach the problem with a degree of cautious optimism, which is worth mentioning. Many development theories[95] have been sceptical about LDCs' potential for growth and progress. Although several scholars investigated the topic, they all came to essentially the same findings and viewed the prospects for growth and development for LDCs with scepticism. Developing countries were inevitably doomed to a downward cycle that either produced a "state of utter stagnation"[96] – as described by the Harrod-Domar model[97] – or only by an exceptional "big push" could these countries hope to start moving in the right direction. Naturally, assuming that the required preconditions for such an occurrence may be set in place beforehand.

[93] Singer (n 85); Engel (n 30); De Janvry and Sadoulet (n 18).
[94] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 358
[95] Singer (n 85). For instance, Rostow's "Stage Theory", the Harrod-Domar model, Nurkse' "Balanced Growth Theory" and Myrdal's "Backwash Theory"
[96] ibid. p. 10
[97] ibid.

Indeed, we may go as far as arguing that a major drawback of development theories of the post-War period was partially due to their intrinsic rigidity when it comes to overcoming backwardness. Indeed, the aseptic translation of aspects that may undoubtedly be described as contextual – like the factors that caused England to begin the first industrial revolution[98] – has nearly wiped out national individualities with a swipe of the sponge, leaving just a very lousy inherent. Furthermore, accepting for a minute the idea that development may occur if and only if the proper preconditions are met, "one begins to wonder how any country has ever managed to achieve a take-off."[99]. In reality, if this were true, today's economic landscape would be nearly analogous to what transpired after World War II. Of course, this is not the case.

The originality and creativity with which Gerschenkron approached problems may also be seen in this instance. In "Economic Backwardness in Historical Perspective," he set out to do two things. On one side, he has raised serious doubts about the value of development prerequisites. Consequently, by challenging this view, he arrived at one of Marx's most well-known and influential generalisations: the industrially more developed country presents a picture of the latter's future to the less developed one. In the following paragraphs, we will define the primary critiques Gerschenkron lays out in his book to comprehend better and highlight his theory's fundamental elements.

1.2 A discussion of Gerschenkron's critiques of determinism, Marx, Rostow and prerequisites

To set the stage for this discussion, we will note that Alexander Gerschenkron belongs to a long tradition of political economists that can be traced down to Friedrich List and his arguments for State-led infant industry protection[100]. However, we specify a few key features that influence the entire theory and start looking into the primary distinctions that set Gerschenkron's method apart. To be more specific, Gerschenkron disagrees with the neo-Listian political economy's inductive methods[101] since they assume that all societies would follow the same trajectory[102]. This partial refusal makes up the first of the two pillars of Gerschenkron's critique of the so-called Marxist generalisations: the teleological interpretation of development[103] and the "original accumulation".

[98] Findlay and O'Rourke (n 5). Please see Ch. 6 for a more extensive explanation of the matter.
[99] Singer (n 85). p. 10
[100] Selwyn (n 60).
[101] ibid.
[102] ibid; Udaka Motosuke, 'Book Reviws' (1964) 2 The Developing Economies 430.
[103] This specific point refers to the famous Marxian citation that says: "The industrially more developed country presents to the less developed country a picture of the latter's future.".

1.2.1 The first Marxian generalisation, Rostow and the problems with uniform patterns of development

The inclination to examine via a generalist lens, coupled with an intrinsic pessimism about emerging nations, characteristic of the 1950s and early 1960s, has given birth to a methodological approach centred on forecasts based on theory[104], a hallmark of modern liberal economics. A deterministic, systematic idea is, therefore, an almost inevitable by-product of that ideological and theoretical *humus*. The renowned stage theory of W.W. Rostow was the theory that better encapsulated these methodological and ideological tenets and affected mainstream development thinking of the time[105]. Rostow's idea is relatively straightforward. At its heart, the idea is that all civilizations at any given time in history may be classified into one of five broad types[106]. By analysing the Western world's progress toward modernity, particularly the British experience with the industrial revolution, this thesis projected a route to economic growth for all countries[107]. He argued that all nations must go through a similar sequence of actions to emerge from a state of underdevelopment. Since the developed countries have already achieved "take-off into self-sustaining growth," the argument went, all that's needed for the developing nations still mired in the "traditional society" or "preconditions" stage to achieve "take-off" into sustained economic growth is to adhere to a predetermined set of guidelines. Hence, from this perspective, industrialisation appears to be a uniform process that occurred somewhere and in some period, not necessarily better specified. Therefore, precisely because it already happened, there is no reason why it should not unfold everywhere more or less in the same fashion. At this point, it is also not difficult to draw a clear analogy with Karl Marx's theory of phases of economic growth, which is sparked and propelled by class conflict. He also classified economic progress into five groups (slavery, feudalism, capitalism, socialism and communism). Marx highlights the inherent inevitability of this process and how it is an interpretation of humanity's history in a manner similar to Rostow[108]. Given these premises, two factors stand out. Considering that the two writers share some influence and similarities, as noticed by Gootenberg[109] as well, the two characteristics that stand out in these dynamics are the uniformity of development and its inevitability, in the sense that progress is bound to pass through these forms since these are the "predetermined set of guidelines" for development.

Of course, another prominent element is the question of what are the prerequisites for progressing from one stage to the next. We will address this in the following section. However, for now, we will focus on a

[104] Selwyn (n 60).
[105] ibid.
[106] The stages are the traditional society, the preconditions for takeoff into self-sustaining growth, the take-off, the drive to maturity, and the age of high mass consumption.
[107] Gootenberg (n 1).
[108] See Rostow's opening chapter of *The Stages of Economic Growth*
[109] Gootenberg (n 1).

methodological examination of Gerschenkron's approach in order to establish and thus better understand where his doubts about what we have described thus far stem from.

Indeed, focusing on the methodological issue of the first of the two critiques of the Marxist generalisations, we may say that Gerschenkron's criticisms, which also target other authors, such as W.W. Rostow[110], stems from a coherent rejection of abstract and inductive methods[111]. Naturally, Gerschenkron does not attempt to avoid any methodological approach that rejects any sort of abstraction in general. Indeed, he describes abstraction and generalisation as "the method [...] without which scholarly thinking, as any thinking [...] is altogether impossible," especially since "whatever the research project, no economic historian will escape the necessity of forming, implicitly or explicitly, consciously or unconsciously, some sorts of *ideal types*."[112]. However, because "[…] the purpose of the preceding pages [...] has been to point *out the great elasticity and variability* in the industrialization processes that are known from historical experience," Gerschenkron argues that in order to escape the previous logical schemes of development, which are so inflexible and "unforgiving" when it comes to putting together the prerequisites for success, "the question […] is not whether in economic history one should or should not abstract, but on which level of abstraction one should proceed."[113]. In essence, this methodological assumption is nothing more than an attempt to establish an analytical framework that can account for national variations. The fundamental reason for the distinction is that while explaining the process of catching up, the author focuses more on what makes each nation different rather than what makes all countries similar. However, Gerschenkron does not go to the other extreme and overstate every variation and distinction across nations in his effort to attract attention to subtleties that have been rendered murkier in the past. That would imply that every successful industrialization merely accounts for itself, leaving no lessons to be learned. Therefore, Gerschenkron's chosen degree of abstraction compromises between too broad generalisations and excessively specific examples. To reframe the notion more broadly, we might argue that Gerschenkron opposed the determinism of stage analysts as well as the reliance on uniqueness of conventional historians. Instead, he developed a method for examining modern Europe's economic history that centred on industrialisation as an organic process, which certainly shared some characteristics across countries, but also had numerous exceptions and deviations from the "necessary prerequisites" for such a development.

This is a complex two-folded story. Indeed, there is only a partial disagreement with this kind of interpretation since this generalisation has some validity[114] nonetheless "[…] in several significant respects the development of a backward country may, by the very virtue of its backwardness, tend to differ fundamentally from that of an advanced country."[115]. Such a statement denotes a significant departure from a

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[110] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74); Selwyn (n 60).
[111] Selwyn (n 60).
[112] Alexander Gerschenkron, *Continuity in History and Other Essays* (Belknap Press of Harvard University Press Cambridge (MA) 1968). p. 42, cited in Jang-Sup Shin, *The Economics of the Latecomers: Catching-up, Technology Transfer and Institutions in Germany, Japan and South Korea* (Routledge 2013).
[113] Gerschenkron, *Continuity in History and Other Essays* (n 112). p. 42, cited in Shin (n 112).
[114] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 6-7
[115] ibid. p.7

deterministic interpretation of history and industrial development, highlighting at the same time a more *contextualised* approach that, as we will see, can be found throughout Gerschenkron's whole theoretical journey. This idea is more clearly illustrated in the postscript chapter, where the author clarifies that his critique is addressed toward the idea that all economies were intended to go through the same stages as they progressed down the path of economic development. However, "[…] the point is not to reject broad patterns as such but to select patterns appropriate to the problem"[116]. Therefore, Gerschenkron essentially overturns the whole problem of the choice of the theoretical lens through which to interpret the industrialisation of backward countries, placing it not in terms of rejection *in toto* and *per se* of the concept of "predefined patterns of development" but rather in terms of correct analysis and evaluation that can grasp the specificity of elements that occur within a country's development. Moreover, "[…] when the level of generality is pitched very high, that as one moves deeper and deeper into the subject one is bound to come across things in one area or another that do not fit the general model."[117]. Hence, the idea that an over-generalised approach to industrialisation bears some significant drawbacks that, in the long run, may compromise the reading of the reality they provide comes to us more readily. More specifically, there is an attempt to escape the risk of what we might call a horizontal homologation, wherein, for example, an overall comparison of England's development process is like Germany's and Germany's is like Russia's[118]. Such a view may erroneously lead to a conclusion that each and every process of industrialisation is essentially the repetition of the "original" English industrialisation, thus putting aside any distinction based on space, time, and historical context. Gerschenkron's view, instead, illustrates "the industrial history of Europe […] not as a series of mere repetitions of the "first" industrialisation but as an orderly system of graduated deviations from that industrialisation."[119].

Another significant difficulty with horizontal homologation is the risk of misunderstanding events that transpired during an industrialization phase. This means that some elements may have gotten more attention than warranted or that characteristics or factors necessary for one country's development but less significant for another may have been overlooked. Concisely, there is a substantial chance of *decontextualization*. As Gerschenkron himself says: "but to say this [that all industrialisations are the same] is to debar oneself from looking into the depth of history, that is to say, from perceiving the industrialisation in the making"[120] because it is only by "[…] observing the individual methods of financing industrial growth [that] helps us to understand the crucial problem of prerequisites for industrial development."[121]. Considering all that has been said thus far, it is reasonable to assume that the Gerschenkronian approach prioritises the preservation of a nation's specificities, particularly those of a developing country, and favours a strategy that seeks to consider and give

[116] ibid. p.40
[117] ibid. p.41
[118] ibid.
[119] ibid. p.44
[120] ibid. p.356
[121] ibid. p.356 (emphasis added)

proper weight to these specificities. Consequently, two new concepts must be introduced: context[122] and, as a result of the former, country-specific industrialization substitution patterns.

In some ways, the idea of context and country-specific substitution patterns are somehow similar since they share the underlying concept of individuality as a common denominator, which has been deeply stressed so far. Context must be understood *in sensu latu*, both at an international – macro – and national level – micro – , i.e., keeping in mind variables such as geography, historical context, society, institutions and culture. As a case in point, Gerschenkron recognises and somehow poses some drawbacks to his theory since "[…] they [referring to the "lessons" of the nineteenth century, that is, his reflections on development in backward countries] cannot properly be applied without understanding the climate of the present century, which in so many ways has added new and momentous aspects to the problems concerned."[123]. Moreover, the author points out that "since the present problem of industrialisation of backward areas largely concerns non-European countries, there is the question of the effects of their specific *pre-industrial cultural development* upon their industrialisation potentialities."[124]. It is fair enough to say that context in Gerschenkron is undoubtedly a crucial concept that presents itself both at a macro and micro level. Probably the most vivid and tangible manifestation of the role that context plays on a micro-level is when Gerschenkron states that: "[…] in every instance of industrialisation [he is speaking from the point of view of backward countries], imitation of the evolution in advanced countries appears in combination with different, *indigenously determined elements* […] what can be derived from a historical review is a strong sense for the significance of the native elements in the industrialisation of backward countries."[125].

Summarising what has been said, we understood that *context* is a dynamic and dialectic factor that acts actively and passively when industrialisation is involved. It is dynamic because the industrialisation process does not simply copy itself from country to country but instead adapts and "evolves" in response to the conditions encountered in other nations. Furthermore, for this exact reason, context is also a dialectic variable because it influences a whole series of other elements, which in turn affect other factors concurring in the industrialisation process. Lastly, on the one hand, it is a so-called active element because it *actively affects* the way a country develops. For example, think about the strategic importance that some elements may have in the process of industrialization, such as certain natural resources or certain pre-industrial institutions, and so on. On the other hand, it appears to be a passive element because, despite it, all countries can still intervene to modify a given context through, for example, significant institutional changes or specifically designed policies[126].

[122] It is worth highlighting that Gershenkron never uses the word "context" to describe such ideas, this is indeed our overall interpretation of the author's words synthetised, for the sake of simplicity, into one word that encompasses all that will be said or that has already been mentioned in relation to this term
[123] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p.27
[124] ibid. p.27 (emphasis added)
[125] ibid. p.26 (emphasis added)
[126] ibid.

Now we shall briefly discuss the substitution patterns of industrialisation, which, in simple terms, may be viewed as the physical manifestation of how *context* heavily influences the development path a backward country may follow. The substitution patterns directly result from the interaction between the "force" of industrialisation and the conditions prevalent in backwards nations. Indeed, Gerschenkron speculates that a nation's backwardness necessitates searching for substitutes for internal demand, productive elements, or institutions that the backward country lacks[127], hence *substituting* all those elements that may be needed in an industrialisation process. More precisely, according to him, it is somehow impossible to speak about industrialisation in backward countries without specifically involving substitution patterns because *context matters* and, most importantly, *context changes* from region to region, from country to country. Moreover, since "it is useful […] to think of industrial development in terms of *graduated* patterns of substitution for "missing prerequisites"[128], we can deduce that there is a direct proportionality between the degree of backwardness of a country and the graduation of substitution patterns involved in the process. This suggests that the more backwards a nation is, the more direct involvement is required to encourage the country's growth as much as feasible[129]. Throughout the book, Gerschenkron brings several historical examples of what he identifies as substitution patterns, implicitly showing that "the absence of traditional "prerequisites", such as W.W. Rostow emphasises, does not represent an insuperable obstacle to development."[130]. Moreover, he argues that most of what is referred to as "essential preconditions of industrial development" is not, in fact, a precondition at all but rather the thing itself; indeed, "[…] labor, capital, and entrepreneurs are not preconditions of industrialisation: they are the stuff industrialisation is made of."[131].

In conclusion, there are two apparent issues with approaching economic progress via a staged method. First, since industrialization must go through certain stages, it will operate almost like a "*hypervirus*"[132], replicating equally everywhere it finds fertile ground. Because the uniform dimension indicates a somewhat automated nature, once the spark starts to burn, it will progress through those stages, depriving the nations concerned of any kind of strategy. Why should different strategies be used in various countries if the road is predetermined? A single strategy would be sufficient. This, however, is not the case. Second, what happens if the industrialization process is prescribed, consisting of clearly demarcated essential and sufficient prerequisites? Industrialization does not exist. However, even in this case, "the only difficulty is that these beautiful exercises in logic have been defeated by history. They are inconsistent with crude empiricism and are seriously damaged when confronted with the relevant facts as we know them."[133].

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[127] M Falkus, 'Backwardness' in Palgrave Macmillan (ed), *The New Palgrave Dictionary of Economics* (1st edn, Palgrave Macmillan UK 1987)
[128] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p.234 (emphasis added)
[129] More about the *degree of backwardness* shall be said in the dedicated section.
[130] Jhon Michael Montias, 'Reviewed Work(s): Economic Backwardness in Historical Perspective by Alexander Gerschenkron' (1963) 53 The American Economic Review. p.473
[131] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p.217
[132] In a broad sense, we adopt the philosopher Nick Land's notion.
[133] Alexander Gerschenkron, *Europe in the Russian Mirror: Four Lectures in Economic History* (Digitally printed version 2008, Cambridge University Press 2008). p. 101

1.2.2 The second Marxian generalisation and the prerequisites for industrialisation

The second Marxian generalisation Gerschenkron disagrees with is the "original accumulation". The original accumulation must be understood as an accumulation of capital over a long historical period that culminated with its involvement in the industrialisation process of a country[134]. In more practical words, when industrialisation begins and starts taking place, these accumulations emerge essentially as claims on current production during the spurt, allowing for a substantial enough diversion of resources from consumption to investment to maintain the high pace of industrial expansion. However, Gerschenkron argues that this is a somewhat circular thought where industrialisation's prerequisites and products are causally and logically connected[135]. Moreover, even if we overlook this logical paradox,

> "original accumulation, too, has been regarded as a necessary precondition of the industrialization, and until very recently, Soviet economic historians kept looking, looking everywhere, in every country where any industrial development had taken place, for such original accumulation. Again we should have to conclude that where there was no original accumulation, no industrialization could take place."[136].

From a general perspective, Gerschenkron's disagreement about the original accumulation essentially stems from the same leitmotiv of the previous objection: the denial of the assumption that there is a universal prerequisite for industrialisation. The critics expressly point out the fallacy behind making locally observed phenomena universal. Udaka also observes how "[…] this concept is properly applicable only to England, and on a much smaller scale than is usually supposed; from the point of view of theory, we cannot regard it as a universal precondition for industrialisation."[137]. Nevertheless, even if we assume that the notion of original accumulation is necessary for the path that leads to industrialisation, we must certainly investigate whether there are functional and competing elements that allow its full realisation. For example, we would need to find out if there is any available capital to be accumulated in the first place, then there should be certain social strata, or at least some individuals, willing to invest this capital, or we should find certain institutions that can functionally convey this accumulation – i.e., the systemic land deprivation of farmers, as highlighted by Marx himself [138] –. As we can see, adopting the original accumulation's universality aseptically creates a whole new set of problems, variables, and circumstances that must be fulfilled and satisfied by each nation under consideration. This is a rather challenging task. For example, following Gerschenkron, it would be appropriate to claim that an almost *sine qua non* condition is the fact that capital accumulation would have an important

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[134] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74).
[135] ibid. p. 101
[136] Gerschenkron, *Europe in the Russian Mirror* (n 133).
[137] Motosuke (n 102). p.430
[138] ibid.

role in the industrialisation process only if it were available to individuals willing to invest effectively or systemically integrated into the virtuous circle[139]. In summary, there must be wealth in a form that can be handed on either directly or through some financial transformation[140].

Another significant element that must be considered is the dichotomy of *continuity* and *discontinuity* in the industrialisation process. Let us take for granted that the original accumulation can be mechanically applied to any country. The accumulation *must* occur throughout an extended period, implying that industrialisation is a gradual process[141]. However, graduality and, as a result, *continuity* are not strictly specific qualities of industrialization; on the contrary. Gerschenkron argues that "[…] most of the important industrializations in Europe started in the form of more or less *violent* industrial revolutions"[142], clearly hinting that industrialisation is a phenomenon characterised by a perceivable *discontinuity*[143], which in our case, translates into industrial output.

All considered, we can assert that one of the main problems with working with such a concept is not the fact that the notion of original accumulation is *per se* inadequate or unusable because Gerschenkron itself recognises the brilliance of the intuition. It is instead the fact that whoever desires to utilise it must first determine under what circumstances the idea may be considered as an essential requirement of industrialisation and then decide when it is "difficult, impossible, or unnecessary" to apply it. To end, we would like to quote Gerschenkron, who claims that the original accumulation "[...] is not just a magnificent generalisation; it is too magnificent a generalisation, in the sense that accepting it requires abstraction from equally magnificent details."[144]. Finally, we encounter the previously mentioned problem: historical reality has delivered opposite conclusions. Suppose the original accumulation was a necessary and sufficient requirement. In that case, nations like Germany or Russia[145] at the turn of the 20th century could never have pursued this road since they lacked these fundamental characteristics. And, in fact, "[…] original accumulation of capital was not a prerequisite of industrial development in major countries on the European continent."[146].

In conclusion of this section, we shall now try to define the core features and elements that characterise and distinguish Gerschenkron's approach to the matter. If we were to try to refine and narrow as much as possible the core of the question from which Gerschenkron's critique arises, and therefore the starting point of his theory, probably what we will find would be the question of the generally accepted elements necessary for industrialization: the prerequisites of industrialisation. Prominently, Gerschenkron tries to avoid as much as possible the bold research of predefined prerequisites, which *must* be found in every instance according to

[139] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74).
[140] ibid.
[141] ibid.
[142] ibid. p.36 (emphasis added)
[143] Charles P Kindelberg, 'Economic Backwardness in Historical Perspective: A Book of Essays. By Alexander Gerschenkron.' (1963) 23 360.
[144] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p.39
[145] We specifically mention these nations because these are the evidence that Gershenkron uses to invalidate the universality of the original accumulation.
[146] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 46

some theories of economic growth. The departure from this idea is probably the pivotal starting point that defines the author's methodological approach. Indeed, in chapter eight of his book, there is an enlightening passage in this regard that goes as follows:

> "It is, of course, quite permissible to describe the causal factors involved in such models [models of economic development] as "prerequisites" in a very specific sense of the word. Nor is it objectionable to approach the economic history of less advanced countries with a list of such prerequisites in mind, looking for the presence — or absence — of the factors that appear to have acted as causal forces in the advanced country. On the contrary, this is the normal way in which historical insights are gained. But the dangers are great. It is easy to transform a list of questions gleaned from previous study into a bold and confident expectation that the presence of identical prerequisites must be discoverable wherever industrialization occurs and that their absence necessarily precludes industrial development from taking place. This dogmatic belief in the absolute repetitiveness of history is unfortunate under any circumstances. It becomes particularly insufferable when it begins to blur the observer's eye and makes him falsify obvious differences into implausible similarities." [147]

This passage essentially summarises more or less all the aspects that have been discussed until now. Indeed, there is no refusal of generalisation *per se* because otherwise, without generality, there is no rule, and with no rule, there are no observable patterns, and therefore, no hypothesis nor theory can be made. The point, however, is to highlight that a mechanical repetition of expected patterns may mislead the search for answers and ultimately lead to implausible conclusions. The most obvious case is probably precisely the question of prerequisites; "[…] what may have functioned as a prerequisite and, in a sense, as a "cause" of industrialization in one country appears as an effect of industrialization in another"[148]. Ultimately, Gerschenkron approaches international development through what Selwyn defines as a dialectical lens[149]. A dialectical approach entails a dynamic, transformational system theory (capitalism), which depicts an atomistic state of affairs that allows an understanding of how the system's unequal parts are internally constituted and outwardly related[150]. This approach, which Selwyn argues to be implicit in Gerschenkron, seeks to account for (1) the changing global system, (2) the timing of backward economies' attempts to catch up, and (3) how domestic social structures interact with international forces to influence a country's developmental trajectory[151]. It can be argued that when Gerschenkron emphasises the role of what we have called *context* – for the sake of simplicity – it is

[147] ibid. p.217
[148] ibid. p.50
[149] Selwyn (n 60).
[150] ibid.
[151] ibid.

indeed a vast notion that embraces various other elements such as history, ideology, institutions, and society[152]. However, the causality relationship does not limit itself only to a domestic dimension, that is, *how* industrialisation happens in backward countries where different circumstances are present, but also extends to the relationship *between* other countries in an active and lively way[153]. As a matter of fact, every historical event influences the trajectory of all successive occurrences[154], which translates to the fact that "the Industrial Revolution in England, and for that matter in other countries, affected the course of all subsequent industrializations."[155].

1.3 An Outline of Gerschenkron's methodology and theory

In this part, we shall perform a dual function. On the one hand, we shall recapitulate what we have stated about Gerschenkron regarding methodology and historical perspective. Subsequently, in light of these premises, we shall discuss its theory and the processes that govern its operation before digging into the topics most important to us in more depth in the following parts.

To continue with the metaphor of the two souls, we may argue that Gerschenkron's approach to industrialisation offers two benefits in and of itself. First, as Andersson and Axelsson observe, "with the help of economic history, we recognize the danger of falling into the trap of creating a one-size-fits-all template for development. […] we see economic history as a discipline where the discussion on the nature of the catching up processes depends on contextual conditions and endowments."[156]. Gerschenkron, in fact, challenges any classical unilinear conceptualisations of development. Nonetheless, it is important to remember and understand that "[…] we cannot approach historical reality except through a search of regularities and *deviations from regularities* […]."[157]. Indeed, Gerschenkron's purpose as an economic historian is to organise and justify all historical departures from the norm within a cohesive framework capable of comprehending economic and historical reality. Moreover, it is for this reason that Gerschenkron's method ushers economic theory into the picture in order to offer a systematic framework instrumental for identifying commonalities, regularities, and linkages in industrialisation across nations and, most importantly, to make coherent sense of these deviations. Even if the emergent patterns are temporally and spatially constrained, and they have relevance within the single, unified process of European industrialisation. Furthermore, as we saw in section 1.1.3., while reflecting on the conceptual tools that lead the investigation of uniformities within the historical

[152] These aspects shall be discussed in depth in the following pages
[153] Selwyn (n 60).
[154] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p.41
[155] ibid. p.41
[156] Martin Andersson and Tobias Axelsson, 'Relative Economic Backwardness and Catching up Lessons from History, Implications for Development Thinking' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016) p. 269
[157] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 31-32 (emphasis added)

context, we saw how discontinuity is the genuine variable that might warn the impending arrival of a change or its commencement. In Gerschenkron's perspective, the discontinuity and resulting change are the parts that require more attention because such is the nature of the industrial process in its early phases[158]. To the discontinuous and thereby changing nature of industrialization, another equally significant dimension must be added, one that bears the same character of change, capable of influencing all subsequent occurrences. In fact, one of the distinguishing features of Gerschenkron's method is the importance placed on time. He was arguably among the first[159] to investigate methodically how the industrialization of even one country influenced the circumstances determining prospective future industrializations in other nations. In fact, as Gootenberg[160] points out, he was "explicitly relational" since the time and kind of early developers significantly impacted late-comers, contributing new and diverse parts to the development jigsaw. In fact, Selwyn appreciates this worth so highly that he states that "Gerschenkron's […] stands out because of his recognition of (a) the impact of the timing of attempted catch-up upon latecomers' institutional innovations and strategies, and (b) the sociologically disruptive nature of late development."[161]. This final observation will be crucial to the work of our thesis, although, for now, we will only note it and go into further detail later.

Regarding the units of analysis, Gerschenkron chooses nations as the basic units of observation[162]. On the one hand, as Sylla and Toniolo note, this decision is driven by practical considerations because the quantity of data accessible is frequently gathered and presented at the national level[163]. Furthermore, de la Escosura argues that in a generally homogeneous region, such as Europe, the historical technique that combines cross-section and time series data gives a superior alternative to traditional cross-section analysis for the recent past[164]. The second argument is that because countries have a political, legislative, institutional, monetary, economic, and social unity comprising smaller components like language, customs, and habits, examining them as a whole is simpler. Utilizing the nation as a unit of study may only increase the homogeneity of the work because all these aspects unquestionably play a significant influence in the industrialization process[165]. Moreover, the diversity is greater across nations than inside them, but the latter is not an entirely unreasonable idea. Indeed, Gerschenkron does not dismiss a regional approach to the topic at all, "since industrialization is never distributed evenly over the face of the country, also study of the industrial region or regions within the country can be worth undertaking."[166].

[158] See footnotes 140 and 141
[159] Gareth Austin, 'Is Africa Too Late for "Late Development"? Gerschenkron South of the Sahara' in Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016) <https://oxford.universitypressscholarship.com/view/10.1093/acprof:oso/9780198737407.001.0001/acprof-9780198737407> accessed 11 April 2022.
[160] Gootenberg (n 1). p. 68
[161] Selwyn (n 60). p. 432
[162] Gerschenkron, *Europe in the Russian Mirror* (n 133).
[163] Sylla and Toniolo (n 71).
[164] de la Escosura (n 88).
[165] Sylla and Toniolo (n 71).
[166] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 98

In the concluding part of this section, we will describe Gerschenkron's theory as a whole. First of all, it is crucial to clear that Gerschenkron's work was never characterised as a theory but rather as an approach. However, his influence on academic research and subsequent practical application has solidified it as such. Complex and nuanced ideas such as the advantages of backwardness or the substitution of lacking prerequisites have assured him a significant influence on the topic study. Nonetheless, they have also led to a sometimes shallow interpretation of the author. Indeed, one of the goals of this thesis is to highlight Gerschenkron's inherent uniqueness, bringing to light elements, concepts, and procedures that are often disregarded.

In any event, it is vital to emphasise that the end result of his work is not a predictive theory capable of forecasting future advances in a country's industrialization process, given specific conditions. In reality, we consider that Gerschenkron is more pertinent in terms of typification that are useful to an interpretive goal of a country's historical process of industrialisation. As we have frequently said, historical reading tremendously impacts both his approach and methodology. History helps to highlight some regularities within a process that seems to have been shared across Europe at the turn of the twentieth century, bringing to light all the deviations from the standard that the author attempts to justify within an organic and cohesive design. In essence, Gerschenkron created a set of conceptual tools based on actual historical observation capable of narrating and understanding a succession of seemingly unconnected events into a more extensive framework. As a result, we never see any claim in his work concerning the universal applicability of his technique.

In section 1.2.1, we addressed how the idea of context is a fulcrum for Gerschenkron, influencing and determining both the possibilities for growth and the character of this development. As a matter of fact, some even credit him with being "[…] ahead of his time by noting the contextual nature of development."[167]. Intricately connected to the notion of context is the concept of backwardness, which in Gerschenkron's typology, becomes the organising force for the whole pattern. As previously stated, Gerschenkron's study seeks "certain uniformities", but his emphasis, hence the differentiating factor, is deviation, variety, and everything that is not in common with the others. Indeed, focusing on Europe is an almost logical option, as Europe in the twentieth century was made up of many distinct countries, each with its own language, history, customs, and cultural, political, and economic aspects in common. This specific humus of history, culture, and common heritage, together with the European panorama's uniqueness, was the ideal beginning point for Gerschenkron. Indeed, the author used the late-arriving but rapidly emerging economies of Central and Eastern Europe at the close of the nineteenth century as a model, projecting their links to and involvement in a more extensive system.

Although the result is comparable, France, Germany, and Russia's industrial processes are fundamentally different[168] since they all begin with different premises – varying degrees of backwardness – and are impacted by different variables – the context. As a result, it is true to say that Gerschenkron's typology is founded on

[167] Austin (n 159). p. 206
[168] As demonstrated in Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74).

two main aspects that, on the one hand, establish the beginning circumstances of the status quo and the – potential[169] – benefits that may be derived from it, and, on the other hand, impact the industrialization process. These are the economic backwardness and prerequisite substitution patterns, respectively. In fact, combining these two principles reveals that Gerschenkron’s goal is not to identify a recipe for industrialization and then aseptically flatten it on all countries that choose to follow it; instead, his goal is to understand how latecomers can overcome the barriers dictated by their own backwardness and thus find their own path for industrialization.

Rather than focusing on whether some prerequisites exist sufficiently in specific latecomers at the outset of their development, Gerschenkron’s analysis of late industrialization focuses on how those frequently “missing” prerequisites in latecomers are created or substituted for. Given that development is not a uniform process that unfolds homogeneously across time and space, on the contrary, these are components that alter its character, sustained catching up is primarily dependent on the structural modifications that the nation in question is able to achieve. Therefore, the substitution of missing prerequisites may happen via specific institutional responses. Indeed, the use of “the degree of backwardness” is an attempt to make sense of this replacement process. Borrowing Shin[170]‘s words, we could define Gerschenkron’s comparative schema as a three-part system, with one forerunner and two followers interacting across two historical phases of economic development: moderate and severe backwardness. To better comprehend Gerschenkron’s differentiated system, separating the two components of the word “the degree of backwardness” is helpful. Indeed, one aspect of backwardness results from simply “being late” regarding the forerunner, whereas the other is from a different degree of backwardness itself. The backward character of Gerschenkron’s approach is so relevant because it is what gives dynamism to his framework. More specifically, within this framework, there is a “drive”, representing a lagging nation’s attempt to catch up due to pressure from other countries. It is important to note that in his scheme, this impulse, the drive manifests differently depending on the degree of backwardness and the adopted substitution pattern. As a result, the pattern of industrialization is the combination of a given degree of backwardness and the chosen substitutes for missing prerequisites. Moreover, in the larger discourse of substitutes that take different forms in response to the variables involved in the equation, it is crucial to remember that a non-negligible variable is also the technological trend that will be responsible for influencing and affecting how industrialisation unfolds.

The most critical metaphor in Gerschenkron’s work appears to revolve around time (the idea of being late) and, by extension, the idea of the following catching up. While completely relational in nature (being late is a function of how early everyone else is), this optimistic outlook welcomes the idea that being late might even have its benefits. However, timing is everything. At this point, we circle back to an earlier comment, a few

[169] A few lines will be dedicated in section 2 to explain how Gerschenkron’s idea of advantages of backwardness are not given but rather only potential.
[170] Shin (n 112).

pages back, in which we mentioned that Gerschenkron's attitude is, in some respects, almost optimistic compared to the trend in the years in which he drafted the book.

In summary, Gerschenkron concluded from his study that latecomers' industrialization would be distinct in its motives, structure, and timing. Since time is of the essence, the strategy suggested that latecomers did not have to wait until they naturally obtained all the credentials; instead, they may and should find substitutes for any missing requirements.

We have already noted Gerschenkron's thought's depth and transversality, as well as how, at times, it might suffer from what we would term "academic cherry-picking"[171]. In reality, the social component, equally vital in the evolution of things, must be included in the framework mentioned above. So, countries might not only be able to take advantage of the benefits of being late, but they also create fast-changing combinations of new and old social forms as they integrate themselves into the world system[172]. This is driven by the need to keep up with technological trends and goes hand in hand with the rise of the institutional responses mentioned above. An essential theme for the future structuring of this thesis, in fact, will be the concept of tension that Gerschenkron includes in his development process. In particular, the author argues that late industrialization unleashes a great deal of *social tension*.

Finally, since the degree of backwardness on the brink of the "great spurt" has a tremendous impact on the course of industrialization, Gerschenkron summarises these factors in six propositions that we shall study when we encounter them as we dive into the various subjects in the following pages. The propositions are as follows:

1) The more backward a country's economy, the more likely was its industrialization to start discontinuously as a sudden great spurt proceeding at a relatively high rate of growth of manufacturing output;
2) The more backward a country's economy, the more pronounced was the stress in its industrialization on bigness of both plant and enterprise;
3) The more backward a country's economy, the greater was the stress upon producers' goods as against consumers' goods;
4) The more backward a country's economy, the heavier was the pressure upon the levels of consumption of the population;
5) The more backward a country's economy, the greater was the part played by special institutional factors designed to increase supply of capital to the nascent industries and, in addition, to provide them

[171] We endorse this because, after reviewing a large portion of the literature on Gerschenkron, we discovered that his work is often simplified to the benefits of economic backwardness, the role of the state in growth, and, with less emphasis, the substitution patterns. Indeed, topics such as social tension, the influence of ideology, or the inability to capitalise on the benefits of backwardness, or, more simply, the function of policies in the industrialization process, are often disregarded.
[172] Selwyn (n 60).

with less decentralized and better informed entrepreneurial guidance; the more backward the country, the more pronounced was the coerciveness and comprehensiveness of those factors;

6) The more backward a country, the less likely was its agriculture to play any active role by offering to the growing industries the advantages of an expanding industrial market based in turn on the rising productivity of agricultural labor[173].

1.3.1 Gerschenkron's contributions[174]

As we have seen, Gerschenkron's approach to the issue, on the one hand, and the ideas he brings to the research field, on the other, are among the most fascinating qualities that make him an author worth considering. More specifically, both his methodology and the concepts that take form during the book are so transversal that they are attractive to both economists and historians. As Fishlow brilliantly notes, "[…] his propositions afforded an opportunity to blend ideology, institutions and the historical experience of industrialization […]"[175]into a single, comprehensive picture. Fishlow goes as far as to claim that due to Gerschenkron's logical and consistent ordering of the process of European growth, its conditional nature of forecasts, and *its generalizability to the experience of the late late-comers of the modern Third World*[176], the model has garnered and maintained a great deal of interest. His model appears superior because it simultaneously accounts for historical context and emphasises the unique characteristics of latecomer development that lead to differential evolution[177]. Selwyn follows in Fishlow's footsteps, claiming at the outset of the article that Gerschenkron's more techno-industrial emphasis, but not entirely de-politicized nor anti-sociological, permits him to make quite detailed and accurate forecasts regarding industrialization processes[178]. Finally, Gerschenkron's main contribution to economic history studies was to arrange the deviations into logical patterns based on his idea of relative economic backwardness, and Sylla and Toniolo both acknowledge this. They argue that Gerschenkron's idea of relative backwardness is what made his comparative method so prominent among economists and historians by tying together common and distinctive elements of specific situations[179].

Gerschenkron's work grew to inspire whole research programmes, particularly about economic history, where he became profoundly influential in the study of European patterns of industrialisation[180]. Fundamental

[173] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 352-353
[174] All of the writers and works referenced in this section, especially in the second portion, are drawn from the considerations of Gootenberg (n 1). p. 58-64
[175] Fishlow (n 82). p. 2
[176] Although we have previously clarified how Gerschenkron's typology had no predictive claims, these were the author's intentions, which however do not affect the goodness of the model.
[177] Fishlow (n 82). p. 2
[178] Selwyn (n 60). p. 424
[179] Sylla and Toniolo (n 71). p. 5 and p. 15
[180] ibid.

to the author's enormous popularity in the academic world are concepts like relative economic backwardness, substitution patterns, and the general elaboration of a latecomer economic development "model". Paul Gootenberg describes Gerschenkron as "one of the century's striking thinkers about "backwardness" and comparative development, especially through his seminal conceptions of European "latecomer" industrialisation."[181]. Gerschenkron's contributions to academic literature served as a *stimulus* for future research and were actively integrated into various cases of stated-led development with various authors[182].

Sticking with the topic at hand, there are many writers whose work has been influenced by or expanded upon Gerschenkron's. It is worth noting that many of the publications based on Gerschenkron's study either belong to disciplines unrelated to his own or draw their lead from minute features pointed out by the author to advance the topic in ways that Gerschenkron himself would have been unlikely to have anticipated. For instance, the "bureaucratic-authoritarian" school of sociology, which emerged in the second half of the 1970s, may be considered the family of Gerschenkron's closest and most logically related, as argued by Gootenberg. Peter Evans, an exponent of this school of thought, in his sociological and comparative analysis of "embedded autonomy," credits Gerschenkron as the pioneer in making this difference. Another significant work upon Gerschenkron's role of ideology is "Ideologies of Development in Latin America" (1960), which develops his thesis that latecomers need to construct militant industrial ideologies. In continuation of the work done by our author, Hirschman proposes a new Gerschenkronian category that he calls "late-late industrializers." John H. Coatsworth, an acclaimed historian of Mexico's economy, has consistently disagreed with the dependency theory. In place of it, he has undertaken other Gerschenkronian avenues of inquiry. Gerschenkron's vocabulary may be found in books written by Hewlett and Weinert titled "Brazil and Mexico: Patterns in Late Development." It is possible, however, to classify the "bureaucratic-authoritarian" school of sociology, which emerged in the second half of the 1970s as Gerschenkron's natural or closest kin. The 1970s marked the beginning of this particular sociological school. In a sociological and comparative analysis of the idea of "embedded autonomy", Peter Evans acknowledges Gerschenkron as the pioneer in making this difference and credits Gerschenkron for this success[183]. Finally, to round off this part and provide a clear picture of this scholar's breadth, we would like to mention Sylla and Toniolo, who, in a few simple words, award him the most significant accolade for a researcher; they emphasise how "the questions he asked are among the most important ones to which today's scholars are trying to find answers."[184].

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[181] Gootenberg (n 1). p. 55

[182] Selwyn (n 57); Gootenberg (n 1); Martin Andersson and Tobias Axelsson (eds), *Diverse Development Paths and Structural Transformation in the Escape from Poverty* (Oxford University Press 2016)

[183] This whole section has been written upon the informations in Gootenberg (n 1) form p. 67-73

[184] Sylla and Toniolo (n 71). p. 23

CHAPTER II

The advantages of being late

1 The degrees of backwardness, the big spurt and the role of technological borrowing

In the following pages, we shall now focus on delving deeply into Gerschenkron's theory of economic development of backward countries, defining all the key elements that make up the theory and the interaction between all the parts involved. In order to do so, we will try to describe and discuss them in a logical and chronological order to give a more concise and coherent overall big picture. However, it is worth noting that the author never displayed his theory in such a manner but rather has chosen to explain the mechanics of his thesis while presenting alongside historical examples that can strengthen and better prove his point in case. As a matter of fact, we shall focus more effectively on the theory side, spoiling the historical cases made so that we can present the core elements that make up the bigger picture.

"Economic Backwardness in a Historical Perspective: a Book of Essays" proposed a concept of relative backwardness, in which the entire sequence of European industrialising nations of the twentieth century fit into a specific pattern of growth based on their level of development at the start of their industrialisation. One of the main ideas presented in this book was that, contrary to widely held belief, backwardness does, on the one hand, result in severe backlogs in terms of development, society, and institutions; on the other hand, backwardness also incorporates certain advantages that may facilitate the pursuit of economic growth and overall development in the countries involved.

Gerschenkron was not the first author to hoover the topic of economic backwardness nor the first to approach the matter of development economics; in fact, in the 1850s, John Stuart Mill used for the first time the term "economic backwardness" as a synonymous for economic underdevelopment[1]. Nonetheless, starting from the middle of the twentieth century, an economic notion in which a country's relative economic backwardness is measured by how far along the development process it is that country has progressed has come to be connected with the views advanced by Alexander Gerschenkron[2]. Indeed, the concept that a country's relative economic backwardness shapes the patterns of its later growth has a long history, nonetheless, Gerschenkron's contribution to the topic is largely appreciated by the academic community[3]. According to some, his work on economic backwardness relative to some European countries is "the twentieth century's most influential

[1] Falkus (n 127).
[2] ibid.
[3] Selwyn (n 60).

interpretation of European industrialization in the nineteenth century and its implications for subsequent history […].”[4].

1.1 Economic backwardness, its degrees and the inherent advantages

The idea of backwardness is central to Professor Gerschenkron’s work, providing a crucial basis for exposing his intuitions throughout the book. However, it is no simple task to circumscribe *what* exactly backwardness is or the distinct elements that make up backwardness. Indeed, relying on a first definition offered by Sylla and Toniolo, it could be said that backwardness may be understood as the *specific* economic circumstances of a society when it began to industrialise[5]. Anyhow, this is a partial definition that nonetheless encompasses a few relevant elements with which we can further develop the concept of economic backwardness. For example, we can once again find the return of the idea of specificity, which we had previously addressed by discussing how this was one of the distinctive focuses of Gerschenkron’s approach, combined with the concept of a nation[6] so that backwardness is essentially an economic characteristic that qualifies it distinctively. Moreover, there is a temporal distinction between *pre* industrialisation, a moment where backwardness is retained, and a *post*, where the country tries to move away from this condition. Hence, backwardness could be an economically defying characteristic that settles in a country through an extensive historical process before industrialization begins, which, however, can change if and when this process gains momentum. Nevertheless, a qualifying quality such as backwardness can exist and can be best appreciated if and only if it is *compared* with other countries. Indeed, when introducing the concept, Gerschenkron first describes it as a “relative term” since “it presupposes the existence of more advanced countries”[7]. Therefore, Backwardness, intended as a conceptual tool, is not *absolute* but needs to be *comparative* since, in Gerschenkron’s schema, it introduces us to the world and its protagonists, that is, other, more advanced countries. Indeed, Gerschenkron often characterises his notion of relative economic backwardness as an operational term or concept[8], implying that its primary tasks are basically two: (1) to enable a categorisation of the world and (2) to make this categorization happen under the same denominator.

A classification that does not foresee rigid categories but which is modular, able to distinguish the differences that various case studies can present without losing the common thread, is necessary if the European industrialization process is to be understood as a shared process that, however, presents significant differences when correctly contextualised. Suppose the idea of backwardness may be operationalized in relative terms, as

[4] Sylla and Toniolo (n 71). p. 3
[5] ibid.
[6] Although, Sylla and Toniolo specifically use the term “society”, we belive it is a fair extension to use ita s a synonim for nation, given that the country is Gerschenkron’s unit of observation.
[7] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 42
[8] ibid p. 42 and p. 354; Gerschenkron, *Europe in the Russian Mirror* (n 131). p. 99

a result of the capability of comparison is feasible. Hence, the emergence of *relativity* as a crucial feature of backwardness brings us to another fundamental characteristic of backwardness: variability. Backwardness is no fixed term and does not exist in absolute terms since country B, for example, may be relatively more backward than country A while still being more advanced than country C. Therefore, country C is relatively more backward than both country A and country B, which presents some aspects of economic backwardness, nonetheless. What does all this mean? This brief example illustrates the variability of backwardness and introduces us to one of the most defining features of Gerschenkron's approach to industrial development: *the degrees of backwardness*.

However, we might approach the same logic with a different method. More specifically, as we saw in section 1.3, the idea of relative economic backwardness is one of the two pillars on which Gerschenkron bases his argument on the industrialization process in Eastern Europe. This notion is employed as the foundation for a thesis that interprets future industrializations as departures from the conventional requirements of the spontaneous industrialisation process. Because the industrialization process is a contextual element that suffers from the impacts of economic backwardness, its conceptualization can only be broad because it serves as an explanatory variable within the thesis. However, since economic backwardness is relative and exists as a comparison of several elements, the simplest way to understand this notion is to examine the contrasts between the different nations or think in terms of absence. Indeed, the author argues that:

> "[...] one way of defining the degree of backwardness is precisely in terms of absence, in a more backward country, of factors which in a more advanced country served as prerequisites of industrial development. Accordingly, one of the ways of approaching the problem is by asking what substitutions and what patterns of substitutions for the lacking factors occurred in the process of industrialization in conditions of backwardness."[9].

Indeed, this definition of backwards implies a lack of productive components such as skilled labour, modern technology, advanced infrastructure, copious financial resources and *adequate institutions*. Therefore, the degree of economic backwardness is proportional to the amplification of these flaws, as these shortfalls are structural and pose progressively onerous hurdles to growth.

Given that crafting a definition that is entirely compatible with reality and completely strict would be a very tough endeavour, we may conclude that it is feasible to grasp economic backwardness from two perspectives. On the one hand, we have a positive outlook in that we can conceptualise economic backwardness as a collection of quantitative and qualitative elements that, almost settling and stratifying over time, have given rise to a series of barriers that *de facto* prevent a "normal" industrialization process. On the other hand, as

[9] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 46

Gerschenkron suggests, it is also possible to view the situation negatively, namely the absence of all those characteristics –caused by the presence of the barriers mentioned above – that would be functional to the normal development process. Thus, ultimately, they necessitate a deviation from these standards.

1.1.1 The measurement of backwardness

The reasoning presented above is relatively straightforward, but a major question must be answered after all these considerations: how do we measure backwardness? Well, the measurability of economic backwardness largely depends on the strictness of the definition we choose to work with. Indeed, one of the most challenging obstacles in tackling the issue is that Gerschenkron chooses to work with a relatively wide definition of economic backwardness, making assessing this variable difficult. One of the reasons for this decision, we argue, is that this term must respond to both merely economic variables as well as components of a more qualitative kind, such as society, ideology, and institutions. Indeed, Gerschenkron's interpretation and comprehension of backwardness cannot be solely based on economic aspects because this explanatory variable must account for industrialisation not only *per se* but also in terms of timing, growth rates and structural changes. Clearly, these are variables with diverse influences and causes that defy quantitative definition. Nevertheless, even if we were to focus only on the economic measurement of backwardness, we would still encounter some serious difficulties. For instance, various scholars[10] have recognised this difficulty.

For instance, Gerschenkron himself observes that probably the best way to tackle this issue would be to employ a comparative price system as a yardstick to establish the relative level of the economic backwardness of the countries in question. Other measures, such as industrial output or per capita income, are not wholly satisfactory and have some subproblems in turn[11]. However, as previously said, this is just half of the story. We have always stressed and valued Gerschenkron's eclectic and transversal thinking, and this is no exception. Several qualitative characteristics must be included in the idea of economic backwardness, which clearly contribute to the overall picture but, precisely because they are qualitative, are not as readily measured as output or per capita income. To seal this concept, we would like to refer to a brilliant passage by Gerschenkron, which shows how backwardness cannot be reduced only to an economic discussion but is a far more sophisticated dialogue.

> Assume a country A where, say, per-capita output and resource endowment are equal to those of country B, but in the latter country a much larger percentage of the active population is illiterate, thus creating an obstacle to a rapid acquisition of industrial skills or assume that in country

[10] Gootenberg (n 1); Steven L Barsby, 'Economic Backwardness and the Characteristics of Development' (1969) 29 The Journal of Economic History 449.
[11] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 72) p. 42,43; Barsby (n 192) p.453.

> B, for religious reasons, the people consider urban ways of life displeasing to the Lord and are deeply rooted in the soil, while such sentiments are quite alien to the inhabitants of country A, where there is a great and widespread willingness to respond to the call of pecuniary incentives. Would it not make good sense to include such factors, and many others of similar importance and bearing, in the concept of degree of backwardness? Obviously, this would be a hopeless enterprise.[12]

In light of this, we must conclude that no precise system of weights would allow for convergence over a common denominator of variables that are so dissimilar and difficult to put together. We cannot identify the precise amounts of the relevant components to which such weights may be applied. No matter how hard one tries, the idea of "degree of backwardness" is not a purely quantitative concept and, therefore, cannot be exactly measured.

Even while economics plays a role in Gerschenkron's definition of backwardness, he has always maintained that the concept of backwardness is broader than that. Indeed, he has frequently said that economic backwardness is an operational notion that, like a tool, helps carry out a particular duty for the analysis to develop. It is he who points out that:

> "[…] the "degree of backwardness" is an operational concept in the sense that it can be determined with a degree of accuracy that is sufficient for the purposes of the approach."[13].

Moreover, he further argues that:

> "It so happens that by and large it makes little difference whether we select as our yardstick of backwardness the size of per capita income or the network of communications existing in the country, or certain qualities of its population, such as the degree of literacy. While these yardsticks are not additive, use of any one of them *would result in the same ordering* of the individual countries with regard to the degree of backwardness, and even though a cardinal determination would be desirable, an ordinal determination is perfectly sufficient in this context."[14].

We would like to draw attention to the last sentence, as we believe that the crux of the whole matter lies here. If our goal is to systematise the European industrialization process in a coherent and organic pattern that accounts for the inherent differences in the various processes, and if we want to accomplish this by using the

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[12] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 43
[13] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 99
[14] ibid. p. 99 (emphasis added)

degree of economic backwardness as an ordering element, it is sufficient that we can make a correct classification of the various countries and that this classification naturally adheres to empirical reality. Furthermore, unquestionably, Gerschenkron's logic is similar. His premise and subsequent analysis are based on the notion that "in practice, we *can* rank the countries according to their backwardness and even discuss groups of similar degree of backwardness"[15]. This is possible because Gerschenkron's theory is framed in terms of rankings, not absolute values. As a result, rather than the magnitude of variations, emphasis will be focused on where nations lie on a scale of relative backwardness and development characteristics.

1.1.2 A deeper delve into the degrees of economic backwardness

We have underlined how the recognition of the European pattern of industrialization emerges as a coherent process when considered and related to the degree of economic backwardness of the respective countries. It is significant to look at the European industrialization process as a whole, deconstruct it, and draw a series of parallels for various reasons. First, to determine how much of a country's development lag may be attributable to historical factors, it is indeed necessary to examine the processes of industrialization in many nations at varying degrees of backwardness. Second, as Gerschenkron argues[16], for a developing nation to overcome its historical delays, it must be integrated into a region including developed nations.

We would like to add a small but significant footnote on this last point. Among Gerschenkron's numerous distinguishing features, one, in particular, stood out to us. In Gerschenkron, we often encounter concerns of a causal type, that is, considerations that take into account how an occurrence in a certain location and time might have repercussions and impacts on events that have yet to occur elsewhere. We took the liberty of labelling this as a "butterfly effect". In some ways, this notion emerges indirectly at the same time Gerschenkron constructs his tripartite system focused on the degree of economic backwardness since this system grants or takes away certain chances based on whether one is a forerunner or a latecomer. However, one particular paragraph is worth emphasising since it will be essential later. The passage goes as follows:

> "the paramount lesson of the twentieth century is that the problems of backward nations are not exclusively their own. They are just as much problems of the advanced countries. It is not only Russia but the whole world that pays the price for the failure to emancipate the Russian peasants and to embark upon industrialization policies at an early time."[17].

[15] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 44 (emphasis added)
[16] ibid. p. 42
[17] ibid. p. 29-30

According to some scholars[18], Gerschenkron may have been the first to carefully think about how the industrialization of even one nation affected the conditions impacting future industrializations in other countries, not only by posing a competitive threat and, on the other hand, offering the possibility to borrow industrial technology but also by altering the incentives to rulers. Moreover, over the years, it would turn out that Gerschenkron was accurate in his insight, i.e., that the circumstances for future industrialization were changed even by the industrialisation of a single nation[19]. In addition, Selwyn recognises[20] that each instance of successful late development alters the worldwide competitive environment for economically backward nations, so underlining the fundamental mistake of liberal policies' "one size fits all" approach. Developing countries need institutional innovations and novel state and social practices to close the gap between developed and developing countries and spur catch-up growth. After each example of successful late development, the playing field (the global economy and the political-economic connections between countries) altered, requiring emerging nations to exert additional efforts to catch up.

Now that our parenthetical is complete, let us return to our main speech. Why is it critical to differentiate between different levels of economic backwardness? First and foremost, identifying this difference helps us to move away from the unilinear and undifferentiated conceptions of development. Second, making this distinction is significant because this method can examine and understand each country's uniqueness in the industrialization process as a "part and parcel" of a graded system of economic backwardness. Given this, Europe's industrial history represents a coherent and consequential divergence from the first industrialisation (England). Finally, we may grasp the ensuing development process only if we evaluate each country's starting point, that is, the degree of economic backwardness. This is because the type and course of industrialization would fluctuate in a variety of ways depending on the degree of backwardness in the imminence of the latter. In essence, the key idea is that each degree of economic backwardness correlates to a particular set of implications, repercussions, strategies, policies, and development trajectories. Simply put, determining the degree of backwardness is crucial because context matters.

The degree of economic backwardness is the plane of departure – the context – that has a crucial significance in the subsequent development process, not only in industrial terms. Backwardness has a severe backlash on various aspects of the country, especially from the economic, institutional, and societal points of view. More specifically, the relationship between the agricultural sector, backwardness and the subsequent industrialisation process is worth considering. According to Gerschenkron, a country's level of development depends on how active part agriculture can play in the industrialization process. The nations that have successfully attacked and destroyed backwardness at its source — low labour productivity and stifling institutional constraints in agriculture — may be the proper examples of success. In addition, the less developed an economy is, the less probable it is that agriculture would give a rising market to industry, making

[18] Austin (n 159); Selwyn (n 60).
[19] Austin (n 159). p. 229
[20] Selwyn (n 60). p. 428, 444

industrial growth reliant on increased productivity and cross-sector sales. Therefore, the level of agricultural output is obviously connected to, and likely determines the degree of backwardness. High levels of capital intensity and investments in heavy industries with relative agricultural stagnation and low buying power in the agrarian sector characterise a high level of forced industrialization.

Nevertheless, why should all this be important? First, it is vital to remember that backwardness determines the starting point of latecomers and, therefore, highly influences the consequent growth path. Only by understanding what chances it provides and which it refuses can one know and grasp the causes of the success and failure of industrialization processes. Indeed, in chapter eight of the book, Gerschenkron, among other things, attributed Bulgaria's failure to industrialise to agriculture's poor performance. As a matter of fact, Gerschenkron saw disparities in economic situations as simply different levels of backwardness. Nevertheless, different economic settings — which, we reiterate, are not solely economic in origin — give birth to distinctive traits that emerge from the interplay of several elements, including, for instance, history, stagnating institutions, inadequate production capacity, and complex market inefficiencies. In addition, the degree of backwardness and the inherent industrial potentialities of the nations involved seem to have changed directly with how these characteristics of backwardness happened in specific cases. Therefore, underdeveloped nations need a fundamental shift in order to begin the industrialization process. However, as Gerschenkron points out, alternative substitutes would likewise indicate varying degrees of backwardness. Finally, one may argue that the potential benefits of industrialization vary directly with the level of development in a nation. The higher the backlog of technical advancements the developing nation might take up from the developed countries, the more promising industrialization appeared.

Why is this possible? This unexpected benefit, which we have dubbed the "sling effect", i.e., the direct proportionality between the degree of economic backwardness and the possibility for development, stems from a previously described idea. According to Gerschenkron, economic stagnation, in contrast to the promise of progress seen elsewhere, is a source of tension. Continuing the logic, higher economic backwardness equates to more intense tension, which, when resolved, directly impacts the growth process. Indeed, according to Gerschenkron, a country's major industrialization rise would be all the more impressive if its industrial expansion had been fairly postponed to begin with. Correspondingly, the more backward a nation is, the more erratic its development will be[21]. More specifically, the degree of economic backwardness influences the industrialization process from various points of view. For example, in the early phases of industrialization, a country's growth rate is expected to be proportional to its level of industrial backwardness. Because of how long the great industrial upswing has been stalled, it will be considerably more potent when it eventually arrives. Gerschenkron also hypothesises that a country's degree of economic backwardness is linked to the

[21] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 44, 45

rate of its early industrialisation[22]. Therefore, the more backward a country is, the higher the speed rate of its growth.

However, as mentioned above, a series of structural transformations must be implemented for this step to occur. Indeed, a lack of growth preconditions may stimulate institutional innovation and encourage the use of locally suitable substitutes. Indeed, we can see the effects of economic backwardness on the development process even here, concentrating this time on the institutional dimension of the issue. For instance, the more underdeveloped a nation was, the more probable it was that its industrialization would be guided in some way; various institutions, by nature and character, may be responsible for steering the development process depending on the country's level of underdevelopment. As an illustration, the state is more likely to become the engine of development when the degree of backwardness is high, i.e., when market institutions are lacking. The more underdeveloped a country is, the more government assistance is required to provide money and guidance to new businesses.

1.1.3 The advantages of being late

Gerschenkron was not the first to propose the seemingly strange notion that there are advantages to being late. In fact, the Veblen-Gerschenkron hypothesis[23] is frequently used in academic circles to refer to this notion. Veblen stated this idea in a 1915 book[24] in which he contrasted Germany's industrialisation with England's. Gerschenkron later resumed, modified, and extended the concept to other nations, including Russia, Italy, and France, and it became part of the book that is the focus of this first chapter. It is not our intention to debate the differences between the two authors in this respect but rather to address some interpretations that, in our opinion, do not do the naturalised American Russian author justice.

It is not our intention to report every quote that appears erroneous to our eyes, but we will limit ourselves to two and use them for a double purpose; first, to introduce the argument and, second, to extract from the contract the interpretation, in our opinion the most authentic, of this concept in Gerschenkron.

Austin, towards the conclusion of his brilliant writing, states that:

> "however, there is a formidable disadvantage of lateness, which Gerschenkron did not predict."[25].

Whereas on the other hand, Lin argues that:

[22] ibid. p. 78, 203
[23] Gunnarsson (n 13) p. 118; Selwyn (n 58). p. 426
[24] Thorstein Veblen, *Imperial Germany and the Industrial Revolution* (Transaction Publishers 1990).
[25] Austin (n 159). p. 207

> “instead of the advantage of backwardness, there seems to be in reality a disadvantage of backwardness in catch-up.”[26].

Now, before starting, we would like to make a final premise; it is absolutely not our intention to contradict in toto the two authors who, from a certain point of view, are right in saying what they say; however, we intend to show how Gerschenkron has accounted, at least in part, to their observations.

So, concerning Austin’s observation, there is a fascinating passage in Gerschenkron about it. The passage goes as follows:

> “In certain extensive backward areas the very fact that industrial development has been so long delayed has created, along with unprecedented opportunities for technological progress, great obstacles to industrialization. Industrial progress is arduous and expensive. […] industrial revolutions may be defeated by Malthusian counterrevolutions. […] great delays in industrialization tend to allow time for social tensions to develop and to assume sinister proportions.”[27].

According to Gerschenkron, all of the impediments that have previously stopped the country’s momentum are increasing in tandem with the growth in economic backwardness, which carries a slew of benefits. The greater the starting point’s backwardness, the higher the expenses required to overcome it. These costs are to be paid not just in financial terms, i.e., the expenses of subsidising nascent industries, but also in high social costs. This line, in particular, speaks to Gerschenkron’s remarkable interpretation of Soviet Russia. The author contends that the Soviet Union was primarily the product of the country’s economic backwardness[28] and that the multiple bloody revolutions that led to this authoritarian state were only stages of the abovementioned tension. Indeed,

> “[…] the delayed industrial revolution [which is the result of backwardness] was responsible for a political revolution in the course of which the power fell into the hands of a dictatorial government to which in the long run the vast majority of the population was opposed.”[29].

Another truly relevant passage on this topic is the one we find in the chapter dedicated to the analysis of Italian industrialization. The author, more concisely, argues that:

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[26] Lin (n 39). p. 45
[27] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 27-28
[28] ibid. p. 28
[29] ibid. p. 28

> "Along with the advantages of being late, there are also many definite disadvantages to being very late — a point that may deserve special attention with regard to the underdeveloped countries of our time."[30].

This passage must be read together with another concept expressed in the book's final pages. In particular,

> "[…] accumulation of "advantages of backwardness" can, at least at times, be paralleled by an accumulation of disadvantages of backwardness."[31].

The advantages of backwardness are granted nor given by default; they must be achieved through proper structural changes of various characteristics, such as institutional and social, to name a few. On the contrary, what is undoubtedly given are all the disadvantages that stem from backwardness; therefore, no country is by definition granted to be successful in its industrialisation path. Furthermore, not even industrialisation itself is a granted achievement; indeed, according to Gerschenkron, industrialisation is anything but inevitable. For instance, consider the following passage:

> "[…] the more delayed the industrial development of a country, the more explosive was the great spurt of its industrialization, *if and when it came*."[32].

Furthermore, not only is industrialization not unavoidable in backwards countries, but it may not totally exhaust its driving power if not "managed correctly". By "correct management", we mean the implementation of appropriate policies backed by the previously indicated structural transformations at the economic, institutional, and social levels. In reality, even if a big spurt occurred, and thus an industrialization principle was in place, the duty of keeping that flame alive and fuelling it further continues; instead, it becomes much more critical to do so. The partly and nearly fully unsuccessful industrializations of Italy and Bulgaria are notable examples of "bad management" of this process. We examined in section 2.1 how Gerschenkron's idea of economic backwardness involves a plethora of factors that defy economic logic alone. Timing is an important factor among the various considerations. At first look, the distinction between being a forerunner and a latecomer is the temporal distinction of when industrialisation occurred. The idea of timing is, therefore, present throughout the industrialisation process and plays a significant role. For instance, consider the following:

> "To change - and to lower - the metaphor, the bus that is supposed to take a country across its great spurt of industrialization sometimes comes at odd hours and can be missed, And the next bus may be not as large or as convenient or as fast as its predecessor. At any rate, the wait for it can be

[30] ibid. p. 86
[31] ibid. p. 363
[32] ibid. p. 44 (emphasis added)

> fairly long. In other words, both the timing of a country's great spurt and its character can be affected."[33].

So, in summary, not only are the benefits of economic backwardness not taken for granted, nor is industrialization unavoidable; even if these variables may fit together in some way, there is no guarantee that this process can be expressed in all of its strength and thus give rise to all of the benefits it brings. Although Gerschenkron's vision can be considered optimistic in the sense that it envisaged a possibility of growth for backward countries and that this possibility, if properly grasped, could bring enormous benefits, it cannot be said that he was not aware of the contraindications and inherent difficulties that exist in simply being economically backward. One of the primary distinctions between Rostow's and Gerschenkron's work is most likely found in these thoughts. While, according to the former, industrialization was similarly replicated wherever there were the necessary preconditions for it to take root – and only those circumstances, not others – the narrative for the second is entirely different. The Rostow thesis leaves little space for strategy, unique country policies, or context, making a slight difference in whether a country industrialises sooner or later. For Gerschenkron, on the other hand, as we have seen, some possibilities can accelerate a country's industrialization process, but there are just as many obstacles to overcome; some outside the country's sphere of control, others that fall precisely into this, highlighting how, given a particular context, individual choices make the difference. Finally, we feel that what has been said so far is sufficient to address Lin's second comment.

With these fundamental premises in place, we will now turn our attention to a more detailed assessment of the benefits of economic backwardness. It is important to establish as a starting point Gerschenkron's idea that there are many instances in which being backward may be advantageous. As a result, the possibility of embracing cutting-edge technology and utilizing economies of scale to their fullest potential was the most significant benefit of all[34]. Indeed, the Veblen-Gerschenkron hypothesis suggests that regions with lower levels of technical development might benefit from borrowing or importing technology to catch up to more developed regions. It is fascinating to see that these benefits are not static, predetermined things but rather something that develops with time, something *in fieri*. If a developing country effectively uses this advantage, it may catch up to a developed nation in terms of technology, industrial upgrading, and economic development.

One way to look at the situation of a developing nation is as a struggle between its present realities and its possible future selves. The greater the degree to which a nation has fallen behind, the greater the rewards that may be won by a concerted effort to bring it up to speed. One advantage of a sluggish economy is the chance to piggyback on the development of advanced technologies established in other countries, as well as reap the rewards of the commoditization of capital that has taken place in other regions. As the tension increases, a tipping point will likely be reached when the benefits of fast growth outweigh the hurdles to advancement

[33] ibid. p. 363
[34] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 109

inherent in economic backwardness. By this measure, the build-up of anticipation for the big surge looked relentless, and the developing nation was portrayed as progressively amassing the benefits of its underdevelopment. However, as the degree of economic backwardness increases, so do the challenges it presents. This has the potential to inspire the development of a more general concept of "nodal points"[35], beyond which the benefits of backwardness no longer accrue to the same extent and mark the beginning of a period of diminishing promise and growing disability.

In the same vein as rising tension, substitution patterns catalyse reaping the benefits of latecomers. Indeed, the less developed countries might gain from adopting the most cutting-edge sectors of industry via the process of substitution and by developing later. For Gerschenkron, one distinct benefit of being technologically behind is that underdeveloped nations tend to focus on the areas where the most recent advances have been made. A key component of a Gerschenkronian approach to playing catch-up is this realisation that one improvement (typically in industry) leads to further improvements (in industry and, more generally, in the economy and society)[36]. Of course, the opposite is also true, and countries and economic sectors that cannot provide rising returns risk falling farther behind. One must keep in mind that, contrary to Rostow's view, the lack of "standard" preconditions is not a hindrance in and of itself and that it is precisely the benefits of economic backwardness that allow for the absence of these preconditions to be overcome via a process of substitution.

1.2 Substitution patterns for missing prerequisites

So far, it is evident that Gerschenkron adopted a fundamentally redesigned approach to the industrialisation of backward nations, starting from alternative assumptions – anti-dogmatic, we would say. Thus far, we have presented and analysed several themes that are part of the intricate process he sensed existed. We have learned that one of the key ideas on which it is based is that the industrialization process is not the same in all nations but varies significantly depending on the context in which it occurs. The core premise is that, while the objective is the same for each, the process of achieving that goal varies, often dramatically, depending on a set of circumstances previously overlooked by others. Therefore, in order to account for and systematise all of these seemingly merely individual and trivial departures from the norm, Gerschenkron proposed the operational notion of economic backwardness. Aside from being factual, that is, a genuine reality of a particular country, economic backwardness is an explanatory variable useful to connect and explain a series of sub-variables accountable for distinct outcomes. Indeed, we have already explained how a specific level of economic backwardness correlates to a set of positive and negative traits that significantly impact the ensuing growth process. We have seen how backwardness influences the speed, scale, and intensity of industrialisation, should it take place. In addition, in section 1.3, we have generally explained our author's idea

[35] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 364
[36] Selwyn (n 60).

and the mechanisms responsible for launching and perpetuating the inertia of the model he presents. We have seen, in particular, how backwardness is the primary driver of the industrialization process. This is feasible because all of the traits associated with economic backwardness tend to drive the country in question in that direction. However, for such a massive process to take place, a country must be able to make the most of its situation and thus be able to exploit the advantage of being backward; in particular, a country must know how to hinder all externalities resulting from this situation and thereby, in some way, transform the negative aspects into positive ones. According to Gerschenkron, countries *could* compensate for the unfavourable beginning conditions by changing the adverse circumstances and severe limitations that backwardness imposes and tapping into the latecomer benefits. In other words, they can substitute the allegedly lacking industrialisation prerequisites. Although this topic is conveyed so succinctly, it contains a great number of concepts. More specifically, the concept of being able to substitute for missing requirements is based on the previously described premise that there are no universal patterns of growth and, more significantly, no "required prerequisites". However, a little clarification is needed.

As we established in section 1.2.2, Gerschenkron clearly separates himself from the idea of prerequisites. However, not entirely. We have shown, in particular, that his criticism, and therefore the basis of his "anti-dogmatic" approach, stems from the disagreements with Marx's generalisations and Rostow's one-dimensional and stage-like model. It is vital to remember that his criticism is directed not so much at the concept *per se* as it is towards its application. More specifically, Gerschenkron intended to highlight how these prerequisites were projected on underdeveloped countries, ignoring any consideration for context and reaching rather harsh conclusions about the possibility of their future development. To put it in the author's words:

> "the general tendency in literature has been not only to emphasize the importance of prerequisites, but to operate with a very general, one might say, absolute or dogmatic concept of prerequisites or preconditions."[37].

Nonetheless,

> "at this point in the development of my approach I felt that a choice had to be made. I could have abandoned the concept of prerequisites altogether, since it had fared so poorly when confronted with historical reality in crucially significant areas. But this would not have been a fruitful decision. For the concept of prerequisites of industrial development can serve us in good stead once we have divested it of its absolute character."[38].

Given what has been discussed, it is feasible to argue that Gerschenkron's work goes through a first phase in which he deconstructs the traditional interpretation of the prerequisites and the ingredients that comprise this

[37] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 99-100
[38] ibid. p. 102

list. After demonstrating the minimal historical relevance of commonly believed necessary prerequisites – agricultural transformation and original accumulation[39] – he proceeds to the second half of his argument, which we might call the constructive element.

Indeed, to an extent, Gerschenkron acknowledges and accepts that "[…] no industrialization seemed possible, and hence no "tension" existed, as long as certain formidable institutional obstacles (such as the serfdom of the peasantry or the far-reaching absence of political unification) remained."[40]. Furthermore, serfdom is not the only retarding institution Gerschenkron takes into account. Similar points with various examples are stated several times throughout the book and indirectly reveal how crucial this idea is to Gerschenkron's scheme[41]. Coming to the second "redesigned" prerequisite that Gerschenkron identifies, he argues that "[…] we may say indeed that in England original accumulation could be usefully regarded as a prerequisite for industrialization. But then we may say that the German investment bank was a substitute for the missing or inadequately available prerequisite. In Russia, where for many reasons a credit system could not function in the early stages of industrialization, the budget was a substitute for both the missing prerequisite and the yet inapplicable German substitution."[42]. In short, industrialisation needs to be financed, and backward countries, according to their degree of backwardness, must find a way to do so since otherwise, an industrial take-off appears to be even more challenging than it already is.

However, in our opinion, what these two quotes reveal, particularly the second one, is something we have already partly mentioned. To Gerschenkron, the problem with prerequisite-based analyses was not that they were incorrect or of little relevance in comprehending the English experience but rather that they were understood absolutely, mechanically, and dogmatically when applied to other nations. First and foremost, he had issues with the idea that all nations must go through the same or broadly comparable "stages" of development to become industrialised economies. Gerschenkron contended that the very setting and nature of late industrialization helped to address some of the issues that the requirements argument highlighted. Furthermore, to the degree that they were not, governments had to find ways to get around the lack of these "prerequisites" by implementing substitutive elements, which included a wide range of possible measures. Indeed, it is precisely because of this reason that "[…] these beautiful exercises in logic [that is, the above-stated must-have-prerequisites] have been defeated by history"[43].

The concept of prerequisite substitution patterns is as complicated and articulated as the concept of economic backwardness, for which it is necessary to differentiate into a historical component, strongly tied to reality, while also appreciating its theoretical significance as a variable explanatory. The required exercise, however, is most likely theoretical at first, then becomes a pragmatic attempt to discover analogous patterns

[39] ibid. p. 100-101
[40] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 8
[41] ibid. of relevant importance p. 17, 28, 119, and the postscript chapter
[42] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 102-103
[43] ibid. p. 100-101

in historical data. There is, however, one essential difference that must be acknowledged. The degree of economic backwardness aggregates all the variables that affect a country's state *prior* to industrialization; hence, it identifies the inputs or circumstances that will influence the development process as it progresses. The substitution process, on the other hand, indicates how all those variables defined by the degree of economic backwardness have been modified, replaced, and so portrays the consequences given the conditions formed by the degree of economic backwardness in certain ways. Indeed, let us take as our starting point the need to overcome certain institutional obstacles and the need to finance the industrialization process in some way. It becomes evident that there is not only a growth process for underdeveloped countries, but this path can be significantly different if we consider both the different circumstances in which this process occurs and the possible paths that a particular country may take in the process. Undoubtedly, the central idea of Gerschenkron is that substitutes may be used to compensate for lacking prerequisites. This "situational relativism"[44] makes even more manifest the idea that development is more accurately seen as non-linear and that various processes for development apply depending on the context, situation, and level of development. While the ultimate goal remains the same, how to get there will depend on factors unique to each nation that has contributed to their state of underdevelopment. Finally, it is necessary to emphasise how the two souls of Gerschenkron, addressed extensively in this chapter's introduction, have a methodological merit that is not to be overlooked. For instance, as noted by Sylla and Toniolo[45], when analysing historical cases of industrialization, patterns of substitution help bridge the gap between the interests of economists, who are interested in identifying the common factors and economic processes that promote successful industrializations, and historians, who are interested in identifying the specific and, in some cases, unique aspects of each case.

At this point, we must pay close attention to the intimate connection between economic development and the substitution pattern. The more factors a nation lacked, the more it would have to "substitute" for them during the industrialisation process. Because of its lack of domestic demand, productive factors, or institutional infrastructure, a developing nation must seek out external alternatives. Substitutes are promoted by underdevelopment, but the nature of the substitutions would mirror the degree of backwardness. The identification of alternative methods of industrialization will reveal various degrees and kinds of "backwardness" in the form of sluggish or delayed structural transformation. Moreover, substitution patterns not only account for *how* initial conditions are manipulated in order to initiate a process of industrial development but, at the same time, act as a *medium*. The basic idea is that relative economic backwardness is beneficial in driving systematic replacement for the purported prerequisites for industrial expansion. That is why the advantages of backwardness might work in favour of the less developed nation via the substitution process. By substituting the missing prerequisites, hence overcoming the structural drawbacks that

[44] Term used by Adelman and Morris, cited in Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3). p. 11
[45] Sylla and Toniolo (n 71). p. 15

backwardness imposes, a country may successfully initiate an industrialisation process, enjoying all the benefits of delayed development.

Furthermore, among latecomers, replacing missing prerequisites or using existing prerequisites, as well as catching up, is more of a simultaneous than a sequential process. Gerschenkron, for example, asserts that

> "[…] actions by banks and governments in less advanced countries are regarded as successful attempts to create *in the course* of industrialization conditions which had not been created in the "preindustrial" periods precisely because of the economic backwardness of the areas concerned."[46].

What is truly fascinating is that the substitutions may take numerous forms, ranging from economic measures to the formation of new financial or political institutions, all with the goal of filling the gaps, the hurdles that maintain a nation in a state of backwardness. Because there is a direct relationship between the degree of backwardness and the replacements that will be implemented, it should be noted that as the degree of backwardness increases, the replacement that will be created becomes more "artificial". It appears quite clear to us that what Gerschenkron means by development is essentially a march towards it. Assuming that the market is the pivotal and founding institution of capitalism, we might interpret the substitution patterns as an effort by the country in question to compensate for the absence of this institution. More specifically, the higher the degree of economic backwardness, the more artificial the replacement to compensate for this deficiency. This becomes even more evident if we recall that Gerschenkron considers industrial financing an essential prerequisite for subsequent industrial development. And in fact, it is here that the relationship between the degree of economic backwardness, the necessity for funding, the lack of an adequate market, and different types of institutions are formed. In essence, institutional arrangements not originating in the market, such as banks and the state, or a combination thereof, may be used to gradually fill in the gaps where the market falls short. It is arguable that the state, rather than a collection of private players, is more likely to step in as an organisational alternative for the market as the coordinator of industrialisation as deviations from a spontaneous industrialization increase. From this point of view, not only would massive government involvement constitute a kind of substitution, but so would, for example, the relatively high reliance of the manufacturing sector on exports. Indeed, from this perspective, state policies could be viewed as strategic responses to backwardness.

To summarize what has been said, it would be appropriate to underline once again the following. For instance, examining the pattern of substitutions is essential for understanding the development of industrialisation across history. Indeed, "[…] the concept of substitutions may be considered simply as a construct that just helps to understand the process of industrialization and to conceive Europe in this regard as a graduated unit."[47].

[46] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 358
[47] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 108

Moreover, according to Gerschenkron, differences in the factor and product markets between the leading and follower economies might be offset by making appropriate substitutions, even if the production methods, the kinds of goods produced, and the types of institutions employed by the followers were all distinct. Because markets in developing countries were too shallow and inadequately structured to function like those in early industrialisers, larger decision units with bureaucratic ties served as a replacement for market coordination. Indeed, endogenous institutional variations emerged across national industrializations due to the substitution for prerequisites. As a result, countries that successfully accomplished this process did not only switch up their production substitutions but also their institutional frameworks, thus revealing the highly pervasive character of substitutions. The development of substitutions in the different advanced backward phases has also led to breakthroughs that have outperformed prior best practices. However, according to Gerschenkron, institutions formed via latecomer substitution are often unsuitable for more developed economies. In terms of economic theory, the new institutions were a substitute within a set of options that were maximised under various conditions. For instance, just as a neoclassical enterprise would shift its production away from more expensive inputs, in the same manner, the replacement of institutions for unmet prerequisites will be preferable to the wholesale acquisition of the technologies and institutions of a more developed nation. However, replacement does not entirely nullify the original disadvantages, such as increased input costs or economic backwardness. This is because substitutions are not a definitive solution but a palliative capable of setting in motion a development process capable of maximizing the potential advantages of economic backwardness. More specifically, since the process of industrial development is not something that takes place automatically, to an extent, substitutions that may occur in a particular country, especially in the institutional form, could be viewed as the trigger to initiate this process. However, it is worth noting that:

> "there is no intention to suggest that backward countries necessarily engaged in deliberate acts of "substitution" for something that had been in evidence in more advanced countries. Men in a less developed country may have simply groped for and found solutions that were consonant with the existing conditions of backwardness."[48].

Finally, just as the benefits of being late are just possible, not given *de facto*, so are the benefits that a functioning substitution may provide. For instance,

> "[…] all our approach can do is to attribute that failure to the inability or unwillingness of the government to discover and apply the appropriate pattern of substitution."[49].

Hence, if we were to reformulate what was said in section 1.2 in the light of the discussions in this section, it would be appropriate to say that Gerschenkron's research of late industrialization centres on the topic of how

[48] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 359
[49] ibid. p. 362

the frequently "missing" prerequisites in latecomers are generated or replaced via specific institutional responses rather than on whether these prerequisites exist adequately in particular latecomers at the commencement of their growth.

In conclusion, a highly relevant and important quote from Gerschenkron may be in order to seal and close the discussion.

> "[…] emphasizing the role of substitutions in industrial history offers a much more optimistic view of the chances for industrial development of currently undeveloped or underdeveloped countries. As previously said, it was the traditional view that industrialization cannot take place unless a number of "necessary prerequisites" have been created. I believe, the concept of substitutions […] performs very useful service. It offers us some predictive possibilities—predictive in the technical, historical sense. This means that once a basic hypothesis relating a pattern of substitutions in their nature and intensity to the degree of economic backwardness has been formulated, it becomes possible, when embarking on research in a new area, to determine the degree of backwardness of that area and then establish a set of expectations with regard to the substitutions that one is likely to find. In other words, one knows what to look for, and this is of inestimable value in research."[50]

1.3 The Big Spurt and the role of technological borrowing

In section 1.1.3, we addressed and expanded on the critical dichotomy between continuity and discontinuity in Gerschenkron's methodology. We have shown, in particular, how the idea of discontinuity becomes the discriminating variable through which to orient the viewpoint in search of a shift in industrial output, thus a hint that announces the start of a process. Indeed, we have determined that Gerschenkron's empirical and historical observation is based on this dialectic. A previous continuity, understood as a gradual rate of change, is replaced by a discontinuity, i.e. an increase in the rate of change, which is not a deviation in and of itself, but something that resolves itself into a more general pattern, namely the process of industrialization of Europe, articulated according to the degree of economic backwardness. If we first establish that Gerschenkron's thesis is a three-part "model" in which economic backwardness is both the common denominator and the engine that drives countries toward the need for industrialization, the physical

[50] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 107-108

manifestation of this fuse, triggered by the substitution process, is the big spurt, that is, a significant variation in industrial output.

Without going too far, we have disclosed the six propositions that Gerschenkron draws from his empirical observation in section 1.3. Although they are all inextricably linked, and we believe the fifth is the original from which the others may be deduced, let us concentrate on the first for the time being. The first proposition reads as follows:

> The more backward a country's economy, the more likely was its industrialization to start discontinuously as a sudden great spurt proceeding at a relatively high rate of growth of manufacturing output.

In the more particular debate on the degrees of economic backwardness, we have previously discussed various findings derived from this proposition. We have discovered that a specific level of backwardness correlates to a set of inherent features. The intensity and extent of these "legacies" increase in direct proportion to backwardness. More precisely, we discovered that traits such as the speed and rate of growth of industrialization are substantially more prominent in the most backward nations and tend to diminish as one ascends this imaginary scale. Furthermore, industrialisation in the most backward nations is not only quicker and more significant but also more "violent", as Gerschenkron describes it. In fact, correcting the perspective, all these are characteristics of what Gerschenkron calls the "Big Spurt". Moreover, the above notions could be used as a rule of thumb when adopting Gerschenkron's approach to industrialisation in backward countries.

However, if we try to give a more stringent and precise definition of the Big Spurt, we will collide with the transversality of Gerschenkron's approach. For instance, as Gerschenkron himself notes, "[…] the concept of the initial great spurt of industrial development cannot be forced into an overly precise definitional shell."[51]. In particular, just as substitution patterns act on various levels and therefore determine both qualitative and quantitative consequences, the same is true for Big Spurt. Although this phenomenon can be reduced to a series of measurable variables, other aspects of this process are part of the structural transformation. Consequently, just as the substitutions for the lack of the necessary prerequisites are made during industrialization, similarly, the structural transformations are parallel to industrialization and have ramifications that override the purely quantitative ones.

Despite these inherent constraints, we may extend the discussion by focusing on some of the quantitative features of the Big spurt. Gerschenkron, in particular, identifies two distinguishing features: (1) a significant kink in the curve of industrial production indicating a substantial increase in the pace of development, and (2) the persistence of that growth during a time of worldwide depression. We shall now concentrate on and study each of these traits separately.

[51] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 203

In the face of significant economic backwardness, the modern industrialization process was expected to take the shape of a massive starting push relatively soon. After a certain amount of time spent laying the groundwork, this industrial growth frequently took the shape of a large spurt, during which time progress was made at an exceptionally quick pace over a relatively extended period of time. Indeed, according to Gerschenkron, it is accurate to claim that most of Europe's significant industrializations began with violent industrial revolutions. Moreover, the author observes that during the industrial drive, the amount of producers' commodities to overall production grew rapidly. Since, under the prevailing circumstances, technical progress has been most rapid in the sector of producers' goods, a developing nation would likely prioritise these outputs above the manufacture of consumer goods. As a result, the heavy industries presented extensive possibilities for making the most of the benefits associated with a relatively late entry into the industrial era. It is important to open a parenthesis here.

Gerschenkron's model heavily incorporates the development of technology through time. He notes that the second half of the nineteenth century saw a shift in technical tendencies toward more reliance on capital. Late entrants, often characterised by a lack of capital, will likely see this technological tendency as detrimental. However, Gerschenkron notes that despite this technical tendency, latecomers like Germany and Russia made up ground on Britain. Although the total capital intensity of their economy could be lower than that of the predecessor, he believes that the latecomers in the nineteenth century might catch-up by investing more heavily in individual factories. It should be emphasised that British industrialization followed a somewhat different technical trajectory than Germany and Russia. Gerschenkron notes that the second half of the nineteenth century saw more vehement technical advancement in manufacturing capital goods, with such progress tending to increase economies of scale. However, cotton textiles and equipment industries were frontrunners throughout Britain's industrialization era in the 18th and 19th centuries when economies of scale were less relevant. In addition, as Shin[52] points out, not even the iron and steel sector did not have a powerful imperative of scale economy in the first half of the nineteenth century. Therefore, the pattern of catching up would have looked quite different if Germany and Russia had confronted the same technical tendency in the second half of the nineteenth century as Britain did during its industrial revolution. In fact, as Gerschenkron points out[53], England's dominance in cotton textile output was challenged by neither Germany nor any other country for the entirety of the nineteenth century, and developing countries were slow to adopt the production of modern machine tools, which necessitated particular technological skills. Although technical trends may have a role in whether or not a latecomer is successful in catching up, this is not a sufficient explanation on its own since latecomers may always find a way to work around the limitations imposed by these trends. As will be explored below, Gerschenkron's complex system explains the causation of catching up, and it has to do with the creation of specific institutions and particular catching-up techniques and, in some ways, with complex social

[52] Shin (n 112).
[53] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 10

capabilities. An important passage from Gerschenkron summarizes and underlines the goodness of what has been said. The passage goes as follows:

> "That "specifically old" industry as a rule has played a diminishing role in all spurts of industrialization in backward countries. In fact, one is almost tempted to argue that the more backward a country, the more appropriate it is to define its spurt of industrial development as a process during which the textile industry was divested of its dominant position."[54].

If, as can be seen from the second distinguishing feature of the great spurt, this industrial upsurge must be long-term and unaffected by international recessive cyclical fluctuations, then transformations of the industrial production system to support this process are needed. Indeed, Gerschenkron argues that drastic changes in the composition of the industry sector are inevitable outcomes of the period of fast industrial growth. However, modifications of a different kind had to occur alongside the alterations of the productive industrial structure, specifically of an institutional type. Indeed, we have previously established that a higher degree of economic backwardness correlates to a greater organisational necessity and that backward nations have occasionally substituted structural deficiencies with institutional forms to compensate for these limitations. For instance, "as a rule, a high degree of backwardness in a country is clearly associated with a high measure of "artificiality" in its industrial development."[55]. Moreover, here we return to the point made at the beginning of this section, namely that the big spurt goes beyond the purely quantitative economic logic and requires contextualisation in qualitative terms, particularly in institutional terms.

In conclusion, we would like to make some considerations on the impetus of the big spurt, indirectly pointing out how difficult, expensive and absolutely not obvious this process is. Gerschenkron argues that economic expansion either occurred as a sudden surge of industrialization or did not occur at all[56]. Indeed, the fact that the more delayed the industrialization process was, the more rapid the surge of sudden growth that was required to break through the stagnation[57] emphasises the need for this process to be "violent" in and of itself. Furthermore, the later a country joined industrialization, the greater the capital requirements to boost output, the later a country joined industrialization[58]. Nevertheless, the price of industrialization was not only monetary; there were other expenses to consider as well. Almost always, extreme expansion rates require an excessive price to be paid by the population[59]. A developing nation trying to replicate or surpass the advanced nation's industrial system would always seem forced. Therefore, as a result of the big spurt, a radical shift in scarcity relationships took place. Goods formerly produced in tiny volumes and sold for high prices may now be mass-produced at reduced unit costs due to technological advancements. However, products that formed

[54] ibid. p. 203
[55] ibid. p. 213
[56] ibid. p. 155
[57] ibid. p. 155
[58] ibid. p. 45
[59] ibid. p. 213

the backbone of industrial activity before the considerable surge saw sluggish growth and rising costs. Finally, Gerschenkron observed that the big spurt affected society as well since improvements in living standards often followed periods of rapid industrialization[60]. Despite the fact that this finding is based on an empirical study of facts, we feel that it is a relic of Gerschenkron's period. In particular, in section 1.1.2, where we discussed the origins of development economics and how the concept of development has changed and evolved over time, we believe that this last observation reflects the notion that development substantially coincides with economic growth, which is only half of the story.

1.3.1 The role of technological borrowing

At this point, it should be clear that the concept of "latecomer advantage" is an idea that incorporates a multiplicity of benefits for the arrested country. However, as Gerschenkron himself points out, the most important of all is the capacity to replicate successful practices and capitalise on cost savings is crucial, as Gerschenkron notes. It is important to remember that the least developed countries have borrowed technology created over decades, if not centuries, by the more advanced nations. Not by chance, borrowed technology played a crucial role in a developing nation's rapid industrialisation. With time, the gap between developing nations' economic potential and actual development increased even more due to the possibility of vast imports of foreign equipment and know-how. In fact, just as the great spurt is the physical expression of the Gerschenkron hypothesis's dynamism, which pushes nations towards industrialization, technical borrowing is the medium through which this push is achieved at the high rates and speed postulated by the author. Indeed, "[…] it was largely by application of the most modern and efficient techniques that backward countries could hope to achieve success."[61]. Such a jump, however, is only achievable because the underdeveloped nation will focus on the areas of the industrial economy where technical progress has been rapid in the global economy as a whole and where a pool of innovations, the kind that does not require an exceptionally skilled labour force, is available for rapid adoption. Moreover, a developing nation may learn from the established nations' vast treasury of technical advancements and embrace cutting-edge tech without meeting any pushback from those who prefer the old technologies[62]; this is another side of the advantages of backwardness.

Nevertheless, we must constantly remember how important context is in this scheme; in fact, just as an imitation of evolution in advanced nations arises in conjunction with various indigenously determined features, so does technical borrowing. Notably, this pattern is reinforced by an additional benefit of being late: the competitive advantage of labour cost. As Gerschenkron points out, "the advantages inherent in the use of technologically superior equipment were not counteracted but reinforced by its labor-saving effect."[63]. Lin agrees with Gerschenkron and expands the discussion by using a more contemporary perspective in line with

[60] ibid. p. 83
[61] ibid. p. 9
[62] Lin (n 39).
[63] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 9

current academic studies. He contends that a nation can only maximize its advantage if it invests in technical development and industrial upgrading following its comparative advantage, as established by its unique factor endowment. In other words, they should steal innovations from nations that are only a few steps ahead of them[64].

In conclusion, we would like to make some final remarks, which we will deepen in section 3.1. Obviously, there are bounds to technological borrowing, and one such constraint is that a developing nation cannot apply it to production lines that need exceptionally prominent levels of specialized technology. Immigrants from more developed nations and the use of their training facilities could be a palliative solution and may help alleviate the effects of illiteracy and poor education standards, which make it challenging to produce qualified workforce and efficient engineers. It is a possibility to bring specific know-how from overseas since not having any background in a particular field of study is just as problematic. This is why it is critical to emphasize that even introducing new technology necessitates a series of structural changes. In reality, the ability to borrow these technologies is closely connected to the recipient country's social capabilities. Its ability, in particular, to accomplish a series of institutional adjustments that have beneficial ramifications at the societal and, therefore, at worker levels. In short, an industrial revolution must correspond to an institutional and social revolution, necessarily.

[64] Lin (n 39). p. 63

CHAPTER III

Moulding new elements into the bigger picture

1 The role of society, culture, and institutions in backward countries in Gerschenkron's interpretation

The research conducted by Gerschenkron highlights the significance of social elements in determining economic outcomes and the necessity for countries to consider the social environment in which economic growth occurs. He believed that economic development is a dynamic process moulded by the interactions between economic, social, political, and cultural factors and that it is essential to take a holistic approach to understand and promote economic development. This belief was based on his assumption that economic development is a process shaped by the interactions between economic, social, political, and cultural factors.

History as the combination of contextualised *where* and *when* in time.

1.1 How does society affect the development of a country?

The role that Gerschenkron reserves for what concerns society is two folded. Sometimes it is articulated openly, thereby making it part of the complicated process that the author intuits; at other times, it is left in the background and portrayed indirectly in its functions and participation. It is a complex topic that demands particular consideration, but it introduces a new element, a new variable, to the Gerschenkron equation. So far, we have discussed economic backwardness, as well as the benefits, drawbacks, and features that it bestows on the countries concerned. After that, we paid consideration to the substitution process, the many forms that it might take, and how this heterogeneity is directly related to the degree of economic backwardness. Finally, we concentrated on the great spurt, its discontinuous and impetuous expression, and how the import of foreign technology is a manifestation of both this process and substitution patterns to capitalise on the advantages of being late. In this part, we would like to introduce a new concept: society. More specifically, we want to focus on the latter's role and involvement in the great dialectic of backward nations' industrialization process; we want to understand how society might affect, both negatively and positively, and why it is vital to examine it in the first place.

What has become abundantly evident is that industrialization, which is fundamentally also a process of structural transformation, is a journey that necessitates adjustments, sometimes dramatic. Indeed, it would be proper to state that, according to Gerschenkron, the industrialization process for an economically underdeveloped country is practically a process of “creative destruction”, to quote Schumpeter. And, because the process of economic, and hence industrial, growth is global and involves a variety of aspects, society becomes an intrinsic part of this process. More precisely, industrialisation creates a burden on the population because they are an active participant in this process. Before diving into *how* industrialization represents an actual cost to society, it is more than ever necessary to pause for a minute to consider the logic of this statement.

The link between population and economic backwardness, according to Alexander Gerschenkron, is complex and depends on the unique circumstances in which economic progress occurs. However, it is possible to make some considerations regarding what has been said so far. For instance, let us consider for a moment what implications such a process would have in a country with a large population. On the one side, a larger population means a bigger pool of workers and consumers, which can support economic growth. Moreover, a more numerous population may also bring a richer range of talents and knowledge, which can be beneficial to innovation and technological advancement. A greater population, on the other hand, can put a strain on a country’s resources and infrastructure, resulting in issues such as overpopulation, environmental deterioration, and social instability. Hence, a large population could hinder economic progress in some situations, especially if it is not supported by adequate investment in education, health care, and other social services. Examining the reverse example, namely a small population, it is simple to recognize how this might also significantly impede progress. In fact, a tiny population means a small pool of knowledge and skills from which to draw; it means scarce human capital, which is challenging to manage in terms of division of labour, incentives, and so on. Furthermore, when small populations industrialise, they may be challenged by bigger, more established industrial economies. This rivalry might make it difficult for the tiny population to find outlets for its commodities, resulting in economic stagnation or collapse. Therefore, all of these concerns should be taken into account throughout the planning stages of industrialization, and policies and programmes should be created to minimise or counteract as many of the adverse outcomes as feasible.

Indeed, any policy, programme, assistance strategy or adjustment to changing circumstances virtually always demands some structural transformations. In particular, we have already seen how Gerschenkron’s view of the development process highlights the significance of economic “substitution” in allowing economically backward countries to catch up to more advanced ones. According to this viewpoint, the development process entails the adoption of novel policies and technologies to compensate for existing shortcomings. Nonetheless, the substitution process is a complex and profound process that could have consequences towards some members of the population; these consequences may include economic costs (such as higher prices or lower salaries), social costs (such as disruption of traditional ways of life), and environmental costs (e.g., pollution, habitat destruction). Furthermore, Gerschenkron itslef observes that industrialisation frequently comes at a cost to the population[1], particularly in developing nations. He felt that transitioning to a modern industrialised economy may be a difficult and painful process since it necessitates considerable changes in conventional ways of life and frequently undermines existing social and economic systems. As a matter of fact, Gerschenkron, when referring to industrialisation and the consequent costs imposed upon the population, often uses the term "burden" to highlight the stressfulness of this process. Indeed, Gerschenkron argues that the working class in developing nations typically bears a disproportionate share of the social expenses associated with industrialisation. He contended that the upheaval of traditional forms of labour during the transition to a contemporary industrialised economy might cause the uprooting of entire communities and the breakdown of long-standing economic and social order. High rates of poverty, inequality and social unrest can stem from this. Gerschenkron specifically emphasised that social unrest, poverty, and inequality might result from industrialization since it typically replaces traditional forms of labour and the movement of people from rural regions to urban centres. In addition, he thought that the absence of social safeguards, insufficient housing and sanitation, and harmful working circumstances that often accompany industrialisation contributed to the working people's poor health and short life expectancy. The more backward the country, the higher the burdens imposed upon the population[2], the higher the costs that society must endure, and the greater the possibility of civil upheaval. In support of this idea, Gerschenkron provides as an example a highly intriguing reconstruction of the Russian revolution of 1905; specifically, he claims that:

> "[…] the great burdens imposed on the majority of the population resulted, by the end of the century, in a situation where the forces and the patience of the population were exhausted. The Revolution of 1905 and the great peasant unrest which preceded it and culminated in that year must be seen to have been caused, significantly and perhaps primarily, by the great and costly industrial effort of the 1890s."[3].

Overall, Gerschenkron's view of industrialization highlights the negative repercussions for communities throughout the process of economic transition and development, which are often caused by a lack of proper institutional and political support for the changes, as we will see.

Regardless, as we said at the outset of this paragraph, the population is not a passive organism helplessly engulfed in the industrialization process and condemned simply to endure its aftereffects. However, society also plays an active role in shaping these dynamics. We may refer to what Gerschenkron insists on as "social attitudes," a notion closely related to society and crucial to his arguments. In Gerschenkron's interpretation, social attitudes serve as a behavioural variable, a cornerstone of a given system of values that characterises society and, in our specific case, ultimately determines how the populace receives

[1] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74); Gerschenkron, *Europe in the Russian Mirror* (n 133).
[2] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 119
[3] ibid. p. 122

industrialisation. However, it is critical to clarify the distinction between social attitudes and what we have previously referred to as culture for the sake of simplicity. Technically, Gerschgenkron never directly refers to a concept such as culture, let alone uses it as a word, most likely because he is aware of its almost purely qualitative intrinsic nature, which makes it difficult to quantify in a model that seeks to understand the process of industrialization of economically backward countries. So much so that even the concept of culture is being discussed in academic circles today; nevertheless, because this is not the place to investigate this problem, we will temporarily rely on a commonly recognised term within the subject of cross-cultural management to continue our discussion. Hofstede, the father of cultural dimensions theory, describes the latter as the collective programming of the mind that separates members of one group or category of individuals from another[4]. Simply said, a group's or society's culture consists of the norms, practises, and artefacts its members adhere to. Hence, culture appears to be a shared social phenomenon learnt from the given environment. Nevertheless, why is all of this significant? A variety of considerations arise clearly in our opinion after attentively reading the first, second and third chapters of Economic Backwardness. More specifically, Gerschenkron frequently mentions and explores the role of what he calls ideologies, how they might serve the state as it embarks on the process of economic growth, and how ideology might be employed as a common denominator for the population during this process, allowing efforts to be collectively directed toward a shared objective. The author argues that

> "to break through the barriers of stagnation in a backward country, to ignite the imaginations of men, and to place their energies in the service of economic development, a stronger medicine is needed than the promise of better allocation of resources or even of the lower price of bread. Under such conditions even the businessman, even the classical daring and innovating entrepreneur, needs a more powerful stimulus than the prospect of high profits. What is needed to remove the mountains of routine and prejudice is faith […]."[5]

Hence, what stands out to us is that even from this little excerpt, we can discern what we have outlined above as the essential features of what we term culture. In particular, it emerges from this interpretation of ideology that it must be shared, does play a role in society, and is the outcome of the setting in which it was born. As a result, given the proper proportions, it is not altogether incorrect to speak about Gerschenkron's understanding of the function of ideology in what culture encompasses, in the more modern sense of the term. However, for the sake of this debate, a clarification is required, even if this issue will be covered in the following section. As Alexander Gerschenkron argues, culture and social values are linked but separate ideas. Culture can be defined as a group's or society's common ideas, habits, practices, and social behaviours. It includes various practices and traditions that impact how people communicate and view the world, such as language, religion,

[4] 'National Culture' <https://hi.hofstede-insights.com/national-culture> accessed 20 January 2023.
[5] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 24

art, and music. On the other hand, the views, attitudes, and standards held by society as a whole are what is meant by the term "social values". A society's emphasis on creativity and experimentation, as well as its openness to new ideas, adaptability, stability, the rule of law, and education, are all examples of these values. In Gerschenkron's theory, culture is considered as moulding and influencing social values, although economic progress is more directly linked to social values. So even though he acknowledged the power of culture to shape and influence social values, he argued that it is social values that are ultimately responsible for a society's capacity to make efficient use of its resources, to be innovative and entrepreneurial, to respond to change, to establish and sustain effective institutions, and to foster a culture of experimentation and creative problem-solving.

1.1.1 The role of the peasantry in the industrial development

What function Gerschenkron thinks certain socioeconomic classes can play throughout the country's development is an essential and intriguing aspect of the abovementioned dynamics. More specifically, Gerschenkron postulates that members of certain social groups might serve as "spokespeople", expressing and propagating societal values in several different settings. However, the author's narrow emphasis is on just two groups, and the discussion at hand applies to a broader range of audiences. Gerschenkron provides a fascinating analysis of Russian intellectuals' impact on the country's industrialisation after 1890. Our author makes the case based on a keen historical interpretation that individuals directly and substantially impact the industrialisation process through their works and choices. For instance,

> "[…] the attitudes of the intelligentsia could not fail to have some negative effects. While Chernyshevski could not affect policies, he could — and did — influence the attitudes of thousands of Russian university students. Their unwillingness to prepare themselves for practical industrial work, their scorn of "careerism," and their preference for pure knowledge untainted by any suggestion of monetary rewards — this "oriental" attitude was no doubt greatly reinforced by the whole tenor of the intelligentsia's general philosophy."[6].

As a result of these ideas, we can see much more clearly that the subject is not just about how industrialization affects and changes society but also how society influences and modifies itself and this ongoing process. Equally intriguing is Gerschenkron's interpretation, which presents an extraordinarily current image of a country's structural transformations during its industrialisation period. A country needs to take into account and assess the policies and the economic factors in the most materialistic meaning of the term, but it also must

[6] ibid. p. 186

bear in mind the “social question”, which undoubtedly plays a role in this multifaceted dynamic. All of this appears like a precarious equilibrium that needs to be constantly monitored and altered based on the initial and current states of the system. Let us now consider the other social class examined by Gerschenkron, that of the peasantry.

However, a premise is required. It is critical to remember that Gerschenkron’s concerns and hence conclusions are based on rigorous historical observation, which, as we have seen, rewards and accentuates the context in which the industrialization process takes root. That being said, it is important to note that the author’s conclusions are not universal observations, applicable in a homogeneous manner without considering the context and history of the country in question; otherwise, all of the premises and methodological examinations made thus far would be defeated. Now, in particular, in terms of the “peasantry question”, the lessons drawn by the author from the historical experiences of the countries under consideration are necessarily contaminated to some extent by the context of origin; however, while these are contextualised elements, they also contain preceptive elements that can be universal or, at the very least, stimulate large-scale reflection.

In his seminal work on the economic history of Eastern Europe, Alexander Gerschenkron meticulously examines and contextualizes historical events, paying particular attention to the often overlooked and undervalued role of peasants. Through his accounts of the lives of Russian and Bulgarian peasants at the turn of the 19th and 20th centuries, Gerschenkron illustrates the significant impact that this social group has on shaping industrial processes. He also highlights that this influence is not limited to a specific period but rather evolves and expands throughout history, emphasizing the importance of understanding peasants’ role in shaping economic development both in the short and long term. Indeed, one of Gerschenkron’s central claims is that the peasantry is crucial in the formative stages of economic development. The peasants made up a sizable proportion of the population in many Eastern European nations, and their economic contributions were crucial to the expansion and modernization of industry. In addition, the peasants, according to Gerschenkron, were instrumental in establishing the character of industrialisation in Eastern Europe. He contends that the process of industrialization in these nations was profoundly affected by factors such as the peasantry’s education, size, access to land and resources, and socioeconomic status[7].

However, how does all this translate into practical terms? For instance, in the Russian case, according to Gerschenkron’s analysis, the peasants proved fundamental to developing Russia’s industrial sector. The author contends that the Russian peasantry’s distinct traits – their vast population size, poverty, and lack of education – determined Russia’s industrialisation route. What is particularly fascinating about the author’s presentation is how the factors that, in his perspective, identify peasants come into touch, interact, and influence the industrialisation process’s trajectory. Indeed, one of the primary ways in which the peasants affected Russian industrialisation was by supplying a vast pool of labour during the early phases of industrialization. Because peasants made up such a substantial proportion of Russia’s population, the government had easy access to a

[7] ibid. Chaperts 6 and 8

vast pool of labour to undertake its industrialisation initiatives. This vast working force was Russia's principal source of labour throughout the early phases of industrialisation. Furthermore, the peasantry's widespread poverty meant a cheap and unskilled workforce was easily accessible. Furthermore, because of widespread illiteracy and a lack of education, this workforce happened to be very unskilled as well. As a result, according to the author, the capacity to draw from such a pool of manpower, which comprised the attributes above (huge, cheap, and uneducated work population), was a significant advantage for Russia, particularly during the early stages of industrialisation. At the same time, this last consideration may only deepen the subject of "the advantage of being late", adding a new aspect to the conversation and bringing out a subtlety that was before difficult to show in such a clear way. However, Gerschenkron's study underscores the long-term constraints of depending on such a workforce. The peasantry's lack of skills and education would stymie the development of a more modern and efficient industrial sector. As a result, although the peasants played an essential role in the early phases of industrialisation, their features also constrained the industrialisation route in Russia.

Finally, Gerschenkron's examination of the peasantry's participation in Russia's industrialization underlines how the peasantry's distinctive qualities, such as their vast population size, poverty, and lack of education, influenced Russia's industrialization route. The peasants offered a vast, affordable, and mainly unskilled work population, which was critical in the early phases of industrialization but also set constraints on the industrial sector's future growth.

On the other hand, we have the Bulgarian case, which is equally interesting and worth considering. According to Gerschenkron, the peasantry was critical in Bulgaria's early phases of industrialisation. He claims that the number of peasants, degree of education, social and economic standing, and access to resources all affected their engagement in moulding industrialisation. Despite Bulgaria's modest peasant population, Gerschenkron claims that it provided the bulk of the labour needed for the country's early phases of industrialisation. He claims that this was feasible owing to the peasantry's relatively higher level of education, which encouraged the growth of increasingly modern and capital-intensive industries. Bulgarian peasants also had a high degree of social status and respect, which aided the creation of high-tech and capital-intensive industries. However, Gerschenkron points out that various reasons hampered Bulgaria's development of a robust industrial sector. One of the most critical issues was the tiny size of the peasant population. Bulgaria's rural population was tiny and educated, unlike Russia's enormous and destitute rural population. While this allowed for a more significant percentage of qualified employees and better earnings, it also constrained the possibility for industrial expansion since there was insufficient domestic demand to maintain it. Finally, Gerschenkron contends that the peasants were critical in Bulgaria's early phases of industrialisation. He claims that the tiny but educated peasant population, high social status, and easy access to resources aided in developing innovative and capital-intensive businesses. However, the small size of the peasant population and the absence of a strong home market eventually hampered Bulgaria's development of a vibrant industrial sector[8].

Comparing these two historical experiences from the same point of view is tremendously beneficial for various reasons. First and foremost, it adds a new layer to the existing discourse and enriches the overall picture of society's role in industrialization. Concurrently, it is essential because it allows us to make a series of reflections and, most importantly, broaden the discussion carried out thus far, allowing us to introduce some new elements and variables. Concentrating on the two situations presented above, it is easy to see certain parallels and variations in the role of peasants in determining economic growth in Russia and Bulgaria. The commonalities are listed here.

- Both nations had a sizable peasant population, which was crucial in the early phases of industrialisation.
- The peasantry was the primary source of labour in both nations throughout the early phases of industrialisation.
- Both nations had comparable land ownership and resource availability obstacles, which influenced the pace of industrialisation.

On the other hand, the most noticeable distinctions are:

- The size of the peasants in Russia was significantly more extensive than in Bulgaria, directly influencing how these nations industrialised.
- Bulgarian peasants had better education and social position than Russian peasants, directly influencing how these nations industrialised.
- Bulgaria had a relatively better-developed agrarian sector, which served as the foundation for industrialisation and a more trained labour force than Russia.

In reality, these similarities and contrasts influenced these two nations' growth paths in various ways. Because of the size and relative poverty of the peasants in Russia, industrialisation had to be built on cheap labour and low-skilled people. This hampered the growth of more modern, capital-intensive enterprises. Because of the peasantry's modest population and relatively high level of education in Bulgaria, industrialisation could be based on more skilled labour and better compensation. This aided the growth of increasingly modern, capital-intensive enterprises. Bulgaria's relatively robust agricultural sector served as the foundation for industrialisation, aiding the country's industrial growth. Overall, Gerschenkron's study demonstrates that the peasantry's role in creating economic growth is complicated and impacted by a number of variables, including peasantry size, degree of education and social standing, and access to resources. These characteristics directly influence how various nations' industrialisation proceeded and the course of growth.

[8] ibid. Chapter 8

Closing this broad parenthesis, we can say that an analysis of Gerschenkron's studies on the economic history of Eastern Europe, especially the role of peasants in Russia and Bulgaria, may provide many overall findings. The peasants were a significant component in establishing the respective economies in Russia and Bulgaria. They affected the direction these nations went toward industrialization by providing the great majority of the labour throughout the early stages of industrialization. The size, education, social and economic standing, and access to resources of peasants affected the speed and form of industrialisation in Russia and Bulgaria. These factors shaped both peasant attitudes and the nation's economic prosperity. The state and other structural institutions affected the peasantry's effect on economic progress. The course of industrialisation in Russia and Bulgaria was impacted by legal and political institutions, as well as official policies on land ownership and access to resources. How industrialisation occurred in Russia and Bulgaria was strongly impacted by the country's social ideals, which shaped peasant characteristics such as their degree of education, social position, and access to resources. The effect of the peasant class on economic progress is not static; instead, it increases and evolves through time. Even after World War II, when many countries attempted to modernise their economies, peasants remained an essential component of the economy. The peasantry is not only a passive bystander to industrialization and economic progress but also an active participant in these processes.

In light of these final findings, and to widen the subject even further, it would be fascinating to go back in time and examine how the industrial endeavours of the two nations under examination have historically progressed. Keeping in mind that everything else being equal (most importantly, a quite comparable degree of economic backwardness, thus identical potential benefits and disadvantages), Bulgaria, at least in terms of peasants, began theoretically better than Russians. Despite the hurdles Russia's enormous and relatively impoverished peasants encountered, the industrial effort was eventually successful. Although Bulgaria's industrial initiative had some early success, it eventually failed to flourish to the same level as Russia's. As stressed previously, one of the primary causes for this disparity is the number of peasants and their relative poverty. Because of the size and relative poverty of the peasants in Russia, industrialisation had to be based on cheap labour and low-skilled employees, stifling the development of more complex and capital-intensive sectors. However, due to the sheer quantity of people and the availability of inexpensive labour, Russia eventually developed an extensive and successful industrial sector. In contrast, due to the small number of peasants and their relatively high level of education, industrialisation in Bulgaria could be based on more skilled labour and higher pay, allowing for the development of more modern and capital-intensive industries. However, owing to its modest population size and lack of a solid domestic market, Bulgaria has failed to create a substantial and profitable industrial sector. Furthermore, the absence of strong and stable political and economic institutions, as well as a strong industrial history and infrastructure, hampered Bulgaria's industrial growth. Furthermore, Bulgaria experienced geographical constraints that hampered its access to foreign markets. Another key problem impeding Bulgarian industrial growth was a lack of foreign money and investment. On the other hand, Russia had more access to international cash and investment, allowing it to grow its industrial sector more quickly. Furthermore, Russian governmental policies were more favourable to industrial growth than Bulgarian ones. Despite its limits, Russia's Tsarist administration took a more aggressive approach to industrial growth, aiding industrialisation. In contrast, Bulgaria's official policies were less beneficial to industrial growth, stifling the industrialization process's progress. As a result, although both Russia and Bulgaria faced comparable obstacles in terms of the peasantry's role in determining economic growth, Russia's industrial endeavour was ultimately more successful than Bulgaria's. This was due to a mix of circumstances, including the peasantry's size and poverty, a lack of a significant domestic market, a lack of strong and stable political and economic institutions, a lack of foreign capital and investment, and governmental policies.

1.1.2 The ability to alter the political-institutional framework

Whatever the case may be, the inferences we have made based on Gerschenkron's intuitions and observations provide a doorway to further thought. In the introduction, we discussed how the function of society as a whole in Gerschenkron's view is dualistic. It is sometimes active and, in various ways, directly succeeds in actively participating in and influencing the nature and course of the industrialization process; at other times, however, it is a passive body subject to a greater and more intricate game that, in general interpretation, requires both taking into account and weighing other elements. In fact, we have largely isolated the variable of society and straightforwardly observed its relationship with industrialization, i.e. by purposefully ignoring other aspects and factors. At the beginning of the sixth chapter, Gerschenkron delves into an intriguing aspect of Russia's development process between 1861 and 1958. He provides a detailed analysis of this period and offers unique insights into its underlying dynamics. In analyzing the class of Russian peasants in the second half of the nineteenth century, the author makes a straightforward observation: "[…] the development of the nonagrarian sectors of the economy was virtually premised upon the abolition of serfdom."[9]. As Gerschenkron pointed out, "formidable institutional obstacles" can make or break a nation's industrialization journey. Without removing these barriers, the benefits of industrialization may never outweigh the challenges and could, therefore, hinder any progress from taking place. This crucial aspect was briefly touched upon in section 2.2, but now it might have a broader context and significance than it did previously. Hence, we firmly believe that Gerschenkron's idea of Russia's development process between 1861 and 1958 highlights the crucial role of the *political-institutional framework* in shaping a society. As we delve deeper into his analysis, it becomes clear that the political and institutional environment in which a society exists holds immense significance, especially during revolutionary periods of transformation. While rooted in late 19th-century Russia, this message holds valuable insights for understanding the relationship between politics, institutions, and societal development. As a matter of fact, we believe that one of the most critical

[9] ibid. p. 119

points worth stressing from this chapter is the fact that Gerschenkron contends that society, *in sensu latu*, is analogous to a powerful motor capable of propelling the industrialization process ahead. However, in order for this engine to be genuinely effective and efficient, it must be managed and directed by the appropriate institutional framework. Without the right institutions and policies in place, this enormous social force can easily become ineffective, resulting in undesirable outcomes and costs. According to Gerschenkron, it is critical to recognise that society's capacity for pushing industrialisation is insufficient on its own; it must be directed and harnessed by developing strong institutional structures that can lead it toward a beneficial conclusion. This involves the elimination of any "formidable institutional obstacles" that may obstruct the process, as well as the implementation of new laws and institutions that might help an industrialised society thrive.

Indeed, let us focus more specifically on the serfdom topic. As Alexander Gerschenkron's research on Eastern Europe's economic history demonstrates, serfdom, the shackles of land ownership and lordship, had a vital role in shaping the peasantry's position in Russia and Bulgaria. Serfdom was a prevalent reality in Russia, considerably influencing the peasantry's social and economic position. The bulk of the peasantry was tied to the land and ruled by lords, limiting their capacity for upward mobility. This directly impacted how Russian industrialisation developed since it was forced to rely on cheap and unskilled labour, stifling the emergence of more complex and capital-intensive sectors. Serfdom was less tightly gripped in Bulgaria, allowing for more social and economic flexibility among the peasantry and encouraging the growth of more complex and capital-intensive industries. Furthermore, the serfdom system considerably impacted land access and resources, directly affecting agricultural growth. Serfdom hampered agricultural and industrial development in Russia since the state and lords controlled most land, leaving the peasantry with restricted access to land and resources. Serfdom, on the other hand, had a minor influence on access to land and resources in Bulgaria, supporting agricultural and industrial expansion. To summarise, serfdom, as an institutional framework, had a critical role in determining the social and economic position of the peasantry in Russia and Bulgaria, which directly influenced how these nations' industrialisation evolved. While it hampered the development of more complex and capital-intensive businesses, as well as agriculture and manufacturing in Russia, it had far less impact on Bulgaria.

Nonetheless, Russia's industrial effort proved successful while Bulgaria's did not, and why? Of course, this is a complex question that requires an even more complex answer; however, this is not the place to analyse the question in depth, or at least not entirely. For the sake of simplicity, we limit ourselves to saying it is the concurrence of various elements and variables that together have determined this result. Indeed, a combination of factors, including political and institutional framework, natural resources, population, and timing, all played a role in the outcome of industrialization in these countries. However, what is of interest to us now is to underline a previously expressed concept: the crucial importance of having the ability to change one's own political-institutional framework in progress. This is a crucial concept that should not be overlooked as it may hold the key to understanding the differences in industrialization between the two countries. The ability to change and adapt is essential to progress, and this aspect should not be ignored, especially when analyzing the success of industrialization in any country.

Amidst the complex web of factors that contributed to the success of Russia's industrialization and the failure of Bulgaria's, one key element stands out: the ability to adapt and reshape the political and institutional framework. While both countries faced similar challenges, Russia was able to navigate these obstacles by making strategic changes to their political and institutional systems, allowing them to capitalize on their resources and push forward with industrialization. It is a fascinating tale of how, even when starting from a disadvantaged position, the ability to adapt and evolve can lead to unexpected triumphs.

The abolition of serfdom by Tsar Alexander II in 1861 was the first major move in the direction of economic, social, and hence institutional modernisation of the country. In several points, Gerschenkron emphasises that serfdom was the key element considerably postponing Russia's development[10] while also being the source of its woeful economic backwardness[11]. As a matter of fact, serfdom had a huge and diverse detrimental impact on Russia's growth. First and foremost, serfdom hampered agricultural growth, the backbone of the Russian economy. Because serfs were not permitted to leave the land, they could not seek better land or labour circumstances. Because serfs could not sell their surplus output, establishing a market for agricultural products was hampered. Furthermore, the serfs were unable to invest in new agricultural technology or processes, stifling agricultural progress. Second, serfdom hampered industrial growth. Serfs could not leave the land and were not permitted to possess property, making it impossible for them to invest in industry or start enterprises. Furthermore, serfs were unable to explore new work options, stifling industrial progress. Indeed, serfdom hindered the peasantry's social and economic mobility and stifled innovation by providing little incentive for technological advancements and promoting the exploitation of cheap labour. Third, serfdom hampered the growth of a market economy. Because serfs could not possess property, they were unable to engage in the market economy. Furthermore, serfs were unable to explore new work options, stifling the growth of a market economy. Finally, serfdom impeded the formation of strong and stable political and economic institutions. Because serfs could not engage in the political process, they had little control over the laws and policies that impacted them. Moreover, serfs could not seek justice or retribution for complaints, which, as a result, hampered the formation of strong and stable political and economic institutions.

It was under Catherine the Great's reign that serfdom rapidly spread across the nation and took on a new level of severity, as the government failed to protect the rights of serfs. This perpetuation of serfdom resulted in the gradual decay of the Russian economy in the first half of the 19th century, making it increasingly sluggish and outdated. According to Gerschenkron, the economic backwardness of the nation was conditioned on the whole following effort to reverse this tendency, and its roots could be traced back to this period. Taking this perspective, we can see the emancipation of the peasants in 1861 as the turning point, as it ushered in a new

[10] Gerschenkron, *Europe in the Russian Mirror* (n 133). p. 93
[11] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 17

era of economic progress. The liberation from servitude made it possible to break the chains of backwardness and laid the foundations for the country's future economic prosperity.

Furthermore, Pre-revolutionary Russia was home to a system of communally controlled landholding known as *obshchina*. The land in an obshchinan-system was owned collectively by the village or rural community as a whole rather than by individual families. Prior to the end of serfdom in 1861, Russia's low agricultural production and economic progress were widely blamed on the obshchina system[12], which was common in many rural areas. However, the abolition of represented a critical turning point in Russia's economic and social growth. While the reform's immediate impacts may not have been glaringly apparent, it laid the groundwork for a new age of advancement and modernisation. The *momentum* created by this shift in the institutional structure would eventually lead to more changes, such as Stolypin's land reforms of 1906 and 1910, which would benefit the country immensely in the long term. In fact, Gerschenkron comments even more enthusiastically about this time frame, noting how

> "the judicial and administrative reforms which came in the wake of the emancipation were essential in creating a framework for modern business activity. [...]. The strategic factor in the great industrial upsurge of the 1890s must be seen in the changed policy of the government. The fear of industrialization, so much in evidence in the 1860s, was gone. Industrial development became an accepted and in fact the central goal. Once this happened, the problem of peasant demand lost its previous significance, and its relation to industrialization was thoroughly reversed."[13].

Willing to be synthetic, the premise was that the peasant economy was trapped in a vicious cycle. Indeed, a lack of land and heavy financial burdens kept them from migrating and prevented growth and progress. Their income was too low to invest in improvements, and the threat of land redistribution discouraged efforts to make the most of what they had. This resulted in a stagnant and struggling peasant population, unable to make savings and therefore improve their situation despite increasing population pressures. However, following the emancipation and subsequent administrative and legal reforms, successful industrialization no longer required a rise in peasant demand for manufactured commodities. Its reduction, on the other hand, became the main focus. The percentage of national output that might be invested grew due to efforts to lower peasant consumption. It meant more exports, a more stable currency, the possibility of receiving more considerable and more affordable loans from abroad, and the availability of foreign currencies to repay those debts[14].

Finally, Stolpyn's reform concluded the modernisation process and, as a result, full integration of the peasantry into the Russian economic system. The Stolypin reform was a collection of agrarian changes implemented in

[12] ibid. p. 119-122
[13] ibid. p. 124-125
[14] ibid. p. 122-125

the early twentieth century. The reform's foremost purpose was to modernise and increase the efficiency of Russian agriculture by establishing a class of affluent and prosperous farmers that would act as a stabilising influence in rural regions. Land redistribution, the establishment of long-term leases, and the encouragement of private land ownership were among the changes. The reform also included a "wager on the strong" programme, in which the government would promote the most talented and well-off peasants in the hope that they would serve as an example for others to follow. Therefore, in light of this point of view and this interpretation of the facts, the Stolypin reform appears to be one of the most significant modernising efforts in pre-revolutionary Russia[15]. Indeed, the actual but also

> "[…] the potential positive effects of the reform on industrial development were indisputable. […]. For the first time, the road was open for an unimpaired movement to the city of peasant family members; for the first time, large groups of Russian peasants could, like their counterparts in the West, sell the land and use the proceeds for establishing themselves outside agriculture."[16].

To conclude this section, we would like to start with a quote from Gerschenkron that we think is very inspiring. The quote is as follows:

> "Industrialization required political stability, but industrialization, the cost of which was largely defrayed by the peasantry, was in itself a threat to political stability and hence to the continuation of the policy of industrialization."[17].

We believe Gerschenkron is attempting to emphasise the paradoxical relationship between industrialization and political stability. According to Gerschenkron, while industrialization is necessary for economic development and requires political stability, it also threatens it. On the one hand, industrialization necessitates a stable political environment because significant investments in infrastructure, technology, and education are required. These investments necessitate long-term planning and a level of certainty that only a stable government can provide. Furthermore, industrialization creates new social and economic classes that require political representation, which can be provided only in a stable political system. On the other hand, industrialisation can potentially undermine political stability. As a matter of fact, the cost of industrialization is frequently borne by the peasantry, or at least from the poorest and least protected classes, who are forced to give up their land and traditional ways of life in order to work in factories. This can lead to social unrest and political opposition, especially in light of the *mounting social tension* that industrialisation brings. Furthermore, industrialization can lead to new concentrations of wealth and power, resulting in a struggle for

[15] ibid. p. 134
[16] ibid. p. 134
[17] ibid. p. 130

control of economic resources, which can destabilise political institutions. Overall, Gerschenkron's quote expresses that industrialisation has benefits and drawbacks for political stability. While industrialization is necessary for economic development, it also poses challenges to political stability, which policymakers must address.

1.2 Does culture play a role?

To discuss industrialization is to discuss structural transformation, which implies some degree of conflict as it takes hold. If anything, Gerschenkron's work demonstrates how it is not only an economic, institutional, or social phenomenon but a combination of all of the above and undoubtedly other variables. In this reading, industrialization is an exogenous shock that spreads with its subversive effects in a multidirectional way. In this reading, industrialization is an exogenous shock that spreads with its subversive effects in a multidirectional way. However, we could say that the response to this exogenous shock varies according to the degree of economic backwardness. The greater the delay, i.e. the later the kink is observed, the more remarkable, for example, the unleashed social tension. It is essential to link this concept to the idea that we have already dealt with previously about the "violent" nature of the industrialization process, and in particular about how social attitudes perceive this change. We now want to take this discussion one step further. In particular, just as the burden of modernization will fall more on the shoulders of the population as the degree of economic backwardness increases, we believe that, in the same way, these pressures can fall on the shoulders of the state. Specifically, the state must have the ability and long-term vision to harness these forces. It is a paradoxical thought in some respects since it is almost implicit that with the increase of economic backwardness, the preparation of the State in managing it decreases hand in hand (see, for example, the case of Bulgaria or Hungary[18]). Nonetheless, given that the timing in which the industrialization process takes place is also a determining factor, having the ability to control social tensions, make the necessary structural transformations, and correctly and consistently replace a country's shortcomings is vital.

Gerschenkron's approach highlights two key ideas that are of great importance. Firstly, every country must identify its unique development path by filling the gaps within its economy. This involves creating institutional frameworks tailored to the country's specific context, which is shaped by various factors, most notably its history. Secondly, Gerschenkron's concept of the "backwardness advantage" emphasizes the potential for countries to leverage their relative lack of development to their advantage rather than seeing it as a fixed disadvantage. This potential can only be realized by developing functional institutional frameworks closely aligned with the country's specific needs and circumstances. Ultimately, Gerschenkron's ideas underscore the critical role that institutions play in shaping a country's economic trajectory and highlight the

[18] Both cases are analysed by Gestchenkron

importance of creating institutions that are adaptive and responsive to the unique context in which they operate. For instance, Gerschenkron considers institutional innovations more than technological or industrial advancements, such as the facilitation and direction of industrial finance. He emphasizes that they are also heavily influenced by social factors. He asserts that an important outcome of these institutional innovations is the capability of states and companies to create a highly educated, diligent, and remarkably self-disciplined workforce. And this is no easy task. Gerschenkron itself notes that:

> "[…] the overriding fact to consider is that industrial labour, in the sense of a stable, reliable, and disciplined group that has cut the umbilical cord connecting it with the land and has become suitable for utilization in factories, is not abundant but extremely scarce in a backward country. *Creation of an industrial labour force that really deserves its name is a most difficult and protracted process*."[19].

But how so? First of all, the creation of a skilled labour force is tightly linked to the degree of education since the availability of a skilled labour force can significantly impact industrial output and growth, whereas the unavailability of such a workforce can serve as a significant constraint or drawback[20]. Thus, it becomes imperative to invest in labour training, as the Russian state did during the pre-and post-WWII period. However, this process should be accompanied by economic policies prioritising investments over consumption to enhance industrial growth. Despite this, training professional employees remains a crucial aspect closely linked to social attitudes, in our view. Morevoer, this idea of a necessity for a skilled and educated labour force is still valuable today. For instance, as quoted in Gunnarson[21], Amsden claims that in a world where cheap labour has lost its advantage due to labour-saving technology and segmented labour markets that allow rich countries to use pools of cheap labour within their own economies, countries without relatively high levels of education (which in Gerschenkron's terms could be translated as the overall degree of literacy) and hence lacking "human capital" would be unable to achieve industrial take-off.

To conclude this section dedicated to the role of society during the industrialisation process, what emerges clearly from our point of view is that Gerschenkron acknowledged that the process of late industrialization creates new social forces that did not exist in earlier industrializing nations. These forces pose new threats to the late-developing states and to the global system. The social and political dominance of these forces in late developing nations can also affect their international relations and alter the nature of the international system. As demonstrated in the Bulgarian and Russian cases, the outcome of these struggles significantly affects the process and results of late development. Gerschenkron argues that catching up with industrialization involves large-scale sociological processes, not just technological advancements. He emphasizes the challenges of developing a skilled and disciplined workforce that can be used in factories,

[19] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 9 Emphasis added
[20] ibid. p. 265-266
[21] Gunnarsson (n 13). p. 100

which requires significant societal restructuring. And therefore, to answer the opening question, yes, society undoubtedly plays a role within Gerschenkron's framework.

We felt it necessary to start with this contradictory premise, focusing on society and its role in industrialization. This is because, as previously stated, Gerschenkron does not explicitly address cultural factors but rather refers to "social values", "pre-industrial systems of values", or the more general concept of "ideology" indirectly. However, given that he discusses the role of society and social classes in his work, we believe that his ideas about firms can also be used to infer the concept of culture. Furthermore, Gerschenkron's cultural descriptions imply that it is proactive rather than reactive. It appears to be something in which people actively participate rather than passively endure. To demonstrate this point, we will examine how culture can play a dual role during industrialization. On the one hand, it can provide a support role, particularly during industrialisation. This is when the author uses terms such as "faith" or "ideology". For instance, let us consider a few passages.

> "What is needed to remove the mountains of routine and prejudice is faith—faith, in the words of Saint-Simon, that the golden age lies not behind but ahead of mankind."[22].

Another pertinent example could be:

> "[...] in an advanced country rational arguments in favour of industrialization policies need not to be supplemented by a quasi-religious fervor. [...] In a backward country the great and sudden industrialization effort calls for a New Deal in emotions."[23].

In both passages reported here, the cultural variable acts substantially in favour of industrialization, or rather to make this process as fluid as possible. In the first passage, reference is made, for example, to how "anti-industrial" social values have settled to such an extent that it is necessary to introduce a new system of values from above to break down the barriers of prejudice. It is important to underline how this is a fascinating element to consider since, in the case of the industrial development of Bulgaria, social values ostentatious in this process have harmed the policies implemented by the country and therefore set a constrain on the government's policy- choice freedom. As a result, consequently, industries that could trigger a structural transformation were not adequately encouraged[24].

Concerning this point, Gerschenkron's second role to what we can interpret as a cultural variable is a role of resistance to progress, of anti-progress, in some ways. In our opinion, the most striking example is the case of

[22] Gerschenkron, *Economic Backwardness in Historical Perspective: A Book of Essays* (n 74). p. 24
[23] ibid. p. 25
[24] ibid. p. 226-227

Bulgaria. Finally, another element to note is the retarding nature that these social values can have; in particular, the author claims that:

> "Precisely because some value systems do not change readily, because economic development must break through the barriers of routine, prejudice, and stagnation, among which adverse attitudes toward entrepreneurship are but one important element, industrialization does not take place until the gains which industrialization promises have become, with the passage of time, overwhelmingly large, and the prerequisites are created for a typical upsurge."[25].

In conclusion, Gerschenkron's ideas on the role of culture and society in the industrialization process imply that progress necessitates a combination of rational arguments and emotional commitment. Furthermore, these ideas about culture and industrialization suggest that cultural and social factors heavily influence the success of industrialization policies in addition to economic factors. As a result, cultural factors such as social values and ideology can either support or oppose progress, significantly impacting the success of industrialization policies. One general conclusion appears to be that cultural and social factors heavily influence the success of industrialization policies in addition to economic factors. A more dynamic and passionate approach may be required to overcome the barriers to rapid industrialization in less developed countries. However, Gerschenkron acknowledges that some social values can impede progress and may need to be overcome before industrialization can occur. Overall, his work emphasises the significance of comprehending the cultural and social contexts in which industrialization occurs and how these factors shape economic development. As Gerschenkron suggests, cultural values and beliefs that support entrepreneurship and innovation can create a favourable environment for industrialization, whereas values that are resistant to change and anti-entrepreneurship can act as barriers to progress. Because the population in advanced countries has already internalised a culture of progress and entrepreneurship, rational arguments and evidence-based policies may be sufficient to promote industrialization. In less developed countries, however, a more dynamic and passionate approach may be required to overcome the barriers to rapid industrialization. This could include instilling national pride, appealing to a shared identity, and inspiring people with a vision of a brighter future. Furthermore, it is always important to remember that Gerschenkron's work emphasises the significance of understanding the historical context in which industrialization occurs. Cultural values and beliefs are deeply ingrained in societies and can gradually shift. As a result, it may take some time for new values and attitudes to take root and create an environment conducive to industrialization. Policymakers must therefore be patient and persistent in promoting industrialization, acknowledging that cultural change may take time.

[25] ibid. p. 25

Finally, Gerschenkron's ideas about culture and industrialization emphasise the importance of considering the cultural and social factors that shape economic development. Policymakers can design more effective policies and strategies tailored to each society's unique challenges and opportunities by understanding the cultural context in which industrialization occurs. Finally, this can help to promote long-term economic growth and development, resulting in a brighter future for all.

1.3 The role of institutions in backward countries

Examining the historical setting in which Gerschenkron developed his theories allows for a more thorough exploration of his ideas on institutions and their role in economic development. During the 19th century, countries such as Germany and Italy were able to quickly catch up with the more advanced economies of the United Kingdom and France during this period. Gerschenkron attributes these countries' success to their ability to mobilise resources via institutions such as investment banks, which provided long-term credit to support the development of capital-intensive industries. Countries such as Russia and other parts of Eastern Europe, on the other hand, developed more slowly due to a lack of effective institutions. Because of these countries' low levels of commercial honesty and widespread corruption, it was not easy to establish trustworthy credit systems. As a result, the state had to play a more prominent role in developing industries in these countries. In short, given Russia's greater backwardness, the state served as a secondary substitute for institutions such as banks in Germany. Except for fundamental institutional hindrances like serfdom or lack of unification, this type of institutional substitution meant no strict requirements for a country's industrialization.

Gerschenkron's ideas on institutions and their role in economic development can be applied to modern developing countries as well. Institutions remain weak in many parts of the world today, and corruption and low levels of commercial integrity are common. This can make mobilising resources for capital-intensive industries difficult. As a result, Gerschenkron's ideas imply that, in order for countries to make significant economic progress, institutions must play a central role in mobilising resources and channelling them towards the development of critical industries. Furthermore, these institutions must be trusted and capable of providing long-term credit to help capital-intensive industries develop.

CHAPTER IV

An attempt to build a bridge between Gerschenkron and the New Institutional Economics

1 The New Institutional Economics and the current interpretation of development

In section 1.1.2, our investigation delved into the evolution of economic development across a broad time frame, emphasizing the theoretical and historical-practical foundations of various economic ideologies and disciplines. Our analysis revealed how the perspective on the economic issue of development and the very meaning of the term "development" had undergone a significant evolution over the years. Initially, structuralist approaches in the early 20th century were touted as the answer to the development challenges that Less Developed Countries (LDCs) faced. However, by the 1960s and 1970s, the often lacklustre outcomes in terms of real wage growth and quality of life led to a paradigm shift in thinking. This era was characterized by a plethora of ideas and solutions aimed at resolving the complex and multifaceted development issues. In response to the unsatisfactory results of structuralist strategies, a re-evaluation of the development concept and its attainment became imperative. To shed light on Gerschenkron's work from both historical and theoretical perspectives, we next traced the rise of neoliberalism and the development of the Washington Consensus. In this chapter, however, we choose to embark on a new path and examine a trend that will play a crucial role in our discussion.

The primary goal of this section is to investigate the New Institutional Economics (NIE) in depth, including its origins, theoretical foundations, key concepts, and evolution to the present. The fundamental work of Daron Acemoglu and William Robinson, which will serve as the principal object of examination, will be given special attention. Our goal with this inquiry is to comprehensively understand the field of NIE and its evolution over time.

The post-World War II era witnessed a surge of theoretical discourse on the topic of economic development, owing to the emergence of LDCs and the unique set of challenges they presented. While the preceding chapter briefly touched upon this subject, a comprehensive treatment of all the theoretical frameworks developed during that period is beyond the scope of this work. Instead, our focus is centred on the NIE theory, tracing its evolution and comprehending its tangible implications. To be candid, the task at hand is by no means a straightforward undertaking. Indeed, what sets the NIE apart as a theoretical approach is its highly interdisciplinary nature and, moreover, its lack of universal recognition as a cohesive framework by some scholars[1]. In fact, some authors speak of a "still decentralized field of inquiry" that "in some ways [...]

[1] Claude Ménard and Mary M Shirley, 'The Future of New Institutional Economics: From Early Intuitions to a New Paradigm?' (2014) 10 Journal of Institutional Economics 541.

is still more of a movement than a field."[2]. Harris et al., in fact, argue that "NIE is not, at least not yet, a new theory of economic history. Rather, [...] it is a device that assists historians to reframe the questions they can ask of their material."[3]. Two crucial clarifications should be made, nevertheless. First, it is important to place Harris et al. assertion within the context of the 1990s, when their work was published. Second, despite Shirley and Ménard's disagreements, other academics, such as Andersson and Axelsson[4], agree that, along with the Randomized Controlled Trials (RTC) approach, the works of Acemoglu and Robinson, in particular, are essential and among the most influential approaches for comprehending the elements that contribute to the success or failure of development. Although this viewpoint is neither absolute nor conclusive, it is an important factor that needs to be considered.

It is fascinating to underline how the NIE's multi and interdisciplinary nature can be, at the same time, a considerable strength of this approach and a significant critical point. It should be noted that there is no one point of view among neoinstitutionalist scholars[5], and, as previously indicated, the field's boundaries remain substantially unclear. This is owing, in part, to the fact that the NIE was not the result of a concerted effort by a group of people with a shared purpose and goal for changing economic theory[6]. Rather, progress has been accomplished through the innovative work of numerous subfields, including transaction-cost economics, property-rights analysis, law and economics, comparative systems, and constitutional economics. Written works created in many subfields during the early stages of institutionalism tended to be significantly diverse in terms of style, approach, and content. As a result of this diversity, experts who contribute to this research approach tend to focus on specific issues and frequently apply different methodologies[7]. Among the key works and pioneers of this approach, we can undoubtedly mention Ronald Coase's "*The Nature of the Firm*" (1937) and "*The Problem of Social Cost*" (1960), as well as North and David's "*Institutional Change and American Economic Growth*" (1971), North and Thomas's "*The Rise of the Western World*" (1973), and Olivier Williamson's "*Markets and Hierarchies*" (1975)[8]. Although these pioneers are not the sole contributors to this approach, they continue to inspire research and advances in the field. However, given the diverse array of scholars who have contributed to the NIE, it is unsurprising that the subfields within this approach are numerous and, at times, even distinct from each other. Some of the most significant subfields, which serve as pillars of the NIE, include:

- property rights analysis;
- the economic analysis of the law;

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[2] ibid. p. 542
[3] John Harriss, Janet Hunter and Colin M Lewis, 'Developement and the Signifance of NIE', *The new institutional economics and Third World development* (1st edn, Routledge 1997). p. 9
[4] Andersson and Axelsson, 'Diversity of Development Paths and Structural Transformation in Historical Perspective—an Introduction' (n 3). p. 4
[5] Eirik Grundtvig Furubotn and Rudolf Richter, *Institutions and Economic Theory: The Contribution of the New Institutional Economics* (2nd ed, University of Michigan Press 2005).
[6] ibid.
[7] ibid.
[8] Ménard and Shirley (n 274).

- public choice theory;
- constitutional economics;
- the theory of collective action;
- transaction cost economics;
- the principal-agent approach;
- the theory of relational contracts;
- the comparative economic systems;
- economic history.[9]

Of particular relevance to our present inquiry is the work of Douglass North, specifically the New Institutional Economics of History (NIEH). This particular subfield will serve as a valuable point of departure as it allows us to delve into the main focus of this chapter, namely, the theoretical framework and fundamental principles of the Institutional theory of Acemoglu and Robinson.

1.1 Exploring the Concept of New Institutional Economics: An Overview

The new institutional economics begins with a critical view of traditional economic models perceived as excessively abstract[10] and detached from reality. Although we discussed what is meant by "traditional economics" in section 1.1.2, we would want to restate the concept. Traditional economics refers to an approach that focuses on the optimal allocation of limited resources in order to generate an increasing variety of goods and services. Its primary goal is to maximise utility and profits by optimising the utilisation of productive resources while maintaining market efficiency and equilibrium. This strategy emphasises the necessity of cost-cutting and making the best use of restricted resources in order to achieve long-term economic growth. Its main assumptions, namely, the rational individual conduct and the self-regulating nature of markets, serve as the foundation for neoclassical economics and other economic models. Proponents of the new institutional approach believe such models unduly rely on mathematical modelling, resulting in a limited and static view of reality. A dynamic method, on the other hand, is favoured, capable of not only describing but also explaining the process of economic progress. As a result, the NIE highlights the critical role of institutions in the growth process, attempting to present a complete and dynamic knowledge of reality that transcends the constraints of a static perspective. The new institutionalism seeks to provide a coherent narrative of institutions based on fundamental principles. From this perspective, institutions play a dual role in the NIE framework. Firstly, they act as the connective tissue between various economic phenomena and provide a potential explanation for

[9] Rudolf Richter, 'The New Institutional Economics: Its Start, Its Meaning, Its Prospects' (2005) 6 European Business Organization Law Review 161.
[10] Timothy Yeager, 'The New Institutional Economics and Its Relevance to Social Economics' (1997) 27 Forum for Social Economics 1.

differences observed within a given system. As such, they act as both an independent variable and a "control group", providing a point of reference for the analysis. Secondly, institutions add a dynamic component to economic models. Institutions, in their broadest sense, are subject to change and possess a fascinating characteristic: they can both significantly influence the growth process and be influenced by other factors that alter the final outcome. Incorporating such an element into a hypothetical model adds flexibility, allowing for greater variation and the avoidance of definitive conclusions.

Furthermore, institutions do not exist in a vacuum and must be considered in social, political, and historical contexts. The NIE recognizes that institutions are the product of human action, and as such, they are not fixed but can change over time[11]. Institutions can be transformed through conscious decision-making, or they may evolve through unplanned and gradual processes. It is crucial to understand how institutions emerge, how they are sustained, and how they evolve to comprehend their role in shaping economic performance. Moreover, this constitutes an evident detachment from neoclassical economics, although it is, in any case, a branch of economics that extends neo-classical theory by considering transaction costs and institutional constraints as crucial factors in economic performance[12]. As a matter of fact, the New Institutional Economics builds on and seeks to apply the same analytical methods used in neoclassical economics, however focusing its attention on non-market institutions such as the law, property rights, and bureaucracy. This method emphasizes how rational actors may be able to employ non-market institutions to achieve collective welfare outcomes that market incentives alone would not have been able to achieve. As a result, the new institutionalism seeks to demonstrate how non-market institutions might be maximized in order to maximize individual and community gains in a society[13]. In this perspective, the NIE diverges from traditional neoclassical economics by emphasizing the significance of institutions in shaping economic performance and rejecting the static and abstract modelling of traditional economics. Unlike neoclassical economics, the NIE places great importance on the microanalysis of firm and market organizations, the dynamic evolution of economic systems, and transaction costs, which provide a more nuanced account of economic exchange. The NIE recognizes the critical role of non-market constraints on economic performance and provides a more comprehensive understanding of economic activity

In summary, NIE scholars argue that institutions – which we will define more accurately in the following pages – play a critical role in facilitating or impeding economic development. In particular, the NIE seeks to demonstrate how property rights, laws, and bureaucracies can enable individuals to secure collective levels of welfare that they otherwise might not be able to attain through the market. Moreover, as stressed previously, its openness to interdisciplinary approaches draws on insights from law, political science, sociology, and other disciplines. This approach allows for a more holistic understanding of economic systems

[11] Wes hall delve deeper into this dynamic in the following paragraphs
[12] Harriss, Hunter and Lewis (n 276).
[13] Robert H. Bates, 'Social Dilemmas and Rational Individuals: An Assessment of the New Institutionalism', *The new institutional economics and Third World development* (1st edn, Routledge 1997).

and their institutional underpinnings. Moreover, the NIE emphasises case studies and qualitative methodologies, recognizing the limitations of formal mathematical models in capturing the complexities of real-world economic phenomena. Overall, the NIE represents an important departure from traditional economic theory by acknowledging the importance of institutions in shaping economic performance. Its dynamic and interdisciplinary approach provides a more nuanced and comprehensive understanding of economic systems, highlighting the critical role of non-market constraints on economic exchange. By drawing on a range of theoretical and methodological approaches, the NIE offers a more holistic and context-specific understanding of economic phenomena, which has important implications for public policy and economic development. In general, we would argue that the NIE appears to be a richer and more eclectic toolkit, incorporating new theoretical and methodological approaches and a greater openness to interdisciplinary work and using case studies and other less formal methodologies. Finally, probably the best way to describe this approach is by borrowing Toye's insightful words:

> "The new institutional economics is 'new' because it starts from logical puzzles which the Arrow-Debreu theory cannot solve. It is "institutional" because it comprehends other types of institutions than Arrow-Debreu[14] markets and the ghostly auctioneer. It is "economic" because — unlike earlier attempts at "institutionalism"—it retains many of the axioms and assumptions of the tradition which Arrow-Debreu completed, most notably methodological individualism."[15].

Institutionalists are differentiated by their emphasis on process and their investigation of the elements that drive economies' divergent growth paths. This component of the approach has long piqued the interest of historians who recognize the necessity of situating economic events within larger social and political systems. Compared to the more static, ahistorical models of conventional neoclassical economics, institutionalism constitutes a substantial divergence due to its explicit embrace of institutional formation's political and social components. Furthermore, the NIE expands on this line of research by investigating externalities as a source of market failure[16], resulting in a more complex and complete understanding of economic transactions. Bates provides a compelling entry point and a pragmatic illustration of the interpretive power of the NIE. By characterizing market failures as externalities, the author effectively argues that in the presence of externalities, the private decisions of rationally maximizing agents will not promote socially rational outcomes, leading to inefficient outcomes. To address this, the creation of property rights is proposed as a solution. Property rights assign the right of exchange to individuals, thereby strengthening economic incentives and making it in the

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[14] The Arrow-Debreu theory describes how prices are set in a simultaneous market. It assumes multiple buyers and sellers, comprehensive markets, and market-equilibrium pricing. This model is used to evaluate economic policy, although its unrealistic assumptions have been questioned.

[15] John Toye, 'The New Institutional Economics and Its Implications for Developement Theory', *The new institutional economics and Third World development* (1st edn, Routledge 1997). p. 52

private interests of individuals to make socially appropriate production decisions. With property rights, producers incur financial costs or reap financial benefits for their actions, internalizing the social effects of their behavior and providing incentives for them to take into account the external impact of their production decisions[17].

In addition to allowing us to have a small peak at the definition of institutions and, in particular, at their purpose, we believe that this passage is very illustrative for a number of reasons. First, this passage offers valuable insights into the significance of considering institutions as a critical variable in economic analysis. Ignoring their role can result in a flawed understanding of economic performance, as demonstrated by the example of property rights. Second, it highlights the critical interplay between incentives and institutions in driving economic performance. Third, this aspect reinforces the importance of the New Institutional Economics, which provides a more comprehensive and nuanced approach to economic analysis by incorporating the dynamic evolution of economic systems, emphasizing the microanalysis of firm and market organizations, and recognizing the critical role of non-market constraints on economic performance. Finally, the example highlights the interpretative potential of the NIE, which offers an innovative and interdisciplinary approach to understanding economic phenomena. Overall, the NIE represents a valuable framework for elevating the economic analysis of complex phenomena and improving our understanding of economic systems' dynamic and multifaceted nature.

The emphasis on a new type of economics that aims to solve the problem of adequate institutions is central to the NIE's contribution. The NIE provides a dynamic and multidisciplinary view of economic systems that is better suited to account for the complexity of real-world occurrences by relying on a broader and more varied arsenal of theoretical and methodological techniques. In doing so, the NIE establishes an essential framework for examining the role of institutions in influencing economic performance, with considerable consequences for public policy and economic growth.

In closing this paragraph and drawing on the insights of Harris et al.,[18] we would like to stress why we believe the NIE is a fascinating and attention-worthy approach. The NIE is an innovative and evolving extension of the neo-classical economic paradigm that helps to resolve some of the problems that have plagued its predecessor. This change is significant because it contradicts popular beliefs about the 1990s market's influence on economic policy. The NIE provides a more complex and comprehensive perspective than simply pitting the state against the market, showing that neither is always the best way to organize the distribution of goods and services. Instead, the NIE provides helpful knowledge and resources for architects of public and private institutions. This aspect of the NIE has significant consequences for public policy and economic development, which is why it is so important to the field of development studies. It presents a theory of development based on suitable institutional transformation, which can promote economic growth.

[17] Bates (n 13).
[18] Harriss, Hunter and Lewis (n 276).

1.1.1 How the New Institutional Economics Came to Be: A Brief Historical Overview

As the 20th century progressed, neoclassical economic theory became increasingly preoccupied with mathematical modelling, to the detriment of its ability to explain institutional phenomena. As a result, until the 1980s, conventional economic theory paid little attention to institutions[19]. A newfound focus on economic institutionalism subsequently contested this notion. More specifically, notwithstanding neoclassical thinkers' acknowledgement of the relevance of institutional structures, institutions have received less attention due to the rising abstraction of economic models. In the 1980s, institutional phenomena were virtually absent from mainstream theory, with varied institutional arrangements considered "alternative strategies" for achieving Pareto optimality, emphasising allocative efficiency. Neoclassical economics' orthodox method is institutionally neutral, allowing the theorist to demonstrate the fundamentals of economic efficiency under ideal-typical conditions of perfect information and foresight. The shortcoming of contemporary theory is its institutional neutrality and its failure to take institutional restrictions seriously. This issue emerges due to a failure to consider the roles of transaction costs and human agents' cognitive limits. For this reason, institutionalists recognised "[…] the neoclassical model […] as a special case, relating to a special universe […]."[20]. Consequently, the neoclassical economic theory could only be used in a very theoretical fashion when considering issues of resource allocation[21].

Furthermore, in light of the shortcomings of neoclassical economic theory, different models were created to account for the fact that resource allocation is affected by more than just individuals' preferences, utility and profit maximisation. These theories originated from socioeconomic and anthropological researchers who advocated for non-market resource distribution systems as preferable to and more equitable than the market. These new models deviated from the traditional neoclassical one, which downplayed the importance of institutions or saw them as impediments to market efficiency. These alternative models instead acknowledge that institutions may substantially impact human behaviour and results and that this impact must be accounted for to understand economic phenomena completely[22]. Indeed, according to Bates[23], the rise of new institutional economics may be linked to two factors: the theoretical inadequacies of traditional economics and the proof of market economics' core theorems. The demonstration of market equilibrium circumstances pushed economists to seek additional topics to investigate, resulting in the study of market failures becoming a prominent discipline of economics and giving rise to the new institutional economics. Indeed, a central tenet of the new institutionalism is the idea that institutions can help people navigate the complex social problems brought on by market failures[24]. Individuals can then make decisions that are both reasonable for them and

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[19] Richter (n 282).
[20] Furubotn and Richter (n 278). p. 504
[21] ibid. p. 501-505
[22] John Cameron, 'Development Economics, the New Institutional Economics and NGOs' (2000) 21 Third World Quarterly 627.
[23] Bates (n 286). p. 28-29
[24] Ample space will be given to this topic in the third chapter, for now we will limit ourselves to taking note of it.

socially desirable. The new institutionalism's primary thesis is that institutions allow individuals to resolve the contradictions between individual and societal rationality through non-market processes. This viewpoint deviates significantly from the classic dichotomy of the state versus the market in economic structure, offering a more nuanced understanding of the function of institutions in the economy. The new institutional economics offers an important framework for understanding how institutions impact economic outcomes and how they may be structured to support economic growth and development.

Hence, as this argument puts it, institutions may help people find common ground between their self-interest and the common good. Individual rationality is concerned with self-interest, whereas social rationality is concerned with acts that benefit society as a whole. Individuals may emphasise their self-interest over the larger good in a market-oriented economy, which can lead to inefficiency and other adverse outcomes. For example, laws, rules, and social standards can create a framework for individuals to act in ways that benefit both themselves and society. Institutions can assist people in overcoming the conflict between individual and societal rationality by establishing non-market processes for decision-making and coordination. In other words, institutions can help to match individuals' and society's objectives, resulting in more efficient and successful outcomes. Ultimately, the phrase emphasises institutions' critical role in fostering collaboration and attaining collective goals in a community.

To give some historical reference coordinates, the NIE may be traced back to the work of Ronald Coase, who released a landmark article titled "*The Nature of the Firm*" in 1937. According to Coase, firms exist because they are more effective in organising economic activity than relying entirely on the market. Coase's work paved the way for subsequent NIE academics to build on his discoveries and broaden the area. Later on, during the 1960s and 1970s, a group of economists led by Oliver Williamson, Douglass North, and Elinor Ostrom advanced the NIE. Traditional neoclassical economics – which believes that individuals always act rationally – was criticised by these academics because it did not take into account the complexity of real-world economic activity, so they sought to learn more about the impact that institutions had on economic behaviour and performance. Williamson, in particular, who coined the term New Institutional Economics in the mid-1970s[25], created a framework for comparing the costs and advantages of various institutional structures, such as market-based transactions, against hierarchical ties inside organisations. His work on transaction cost economics, which earned him the Nobel Prize in Economics in 2009, has had a significant impact on NIE as well as other subjects, including organisational theory and law. Ostrom, the first woman to earn the Nobel Prize in Economics, set out to investigate how groups of people share and maintain shared natural resources. Her research stressed the need for local knowledge and self-government to attain long-term resource management.

About five years after Williamson created the term for this new movement, the rise of new institutionalism, which began in the closely linked study of economic history, marked its presence in Development economics.

[25] Richter (n 282); Furubotn and Richter (n 278).

North, in particular with his groundbreaking article "*Structure and Change in Economic History*" (1981), is one of the leading academics in this subject who has sought to explain economic development by looking at the features of institutions, specifically at their ability to maintain a balance between social and private rewards at the margin. Institutions create incentives so that rational persons are encouraged to make decisions that result in the most efficient use of limited resources. This approach stresses the role of institutional elements in determining economic outcomes and emphasises the need to investigate institutional issues in the context of development. Indeed, the field of economics was significantly altered by the 1970s introduction of New Institutional Economics. In the space of a little under two decades, NIE has seen a number of noteworthy successes, including the acknowledgement of four Nobel laureates, considerable influence on critical issues like anti-trust law and development aid, and rising acceptance in reputable publications. In addition, there is a growing body of practical research and valuable data on the subject, which has attracted the attention of many people. It is remarkable to see how far this discipline has come regarding institutionalisation, considering how it originally came together around some very nebulous intuitions and was divided into numerous schools of thought[26].

1.2 The Relationship between New Institutional Economics and Neo-Classical Economics

Prior to delving deeper into the correlation between neoclassical economics and new institutional economics, it is imperative to explicate a few fundamental notions.

Neoclassical economics emerged in the late 1800s and quickly became the dominant school of thinking in the 1900s. The theory suggests that individuals act rationally when confronted with a choice between two alternatives that would have similar outcomes save for their own unique restrictions (such as time or money). Under this framework, markets are assumed to be competitive and self-stabilising, with supply and demand always being roughly equal. It supposes that individuals have complete information about the products they buy or sell, allowing them to make accordingly informed choices. As a result, we could almost say that neoclassical economics aims to explain collective outcomes using rational individual decisions. The idea is rooted in the notion of marginal analysis, in which individuals make decisions based on their options' marginal benefits and costs. Therefore, the neoclassical approach is characterised by radical individualism, which serves as the foundation of its methodology[27]. For instance, the idea of supply illustrates the neoclassical approach's emphasis on individual decision-making. The supply in a neoclassical economy is set by the choices of autonomous producers who aim to maximise their profits. Producers will raise their product supply if they can sell it for more than the cost of production. They will reduce their supply if the price falls below their production expenses. The same logic could be applied to market demand as well. As a result, this leads us to

[26] Ménard and Shirley (n 274).
[27] Bates (n 286).

the concept of Pareto optimality, the only ethical criterion that has widespread acceptance among neoclassical economists. In neoclassical economics, the idea of Pareto optimality is an efficiency benchmark. It is based on the premise that an economy is Pareto optimum if there is no way to benefit one individual without harming another. In other words, Pareto optimality demands that resources be allocated in such a way that no one may benefit while making someone else suffer. This notion has ethical concerns in the context of neoclassical economics. Individuals, according to neoclassical economics, have the freedom to make their own decisions about what is best for themselves, and society should accept those choices. As a result, Pareto optimality is seen as an ethical criterion since it respects the individual's assessment of their own well-being. It proposes that the government's function should be confined to ensuring that markets are competitive and free of externalities rather than meddling in individual decisions. Therefore, in light of this last consideration, we are less surprised by the idea that neoclassical economists implicitly thought that economic and political institutions are unimportant and that allocative-efficiency models should drive policy. It is precisely for the reasons above that opponents of neoclassical economics have identified several drawbacks in the theory. For instance, the assumptions of perfect information and competition, which form the foundation of the neoclassical framework, have been widely disputed since they do not correspond to the reality of many markets. Additionally, the theory has been criticised for not underestimating the importance of social and institutional elements in determining economic results. By focusing solely on human decision-making, the theory ignores the larger economic framework in which individuals operate, which may have a considerable influence on their choices and behaviours.

Throughout the 1960s and 1970s, the scholars who approached the neo-institutional movement intended to widen the applicability of marginalism rather than reject it. They felt that proven neoclassical methodologies might effectively address unique difficulties and institutional situations. They acknowledged, however, the necessity for changes to the neoclassical paradigm, even while keeping the premise of rationality and mathematically-based optimization procedures. The suggested changes seek to broaden the scope of the neoclassical approach, making it relevant to a wider variety of situations. As a matter of fact, this institutional shift was welcomed as a viable alternative to the prevailing neo-classical paradigm. Those who recognized the importance of market failure in development economics embraced it, as did those looking for a middle ground between market- and state-focused policies[28].

However, at this point, a question arises:

> "how does this new institutional approach fit in with neo-classical theory? It begins with the scarcity hence competition postulate; it views economics as a theory of choice subject to constraints; it employs price theory as an essential

[28] ibid.

part of the analysis of institutions; and it sees changes in relative prices as a major force inducing change in institutions."[29].

Moreover,

> "how does this approach modify or extend neo-classical theory? In addition to modifying the rationality postulate, it adds institutions as a critical constraint and analyses the role of transaction costs as the connection between institutions and costs of production. It extends economic theory by incorporating ideas and ideologies into the analysis, modelling the political process as a critical factor in the performance of economies, as the source of the diverse performance of economies, and as the explanation for 'inefficient' markets."[30].

Various scholars[31] agree that the new institutional economics does not represent a major break from neoclassical economics but rather an extension, with an increased focus on maximising individual utility and economic efficiency. Because it considers the role of transaction costs in exchange, the NIE understands that the institutional framework is a major restraint on economic performance. To a large extent, it follows the neoclassical model, albeit with important caveats. The foundation of NIE is the same as that of standard neoclassical economics, namely methodological individualism and the self-interest principle[32], but with an emphasis on institutions as proper subjects of economic study. The neoclassical assumption of individual choice subject to constraints is maintained in NIE, which now includes institutions, transaction costs, ideas, and ideologies. The neoclassical economics rationality postulate is amended in the NIE, which claims that values are not constant but are based on individual mental models. The NIE addresses challenges that are beyond the realm of traditional economics by expanding on and extending neoclassical theory. The NIE rests upon the twin pillars of the choice-theoretic approach to microeconomics, the fundamental premise of scarcity and the competitive nature of markets. That is to say, the new institutional economics is built on two essential foundations that are the principles of the choice-theoretic approach to microeconomics and the fundamental premise of scarcity and competition in markets. The idea is that NIE assumes that individuals are rational and will choose the option that maximizes their utility given their constraints, and scarcity is a natural constraint on individuals' choices. Furthermore, NIE assumes that markets are competitive, with buyers and sellers competing to achieve their respective objectives. These two fundamental principles serve as the bedrock upon which the new institutional economics is built.

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[29] Douglass C North, 'The New Institutional Economics and Third World Developement', *The new institutional economics and Third World development* (1st edn, Routledge 1997). p. 19
[30] ibid.
[31] Richter (n 272); Yeager (n 273); Harris, Hunter and Lewis (n 266); North (n 292).
[32] Richter (n 282).

1.3 Exploring the Implications of New Institutional Economics for Development Theory

In chapter one, to introduce and contextualize Gerschenkron's approach in the best possible way both from a historical and theoretical point of view, we explored various topics, including the birth of Development Economics, focusing mainly on structuralism and, subsequently, on the Washington Consensus. Despite its initial successes, we have seen how the structuralist recipe has shown itself in the long run not to be the solution to the problem of developing countries. In particular, one of the most significant problems lies in the very definition of development. This was largely due to a narrow definition of development, primarily viewed as an economic phenomenon relying on purely quantitative aspects. Indeed, disregarding social factors, such as poverty, inequality, and the underlying institutional framework, was typical. Initially, development models were centred on the concept of "traditionality" and the need for modernization, with the state leading the transition from traditional to market-based institutions. However, the explanatory power of these models was limited because they failed to account for the persistence of civil society institutions and the voluntary surrender of state power to market institutions. According to Cameron[33], these limitations largely resulted from social and political institutions being viewed as static, unchanging entities rather than dynamic, evolving structures.

The chapter also looked at the historical divergence between traditional economics and Development economics, despite the former's status as a branch of the latter. While the field of Development Economics certainly borrows important ideas and concepts from other areas of economics, it also has its own unique analytical and methodological identity[34]. Its reach is extensive, encompassing not only issues of resource allocation and long-term growth but also the economic, social, political, and institutional mechanisms needed to bring about rapid and widespread improvements in the living standards of people in Africa, Asia, Latin America, and economies in transition from socialism. As a result, Development Economics takes into account not only economic calculations but also political and social priorities that affect national and personal choices. It needs to think about what keeps people, communities and countries mired in poverty and how to escape those mechanisms' clutches. In order to accomplish this, a multidisciplinary approach that combines more conventional methods of economic analysis with more recent models and broader historical perspectives is required. In contrast to neoclassical economics, which emphasises optimal resource allocation, Development Economics considers the impact of socio-political and institutional contexts. National unity, ethnic conflicts, and religious and cultural traditions, for example, may be as essential as private, self-interested utility or profit maximisation calculations. As a result, Development Economics seeks to identify the economic, cultural, and political requirements for achieving rapid structural and institutional transformations of entire societies, with a focus on strategies that can bring the fruits of economic progress to the most vulnerable segments of their

[33] Cameron (n 295).
[34] Todaro and Smith (n 4).

populations. Given the complexity of the development process and the heterogeneity of the developing world, Development Economics is an eclectic field that combines relevant concepts and theories from traditional economic analysis with new models and broader multidisciplinary approaches. Nonetheless, its ultimate goal remains the same: to help us understand developing economies to improve the material lives of most of the world's population.

This section primarily discusses how New Institutional Economics and Development Economics are intertwined. Although looking at this relationship from a historical perspective is interesting, what really matters is the commonalities in terms of ideas, theories, and perspectives. Development Economics, which began in the 1950s, has always been concerned with modelling human behaviour and institutional structures in order to allocate resources efficiently. Interestingly enough, institutional issues have been at the centre of development economics from a local to a global level, with a particular emphasis on cultural and civil society institutions, as well as a critique of neoclassical economic models[35]. Moreover, Development Economics seeks to explain long-term economic growth divergences by focusing on market failures and how individuals respond by forming non-market institutions such as social organisations, political institutions, and constraint agencies[36]. As a result of its strong institutionalist emphasis, the New Institutional Economics emerged as a prominent candidate for attention in development economics. Herefore, the new institutionalism has become an essential component of development research. In this context, it has been pivotal in the evolution of this field of study, which now recognises its importance in the ongoing investigation of institutional structures in various countries. It is clear that Development Economics must continue to embrace an eclectic and interdisciplinary approach to economic growth research, including the contribution of New Institutional Economics. The continued integration of both fields can provide a more comprehensive understanding of developing countries' challenges and the most effective strategies for long-term growth. Moreover, borrowing Bates'words "not only has the study of development thus played a seminal role in the creation of the new institutionalism. The new institutionalism now also plays — and will continue to play — a major role in the study of development."[37].

Aside from the historical context, an important question arises: why should the New Institutional Economics (NIE) be relevant to the development economics discourse? As cited by Harris et al.[38], North claims that "third-world countries provide examples of antidevelopment frameworks. Statist regulation, ill-defined property rights, and other constraints restrict rather than stimulate economic activity. These conditions result in rent-seeking and redistribution, not rising productivity". The New Institutional Economics proposes redefining development as economic growth plus appropriate institutional change, with the latter referring to institutional changes that promote additional economic growth[39]. The NIE places proper institutional change

[35] Cameron (n 295).
[36] Bates (n 286).
[37] ibid. p. 35
[38] Harriss, Hunter and Lewis (n 276). p. 6
[39] Toye (n 288).

at the centre of the development theory, in contrast to the traditional focus on saving and population expansion in neo-classical growth theory. Therefore, development should be viewed as "a multidimensional process involving major changes in social structures, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty."[40].

In conclusion, we would like to stress that practical implications for policymakers can be drawn from the NIE's focus on the role of institutional change in development, as it calls attention to the need to address institutional constraints that limit economic growth and impede progress towards poverty reduction. In particular, it hints that policies centred solely on boosting investment and savings may not be enough to foster long-term economic growth in developing nations. Instead, policymakers should take into account the institutional structures that support economic activity. These include property rights, the rule of law, and regulatory frameworks. This necessitates a more comprehensive approach to development that considers both social and political factors as well as economic ones. Furthermore, the NIE's development economics approach acknowledges the importance of historical and cultural[41] factors in shaping economic outcomes. It recognises that a complex interplay of social, political, and economic forces shapes economic institutions. As such, it emphasises the importance of thoroughly understanding local contexts when designing and implementing development policies. This approach contrasts with traditional neoclassical economics' more one-size-fits-all approach, which frequently assumes that the same policies will work in all contexts. Finally, the NIE's emphasis on appropriate institutional change has consequences for the state's role in economic development. Rather than seeing the state as a barrier to economic growth, as many neoclassical economists do, the NIE emphasises the state's role in creating and enforcing the institutional frameworks that support economic activity. This necessitates a nuanced understanding of the state's role in various contexts, acknowledging that the appropriate level and nature of state involvement will vary depending on the historical and cultural context.

[40] Todaro and Smith (n 4). p. 18

CONCLUSION

In conclusion, the work of Alexander Gerschenkron has greatly contributed to our understanding of economic development in backward countries. His concept of relative backwardness highlights the complex nature of economic growth and the need to differentiate between different levels of backwardness. Gerschenkron’s emphasis on the role of institutions and the social environment in economic development has helped to broaden the traditional economic view of industrialization. His model of economic backwardness and the Big Spurt have provided a framework for understanding the industrialization process and the challenges faced by latecomers. Gerschenkron’s ideas have important implications for policy-makers and development practitioners seeking to promote economic growth and industrialization in developing countries. By focusing on the unique circumstances and context of each country, and by investing in technological development and institutional adjustments, developing nations can tap into their latecomer advantages and successfully achieve industrial take-off. Overall, Gerschenkron’s work represents a significant contribution to our understanding of economic development and provides valuable insights into the challenges and opportunities facing developing countries in their pursuit of economic growth and industrialization.

In addition to his contributions to our understanding of economic development in backward countries, Alexander Gerschenkron’s work also sheds light on the historical context and the role of government in promoting economic growth. His focus on the "Great Divergence" between Western Europe and other regions, such as Eastern Europe and Russia, highlights the importance of understanding the historical trajectory of each country and the factors that shaped their economic development.

Gerschenkron also emphasized the role of the state in promoting economic growth, particularly in latecomer countries. He argued that the state should play an active role in promoting industrialization by providing infrastructure, protecting domestic industries, and investing in education and research. He also recognized the importance of adapting foreign technologies to the specific context of each country and the need for a strong national market to support domestic industries.

Moreover, Gerschenkron’s ideas have important implications for contemporary development policy. His emphasis on the importance of institutions and social environment suggests that successful economic development cannot be achieved through a one-size-fits-all approach. Instead, development policy must take into account the unique circumstances and challenges facing each country and invest in the development of institutions and social structures that support economic growth.

Finally, the works of Alexander Gerschenkron and the New Institutional Economics (NIE) share some commonalities in their understanding of economic development. Both Gerschenkron and the NIE reject the classical view that all countries can grow at the same rate and instead focus on the unique circumstances and context of each country.

Gerschenkron’s concept of relative backwardness and the NIE’s emphasis on the importance of institutions in shaping economic development both acknowledge the complex nature of economic growth and the need to differentiate between different levels of backwardness. Both also recognize that institutions play a crucial role in facilitating economic growth and development, and that different institutional arrangements can either enable or hinder the process of industrialization.

Furthermore, both Gerschenkron and the NIE emphasize the need for technological change and innovation as key drivers of economic growth. Gerschenkron’s model of the Big Spurt and the NIE’s view of entrepreneurship and innovation as the engines of economic growth both underscore the importance of technological progress in facilitating economic development.

Despite these similarities, Gerschenkron and the NIE differ in their views on the role of the state in promoting economic growth. While Gerschenkron advocates for an active role for the state in providing the necessary infrastructure, institutions, and policies to enable industrialization, the NIE argues for a more limited role for the state in promoting economic development, and instead stresses the importance of market-based solutions and private property rights.

In conclusion, although there are some differences between Gerschenkron and the NIE in their views on the role of the state in economic development, their commonalities in their understanding of the complex nature of economic growth, the importance of institutions, and the need for technological change highlight the value of their contributions to the field of economic development. Their insights can inform policy-makers and development practitioners seeking to promote economic growth and industrialization in developing countries, and help to address the challenges and opportunities facing latecomers in their pursuit of economic growth and development.

In conclusion, Alexander Gerschenkron’s work represents a significant contribution to our understanding of economic development, not only in backward countries but also in the historical and institutional context of economic growth. His ideas have important implications for policy-makers and development practitioners seeking to promote economic growth and industrialization in developing countries. By investing in technological development and institutional adjustments, developing nations can tap into their latecomer advantages and successfully achieve industrial take-off. Gerschenkron’s work provides valuable insights into the challenges and opportunities facing developing countries in their pursuit of economic growth and industrialization, and his legacy continues to inspire scholars and practitioners in the field of development economics.

To conclude, Alexander Gerschenkron’s contributions to our understanding of economic development are multifaceted, encompassing not only the specific challenges faced by latecomer countries but also the historical and institutional factors that shape the industrialization process. His work continues to influence contemporary development policy, highlighting the need for tailored and context-specific approaches to economic growth.

Gerschenkron's concept of relative backwardness and his model of economic backwardness and the Big Spurt have been instrumental in broadening our understanding of the complex nature of economic growth. He recognized that the process of industrialization is not uniform across countries and that different levels of backwardness require different strategies for achieving industrial take-off. By emphasizing the importance of adapting foreign technologies to the specific context of each country, Gerschenkron challenged the prevailing view that industrialization could only be achieved through original innovation.

Furthermore, Gerschenkron's work also sheds light on the historical context of economic development, particularly the "Great Divergence" between Western Europe and other regions. His insights into the historical trajectory of different countries highlight the importance of understanding the factors that shape economic growth and the need for development policy to take into account the unique circumstances and challenges facing each country.

At the same time, Gerschenkron recognized the crucial role of institutions and social environment in promoting economic growth. His emphasis on the state's active role in promoting industrialization through investment in infrastructure, education, and research, as well as protecting domestic industries, has important implications for contemporary development policy. Gerschenkron's ideas suggest that successful economic development requires investment in the development of institutions and social structures that support economic growth and that policies must be tailored to the specific circumstances of each country.

Alexander Gerschenkron's work has had a profound impact on our understanding of economic development and continues to provide valuable insights into the challenges and opportunities facing developing countries in their pursuit of economic growth and industrialization. His contributions highlight the need for context-specific approaches to economic development, emphasizing the importance of institutions, social environment, and historical context. Gerschenkron's legacy inspires contemporary scholars and practitioners in the field of development economics to continue to push the boundaries of our understanding of economic growth and to develop policies that support sustainable and inclusive economic development.

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SUMMARY

Alexander Gerschenkron was a versatile academic who made significant contributions to various fields, including history, economics, politics, sociology, and literature. He was particularly known for his multidisciplinary approach to studying topics such as the Soviet and Tsarist Russia, financial institutions, and the industrialization process of economically backward countries. One of his most influential works was "Economic Backwardness in a Historical Perspective," which was published in 1952 and subsequently expanded with 13 other essays. Gerschenkron's study of industrialization tendencies in Europe shaped research agendas and continues to have a significant impact.

The book "Economic Backwardness in Historical Perspective" by Gerschenkron assesses the industrialization process of European countries during the 19th century and the institutional and social frameworks that shaped their economic development paths. To better appreciate the author's work, it is necessary to consider the historical context in which the book is written, particularly the geopolitical and economic aftermath of WWII, which resulted in the formation of economically and ideologically diverse geopolitical blocs. The interaction of commercial and geopolitical issues led to a substantial slowdown in international trade integration. The aggressive diplomatic foreign policies of the West and the economic and ideological views of communist nations, particularly the Soviet Union, led to the fragmentation of international commerce. The isolationism appears to be more than a physiological response to the circumstances of great political tension, of which the economic aspect was the most evident symptom. The aftermath of World War II had mixed and less uniform economic consequences for countries involved. The war's end coincided with a gradual shift towards liberalisation and increased openness, particularly in Western European and North American nations. The inclusion of the world's most developed economies made this an essential starting point despite being a pale replica of the global economy before 1914. The rest of the world suffered significantly from the international trade fragmentation, which can be attributed to foreign and economic policies that were at least divisive by the West, communist economies' conscious process of isolation from the international market, and decolonisation. Newly independent countries' nationalism-fueled ideology led to highly protectionist and inward-looking economic policies, and several countries chose to introduce their own currency, further fragmenting international trade. This situation prevented international investments, loans, and so on, at least until the early 1970s. The interpretation and understanding of policies directly attributable to third-world countries are only half the story. The other half is constituted by the international circumstances into which these countries enter. The aftermath of World War II resulted in two distinct trends for third-world countries: developed nations implementing liberal policies to enhance economic integration while developing nations became more inward-looking due to new and complex challenges. This trend reflected systemic tensions in the world economy, rather than country-specific events. This scenario persisted until the 1980s, when reglobalisation started to rekindle worldwide economic integration. This conclusion is

important for the foundation of ideas and prospects of Development economics that significantly impacted the development path of these nations up to the 1980s and 1990s.

The thesis discusses the critique of Alexander Gerschenkron, a political economist, of the Marxist generalizations regarding the uniformity and inevitability of development in all societies. Gerschenkron disagrees with the idea that all societies would follow the same trajectory and argues against the teleological interpretation of development and the "original accumulation." The thesis also discusses the stage theory of W.W. Rostow, which projected a uniform route to economic growth for all countries based on the Western world’s progress toward modernity, and highlights the inherent uniformity and inevitability of the Marxist theory of phases of economic growth. It discusses the methodological approach of Gerschenkron in understanding the process of industrialization in backward countries, which differs from the Marxist approach. Gerschenkron rejects abstract and inductive methods and emphasizes the importance of examining national variations, rather than focusing on similarities between countries. He criticizes the deterministic interpretation of history and industrial development, highlighting a more contextualized approach. Gerschenkron’s approach emphasizes the specificity of elements that occur within a country’s development and avoids over-generalizing the process of industrialization. He views the industrial history of Europe as an orderly system of graduated deviations from the original industrialization, rather than a series of mere repetitions. The Gerschenkronian approach to economic development prioritizes the preservation of a nation’s specificities, particularly those of a developing country, and favors a strategy that seeks to consider and give proper weight to these specificities. The concepts of context and country-specific industrialization substitution patterns are introduced, emphasizing the idea of individuality as a common denominator. Context, understood both at a macro and micro level, is a dynamic and dialectic factor that actively and passively affects industrialization. The substitution patterns of industrialization are the physical manifestation of how context heavily influences the development path a backward country may follow. Gerschenkron brings several historical examples of what he identifies as substitution patterns, showing that the absence of traditional prerequisites does not represent an insuperable obstacle to development. The thesis is about the critiques of Alexander Gerschenkron on the Marxian concept of "original accumulation," which suggests that the accumulation of capital over a long historical period is necessary for industrialization to take place. Gerschenkron disagrees with the concept’s universality and argues that the prerequisites for industrialization vary across different countries. Moreover, the notion of original accumulation is inadequate and unusable as it creates a new set of problems that must be fulfilled by each nation under consideration. Gerschenkron’s approach is to avoid the bold research of predefined prerequisites for industrialization and to analyze the causal factors involved in economic development models as prerequisites in a specific sense of the word.

The approach of Gerschenkron to industrialisation, highlighting the benefits of his methodology and historical perspective, and the importance of discontinuity and time in the industrialisation process. Gerschenkron’s choice of nations as the basic units of observation is also explained, and his work is described as an approach rather than a theory, with a focus on typification rather than prediction. The thesis also emphasizes the need to recognize Gerschenkron's uniqueness and avoid shallow interpretations of his ideas. This text provides a summary of the ideas presented by Alexander Gerschenkron in his book, Economic Backwardness in Historical Perspective. The author's most critical metaphor appears to revolve around time, with the idea of being late and the following catching up. Gerschenkron concluded that latecomers' industrialization would be distinct in its motives, structure, and timing, and that they should find substitutes for any missing requirements rather than waiting to obtain all the credentials. Six propositions summarise the factors that impact the course of industrialization. Gerschenkron's work has become profoundly influential in the study of European patterns of industrialization and served as a stimulus for future research, and his ideas were actively integrated into various cases of state-led development with various authors.

The second chapter focused on Gerschenkron's theory of economic development of backward countries, explaining the key elements and their interactions. The concept of relative backwardness is introduced, which suggests that backwardness can result in both disadvantages and advantages for economic growth and development. Gerschenkron's contribution to the topic is highly regarded, with some considering his work on European industrialization to be the most influential interpretation of the 19th century and its implications for subsequent history. The thesis emphasizes the importance of differentiating between the different levels of economic backwardness to move away from unilinear and undifferentiated conceptions of development. This approach allows us to evaluate each country's uniqueness in the industrialization process as a part and parcel of a graded system of economic backwardness. The thesis highlights the significance of the relationship between the agricultural sector, backwardness, and the subsequent industrialization process, and how backwardness determines the starting point of latecomers, influencing the consequent growth path. Understanding what chances and opportunities backwardness provides and which it refuses can help us grasp the causes of the success and failure of industrialization processes. The Veblen-Gerschenkron hypothesis, which suggests that there are benefits to being late in industrial development, was introduced by Veblen in 1915, and later modified and extended by Gerschenkron. Gerschenkron believed that while being late in industrial development can provide opportunities for technological progress, the delay also leads to increased costs that can result in Malthusian counterrevolutions, high social costs, and significant obstacles to industrialization. According to Gerschenkron, the advantages of being late must be achieved through proper structural changes, but these are not granted by default, and a country's industrialization success is not guaranteed. The idea of timing is crucial throughout the industrialization process and plays a significant role in determining a country's industrialization success. This passage is a summary of the main ideas presented in the work of Alexander Gerschenkron, a historian and economist. The author suggests that Gerschenkron developed a fundamentally redesigned approach to the industrialization of backward nations based on alternative assumptions. One of the key ideas is that the process of industrialization varies depending on the context in which it occurs. Economic backwardness is an explanatory variable that connects and explains a series of sub-variables accountable for distinct outcomes. Gerschenkron proposed that countries could compensate for the unfavorable beginning conditions by changing the adverse circumstances and severe limitations that backwardness imposes and tapping into the latecomer benefits. The author explains how Gerschenkron's work goes through a first phase in which he deconstructs the traditional interpretation of the prerequisites and the ingredients that comprise this list. The second half of his argument is the constructive element, in which he acknowledges and accepts that certain institutional obstacles may retard industrialization. Finally, Gerschenkron argues that backward countries must find a way to finance industrialization since otherwise, an industrial take-off appears to be even more challenging. The concept of prerequisite substitution patterns, introduced by Alexander Gerschenkron, is a variable explanatory that portrays the consequences of the degree of economic backwardness on a nation's industrial development. Substitution patterns are used to compensate for lacking prerequisites, which are dependent on a country's unique circumstances and context. As a nation lacks more factors, it has to substitute more, and the nature of the substitutions would mirror the degree of backwardness. The substitutions may take numerous forms, ranging from economic measures to the formation of new financial or political institutions, all with the goal of filling the gaps that maintain a nation in a state of backwardness. The identification of alternative methods of industrialization will reveal various degrees and kinds of "backwardness" in the form of sluggish or delayed structural transformation. The thesis discusses Gerschenkron's model of economic backwardness as the common denominator driving countries towards industrialization. The model involves a significant increase in industrial output, known as the "Big Spurt," occurring in nations with a higher degree of economic backwardness. The thesis explores the characteristics of the Big Spurt, including a kink in the curve of industrial production and persistence of growth during a depression. The thesis notes that the development of technology through time heavily incorporates Gerschenkron's model, and latecomers could catch up by investing more heavily in individual factories. The thesis also discusses the nature of substitutions during industrialization and the limitations of defining the Big Spurt solely through measurable variables.The concept of "latecomer advantage" is based on the idea that developing nations can benefit from replicating successful practices and capitalizing on cost savings. This can be achieved through the adoption of modern technology and the embrace of cutting-edge tech. A developing nation should focus on areas of the industrial economy where technical progress has been rapid and where a pool of innovations is available for rapid adoption. However, there are bounds to technological borrowing, and a developing nation cannot apply it to production lines that require exceptionally prominent levels of specialized technology. To maximize its advantage, a nation should invest in technical development and industrial upgrading following its comparative advantage, as established by its unique factor endowment. The ability to borrow technologies is closely connected to the recipient country's social capabilities and requires a series of institutional adjustments that have beneficial ramifications at the societal and worker levels. Therefore, an industrial revolution must correspond to an institutional and social revolution.

The research conducted by Gerschenkron highlights the significance of social elements in determining economic outcomes and the necessity for countries to consider the social environment in which economic growth occurs. The role that Gerschenkron reserves for what concerns society is two-fold. Society becomes an intrinsic part of the industrialisation process, and industrialisation creates a burden on the population because they are an active participant in this process. Industrialisation frequently comes at a cost to the population, particularly in developing nations. Gerschenkron argues that the industrialisation process is a process of "creative destruction" that necessitates considerable changes in conventional ways of life and frequently undermines existing social and economic systems. This passage discusses Gerschenkron's studies on the economic history of Eastern Europe, particularly the role of peasants in Russia and Bulgaria. Peasants played a significant role in establishing the respective economies of Russia and Bulgaria and affected the direction these nations took towards industrialization. Factors such as the size, education, social and economic standing, and access to resources of peasants influenced the speed and form of industrialization. The state and other structural institutions also impacted the peasantry's effect on economic progress. Although both countries faced similar obstacles, such as the role of peasants in determining economic growth, Russia's industrial endeavor was ultimately more successful due to a combination of circumstances, including the peasantry's size and poverty, a lack of a significant domestic market, weak political and economic institutions, and limited foreign capital and investment. The ability to alter the political-institutional framework is crucial for a society's industrialization journey. Institutional obstacles can hinder progress, and it is essential to remove them and implement new laws and institutions that can help an industrialized society thrive. Serfdom had a critical role in determining the social and economic position of the peasantry in Russia and Bulgaria, which directly influenced how these nations' industrialization evolved. Nonetheless, it is the concurrence of various elements and variables that determine the success of industrialization, including political and institutional framework, natural resources, population, and timing. The ability to change and adapt is essential to progress, and it should not be overlooked, especially when analyzing the success of industrialization in any country. This article discusses the role of society in the process of industrialization within Gerschenkron's framework. Industrialization is seen as an exogenous shock that spreads with its subversive effects in a multidirectional way, and its response varies according to the degree of economic backwardness. The burden of modernization falls more on the shoulders of the population as the degree of economic backwardness increases. Gerschenkron's approach highlights two key ideas: firstly, every country must identify its unique development path by filling the gaps within its economy, and secondly, Gerschenkron's concept of the "backwardness advantage" emphasizes the potential for countries to leverage their relative lack of development to their advantage rather than seeing it as a fixed disadvantage. The thesis also emphasizes the importance of creating institutions that are adaptive and responsive to the unique context in which they operate. Gerschenkron acknowledged that the process of late industrialization creates new social forces that did not exist in earlier industrializing nations, and these forces pose new threats to the late-developing states and to the global system. The thesis concludes that, in Gerschenkron's framework, society plays a significant role in the process of industrialization. The thesis discusses Alexander Gerschenkron's theories on the role of institutions in economic development, which he developed by examining the historical context in which countries like Germany and Italy caught up with more advanced economies during the 19th century. Gerschenkron attributed the success of these countries to their ability to mobilize resources through institutions like investment banks that provided long-term credit to support the development of capital-intensive industries. On the other hand, countries with weak institutions, such as Russia and Eastern Europe, developed more slowly. The state played a more prominent role in developing industries in these countries due to low levels of commercial honesty and widespread corruption. The thesis concludes that Gerschenkron's ideas on institutions are relevant to modern developing countries, where weak institutions and corruption can make mobilizing resources difficult, and institutions must play a central role in economic progress.

The New Institutional Economics (NIE) theory and its evolution to the present. The thesis provides an in-depth examination of the theoretical foundations, key concepts, and evolution of the NIE theory, with a focus on the works of Daron Acemoglu and William Robinson. The NIE is a highly interdisciplinary and decentralized field of inquiry that has developed through the innovative work of numerous subfields, including transaction-cost economics, property-rights analysis, law and economics, comparative systems, and constitutional economics. The thesis also mentions the significance of the NIEH, which is a subfield of the NIE, and the works of Douglass North. The New Institutional Economics (NIE) is a departure from traditional economic theory, emphasizing the critical role of institutions in shaping economic performance. The NIE rejects the static and abstract modelling of traditional economics, focusing instead on non-market institutions such as property rights, laws, and bureaucracies. It aims to demonstrate how non-market institutions might be maximized to achieve individual and community gains in a society. The NIE represents an eclectic toolkit, drawing on insights from law, political science, sociology, and other disciplines to provide a more nuanced and comprehensive understanding of economic systems. The NIE places great importance on the microanalysis of firm and market organizations, the dynamic evolution of economic systems, and transaction costs, which provide a more detailed account of economic exchange. This text discusses the importance of institutions in economic analysis and the emergence of the New Institutional Economics (NIE) as a framework for studying the role of institutions in economic performance. It highlights the significance of NIE's multidisciplinary view of economic systems, which allows for a more comprehensive perspective that accounts for the complexity of real-world occurrences. The text also gives a brief historical overview of the development of economic institutionalism, which challenged the neoclassical economic theory's lack of attention to institutions, and the rise of NIE. Finally, the text emphasizes NIE's relevance to public policy and economic development, as it provides a theory of development based on suitable institutional transformation to promote economic growth. The thesis discusses the fundamental notions of neoclassical economics, which emerged in the late 1800s and became the dominant school of economic thought in the 1900s. Neoclassical economics is based on the principle of rational decision-making by individuals in the market, with complete information about products, leading to the Pareto optimality concept. However, the assumptions of perfect competition and information have been widely disputed as not corresponding to many markets' reality, and the theory has been criticized for ignoring institutional elements' importance in determining economic results. The new institutional economics (NIE), an extension of neoclassical economics, focuses on maximizing individual utility and economic efficiency while including institutions, transaction costs, and ideas/ideologies in economic analysis. NIE follows the same foundation of neoclassical economics, namely methodological individualism and the self-interest principle, with an emphasis on institutions as proper subjects of economic study. The chapter discusses the evolution of Development Economics and its focus on multidisciplinary approaches that include social, political, and economic factors in the study of developing countries. The New Institutional Economics has become an important component of Development Economics due to its emphasis on proper institutional change in promoting economic growth. The chapter emphasizes the need for a comprehensive understanding of the challenges faced by developing countries and effective strategies for long-term growth, which requires an interdisciplinary approach that includes the contributions of the New Institutional Economics. The chapter also emphasizes the importance of proper institutional change in promoting economic growth, which should be at the center of development theory. The practical implications of the NIE's focus on institutional change should guide policymakers in addressing issues related to economic growth, inequality, and poverty eradication.