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Catching Up or Lagging Behind?

The Dual Revolution and the Flourishing of Capitalism in Western Europe

In a paradoxical way, the modernization crisis of Central and Eastern Europe was a consequence of the moderate but significant economic and social progress achieved in the second half of the nineteenth century by following the West. The first half of the century had produced an increasing gap between East and West. The British Industrial Revolution transformed the Western European core of the world economy. Conjointly, the French Revolution prepared the ground for major sociopolitical changes. These two revolutions—Eric Hobsbawm's "dual revolution" of the late eighteenth and early nineteenth century—established the Western industrialized, urbanized parliamentary democracies. The subsequent decades saw the triumph of liberal capitalism and of Western colonial powers whose influence extended over all continents.

While Western Europe rode a new express train, most of Central and Eastern Europe still ambled along in an old stagecoach. According to Paul Bairoch's calculations and estimations, the per capita gross national product (GNP) of the Habsburg Empire in 1800 approached that of Western Europe: the latter was 7 percent above, whereas the former was 5 percent below the European average. By 1860, however, the gap had significantly widened. Western Europe's per capita GNP was 150 per-

cent higher than that of the European average, whereas that of the empire was 7 percent below. Hungary's level stood at 75 percent of the European average. Countries east of the Habsburg Empire lagged 20 percent behind the European average in 1800, but had fallen to 40 to 50 percent below by 1860. Per capita GNP in Central and Eastern Europe therefore stood at less than one-third of the British GNP (Bairoch 1976).

The prerequisites for the dual revolution that dramatically transformed the West were almost entirely absent in the East. The abolition of the obsolete medieval institutions of noble privilege and serfdom was delayed, as were property rights, personal liberty, the introduction of a self-organizing civic society, and the creation of a modern legal system. The medieval constraints on industry and commerce survived, which prevented the development of modern banking systems, joint stock companies, free access to land, and entrepreneurial freedom.

The Challenge for the Underdeveloped: Temptation and Threat

The speedy rise of the West challenged and demanded a response from those nations in Central and Eastern Europe who lagged behind. The Western pattern provided an attractive model. Intellectuals and even members of the old ruling elite admired the West and argued for change. Pamphlets and books described the alluring transformation of the West and attacked Eastern inertia and backwardness. Influential social groups were mobilized by the fear of lagging behind or of disappearing altogether from the family of European nations—the celebrated early-nineteenth-century Hungarian poet, Mihály Vörösmarty, wrote about a huge mass grave in which the entire nation would be buried.

The formative force with the greatest sociopolitical effect was romantic nationalism. The birth of nations and the recognition of an "imagined community" (Anderson 1983) in the West at the end of the eighteenth century had a tremendous impact in Central and Eastern Europe, sparking imaginations even before political nations were born. National identity, conceived in Western terms, provided a primary impetus for mass mobilization. At the beginning, as Miroslav Hroch convincingly points out, this mobilization was an intellectual phenomenon inspired by a handful of poets, writers, historians, linguists, and artists

(Hroch 1985). The international trend of romanticism arrived in Central and Eastern Europe at the turn of the century and initiated a renewal of national literature, music, theater, and painting that both reflected and created deep, passionate national feelings. National "prophets" bitterly exposed the inner "rottenness" of the ancien régime, denouncing it as a prison for the populace. They worked to stir an awakening of national consciousness. In his 1832 book on the Polish nation and pilgrimage, Adam Mickiewicz equates Poland with freedom and declares that the "crucified Polish nation . . . [which was] laid in its grave . . . did not die." He says that the people, slaves in their own country, would "arise, and free all the people of Europe from slavery" (Davies 1986, 202).

Western industrialization also attracted the interest of Central and Eastern European nobility. By expanding the ability of people in the West to purchase necessities and other goods, Western industrialization extended the market for East European raw materials and agricultural products. During the crucial decades between 1820 and 1880, world trade, which remained primarily intra-European trade, increased ninefold. The landed noble classes, however, could not take advantage of the resulting explosion in export possibilities because they were limited by traditional production methods based on serf labor. The need to modernize agriculture became imminent and evident.

The Western challenge not only provided a tempting model and business opportunities but also posed an economic, political, and frequently serious military threat. The transformation of an expansionist Western Europe into a strong industrial region and efficient democratic system posed an increasing threat to the rest of the continent. Attempting to give an adequate and rapid response to the Western challenge thus became a question of life and death.

Political Responses: Reforms and Revolutions

Prussia reacted first to the Western threat. Its defeat by Napoleon in 1806 was intensely humiliating and generated an immediate adaptive response. It seemed clear that the feudal economic and political system in Prussia had become outdated and indefensible. The Stein-Hardenberg reforms, imposed from above, had initiated a radi-

cal transformation of the economy and society along Western lines. The 1807 emancipation of the serfs, with its provisions for the redemption of feudal services, opened a new path toward modernization that culminated in 1871 in the Prussian-led unification of Germany. The road to rapid transformation was opened, and Germany joined the industrialized core of Europe. The Eastern German states of Prussia, Brandenburg, and Mecklenburg, with economic and social structures resembling those of Central and Eastern Europe, became a part of the West.

The highly industrialized German Reich preserved several "Eastern" elements in its sociopolitical system and, as an ambitious latecomer, played a special role in turn-of-the-century Europe. Since it could not join the "club of colonial empires," the Reich revolted against its Western rivals by producing extremist ideologies and movements. In the stormy history of the first half of the twentieth century, Germany presented a pattern of rebellion against Western values and domination that strongly influenced Central and Eastern European countries. However, despite its pattern of rebellion, Germany shifted into the Western sphere and no longer belonged to the Central-Eastern half of the continent. Consequently the striking story of twentieth-century German history appears here only in references to its strong impact on the region under discussion.

The Russian Empire reacted to Western development much later and more hesitantly. In this respect, the Russian victory over Napoleon amounted paradoxically to a social and political defeat. Victorious, euphoric nineteenth-century Russia remained a sleeping giant. As a stalwart member of the Holy Alliance, Russia staunchly defended the status quo both within and outside its borders, supporting outdated systems, suppressing revolutions, and squelching struggles for independence. Nearly half a century later, Russia finally awoke to the Western challenge. The humiliating defeat in the Crimean War (1853–1856) proved destabilizing, especially in an internal crisis generated by the stagnation of agriculture and by nearly 1,200 local peasant uprisings between 1826 and 1861.

The situation finally moved the tsar to initiate reforms. A tsarist decree, approved on February 19, 1861, abolished serfdom in most parts of the Russian Empire. It guaranteed personal freedom and the right to own private property and granted former serfs the liberty to engage in trade and industry. The manorial justice system was dismantled in 1864 and replaced by a new civil administrative system of justice. Le-

gal and educational reforms were institutionalized as well. In 1870, urban settlements received the limited rights of self-governance, and in 1874, military reforms were introduced in an effort to modernize the army.

All these reforms, however, remained partial and inconsistent in their effects. Although liberated serfs lost about 20 percent of the land previously available to them for cultivation, these lands had been attached to the big estates. Now they worked small plots of land, consisting in most parts of the country of no more than twelve acres. These plots provided only a minimal subsistence for peasants and their families. Free peasants also remained bound to the *obshchina*, the village community, and they could not leave their villages without permission of the ruling council. Until 1906, peasants wishing to exercise their new rights either had to pay about two billion rubles as compensation for the landlord's land they had used that had now become theirs, or to provide "transitional" labor services (a disguised prolongation of feudal services) that might reach forty days per year (Kovalchenko 1971).

Reforms were thus halfhearted. It took yet another military defeat to accomplish the liberation of serfs and the abolition of village communes. In 1905, Japan, a third-rate military power, defeated Russia in a war that revealed the connection between Russian military weakness and the country's social and economic conditions. That defeat stimulated a new era of reforms. Village communities were abolished, compensation was canceled, and the 1906 Stolypin reforms sought to complete the ambivalent steps toward modernization taken by the tsar more than forty years before (Dubrovski 1963).

In the Russian-dominated Baltic territories, reforms from above began much earlier than in Russia itself. Seeking modernization and attempting to follow the German pattern, the Baltic German *Ritterschaften* (landed nobility) emancipated the native peasantry in Estonia and Latvia. Full emancipation was declared in this area earlier than anywhere else in Central and Eastern Europe: 1816 in Estonia, 1817 in Courland, and 1819 in Livonia. More than two-thirds of the Baltic peasantry, however, remained landless. After 1848, a new reform granted tenancies in return for payment of rent. Later reforms, for example in Livonia, altered the political status of peasants, assuring them representation equal to that of the nobility in local administrations.

The Polish Kingdom and Lithuania had more ambitious aspirations. They revolted unsuccessfully in 1794 against Russian rule and the partition of the country, and the next two generations attempted to re-

establish Polish freedom. A November uprising in 1830, although initially successful, was bloodily suppressed; the Polish constitution was suspended, and eighty thousand people were deported to Siberia. A January 1863 uprising fought bitterly to free the country from the military government of General Pashkievich, but the following partisan war, which lasted sixteen months, ended tragically in a new defeat.

The heroic uprisings of the nobility, although militarily unsuccessful and lacking any revolutionary social program, nevertheless resulted in significant modernization of the country. The tsarist regime not only dissolved the so-called Congress Kingdom and attempted to incorporate the Polish territories organically into the Russian Empire but also sought revenge against the Polish-Lithuanian nobility by confiscating a great part of their land and by distributing it among the former serfs who had been liberated by a decree of April 1864. The defeated Polish elite turned thereafter to peaceful actions, to "organic work," that focused on gradual transformation and economic modernization. The result of this long process in the Baltic countries and Poland was reform more radical than that instituted in Russia (Davies 1986).

If the partially European Russian Empire adjusted to the new Europe with much difficulty, the primarily non-European Ottoman Empire, which occupied the Balkans, experienced even greater problems adapting to the changes.

The military leaders of the Ottoman Empire, which, since the Treaty of Karlowitz (1699) had entered a period of defense and decline, realized that the new Europe constituted a threat to the empire. Halil Pasha, commander in chief, stated in a memorandum to the sultan that "if we do not follow in Europe's footsteps, we will have nothing left but to return to Asia." Military defeats at Navarino Bay at the hands of the united British, French, and Russian navies, and the Russian offensive that followed, led to Ottoman capitulation and the eventual liberation of Greece. Together with a series of Serbian uprisings, these events rang the death knell of the nearly five-hundred-year-old Ottoman rule in the Balkans. Despite their positive aspects, the *Tanzimat* reforms—the *Hatt-i-sherif* (1839) and *Hatt-i-humayun* (1856)—offered too little too late (Petrosjan 1977). The decline and disintegration of Ottoman control continued, finally leading to the defeats of the First Balkan War. As a result, in 1913 the Ottoman Turkish Empire was forced back into Asia Minor, just as Halil Pasha had predicted. A last desperate military attempt by the empire to alter the course of history during World War I through alliance with Germany ended with the empire's total disinte-

gration; in its place remained a small and poor "third world" country, Turkey.

The gradual decline of the Ottoman Empire and the subsequent rush by other nations to fill the power vacuum in the eastern Mediterranean basin helped to liberate the peoples of the Balkans. From the failed experiment of Alexander Ypsilantis in 1814, to the proclamation of independence of the "Hellenic Republic" in the Peloponnisos, a long road led to the guarantee of Greek independence. The London Protocol of 1830 recognized Greek independence and pledged West European military support, which forced the Sultan to accept the loss of his former territory.

Serbia began its military struggle against Ottoman occupation in 1804. A second insurrection of 1815 led first to a compromise and then to autonomy in 1830. The process of liberation continued with the complete withdrawal of Ottoman troops by 1867 and ended with the Berlin Treaty of 1878, which founded the independent state of Serbia.

The liberation of the remaining Balkan territories and the foundation of independent states was a stormy and bloody process. A series of uprisings in Bulgaria (1876) and in Bosnia (1879), repeated Russian interventions against Ottoman rule, the wars between Serbia and Bulgaria in 1885, and the Bosnian war in 1908 began transforming the Balkans. Finally the two pan-Balkan wars of 1912 and 1913 and the declaration of Albanian independence on the eve of World War I completed the process of creating a post-Ottoman Balkan region of autonomous nations (Jelavich 1977). This development destroyed the Ottoman system of military-bureaucratic-feudal ruling elite. Land that had belonged to the Sultan became the property of the peasantry. This social and political transformation opened the door for modern capitalist change along Western lines. Because the European great powers were deeply involved in the modernization and transformation of the area, and because national independence in each case was guaranteed by international agreements dictated by Western powers, the adoption of Western institutions was predictable. Sometimes reforms were prescribed by the great powers. In the case of Romania, the two principalities that had been under Ottoman domination were united in 1856 as one independent nation by the provision of the Paris Treaty. The United Principalities were also compelled by the Paris Convention of 1858 to emancipate their serfs and to abolish feudal privileges: "All the privileges, exemptions and monopolies," declared the Convention of the great powers, "which certain classes still enjoy shall be abrogated,

and the laws which regulate the relations of landlords and peasants shall be revised without delay." The attempt to copy the Western institutions and legal system was crowned by the adoption of the Belgian constitution in Romania in May 1866 (Stavrianos 1963, 352, 357).

Despite the adoption of Western institutions, the economic backwardness in the Balkans, the premodern, traditional societies with their restrictive communal structure, and the existence of wide-spread poverty created genuine obstacles to modernization. Consequently, most of the institutions adopted from the West lacked relevance in the Balkan context and remained formal structures without substance.

Unlike the Russian and Ottoman empires, the Habsburg Empire, which ruled a large part of Central and Eastern Europe, responded more flexibly to the Western challenge. Joseph II, the enlightened absolute ruler of the empire, introduced reforms in the 1780s that emancipated the serfs, secularized the property of the monasteries, created a civil marriage registry, and introduced modern military reform. In the aftermath of the French Revolution and the Napoleonic wars, Prince Metternich instituted a conservative despotic regime that was moderated only by the revolution in Vienna on March 13, 1848. The 1848 revolution created a Constitutional Assembly that introduced social reforms and a modern legal system. Although revolutionary Vienna was reoccupied by the emperor's army in October, its fundamental achievements were guaranteed and opened the road for socioeconomic transformation along British and French lines.

Paradoxically, the Czech hereditary provinces were equally flexible in their response to the Western challenge, although national oppression and the mandatory Germanization of Bohemia-Moravia aimed at assimilating Czech regions into Austria proper.

The Hungarian nobility, unlike the Czech elite, adopted attitudes similar to those of the Polish noble elite. Hungarian nobles revolted against Habsburg domination. On March 15, 1848, two days after the Vienna revolution, a popular uprising began in Pest. The lower nobility, attempting to reintroduce national independence, dethroned the Habsburg dynasty and declared the Hungarian Republic in January 1849. The Holy Alliance, the allied Austrian and Russian armies, defeated the Hungarian revolution in the summer of 1849, but a decree of the emperor renewed the revolutionary laws established by the Hungarian parliament of nobles in April 1848. These laws abolished serfdom (though 60 percent of the peasants were liberated without land), eliminated the nobles' privileges, guaranteed free access to land, and

granted personal freedom. A compromise (*Ausgleich*) between the Habsburg court and the Hungarian nobility in 1867 reestablished partial independence for Hungary, setting up an independent government and separate constitutional rights within a reformed dual Austro-Hungarian Empire. Although similar autonomy for the Czech, Slovak, Croatian, Polish, Romanian, and other nationalities of the empire was consistently rejected, the combined impact of (defeated) revolutions and successful compromises paved the road for modern economic-social transformations (May 1968).

Despite these changes in Central and Eastern Europe, remnants of the ancien régimes survived. The old ruling elite preserved their leading positions in the new situation. Big estates were safeguarded, and in most cases, authoritarian, multinational empires were conserved. Institutional and social transformation was thus partial and limited, especially when compared with the West. This situation created severe obstacles for modern capitalist development and for the formation of parliamentary democracies. Central and Eastern Europe, however, sought to follow the West, and the international economic environment fostered the necessary conditions for realizing this goal.

Latecomers in an Internationalized World Economy

In responding to the Western challenge of the dual revolution, Central and Eastern Europe thus adopted the fundamental institutions of modern capitalism and created at least the minimal prerequisites for capitalistic economic development. The turning point occurred in the 1860s. During this period, traditional agricultural methods were replaced by modern cultivation, a new railroad system and modern infrastructure was created, and factories appeared. This process was supported by the increasing cross-border economic activity of the core countries, which helped to integrate backward areas into an internationalized world economy.

The increasing export of capital, which began in the mid-nineteenth century and gained a remarkable impetus during the last third of the century, serves as an example to illustrate the importance of cross-border activity. Until World War I, export of capital amounted to forty-six billion dollars, originating mostly from three core countries. More than

a quarter of it was absorbed by European countries. Britain, the leading capital exporter, played a diminishing role in European investments and credit after 1850. Between 1865 and 1914 only 13 percent of her capital exports was channeled to Europe. In contrast, France, the second biggest exporter, whose capital export represented one-fifth of total, developed an increasing interest in Central and Eastern Europe: 40 percent of her capital export went to Austria-Hungary, the Russian Empire, and the Balkans around the turn of the century. From the 1880s on, German capital exports, 13 percent of the European total, became significant. More than half of the German capital exports went to Austria-Hungary, Russia, and the Balkans.

The huge influx of Western capital played a decisive role in financing the economies of Central and Eastern Europe. During the decades around the turn of the century, 60 percent of all capital invested in Russia originated from foreign sources, and in mining and metallurgy, 88 percent of invested capital was in foreign hands. In the Austrian and Czech parts of the Austro-Hungarian Empire in 1900, 35 percent of invested capital came from the West; most of this capital was invested in railroads and state bonds. Banking and industrial activity, especially from the 1880s on, was financed from domestic sources. An increasing part of domestic capital accumulation was also being exported, mostly to the Eastern part of the empire and to the Balkans. This Austrian-Czech capital comprised roughly 80 percent of capital imports in these eastern and southern regions.

Between 1867 and 1914, 40 percent of total investments in Hungary came from outside the country, including from Viennese banks. Railway construction was mostly financed from imported capital, and 55 percent of banking and 36 percent of industrial capital were in non-Hungarian hands.

In the Balkans, capital import was almost the only source of investments in railroads, infrastructure, and raw material extraction. In Romania, 95 percent of oil fields lay in foreign hands, and the copper wealth of Bor, Serbia, was being extracted by foreign companies. A huge part of Western credit, however, was being used to finance enormous budget deficits and to build up the bureaucracies and armies of the newly-established independent states. For this reason Serbia, Bulgaria, and Greece became insolvent around the turn of the century and unable to repay the interest and principal of their foreign debts (Berend and Ránki 1982).

The Role of Railroads and Their Spin-Off Effects

The largest share (about half) of foreign investments was earmarked for railroad building. The economic, political, and military interests of the great powers made the construction of a unified European railway system indispensable. The backbone of the Balkan railroad system was the Serbian and Bulgarian section of the famous German-built Berlin-Baghdad line, which served the expansionist goals of the ambitious German Reich. More than one-third of the existing 360,000-kilometer European railroad network ran through Central and Eastern Europe. The railroad density in the region, calculated on length of rails per one hundred thousand inhabitants and area of land, reached roughly half that of the West. Railroads were thus over-developed when compared with the size of the Central and Eastern European economies. Therefore a great part of the capacity was simply not used. The system—with half the capacity of the Western system—shipped only one-fifth of the cargo and one-tenth of the passengers of the Western railroads.

Railroads were not only a means of transportation in Central and Eastern Europe but also symbols of speed and modernity. Both the King of Naples and the Russian Tsar built short private lines linking their winter and summer palaces; these links underscored their power and status. The railway and the locomotive became a topic of poems and paintings. It is difficult, in fact, to overestimate the significance of railroads in facilitating economic modernization. They played a pivotal role in building a modern economy and accelerated economic and social transformation. They created hundreds of thousands of jobs. They provided not only a major source of income for landless peasants but also mobilized a traditionally immobile population in backward rural areas and served as the main boulevard for internal migration. Railroad construction often offered the first nonagricultural work for peasants and became the first stage on the road toward industrial work and a new working-class status.

Railroads spurred the opening of coal mines and the development of mining, iron, and steel industries. During the first decades of the railway boom in Central and Eastern Europe, construction relied on imports of rails and locomotives. In later decades, an emerging domestic industry produced rails and engineering products. Differences among

the countries of the region were significant, however: Hungary's railroads became self-sufficient, whereas railroads in Serbia and Bulgaria remained entirely dependent on imports.

The dense railway network linked remote areas, almost frozen in medieval backwardness, with modern urban centers. The enlarged market and cheap ground transportation they provided, especially for huge land-locked countries, created new opportunities for traditional economic activities such as agriculture. Because of rail transportation, the agricultural Central and Eastern European countries could take advantage of the export opportunities offered by the expanding consumer markets of the West. As a consequence, railways played a decisive role in transforming the agricultural sector of the region (Berend and Ránki 1974).

Agriculture and the Export Sectors

According to Simon Kuznets's calculations, a handful of industrialized countries in Western Europe imported 69 percent of the agricultural products and raw materials produced and sold on the world market in the 1870s. In 1913, they still imported 63 percent of the world's imports. The amount of British imports quadrupled in the first half of the nineteenth century, then increased by eightfold until World War I, increasing overall by thirty-twofold during the long nineteenth century. Western Europe's per capita food imports increased by 133 percent between 1870 and 1913. Food and raw materials represented nearly two-thirds of the world trade.

For the less developed agrarian countries of Europe, this provided a nearly unrestricted market, because non-European economies failed to surpass one-third of the world trade until World War I. Whereas European exports increased by 2.8 percent annually during the fifty years before World War I, Bulgarian exports increased by 5.3 percent, Russian exports increased by 3.8 percent, and Central and Eastern European exports as a whole increased 3 percent annually (Bairoch 1973).

This rate of growth could not be sustained by traditional cultivation. The legal-institutional reforms, introduced after 1848 and mostly in the 1860s, opened the doors for modern agricultural technology. Free access to land, the creation of modern transportation and banking systems, the huge inflow of capital, and the introduction of wage labor, which

replaced ineffective serf labor, led to a belated adoption of the major achievements of the eighteenth-century Western agricultural revolution. The elimination of the medieval three-crop rotation system, which left at least one-third of the arable land fallow, and the introduction of scientifically based crop rotation systems (the so-called Norfolk system based on a rotation of seventeen sorts of crops) led to a spectacular increase in cultivated acres. Nonetheless, in the 1860s, even in the more developed countries of the area, 16 percent to 25 percent of the land remained fallow. In Lower Austria the percentage of fallow land was 27 percent, in Bohemia 17 percent, and in Hungary 22 percent. By the beginning of the twentieth century, fallow acreage amounted to only 3 percent to 10 percent of land. In the Balkans, the change in cultivation was even more fundamental; medieval seminomadic animal husbandry, which dominated most parts of the area, was replaced by agriculture during the nineteenth century. In the Romanian Principalities, the area sown with wheat increased tenfold in the 1830s and 1840s, a trend that continued into the second half of the century. Between 1860 and 1900, the wheat-growing area more than doubled. In Serbia and Bulgaria, the same transformation occurred from the 1860s on. In Bulgaria, cultivated land increased from 5.6 to 8 million hectares between 1889 and 1912.

The introduction of the modern crop rotation system went hand in hand with the adoption of other innovations of the agricultural revolution, such as land reclamation, irrigation, extensive water regulation, and the use of manure and artificial fertilizers to improve the soil. Improved types of crops and animals significantly increased yields and meat and milk production. Animal-driven machinery, better ploughs, and a total mechanization of threshing increased production. The total wheat and corn production of Austria-Hungary, the Russian Empire, and the Balkans increased between two and two and a half times from 1900 to World War I. Central and Eastern Europe became one of the world's most important bread baskets, producing 50 percent of the total wheat production of Europe. One-third to one-half of the region's total production was exported. Even Russia, by overtaxing the peasantry and forcing them to sell their products, contributed more than a quarter of the world's total wheat exports. Romania supplied 8 percent of the world's total. Hungary became one of the world's biggest wheat flour exporters, supplying 25 percent of the world's total wheat flour exports.

In Central and Eastern Europe, agriculture was the leading export sector, producing 60 percent to 80 percent of the region's exports. Russian and Romanian oil, Serbian nonferrous metal, and Russian iron and

timber became important exports around the turn of the century. The region's economies were closely connected with the highly industrialized Western economy, which provided its market, and followed the typical road of complementary development taken by peripheral countries in the world economic system (Berend and Ránki 1982).

International Division of Labor and Its Impact on the Balkans

The division of labor in Europe offered to each country, advanced or backward, industrialized or not, the possibility of joining the world market and playing a specific role. Moreover, being a part of the world economy and exploiting the export possibilities of an expanding world market ensured a higher rate of growth in production and exports and thus increased income and capital accumulation. Economists from David Ricardo to Milton Friedman spoke about the comparative advantages of free trade, asserting that it is advantageous for all nations, since each country is selling what it can produce in the most productive and competitive way and buying what it could otherwise not produce or could only produce expensively. Several examples support this concept. Some countries—such as the Scandinavian countries and the so-called white-colonies—profited from the expansion of their traditional economies, gradually increasing their income. This was, however, not a general rule, for other examples, probably even more numerous—Portugal, the Balkan countries, and most of the "third world" countries—show unequal exchange and the exploitation and relative decline of less developed nations. Economists and political thinkers of latecoming and relatively less developed countries—among others, Johann Gottlieb Fichte and Friedrich List, who were contemporaries of Adam Smith and David Ricardo—argued against free trade and proposed the introduction of protective tariffs.

In the Balkan countries, as a result of internal economic, social, and political conditions, the increase in exports of traditional products and the resulting capital inflow did not prompt industrialization and restructuring of the traditional economy. The quantitative growth of traditional branches merely reinforced and expanded the obsolete structures of the economy. Processing of agricultural products and raw materials rarely occurred. Romania exported 98 percent of her wheat

unprocessed, and the oil industry remained a foreign enclave, almost completely out of reach of the domestic economy. The greatest part of production was delivered for processing abroad, and profit from extraction was not reinvested. Bulgarian tobacco, Serbian prunes, and Greek raisins—some of the most important export articles of these countries—needed almost no processing except drying in the traditional way. Serbian pigs were exported unprocessed. Growth rate was much slower in the Balkans than in other areas of Europe, including the western rim of Central and Eastern Europe. Research calculates "negative growth" in the south Slavic countries, which means a moderate decline during the decades before World War I (Palairet 1995). Structural modernization, building up modern economic sectors and processing industries, had very little effect (Mirković 1968).

The Awakening Giant

The general level of economic development in Russia was not much better than that of the Balkans. Some 92 percent of Russian wheat, the country's most important export item, was shipped abroad unprocessed. Timber, which played a central role in Swedish and Norwegian industrialization, was also exported in unprocessed form. Nevertheless, exports did not remain isolated enclaves from other parts of the economy. The empire's economic system slowly was affected and transformed. In addition, the political and military power of Russia played an important role by generating a massive foreign investment, a situation substantially different from that in the Balkans. Working capital, hardly extant in the latter case, significantly influenced Russian modernization. Foreign investors sank large amounts of capital into the extraction and processing of Russia's vast iron resources. Investments into basic industries were 47 percent foreign around the turn of the century, a fact that played a profound role in creating the modern heavy industrial base of the Don River basin. From the 1880s onward, the government banned imports for railroads and built up a huge engineering industry. Not only did exports of traditional goods increase, but industrialization also received a major impetus, especially from the 1890s on. Between 1900 and 1913, coal, textile, and sugar production doubled, iron and steel production increased by 50 to 60 percent, and agricultural machinery production increased fifteenfold (Crisp 1972).

Russia, a great power, thus did not become a dependent and subservient partner of the Western core countries and profited from the international division of labor. Industrialization promoted structural modernization. Nevertheless, although the "sleeping giant" was awakening, its economic transformation remained only partial and limited. Per capita industrial production on the eve of World War I was only one-third that of Austria-Hungary's or Italy's and one-sixth the size of Germany's.

The Polish and Baltic "Miracles"

Against the framework of the slow modernization of Russia, the Western rim of the empire, consisting of the Polish, Baltic, and Finnish territories that had been occupied in the eighteenth century, stand out as examples of progress. These regions had more highly developed social-educational environments and entrepreneurial traditions, and the so-called Polish Kingdom—60 percent of the territory of pre-partitioned Poland—and the Baltic countries profited more from Russian modernization than Russia herself. The introduction of an imperial "common market" through the 1851 abolition of internal tariffs opened the Russian market to Polish exports. Consequently, the Polish Kingdom emerged as the third biggest industrial center of the empire. During the twenty years preceding this development, Polish industry increased its production by only three times. After two more decades, from the 1870s on, the value of industrial production increased by four times. Łodz, the "Polish Manchester," became a center of the textile industry, producing 40 percent of total industrial production. In addition, Poland produced 40 percent of the coal, 23 percent of the steel, and 15 percent of the iron of the Russian Empire at the end of the nineteenth century. Per capita industrial production was twice that in Russia. The driving force behind this impressive industrialization drive was undoubtedly the Russian market, which absorbed 80 percent of the production of the Polish textile industry and 40 percent of the output of the iron industry (Kostrowicka 1966).

The same pattern characterized Baltic industrialization. In the second half of the nineteenth century, Latvia's industrial growth reached an annual 9 percent increase. This growth was based on the Russian market, because most of the newly emerging industries—engineering,

chemicals, textiles, paper, and glass—sent between 60 and 90 percent of their products to Russia. At the beginning of the twentieth century, the domestic market absorbed only 26 percent of Latvian industrial production, and 67 percent of it was sold in Russia. The small nation of Latvia produced 28 percent of the empire's rubber, 13 percent of its wood, and 10 percent of its processed metal. The level of industrialization reached a much higher degree than in the empire as a whole, where only 17 percent of the gainfully occupied population was employed in industry; in Latvia, the figure was 31 percent. In the Livonian and Courland provinces, 53 percent of domestic products were industrial, a situation that illustrated the more mature stage of structural modernization in the Baltic countries.

Although the Polish and Baltic rim of the empire was more developed than Russia, it still suffered from Central and Eastern European backwardness. "In the Kingdom of Poland," as Jacek Kochanowicz states, "industry constituted islands of modernization in a sea of traditional peasants whose . . . level of civilization was almost untouched by industrial development" (Kochanowicz 1989, 122). These countries preserved their overwhelmingly agricultural character along with their relatively undeveloped domestic markets. The structural changes that occurred, judged according to per capita income and other structural parameters, reached a medium level, rather similar to developments in Hungary.

Hungary's Semisuccessful Modernization

Increased export possibilities led to an impressive trebling of Hungarian agricultural production during the nineteenth century. The construction of a railroad system, Europe's sixth most developed network in terms of "railroad density," and the massive influx of German-Austrian capital after 1867 (40 percent of all investments until 1900) combined to create a social environment in which the export-led development fostered industrialization. The wheat merchants of Budapest, who made their fortunes from exports, recognized the advantage of investing in a flour mill industry. As a result, this industry soon became the second largest in the world, surpassed only by the industry in Minneapolis. Unlike Russia and Romania, Hungary exported flour over unprocessed wheat at a ratio of 67 to 33 percent respectively. The success

of Hungarian milling was also connected with a major technological invention—the rolling mill made from cast iron—credited to one of the oldest Hungarian engineering firms, the Ganz Co. This machinery revolutionized flour milling, giving a technological advantage to the Hungarian milling industry. Spin-offs from this revolution included huge investments that originated from the wheat export and flour milling industries. Jewish entrepreneurs, such as the Deutsch and Weiss families, built up new branches of sugar, iron, and engineering industries. Extensive railroad construction facilitated the development of coal, iron, and engineering industries, and Hungary's railroad industry became self-sufficient around the end of the nineteenth century.

Domestic capital accumulation diminished the role of foreign capital. The share of foreign capital in Hungarian investments declined from 70 percent between 1867 and 1873, and 40 percent between 1867 and 1900, to 25 percent during 1900 to 1913 (Berend and Ránki 1979).

In spite of its impressive structural modernization and growth, Hungary remained an agricultural country. Some 64 percent of her population was still occupied in agriculture, and nearly the same percentage of gross domestic product (GDP) was produced by agriculture. The country continued to supply farm products to the Austrian-Czech parts of the Austro-Hungarian Empire.

This was even more the case for the other eastern territories of the empire. Some 78 percent of the Croatian populace was engaged in agriculture. In Dalmatia the figure was 82 percent. Bosnia-Herzegovina still employed nearly 88 percent of her population in agriculture, in spite of the deliberate industrialization attempts of the Austrian government, utilizing the territory's rich lumber, coal and iron sources. Bukovina and Polish Galicia employed 73 percent. The economy in most of these territories resembled that of the Balkans more than that of Central Europe. Their industrial consumption needs were partly covered by a traditional cottage industry but mostly supplied by the well-developed industries of the Western parts of the empire (Good 1984).

Industrial Breakthrough in Austria and the Czech Lands

The only truly successful structural modernization in Central and Eastern Europe took place in the Austrian-Czech parts of

the Habsburg Empire. The empire itself represented a peculiar self-sufficient unit in Europe, with its industrialized west and agricultural east, and it reproduced the European division of labor inside its borders. The mercantilist-protectionist economic policy of Maria Theresa, accompanied by other state interventionist measures, generated an early protoindustrialization in the eighteenth century, when a large textile industry emerged in Lower-Austria, Voralberg, and Bohemia-Moravia. This nonmechanized textile manufacture represented more than 40 percent of the industrial production of the Habsburg Empire and ensured the supply of the entire empire.

The Austrian-Czech protoindustrialization of the late eighteenth and early nineteenth centuries generated an important chain reaction by ensuring an ever-increasing market for Hungarian agriculture. This, in turn, inspired further advances in industrialization in the western part of the monarchy. A second wave of industrialization began during the 1830s and 1840s, when food processing for export played the leading role. The Bohemian-Moravian sugar industry ensured a third place to Austria-Hungary in European sugar production and became the leading export branch of that region's industry. Plzen became the center of the other star of Czech industry: beer production. Until 1880, Austrian-Czech food processing increased its production by three times, eventually representing one-third of its total industrial output. From the 1880s onward, during the third wave of Austrian-Czech industrialization, the modern textile industry played the leading role and became one of Europe's most developed textile industries, surpassing the French capacities and approaching those of Germany and Belgium. As a result of the division of labor inside the empire, two-thirds to three-quarters of its textile production was sold in the Hungarian market and the eastern parts of the empire. In addition, strong iron, coal, and engineering industries developed, making Austria-Hungary the fifth largest industrial power of Europe, as measured by volume of output. It ranked fourth in world trade, behind Britain, France, and Germany (Olšovský 1961).

In the Austrian-Czech parts of the empire in 1910, nearly half of the active population was employed in industry, and barely one-third was employed in agriculture. Before World War I, Austrian industry was located primarily in the Czech lands (56 percent of total), whereas 64 percent of coal mining and iron-steel capacities, 90 percent of sugar production, and 60 percent of textiles were concentrated in Bohemia and Moravia. The western parts of the Habsburg Empire, and especially the

Czech lands, approached the development levels of the West. According to David Good's thorough examination and balanced evaluation, "Though the western regions of the Empire more or less kept pace with western European contemporaries throughout the nineteenth century, the relative economic backwardness of the Empire as a whole probably intensified. . . . The Habsburg economy should still be classified as relatively backward on the eve of World War I." Good describes the region's moderate economic failure and medium position within Europe: while the empire "lost some ground with respect to Western Europe, it gained with respect to most areas in the European periphery" (Good 1984, 238–44).

The Semifailure of Central and Eastern European Modernization

"Alongside the advanced economies," notes David Landes in his *Unbound Prometheus*, "a number of what we could call today 'underdeveloped' nations embarked during these years of technological transition upon their own industrial revolution. . . . Hungary and Russia assimilated only pieces of modern technology, and these advances, achieved at discrete points of the economy, were slow to break down the tenacious backwardness" (Landes 1969, 236). Certain economic advances characterized the entire European continent, including each of the Central and Eastern European countries. The railroads and the belated agricultural revolution, the increased raw material extraction and export activity, were all definite signs of modernization according to nineteenth-century economic development. The least successful Balkan countries, those totally incapable of breaking out of their preindustrial state, also closed a chapter of their history and, as John Lampe and Marvin Jackson express it, moved "from imperial borderland" to become "developing countries"(Lampe and Jackson 1982).

Although Central and Eastern Europe witnessed a quickening of economic growth, it was not enough to narrow the gap between the two parts of the continent. According to Paul Bairoch's calculations, in the best period of their development, between 1860 and 1910, the countries of the region could not surpass Western growth rates. Austria-Hungary annually increased its per capita GDP by 0.98 percent (Bairoch 1976). The Russian Empire reached 0.96 percent, Romania reached 0.86 percent, and Bulgaria and Serbia reached only 0.50 percent.

During this half-century the European average growth rate was 0.96 percent, but core countries such as France, Germany, and Switzerland had 1.25, 1.39, and 1.25 percent respectively. The rapidly developing Scandinavian countries, which caught up and joined the European core on the eve of the war, reached a nearly 2 percent annual per capita rate of growth. According to the new calculations of Angus Maddison, twelve West European countries, including the Scandinavian ones, reached, as an average, 1.3 percent annual per capita real GDP growth between 1870 and 1913. The advanced overseas countries had a 1.5 percent annual growth. Central and Eastern Europe, including Russia, achieved a 1.2 percent growth rate; however, this impressive result still lagged behind the advanced world's accomplishment. The arithmetic average per capita GDP (in 1990 international dollars) reached $1,527 in the region, compared to the $1,788 South European, and $3,482 West European, let alone $5,051 overseas per capita average income (Maddison 1994).

In other words, Central and Eastern Europe, in spite of its attempts to modernize, achieved only partial results. The region could not change its position relative to the West and consequently remained on the backward periphery of Europe. Austria-Hungary, because of its more advanced western territories, was near to the European average: 93 percent of it in 1860, and 94 percent in 1910; but because of its eastern territories, the region could not climb above the average. Hungary represented only 74 to 75 percent of the European average. The Russian Empire and the Balkans together, in spite of their progress, remained in the same place: 58 percent both in 1860 and in 1910 (Berend and Ránki 1982). These figures, one should not forget, represent the relation to the European average and not to the most developed core. When compared to the core, the ratio remained 1:2, and, in the more backward cases, even 1:3.

Except for the Austrian-Czech Western provinces of the Habsburg Empire, which achieved a real economic success in industrialization, the region, though changed, was not able to catch up. Its industrialization had a minimal impact, creating little structural change. Therefore its economic structures remained ossified and radically different from those of the enlarged, advanced core.