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The Development of Two European  
Peripheral Economies in the Long Term:  
Poland and Spain, 1450 - 1990

**Jordi Catalan**  
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Redaktionelle Notiz:

*Dr. Jordi Catalan ist Professor am Department für Wirtschaftsgeschichte und Institutionen an der Universität de Barcelona. Er war von August 1993 bis September 1994 als Gastprofessor am Mannheimer Zentrum für Europäische Sozialforschung (MZES) tätig und mit der Vorbereitung des DFG-Projektes "Verzögerte Industrialisierung in Europa: Ein Vergleich zwischen Spanien und Polen seit vorindustrieller Zeit" befaßt. Im Rahmen dieser Tätigkeit entstand das vorliegende Arbeitspapier. Prof. Catalans Forschungsschwerpunkte sind die vergleichende Wirtschaftsgeschichte Europas und regionale Aspekte der Industrialisierung.*

Editorial Note:

*Dr. Jordi Catalan is professor at the Department of Economic History and Institutions at the University of Barcelona. He worked as a visiting scholar at the Mannheim Centre for European Social Research between August 1993 and September 1994 and was responsible for preparing the research project "Late Industrialization in Europe: A Comparison between Poland and Spain since the Pre-industrial Times". The present paper is a result of his research at the MZES. Prof. Catalan's main research areas are the comparative economic development of the European periphery and regional patterns of industrialization.*

## 1. Introduction

This paper deals with the process of development of the European periphery by focusing its attention on the long-term development of the Polish and Spanish experiences. Poland and Spain belong to the European countries which did not become part of the industrial core of the continent. Still today, they have levels of development and living conditions significantly below the West European average. In different episodes of modern and contemporary history their economies tended to diverge from the continental pattern of development. Their peripheral condition has been long-lasting. The paper formulates some hypotheses about the causes of the peripheral status of both economies in order that they can be tested by the research project undertaken in the MZES.

The concept of periphery used here does not refer to the existence of a long-term trend towards unequal exchange. Instead, the paper holds the views that peripheral areas constitute a set of participants in an interaction system who have the least influence and that cumulative causation can explain a large deal of the lagging growth of developing nations and regions<sup>1</sup>. It takes into consideration that economic relationships have spatial implications<sup>2</sup>. Peripheral economies do not initiate the transformation towards industrial society but have to adapt to it<sup>3</sup>. Core-members, as first-comers, enjoy advantages which tend to reproduce themselves, particularly different income elasticities of demand for the country's exports, better chances of benefitting from increasing returns in manufacturing and higher levels of educational skills<sup>4</sup>.

As early as in the Middle Ages, the European core began to take shape in the form of the city-belt going from Northern Italy to Southern England along the Rhine<sup>5</sup>. The countries excluded from this commercial axis -i.e. an extremely dense network of markets- began to be peripheral in economic terms. During the early modern age manufacturing tended to concentrate in the regions surrounding the city-belt and very rarely reached a significant density outside of the territory comprised between London, Hamburg, Vienna, Florence, and Paris<sup>6</sup>.

Nevertheless, the long-term was anything but static. Within the core, the Netherlands took the economic leadership in the seventeenth century. The industrial revolution gave Britain the absolute economic hegemony a century later, but she in turn lost the primacy in favour of Germany and the Rhinelands. The Scandinavian countries, which used to belong to the economic periphery at the beginning of the nineteenth century, enjoy today top levels of income. On the contrary, Eastern Germany and the Czech lands, which were core regions in the inter-war period, became later peripheral areas. Ireland became much worse in relation to Western Europe in 1970 than in 1913 (-see Table 1).

Southern and Eastern Europe always remained peripheral in economic terms. Not only was income per head lower than in core countries, but the gap with Western Europe tended to widen during several periods of the nineteenth and twentieth century. Both the South and the East of the continent experienced persistent difficulties to converge with advanced economies<sup>7</sup>. As Table 1 suggests, between 1830 and 1914, the Eastern and Southern countries substantially diverged from the West-European pattern of income growth per head<sup>8</sup>. In the inter-war period, experiences were more mixed: some peripheral countries reduced the gap in relation to Western Europe whereas other increased it. During the 1950s it seems that a general process of catching up took place. Since the sixties, centrally planned economies increasingly diverged from Western Europe in terms of income per

*Table 1. Index numbers of real Gross Domestic Product per head (Western Europe = 100)*

	1830	1860	1913	1929	1950	1960	1970	1980	1989
Western Europe	100	100	100	100	100	100	100	100	100
Austria	-	97	101	92	82	105	103	116	116
Belgium	89	105	118	130	134	117	108	116	115
Bulgaria	-	57	41	43	45	-	74	-	-
Czechoslovakia	-	-	72	71	88	-	-	-	-
Denmark	83	84	128	122	142	147	122	116	119
Finland	70	65	76	76	108	109	98	106	119
France	101	100	97	113	114	120	121	124	124
Germany	89	91	112	115	107	140	127	130	129
Greece	-	62	48	52	44	39	49	56	54
Hungary	-	-	54	55	55	86	76	61	47
Ireland	-	-	94	91	87	68	60	66	72
Italy	89	74	66	67	65	86	102	111	114
Netherlands	100	108	107	125	120	125	121	118	111
Norway	83	86	89	108	132	134	92	110	114
Poland	-	-	-	54	58	76	75	57	36
Portugal	92	76	48	48	47	38	50	57	58
Rumania	-	57	53	46	39	-	59	-	-
Spain	-	86	58	66	46	65	77	78	83
Russia	66	53	50	45	65	-	77	-	-
Sweden	87	79	102	112	177	138	130	121	121
Switzerland	88	109	129	147	171	183	175	154	150
United Kingdom	136	158	154	148	151	133	111	105	113
Yugoslavia	-	59	43	47	39	48	56	53	38

Notes: 1830-1950, data on real GNP per capita in 1960 US dollars and prices. 1960-1989, data on GDP at current purchasing power parities. Sources: 1830-1950, GNP from Bairoch (1981), 'The Main Trends in National Economic Disparities since the Industrial Revolution', Bairoch & Lévy-Leboyer, Disparities in Economic Development since the Industrial Revolution, Macmillan. 1960, United Nations (1992), Human Development Report 1992, UNDP. 1970, capitalist countries, OECD (1992), National Accounts, 1960-1990, Main Aggregates, Volume 1, Department of Economics and Statistics. 1970, communist countries, Economic Commission for Europe (1980), 'Comparative GDP levels', Economic Bulletin for Europe, vol.31, n.2. 1980, Eurostat & United Nations (1987): Comparisons Mondiales du Pouvoir d'Achat et du Produit Réel en 1980, Etudes et analyses, Série D. 1989, capitalist countries, OECD (1992). 1989, communist countries, United Nations (1992).

capita whereas Mediterranean countries tended to catch up -especially before the first oil shock. In the case of Italy, it has been postulated that the country successfully made the transition from the periphery to the core<sup>9</sup>. However, it is difficult to maintain that the real backward part of the country -i.e. the Mezzogiorno- is not periphery any longer.

This work begins in the early modern times because the building of large territorial dominions by the kings of Poland and Spain since the end of the fifteenth century had tremendous consequences for long-term development. A second part of the research analyzes up to which point the industrial revolution failed in both countries between the Napoleonic Wars and World War One, a period in which Poland was divided into three states. The next section compares the performance of the Spanish industrialization process and that of the new independent Slav state during the inter-war years. The following part deals with the barriers preventing both countries from fully benefitting from the 'golden age' experienced by the Western countries between the end of World War Two and the first oil shock. Finally, there is an analysis of the institutional changes undertaken by both countries since the seventies and their consequences for the industrialization process and the improvement of living conditions.

## 2. Poland and Spain in the early modern age: military powers and peripheral economies.

### 2.1. The Polish-Lithuanian Union.

The Polish-Lithuanian Union was, by the mid fifteenth century, the largest state in Europe. Even if at his top there was not an emperor but a king, it can be considered as a real empire. The territory ruled by the first Jagiellons reached from the Baltic to the steppes of the Ukraine. It was an enormous multinational state inhabited by Polish, Lithuanians, Ukrainians and Germans. The latter had a scattered settlement in the area since the early days of peasants migrations in the twelfth century, when they began to be encouraged by the Polish kings. Also western Jews found asylum in Poland, completing the ethnical diversity of the country.

A distinctive feature of the Polish society was the high degree of power enjoyed by the aristocracy ('szlachta'). A Diet of deputies and senators elected by nobles -without any intervention of the towns-designed the sovereign and performed legislative functions. In addition, since 1496, peasants were not allowed to leave for towns. At the same time, burghers were prohibited from owning land, merchants encountered difficulties to travel abroad and maximum prices were set on manufactured goods.

During the first half of the sixteenth century the Polish state experienced something similar to a golden age, which was reflected in economic prosperity for the nobility, large territorial extension and cultural splendour. It was the time when Copernicus made famous the University of the capital, then Cracow. In 1500 the town was larger than Vienna and Berlin<sup>10</sup>. The population of the Polish-Lithuanian Union reached around eight million inhabitants at a time when England had less than four million. The rye exports via the port of Gdansk rose from a level under 3,000 'laszt' at the end of the 1460s to one above 40,000 'laszt' in the first half of the 1560s<sup>11</sup>.

The other side of the coin was the demesne system and the setting-up of the so-called 'folwark' economy. Nobles, especially magnates, tended to change rents from cash payments to labour obligations. Peasants were forced to work in the demesne of the lord and remained tied to him and his land. A law of 1520 introduced an obligatory labour duty of one day per week per 'lan' (i.e. the amount of land necessary to support a household).

Hicks explained the general trend towards increasing serfdom in Eastern Europe as a consequence of the prevalent scarcity of labor in states with large territories<sup>12</sup>. Kula and Wallerstein stressed the stimulus provided by the world market<sup>13</sup>. In fact, the beginnings of the era of serf labor economy in Poland, coincided with the rapid expansion of cereal exports. Western Europe imported grain from and exported luxury manufactures to Poland. The nobility became used to consuming such goods and through the extension of labour rents was able to increase the availability of them. In addition, peasants were expropriated of part of their land in the territories better situated to take advantage of the growing demand for exports. Lastly, by 1574, the 'szlachta' arrived to acquire even the formal right to decide about the life of its serfs.

Since the moment when the last Jagiellon died, in 1572, the nobility regained full power to freely choose the King. The Diet tended to elect French, Hungarian, Swedish and Saxon sovereigns in order to be better placed to impose to the king conditions in favour of the domestic gentry. The foreign monarchs usually did not have substantial economic properties within the country and, often, their own income and the size of their army

were lower than those of the main magnates. The gentry's opposition to taxation led the crown in a weak financial position. The lack of public resources prevented the creation of a powerful navy and the construction of a net of fortified harbours in the Baltic which could have converted Poland into a nation open to the sea.

Although in 1618 Poland reached its widest borders with the annexation of White Russia, the gradual involvement in wars was to be a heavy burden for the economic, social and political development of the nation<sup>14</sup>. By 1578 king Bátorý, in order to finance the war against Russia, had sold the protectorate rights over the Duchy of Eastern Prussia to the elector of Brandenburg, facilitating, therefore, the future German expansion<sup>15</sup>. The 1648 rebellion of the Ukrainian cossacks encouraged the uprising of the Polish peasants against the lords. During the second half of the century, devastating conflicts took place against the Russian and Swedish armies.

It seems that between 1650 and 1721 the Polish population was reduced from 10 to 6 million people<sup>16</sup>. The effects of the Swedish War might have reduced the urban population by as much as 60 to 80 per cent<sup>17</sup>. The Polish exports of rye by sea fell from 163,356 'laszt' in 1651-1655 to 73,654 'laszt' in 1696-1705<sup>18</sup>.

The nobility reacted by trying to further expand its control over other classes and the political system. Socage services were increased -the labour duty became five days per week per household. Peasants were expropriated once more and magnates extended the area of land under their direct control. Since 1652 the 'liberum veto' was used in the Diet. According to it, a single noble could block any decision by the camera. The election of the sovereign became more often and openly a matter of bargaining where foreign powers were increasingly involved.

In 1733 the Diet chose as new monarch the national candidate Stanislas Leczynski. A group of nobles disagreed and elected the saxon Augustus II who also was the candidate of Russia. The latter in fact did reign after a new war in which Russia, Prussia and Austria came together to impose their man.

The eighteenth century was better for Polish agriculture than the previous one, stimulated by the expansion of exports. Wheat exports by sea rose from 31,330 'laszt' in 1706-1715 to 69,430 'laszt' in 1766-1775<sup>19</sup>. Population expanded again.

However, the nobility did not become more flexible. Socage regained strength, the labour duty of the peasant household becoming six days per week<sup>20</sup>. The concentration of land went on growing in favour of the magnates. Religious intolerance took over and Protestant and Orthodox followers were excluded from public office<sup>21</sup>. The gentry went on using the 'liberum veto' and refusing substantial increases in taxation.

Stanislas-August Poniatowski, a candidate supported by Catherine II of Russia was elected king in 1764. The initial project to abolish the 'liberum veto' was opposed by Russia and Prussia. Russian troops intervened and Chancellor Zamoyski resigned. In 1768 a few nobles organized the Confederation of Bar and revealed themselves against Poniatowski in the name of Catholic faith. Russia instigated the rebellion of Orthodox peasants in Ukraine. France and Turkey supported the Confederation but the latter was unable to defeat the czarist soldiers. The result was the first partition of Poland in 1772. Russia annexed the territories north of the River Dvina and the lands of Upper Dnieper. Prussia occupied the territory between Eastern Prussia and Eastern Pomerania. Austria



received Galizia.

The imposition of a Prussian toll on Vistula traffic caused a sharp drop in cereal exports. Although the income of the magnates was seriously affected by the decline, Poland was still a country with a high potential, given that it retained 11 million inhabitants<sup>22</sup>. Poniatowski again tried to reform the country preparing the founding of an hereditary monarchy, the creation of an army of 100.000, the suppression of the 'liberum veto', the reform of the Diet by including the towns and the introduction of a tax on land<sup>23</sup>. Some magnates opposed to reforms convoked a confederation at Targowica in 1792 and asked for Russian support. Again the tzarist troops marched against Warsaw. As a result of the defeat, the second partition of Poland took place. Russia annexed the rest of Ukraine and Prussia Poznania. The territory left to Poland had only 4 million inhabitants.

The revolution of 1794, which revindicated the abolition of serfdom, was taken as the final pretext for the three giant neighbours to make disappear the Polish state from the map through the third partition.

It was estimated that, around 1775, taxes per capita were 1 shilling in Poland against 6 shillings in Prussia, 6 shillings in Russia, and 20 shillings in Austria<sup>24</sup>. This financial weakness together with the presence of a nobility reluctant to give up a substantial share of its personal power, were the final causes of the collapse of the Union of Poland and Lithuania.

## 2.2. The Spanish empire.

The Spanish empire during the sixteenth century reached a fabulous extension, including the crowns of Castile, Aragon and Portugal, a large portion of Italy, Flanders, the Franche-Comté, the lions' share of America, possessions in Africa and the Philippine Islands. The Habsburg dynasty which ruled this vast political organization based its financial and military power mainly on the resources and men supplied by the crown of Castile. The real unification of Spain did not arrive until very late<sup>25</sup>. The Aragon crown conserved its own political institutions and tariff barriers until the beginning of the eighteenth century. The first unitarian tax system was a product of the nineteenth century and, still then, the Bask provinces conserved a particular fiscal status. In spite of the gradual trend towards centralization, the Spanish state remained multiethnic with three important national minorities: Basks, Catalans and Galizians.

As asserted above, the Crown of Castile was the cornerstone on which the Spanish empire was built. Castile performed the star role in the medieval 'Reconquista' of the Iberian land from the Moors. The very fast and military-oriented Castilian pattern of conquest and repopulation resulted in a small number of aristocratic families, military religious orders and some monasteries emerging as landowners of vast territories with a rather low density of population<sup>26</sup>. The concentration of property of land significantly increased during the fourteenth and fifteenth century through the extension and generalization of the seigniorial regime in Andalusia, leading to the consolidation of an extended latifundist system in the Southern part of the Iberian Peninsula<sup>27</sup>.

On the other hand, the monarchy had encouraged migrant sheep breeding, an activity quite adequate for a territory with scarcity of labour and high aridity of many lands. Seasonally migrating flocks became an important way to finance the crown thanks to wool exports to the main industrial centers in Europe. The owners of

migrant muttons were organized in the syndicate of 'La Mesta' which was also controlled by aristocratic families and powerful monasteries.

Isabella of Castile and Ferdinand of Aragon married in 1469. She became queen of Castile in 1474. Four years later, the Inquisition set up in Isabella's kingdom. In 1479 Ferdinand became king of Aragon. Both crowns retained their own institutions, except for the Inquisition which came to operate also in Aragon. For a long time the Inquisition was to be the only unitary Spanish state apparatus. In 1492 the Castilian troops defeated the last Arab kingdom within the Iberian Peninsula and entered Granada. The same year Columbus arrived to America and took possession of the new lands in the name of the Castilian crown. Lastly, in 1492, the so-called Catholic Monarchs signed the edict of expulsion of all Jews from their kingdoms. In 1502 the compulsory choice between expulsion or conversion was extended to the defeated Moors of the kingdom of Granada.

In 1517 Charles of Ghent inherited the crowns of his elders, the Catholic Monarchs. Three years later he was elected Holy Roman Emperor. In addition to his Spanish possessions, Charles V was to govern the Netherlands and the Austrian lands. The emperor became increasingly involved in a series of conflicts to maintain his hegemony in Europe and assumed the role of champion of Catholicism.

The towns of central Castile were openly opposed to foreign military involvements and resulting taxes in 1521. The revolt of the 'Comuneros' revindicated the autonomy of the cities. Their defeat in Villalar put an end to the communal rights of the Castilian towns and opened the way to growing imperial authoritarianism. As Anderson noted, the absolutist state in Spain had its origins not in the defeat of the aristocracy but of towns<sup>28</sup>.

Since 1540 the growing inflow of the American treasure helped to finance the Habsburgs campaigns all over Europe, including those undertaken to prevent the spread of Protestantism. Nevertheless, the large amount of precious metals (above all, silver) did not arrive in time and was not enough for covering the imperial needs. Both Charles V and, later, his son Philip II had to resort, on the one hand, to increases in taxation and, on the other, to borrowing. It was estimated that some Castilian farmers by the end of the century were paying about half of their income in taxes, tithes and seigniorial dues, whereas the nobility ('hidalgos') was exempted from taxation. The rate of interest on debt grew from 0.8 per cent in 1515 to 4.6 per cent in 1598<sup>29</sup>. The government bonds had the effect of diverting private resources from more productive uses and contributed to create a 'rentier' society<sup>30</sup>.

As a result of the fast expansion of precious metals' imports the price revolution took place<sup>31</sup>. This was experienced in Castile earlier than in the rest of Europe. At the beginning rising prices stimulated domestic production. However, the growing differential between Castilian and European prices encouraged imports and Spain was flooded with commodities arriving from everywhere in the continent. Some of them were reexported, but the rest became ruinous for the domestic producers<sup>32</sup>.

Difficult living conditions for the 'pecheros' (i.e. people who were not noble and had to pay taxes), hard competition of foreign products and attractive possibilities of becoming rich in the Indies or the army, combined to foster emigration. Since the last decades of the sixteenth century the population of the traditional manufacturing towns of Castile began to decline. The silver of America attracted European merchants and bankers

to Seville and Cadiz and pulled out artisans from Burgos, Segovia or Toledo and peasants from Extremadura and inner Castile.

Furthermore, the role performed by the Habsburg monarchs of the main defenders of Catholic faith had the highly perverse effect of isolating Spain from scientific progress. Strict measures of censorship were established. In 1559 a severe index of prohibited books was introduced. Spanish students were forbidden to study in foreign universities other than Rome and Bologna. The scholastic orthodoxy was reinforced within the Spanish institutions. The Inquisition promoted trials against those who dissented from the dogmas of the Counter-Reform. In the course of time, Spain moved away from the scientific revolution.

The seventeenth century made things worse. It began in 1609 with the expulsion of 'moriscos', the descendants of the muslims whose conversion to Christianity had been forced. The consequence was a fall of agrarian production in areas such as Valencia and Aragon where they constituted a significant share of the population working the irrigated lands. Intensive agriculture was damaged and the resulting loss of income of landlords caused financial distress.

On the other hand, imports of silver began to decline. As the new Habsburgs were confronted with a giant empire, this made necessary high military expenditure in spite of the diminishing arrivals of the American treasure. Taxation further expanded within an extremely unfair fiscal system where 'hidalgos' preserved their privileges. Public borrowing also increased, the interest rates reaching 9.1 per cent by 1667<sup>33</sup>. The last resort was defaults and devaluations. This led to the alternation of periods of depression with those of violent inflation<sup>34</sup>. Productive activity experienced hard times and the economic crisis of the seventeenth century resulted deeper and longer in the kingdom of Castile than in other places of Europe<sup>35</sup>. In the New Castile the series of baptisms went down up to 1685, whereas in Catalonia recovery began around 1650<sup>36</sup>. The population of the Crown of Castile, which amounted to 5.9 million around 1590, was lower in 1715 -reaching only 5.5 million.

The seventeenth century attempts to involve the other territories in financing and supplying men for the military campaigns of the king were unsuccessful. In 1640 Catalonia and Portugal revolted against the government. They were followed by Naples and Sicily. Portugal succeeded in regaining independence but the uprising in the rest of the territories was defeated. In the last third of the century, the Spanish Habsburgs lost part of Flanders and the Franche-Comté.

The Spanish Succession War ended around 1716 with the definitive establishment of a new dynasty of French origin in Spain, i.e. the Bourbons. The Duke of Savoy got the former Italian possessions. Austria obtained the rest of Flanders. England took Gibraltar and the island of Menorca. The Crown of Aragon, which had joined the allied forces supporting the Habsburg candidate, was absorbed into an unitarian Spain. Its representative institutions were abolished. The Spanish language was imposed and a tariff union with the former Castile took shape for the first time. Moreover, a new tax system was introduced in the defeated lands of Catalonia, Valencia and Aragon. The main innovation was the 'Catastro', a direct contribution which taxed income and property of land. The introduction of this system proved to be a success, the amount of funds collected by the government increased substantially.

The administrative reforms of Philip V tended to replace the Habsburgs' traditional system of conciliar government by ministers and secretaries, attempting to professionalize and to centralize the state apparatus. Moreover, eighteenth century's Bourbons tried to modernize the army by creating a very powerful force, separating it from society and giving it many corporate privileges. Both the army and the navy expanded in order to fulfill the Colonial needs.

The inflow of the American treasure, again increasing, provided new resources to pay for the increase in military spending and the preservation of the overseas continental colonies until the 1820s. Spain again engaged itself in wars at the end of the eighteenth century, particularly against Great Britain and France.

During the eighteenth century enlightened thinkers came out against the concentration of land in nobility's 'mayorazgos' and in entail estates owned by the Church. The nobility and the Church together held two-thirds of the entailed land and mortmain. Such institutions blocked the market of land and, therefore, the stimulus for yield improvement. The existence of the 'Mesta' also was strongly attacked by some of the Spanish illuminist thinkers, especially the unfair profits derived from using lands which could be devoted to grow grain in a situation of rather rapid population expansion and increasing relative prices -in fact, Iberian Spain grew from around 7,0 million in 1715 to 10,1 million in 1787.

Furthermore, there were several enlightened attempts to extend the 'Catastro' tax system to the former territories of the Crown of Castile. The main one was that of the 'Contribución Unica' which was finally blocked by king Charles III because of the strong opposition shown by the nobility to the establishment of a direct tax affecting the property of land. The trial of the region of Extremadura against the 'Mesta', which occupied arable lands with frozen rents indicates as well that reforms in enlightened Spain tended to be blocked when the interests of the nobility were involved. The whole region of Extremadura was defeated and the 'Mesta' went on with full rights on the claimed land.

The Spanish state could finance itself without any global tax reform during the century thanks to the substantial increase in the inflow of American metal and the duties derived from the Spanish-American trade. The latter experienced a long period of prosperity. However, during the last decades of the eighteenth century the wars against England and France led again to a dangerous increase in public debt. Following the Napoleonic Wars Spain lost most of its American empire. When both the American treasure and the tariff income of the Spanish colonial trade were lost, the absolutistic state went bankrupt<sup>37</sup>.

### **2.3. The common origins of peripheralization on the eve of continental industrialization.**

The analysis of the long term process of development in Poland and Spain leads to the identification of five major common features associated with backwardness which were already present in both countries before the era when modern industrialization spread over continental Europe. It stands out from the list that the origins of the peripheral condition in both economies were related to their own social structures rather than to the role they played in the European division of labor. However, the consolidation of a position in the world market characterized by specialization in the export of primary commodities could have reinforced the peripheral status of both economies.

First, both states reached enormous territorial extension in the early modern age. According to Rokkan's conceptual map of Europe, the two countries could be defined as crusading-frontier empires<sup>38</sup>. Their long-term pattern of development was intensive in coercion<sup>39</sup>. Levels of economic development turned out to be poor in comparison with their military power. Vilar defined the Spanish empire as the supreme stage of development of feudalism<sup>40</sup>. The Polish expansion as far as Livonia, the Dnieper and the doors of the Crimean Khanate appears to have been of the same kind, even if at the top of power, formally, there was not an emperor but a king.

The giant military expansion of relatively underdeveloped countries crucially depended on either the uninterrupted conquest of new territories or the securing of exceptional financial sources of income -such as the American treasure. In the long term, the costs of increasing involvement in war resulted in the blocking of economic development. When American silver arrivals to Spain declined in the seventeenth century, the need of rising funds for maintaining an extremely heavy military expenditure in Europe and overseas contributed to the intensification of the Castilian economic decline. Similarly, in the mid of the century, the war against Sweden and the Cossack uprising had catastrophic consequences for the Polish-Lithuanian Union<sup>41</sup>.

Secondly, the historical supremacy of the landed aristocracy resulted in an overwhelming capacity of this class to shape the course of the economic transformation. In Poland such a capacity led to the extension of the manor economy and aggravated serfdom during the early modern times<sup>42</sup>. The interest of the native upper class, who used the 'folwark' to promote grain exports to the West, prevailed over that of the bourgeoisie, peasants and, even, the state<sup>43</sup>. Moreover, the division of Poland between Prussia, Russia and Austria in the late eighteenth century, was the outcome of the absence of a strong state apparatus in Poland. Nobles were not prepared to give up any part of their political and personal liberties<sup>44</sup>. As Kochanowicz underlined, they also refused to pay taxes: at the time of the partitions Poland enjoyed a much lower level of taxation than any of its three future ruling countries<sup>45</sup>.

In Spain the aristocratic elites also increased the degree of control over productive resources by using institutions such as the 'mayorazgos' and the 'Mesta'. In addition, García Sanz stressed the strengthening of jurisdictional rights of the nobility and the increasing land concentration taking place in the seventeenth century<sup>46</sup>. Atienza holds the view that the intensification of feudal burdens opened the way to refeudalization in Castile<sup>47</sup>. Yun pointed out that the Crown was unable to breach the fiscal privileges and to impose a fiscal system that could by-pass the need for the mediation of the nobility and the urban patriciate<sup>48</sup>. During the following century, the aristocracy went on successfully blocking the attempts to reform the Castilian tax system. Fontana supplied data which corroborate the comparative weakness of the Spanish Empire: between 1750 and 1815 fiscal income of Spain increased much more slowly than in Britain, France and Austria<sup>49</sup>. This led, after the loss of the continental colonies, to the bankruptcy of the Ancien Regime's state<sup>50</sup>.

Thirdly, the weakening of the bourgeoisie and towns during the early modern age was also a common trend in both economies<sup>51</sup>. In the Slavic country, burghers were prohibited from owning land. Merchants were forbidden to travel abroad<sup>52</sup>. Maximum prices were set on some nonagricultural goods. The Commonwealth of the Nobility led most of the power in the hands of magnates whereas towns remained remarkably excluded from the political system<sup>53</sup>. In the Iberian land, Jewish were expelled and towns were defeated by the armies of the

Emperor. Crafts and urbanization declined in inner Castile at the moment of maximum extension of the American dominions<sup>54</sup>.

*Table 2. Evolution of the rate of urbanization in the early modern times.*

	1600	1800	PATTERN
Austria-Hungary	4.9	7.9	+
Balkans	13.5	11.2	-
Belgium	29.3	21.7	-
Germany	8.5	9.4	+
France	10.8	12.9	+
Italy	22.6	21.9	-
Netherlands	34.7	34.1	-/+
Portugal	16.7	15.2	-
Poland	7.6	4.8	-
Rumania	4.4	4.3	-/+
Scandinavia	3.8	6.2	+
Spain	21.3	19.5	-
Switzerland	5.5	6.9	+
United Kingdom	7.9	20.8	+
Russia	5.3	5.1	-/+

Source: Bairoch, Batou & Chèvre (1988): La population des villes européennes de 800 à 1850, Centre d'Histoire Economique Internationale, Université de Genève.

Gunst has underlined the dominance of three kinds of towns in Eastern Europe: enclaves for long distance trade, military and administrative centers and bigger villages for agricultural trade<sup>55</sup>. The same typology applies to the urban network of the Castilian crown. Furthermore, in both countries the political power of burghers tended to be low and the foreign trade and banking activity in major urban centers remained in the hands of foreign people<sup>56</sup>. As can be seen from Table 2, the decline in the degree of urbanization between 1600 and 1800 was a common feature of Spain and Poland also shared by other peripheral regions such as the Balkans, Portugal and Italy.

Fourthly, the hard living conditions of the peasantry hindered industrial development. During the eighteenth century, the labor duty of the Polish peasant household increased whereas restrictions to migration remained in force. In Kochanowicz's view, lords were too powerful and peasants too dependent for whatever local market forces existed to dissolve the tight grip of the 'folwark' economy. Such a situation prevented the flourishing of 'petty capitalism', except in Gdansk and in Southern Little Poland<sup>57</sup>. Following Vicens Vives, authors like Fontana and Nadal have insisted on the insufficiency of the agrarian demand for mass consumption products as the main barrier to Spanish industrial growth<sup>58</sup>. The works by Vilar, Maluquer and Torras supported such a thesis by focusing its attention in the Catalan exception: a rather prosperous peasants' market existed in that region during the eighteenth century and manufacturing activity flourished<sup>59</sup>.

Lastly, the relatively low strength of proto-industrial activity also made the success of industrialization more difficult. The low significance of pre-factory manufacturing production in both areas was, on the one hand, the consequence of the previously mentioned factors. On the other, the low demographic pressure according to West European standards, could have contributed to retard the expansion of proto-industrial activity.

According to Gunst, the great mass of arable land and the ease of population resettlement in Eastern Europe resulted in a repetition of traditional structures of production<sup>60</sup>. Kochanowicz emphasizes the demographic crisis of the seventeenth century as an important element weakening crafts guilds in the towns and damaging the degree of urbanization<sup>61</sup>. There also is a lot of evidence for the parallel decline of population, crafts and urbanization in the Castilian crown since the end of the sixteenth century<sup>62</sup>. Nadal stressed the low population density in Spain in relation to its potential as one of the main long-term economic costs of the Spanish empire<sup>63</sup>.

It should be added that Poland and Spain reached the era of the British industrial revolution as exporters of primary products and importers of industrial ones. Poland's main product of export to western Europe was grain, whereas wool and wine played a similar role for Spain for a long time. During the nineteenth century, Spain would become, in addition, a large exporter of minerals. Coal was to turn out to be a main product of Polish exports. The consolidation of a position in the world market characterized by specialization in the export of primary commodities could have reinforced the peripheral status of both economies, because they could not enjoy the dynamic advantages connected with exporting manufactured goods. Because of this, the analytical approaches exclusively focussed on static comparative advantages -such as Prados- do not seem very relevant to explain the roots of underdevelopment<sup>64</sup>.

### **3. The first century of the factory system, 1814-1914.**

#### **3.1. War, debts and taxation.**

Both in the Spanish Empire and in the Polish-Lithuanian Union maximum territorial extension coincided with the beginning of economic decline<sup>65</sup>. Repeated involvement in wars had negative long term consequences for the economies on which the military expansion was based, because not only a large amount of resources was wasted but also aristocracy succeeded in shifting the burden of public financing to more productive classes.

In the sixteenth and seventeenth century the war effort of the Habsburgs was financed mainly by American indians working in the mines of the king, debt, and high taxation of the non-noble population of the Castilian crown, with the final result of the ruin of the Spanish domestic economy. In the eighteenth century the aristocracy blocked reforms oriented towards substantially taxing land property, except in the defeated territories of the former crown of Aragon. At the end of the century, Spain again was involved in a large number of conflicts with less ordinary public income than rival powers such as Britain and France. American colonies and a rising volume of debt were newly used to finance these conflicts. When, following the Napoleonic Wars, the continental empire was lost, public income plummeted, leading to the bankruptcy of the Treasury<sup>66</sup>. The expropriation and sale in auction of the land of the Church and municipalities was undertaken to solve the most acute financial problems of the state. This option, however, involved very negative long-term outcomes such as the consolidation of latifundia and the loss of income of local administrations.

Similarly, Poland reached its maximum territorial extension at the beginning of the seven teenth century, but wars with Russia and Sweden led to a dramatic decrease in population and urbanization. Lower popu-

lation density, growing ruralization and weakening of the bourgeoisie had a very negative effect on the long-term industrial development<sup>67</sup>.

The Polish aristocracy kept to its policy of low taxes for the nobility during the eighteenth century, but Poland did not have American treasure. The Slavic country went on involving itself in resource-consuming wars against the more powerful and better equipped armies of neighbouring countries. Moreover, magnates and other factions of nobles often welcomed, even promoted, foreign military intervention in dealing with the domestic succession problems. The final outcome was the loss of independence of the country after the third partition of Poland in 1794.

The Kingdom of Poland preserved its own army and a high degree of political autonomy until 1830. The period 1815-1830 turned out to be positive for the long-term development of Poland because of industrial policies adopted by Prince Lubecki-Drucki. In addition, he introduced an extensive system of direct taxation, from which landowners were not exempted<sup>68</sup>. Nevertheless, the impression is that the power of traditional elites remained strong and the fiscal effort of the landlords still was weak.

*Table 3. Tax revenue per capita in European states around 1830 (in 'reales').*

United Kingdom	304
France	138
Netherlands	114
Sweden	83
Hessen Darmstadt	62
Prussia	61
Hessen Cassel	60
Denmark	53
Baden	52
Brunswick	50
Spain	45
Bavaria	44
Wertenburg	41
Toscany	42
Napols	42
Austria	32
Poland	24
Russia	23
Pontifical States	23

Source: Malthus (1830), quoted in Canga Argüelles (1840): *Suplemento al Diccionario de Hacienda*, Madrid. Reproduced in Fontana (1980).

Thanks to Malthus, we have an estimation of the fiscal effort in different countries at the beginning of the nineteenth century. It can be seen from Table 3, that the tax revenue obtained per inhabitant both in Spain and Poland was low in relation not only to the main powers of the time, Britain and France. The fiscal revenue per capita revenue was also significantly lower than that of Sweden and Prussia.

Taking into consideration the existing estimations on per capita product in 1830, the differences in terms of product in the peripheral countries were not as large as those in tax income. The comparison with the data in Table 1 indicates that up to 1830 the Spanish elites had been more successful in avoiding taxation than



those of Britain, France, Prussia and Sweden.

In 1845 Spain adopted a new unified tax system, but this liberal reform was not enough to solve the long-term problem of the Spanish state of getting sufficient public resources and avoiding running huge debts again<sup>69</sup>. During the second half of the nineteenth century the budget was always in deficit except for a few years<sup>70</sup>. Military campaigns -first against Carlists and later against independist movements in Cuba, Puerto Rico and the Philippines- absorbed most of the public resources. The army and the service of the debt accounted for the lion's share of the Spanish budget in 1900<sup>71</sup>.

Therefore, the history of the Spanish public finances during the last century was, on the one hand, that of low taxation of wealth owners, and, on the other, heavy military expenditures. This not only caused permanent high indebtedness and a tendency towards crowding-out of private investment. It also implied very low levels of public investment in long-term productive areas such as infrastructure building and public education. Moreover, it resulted in a preference for high protection because of tax needs.

Poland also had a tradition of low taxes on wealth owners and heavy burden of war expenditures until 1830. However, after the rebellion against the Russian ruling in the Kingdom of Poland which took place that year, the Diet and the Polish army were abolished<sup>72</sup>. The property of the revolting nobles was confiscated. Furthermore, the surviving aristocracy experienced another serious defeat after the 1863 uprising, with the consequence of abolition of serfdom and the expropriation of substantial amounts of land<sup>73</sup>.

In short, the Kingdom of Poland spent most of the nineteenth century without army with the result of the country being partially freed from heavy war expenditure. Given that the levels of taxation in the Russian Empire were very low for European standards, it seems plausible to assume that, particularly after 1830, the Kingdom of Poland was able to dedicate a larger share of its productive resources to finance long-term economic development than Spain. The Iberian country wasted more resources in non-productive uses.

### **3.2. Institutions and living conditions in the countryside.**

The initial success of industrialization during the nineteenth century was related both to institutions regulating agrarian activity and living conditions in the countryside. They determined the degree of power of the elites and were partially responsible for the intensity of the demand for consumer goods. The development of a market for mass manufactured goods depended mainly on the number of consumers and their average income. Given that the highest number of potential consumers was located in the countryside, both the average per man productivity in agriculture and the distribution of income derived from agrarian activity had a decisive effect on the market for consumer goods. Moreover, the institutional framework within which agrarian production took place was similarly important: when it reinforced the degree of monopoly of the elites on productive resources, it could inhibit a rapid development of manufacturing.

The 'folwark' economy based on compulsory labour and movement- restrictions not only discouraged the intensification of agrarian production but also introduced rigidities in the supply of labour for manufacturing<sup>74</sup>. In addition, the Polish manor, as Kula stressed, could not go bankrupt<sup>75</sup>. Such a situation prevented

inefficient agrarian entrepreneurs to go out of business. Something similar can be said about the Castilian 'mayorazgo'. Estates under such a regime of property could not be seized. Their owners were not allowed to either sell out or to divide their land. Thus, the institution of 'mayorazgo' tended to reinforce the trend towards concentration of land in the hands of a few families of the nobility. The monopolistic rights of La Mesta over grass fields also prevented better allocation of land by their owners<sup>76</sup>. Finally, the tithe diverted resources from productive uses by peasants in favour of the Catholic church.

This set of institutions on which was based the Ancient Regime's economy went into crisis during the first half of the nineteenth century, particularly because of the Napoleonic Wars. Serfdom was abolished in the Duchy of Warsaw. Peasants recovered personal liberty and got rid of the jurisdiction of the nobility<sup>77</sup>. Even if serfdom and the authority of the lords were restored under the czarist Kingdom of Poland, peasants resisted better the jurisdiction of the gentry. This allowed Kula to suggest that changes undertaken by the Polish economy in the period 1780-1850 were more significant than those experienced during that of 1580-1780<sup>78</sup>. Similarly in Spain, as a result of the Napoleonic invasion, peasants refused to pay rents and tithes. The restoration of Ferdinand VII reversed this development. However, institutions such as the 'Mesta', the 'mayorazgos' and the tithe and other feudal duties were definitively abolished during the liberal reforms of the 1830s.

During the first third of the nineteenth century the power of the elites was eroded in both countries. The Napoleonic conflict weakened the gentry and the Church, and led to a partial redistribution of income in favour of peasants. Moreover, in spite of the restoration of serfdom within the Kingdom of Poland, Prince Ksawery Lubecki-Drucki adopted a policy orientated towards industrialization: a highly protective tariff was imposed in 1823 and state iron works were established<sup>79</sup>. The suppression of the 'Mesta' made peasants of Extremadura free to use their land to grow cereals with the result that the population of this agrarian region expanded far above the Spanish average during the first decades of the century. The abolition of the tithe and seigniorial duties was also beneficial for the majority of the Spanish farmers. In fact, the whole Spanish population grew faster during the first half of the nineteenth century than in 1750-1800 and 1850-1900.

On the previous basis, it can be inferred that the erosion of the power of the Ancien Regime elites was positive for the development of industrialization both in Poland and Spain. As we will see, rapid industrial growth took place in both areas around 1830.

On the other hand, however, there was partial involution. Even if in a less intense way than during the pre-Napoleonic period, the gentry in the Kingdom of Poland went on resorting to compulsory labour. Evictions and rent-charges were used as tools for expropriation of peasants from their lands<sup>80</sup>. Between 1816 and 1848 around 40 per cent of the land became property of landlords<sup>81</sup>. Around 1860 only 16 per cent of the cultivated land was in the hands of peasants<sup>82</sup>. Serfdom survived in the Polish territories under Russian ruling up to 1864. However, as labour became less scarce, the corvée was gradually being replaced by rent payments in cash<sup>83</sup>. During the first half of the nineteenth century lords were using a mix of compulsory and wage-paid labour. In 1850 around 40 per cent of peasants were paid in cash<sup>84</sup>.

Similarly, in Spain, full title of land was recognized to the old gentry. Peasants lost the benefits associated with low rents paid in lands owned by the Church and municipalities as a result of disentanglement. An

agrarian structure based on large latifundia and low-paid wage-earners was consolidated in Southern Spain <sup>85</sup>.

The role of latifundia in economic development is controversial. Referring to Poland, Kolodziejczyk underlined that the pioneers of industrialization of agriculture in the Kingdom of Poland were landowners<sup>86</sup>. Landau and Tomaszewski evaluated positively the agrarian reform in Prussia which made possible to maintain large estates and to liquidate small peasant holdings in Greater Poland and Pomerania<sup>87</sup>. Nadal noted that the Spanish earliest adopters of threshing machines belonged to the group of owners of Andalusian large estates<sup>88</sup>. Bernal pointed out that latifundia in Southern Spain were highly profitable. According to him, they concentrated most of the investment because latifundia offered the highest returns and such an asset protected wealth against inflation<sup>89</sup>.

On the other hand, Gunst stressed that the farms of rich landowners represented an enclave within the East European economy in the early nineteenth century comparable to that of modern industry in European colonies<sup>90</sup>. According to Radice, progress in Eastern Europe was hindered by a structure of land tenure characterized by the presence of numerous poor peasants subsisting on a low standard of consumption together with a small class of large landlords employing landless labourers<sup>91</sup>. Landlords often acquired administrative positions, whereas the working class was ill-organized and proper capitalists were very few (many of them jews, i.e. an ethnic minority). According to Fontana latifundist agriculture in Spain implied low wages and inefficiency. This created a market with low living standards for the potential consumers<sup>92</sup>. Nadal also globally attacked the concentration of land in very few hands derived from the bourgeois revolution given that it tended to block the formation of the internal market<sup>93</sup>. In Tedde's view, latifundia together with the oversupply of labour depressed wages and discouraged investment in consumer-goods industries in Andalusia<sup>94</sup>.

Maluquer insisted on the fact that the dissimilar success in the development of two regions such as Andalusia and Catalonia, which specialized in the same agrarian activity -wine production-, could be the consequence of the very different pattern of income distribution. The less egalitarian Andalusian society was associated to higher demand for luxury goods and imports and, therefore, did not industrialize<sup>95</sup>. In addition, Garrabou showed convincingly that from the agrarian point of view, a region of small-medium farmers such as Valencia performed better than Southern Spain<sup>96</sup>. Palafox stressed that citrus growing in the Valencian gardens was a highly efficient economic activity and this led the region to become the most dynamic agrarian zone in Spain<sup>97</sup>. Lluç and Nadal pointed out that such a pattern of development, in the long-term, opened the way to industrialization<sup>98</sup>.

As was indicated above, Landau and Tomaszewski suggested that latifundia in German Poland performed a positive role in the process of development of the region<sup>99</sup>. According to data referring to the turn of the century, wheat yields in Pomerania (22 Qm. per hectare) or Poznań (17 Qm.) were significantly higher than in Russian Poland (11 Qm.), Austrian Galicia (10 Qm.) and Spain (8 Qm.). However, it can be dangerous to conclude that this was merely the result of higher efficiency of the large estates run by former junkers. Kochanowicz seems right when he makes responsible for the success of nineteenth-century's agriculture in Prussian Poland the huge demand for food of the German market<sup>100</sup>. Neither Russia nor Austria industrialized as intensely as the German Empire. Therefore, neither the Kingdom of Poland nor Galicia experienced analogous stimuli for modern-

izing their agricultures.

It should be noted that high concentration of land property in Russian Poland did not lead to a highly efficient agriculture. Wheat yields in the Kingdom of Poland at the end of the century were not much higher than those in Spain which were among the worst in Europe. In addition, it has to be taken into account that ecological conditions for the development of agriculture were more dramatic in the Iberian Peninsula mainly because of lower availability of water and higher presence of rocky soils -it was calculated that around 50 percent of the land could be tilled in the Kingdom of Poland while the corresponding share in Spain was just 23 percent<sup>101</sup>. Such conditions made the adoption of the innovations of the agrarian revolution in Southern Europe more difficult than in East-Central Europe. Moreover, alternative patterns of specialization required higher investments, particularly regarding to irrigation works and the transportation network. Such investments were very difficult to finance under conditions of pauperism in the countryside and public budgets burdened by huge debts.

Kochanowicz underlines another important role of the German market that explains the agrarian success of Prussian Poland better than the contribution of landowners: the high demand for labour derived from fast industrialization. This saved agriculture from a problem, overpopulation, which became dramatic in regions such as Austrian Galicia. Overpopulation in the countryside at the end of the nineteenth century became correlated with low labour productivity in agriculture, pauperism and low capacity of consumption of industrial goods. Referring to Spain, it can also be postulated that overpopulation in the countryside correlated with low chances for industrialization. Surprisingly enough, Atlantic Galicia seems to corroborate the theory in the Iberian Peninsula.

In the case against latifundia, it should be added that from the point of view of education, land concentration was harmful for long-term development. Williamson has stressed that poor people and unequal societies tend to invest less in their skills by pointing out the contrast between the Latin American and the East-Asian experiences in primary school enrollment<sup>102</sup>. Similarly, in nineteenth century Spain illiteracy remained much higher in the Southern than in the Northern part of the Inner Plateau. The degree of concentration in the ownership of land was significantly lower in the latter area<sup>103</sup>.

On the other hand, institutions were also important to prevent rural overpopulation. The indivisibility of the inheritance could have been a positive factor for the success of industrialization in Catalonia given that it prevented the excessive fragmentation of the peasants' holdings. The institutional factors behind the early fall in the fertility rates in the Mediterranean coast which contrasted both with the pattern of Atlantic Spain and Eastern Europe should also be further investigated. Early decline of birth rates prevented the erosion of income per capita and, therefore, helped the industrialization process.

In short, the initial reduction of the power of the Ancient Regime's elites was positive for industrialization in Poland and Spain given that it allowed better allocation of agrarian resources and led to higher levels of consumption by peasants. Nevertheless, in the long-term, the consolidation of a highly concentrated structure of land ownership was a common feature in many regions of both countries. Such a trend seems to have been globally negative for development mainly because it prevented a dynamic growth of the domestic demand of industrial goods for mass consumption and, also, resulted in a slow pattern of expansion of the skills of the labour force. On the other hand, pauperism derived from redundant peasant population in the countryside was also

negative for the success of industrialization because it correlated with poor levels of productivity per man in agriculture and low levels of income spent in industrial goods.

### 3.3. Leaps in the industrialization process.

In European comparative terms, Poland and Spain experienced a poor economic performance during the nineteenth century. However, in both economies a first spurt in modern industrialization took place around 1830. In Catalonia the mechanization of the industry producing cotton textiles and the introduction of the steam engine began in 1833, although acceleration in industrial growth was taking place since 1826<sup>104</sup>. Manufacturing expanded rather fast up to 1860<sup>105</sup>. According to Carreras' calculations the Spanish industrial production increased at an average annual rate of 4.6 per cent during the three decades following 1830<sup>106</sup>. This rate was higher than the ones in Britain, France, Austria and Hungary at the same time. Similarly, the production of cotton textiles of Lodz experienced rapid growth during the second quarter of the nineteenth century<sup>107</sup>. According to Mitchell's data, the population of this industrial town grew at the dramatic rate of 9.2 per cent per year between 1800 and 1850<sup>108</sup>. As a result, in the Kingdom of Poland the share of imports in the consumption of finished textile products went down from 51.5 per cent in 1825 to 5.5 per cent in 1850<sup>109</sup>.

Nevertheless, in both economies the industrialization process lost strength later. This fact was early noted by Kula and Nadal for their respective countries, and it was later confirmed by other researchers<sup>110</sup>. Nadal underlined that the Spanish industrial revolution failed in the late decades of the nineteenth century and in the early twentieth century<sup>111</sup>. According to him, in the mid-nineteenth century the Spanish textile industry looked better than that of countries such as Austria, Sweden and Italy<sup>112</sup>. On the contrary, at the end of this century, cotton manufacturing in Spain had fallen behind all the former countries. The rate of growth of Spanish industrial production declined to just 2.2 per cent per year during the period 1860-1900<sup>113</sup>.

De-acceleration in the process of industrial growth seems to have taken place in Russian Poland during the third quarter of the nineteenth century. Conclusions should be tentative given that Poland was not an unified state during the nineteenth century and the statistical data are even scarcer than for Spain. Since Kula there is, however, a rather remarkable set of evidences, supplied by the researchers working in Polish economic history, which indicate that industrialization advanced by leaps and that the process experienced a downward phase somewhere between 1840 and 1880<sup>114</sup>. The rate of growth of population in the main textile center of the Kingdom of Poland can support this idea: in fact, it decreased to 3.8 per cent per year between 1850 and 1870, before rising again up to 6.4 per cent during the period 1870-1910<sup>115</sup>.

A central point of further research should be, therefore, to try to find out why the first spurt towards overcoming the peripheral status did vanish and not lead to full industrial development. Related to this issue, it is necessary to explain why after 1870 a new leap was experienced in Poland without the Spanish economy having a corresponding uprush.

A hypothesis to verify is that the intensity of the real demand for goods of mass consumption played a basic role in determining the degree of success of the process of development. The intensity of the demand for goods depends very much on the size and dynamism of the domestic market. In Spain the intensity of growth in

the demand for cotton textiles tended to decline earlier and to a larger extent than in most West European countries because the living conditions of the vast majority of the population -i.e. those working in agriculture-, were much worse. In the Kingdom of Poland, where serfdom still persisted, the peasantry also entered the era of the industrial revolution being very poor and, therefore, could not constitute a strong domestic market for mass consumption. Because of this, after some years of rapid growth following the introduction of basic productive innovations, the demand began to be saturated, and the expansion of the cotton industry in Russian Poland tended to slow down.

However, the Kingdom of Poland experienced a new spurt in the late nineteenth century which did not have a parallel in Spain. Three main features of the development process tend to suggest the growing divergence between the Spanish and the Polish economies in the last quarter of the century: aggregate industrial production calculations, performance of the leading manufacturing sector and achievements of mortality rates.

Pietrzak-Pawloska estimated a rate of growth of the industrial production for the Kingdom of Poland of about 5.3 per cent per year during the period 1870-1913<sup>116</sup>. Even if such a rate were too optimistic, it remains significantly higher than the Spanish rate for the same interval which only reached 2.5 per cent<sup>117</sup>.

The performance of cotton manufacturing in Poland at the turn of the century was similarly impressive -if we believe the data from Fijalek, Pus and Pelka<sup>118</sup>. The apparent consumption of raw cotton per inhabitant increased from 0.38 kgs. in 1870 to 6.38 kgs. in 1913. In the same period the Spanish one rose from 1.67 kgs. to 4.34 kgs. This implies that on the eve of World War One, the apparent consumption of cotton per capita in Russian Poland reached a level nearly 70 per cent above the Spanish one whereas less than half a century earlier it was only 22 per cent of it<sup>119</sup>. Whereas by 1875 the cotton textile industry of the Kingdom of Poland was comparable to that of Portugal, on the eve of World War I it looked much more like the German one. In contrast the Spanish industry, which was not very far from France in 1875, had fallen down below the Italian level by 1913.

Last but not least, mortality rates in the Kingdom of Poland showed a clear tendency to improve between 1861-70 and 1891-95 whereas they stagnated or even increased in Spain. In the former country gross mortality decreased from 30.4 per thousand to 25.3 per thousand. Conversely, in Spain it went from 30.6 per thousand to 30.7 per thousand. During that period Russian Poland experienced a pattern of mortality very close to that of Italy and Finland. Spain diverged from the three former countries. Until the first half of the 1890s, Spain experienced a high level of mortality, similar to that of Balkan countries such as Rumania.

*Table 4. Mortality rates in peripheral countries, 1861/70-1891/95 (Average annual deaths per 1,000 inhabitants).*

Period	Kingdom of Poland	Spain	Italy	Austr.- Hungar. Empire	Finland	Sweden	Rumania
1861/70	30.4	30.6	30.9	31.5	32.6	20.2	?
1871/80	28.3	?	30.0	35.6	22.2	18.3	?
1881/90	25.8	31.8	27.1	30.6	21.1	16.9	27.7
1891/95	25.3	30.7	24.1	29.5	20.2	16.4	30.2

Note: The average mortality rate in Spain during the period 1878-80 was 30.4 per 1,000. Source: Sundbärg (1908).

It seems, therefore, that the idea of a new leap in late nineteenth century's Poland fits the data. The next step is to try to explain the reasons. According to the theory assumed above, the change should be related to radical transformations in the real demand for consumption goods. Two facts seem relevant. First, in 1864, as a result of the rebellion of the Polish nobility, the tzar definitively abolished serfdom in the Kingdom of Poland. The peasants on the possessions of the crown, church, and nobility became full owners of the land they worked. About 4.4 million hectares were redistributed<sup>120</sup>. The number of landless peasants fell from 1.4 million in 1861 to 0.2 million in 1870<sup>121</sup>.

Secondly and possibly most important, industry in the Kingdom of Poland could take advantage of belonging to the Russian empire. Tariff barriers between the Kingdom of Poland and the rest of the empire were removed in the mid-nineteenth century<sup>122</sup>. This meant free entrance to a market of more than 100 million people. Given that Russia was a more backward country, the Polish industry could conquest large shares of a market protected from outside by substantial tariffs, particularly after the railway network was built. The giant Russian market constituted a fabulous stimulus for the expansion of manufacturing. Lodz became one of the textile centers of the empire and the Kingdom of Poland one of its most industrialized regions<sup>123</sup>.

The changes led Russian Poland to achieve a share of 19.7 per cent of working population in industry around 1900<sup>124</sup>. Even if the rate was low for West-european standards, it looked something better than the Spanish contemporary one which was only 14.5 per cent.

It should be added that the main industrial center within the Polish lands was not in the Russian zone but in the Prussian one. According to Misztal, around 1910 Upper Silesia had 207.000 industrial employees, against 118.000 in Lodz's and 90.000 in Warsaw's regions<sup>125</sup>. Nevertheless, the industrialization process in Upper Silesia seems less puzzling: as Misztal pointed out it had to do with the abundance of mineral raw materials, mainly pit coal. This made the district specially suitable for heavy-industry. Moreover, Upper Silesia did rather well thanks to the size of the German market which created a large domestic demand for iron and steel products. The contrast with the main district of heavy-industry in Spain is sharp: in 1910 the province of Vizcaya had only 23.297 industrial employees<sup>126</sup>. The lack of a sufficient supply of cheap coal together with the rachitis of the domestic demand of the Spanish market can explain the poor performance of the Vizcaya district in comparison with Upper Silesia<sup>127</sup>.

To sum up, as a result of the improvement in the living conditions of a substantial part of peasants and the advantage of belonging to the Russian union, the process of industrialization performed better in the Kingdom of Poland than in Spain during the late nineteenth century. Moreover, the existence of a large and dynamic domestic market -added to a generous supply of coal-, accounted for the success of the Upper Silesian heavy industry within Imperial Germany.

### **3.4. The slow improvement in skills.**

Another major cause for the deepening of the peripheral condition of Poland and Spain during the nineteenth century were the much lower skills of the working population in both countries. In fact, they had

more than 50 per cent of illiteracy at the crucial moment of the take-off of the second industrial revolution<sup>128</sup>. The potential growth of industries such as mechanical-engineering and chemicals depended much more on the average level of instruction than in the prototype industries of the first industrial revolution such as textiles. There is convincing evidence of significantly different patterns of improvement in skills in nineteenth century's Europe and of the key role performed by education in the particularly successful industrial stories of Germany or Scandinavia between 1850 and 1914<sup>129</sup>. As Berend and Ranki underlined, educational development in the Southern and Eastern parts of the European periphery was a decisive aspect of its delayed development<sup>130</sup>.

According to Flora, a combination of three large factors explains the national differences in educational development: the influence of religions, the institutionalization of political participation and the striving for national self-determination<sup>131</sup>. Max Weber stressed how much the spread of Protestantism favoured formal education, well before the industrial revolution took place. In fact, at the beginning of the nineteenth century, all protestant countries had a substantially larger share of literate population than catholic ones. Religion can, therefore, well explain the reason for a rural society such as Scandinavia enjoying illiteracy rates below 30 per cent in 1850 whereas Spain and Italy having more than three quarters of the population not knowing how to read or write. A similar share might also be attributed to Poland. The three countries are sometimes presented as conforming a typical Catholic pattern of rather slow improvement in literacy<sup>132</sup>. The data of Table 5 suggest that Hungary could be, as well, included in such a pattern.

Improvement of literacy in the former four countries was significantly delayed in relation to other catholic nations such as France, Austria or Ireland. According to Flora, in the case of the former two countries, the development of efficient civil and military bureaucracies as a way of national self-assertion could have been the key to explain larger efforts. The same author characterizes Ireland as an early case of high correspondence between the growth of literacy and the striving for cultural self-expression and national independence<sup>133</sup>. None of the three countries had more than 20 per cent of illiterates in 1890. Instead, Spain and Poland, as well as Italy and Hungary, had around half of the population illiterate.

*Table 5. Illiteracy rates in the European Periphery*

Share of population which can neither read nor write (in %)

	Spain	Poland	Italy	Hungary	Finland	Sweden	Rumania	Portugal
1850	77	?	77	75	<30	10	>90	>85
1870	68	?	69	64	<25	7	>85	?
1890	61	?	52	47	12	3	82	77
1910	52	45	30	31	1	1	65	69
1930	32	25	23	10	1	0	43	60
1950	17	7	14	5	1	1	17	42
1965	10	2	7	2	1	1	4	34

Source: Flora (1973): 'Historical Processes of Social Mobilization: Urbanization and Literacy 1850-1965', in Eisenstadt & Rokkan (Eds.).

The policy of the elites towards education and the degree of commitment of the state has to be taken into account for explaining the final outcome with regard to skills. It was stressed above that illiteracy in the



Iberian Peninsula tended to be significantly higher in latifundist areas <sup>134</sup>. The Spanish elites from aristocratic origins, who traditionally controlled the state, did not give much priority to public education. Service on debt and military spending did not leave a lot of space in the public budget for other items.

The concentration of wealth in the hands of aristocratic elites together with the high degree of control exerted by them on the state apparatus were at the roots of the low point of departure in countries such as Poland, Hungary and Italy too. Nevertheless, as Table 5 indicates, both Hungary and Italy performed much better than Spain in terms of reduction of illiteracy in the late nineteenth century. Easterlin showed that the Spanish enrollment rate in primary school stagnated during the last quarter of the century<sup>135</sup>.

Two reasons can be given for the better educational performance of Italy and Hungary in relation to Spain in the late nineteenth century. The first one would confirm Flora's interpretation: the drift towards national self-determination experienced significant steps in the two former countries. On the one hand, the creation of the Kingdom of Italy took place in 1861. Austria gave up the Veneto in 1866 and the Vatican troops were definitively defeated in Rome four years later. On the other, the Hungarian nation markedly increased political autonomy within the Austrian Empire by means of the 'Ausgleich' of 1867: as an immediate result, in 1868 a new School Act made provisions for building an ambitious network of primary schools<sup>136</sup>.

The second reason has to do with the own intensity of the process of industrialization. Italy and Hungary industrialized themselves faster than Spain in the late nineteenth century. Industrial development eroded the power of traditional elites and increased the demand for education. Regional patterns corroborate this interpretation. In the early nineteenth century Catalonia had a level of literacy below the Spanish average. Nonetheless, between 1860 and 1900 it experienced the most dramatic decrease in illiteracy in the Iberian Peninsula<sup>137</sup>. The Bask Country, Valencia and Asturias, which were the other three industrializing regions during the period, experienced as well a pattern of reduction of illiteracy more intense than average.

The Polish experience illustrates the importance of public policy in the development of education given that it was the case of a single nationality split under three states with very different forms of political organization and government priorities. According to Hauner, in 1914 the illiteracy rate in the Kingdom of Poland reached 80 per cent, in Galicia 40 per cent and in Prussian Poland only 2.5 per cent<sup>138</sup>. The Russian rate seems exaggerated, if it is taken into account that for the whole country Flora estimated a rate between 50 and 60 per cent. However, after leaving space for a correction downward of Hauner's figures for Russian Poland, the differences with Austria and Prussia are significant enough. They suggest that the policy of the highly aristocratic tzarist state was responsible for the slow improvement of skills in the Kingdom of Poland.

Mass education in Austrian Poland performed much better than in Russia but the levels of literacy in Galicia remained far below those in the territories of the future Republic of Austria. This indicates that the benefits of building efficient civil and military bureaucracies within a large empire as the Austrian could have been lower for the national minorities. It should be added that the improvement in educational skills tended to proceed more slowly in Galicia than in the industrialized regions of the Dual Monarchy because of the slow development of manufacturing in the Polish area under Austrian ruling.

On the contrary, Prussia practically succeeded in eliminating illiteracy in German Poland. The Prussian case appears as that of a protestant country with a public policy orientated towards the eradication of illiteracy since the eighteenth century<sup>139</sup>. Elementary public education was introduced in 1763<sup>140</sup>. According to some estimations, in the Kingdom of Prussia about 90 percent of children within the schooling age visited the 'Volkschule' as early as 1810<sup>141</sup>.

The previous analysis about literacy should be considered as partial evidence for the more general discussion on improvement of human skills. The evolution of other crucial variables such as diffusion of industrial experiences, technical education, training of engineers and stock of scientific knowledge, should be taken into account too. According to Landes, the former additional skills became basic for the success of the industrialization process during the second industrial revolution<sup>142</sup>. The existing evidence seems to suggest that the effort made by the Spanish and Tzarist states in these fields also remained significantly lower than in Prussia or, even, Austria<sup>143</sup>.

#### **4. The inter-war years: economic divergence and political convergence.**

##### **4.1. Divergence in patterns of economic development.**

Poland reappeared on the international scene at the end of World War One. However, in the inter-war years the new state of Poland revealed itself as being unable to significantly improve the peripheral condition of the country whereas Spain experienced a new spurt of industrialization up to 1936. According to Sevennil son's data -used also by Teichova- the Polish industrial production per capita remained below the 1913 level still in 1937<sup>144</sup>. Similarly, Landau concludes that industry in inter-war Poland was slow in keeping up with the growth of world production<sup>145</sup>. Data on manufacturing activity show a poor performance as well. At the end of the nineteenth century the Kingdom of Poland had 19.7 per cent of its male working population in industry<sup>146</sup>. Some decades later the share of the Polish Republic looked nearly the same: industrial activity accounted for just 22.4 per cent of male working population in 1931 (-see Table 6).

On the other hand, the Spanish industrialization process had accelerated since the second decade of the twentieth century: the average yearly rate of growth of industrial production rose from 1.76 per cent in 1885-1910 to 2.96 per cent in 1910-30. On the eve of the Civil War, in 1935, the industrial product per capita was 28 per cent higher than in 1913<sup>147</sup>. The share of male working population in the secondary sector had increased from 14.4 per cent in 1914 to 25.3 per cent in 1930, with the result that Spain surpassed Poland.

Other indicators tend to confirm the poor performance of the Polish process of development in relation to Spain during the inter-war years. Bairoch estimated the GNP per capita of Poland to be 24 per cent lower than the Spanish one in 1929<sup>148</sup>. Landau's data on the participation of industry in total production give a share for Poland significantly below the one corresponding to Spain too<sup>149</sup>. Finally, raw cotton consumption per capita in inter-war's Spain remained always far above that of the Polish Republic<sup>150</sup>. The situation had, therefore, completely changed in relation to the late decades of the Kingdom of Poland.

*Table 6. Rates of male industrial activity in Europe.*

Industrial labour force as percentage of active males							
	1910	1930	1950	1960	1970	1980@	1989@
Austria	(31,6)	38,8 [1934]	46,3 [1951]	50,4 [1961]	50,1 [1971]	49,3	47,7 [1988]
Belgium	49,5	51,8	51,6 [1947]	52,5 [1961]	49,1	42,9	37,0 [1988]
Bulgaria	12,5	12,0 [1934]	14,5 [1946]	24,5 [1956]	41,2 [1965]	-	-
Czechoslovakia	-	42,8	43,2 [1947]	54,4 [1961]	-	55,9	56,6 [1988]
Denmark	27,3	33,1	39,0	41,9	43,4	40,5 [1981]	37,4 [1986]
Finland	12,5	18,5	32,4	37,7	41,8	43,7	42,1
France	33,5 [1911]	37,5 [1931]	41,6 [1951]	43,9 [1962]	48,0 [1968]	43,9	38,5
Germany	(48,7)[1907]	(49,4)[1933]	52,7 *	56,2* [1961]	55,1	53,1	49,6
Greece	-	17,0	18,3	22,4 [1961]	30,1 [1971]	33,9 [1981]	32,8 [1988]
Hungary	(19,2)	26,4	26,0 [1949]	38,5	49,0	45,1	42,9 [1988]
Ireland	(19,6)	16,7 [1936]	25,9 [1951]	26,6 [1961]	33,7 [1971]	34,4 [1983]	31,6 [1988]
Italy &	23,6 [1911]	25,4 [1931]	31,0 [1951]	39,8 [1961]	46,5 [1971]	41,6	36,6
Norway	27,8	29,3	39,7	40,8	44,4	39,9	35,6
Netherlands	37,4	41,8	43,0 [1947]	48,0	43,3	38,7 [1981]	34,9
Poland	(19,7)[1897]&	22,4 [1931]	30,4	38,4	43,6	40,0 [1981]	37,7 [1988]
Portugal	21,7 [1911]	18,9	25,2	28,6	30,5	43,5 [1981]	41,3 [1987]
Rumania	11,4 [1913]	13,8	-	24,3 [1956]	36,1 [1966]	43,8	44,5 [1985]
Russia	15,6 [1897]	8,7 [1926]	-	46,8 [1959]	54,9	-	-
Spain	14,4	25,3	25,6	30,1	38,0	41,8	40,1
Sweden	30,2	37,1	46,3	52,7	50,5	45,4	43,1
Switzerland	46,2	48,4	51,0	56,3	55,9	47,9	47,1 [1986]
United Kingdom	54,4	49,6	53,6	53,2 [1961]	49,4 [1971]	46,8	39,4 [1987]
Yugoslavia	-	13,5 [1931]	20,6 [1953]	27,4 [1961]	30,2 [1971]	-	-

Notes: (@) The data of 1980 and 1989 refer to the share of working population employed in industrial activities (i.e. manufacturing, construction, energy and mining). (\*) Figures in brackets correspond to pre-1914 territory. The German data without brackets refer to the Western part. (&) The figure of 1897 refers to the Kingdom of Poland. Further data correspond to the contemporary Polish independent state. Sources: Mitchell B.R. (1978): *European Historical Statistics, 1750-1970*, Macmillan, London. The figure for the Kingdom of Poland comes from Bairoch P. (1968): *La Population active et sa Structure*, Université Libre de Bruxelles, Editions de l'Institut de Sociologie. The Italian figure is based on the estimation by Zamagni V. (1987): "A Century of Change: Trends in the Composition of the Italian Labour Force, 1881-1981", Paper submitted in the conference 'Crecimiento y cambio estructural en Italia y España': tendencias históricas', Universidad de Alcalá. The Spanish data are those of Nicolau (1989). The figures for the 1980s come from U.N. (1992): *Statistical Yearbook*, New York.

## 4.2. The Polish failure.

It is tempting to make responsible for the drawing back of the process of development in inter-war's Poland to the consequences of World War I and the heavy burden inherited after a century of ruling by three foreign powers. Several authors underlined the problems Polish trade faced by the lack of direct connections of the transport system because of the decisions adopted by the former ruling empires<sup>151</sup>. In addition, Poland was one of the countries most severely damaged during the war. Heavy destructions of industrial establishments took place. Germany pursued a deliberate policy of dismantling productive plants in places such as Lodz and Bialystok. Stationary warfare affected about 22 per cent of Polish territories. Agricultural production in the former Kingdom of Poland recorded only 55 per cent of the prewar level in 1919<sup>152</sup>. Last but not least, the earlier post-war Polish governments had to deal with problems such as the circulation of four different currencies in their territory, the loss of railway income or the creation of a new fiscal system on the basis of three previously existing ones<sup>153</sup>.

The former factors help to explain the large fall that industrial activity had experienced by 1920: at that time manufacturing production accounted for only 35 per cent of the level of 1913. However, war destructions and reunification costs are not satisfactory explanations for the post-1920 pattern of growth. It has to be taken into account that a clear improvement took place until 1922 when the industrial product reached a level of 74 per cent in relation to the pre-war level. Since then, however, the economy went into a deep recession and the industrial product remained below the 1922 level till 1927 (-see Chart 1). Moreover, the 1930's crisis was particularly intense in Poland. Both depressions had little to do with war damages or unification costs.

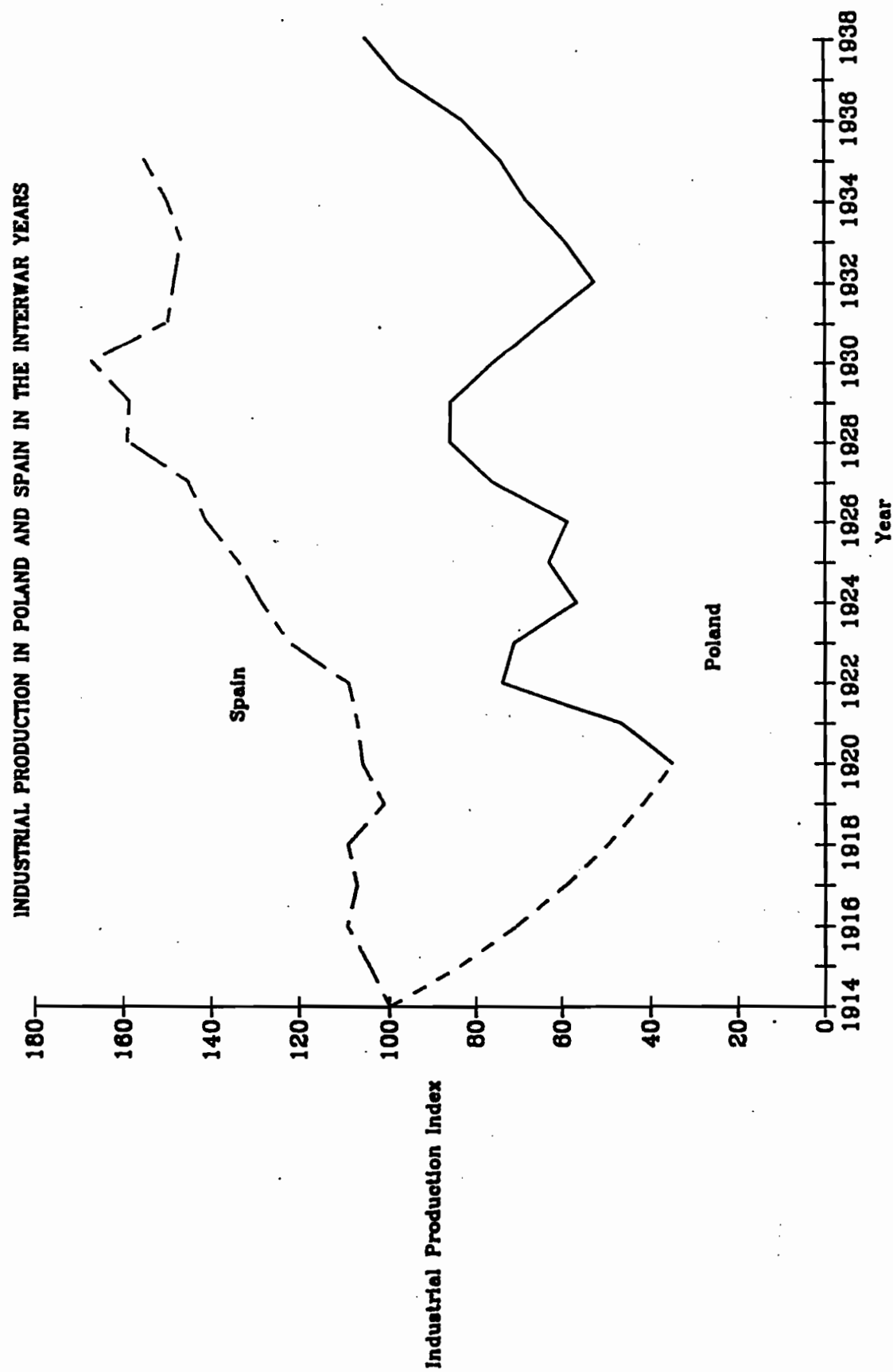
After 1922 the most dramatic effects of World War One had already been overcome. Nevertheless, the Polish process of development proceeded in a very traumatic way and the pattern of growth of manufacturing was far from impressive. In the period 1922-1935, the industrial production in Poland expanded at an average yearly rate of 0.92 per cent per year while the Spanish rate was 2.76 per cent<sup>154</sup>.

The real reasons for the poor performance of inter-war Poland can be summarized as follows:

1. The sharp reduction experienced by the market for manufacturing products of mass consumption.
2. The overpopulation of the Polish countryside and the resulting low income per head of the agrarian working force.
3. Heavy military expenditure at the early stages of the Polish Republic and inability to finance the resulting large public deficits in a non-inflationary way.
4. The maintenance of extremely contractive policy during the 1930s.

The main cause for the reduction of the market for manufactures was the contraction of Russian imports of Polish textiles<sup>155</sup>. At the beginning of the century the Kingdom of Poland exported about 75 per cent of its textile production, mainly to the Russian empire<sup>156</sup>. As a result of the Soviet revolution and direct military confrontation most of Russian imports from Poland were canceled. Polish exports to the USSR recorded only 14 million dollars in 1930, an amount extremely low compared with pre-war exports to the Russian Empire by the Kingdom of Poland which reached more than 400 million dollars<sup>157</sup>. The loss of the Russian market could not be balanced by the increase in the degree of penetration of other markets such as the Balkan countries, the Middle-East or Latin America. The consequence was that the Polish textile industry never recovered the level of activity

Chart 1:



which it used to enjoy: in 1913 the consumption per capita of raw cotton of the Kingdom of Poland was 6.4 kgs. Instead, during the best times of the Polish Republic, the consumption of cotton remained around 2 kgs. per inhabitant. Poland became, as a consequence, one of the few East European country where the labour force in textiles declined during the inter-war years<sup>158</sup>. As it can be seen from Table 7, the impressive position in the European ranking of the textile cotton industry that the Kingdom of Poland conquered between 1875 and 1910 was completely lost after the war. By the mid 1930s the cotton textile industry of independent Poland looked even worse than the Portuguese and the Russian ones.

*Table 7. Raw cotton consumption in kilograms per capita (Three-years average).*

1875		1910		1934	
kgs.p.c.		kgs.p.c.		kgs.p.c.	
1. United Kingdom	20.44	1. United Kingdom	17.87	1. Belgium	14.16
2. Switzerland	10.52	2. Belgium	11.49	2. United Kingdom	12.75
3. Belgium	3.61	3. Switzerland	6.93	3. Switzerland	7.72
4. Germany	2.92	4. Germany	6.51	4. France	6.42
5. France	2.70	5. Kingdom of Poland	6.12	5. Germany	5.61
6. Spain	2.24	6. France	5.71	6. Netherlands	4.85
7. Sweden	1.99	7. Italy	5.38	7. Sweden	4.45
8. Netherlands	1.85	8. Netherlands	3.99	8. Italy	4.39
9. Austria-Hungary	1.41	9. Spain	3.91	9. Spain	4.06
10. Finland	1.10	10. Austria-Hungary	3.82	10. Austria-Hungary	3.38
11. Kingdom of Poland	1.01	11. Sweden	3.49	11. Finland	3.36
12. Russia	0.92	12. Portugal	2.74	12. Portugal	3.10
13. Italy	0.85	13. Finland	2.56	13. Russia	2.56
14. Portugal	0.43	14. Russia	2.20	14. Republic of Poland	1.93
15. Bulgaria	?	15. Bulgaria	0.21	15. Bulgaria	1.06
16. Rumania	?	16. Rumania	0.05	16. Rumania	0.29

Note: The values of consumption of raw cotton in the Kingdom of Poland for the years 1875 and 1910 have been extrapolated with data corresponding to 1870, 1880, 1900 and 1913. Pre-First World War figures of Austria-Hungary refer to Cisleithania and Transleithania. Inter-wars data result from aggregating those corresponding to the independent states of Austria and Hungary. Sources: Calculated with Mitchell (1978). Data of the Kingdom of Poland come from Fijalek, Pus & Pelka (1974).

The customs war against Germany between 1925 and 1934 contributed to further reducing the market for Polish industrial goods<sup>159</sup>. Its impact was lower than the one derived from the loss of the Russian market because Germany imported less manufactured products from Poland and its restrictions to trade were never comparable to the Soviet ones. Nevertheless, the rising level of commercial barriers had to have a particularly perverse effect in areas such as Upper Silesia which used to be strongly integrated with the German industrial system. As Zweig underlined, even during their best years the Polish iron foundries worked below the pre-war level -except in 1939<sup>160</sup>. Moreover, the reduction of exports to Germany of primary commodities such as coal, food and timber had an additional negative effect on the domestic market of Polish industry too, because of its perverse effect on income.

The second remarkable barrier which slowed down industrial development in the new Polish state was overpopulation in the countryside and the low dynamism of peasants' income. According to Taylor, the evolution of the purchasing power of agriculture was the key to the dynamics of economic development between

the two wars. Similarly, Landau considered that the basic deterrent of expansion derived from a limited and insufficiently absorptive home market composed by farmers who were so poor that could not sufficiently stimulate a quick development of industry<sup>161</sup>. In his study about inter-war agriculture of east European countries, Berend concludes that this sector became the most vulnerable point in the economy and the main constraint on growth<sup>162</sup>.

Overpopulation in the countryside seems to have become dramatic in the period, contributing to reduce agrarian income per capita. Ludkiewicz estimated the level of concealed unemployment in the Polish countryside at two million people in 1921<sup>163</sup>. Moore calculated that the surplus of agricultural population at contemporary production techniques amounted to 57.3 per cent of the agrarian working force in the early 1930s' Poland<sup>164</sup>. The resulting tendency towards high unemployment not only directly depressed the demand for industrial goods. According to Berend, it also ruined agrarian wages and created an obstacle to technical advance by making more expensive the replacement of labour by machines<sup>165</sup>.

Between the two wars, agrarian reforms were undertaken in many east European countries in order to improve the average income of peasants and to decrease concealed unemployment. The Polish Parliament decided to carry out its own reform as early as 1919. Nevertheless, landowners succeeded in paralyzing expropriations of land, although voluntary parceling out took place. The approval of the Land Reform Act by the Sejm was postponed until the end of 1925. The final outcome preserved the interests of the most powerful landowners: compensation was to cover the market price of land and large estates in the Eastern provinces would only lose land above 300 hectares<sup>166</sup>. According to Roszkowski, 2,654,800 hectares of land were redistributed in the years 1919-1939<sup>167</sup>. Such an amount accounted for 23 per cent of the total area of large private estates in Poland. The intensity of land redistribution decreased after 1927, under the Pilsudski regime, and reached a nadir during the depression<sup>168</sup>.

The moderate agrarian reform adopted by Poland revealed itself as insufficient to significantly improve average income per capita in agriculture. Berend underlined that contemporary calculations showed that only farms between 5 and 15 hectares had a solid basis for operating<sup>169</sup>. In fact, in 1931, about 64 per cent of the Polish holdings were under such a level<sup>170</sup>. The Liliputian dimension of family farms constituted a remarkable obstacle against mechanization and intensification of production through the use of fertilizers. Roszkowski supplies data which indicate that agrarian yields were higher in tilled areas of estates over 50 hectares than in the peasants' holdings<sup>171</sup>.

Large public deficits connected with high military expenditure and insufficient taxation of wealth owners influenced the two ways of hyper-inflation experienced by the Polish economy in the 1920s. Taylor's figures suggest that the 1919-20 War against Russia coincided with the largest budget imbalances of the whole period 1919-39<sup>172</sup>. According to Landau and Tomaszewski, military expenditure reached a share of 62 per cent of all budget expenditures by 1920<sup>173</sup>. On the other hand, as Zweig stressed, business and landlords succeeded in avoiding to pay for war though a substantial increase in tax pressure took place<sup>174</sup>. It was calculated that whereas per capita taxation in the Polish territories amounted to about 7 dollars in 1914, it became only 1.42 dollars in 1923<sup>175</sup>. The consequences were climbing issues of paper money and accelerating prices until 1923. High inflation finished by eroding real earnings and left the door open to depression by 1923. Stabilization measures adopted

by Grabski's Cabinet further contributed to the contraction of real output.

The stabilization of 1924 was made possible, on the one hand, by valorization of taxes and an extraordinary property tax from the side of public income and, on the other, by cuts in military expenditure and subsidies given to the state-controlled railway company<sup>176</sup>. However, the budget deficit expanded again in 1925. The government rejected conditional financial support by the League of Nations in the name of political sovereignty<sup>177</sup>. The zloty depreciated and Poland began to experience the second wave of high inflation. Finally, Marshal Pilsudski carried out his coup d'etat in May 1926. His publicized slogans were the moral cleansing of public life, the stabilization of the currency and the balancing of the budget<sup>178</sup>. In fact, the budget turned into surplus during 1926. The following year, legal stabilization was proclaimed and the zloty became a gold currency. Nevertheless, manufacturing production remained below the 1922 level until 1927.

The wrong economic policy followed in the 1930s can be considered an additional basic reason for the setback experienced by the industrialization process in the new Polish state. The main mistake was the maintenance of the gold parity of the currency up to 1936. This top priority of Pilsudski's regime implied a policy of a very expensive price of money and contractive public expenditure. The consequence was one of the deepest and longest depressions in Europe.

Svensnilson's index of manufacturing production records a fall of 39 per cent between 1929 and 1932<sup>179</sup>. Landau's compromise index of industrial production records a contraction of 41 per cent for the same period<sup>180</sup>. In both indexes industrial production remained far below the 1929 level until 1936. The agrarian crisis was even more dramatic: prices of goods sold by farmers fell by about 65 per cent between 1928 and 1935, whereas prices paid by farmers only decreased 34 per cent<sup>181</sup>. The price squeeze eroded farmers' income to such a degree that the level of consumption of agricultural population went down 57 per cent in 1929-35. On the other hand, the reduction experienced by non-agricultural population was 44 per cent<sup>182</sup>. The overvalued currency had a particularly harmful effect because it made the country continue importing deflation when nearly all European countries had given up the gold standard. Zweig seems right in blaming the Polish state for imposing too heavy sacrifices on its people until the death of Pilsudski<sup>183</sup>.

#### **4.3. The Spanish improvement.**

The relative success in the Spanish economic development between World War I and the Civil War can be related to four main causes:

1. The widening of the domestic market for industrial goods derived from the intensification of agriculture in some regions and the diffusion of new sources of energy.
2. The beneficial effect of neutrality in World War One for the long-term structural transformation of the Spanish economy.
3. The more positive role performed by the State in promoting development, particularly by redirecting expenditure towards public works and education.
4. The weakening of traditional elites, particularly after World War I and during the early 1930s, which made it impossible for governments to pursue a highly contractive economic policy.



According to the data compiled by the G.E.H.R., the area cultivated with non-traditional products -mainly, citrus fruits, sugar beet, orchards and dry fruits- increased by 47 percent in the twenty years after 1910<sup>184</sup>. Oranges experienced the most remarkable success, becoming the first export product: their share in total Spanish exports doubled between the early 1910s and the late 1920s<sup>185</sup>. The adoption of more profitable products by small and medium farmers enlarged the demand for both consumption and capital goods. It encouraged the expansion and diversification of manufacturing activities.

The diffusion of electricity and the internal combustion engine had a tremendous dynamizing impact on the demand for manufacturing too. On the one hand, cheaper road transportation lowered selling prices and enlarged the market -the number of automobiles yearly registered rose from 999 vehicles in 1910 to 21.369 vehicles in 1935<sup>186</sup>. Electricity reduced production costs and enlarged the number of consumers -Sudrià's data indicate that the share of hydroelectricity out of the Spanish consumption of primary energy went from 3.6 per cent in 1910 to 22.8 per cent in 1935<sup>187</sup>. On the other hand, new products required a large range of inputs and created additional demand for the diversification of industry: engines, cars, tires, cement, oil refining, electrical equipment, metals, machine-tools, etc. Manufacturing activities to supply all these new goods developed.

Some authors have insisted on the short-term depressive effect of World War One<sup>188</sup>. Nonetheless, it seems problematic to try to explain the intense structural transformation experienced by the Spanish industry during the 1920s without taking into account the positive long-run impact of the First World War<sup>189</sup>. The war encouraged industrial exports and created incentives for import substitution. Exports of wool and cotton fabrics, arms and footwear, rocketed. Shipping recorded exceptional earnings too. A significant part of windfall profits were reinvested in manufacturing activities. Experiences in manufacturing new chemical products and equipment goods were made. The relative scarcity of coal accelerated the adoption of electricity. Unforeseen high inflation significantly eroded real wages in several industries throughout the war, but since 1917 a reversal of trend took place: even if controversial, Maluquer's data suggest that by 1919 industrial workers had succeeded in getting a permanent increase in real wages of 20 per cent above the 1913 level<sup>190</sup>. This marked improvement was maintained and even amplified during the 1920s, contributing to strengthen real demand for industrial goods.

Moreover, during the inter-war years, there was a positive change in the role performed by the Spanish state in promoting economic development. Such a discontinuity should be related to the rising demands of the organized working class and the regionalist movements from industrialized areas. Socialist and anarchist organizations and the autonomist movements in Catalonia and the Basque Country extended their political support and made it more urgent for the government to dedicate resources to uses which had a direct impact on the standard of living of the masses such as education, irrigation, housing, communications and labour insurance.

Until 1935 public expenditure showed a sustained trend towards the reduction of the relative importance of non-productive items being partially replaced by those of ministries more closely related to infrastructure-building and the improvement of labour skills. From the 1890s until World War I the share of debt service plus defense accounted for about 60 per cent of public expenditure whereas the ministries of public works and education together absorbed less than 20 per cent of the budget<sup>191</sup>. As can be seen in Table 8, at the end of the first decade of this century, Spain belonged to the European states with the largest burden of aggregate

expenditures of debt service and defense in the public budget. After Turkey, the group formed by France and the two Iberian countries was placed at the top of the ranking resulting from accumulating relative expenditures in debt and defense.

*Table 8. Percentage of public expenditure devoted to debt service and military expenditure, 1907/8.*

	Debt	Defense	Debt & Defense
Austria-Hungary	18.3	13.5	31.8
Belgium	28.1	9.2	37.3
Bulgaria	26.4	23.6	50.0
Denmark	8.6	17.9	26.5
Finland	5.6	0.2	5.8
France	32.2	28.4	60.6
Germany	9.2	15.2	24.4
Greece	25.8	21.2	47.0
Italy	29.2	21.5	50.7
Netherlands	18.7	24.1	42.8
Norway	13.6	16.2	29.8
Portugal	42.4	18.2	60.6
Rumania	34.1	19.6	53.7
Russia	15.4	18.4	33.8
Serbia	26.3	22.7	49.0
Spain	40.3	19.5	59.5
Sweden	8.0	39.6	47.6
Switzerland	8.0	15.2	23.2
Turkey	35.0	35.3	70.3
United Kingdom	14.3	29.8	44.1

Source: Sundbärg G. (1908), *Aperçues Statistiques Internationaux*, Gordon & Breach.

Nevertheless, a noticeable change had already been experienced in Spain at the time of the constitutional governments of the early 1920s. Comín's data show that in 1920-23 the share of debt service and defense had decreased to 50 per cent of the budget while the share of public works and education increased up to 26 per cent<sup>192</sup>. The coup d'état of General Primo de Rivera interrupted the previous process, but did not reverse it to a significant degree -the respective shares remaining at 49 per cent and 24 per cent during 1924-29.

In 1929 the Spanish position in the European ranking of shares of expenditure in public debt plus defense looked much better than before the World War. Many east European states, France, the United Kingdom, Belgium and Italy, were spending a larger relative amount of resources in servicing debts and preparing themselves for war than Spain.

In 1929 the aggregate shares of debt service and defense in the central government budgets of Poland and Spain were very similar, both being around 40 per cent of total expenditure. Military expenditure on its own had become significantly higher in Poland, where it absorbed 29 per cent of the budget, than in Spain -with a share of 21 per cent. The Spanish non-productive expenditure was to a much larger extent the result of debts accumulated in previous periods -specially because of military priorities. In contrast, the burden of the debt accounted for much less in the Polish budget, due to the short-life of the new Slav state.

*Table 9. Percentage of central government expenditure devoted to debt interests and military expenditure, 1929.*

	Debt	Defense	Debt & Defense
Albania	0.9	47.3	48.2
Austria	12.4	7.6	20.0
Belgium (1931)	34.5	10.0	44.5
Bulgaria	11.6	18.6	30.2
Czechoslovakia	18.6	18.6	37.2
Denmark	–	14.2	14.2
Finland	8.9	15.4	24.3
France	27.8	28.0	55.8
Germany	7.7	9.4	24.4
Hungary	6.6	10.5	17.1
Ireland	?	7.1	?
Italy	21.1	22.2	43.3
Netherlands	24.2	11.8	36.0
Norway	25.4	12.1	37.5
Poland	8.0	29.0	38.0
Rumania (1928)	16.0	21.5	37.5
Yugoslavia	11.8	33.3	45.1
Spain	20.4	21.0	41.4
Sweden (1928)	–	24.1	24.1
United Kingdom	43.3	17.6	60.9

Sources: Western Europe, Flora, Alber, Eichenberg, Kohl, Kraus & Pfenning, Seeböhm (1983): *State, Economy, and Society in Western Europe 1815-1975, Volume 1*, Campus Verlag, Frankfurt. Eastern Europe, Spigler (1986): 'Public Finance', Kaser & Radice (Eds.): *The Economic History of Eastern Europe 1919-1975, Volume II*, Clarendon, Oxford. Spain, Comín (1989): 'Sector público', Carreras (Ed.).

After the fall of the Primo de Rivera dictatorship and, particularly, under the Spanish Second Republic, changes continued in the previous direction. During the period of 1930-35, debt service and defense accounted for 39 per cent of the public expenditure, whereas the share of public works and education reached 31 per cent. As a whole, the composition of public expenditure showed a significant transformation in relation to the beginning of the century.

The share of public works in the budget rose from 11 per cent to 25 per cent between the periods of 1899-1906 and 1930-35. The substantial increase in public investment related with irrigation works, railways, road construction, electrification, housing and some other productive programmes with high externalities, stimulated the demand of equipment goods and favoured the diversification of manufacturing. According to Carreras, Spain reached the second stage of industrialization of Hoffmann's typology between 1924 and 1930<sup>193</sup>.

The share of education in the budget increased from 3 per cent to 6 per cent between 1899-1906 and 1930-35. Public expenditure per capita in primary education measured in real terms, which had expanded at an average rate of only 0.3 per cent per year during 1880-1911, reached a yearly rate of expansion of 5.7 per cent in the period of 1911-35<sup>194</sup>. The deeper public involvement in education had a significant impact on the skills of the labour force. The perverse trend of school enrollment rates estimated by Easterlin was broken during the inter-war years: primary enrollment, which had decreased from 1,049 per 10,000 inhabitants in 1882 to 1,026 pre 10,000 in 1910, climbed up to 1,535 per 10,000 inhabitants in 1930<sup>195</sup>. The change of trend in schooling contributed to the acceleration in the rates of growth of literacy calculated by Flora and Zapf<sup>196</sup>. Between 1910

and 1935 the Spanish illiteracy decreased at a path comparable to that of Poland, which enjoyed the stimulus of recently independent countries -see Table 5. In this period, the Spanish rate of illiteracy decreased faster than in Italy and Portugal, although more slowly than in Hungary -another new state. The Spanish university also experienced a better performance between World War One and the Civil War: the annual rate of growth of the number of students increased from an average of 0.8 per cent in 1883-1914 to 1.7 per cent in 1914-35<sup>197</sup>.

The weakening of traditional elites was, partially, an outcome of industrial development: on the one hand, income tended to be higher in industrializing regions and the interests of the bourgeoisie from these areas tended to be better represented by the government; on the other, the expansion of the number of wage-earners helped to consolidate a powerful working-class movement which struggled for a rapid improvement of living standards. These two forces became more and more autonomous in the inter-war years, particularly during the democratic periods. After a wave of strikes, unions succeeded in obtaining the working day of 8 hours and substantial wage increases: Maluquer's data indicates that by 1923 real wages in industry had reached a level 31 per cent higher than in 1913<sup>198</sup>. In 1923 the real wage of textile workers in Spain seems to have been more than a quarter higher than ten years earlier. The real wage of Polish weavers however remained more than one third below the pre-war level<sup>199</sup>.

Between 1923 and 1929, as it happened in other spheres, the dictatorship of Primo de Rivera slowed down the previous process but did not reverse it. The regime of Primo de Rivera, which had many features in common with that of Pilsudski, was authoritarian but the repression against the labour movement and political opposition appeared to be moderate in contrast with that which was to be exerted by the totalitarian regimes of the 1930s. Part of the public works programmed by the constitutional governments were carried out under Primo. Although the regime had the appreciation of the currency among its priorities, the budget was never balanced because of high expansion of public expenditure. During the dictatorial period of 1924-1929 real wages did not expand but neither significantly declined.

In 1930, after the resignation of Primo, the budget was temporarily balanced and this contributed to depressing the economy<sup>200</sup>. The proclamation of the Republic in 1931, however, brought about new expansion in public expenditure and new sustained deficits contributed to moderate the impact of the international depression. Republican politicians showed themselves in favour of stabilization of the gold value of the currency and against budget deficits. Nevertheless, in contrast with the authoritarian governments of contemporary Poland, they were not ready to sacrifice all the rest of political goals in favour of those. In fact, during the period 1931-35, public expenditure never went down in Spain but four times in Poland -in the years 1931, 1932, 1934 and 1935<sup>201</sup>.

As Fontana and Nadal early noted, the 1930s' depression was rather mild in Spain because of large redistribution of income taking place in favour of workers, with the result of stimulating the demand for consumer goods<sup>202</sup>. Maluquer and Palafox agree in characterizing the period as one of real wages' expansion<sup>203</sup>. In addition, nominal wage increases prevented industrial prices to fall and contributed to moderating the deflationary impact of the world depression.

Finally, the Republican governments tried to undertake structural reforms such as land redistri-

bution, introduction of an income tax, reduction of the size of the army, decentralization of political power, improvement of education and creation of labour juries. All these measures weakened the position of traditional agrarian and military elites.

Some mistakes in economic policy tended to make recovery slow, in particular the real appreciation of the currency since 1933 and the reduction of public investment in 1935 decided by the conservative government. Nevertheless, in comparative terms, the period still seems an economic success for Spain. In 1935 the Spanish industrial production was only 2 per cent below the 1929 level<sup>204</sup>. Instead, the Polish manufacturing production was about 25 per cent below its pre-depression point<sup>205</sup>.

#### **4.4. The drift towards economic centralization and political coercion: Kwiatkowski's Poland and Franco's Spain.**

Since 1935-36 Spain and Poland experienced increasing centralization in the economic decision-making procedures and rising political repression. In the Slav country, the process went through three consecutive episodes: the authoritarian regime of the second half of the thirties, the Nazi occupation, and the monopolization of power by the Communist Party. In Spain, economic dirigism and brutal prosecution of political opponents were practiced within the revolting zone since the beginning of the military uprising in 1936, and they became fundamental components of the new regime emerging from the Civil War in 1939. Therefore, both countries began the golden age of capitalism with regimes characterized by a high propensity to centralize the economy and to use political coercion.

The drift to economic dirigism and political repression which took place between the mid-thirties and early-fifties had exogenous and endogenous origins. Among the former, the most important were two. On the one hand, the world economic depression created social unrest in capitalist countries with some of the orthodox prescriptions in economic policy failing throughout the first half of the thirties. On the other, the short-term successes of Mussolini's Italy and Hitler's Germany, appealed to many of the traditional elites ruling in the peripheral economies. Among the domestic factors in Poland seem outstanding the increasing involvement of the army in politics -especially since the death of the charismatic Marshall Pilsudski in 1935-, and the particularly strong impact of the world depression. By the mid of the decade Poland remained as one of the European economies with worse GDP performance in relation to the pre-depression level. The commitment to the gold block caused the postponement of the full recovery of the Polish economy until the end of the thirties. On the other hand, the internal reasons for the triumph of authoritarianism in Spain were related to the fundamental opposition of the army and the traditional ruling elites to the agrarian and military reforms and to their discontent with the decentralization of the state which had been approved by the parliament of the Second Republic. The low success of the fascist parties in the 1936 election and the prolonged armed resistance of the Iberian people against the revolting army, made necessary very high degrees of violence to consolidate the Francoist regime.

The connections between the post-Pilsudski Poland and early Francoism were underlined in some classical comparative analyses of authoritarian regimes. Andreski, for instance, stressed that the Polish regime of the second half of the thirties had more in common with Franco's Spain than either Nazi Germany or Fas-

cist Italy because of their authoritarian bureaucracy, highly militaristic orientation and a rather weak fascist ideological component<sup>206</sup>.

Pre-Second World War Poland and post-Civil War Spain had in common five major characteristics:

1. Political regimes based on the alliance of the army and the traditional elites, mainly landowners and civil servants.
2. Exclusion of an important part of the bourgeoisie from political power.
3. Authoritarianism, resort to repression against political opponents and high propensity to the use of institutionalized violence.
4. High levels of economic centralization.
5. Fostering of an industrialization programme orientated towards military goals.

According to Korbonski, the Polish military behaved like a typical interest group between 1926 and 1935, but they became the ruling oligarchy in 1936. By the mid-thirties the army began to monopolize decision-making in nearly all spheres of public life<sup>207</sup>. The Camp of National Unity, that is the main party supporting the regime, was mainly composed of civil servants<sup>208</sup>. Moreover, the bulk of the Polish intelligentsia had its roots in the aristocracy and the gentry<sup>209</sup>. Landau and Tomaszewski related the slowing-down of the agrarian reform to the fact that the Polish administration realized that its main supporters in many parts of the Eastern provinces were landowners. The main obstacle to radical agrarian reform was the close relationship between the ruling elite and the interests of the large estates<sup>210</sup>. In any case, the renunciation of a radical redistribution of land checked the recovery of consumption industries in inter-war Poland and prevented the acceleration of the development process.

The alliance between the army and landowners was still more transparent in Spain. As early as 1932, General Sanjurjo directed a failed coup d'état against the agrarian reform and the autonomy of regions. Again in 1936, the revolting military attacked land redistribution<sup>211</sup>. Not only were expropriations paralyzed, but the former owners recovered most of the land lost through the reform undertaken by the Republican governments<sup>212</sup>. During the first two decades which followed the Civil War a large majority of ministers belonged to the army. Franco remained actively at the top of political power until the moment of his death in 1975, assisted by admiral Carrero Blanco for most of the time. The second major group over-represented in the council of ministers between 1939 and 1959 were members of the bureaucratic staff of the Spanish Falange and a few professional civil servants.

The second common feature of the two regimes under consideration was the subordinated position of the bourgeoisie with regard to political power, especially of that fraction linked to the manufacturing of consumption goods. On the one hand, this was the result of the high degree of power exerted by the army and the bureaucracy. On the other, the industrial bourgeoisie was suspect in Poland because of being largely Jewish in the former Russian regions<sup>213</sup>. In Silesia German interests were perceived as being dangerous too. Not only was a new electoral law passed imposing high restrictions on the representation of minorities was passed but also a virulent anti-Semitic campaign was launched by the National Party<sup>214</sup>. Some of the German properties were taken over by the government. In addition, forced polonization began to be imposed, contributing to further split

government from a large deal of private industrial interests<sup>215</sup>. In the Iberian state, the army immediately suppressed parliament and the political autonomy of the regions where the industrial bourgeoisie had been historically strong. In addition, it promoted a programme of autarky that was harmful to the economic interests of branches manufacturing consumption goods in areas where these activities constituted a fundamental source of income<sup>216</sup>.

The growing resort to coercion against political opponents was a third important similarity of pre-World War Poland and Franco's Spain, even if political repression was much more moderate in the Slav country where the army enjoyed a broad popular support than in the Southern country whose military seized power against the will of most of the people, by means of a bloody civil war. The Polish government, however, created a concentration camp, where most of the prisoners were Jewish<sup>217</sup>. The communist party was banned and militancy risked five years of prison. In 1938 the right to strike was limited<sup>218</sup>. At the end of the year Poland annexed a part of the Teschen Silesia.

On the other hand, Franco banned all political parties and class unions. Prison or even death penalty could be applied for past enrollment in left or regionalist organizations. Around half a million people went into exile in 1939. During the interval 1939-45 more than 25.000 political prisoners were executed. The number of people in prisons and concentration camps at the end of 1940 was more than 270.000, whereas the normal figure in the normal Republican time was around 12.000<sup>219</sup>.

According to Taylor, state capitalism was developed in Poland to a greater extent than in any other European country, excluding the USSR, before World War Two<sup>220</sup>. The state ended up owning more than 80 per cent of the chemical industry, 50 per cent of metallurgy, and 100 per cent of the armaments industry in 1939<sup>221</sup>. Ranki and Tomaszewski agreed on the fact that during the second half of the thirties, the Polish government undertook the first genuine attempt of centralized planning in Eastern Europe, again with the exception of the Soviet Union<sup>222</sup>. In 1936 a Four-year Investment Plan and a Six-year Defence Expansion Plan were adopted. The creation of the Komitet Obrony Rzeczypospolitej and the Polish Four-Year Plan were modelled according to contemporary German institutions and policies<sup>223</sup>. The international economic relationships also went in the direction of growing centralization. As other authoritarian regimes, the Polish government rejected devaluation and opted for a formal high parity of the currency, condemning production to a slow recovery and labour to massive unemployment. In addition, the maintenance of the gold parity created problems in the balance of payments and led to the adoption of foreign exchange controls in April 1936. Foreign trade was to be centrally regulated by means of licenses, quotas, clearing agreements and bilateral regimes. Foreign debt service was, firstly, suspended, and, later, proceeded through blocked accounts<sup>224</sup>. Furthermore, increasing levels of imports linked to the industrial plans of government, led to the control of consumption and to forced savings<sup>225</sup>.

Finally, the concentration of public investment in building of a zone of heavy industry -i.e. the Central Industrial Region- appeared as the main economic project undertaken by Vice-premier Kwiatkowski in 1937. The programme included the construction of power plants, iron and steel mills, armament factories, machine-tools, aircraft, truck and chemical plants. This absorbed 60 per cent of government investment<sup>226</sup>.

The Francoist experience towards economic centralization began during the Spanish Civil War

within the nationalist zone<sup>227</sup>. It was reinforced during the Second World War and reached its climax in the 1940s<sup>228</sup>. Centralization took place mainly through compulsory prices fixed by the government for most of the commodities and administrative intervention in the allocation of raw materials. Foreign trade was oriented towards self-sufficiency, by using exchange controls, licensing, quotas and bilateralism<sup>229</sup>. The government maintained for more than two decades a non-realistically high foreign exchange rate of the currency<sup>230</sup>. Such a policy was a major cause for the slow improvement of living conditions after the Civil War. Moreover, the industries producing consumption goods were discriminated in the granting of licenses for importing raw materials and equipment goods. Since 1938 industrial investment required administrative permission of the Ministry of Industry. An act was passed establishing subsidies and tax exemption for the industries declared of national interest and plans for the development of some branches were put into effect. The main firms declared of national interest would produce intermediate and basic goods aiming at autarky. The Instituto Nacional de Industria, a public holding inspired by the Italian IRI, was created in 1940<sup>231</sup>. Its initial investments were orientated towards the production of synthetic fuel, aluminum, ships, aircraft, artificial fibers and nitrogen. Lastly, the Francoist economic policy led to the conversion of the central province of Madrid to the second industrial region of Spain<sup>232</sup>.

The fifth significant common feature between the two regimes had to do with their efforts in promoting an industrialization programme subordinated to the interests of the army. Hauner underlined that pre-Second World War Poland did the maximum to increase defense expenditure<sup>233</sup>. Drozdowski estimated that Poland's entire defense expenditure amounted to 50 per cent of the government budget and to around 10 per cent of national income over the years 1936-39<sup>234</sup>. The data supplied by Spigler show a substantial increase in the share of defense in the Polish budget, going from 26 per cent in 1924 to 33 per cent in 1937/38. In most years, the share was higher than in other East European countries with the exception of Albania<sup>235</sup>. At the end of 1938 Kwiatkowski presented a programme for the next 15 years, which was divided in three five-year plans. In the first one, around 60 per cent of the foreseen government expenditure was to be devoted to military purposes. Most of it had to be spent for the development of the Central Industrial Region.

However, this strategy implied the need to import raw materials and machinery without having generated enough export earnings. The resulting imbalance would lead to further restrictions of consumption<sup>236</sup>. As Landau and Tomaszewski pointed out, this strategy was far from solving the most urgent problems of an economy with backward agriculture and an insufficient network of transportation. According to them, civil industries, especially in agrarian regions, were beginning to experience recession already in 1939.

A similar programme of industrialization guided by military priorities was applied in Spain since 1939. Franco and the president of INI, Suanzes, had more time than Kwiatkowski to carry out the development of a set of industries which were considered to be essential for war. The share of government expenditure devoted to defense rose from 16 per cent in 1935 to 45 per cent in 1943, and it was maintained above 30 per cent until the mid fifties<sup>237</sup>. The investments by INI in the 1940s were mainly orientated to supply the industrial products considered to be essential in case of war. Even more important, the centralized allocation of inputs gave priority to firms which were working for the army or in military projects<sup>238</sup>. They were also favoured in the granting of import licenses and investment permissions. Energy pricing was beneficial for their interests too<sup>239</sup>. The above described policy of economic centralization was in accordance with such an industrialization strategy. Traditional



consumption industries were sacrificed in favour of the branches supported by the army. Such a policy contributed to delay full economic reconstruction after the civil war by generating dramatic bottlenecks in the supply of both agrarian and industrial inputs and blocking the improvement of productivity. The result was that the recovery of pre-1936 living conditions in Spain was postponed for nearly a quarter of a century.

## **5. Centralization and coercion during the postwar 'golden age'.**

The consequences of the policies adopted in post-Pilsudski's Poland could not become fully apparent because of the German invasion of the country. Nevertheless it can be maintained that so much heavy military investment did not prove to be very useful. As a result of a very quick defeat, Poland was again partitioned. Under Nazi administration, the Slav country experienced further centralization oriented towards reorganizing the Polish economy according to the needs of the Third Reich. Political repression turned into holocaust. The conflict produced heavy losses of productive equipment and human lives. About six million people died as a result of the war, five of them directly because of Nazi terror. This meant the highest proportional loss of population in any one of the countries which took part in the war -according to Landau and Tomaszewski population declined by 22.2 per cent in relation to 1939 as a result of the conflict<sup>240</sup>. On the other hand, the country lost its Eastern territories but gained Silesia, Pomerania, and most of Eastern Prussia.

### **5.1. Poland and Spain at the end of World War Two.**

The liberation saw Poland in the sphere of influence of the Soviet Union. With the gradual monopolization of power by a communist organization, the productive system was to be converted into a centrally planned economy. The consolidation of an economic system of the Soviet type took place after 1948. The history of socialist Poland during the years comprised between liberation in 1944 and the creation of the Polish United Workers' Party at the end of 1948, was not yet that of full economic centralization and stalinism. Five main features seem outstanding for the long-term development process from this period of initial socialism:

1. Radical and fast agrarian reform. This implied massive redistribution in favour of landless peasants, leading to the creation of the conditions for a massive market of consumption goods. Traditional elites lost in favour of democratizing of property. By January 1949 five million families had received land. Medium-size property in the countryside became the norm: 75 per cent of privately owned land fell into the 5-50 hectare group.<sup>241</sup>
2. Massive mobilization of idle resources. Public investment in the nationalized industrial sector, and priority given to full employment and industrialization resulted in extensive growth. The use of abundant reservoirs of labour until then unemployed or occupied in agrarian activities of very low marginal productivity fostered output expansion, improved the level of utilization of the existing productive capacity and created the basis for a rapid recovery from the consequences of war<sup>242</sup>.
3. Priority given to the augmentation of consumption levels. One of the main objectives of the Three Year Plan (1947-49) was to surpass the 1938 average level of consumption. The methods of planning still were far from 1930s' stalinism in the Soviet Union: planned targets were forecasts, and firms still operated motivated by

sales<sup>243</sup>. The plan proclaimed the need of a fast rise in the standard of living, it did not foresee the construction of new industrial plants but the rebuilding of the damaged ones, stressed the need of expanding capacity in consumption industries, and considered the resort to foreign sources of financing capital expenditure.

4. Large educational effort. The Decree of November 1945 reorganized the educational system, with the objective of repairing war damages in schools. All levels of education became free of charge<sup>244</sup>. The number of primary schools increased from 18,397 in 1945 to 22,870 in 1950<sup>245</sup>. The ratio of pupils per teacher in these schools fell from 51 to 39. The number of students in universities went up from 55,988 to 125,096<sup>246</sup>.

5. Limited pluralism. Although the power of the communist party tended to increase throughout the period, the political situation still was one of competing political projects. A referendum on reforms and constitution took place in 1946, followed by general elections in 1947. The Polish Peasant Party constituted a strong opposition force for most of the period. On the other hand, the block in power was formed by four parties. Until 1948, the cooperative movement remained independent. Before the forced unification in December 1948 the social-democracy fought for its own political projects, and controlled the Central Planning Board. Its influence was clear in the design of the Three Years-Plan.

Most of these features contrast with Francoist Spain during the second half of the 1940s. In the Iberian state, the new regime had consolidated its power and did not undertake significant changes in its socio-economical choices:

1. Strengthening of traditional elites. The position of landowners in the countryside was reinforced by the withdrawal of the agrarian reform and by the huge profits obtained in the black market for agrarian products<sup>247</sup>. The army and the bureaucracy improved their position through the continuation of central allocation of resources and the promotion of industries of military interest. In addition, it was preferred to finance the new industries both by direct and indirect resort to the Bank of Spain. This meant opting for an inflationary way of financing, instead of continuing the policy of fiscal reform initiated by the Republic with the introduction of the income tax.

2. Loss of potential resources because of under-utilization of the productive capacity<sup>248</sup>. Profusion of price controls and central allocation of raw materials and imports led to recurrent bottlenecks in production. This in turn resulted in a high level of temporary unemployment and slow growth. The final outcome was partial de-industrialization: the share of the active population working in manufacturing decreased from 17 per cent in 1930 to 16 per cent in 1950<sup>249</sup>.

3. Sacrifice of consumption<sup>250</sup>. High restrictions on imports together with the preference given to industries of military interest in the granting of licenses strongly limited the supply of consumption goods<sup>251</sup>. On the demand side, the erosion experienced by real wages meant a radical reduction of the purchasing power of a large majority of the population. The level of consumption per capita in Spain in 1950 was estimated to have been about 30 per cent below the 1935 level<sup>252</sup>.

4. Reduction of the amount of resources devoted to education and slowing-down of the tendency to improve the productive skills of the population. These were the consequences of the high share of resources absorbed by the army and the reinforcement of traditional activities. In 1950, with 32.3 per cent of the budget devoted to defense, Spain was the state in western Europe with the highest share of military spending<sup>253</sup>. The weight of education in the Spanish budget fell from 6.8 per cent in 1936 to 2.1 per cent in 1948<sup>254</sup>. The number of pupils in public primary schools decreased from 2.5 million in 1935 to 2.1 million in 1950<sup>255</sup>. The number of students in universities

stagnated in the decade that followed 1939<sup>256</sup>.

5. Political dictatorship and strong coercion of labour. The political power was concentrated in the hands of Franco and the single-party regime was consolidated. Unions were outlawed, and the Ministry of Labour fixed wages. Nominal wages did not increase enough to compensate for inflation. Malnutrition affected most of the working class. Living conditions for labour were so bad that incentives to improve productivity became extremely low<sup>257</sup>.

The previous analysis leads to the formulation of the hypothesis that post-war reconstruction was more successful in Poland than in Spain. Some quantitative evidence can corroborate this. As Table 6 indicates, in 1950 the proportion of Polish male working population in industry reached 30.4 per cent, whereas it was only 22.4 per cent in 1931. The corresponding Spanish share stagnated at a level around 25.5 per cent. According to Bairoch, Poland's real GNP per capita increased from \$ 420 in 1929 to \$ 545 in 1950<sup>258</sup>. Conversely, the Spanish one fell from \$ 520 to \$ 430. As can be seen in Table 1, such a performance implied that by 1950 Spain had lost ground in relation to the west European average whereas Poland had markedly improved its situation. Summers & Heston and Maddison also give a real product per capita in 1950 substantially higher for Poland than for Spain<sup>259</sup>. Finally, rationing lasted longer in the Mediterranean country: it was lifted in the Slav country in 1948/49, but only in 1951/52 in Spain<sup>260</sup>.

Given that physical destruction of capital goods and human life losses had been much more severe in Poland than in Spain, the main responsibility for the poorer development performance of the Iberian country should be attributed to the socio-economical choices made by Francoist Spain.

## 5.2. Early Francoism and Polish Stalinism.

A definite turn towards economic centralization and political repression took place in Poland during the late 1940s. In October 1947 Mikolajczyk, the leader of the Polish Agrarian Party, left the country. Socialists and communists were forced to unify in December 1948. The autonomy of peasants was to disappear with the fusion of two previously competing organizations into the United Peasant Party, conceived as a satellite of the Polish United Workers' Party. The Planning Board, which had been purged from reluctant socialists and technicians at an earlier stage, was dissolved in February 1949. The new Six-year Plan (1950-55) announced the birth of a new economic system of the soviet type. Its main characteristics were the following:

1. Central allocation of resources<sup>261</sup>. The economic decisions no longer would depend on the relative scarcities signalled by the market but on the preferences of the central authority. Prices became fixed regardless of changes in demand expressing the different needs of consumers. Compulsory physical targets of production were assigned to firms. Money turned into a passive instrument of the centrally determined network of allocations.
2. Sacrifice of consumption. Planning was considered to be guided by the principle of priority of production and investment over consumption. Accordingly, the increase in the share of investment came to be a top priority, particularly in the branches producing capital goods. Rationing was reintroduced in Poland in 1950. Net investment in fixed capital per capita was increased by 50 percent in 1949<sup>262</sup>. The aggregate rate of accumulation of the Polish economy rose from 15.6 per cent in 1949 to 27.9 per cent in 1953<sup>263</sup>.

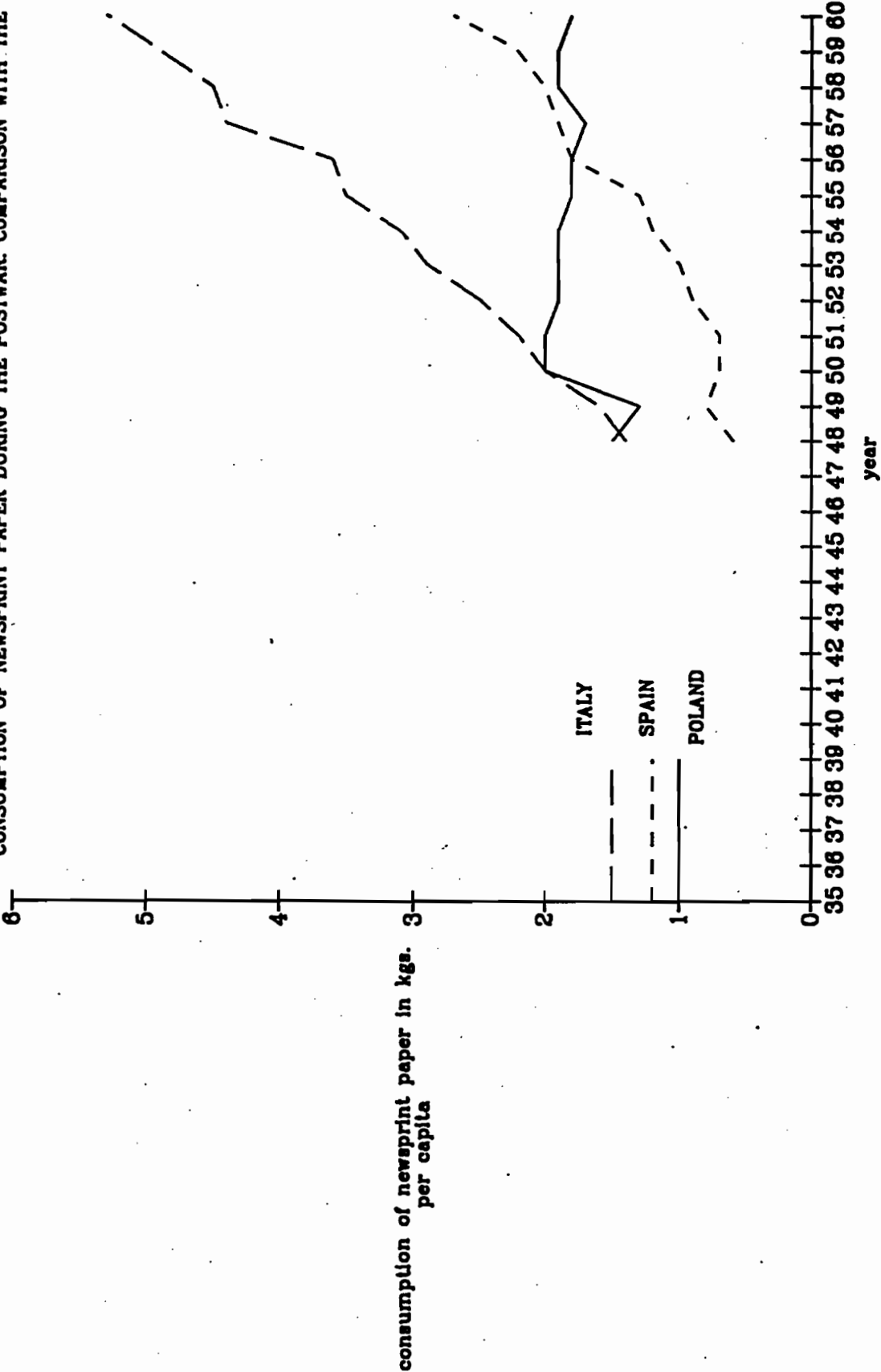
3. High propensity to autarky<sup>264</sup>. Even if autarkic tendencies could have been reinforced by the embargo imposed by the West, there was also an endogenous trend against dependency on foreign trade. The domestic price structure was considered to be independent from world scarcities. Foreign trade became a monopoly of the state and industrial enterprises were deprived of the right of carrying out direct deals abroad. Polish imports from non-socialist countries as a share of all imports went down from 57 per cent in 1949 to just 28 per cent in 1953.
4. Preparation for war again became a top priority. The option for accelerated industrialization through the concentration of investments in heavy industry can be understood as a strategy for rapid development of the defense capacity. In fact, the earlier versions of the Six-year Plan were revised in order to take into consideration the possibility of transformation of the cold war into a hot one<sup>265</sup>. As a result, much more ambitious growth targets were adopted.
5. Coercion substituted for economic incentives<sup>266</sup>. Given the lack of current market-incentives and correctives such as profits, new consumption goods, or bankruptcy, persistent bottlenecks arose in different spheres of productive activity. The answer to the lack of self-regulating forces within the economic system was the massive resort to coercion to fulfil the targets of the plan. Compulsory delivery quotas were imposed on farmers. Enforced overtime and work on Sundays became the rule in industry. In addition, the state acted against any possibility of self-organization of the working-class which could endanger its privileged situation in the labour market.
6. Growing economic centralization together with massive resort to organized repression against all kinds of political dissidence led to the emergence of new elites<sup>267</sup>. The rebirth of elites was facilitated by the confusion between the party and the state, which reinforced the power of central authorities. The top officials of the party and the state, with the support of the army, would constitute the core of the nomenklatura.

With regard to the situation at the beginning of the fifties, it can be postulated a process of convergence in systems between Stalinism in Poland and the Spain of early Francoism. In both states the political bureaucracy of the single-party and the military enjoyed a privileged position in the social pyramid thanks to the consolidation of two systems characterized by economic centralization and extended repression of organized political opposition. Labour and a large part of the pre-war bourgeoisie had experienced defeat in both places as well. In Poland the misfortune of the bourgeoisie had been total because of nationalization, whereas that of labour had been much less important -statistics on real wages show a decrease of about 8 per cent between 1950 and 1954. Conversely, in Spain the main losing force was the industrial working class -the purchasing power of wages having fallen in 1950 around 25 per cent below the level of 1936<sup>268</sup>. The losses for the bourgeoisie were general on the political side, but concerned mainly those industrialists manufacturing consumer goods in the economic sphere.

The convergence in repression of early Francoism and Polish Stalinism resulted additionally harmful for a particular aspect of educational skills: the levels of reading. It can be seen from Chart 2, that before the Spanish Civil War consumption of newsprint paper per head was higher in the Iberian country than in the Slav one. By the late forties the level of newspaper consumption had become substantially larger in revolutionary Poland than in Francoist Spain. The triumph of Stalinism blocked the expansion of newspaper-reading in Poland. During the fifties the consumption of newsprint paper in the Slav nation stagnated. At mid-fifties both countries consumed similar quantities of newsprint paper. The chart shows, moreover, the growing divergence in the levels of newspaper-reading in relation to Italy, a democratic nation with a comparable level of income to that of Spain and Poland.

Chart 2:

CONSUMPTION OF NEWSPRINT PAPER DURING THE POSTWAR. COMPARISON WITH THE PRE WAR LEVEL.



### 5.3. The attempts at reform in the fifties.

At the beginning of the 1950s Poland and Spain had productive systems characterized by a high degree of economic centralization. Their elites had imposed themselves through extended political repression against opponents and were ready to use massive violence to retain their power. At the top, both systems tended towards stability, because they were advantageous to the elites. In Spain, the co existence of private property of firms and massive state controls had generated an extended black market where civil servants, members of the single-party, landowners, officials and some businessmen could easily expand their fortunes. In Poland, which originally had become a more egalitarian society, incentives for the rebirth of elites took the form of a quick social mobility by means of party membership and privileges in access to specific consumer goods and housing.

Both systems were very unstable from the bottom of the social pyramid. As has been noted, by 1950 industrial real wages remained very far from recovering the level of the republican time in Spain. In Poland, they began to decline with the forced increase in the rate of accumulation. Moreover, compulsory deliveries never came to be popular among Polish farmers, who opted to increase self-consumption with the result of only a slow improvement in the supply of foodstuffs. Forced deliveries had also been used in Spain with similar unsatisfactory results. Low relative prices for basic foodstuffs had negative effects on the supply-side: according to Barciela about 58 per cent of the wheat produced in Spain in 1949-50 was directed towards the black market.<sup>269</sup>

On the whole, the balance was not a very positive one. In the Iberian country, after more than a decade of peace, real GDP as well as consumption per capita had failed in surpassing the pre-civil war level. In the Slav economy, a regime which claimed to exercise the dictatorship in the name of the working class was eroding the living conditions of the proletariat. Therefore, the political success of the new elites in keeping and increasing power contrasted with their failure on the economic side. The necessity for changing some of the constitutive elements of early Francoism and Polish Stalinism appeared to be clear, even for some members of the new elites. This led to some reformist attempts from above. As a consequence, the 1950s were the scenario of several moves towards reorganization of the economic system in both countries. The degree of success, as we will see below, was very different.

Let us now formulate some hypotheses about the causes behind the reformist efforts of the fifties. Four different factors seem meaningful:

1. Economic deadlock. As it has been shown, both early Francoism and Polish Stalinism failed in the economic sphere. A main common negative result had to do with the inability of rapidly improving the living conditions of the majority of population. In addition, in the Spanish case, the running-out of foreign-exchange reserves at the beginning of 1959 became decisive in the launching of the stabilization plan<sup>270</sup>.
2. Social mobilization. The first reformist wave in Spain came after the success of a massive protest in the streets of Barcelona in 1951<sup>271</sup>. Social conflict extended later to Asturias. The same year the Polish miners gave a first signal to the government by striking against enforced overtime<sup>272</sup>. A new and more dramatic episode of social distress took place in March 1956, when in Poznan workers attacked a prison and the headquarters of the Public Security Office<sup>273</sup>. The struggle finished with the death of many rioters, and had as a consequence the

resignation of the head of the State Commission for Economic Planning and strong man of the Polish regime, Hilary Minc. In 1958 Spain, Asturian miners went on strike again, being followed by the Catalan and Bask industrial workers. The stabilization programme was launched the following year.

3. Changes in the international framework. American credits and grants helped to increase the volume of imports in 1950s' Spain, especially since the signature of the Defense Agreement with the United States in 1953. Spain joined the OEEC in 1957, and the IMF and the World Bank in 1958. At the end of that year foreign convertibility of the European currencies was adopted. The mission of the IMF which visited Madrid in February 1959 contributed decisively to the design of the Spanish stabilization plan of that year<sup>274</sup>. The IMF, the OEEC and the US supported it by extending new credits to the Spanish government. On the other hand, the death of Stalin in 1953 and the subsequent de-Stalinization in the Soviet Union initially encouraged the Polish evolution<sup>275</sup>. The revelation by Khrushchev of Stalin's crimes during the XXth Congress of the Soviet Communist Party in 1956 opened the door to mass protests<sup>276</sup>. The same year the Cominform was dissolved. Polish foreign debts with the USSR were cancelled and new financial support from the Soviet Union was provided. Following the agreement with the United States in 1957, American credits were granted to Poland for the purchase of cereals<sup>277</sup>.

4. Partial replacement within the ruling elites. In Spain the changes of government in 1951 and 1957 were significant, because they were connected with the moves in economic policy of 1951/52 and 1957/59. The army and the so-called National Movement tended to loose importance within the cabinet in favour of technicians of career and industrialists -the catholic organization Opus Dei emerged as the most influential organized bourgeois group supporting the regime. In Poland, the renewal of 1956 led Wladyslaw Gomulka to the head of the communist party. He had been removed as the general secretary of the PUWP in 1948, being accused of right-wing deviation.

The change of policies took place in Spain in a two-stage movement. The first was done in 1951 by the new cabinet. The head of the newly created Ministry of Trade, Manuel Arburúa, allowed a substantial increase in imports, particularly of raw materials used in the production of consumer goods. The scope of centrally allocated raw materials, such as steel, diminished radically. Rationing of foodstuffs was definitely abolished in 1952. Agrarian prices were made more remunerative for producers.

A much higher availability of raw materials and energy, together with the diminution of central controls, fostered Spanish economic growth<sup>278</sup>. Whereas the average rate of growth of industrial production had been just 1.3 per cent per year in the period 1944-49, it rose to 7.9 per cent per year during the interval 1950-55. Estimations of the Spanish per capita national income suggest that the pre-war level was exceeded in 1954. Industrial real wages had increased around 22 per cent since 1950.

Nevertheless, the success led to a slow-down of the impulse for change. Military expenditure in 1954 still absorbed 31.7 per cent of the budget, whereas education amounted only to 6.6 per cent. The maintenance of a multiple exchange rate system prone to corruption combined with the preference for a very overvalued currency prevented the expansion of the more dynamic export activities. The lack of substantial changes in the tax system created the conditions for accelerating inflation, while an ambitious programme of investments was being undertaken by the INI. Finally, a large centrally decreed rise in wages decided by the falangist minister of Labour had led prices out of control since 1956.

The annual increase of wholesale prices rose from 5.8 per cent in 1955 to 10.1 per cent in 1956 and 16.5 per cent in 1957. A new government took office in February 1957, where two members of Opus Dei occupied the ministries of Finance and Trade. Confronted with accelerating inflation, the new government adopted restrictive monetary and expenditure policies and introduced some changes in the tax system oriented towards increasing fiscal income. An attempt to unify the foreign exchange rates into a single parity of 42 pesetas per dollar took place in April 1957, but failed. The foreign trade deficit was lower during 1957, but rose again in 1958. The reserves of gold and foreign currencies fell from \$ 225 million in December 1955 to \$ 65 million in December 1958. The latter amount could not pay for one single month of current imports<sup>279</sup>. The situation at the beginning of 1959 reached a point proximate to the suspension of foreign payments<sup>280</sup>. This led to the adoption of the stabilization plan, inspired by the IMF and prepared by Joan Sardà, a competent economist of the Bank of Spain who used to have important responsibilities during the Republican time.

The stabilization programme of 1959, in spite of its name, combined severe measures oriented towards deflating domestic demand with structural policies aimed at promoting a more balanced process of growth. Most price controls were suspended. Import quotas were removed. Central allocation of raw materials was abolished. State trading in industrial imports disappeared. The right of the Treasury to issue automatically discountable bills through the Bank of Spain was cancelled. Foreign convertibility of the peseta was adopted. The multiple exchange-rate system was finally abolished. The peseta was devalued to 60 pesetas per dollar, implying the adoption of a realistic parity for the first time since the end of the Civil War. Most of the restrictions on direct foreign investment were removed<sup>281</sup>.

Moves towards the relaxation of some of the principles of economic Stalinism had taken place in Poland since the end of 1953. In October 1953 the PUWP began to recognize the necessity of raising the living standard of the working people<sup>282</sup>. During the following year, a new arbitration procedure for dealing with labour disputes was adopted -boards being established in the large firms<sup>283</sup>. Compulsory deliveries of farming produce were reviewed, in order to encourage private farms to expand the output<sup>284</sup>. The share of accumulation declined from 27.9 per cent in 1953 to 23.2 per cent in 1954 and 22.2 per cent in 1955<sup>285</sup>. The draft of the Five-Year Plan for the period 1956-60, which was elaborated in 1955, proclaimed the need of postponing some of the previously programmed investments in heavy industry. The share of agriculture in total state investment rose from 10 per cent in 1953 to 15 per cent in 1955<sup>286</sup>. The share of imports from non-socialist countries in total imports increased from 28 per cent in 1953 to 35 per cent in 1955<sup>287</sup>. The Special Commission for Combating Waste and Economic Sabotage, which had been empowered to impose forced labour for up to two years, was dissolved in 1955<sup>288</sup>. Quasi-obligatory Sunday work in coal-mining decreased. Real wages data show an increase of 19 per cent between 1953 and 1955<sup>289</sup>.

These changes turned into more radical ones as a result of the Poznan revolt in 1956. After Gomulka came back to power, the new Polish 'economic model' began to be tested. The autonomy of enterprises was reinforced by reducing the number of compulsory targets fixed by central authorities. The new Factory Fund Law linked the remuneration of the labour force to the financial results of the firm. The Workers' Councils Law prepared the election of representative bodies of labour with co-responsibility in management. Forced collectiviza-



tion in agriculture was stopped, the share of public farms falling from 24 per cent in 1955 to 13 per cent in 1957 in the total number of farms<sup>290</sup>. The emphasis on heavy industrialization and the armaments industry decreased<sup>291</sup>. The accumulation rate reached a minimum in 1956, with a share of only 20.2 per cent. The real value of industrial investment remained lower than in 1954<sup>292</sup>.

With these reforms, the living conditions for the working population showed marked improvement. Real wages figures indicate an increase of 20 per cent between 1955 and 1957. Peasant income per capita rose in a comparable way<sup>293</sup>.

As a culmination of the reformist phase in 1957 a new Economic Council was created to advise the government. This body had some renowned economists among its members -i.e. Oskar Lange, Michael Kalecki, Edward Lipinski and Włodzimierz Brus. In a similar way as did Sardà in Spain, qualified technicians not directly connected with the political system had a chance to propose a set of policies continuing the reforms.

The Second Congress of Polish Economists, held in June 1956 had already suggested some changes in economic policy. Even if the so-called 'Polish Theses' accepted central planning, it was recommended, however, to be applied mainly for the medium and long-term. The financing of investment from the state budget should be abandoned and be replaced by the use of internal resources of the firm and the resort to bank credit. Autonomy should be granted to enterprises to enable them to work out their own plans. The creation of workers' councils was proposed as a way of democratizing which would induce more decentralization. Material incentives and profits should guide economic decisions. Prices should take into account the need for equilibrium and world prices<sup>294</sup>.

Oskar Lange appears to have been the main inspirator of the 'Polish Theses'<sup>295</sup>. He had conceived a model of market socialism in the late thirties. According to it, means of production should be nationalized, consumer prices determined by the market, and the choice of jobs should be free<sup>296</sup>. Lange became the chairman of the Economic Council. In the late fifties he defended the idea that centralized planning was only a transitional phenomenon due to industrialization. The centralization process which took place in the first stage of socialism had to be seen as the outcome of a war economy. But administrative methods were not necessarily characteristic of a socialist economy. Socialism should, after the transitional period, give up administrative and bureaucratic methods.

Michael Kalecki, vice-chairman of the Economic Council, stressed that the main mistakes of economic policy had been excessive investment, disregard for investment efficiency, and over-optimism about agricultural and foreign trade growth. He supported the creation of workers' councils as a guarantee against bureaucratization and centralization<sup>297</sup>. Consumption should have an important place in the plan.

A third influential analysis of the experience of the 1950s was that of Włodzimierz Brus. He was Professor of Political Economy at the University of Warsaw and also vice-chairman of the Economic Council. The book he published in Polish in 1961 dealt with the functioning of a socialist economy and became nearly a guide for the economic reforms which were undertaken in Czechoslovakia and Hungary in the sixties<sup>298</sup>. He defended the possibility of combining planning and market. According to him, firms should have autonomy to

determine the volume and quality of their own production, the amount of wage bills to be paid, and the level of reinvested profits after taxation. Firms should be free to choose their suppliers of raw materials as well. Central authorities' decisions should deal mainly with the distribution of income and the allocation of investments among branches.

#### **5.4. Paralysis of reforms, institutional immobility and economic prosperity during the sixties.**

The 1959 stabilization programme of the Spanish economy was a success. The immediate recession turned out to be short-lived, inflation was beaten, and the foreign trade account registered a surplus in 1960. After the stabilization, Spain experienced a substantial acceleration in economic growth. The average rate of expansion of real GDP per capita rose from 4.0 per cent in the interval 1950-60 to 6.0 percent in the period 1960-74.

The marked effort to promote economic de-centralization at the end of the 1950s and the beginning of the 1960s fostered the process of development. Spain was among the fastest growing economies of the world during the sixties and the early seventies. Significant convergence with western Europe took place. According to recent estimations, Spanish GDP per capita was 54 per cent of the French in 1960, and rose to 65 per cent in 1974. It increased from 46 of the West German to 66 per cent. It was 49 per cent of the British in the earlier date and had risen to 77 per cent at the moment of the first oil shock<sup>299</sup>.

The partial catching-up which took place in the period 1960-74 cannot be fully explained without referring to the changing conditions of the Southern periphery of the continent. Greece and Portugal also experienced exceptional rates of growth throughout the sixties -they grew, in fact, slightly faster than Spain. The economic expansion was, therefore, particularly vigorous in Southern Europe. It had to do with the consequences of the boom of the European core countries since the end of World War II. Their exceptional growth increased the demand for labour, tradeable goods and services. As income expanded fast and in a sustained way, the demand for non-basic goods gained ground, leading to the mass-tourism in the Mediterranean coasts. Moreover, the West European golden age implied a sustained increase in the demand for foreign labour, given that the domestic supply tended to be depleted and, consequently, not elastic. That offered many opportunities for emigration from the less developed areas of the continent. The demand for imported goods also increased in Western Europe, giving a chance for exporting not only the traditional mediterranean goods. Finally, the increasing internationalization of the capitalist economies combined with the existence of protected domestic markets encouraged European companies to establish branches within peripheral countries to benefit from potential consumers.

The number of foreign visitors to Spain climbed from 4 million in 1959 to about 33 million in 1973. The annual average of aggregate net earnings in foreign currency derived from foreign travel was around \$ 1,191 million during the period 1960-73<sup>300</sup>. Such an amount could pay for about 78 per cent of the foreign trade deficit during the period. Emigrants' remittances rocketed from \$ 100 million to nearly \$ 1 billion in 1973. The average in these years amounted to \$ 366 million, that is, about 24 per cent of the average foreign trade imbalance throughout 1960-73. During the same period, net foreign investment in Spain amounted to \$ 346 million per year

on average. This was about 22 per cent of the foreign trade deficit.

Income from tourism, emigrants' remittances and foreign investment significantly contributed to avoid balance of payments problems when industrial growth was accelerating. Spanish exports, even if less dynamic than imports, also played an important role in widening the capacity for purchasing foreign raw materials and equipment. Around 55 per cent of the Spanish exports went into the European market economies<sup>301</sup>.

Together with the favorable external conditions, the reduction of the gap in relation to Western Europe was possible, because the Spanish manufacturing sector had a potential for long-term development. The industrialization process had been extremely distorted by the policies adopted since the Civil War, but in spite of the deep crises experienced by many consumer industries during early Francoism, there was room left for a fast improvement once the perverse policies were abandoned. At the beginning of the sixties many firms could freely import the equipment necessary to renew or expand their productive capacity, for the first time since the end of the Civil War. For many industrialists it was the first opportunity to profit from the innovations which many European countries had been enjoying since the mid-1930s. This allowed large increases of productivity and stimulated growth. The rate of productivity growth in manufacturing reached 7.3 per cent per year throughout the sixties. The expansion of industry thus was significantly larger than that of agriculture and services<sup>302</sup>.

The Spanish market continued to be one of the most protected in Western Europe, but now tariffs substituted prohibitions, quotas and state trade. Between 1960 and 1965 the share of state imports went down from 19 per cent to 2 per cent. The weight of bilateral trade decreased from 20 per cent to 7 per cent of all foreign trade. Liberalized imports increased from 40 per cent to 67 per cent. Industrial production, which had been growing at 6.6 per cent per year in the fifties, reached an annual rate of 10.0 per cent during the period 1960-74. The share of agrarian products within total Spanish exports fell from 60 per cent in 1959 to 24 per cent in 1974. It was estimated that 59 per cent of the increase in Spanish exports between 1962 and 1972 was due to an improvement in the competitiveness of Spanish products<sup>303</sup>.

The accelerated industrial growth of Spain during the sixties, however, remained based on the expansion of the domestic market. Traditional consumer goods were supplemented by the massive diffusion of private vehicles and electrical appliances. For instance, the number of private cars rose from 281,400 in 1960 to 4.3 million in 1974. This implied an increase in the motorization rate from 9 per 1,000 inhabitants to 123 per 1,000 inhabitants. Most of these cars were produced by subsidiaries of foreign companies in Spain. They took advantage of the fast increase of purchasing power that the Spanish population experienced throughout the sixties. In a second stage, these firms began to export.

If from the point of view of economic growth, the Spanish experience of the sixties and early seventies turned out to be exceptional, it was less impressive in terms of a broader concept of development. After the initial impetus of economic liberalization between the moment of the stabilization and the early sixties, no other significant reform took place. Thus, the following shortcomings can be identified in the development process of the sixties.

Firstly, the traditional overpopulation of the less developed areas was solved by massive emigra-

tion. Agrarian reform did not take place in the latifundist and minifundist regions which became main suppliers of migrants to Western Europe. Such a solution was positive in the short and medium term, given that it helped to raise wages and encouraged agrarian mechanization because of the reduction of labour supply<sup>304</sup>. It also contributed to increase domestic consumption per capita by means of migrants remittances. However, it increased the dependency of the area in the long-term. When the 1970s crisis hit industrial employment in Europe, the return of migrants contributed to an increase in unemployment in the country of origin. In the period 1975-83 the Southern regions and Galicia experienced the worst performance in employment within Spain<sup>305</sup>. Nowadays latifundist Andalusia has one of the highest unemployment rates in Europe -about 30 per cent.

Secondly, the pattern of development of tourism was far from optimal. Spain opted for a strategy of cheap prices but bad quality. Private income in the tourist zones grew very fast thanks to the demand created by the provision of hotel facilities, accommodation in apartments and recreation. This process helped to reinforce the demand for industrial products and contributed to the expansion of manufacturing. However, there were high social costs in terms of visual pollution and the degradation of autochthonous ecosystems and cultural heritage. The specialization of Spain in tourism for the lowest income brackets can turn into a barrier rather than a stimulus in the future. Spain succeeded in becoming one of the countries receiving most tourists in the continent. Nevertheless, it was never among the top countries with regard to the amount of income obtained from tourism<sup>306</sup>.

Thirdly, industrialization took place with much lower qualification of the labour force and entrepreneurs than in the rest of capitalist Europe<sup>307</sup>. As a result, an overwhelming amount of the technology used in the Spanish industry was of foreign origin. Usually it was imported through the purchase of licenses or partnership agreements with foreign firms. Sometimes it arrived in the form of direct investment. Many other times, it reflected pure copying of foreign patents. Such a poor technological performance was mainly the result of an extremely insufficient educational and scientific effort. Although public expenditure in education as percentage of GDP rose moderately during the sixties because of the increasing social demand, the Spanish level still remained significantly behind nearly all European countries, including peripheral capitalist ones. The resources devoted to education by the Spanish state amounted to 2.1 per cent of the GDP in 1973. The share was less than half of that of Italy or Ireland. Only Greece had a lower share than Spain.

As can also be seen from Table 10, the number of volumes in national, public, university and school libraries was extremely low in Spain. According to UNESCO data, there were around 0.7 volumes per inhabitant in the Spanish non-private libraries. This was the worst record among the European countries with comparable figures. By contrast, the Polish rate of 6.4 volumes per head was between Swedish and Finnish levels. Even in Ireland and Italy the relative supply of books in libraries was more than three times higher than in Spain.

One of the consequences of the lack of priority given to education by the dictatorships of Southern Europe is additionally illustrated in Table 10: the share of scientists, engineers and technicians engaged in personal research and scientific development was nearly ridiculous. The Spanish rate, i.e. 3.3 per 10,000 inhabitants, was more than three times lower than the Italian or the Irish ones. Moreover, it appears to have been more than ten times lower than the Polish one. Although it should be taken into account that the Polish figure, as many coming from centrally planned economies, can be exaggeratedly inflated, the enormous distance tends to corroborate the

*Table 10. Investment in human resources in Europe.*

	Public expenditure in education as percentage of GNP	Volumes in libraries per head	Scientists engaged in R&D per 10,000 inhabitants#	Circulation of daily papers per 10,000 inhabitants
	1973	1973	1973	1973
Austria	6.2	4.6	6.2	305
Belgium	5.1	-	23.7 <sup>^</sup>	268
Bulgaria	5.1	-	37.6	215
Czechoslovakia	4.7	8.0	68.4	269
Denmark	7.4	5.4	24.1	364
Finland	6.3	-	-	-
France	3.6*	-	27.4+	231*
German F.R.	4.1	3.0	29.7	301
Greece	1.6	-	2.1 <sup>^</sup>	101
Hungary	-	5.5	46.1	-
Ireland	5.3	2.5	10.8	234
Italy	5.4	2.8	11.0	120
Netherlands	7.8*	2.5	39.4	311
Norway	7.3	5.6	29.8	391
Poland	4.9	6.4	45.7	234
Portugal	2.1	1.3	4.7	86
Romania	-	-	18.6	179
Spain	2.1	0.7	3.3	97
Sweden	7.7	6.8	41.6	564
Switzerland	4.7	-	29.4+	385
Turkey	5.6	-	-	-
United Kingdom	-	-	28.2*	438
Yugoslavia	5.8	1.8	13.0	87

Notes: (#) Scientists, engineers and technicians engaged in personal research and experimental development.  
(<sup>^</sup>) Year 1969. (+) Year 1971. (\*) Year 1972. Sources: UNESCO, Statistical Yearbook, 1975, Louvain.

hypothesis of a higher scientific and educational effort in the socialist countries. Finally, another outcome of the poor level of investment in human skills in Spain was the low circulation of newspapers. The number of copies of daily newspapers amounted to less than 100 per 1,000 inhabitants. Only Portugal had an inferior rate among the European capitalist countries.

Fourthly, the low levels of taxation and the regressive nature of the Spanish fiscal system constituted a heavy burden for long-term development. As can be seen in Table 11, in 1975 Spain was still the European capitalist country with the lowest tax pressure. On the other hand, it was one of the economies where direct taxation -i.e. tax on income and firms' profits- had less importance within total current public income<sup>308</sup>. In addition, it was one of the countries where the increase in the fiscal effort had been lower between 1960 and 1975. The insufficient public income derived from taxation was a major cause explaining the low levels of expenditure in education and research and development. It also accounted for the poor network of transportation. Lastly, it was responsible for the high propensity towards inflationary growth. In fact, accelerating inflation reappeared in the mid 1960s. The government opted for applying short-term monetary restrictions instead of undertaking a fiscal reform which could have provided new public resources, and devalued the currency again at the end of 1967.

*Table 11. Variation of the fiscal pressure in OECD Europe 1960-75.*

	Tax revenue as percentage of GDP		Variation 1960-75 in % points
	1960	1975	
Austria	30.6	38.6	+ 8.0
Belgium	26.5	41.8	+15.3
Denmark	25.4	41.4	+16.0
Finland	27.7	35.1	+ 7.4
France	-	36.9	-
Germany	31.3	36.0	+ 4.7
Greece	-	25.5	-
Ireland	21.9	31.5	+ 9.6
Italy	-	26.2	-
Netherlands	30.1	42.6	+12.5
Norway	31.1	44.9	+13.8
Portugal	16.3	24.7	+ 8.4
Spain	14.0	19.5	+ 5.5
Sweden	27.2	43.6	+16.4
Switzerland	21.2	29.6	+ 8.4
Turkey	11.5	20.7	+ 9.2
United Kingdom	28.5	35.5	+ 7.0

Source: OECD (1993): Revenue Statistics of OECD Member Countries, 1965-1992, Paris.

Fifthly, industrial relations went on being authoritarian. Trade unions remained banned and political parties had to operate as clandestine organizations. Although real wages expanded throughout the sixties, they were kept much lower than in Western Europe by direct intervention of the police in the repression of strikes.

Last but not least, many residuals of the original centralizing policy of Francoism remained throughout the period. It was calculated that about 50 per cent of total financial resources of the economy were channelled to subsidized sectors<sup>309</sup>. A large amount of such funds went to promote heavy industry and INI projects. This policy served to support many highly capital- and energy-intensive branches. Moreover, high tariff protection was maintained. There was a permanent lack of financial resources for the administration of intermediate territorial bodies and town halls too.

Poland did not grow as fast as Spain during the sixties, but also experienced a rather high expansion in relation to the previous decade. It has to be underlined that the estimations of the GNP of centrally planned economies present a lot more difficulties than those of capitalist countries<sup>310</sup>. Nevertheless, different sources agree in showing an acceleration of growth of product per capita during the sixties. The data on real GNP per capita compiled by Summers and Heston show an average expansion of 3.2 per cent per year throughout the period 1960-70 against one of 2.8 per cent during the interval 1950-60<sup>311</sup>. Bairoch's estimations give an average annual increase of 5.2 per cent for the sixties against one of 4.5 per cent for the fifties<sup>312</sup>. From the calculations by Gomulka results a rate of growth of the Polish GNP per capita of 4.7 percent per year in the sixties, against one of 4.1 per cent in the fifties<sup>313</sup>.

The Polish economy did not experience any year of recession between 1957 and 1961. Nevertheless, in spite of experiencing fast income growth and relative stability, the main analysts of the period stress that

economic reforms in Poland were suppressed during the late fifties and early sixties<sup>314</sup>. Thus, the rate of accumulation increased by nearly five points between 1956 and 1961<sup>315</sup>. The production of capital goods, which was growing at 7.8 per cent in 1957, reached an expansion of 13.3 per cent in 1959. The annual increase in industrial investment which was at just 2.2 per cent in 1957, climbed up to around 17.5 per cent in 1959.

In March 1958 a plenum of the Central Committee of the PUWP had decided to accelerate the path of expansion of investment<sup>316</sup>. After 1957 the number of obligatory targets imposed on firms, which had decreased to seven, rose again until it amounted to about twenty in 1959. The Central Committee confirmed the intention to re-centralize the economy in November 1959<sup>317</sup>. Self-management of workers was curtailed. Workers' councils were integrated in the Conference of Workers' Self-management, where the party and official unions also were represented. This strategy limited the autonomy of councils by means of increasing control through government and the party apparatus. In addition, the role of the Conference in decision-making was minimized<sup>318</sup>. The bureaucratic structure of the party worked to undermine the core of the reformist proposals, that is the Economic Council. During 1958/59 the influence of the Council on economic policy was curtailed. It formally ceased to exist in 1962<sup>319</sup>.

The number of goods centrally allocated was maintained at around 400 in the early sixties<sup>320</sup>. The associations of firms, which had been originally conceived as horizontal organizations, were converted in parts of the bureaucratic hierarchy. Retained profits of firms were again subjected to central regulation. Annual plans containing extremely detailed instructions for firms again became current practice.

Economic involution coupled with increasing restrictions on freedom of speech. A gradual purge took place inside institutions and the party between 1959 and 1965. Political participation of the masses was curtailed. Coercion through security police increased again.

It has to be stressed that the intensity of the involution was not sufficient to reestablish the Stalinist model of the early 1950s. For instance, the rate of accumulation rose gradually after 1958 but the proportion of 1953 was not surpassed until 1968. There was no new attempt to reimpose agrarian collectivizations. Enforced overtime labour did not become a common practice again. A moderate change of prices for producer goods occurred in 1960, being partially adapted to current scarcities. Nonetheless, it can be concluded that the reformist attempt derived from the 'Polish October' was suppressed and a system mainly based on economic centralization and political coercion prevailed. Such a system had features which were harmful to the process of long-term development.

To begin with, compulsory allocation of resources through central planning continued to be the basic mechanism regulating the economy. Such a mechanism proved to be useful to promote extensive growth, that is, to expand the economy through quantitative mobilization of labour and capital. However, because of lack of incentives, the mechanism was very much handicapped to promote intensive growth, i.e. expansion derived from the more efficient use of existing resources<sup>321</sup>. According to some estimations, the share of productivity increase in the growth of national income even declined<sup>322</sup>. Instead, in the period of 1960-70 the Polish industry continued to grow fast primarily by resorting to a still plentiful supply of agrarian labour. This saved Poland from the labour shortages experienced by other Eastern European countries. However, this relatively elastic supply of agrarian

labor, reduced incentives for innovation and technological change even further.

Secondly, the preference for rapid growth of investment implied an extremely slow improvement in the living conditions of the majority of the population. As has been noticed, the accumulation rate rose from 20.2 percent in 1956 to 28.5 per cent in 1968 and it remained around this level up to 1970. Workers' real income, however, increased much more slowly than during the previous period. The annual rate of growth of real wages declined from 5.1 per cent in 1956-60 to 1.5 per cent in 1961-65, and rose only slightly up to 1.9 per cent in 1966-70<sup>323</sup>. Moreover, priority was given to the expansion of capacities for the production of electricity, coal, steel, chemical products, electrical-engineering equipment etc. Petrochemical plants and shipyards were built. For many of the new plants it took a long time, before they were ready to produce. Costs were usually underestimated. Once plants were set to be built, they caused high inflexibility by absorbing more and more resources than those originally planned. In some cases premature obsolescence required additional investments. The increasing costs of the plants led to the disregard of socially important expenditures such as infrastructure and environmental protection<sup>324</sup>.

Thirdly, the price system appeared not to be able to reflect changes in relative scarcities. As demand did not play a significant role in the formation of prices, the system could not allocate resources to satisfy individual preferences. Consumer goods were usually short in supply, which resulted in the effect of permanent queues. Shortages in the supply of intermediate goods were frequent, too. This brought up unceasing bottlenecks in the productive system. For instance, at the end of the sixties there was lack of bricks, textile machinery, ploughs etc<sup>325</sup>.

Fourthly, even if forced collectivization of agriculture was given up, peasant agriculture continued to be damaged by economic policy. Compulsory deliveries at prices below market level remained. Family farming was discriminated against with respect to the allocation of tractors, other equipment and fertilizer. Pressure was put on all farmers to cede their properties to the state<sup>326</sup>. In addition, the shortages of consumption goods reduced farmers' incentives to market their production. Such a policy delayed the expansion of the supply of food, prevented specialization and was harmful to the improvement of yields.

Fifthly, the structure of the labour market contributed to block development. The state had monopsonistic power in the purchase of labour force. Wages were low and inflexible and, consequently, the stimulus to intensify work were correspondingly low. Moreover, the tendency to full employment prevented incentives to operate. On the whole, this resulted not only in poor labour performance, but in a weak stimulus for mechanization. Spain had been in a comparable situation during the 1940s and early 1950s, when low real wages and high demand for labour created the conditions for the use of industrial techniques with a low degree of mechanization. Processes of this kind delayed mechanization and innovation, having perverse effects on productivity in the long-term.

Moreover, the tendency towards autarky remained high. On the one hand, the participation in the western world market continued to be weak. About 62 per cent of imports in 1957 came from central planned economies. The share had increased to 68 per cent in 1970. Exports to the non-socialist area declined from 41 per cent to 36 per cent of total exports at the same time. On the other hand, the preference for self-sufficiency led to the



attempt to develop as many industrial activities as possible. An extremely broad programme of industrialization was undertaken regardless of the size of the market that was much smaller than in the Soviet Union. This created some highly inefficient activities and precluded obtaining the benefits of specialization.

Finally, renewed political coercion -now more selective- and central allocation of resources, strengthened the power of the bureaucratic elites. In addition, the consolidation of a structure based on large firms vertically integrated and with a high degree of monopoly brought their managers in a very comfortable position. They became an influential component of the ruling elite. Bureaucrats and top managers maximized their power thanks to the confusion between the state, the party and the productive system. In other words, a dominant social group was strengthened which identified itself with the continuation of the status-quo.

A basic difference between the historical development of Poland and Spain in the 1960s is that, in spite of the paralysis of reforms in both countries, the involution was complete only in the Slav country. In Spain the reformist process had been stopped since the second third of the decade, but changes were not reversed. An interesting issue to investigate is the reason for this difference.

For Spain, thanks to a questionnaire that the minister of finances sent to the principal economic agents, it is known that the public holding INI revealed itself as one of the main opponents to the programme of stabilization of 1959<sup>327</sup>. As has been pointed out earlier, this holding was created to promote a programme of heavy industrialization oriented towards military priorities<sup>328</sup>. The little success of many of the main projects initiated during the 1940s led the Institute to concentrate on more feasible targets like the production of electricity, cars or steel during the following decade. However, the connection of the INI with the army continued to be strong. Many of the firms created by the Institute maintained professional military in top positions. The opposition of INI to the reforms must be interpreted as defending the interests of the bureaucratic staff -often coming from the single-party-, who had personally benefitted from the creation of large public corporations.

It can be postulated that the main resistance against economic reform in Spain came from the conglomerate of vested interests created by the initial Francoist policy through the centralization of economic activity. In particular, changes found strong opponents among bureaucratic strata linked to the single-party, managers of industries of 'national' interest, and the army. Therefore, it seems that social forces against reforms in Spain and Poland were not very different.

The apparent paradox is that in Poland there was much more freedom of speech than in Spain at the end of the 1950s. In addition, a group of bright economists such as Lange, Kalecki or Brus, was openly calling for reforms. The proposals were formulated by the important tribune of the Economic Board. An impressive public debate -at least in comparative terms, took place during the late fifties and early sixties. Reforms enjoyed large popular support<sup>329</sup>. Nevertheless, the changes were completely reversed in Poland.

A major reason for the paralysis of the reforms in both countries might have been acceleration in growth. As has been stressed, the quantitative evidences indicate that the respective economies enjoyed exceptional rates of expansion during the sixties. This success made the ruling elites judge it unnecessary to undertake new institutional changes. Thus, reforms were postponed.

Social mobilization was a more important factor in favor of reforms, not only during the fifties. A new noticeable attempt to carry out some changes in economic policy resulted from the wave of demonstrations by Polish students and intellectuals in May 1968<sup>330</sup>. The reaction to social protest of the PUWP was to announce a new economic reform. It was conceived as an integral revision of the price mechanism to be implemented in 1971<sup>331</sup>. Consumer prices were to be increased and subsidies for food reduced. It was intended to review the price system according to relative scarcities. Furthermore, reforms focused on industrial restructuring. The idea was to concentrate the efforts of industrial policy in some specific branches of manufacturing, with the aim of modernizing them. This involved the redirection of resources previously allocated to other productive branches which had overexpanded. For instance, the growth of the aircraft industry was to be curbed in favour of the production of machinery and equipment<sup>332</sup>. Such a programme of selective development by means of encouraging industrial specialization, could have resulted in efficiency gains.

According to Landau and Tomaszewski, the attempt to correct the overambitious industrial strategy was blocked by the action from lobbies opposed to the reduction of the productive capacity of their own firms<sup>333</sup>. In other words, the elites who had emerged with central allocation of resources and military-oriented industrialization, undermined policy changes once again.

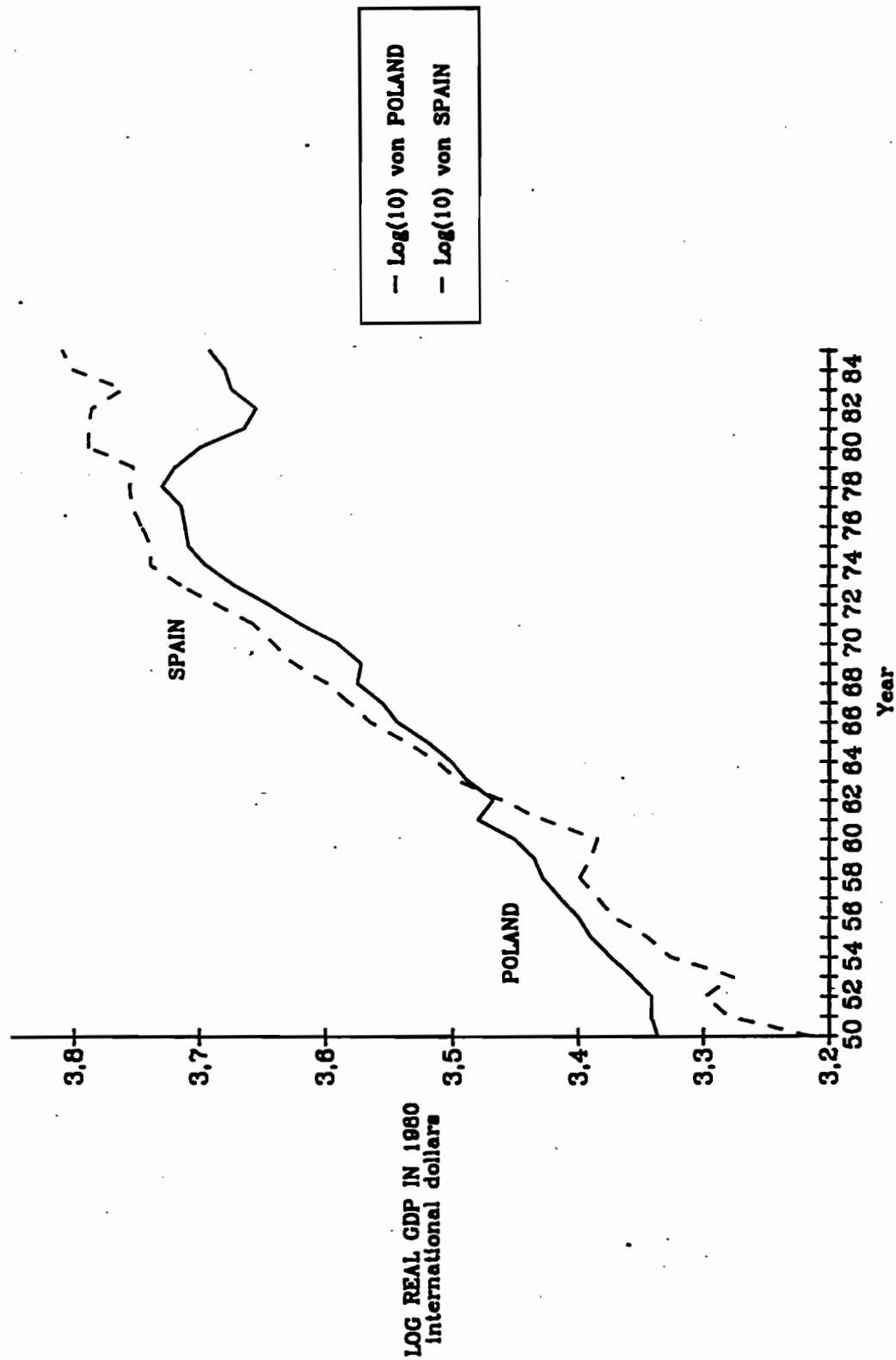
A main difference in Spain was that, since the fifties, the bourgeoisie had been increasingly involved in policy-making through the control of important ministries. Their class interests were different from the single-party bureaucracy, managers of privileged national firms and the army. An important part of the industrial bourgeoisie, particularly the fraction linked to the production of consumer goods, was strongly interested to end bottlenecks, central allocation of inputs and high restrictions on imports of raw materials and machinery. By the action of ministers usually associated with Opus Dei, the bourgeoisie gave a decisive impulse to the stabilization plan and economic liberalization. According to Summers' and Heston's estimations, the Spanish GNP per capita surpassed Poland's in the mid-sixties -see Chart 3.

Given that some Opus Dei members had been successful, the catholic organization expanded its influence within Franco's cabinets during the sixties and early seventies. However, although this group exerted control over economic policy, institutional change was paralyzed. The new emerging group within the ruling elite was already fully satisfied with partial economic liberalization. The emergence of these bourgeois groups during the fifties was positive for long-term development. Nevertheless, when these new elites consolidated their power, they ceased to promote institutional change. Agrarian and tax reforms, changes in industrial relations and political democratization were not perceived as essential for the renovated ruling elites. Not even a substantial effort to decrease the existing gap compared to Western democracies in educational and scientific standards took place.

To sum up: the economic prosperity of the sixties was not conducive for radical reforms both in Poland and Spain. A major difference between both countries is to be seen in the fact that in Spain there was paralysis but not involution as in Poland. This had to do with the weakening of the ruling elites of Franco's early regime. In Spain, the old Francoist elites had to share the power with the new emerging bourgeois groups. However, when the new rulers had consolidated its power within the Franco cabinet, reforms stopped. In Poland, the degree of monolithism inside the ruling block was bigger because political and economic elites totally overlapped.

Chart 3:

PATTERN OF GROWTH OF REAL GDP PER CAPITA, 1950-1985 (SOURCE: SUMMERS & HESTON)



Even if many prestigious intellectuals called for reform, there was no autonomous economic interest within the ruling group to support it. This helps to explain why economic decentralization did not significantly advance in the Slav country.

## **6. From economic depression to institutional change, 1970-1992.**

During the late seventies and early eighties, both Poland and Spain were confronted with a deep economic crisis. Throughout the twenty years which followed 1975 the two countries experienced deep institutional transformation without parallel in the earlier decades.

### **6.1. The crisis of the seventies in Spain.**

The clearest manifestation of the depression in Spain was the dramatic slow-down of economic expansion: the average rate of growth of GDP plummeted from an annual average of 6.0 per cent during 1960-74 to just 1.5 per cent in 1974-85<sup>334</sup>. Investment collapsed<sup>335</sup>. Inflation accelerated up to 1977. The unemployment rate rose from 3.2 per cent of the working population in 1974 to 21.9 per cent in 1985. Spain became the economy in the OECD with the highest share of unemployment.

It has to be stressed that the economic crisis of the seventies and early eighties in Spain was much more intense than in the European core-countries. Whereas the Spanish GDP had increased faster than that of most industrial countries during the sixties, the rate then was lower than that of all core-economies except Switzerland. From a short-term statistical point of view, the quantitative evidence would indicate that the gap in relation to Western Europe widened. However, from a broad development perspective, it cannot be argued that there was regression in the process of improvement of the living conditions.

On the one hand, the intensity of the depression of the 1970s in Spain derived its major force from the structural features of the previous pattern of growth. The postponement of necessary reforms during the sixties and early seventies made things much worse when the international oil-shock began to hit the Spanish economy<sup>336</sup>. On the other hand, the slump fostered the institutional transformation required by a healthier process of development. Because of this, it encouraged the overcoming of the peripheral condition in the long run.

The possibilities of migration increasingly shrank once the excess demand for labour in core countries turned into oversupply. The expansion of tourism experienced a halt as a result of slower growing income growth in the main customer countries. Competition in manufactured products intensified as costs increased because of much higher energy prices. The countries which had not made substantial efforts to improve the skills of their labour force tended to have more difficulties to adapt to the new international conditions. In addition, some transnational firms began to look to the newly industrializing countries as a better location for investments because of lower wages. On the whole, the model of growth of the South European periphery from the sixties and early seventies showed its extreme weakness.

Moreover, political and labour market conditions had begun to change very fast before the rising of oil prices. In Spain, accelerated industrialization had created the conditions for the reemergence of the organized working-class. In the early seventies, clandestine trade unions promoted different types of unrest demanding better working conditions and higher wages. Activities of the underground political parties revived, particularly in Catalonia and the Basque Country, where in addition to the general problem of democratization there also was conflict over autonomy rights<sup>337</sup>.

The change of the social climate created two kinds of pressure in the economic arena. On the one hand, there were increasing claims for the extension of the welfare state<sup>338</sup>. This led to a rapid increase in public expenditure without fundamental changes in the tax system. On the other hand, net wages rose rather fast. During the period of 1970-75 net real wages increased at an annual rate of 4 per cent<sup>339</sup>. The increase in public expenditure was financed mainly by rising social security contributions consequently further augmenting costs of production. Whereas real gross wages increased 33.2 per cent during 1970-75, labour productivity only expanded 26.6 per cent<sup>340</sup>. This process tended to erode profits in manufacturing.

In addition, the first oil-shock had fostered inflation. The inflation rate -measured with the GNP deflator- rose from 6.8 per cent per year in 1970 to 16.7 per cent in 1975<sup>341</sup>. Accelerating prices tended to reinforce inflationary expectations among workers and firms.

Investors initially reacted to the death of Franco with a great reduction in capital formation<sup>342</sup>. Moreover, political liberalization and competition among unions led wage claims to rocket. Growing unemployment, mainly due to investment decline, negatively affected public income. The budget deficit reappeared in 1976 and expanded in 1977. Inflation rocketed up to 22.8 per cent in 1977. The Spanish current account balance, which had recorded surplus during the period of 1970-73, experienced an average deficit of 3.000 million dollars per year during 1975-77<sup>343</sup>.

From 1977 onwards, economic policy concentrated on the reduction of the inflation rate. A first success was achieved with the signature of the Moncloa Pacts between the government and the socialist and communist parties establishing an increase in average wages below the inflation forecast for 1978. The left parties forced their unions to accept moderation in their wage claims and in 1978, for the first time since 1969, the rate of increase of the price level was lower than in the preceding year.

From 1978 to 1981 the annual rate of inflation declined from 20.2 per cent to 12.0 per cent. The governments of transition combined a highly restrictive monetary policy with large public deficits. Real interest rates, which had been negative up to 1977, began to rise in a sustained way up to 1984. This contributed to prevent the recovery of real investment: until 1984 gross formation of capital declined<sup>344</sup>. Many firms went bankrupt. The unemployment rate climbed from 5.7 per cent in 1977 to 21.9 per cent in 1985.

## **6.2. Structural reforms after Franco.**

In spite of the hard economic conditions since the late seventies, Spain created the basis for reducing its peripheral status by undertaking a deep institutional transformation.

Firstly, the consolidation of democracy weakened the power of traditional elites by establishing public control over the executive and creating a new political framework where alternatives could be freely discussed<sup>345</sup>. Moreover, it implied the possibility of changing the ruling elites as was the case after the victory of the socialist party in 1982. Last but not least, de-centralization in the form of autonomous regional administrations encouraged broader participation in the political arena.

Secondly, the emergence of a new model of industrial relationships based on free bargaining between trade unions and employers' associations created the basis for a greater improvement of labour productivity in the long run. The expansion of real product per employed person accelerated, rising from an annual rate of 4.1 per cent in the seventies to 5.5 per cent in the period 1980-88<sup>346</sup>.

*Table 11. Fiscal effort and relative importance of direct taxation on income, profits and property, 1975-91.*

	Tax revenues as percentage of GDP		Taxes on income, profits & property as percentage of total taxation	
	1975	1991	1975	1991
Austria	38.6	42.1	29.2	29.3
Belgium	41.8	44.9	41.6	39.0
Bulgaria	-	42.1*	-	53.9*
Czechoslovakia	-	54.5*	-	35.0*
Denmark	41.4	48.3	65.4	62.8
Finland	35.1	37.7	54.9	54.9
France	36.9	44.2	21.0	23.8
Germany	36.0	39.2	38.3	34.2
Greece	25.5	38.3	17.9	23.6
Hungary	-	48.7*	-	27.3*
Ireland	31.5	37.5	39.7	42.8
Italy	26.2	39.7	24.8	38.6
Netherlands	42.6	47.0	37.2	37.1
Norway	44.9	47.1	36.7	38.3
Poland	-	43.6**	-	35.5**
Portugal	24.7	35.6	19.9	30.1
Rumania	-	35.1	-	37.9
Spain	19.5	34.7	28.3	36.3
Sweden	43.6	53.2	51.6	41.4
Switzerland	29.6	31.0	50.9	47.8
Turkey	20.7	29.4	49.2	37.0
United Kingdom	35.5	36.0	57.2	45.6

Notes: (\*) 1990. (\*\*) 1988. Source: OECD (1993): Revenue Statistics of OECD Member Countries, 1965-1992, Paris.

Thirdly, the Moncloa Pacts opened the door to tax reform. It took place in a two-stage movement under the governments of the centrist UCD and the socialist party. On the one hand, the tax reform allowed public revenue to substantially increase. In this way, the main obstacle for controlling public deficits and increasing expenditures on education, infrastructures and social welfare was removed. On the other hand, increasing tax progression was introduced, with the result of a fairer distribution of net income. Direct taxation on income, profits and property significantly expanded. By both ways, the distance with Western Europe tended to decrease. In 1975 total tax revenue as percentage of GDP was 14.6 points lower in Spain compared to the average

of OECD Europe. By 1991 the difference was only 5.7 points<sup>347</sup>. At the earlier date, taxes on incomes and profits only accounted for 22.0 per cent of total taxation in Spain, whereas the corresponding share in OECD Europe was 34.2 per cent. The difference of 12.2 points in 1975 had been reduced to only 3.7 points in 1991<sup>348</sup>. Aggregate taxation on incomes, profits and property in Spain had risen from 28.3 percent of total taxation to 36.8 per cent throughout the period.

Fourthly, the replacement of the traditional elites by new rulers representing much broader social strata brought the government to undertake substantial efforts in education and research for the first time since 1936. Public expenditure on education jumped from 1.8 per cent of GDP in 1975 to 4.2 per cent in 1989. Chart 4 illustrates that until the death of Franco the share of public expenditure on education out of the Spanish GNP remained much lower than the corresponding figures for Poland as well as market economies with democratic institutions such as Italy<sup>349</sup>. Conversely, by the end of the 1980s Spain had surpassed Poland and was converging with Italy. The chart, thus, corroborates that the change was more intense in less than fifteen years of social mobilization under democracy than in four decades of popular prostration under Francoism. As a result of this new priority of the democratic governments, particularly under the socialist administration, the gap between the technical and scientific skills of the Spaniards and the rest of Europeans narrowed, although it is still high -see Table 12.

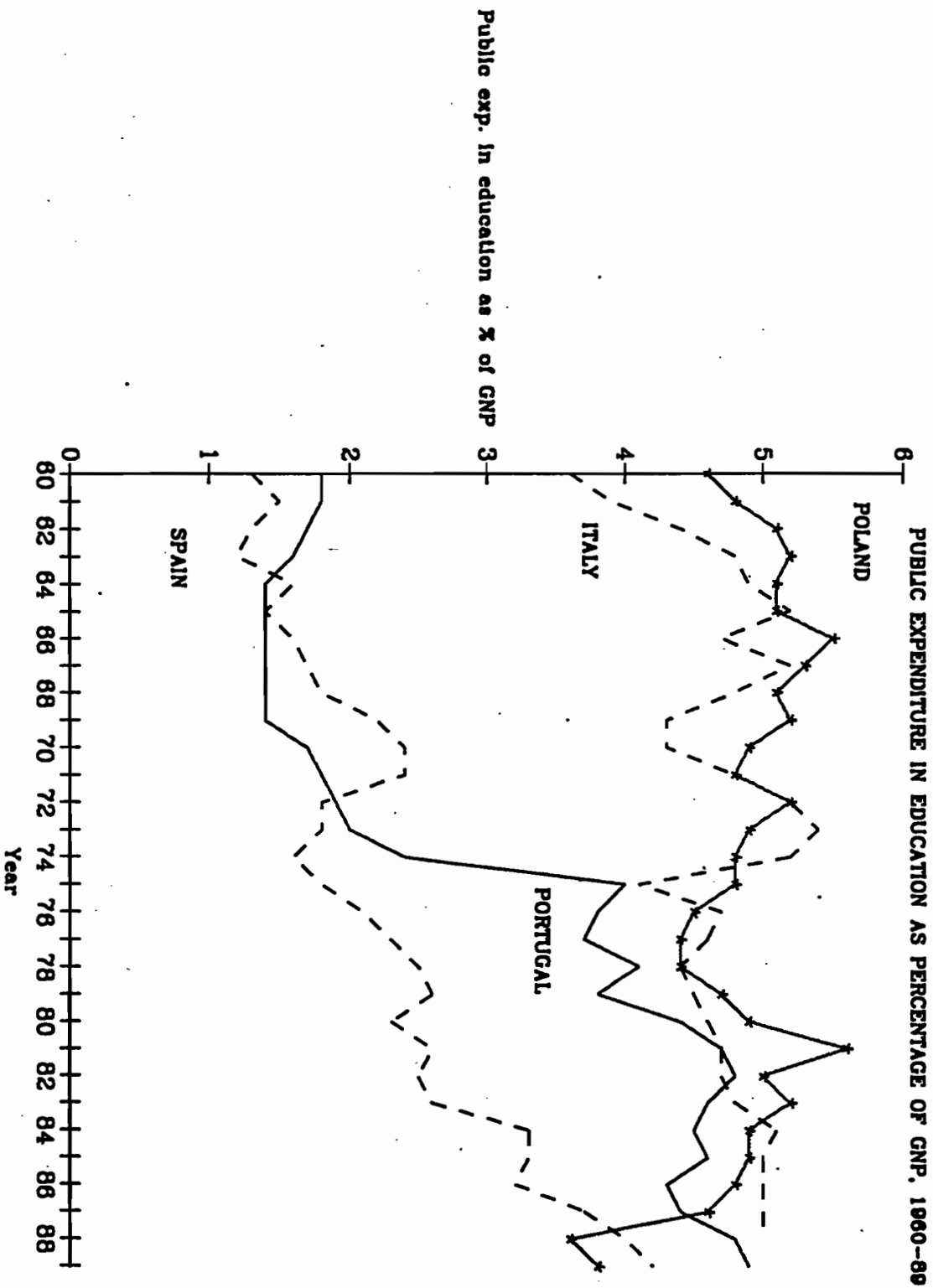
*Table 12. Scientists, engineers and technicians engaged in research & development per 10,000 inhabitants*

	1967	1974	1988
Austria	6.2	6.2	19.1
Belgium	10.0	21.0	36.9
Bulgaria	34.4	39.8	63.0
Czechoslovakia	64.6	69.0	69.2
Denmark	14.4	24.1	49.5
Finland	11.7	-	42.5
France	24.9	41.2	51.3
Germany F.R.	20.6	29.7	60.1
Greece	2.2	-	1.0
Hungary	37.5	47.2	33.3
Ireland	7.5	10.8	21.8
Italy	6.5	11.0	19.6
Netherlands	39.9	39.2	43.1
Norway	21.3	32.9	48.8
Poland	27.0	49.8	23.2
Portugal	3.0	4.7	8.7
Rumania	13.6	18.6	44.2
Spain	2.2	3.3	10.5
Sweden	21.0	41.6	60.5
Switzerland	17.4	29.4	27.3
United Kingdom	27.4	28.2	-
Yugoslavia	10.1	13.7	22.4

Source: UNESCO, *Statistical Yearbook*, various issues.

Last but not least, the preparation of the access to the European Community in January 1986 and its consequences, constituted an additional mechanism of rationalization for the Spanish economy. The policy of cutting capacity in overexpanded manufacturing branches reduced inefficiencies of a public sector designed to

Chart 4:





accomplish the autarkic dreams of Franco. The introduction of short-term temporary work contracts increased the flexibility of a labour market which had inherited the rigidities of an authoritarian-corporatist state. Finally, the progressive removal of tariffs and quotas on foreign trade created an atmosphere necessary for sustained improvement in manufacturing efficiency.

It should be added, that there were other economic policy decisions which cannot be presented as a success. The sudden liberalization of rents and the granting of tax subsidies for expenditure in housing caused a speculative boom which was responsible for fostering inflation and which had some perverse consequences for the distribution of wealth<sup>350</sup>. The parity chosen in joining the European Monetary System in 1989 revealed itself as too high for a country having a rate of unemployment of 19.5 per cent. This contributed to feed the trade deficit, made the growth of employment in manufacturing more difficult and prepared the way for a particularly deep recession beginning in 1992.

However, the five major changes described above constituted, on the whole, a crucial step towards overcoming the Spanish peripheral condition. It is reported that since 1985 seventy per cent of Spanish industrial firms have incorporated new technologies<sup>351</sup>. In 1985 the Spanish GDP per capita, measured at current purchasing power parities, was 77 per cent of OECD-Europe. By 1990, it had increased to 83 per cent.

### **6.3. The resort to foreign capital under Gierek.**

Poland postponed any significant institutional change until the eighties. When, in December 1970, the government of Gomulka announced an upward revision of prices of many essential goods, a wave of workers' protests took place at the Baltic coast. Several demonstrators were killed in Gdansk, and this led to the replacement of Gomulka by Edward Gierek as first secretary of the communist party. The new cabinet decided to cancel the planned price increases.

Gierek's period was characterized by a new drift towards accelerated industrialization. During the seventies most of the typical mistakes of centralized economic systems were repeated in Poland. The only significant change was massive borrowing of foreign capital. As we will see, such a strategy contributed to reinforce the peripheral condition of the country.

The new push towards accelerated industrialization can be interpreted as a substitute for radical institutional reform<sup>352</sup>. Even if Gierek announced that consumption was considered an engine of growth, a renovated attempt of strengthening capital accumulation took place<sup>353</sup>. The annual rate of growth of real investment outlays increased from 3.3 per cent in 1965-70 to 17.5 per cent in 1970-75<sup>354</sup>. The share of accumulation in national income rose from 28.5 per cent in 1970 to 36.7 per cent in 1974<sup>355</sup>.

Despite the proclaimed priority for higher living standards, investment in heavy industry rocketed again. The share of fuels and energy, metallurgy, chemicals and engineering in total investment grew from 28.8 per cent in 1970 to 31.8 per cent in 1975<sup>356</sup>. Huta Katowice, a giant iron and steel mill was to be built near Cracow. The erection of the Northern Port Refinery was begun in Gdansk. A third coal-mining region was established around the River Wierp in the Lublin basin<sup>357</sup>. New shipyards and car factories were set up. Transporta-

tion, agriculture, housing and manufacturing of consumption goods, however, were neglected<sup>358</sup>. Their shares in total investment declined.

Concentration in the productive system increased as a result of a revision of the mechanism of allocation of resources. Between 1972 and 1975 the so-called WOGs, 'wielkie organizacje gospodarcze', were promoted. The WOGs became large vertical associations of firms which originally were to have some freedom to decide on employment, wages, prices, investment and qualities. However, since 1976 the autonomy of WOGs was curtailed in view of the deteriorating economic conditions. Re-centralization proceeded at a fast rhythm during the second half of the decade.

The system of prices continued not to represent relative scarcities and consumers' preferences. Most of the consumer prices were subsidized with the effect of growing government expenditure and money creation. The accelerated expansion of the monetary base led to the emergence, first of repressed and later of open inflation. The average annual rate of growth of consumer prices increased from 0.9 per cent in 1970-75 to 6.5 per cent in 1975-80<sup>359</sup>.

The privileges of the nomenklatura tended to expand. Top members of the state and party as well as large firms benefitted from allocation of cars and houses. They also enjoyed a special system of pensions. On the other hand, the availability of consumption goods to the masses remained very limited: in 1980 there were only 95 telephones per 1,000 inhabitants in Poland, whereas in Spain it were 317. The number of passenger cars per 1,000 people was 66 in Poland compared to 200 in Spain<sup>360</sup>.

The massive resort to import of Western capital goods through extensive borrowing was conceived as a way of fast modernization of industry. Gierek is said to have attempted to reproduce for the whole country the strategy he had previously followed in Silesia, that is, strengthening the industrialization process by using financial resources from external sources -then, other Polish regions<sup>361</sup>.

The long-term external debt of Poland climbed from 77 million dollars to 698 million dollars in the period 1972-75<sup>362</sup>. Such an enormous increase of foreign indebtedness in a rather short lapse of time was made possible by the policy of international banks operating in the eurodollar market which encouraged borrowing because of the availability of large savings -particularly after the first oil shock. Resort to foreign capital allowed Poland to avoid any significant institutional reform for more than a decade. Nevertheless, the option for more thorough integration in the international economy by means of heavy borrowing revealed itself as a wrong strategy for fostering development.

Increasing indebtedness resulted in faster growth and rising levels in the short-term. Thus, according to Summers' and Heston's data, the expansion of the Polish real GNP per capita, which had reached on average 3.2 per cent annually during 1965-70, climbed up to 5.6 per cent in the period 1970-75<sup>363</sup>. Electricity consumption per capita in households of urban areas, which expanded at 7.7 per cent in the earlier period, reached a rate of 8.1 per cent in 1970-75<sup>364</sup>.

However, in the medium-term, rising foreign indebtedness could lead to the debt trap, if the

means for repaying the loans were not created. This was the case in Poland, where no new source of foreign income became available during the second half of the 1970s. This meant that new foreign loans were required not mainly for financing new real investment but for servicing old debt. In addition, an increasing share of export earnings in convertible currency had to be devoted to it. Lastly, the need to service the foreign debt forced a reduction in the expansion of imports leading to substantial cuts in investment projects and consumption standards.

As a result, economic growth collapsed in the second half of the seventies. Summers' and Heston's estimations indicate a negative growth of real GNP per capita of minus 0.4 per cent per year in the period of 1975-80. The expansion of electricity consumption by urban households declined to an annual rate of 6.4 per cent. The long-term foreign debt rocketed up to 6,594 million dollars in 1980, that is a level about 13 times higher than five years before. In addition, there were 2,300 million dollars of short-term liabilities<sup>365</sup>.

The lack of any substantial institutional change caused all the typical diseases of centrally planned economies to reappear in a more intense way. Shortages, queues and waste of resources combined to make living conditions more difficult. Rationing of sugar was reintroduced in 1976. Shops became emptier and emptier. The average real wage in the socialized economy fell about 4 per cent during 1975-80<sup>366</sup>. At the latter date the food production per capita was 11 per cent lower than five years earlier<sup>367</sup>. Gomulka estimated that the productivity residual decreased at an average rate of minus 0.4 percent per year during the quinquennium<sup>368</sup>.

The resort to foreign capital increased the peripheral condition of Poland. The combination of persistent negative rates of growth of per capita income with rapidly deteriorating living conditions and increasing foreign imbalance showed the failure of Gierek's strategy of postponing reforms. Mortality rates, which had showed some abnormalities already during the second half of the sixties, performed perversely throughout the seventies. Death rates of most groups of the adult population tended to increase. For instance, between 1970 and 1980, the death rate of 50-54 years-old males rose from 9.1 per thousand to 13.1 per thousand. During the same period, the Spanish rate declined from 7.8 per thousand to 7.0 per thousand.

*Table 13. Mortality rates of 50-54 year old males*

	POLAND Deaths per 1,000	SPAIN Deaths per 1,000
1960	9.6	8.5
1968	9.4	7.8
1970	9.1	7.8
1974	10.0	8.0
1980	13.1	7.0
1984	13.2	6.6
1988	13.2	6.7

Sources: U.N., Demographic Yearbook, various issues. INE, Movimiento natural de la población española, various issues. Statistical Office Warszawa, Statistical Yearbook of Demography 1993.

Moreover, the improvement in infant mortality lagged behind. As can be seen from Chart 5, between the end of World War II and the early seventies, Polish infant mortality tended to converge with Spanish conditions: In 1972 both countries reached a similar level of 23 per thousand. Afterwards the reduction of infant

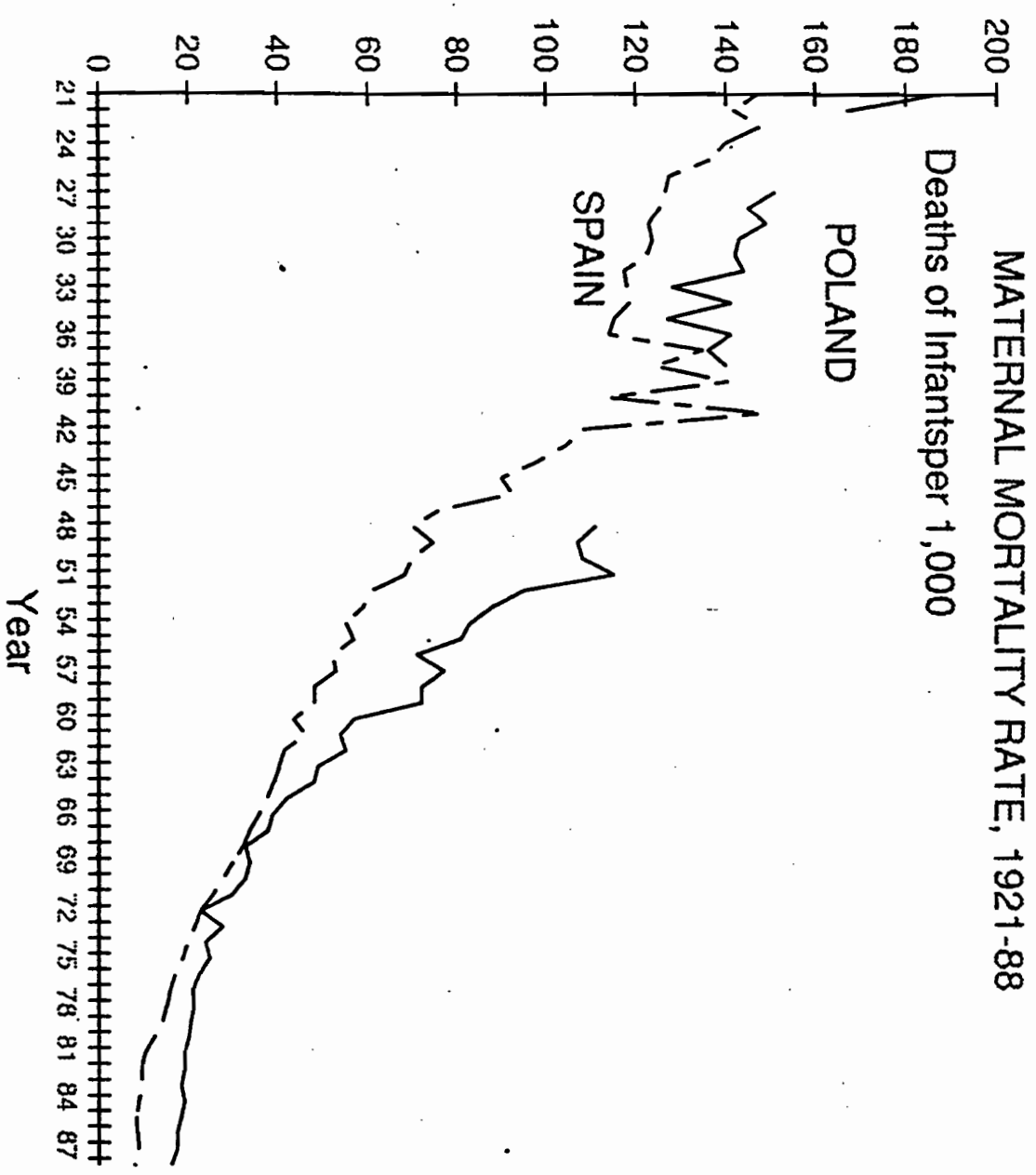


Chart 5:

deaths in Poland proceeded much more slowly. By 1980 the rate had fallen down to 12 per thousand in Spain, whereas in the Slav country it was still at 20 per thousand.

The deterioration of mortality conditions in Poland during the seventies was the outcome of a model of economic growth mainly oriented towards the expansion of heavy industry at the expense of the rest of productive activities. In addition, ecological restrictions were not taken into consideration. The higher mortality rates have to be related, first of all, to the fact that Poland was the country in Europe with the highest level of air pollution. In fact, the largest increase in death rates took place in the heavily polluted regions<sup>369</sup>. Low priority for accommodation, poor diets, rising consumption of alcohol and tobacco, shortages of medicines, and obsolete transport infrastructure were additional factors accounting for the decline in living conditions. Moreover, the share of health services in the real product diminished throughout the seventies<sup>370</sup>. Finally, the initially egalitarian principles of health care had been completely eroded by increasing privileges enjoyed by the elites. For the large majority of the population a process of gradual deterioration of medical services had taken place and medicines had become more difficult to obtain<sup>371</sup>.

Gierek's promises of converting consumption into the engine of growth were never fulfilled. On the contrary, the living conditions deteriorated dramatically during the second half of the seventies. This apparent paradox tends to corroborate the hypothesis of some authors who point out that the capacity of the center to control the allocation of resources decreases over time. According to them, central planning in the long-term increasingly performed only a symbolic function and the real allocation of resources took place according to the relative strength of the bureaucratic strata at the top of the most influential economic sectors, mainly, those in the heavy industry<sup>372</sup>.

The deterioration of living conditions fostered social mobilization. Food price rises in July 1980 led to a new wave of protests and strikes. Nearly 20,000 workers went on strike at the Lenin Shipyards claiming higher pay and recognition of the right to form free unions. In September, Stanislas Kania replaced Gierek at the top of the Polish United Workers' Party. A few days later, a large number of workers' committees came together to found Solidarnosc.

During the early eighties the coincidence of a set of factors brought back the discussion about institutional reform to the center of the Polish debate. Firstly, the failure of Gierek's growth strategy made it necessary to explore alternative economic models. Secondly, the emergence of a mass opposition movement reinforced expectations of change. The large support obtained in a few months by the independent union Solidarnosc -it soon claimed to have 10 million members- became a major contradiction for a regime which exerted dictatorship in the name of the proletariat. Finally, the degree of monopoly of power exerted by the Polish nomenklatura was lower than in most countries governed by communist parties because of the influential role of the catholic church in Poland. Its involvement in politics was fostered by the election of the Archbishop of Cracow to the seat of Saint Peter in October 1978.

#### 6.4. From Solidarity to systematic change.

Between the recognition of Solidarnosc in November 1980 and the declaration of the martial law in December 1981 several proposals for substantial institutional reforms were discussed. Some of them came from independent economists. For instance, in 1980 Balzerowicz proposed to de-monopolize the economy, liquidate the mono-bank system, and limit central investment to infrastructure and extractive branches. Jakubowicz supported self-management as a guarantee against bureaucratization and as a means of identification between workers' and firms' interests. The first Congress of Solidarnosc, which took place in October 1981, called for economic reforms which combined planning, market and self-management<sup>373</sup>. Firms should be autonomous. Three main pathologies from the command economy should be avoided: centralization, monopoly and bureaucratic management<sup>374</sup>. Even the communist party made public its own 'Directions' for reform<sup>375</sup>. They proclaimed the need to reduce plan targets, increase the role of the market, recognize the plurality of forms of ownership, and promote self-management.

The opportunity for deep institutional reform came to an end with the imposition of martial law by General Jaruzelski at the end of 1981, although he committed himself to undertake the announced reforms. On paper a reform towards an economic model similar to that of Hungary was launched in 1982<sup>376</sup>. Direct administrative controls were reduced. Firms increased their autonomy in fixing prices. Administrative prices rose substantially. Rationing was gradually removed. Firms were allowed to retain a percentage of hard currency earnings. A single exchange rate was introduced as a first step towards convertibility. Changes were introduced in the tax system. The weight of energy, metallurgy, chemicals and engineering in total investment declined to 22.2 per cent in 1982<sup>377</sup>. The share of public expenditure in national income was reduced from 67.9 per cent in 1981 to 44.8 per cent in 1983.

Nonetheless, the 1982 reform did not meet the expectations previously created at all and, in the course of time, partial involution took place again. The main shortfalls of the changes under Jaruzelski can be summarized as follows:

1. The autonomy of economic agents was curtailed in benefit of the army. In fact, military commissars were made superiors to managers in large enterprises<sup>378</sup>.
2. Central allocation of resources continued to be dominant. Basic inputs continued to be centrally assigned<sup>379</sup>. Government contracts meant preferential access to scarce hard currencies and raw materials<sup>380</sup>. Privileged treatment, tax reliefs and exemptions, prevailed over fiscal rationalization. More than 80 percent of foreign exchange remained centrally allocated in 1986<sup>381</sup>.
3. The emphasis of industrial policy shifted towards the capital-intensive sector of energy production<sup>382</sup>. During 1982-87 around 36 percent of total industrial investment was devoted to fuels and energy. Even though the development of the mining region around Lublin could only produce highly expensive coal, the project was not given up. The case shows the capacity of large sectorial interests to undermine changes in the orientation of economic policy<sup>383</sup>.
4. Restrictions reemerged as time went on. As early as 1983, ceilings were imposed on contractual prices. At that time only 13 percent of managers complained about growing shortages, whereas 42 percent of them were

concerned in 1986<sup>384</sup>. This gave room to an attempt of reestablishing direct command planning. It was only blocked because of strong popular protests<sup>385</sup>.

5. Political coercion prevailed over economic incentives for labour. Independent union activity was banned in October 1982 and official unions were created again. The forty-two hour week was abolished in February 1986<sup>386</sup>, the same month Lech Walesa was put on trial.

6. The impossibility of bankruptcy and the weak budget constraints of the large monopolistic firms made it unnecessary to adopt minimizing-costs behaviour. Both the heavy subsidizing of losses and a high degree of monopoly prevented competition to promote efficiency and innovation<sup>387</sup>.

In 1987 a second stage of reforms was announced. The new proposals paralleled those of 1981. However, by that time it was impossible to obtain the acquiescence of a disappointed population which no longer believed in the promises of the regime. The communist party tried to legitimize the reform by holding a referendum. But the government failed. The majority of people did not want to give a new chance to the old elites.

During the 1980s Poland became more and more peripheral. Real GDP per capita was around 12 per cent lower in 1987 than in 1978<sup>388</sup>. Mortality rates increasingly diverged from the pattern of Western and Southern Europe. Long-term foreign debt increased from 6,594 million dollars in 1980 to 36,067 million dollars in 1987<sup>389</sup>. Short-term debt rose to 6,565 million dollars. Rising exports of coal were the most important source for obtaining foreign income to service the debt. As shown in Table 14, by 1989 the amount of energy consumption necessary to generate one unit of real GDP in Poland was about 2.4 times the quantity required in Spain. This figure indicates the inability to substantially improve efficiency in the use of industrial inputs, and the accelerated destruction of the ecosystem of the Slav country.

*Table 14. Energy intensity of real Gross Domestic Product in 1989.*

	Energy consumption per capita (Kgs. oil equiv.)	Real GDP per capita (\$ of PPP)	Energy intensity (Kgs. oil equiv. per \$ 100)
Austria	3,479	13,063	27
Belgium	4,804	13,313	36
Denmark	3,589	3,589	26
Finland	5,547	14,598	38
France	3,778	14,164	27
Germany	4,383	14,507	30
Greece	2,046	6,764	30
Hungary	3,106	6,245	50
Ireland	2,499	7,481	33
Italy	2,721	13,608	20
Norway	8,940	16,838	53
Netherlands	4,984	13,351	37
Poland	3,333	4,770	70
Portugal	1,470	6,259	23
Spain	2,204	8,723	29
Sweden	6,228	14,817	42
Switzerland	3,913	18,590	21
United Kingdom	3,264	13,932	24
Yugoslavia	2,241	5,095	44

Source: Energy consumption in World Bank, *World Development Report, 1991*; Real GDP per capita in dollars of purchasing power parity in United Nations Development Programme (1992): *Human Development Report*, Oxford.

Recently, the United Nations Development Programme has calculated an index of human development which integrates indicators on real product per capita, life expectancy and educational levels. According to these calculations, in 1970 Poland occupied the twenty-second position of the ranking whereas Spain was twenty-fourth. Two decades later, Spain had climbed up to the twenty-first, Poland had sunk to the twenty-eighth place<sup>390</sup>.

*Table 15. United Nations' index of human development.*

		IHD RANKING	
1970		1990	
1 Sweden	0.873	1 Canada	0.982
2 Norway	0.870	2 Japan	0.981
3 Netherlands	0.866	3 Norway	0.978
4 Iceland	0.866	4 Switzerland	0.977
5 Denmark	0.864	5 Sweden	0.976
6 Switzerland	0.863	6 U.S.A.	0.976
7 Canada	0.860	7 Australia	0.971
8 France	0.854	8 France	0.969
9 Japan	0.853	9 Netherlands	0.968
10 United Kingdom	0.850	10 United Kingdom	0.962
11 Australia	0.849	11 Iceland	0.958
12 U.S.A.	0.848	12 Denmark	0.953
13 New Zealand	0.848	13 Finland	0.953
14 Belgium	0.846	14 Austria	0.950
15 Luxembourg	0.841	15 Belgium	0.950
16 Ireland	0.840	16 New Zealand	0.947
17 Austria	0.838	17 Israel	0.939
18 Finland	0.838	18 Luxembourg	0.929
19 Czechoslovakia	0.836	19 Italy	0.922
20 Hungary	0.831	20 Ireland	0.921
21 Italy	0.830	21 Spain	0.916
22 Poland	0.829	22 Hong Kong	0.913
23 USSR	0.821	23 Greece	0.901
24 Spain	0.819	24 Czechoslovakia	0.897
25 Bulgaria	0.815	25 Hungary	0.893
26 Israel	0.806	26 Uruguay	0.880
27 Uruguay	0.799	27 Trinidad & T.	0.876
28 Rumania	0.798	28 Poland	0.874
29 Jamaica	0.797	29 USSR	0.873
30 Greece	0.793	30 Korea, Rep of.	0.871
31 Argentina	0.784	31 Bulgaria	0.865
32 Trinidad & T.	0.784	32 Chile	0.863
33 Hong Kong	0.762	33 Yugoslavia	0.857
34 Costa Rica	0.759	34 Portugal	0.850
35 Yugoslavia	0.757	35 Singapore	0.848
36 Chile	0.736	36 Costa Rica	0.842
37 Singapore	0.730	37 Argentina	0.833
38 Venezuela	0.715	38 Venezuela	0.824
39 Portugal	0.710	39 Mexico	0.804
40 Panama	0.703	40 Mauritius	0.793

Source: United Nations (1992): Human Development Report. UNDP, Oxford U.P.

After the catastrophic results of the 1980s, which finished with near hyper-inflation in the late months of 1989, it has been general opinion that reforms could never succeed in departing from the framework of a



centrally planned economy<sup>391</sup>. Nevertheless, the Polish experience of the 1980s does not seem to be enough to totally reject the possibility of transformation through radical institutional reform. As has been shown above, the reforms of the 1980s were far from complete in such crucial issues as the suppression of central allocation of resources and the transformation of incentives. Moreover, economic reform was combined with greater political coercion thus creating the basis for its own failure. Finally, institutional change was only attempted under conditions of extremely heavy indebtedness.

The replacement of elites in Poland took place in the second half of 1989, when the first non-communist government, headed by Tadeusz Mazowiecki, took office. In August 1989 food prices had been fully liberalized and meat rationing was abolished<sup>392</sup>. At the end of the year the official exchange rate was strongly devalued twice<sup>393</sup>. Interest rates were significantly increased. During the first days of January 1990 the so-called Balcerowicz plan was launched. It involved the abolition of nearly all the remaining price controls, new devaluation, full convertibility of the zloty, and the adoption of monetary and fiscal policies oriented towards stabilization. A new added value tax was introduced. The service of foreign debt was suspended.

Economic collapse and replacement of elites were major forces behind the adoption of the shock therapy. It has to be added, that international support for institutional transformation was also an important element of the success of the transition. The IMF played a decisive role in the design of the Balcerowicz programme<sup>394</sup>. Although Poland suspended payments unilaterally, the Fund approved the extension of financial support<sup>395</sup>. Moreover, in April 1991, the Paris Club decided to write-off about 30 per cent of Polish debt. Last but not least, the USA supported the change by cancelling 70 per cent of the debt owed to them<sup>396</sup>.

Balcerowicz's big-bang caused a strong recession, but allowed Polish prices to reflect relative scarcities in the world markets. In early 1991 about 83 percent of consumer prices were free<sup>397</sup>. Monthly inflation in Poland rose to a rate of 78.6 per cent in January 1990, but later began to decline: by March 1990 it had fallen to 4.7 percent<sup>398</sup>. Foreign exchange reserves recovered. The budget deficit decreased from 8.1 percent of GDP in 1989 to 3.4 percent in 1991<sup>399</sup>. Shortages disappeared and shops were full of all kinds of goods.

It is a matter of controversy, whether the radical transformation experienced by Poland since 1989 could have been achieved with lower social costs. In fact, during the first years of the transition to capitalism the living conditions deteriorated substantially for the large majority of the population. Polish GDP declined about 18 per cent in the years 1990-91<sup>400</sup>. Current GNP per capita in US dollars was around 6 per cent lower in 1991 than in 1989. Estimates of the fall of real consumption during 1990 ranged from the official 15 percent to Ber' and Sach's figure of 5 percent<sup>401</sup>. According to official figures, real wages decreased around 30 percent during the year of the stabilization. However, such an estimate does not take into account the improvement in living conditions derived from the end of shortages. Unemployment climbed up to 16 percent at the end of 1992. Finally, life expectancy at birth declined from 71.0 to 70.5 years between 1988 and 1992<sup>402</sup>.

The deterioration in living conditions was a transitory phenomena. In fact, Poland experienced a high rate of GDP growth already in 1993. Nevertheless, the impression is that transition could have been done with a lower cost for the poorer strata of the population by resorting to extensive income redistribution. The experience of Spain in the 1980s was that industrial restructuring and increasing openness were made compatible with higher

social transfers. The Spanish public expenditure on pensions, unemployment benefits, health and education as a proportion of GDP increased from 9.9 percent in 1975 to 17.8 percent in 1989<sup>403</sup>. Life expectancy at birth improved in a sustained way throughout the period: it was 73.2 years at the time of Franco's death and reached 76.8 years in 1992<sup>404</sup>.

## 7. Conclusions

This paper intended to formulate some hypotheses about the barriers to development in the Europe an periphery by comparing the long-term patterns of economic expansion of Poland and Spain. These countries became peripheral already during the early modern times. Moreover, they did not succeed in generating an industrial revolution throughout the nineteenth century. Finally, they went through dramatic episodes of involution during some periods of the present century. The previous analysis pointed to five major factors which could have prevented convergence with the core regions of the continent and should be further investigated.

Firstly, the higher the degree of monopoly of power in the hands of the elites, the more peripheral the country became. In particular, when the elites were able to create institutions which helped to fossilize their power, the overcoming of the peripheral condition became more difficult. Some examples of this kind of institution are 'folwark', seigniorial duties, 'mayorazgos', 'Mesta', latifundia, banning of unions, one-party ruling and central allocation of resources.

Secondly, the lower the connection with mass markets for consumption goods, the worse the results for industrial development. The success of manufacturing crucially depended on the location and dynamics of markets. Industrialization was encouraged by factors such as a high number of potential domestic consumers, the existence of a wealthy peasantry and the capacity to benefit from external demand for mass consumption products. Poor living conditions in the countryside and weak connections with foreign markets of manufactures delayed development. When mass markets were repressed for an enduring period of time, long-term development tended to be distorted. This was the case during early francoism and central planned Poland.

Thirdly, poor levels of skills among the working population tended to reinforce peripheralisation. The insufficient diffusion of proto-industrial skills in the early modern age turned into a barrier for the emergence of the factory system. Moreover, Spain and Poland experienced a rather slow process of improvement in literacy and technical and scientific skills. This constituted an important obstacle for structural transformation, particularly since the beginning of the second technological revolution. Moreover, the efforts to promote education and research continued to be significantly below the Western European average during most of the twentieth century. The improvement of human skills tended to be higher in periods of democratic mobilization. On the other hand, socialist regimes made a higher effort than capitalist dictatorships.

Fourthly, far-reaching involvement in military adventures constituted a heavy burden preventing development. Giant territorial expansion during the early modern period implied poor and declining levels of urbanization in the long-run. Moreover, heavy military campaigns generated large debts and diverted resources from

productive uses. Finally, in the twentieth century, the programmes of industrialization inspired by military priorities resulted in the creation of extremely costly capital-intensive industries which did not substantially improve the living conditions of the majority of the population.

Last but not least, development in the long term could have been fostered by radical institutional change and by public policies oriented towards de-concentration of property, tax-reform, promotion of education, incentives for research and innovation, improvement of infrastructure and reduction of military budgets. Such solutions were put into practice only exceptionally in the countries under consideration. During the periods when extensive social mobilization took place, decision-making by the state tended to primarily take into consideration the interest of large groups of population, and reforms had better chances.

## Notes

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- <sup>1</sup> Hirschman (1958). Seers (1962). Myrdal (1963). Williamson (1965). Kaldor (1970). Rokkan (1973). Pollard (1981). Berend & Ranki (1982). Dixon & Thirwall (1983). Flora (1983). Krugman (1991). Buchheim (1993).
- <sup>2</sup> Rokkan (1973). Wallerstein (1974). Seers (1979). Pollard (1981). Berend & Ranki (1982). Flora (1983). Maczak (1986). Pérez Picazo, Lemeunier & Segura (1986). Tilly (1990). Krugman (1991). Nolte (1991). Valério (1992).
- <sup>3</sup> Seers (1962). Myrdal (1963). Topolski (1965). Landau (1974). Pollard (1981). Berend & Ranki (1982). Krugman (1991). Landes (1991). Buchheim (1993).
- <sup>4</sup> Seers (1962). Myrdal (1963). Topolski (1965). Cipolla (1969). Kaldor (1970). Flora (1973). Easterlin (1981). Pollard (1981). Thirlwall (1983). Krugman (1991). Landes (1991). Murphy, Shleifer & Vishny (1991). Buchheim (1993).
- <sup>5</sup> See the map on developed, developing and underdeveloped areas at the end of the Middle Ages in Pounds (1974).
- <sup>6</sup> See the map on centres of textile production in Early Modern Europe in Kellenbenz (1977).
- <sup>7</sup> According to Maddison (1990), the European periphery did not converge with the core before 1950. Williamson (1995) argues that there was convergence between OECD countries in the period 1870-1914 but not between the European ones. The literature on convergence is rather impressive. See for the origins of the debate Abramovitz (1986), Baumol (1986), De Long (1988), Baumol & Wolff (1988) and De Long & Summers (1991).
- <sup>8</sup> An alternative set of data but more restricted is given in Maddison (1990).
- <sup>9</sup> Zamagni (1993). See particularly the original Italian edition.
- <sup>10</sup> Bairoch, Batou & Chèvre (1988).
- <sup>11</sup> The laszt was a measure of grain volume used in the Baltic which amounted to roughly two metric tons. The data came from Biernat (1962). They are reproduced in Kochanowicz (1989).
- <sup>12</sup> Hicks (1969). See also North & Thomas (1971) and North (1990). The Crown of Castile introduced institutions such as the 'mita' and the 'encomienda' confronted with a comparable situation of scarcity of labour in America.
- <sup>13</sup> Kula (1976). Wallerstein (1974).
- <sup>14</sup> Topolski (1962), Topolski (1982).
- <sup>15</sup> Anderson (1974).
- <sup>16</sup> Gierowski & Kaminski, quoted in Anderson (1974).
- <sup>17</sup> Kochanowicz (1989).
- <sup>18</sup> Data from Zytkowicz (1985).
- <sup>19</sup> Zytkowicz (1985).
- <sup>20</sup> Kula (1980).
- <sup>21</sup> Bodgan (1989).
- <sup>22</sup> Bodgan (1989).
- <sup>23</sup> Anderson (1974).
- <sup>24</sup> Quoted by Kochanowicz (1985).
- <sup>25</sup> It is not an exaggeration to claim, like Fernández-Albadalejo did, that "during the modern era 'Spain' did not exist as a state". Fernández Albadalejo (1989), p.721.
- <sup>26</sup> Vicens Vives (1969).
- <sup>27</sup> Bernal (19888). Cabrera (1989). Nolte C. (1991).
- <sup>28</sup> Anderson (1974).
- <sup>29</sup> Mauro & Parker (1977).
- <sup>30</sup> Vilar (1969). Elliott (1973). Vilar (1974). Elliott (1989).
- <sup>31</sup> Hamilton (1934). Vilar (1969).
- <sup>32</sup> Vilar (1969).

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- <sup>33</sup> Mauro & Parker (1977).
- <sup>34</sup> Vicens Vives (1969).
- <sup>35</sup> Ringrose (1985).
- <sup>36</sup> Nadal (1988).
- <sup>37</sup> Fontana (1971). Fontana (1980). Fontana & Garrabou (1986).
- <sup>38</sup> Rokkan (1973), Rokkan & Urwin (1983). See also the discussion about the conceptual map of 16th-18th century Europe in Flora (1983).
- <sup>39</sup> Tilly (1990).
- <sup>40</sup> Vilar (1974b). Yun (1994).
- <sup>41</sup> Topolski (1991).
- <sup>42</sup> Kula (1960), Topolski (1962), Kula (1970), Kula (1980), Topolski (1980), Topolski (1986), Topolski (1991).
- <sup>43</sup> Kochanowicz (1989), Chirot (1989), Brenner (1989).
- <sup>44</sup> Anderson (1974), Wyrobisz (1989).
- <sup>45</sup> Kochanowicz (1989).
- <sup>46</sup> García Sanz (1994).
- <sup>47</sup> Atienza (1994).
- <sup>48</sup> Yun (1994a), Yun (1994b).
- <sup>49</sup> In 1815 the fiscal income measured in sterling was nine times higher than in 1750 in the United Kingdom. It was more than three times higher in France and the Austrian Empire. Instead it was only 2.4 times higher in Spain. See Fontana (1987).
- <sup>50</sup> Fontana (1971), Fontana (1980), Fontana & Garrabou (1986).
- <sup>51</sup> Using Rokkan's and Tilly's conceptual framework, it can be said that both Poland and Spain built states which were relatively intensive in coercion. Rokkan (1973), Rokkan & Urwin (1983), Tilly (1990).
- <sup>52</sup> Wyrobisz (1989).
- <sup>53</sup> Anderson (1974). Wyczanski (1985).
- <sup>54</sup> Vicens Vives (1969), Nadal (1971), Nadal (1988).
- <sup>55</sup> Gunst (1989).
- <sup>56</sup> Vicens Vives (1969).
- <sup>57</sup> Kochanowicz (1989).
- <sup>58</sup> Vicens Vives (1969), Fontana (1973), Nadal (1973), Nadal (1975), Tortella (1987), Nadal (1987), Maluquer (1987), Nadal (1992).
- <sup>59</sup> Vilar (1964), Maluquer (1987), Torras (1991).
- <sup>60</sup> Gunst (1989).
- <sup>61</sup> Kochanowicz (1989).
- <sup>62</sup> Vicens (1969), Ringrose (1983).
- <sup>63</sup> Nadal (1971), Nadal (1988).
- <sup>64</sup> Prados (1987), Prados (1988), Fraile (1991).
- <sup>65</sup> We could say, in Rokkans' terms, that the military machinery of these empires expanded too much and destroyed their resource basis. Rokkan (1973).
- <sup>66</sup> Fontana (1971).
- <sup>67</sup> Topolski (1962), Anderson (1974), Topolski (1982), Kochanowicz (1989), Gunst (1989).
- <sup>68</sup> Szlajfer (1991).

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- <sup>69</sup> Fontana (1980), Comín (1988).
- <sup>70</sup> According to data in Comín (1989).
- <sup>71</sup> Catalan (1993).
- <sup>72</sup> Bodgan (1989).
- <sup>73</sup> Berend & Ranki (1974).
- <sup>74</sup> Kula (1983).
- <sup>75</sup> Kula (1983).
- <sup>76</sup> Contemporary illuminists such as Jovellanos already raised this point.
- <sup>77</sup> Jezierski (1974).
- <sup>78</sup> Kula (1984).
- <sup>79</sup> Kochanowicz (1989). Szlajfer (1991).
- <sup>80</sup> Kolodziejczyk (1970).
- <sup>81</sup> Berend & Ranki (1978).
- <sup>82</sup> Berend & Ranki (1978).
- <sup>83</sup> Kula (1983).
- <sup>84</sup> Berend & Ranki (1978).
- <sup>85</sup> Fontana (1973).
- <sup>86</sup> Kolodziejczyk (1970).
- <sup>87</sup> Landau & Tomaszewski (1986).
- <sup>88</sup> Nadal (1988).
- <sup>89</sup> Bernal (1988).
- <sup>90</sup> Gunst (1989).
- <sup>91</sup> Radice (1985).
- <sup>92</sup> Fontana (1973).
- <sup>93</sup> Nadal (1975). Nadal (1986).
- <sup>94</sup> Tedde (1987).
- <sup>95</sup> Maluquer (1987).
- <sup>96</sup> Garrabou (1985).
- <sup>97</sup> Palafox (1987).
- <sup>98</sup> Lluch (1976), Nadal (1990).
- <sup>99</sup> Landau & Tomazewski (1985).
- <sup>100</sup> Kochanowicz (1989).
- <sup>101</sup> Sundbärg (1908).
- <sup>102</sup> Williamson (1991).
- <sup>103</sup> Cerrolaza (1969). Núñez (1992). Reher, Pombo & Noguera (1993).
- <sup>104</sup> Nadal (1973). Nadal (1975). Maluquer (1987). Nadal (1987). Maluquer (1984).
- <sup>105</sup> Nadal (1975), Nadal (1987).
- <sup>106</sup> Calculated with Carreras 1989.
- <sup>107</sup> Kula (1960), Kula (1983), Kochanowicz (1989), Szlajfer (1991).

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- 108 Mitchell (1981).
  - 109 Jezierski (1967), Szlajfer (1991).
  - 110 Kula (1960), Nadal (1975).
  - 111 Nadal (1975).
  - 112 Nadal (1987).
  - 113 Calculated with Carreras (1989).
  - 114 Kula (1960), Berend & Ranki (1974), Kula (1983), Landau & Tomaszewski (1986), Szlajfer (1991).
  - 115 Calculated with Mitchell.
  - 116 Pietrzak-Pawlowska (1974).
  - 117 Calculated with Carreras (1989).
  - 118 Fijalek, Pus & Pelka (1974).
  - 119 The apparent consumption of cotton per capita in 1870 was 0.38 kg. in Poland and 1.67 kg. in Spain. The respective figures corresponding to 1913 were 6.38 kg. and 4.34 kg.
  - 120 Berend & Ranki (1974).
  - 121 Szlajfer (1991).
  - 122 Berend & Ranki (1974).
  - 123 Portal (1974), Spechler (1980).
  - 124 Bairoch (1968).
  - 125 Misztal (1970).
  - 126 Data from the Spanish Census of Population, 1910. It includes manufacturing and building industries.
  - 127 Nadal (1975).
  - 128 Flora (1973), Berend & Ranki (1982).
  - 129 Cipolla (1969), Flora (1973), Johansson (1977), Easterlin (1981), Williamson (1991), Buchheim (1984).
  - 130 Berend & Ranki (1982).
  - 131 Flora (1973).
  - 132 Johansson (1977).
  - 133 Flora (1973).
  - 134 Cerrolaza (1969). Núñez (1992). Reher, Pombo & Noguera (1993).
  - 135 Easterlin (1981). See also Núñez (1992).
  - 136 Berend & Ranki (1982). Frank (1990).
  - 137 Calculated with data from Núñez (1992).
  - 138 Hauner (1985).
  - 139 Flora (1973), Berend & Ranki (1982), Buchheim (1994).
  - 140 Berend & Ranki (1982), Buchheim (1994).
  - 141 Quoted in Lozano (1994).
  - 142 Landes (1969), Landes (1991). On the relation between technical education and industrial performance between 1850 and 1939 see also Fox & Guagnini (1993), particularly the essays by Ahlström and König.
  - 143 The role of technical education in Spain has been studied in Garrabou (1982) & Riera (1993). Both show that the amount of money spent on the formation of engineers by the Spanish state was extremely reduced during the nineteenth century. Hauner (1985) underlines that vocational schools were grossly neglected in Russian Poland before 1918.
  - 144 Svehnilson (1954). Teichova (1985).

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- 145 Landau (1983).
- 146 The figure corresponds to the year of 1897. Bairoch (1968).
- 147 Calculated with Carreras (1989) and Nicolau (1989).
- 148 Bairoch (1981).
- 149 Landau (1983).
- 150 In 1930 the cotton consumption was 4.22 kg. per inhabitant in Spain and 1.93 kg. in per capita in Poland.
- 151 Zweig (1944), Taylor (1952), Landau & Tomaszewski (1985).
- 152 Roszkowski (1991).
- 153 Zweig (1944), Taylor (1952), Landau & Tomaszewski (1985). Von Thadden (1994).
- 154 Calculated with Teichova (1985) and Carreras (1989).
- 155 Jezierski (1967), Pietrzak-Pawlowska (1968), Jezierski (1970), Misztal (1970), Landau & Tomaszewski (1985), Teichova (1985).
- 156 Fijalek, Pus & Pelka (1974).
- 157 Jezierski (1969).
- 158 Teichova (1985).
- 159 Landau & Tomaszewski (1985).
- 160 Zweig (1944).
- 161 Landau (1973), Landau (1983).
- 162 Berend (1985).
- 163 Ludkiewicz (1932), quoted in Landau & Tomaszewski (1985).
- 164 Moore (1945), Hauner (1985).
- 165 Berend (1985).
- 166 Landau & Tomaszewski (1985).
- 167 Roszkowski (1991).
- 168 Data from Roszkowski (1991).
- 169 Berend (1985).
- 170 Taylor (1970).
- 171 Roszkowski (1991).
- 172 Taylor (1952).
- 173 Landau & Tomaszewski (1985).
- 174 Zweig (1944). See also Landau & Tomaszewski (1985).
- 175 The calculation was made by Rybarski. Quoted in Landau & Tomaszewski (1985).
- 176 Landau & Tomaszewski.
- 177 Zweig (1944).
- 178 Zweig (1944).
- 179 Svennilson (1984), Teichova (1985).
- 180 Landau (1983).
- 181 Data from Roszkowski (1991).
- 182 Landau (1973).
- 183 Zweig (1944).



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- 184 Grupo de Estudios de Historia Rural (1989).
  - 185 Data in Tena (1989).
  - 186 Gómez Mendoza (1989).
  - 187 Sudrià (1987).
  - 188 Carreras (1990), Sudrià (1992).
  - 189 Roldán & García Delgado (1973). Catalan (1993).
  - 190 Maluquer (1989). The opposite thesis is defended in Palafox (1991).
  - 191 Calculated with data from Comín (1989).
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  - 194 Calculated with data from Núñez (1992).
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capita of 1,825 for Poland and 1,683 for Spain, both in 1980 international dollars, Maddison (1990).

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294 Adam (1993).

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297 Adam (1993). See also Kalecki (1963) and Kalecki (1982).

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- 300 Data from Merigó (1982).
- 301 Calculated with Tena (1989).
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- 304 Martínez Alier (1968).
- 305 Mochón, Aucochea & Avila (1988).
- 306 Salmon (1991).
- 307 Catalan (1991).
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- 309 Boltó (1982).
- 310 For a critical discussion about the different estimations of GDP in the European centrally planned economies, see Lancieri (1993).
- 311 Calculated with Summers & Heston (1988).
- 312 Bairoch (1981).
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- 320 Brus (1986d).
- 321 See Gomulka (1986), particularly chapter 9. See also Laski (1990) and Buchheim (1994).
- 322 Landau & Tomaszewski (1985).
- 323 Brus (1986d), Table 25.9. Brus (1986e), Table 26.1.
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- 328 Catalan (1989).
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- 330 Landau & Tomaszewski (1985). Brus (1986e). Adam (1993).
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- 340 Table 4, Roca (1991).
- 341 Data from Mochón, Ancochea & Avila (1988), Table A.2.1.
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- 345 Kohler (1982).
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- 347 OECD (1993), Table 3.
- 348 OECD (1993), Table 9.
- 349 The Polish data do not refer to GNP but to Material Product.
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- 356 Calculated with data of Table 3.1. from Kaminski (1991).
- 357 Sword (1992).
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- 393 Gomulka (1992).
- 394 Gomulka (1992). See footnote 1.
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