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Economic History – Introduction and Lectures.

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Part 1. Introduction to Economic History

The goal of this text is to accompany a course taught in English and introducing Polish-speaking students to the general issues of economic history. Considering all the potential problems resulting from different cultural and linguistic backgrounds, one must first show an outline of economic history as a separate scientific discipline (or interdisciplinary study area). The issues mentioned may seem too abstract to someone rather unacquainted with the matter but the whole course is to be more accessible, specific and fact-oriented (although not abandoning the attempts to explain general historical economic processes).

1. Economic history – boundaries and development of the field

The first step in replying to the question about nature of economic history should be reflection about the nature of history. History without any additionally defining adjectives. There is no single, unifying definition of the subject of our inquiries, so the statement that it is complex and multi-dimensional would be rather trivial. Among many definitions of history, we may quote a few, but the most important seems to be the simple statement about different meanings of the word, from which two are most common. The first equals history with "past", implying that associations with the past are often transferred to "history" in general. The second meaning is the "study of the past", history perceived as an academic discipline (Jordanova 2000, p. 1). So, the first meaning is the object of scientific research, the second the research itself and its results. The use of "history" as synonym of the past is contested by more precise theorists who reserve the term only for the effect of historians' inquiries over the past's real shape in order to detach the surveyed object from the survey process. The definitions close to the second meaning can emphasize the effects of the whole process and collective effort of the whole scientific community - "knowledge produced by historians" (Arthur Marwick) - or the decisiveness of individual intellectual process "re-enactment of past thought in the historian's own mind" (R. G. Collingwood; Marwick 2001, pp. 25, 42).[1]

The first meaning is usually used more precisely and refers to the past of mankind, which corresponds to the classification of science of history (the second meaning) as one of the humanities or, more recently, as one of the social sciences. The imprecise border between these two groups of sciences leads to assignment of the science of history to different places in the different formal classifications. It must be added that history has roots in the tradition of humanities, which is underlined by researchers from outside Anglo-Saxon cultural circle, like for example leading Italian economic historian Carlo Cipolla "History has always been the humane discipline *par excellence*" (Cipolla 1991, p. x). The sense of the different traditions between these two groups of sciences is felt particularly strong in Anglo-Saxon countries. The practical criterion allowing the observer for at least a partial overcoming the ambiguity was given by John Tosh: "Historians who believe in their subject's practical functions habitually distance it from the humanities and place alongside the social sciences" (Tosh 2010, p. 53).

Besides being the field of interest of academic historians, history in the first meaning is also a subject of philosophy, or philosophy of history. Its specific reasoning gives history some specified properties, such as purpose and internal structure (being more than a mere periodization), making the whole idea of history more than simply "past". It is usually combined with more or less precise predictions about the shape of the future. In the philosophical disputes such set of concepts of history is sometimes addressed as "historiosophy" or "historicism". Most of ambitious philosophical systems had their own view on history. To the most important we can include Christian perception of history of mankind as a continuous conflict of good and evil with the final end on Judgement Day; the philosophy of Giambattista Vico (1668-1744), based on the assumption of cyclical rather than linear character of historical phenomena;

[1] History as the effect of professional historical writing is often referred to as 'historiography'. Usually it is used when wide category of works is concerned (f. ex.: Polish 19th-century historiography – Polish historical writing in the 19th century; historiography of feudalism – historical literature on the topic of feudalism). This term is also used as an equivalent of either history of historical writing, or theory and methodology of historical writing.

dialectic philosophies of Georg Wilhelm Hegel (1760-1831) and Karl Marx (1818-1883). Historiosophy, as term used especially by Polish followers of Hegel, August Cieszkowski (1814-1894) i Józef Maria Hoene-Wroński (1776-1853), is marked with the most idealistic and speculative aspects of philosophical reasoning about history. Perhaps the last work of world renown (also beyond the circle of professional academics) and a strong historicist basis (in that case Hegelian) was *The End of History and the Last Man* by American political scientist Francis Fukuyama (Fukuyama 1992). On the other hand, large, abstract intellectual constructs build upon such generalizations of the historical past and being applied to critique of present society, as also to policymaking and directing the social development, were opposed by some philosophers. Detailed critique was focused mostly on different aspects of Marxist pretensions of possessing knowledge of "rules of historical development", as also their direct 20th-century political consequences. General critique doubted the existence of any teleological sense of history. Among those critics perhaps the most prominent was Anglo-Austrian philosopher and political thinker Karl Popper (1902-1994), with his book *Poverty of Historicism* (1945).

It is worth adding that different philosophies did not influence 20th-century development of science of history (at least in Anglo-Saxon countries) as much, as it was in the case of social sciences with their tendencies to pursuit grand theories. The situation was somehow changed by post-modern critique of historical writing, having strong theoretical or even metaphysical basis (Marwick 2001, pp. 4-11).

Another general remark is that history, as a branch of science, can be defined by its opposition towards archaeology. The knowledge of the past is being produced by historians in the process of critical analysis of written sources, while archaeologists focus on material sources (artefacts left by our ancestors). Therefore history is firmly rooted in humanities and social sciences, while archaeology uses extensively methods borrowed from natural sciences, allowing for more exact specification of propensities of those material remains being archaeology's primary sources. The times for which there are no written sources are called prehistory, thus limiting the scope of history as the object of research (the "first-meaning" in our provisional classification).

The source-based opposition between archaeology and history, defines also their chronological fields of interests, which perhaps we all intuitively know. Archaeology usually deals with more remote periods, from which we have few or no written records available, history deals with later centuries until the very present, where it shares objects of research with different social sciences, such as political science, international relations, economics and sociology. The general distinction discussed above is being blurred by the periods, which left rich legacy of both, material and written sources, being researched interdependently by historians and archaeologists. The main such case is classical antiquity, with which the origins of both disciplines are strictly connected (pioneers of historical writing were ancient Greeks, archaeology started from the search for Greek and Roman reminiscences). In other cases, the earliest written records are so scarce, that there are quite long spans of time researched by both groups of scientists. It must be also added, that depending on the geographical location surveyed, the chronological boundary between archaeology and history changes considerably. In the case of Poland, its beginning could be located somewhere around the date of country's baptism, in the second half of the 10th century, while more detailed sources come from the early 12th century. Because of the scarcity of written information, the current progress in the knowledge about the beginnings of Polish state is mostly the result of archaeological evidence. The general impreciseness of the boundary is also increased by the recent tendency of development of archaeology of the late Middle Ages and early-modern period (although most of the new knowledge of these periods is still being produced from the written sources).[2]

There is a general rule in English of treating every account of the past as a source. Then there is a distinction between primary sources and secondary sources.

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[2] More detailed summing up of relations between history and archaeology see: Halsall 1997. There is however a recent tendency to use archaeological and biological evidence for the research of less remote periods or to find a very long term comparative perspective. The most important example is use of biological data (especially height) for the measurement of the standard of living. Such data are widely available for last two centuries in files left by military and medical bureaucracies but they are sometimes the only available data for prehistory thanks to numerous skeletal remnants or mummies, creating often sample statistically significant to draw wider conclusions and compare them with later epochs (Clark 2007, pp. 55-70; Kiple 2002, passim; Fogel 2004).

Primary sources are original sources from the given period - accounts by immediate witnesses of the past happenings, documents left by the persons and institutions active in the surveyed period, or sometimes accounts being the chronologically closest to the events interesting the historian – an example could be medieval chronicles, which were compiled by monks in some cases many decades later. Secondary sources are accounts of the past made by scientists on the basis of primary sources. In Polish, the distinction is more pronounced, at least in terms of adequate vocabulary. *Źródło* (a source) means only primary source. Secondary source suits the term *opracowanie* (a study). The distinction is often disturbed by the fact, that with the passage of time, secondary sources sometimes become primary sources. Examples could be again the medieval chronicles, which were result of work of some abbey scribes, creating them on the basis of the then-existing documents, as also oral tradition, which were their primary sources from the point of view of our methodology. Because all the primary information (or at least most of it) vanished during the centuries, the chronicles usually are the only accounts of the specified sections of the past at our disposal.

The development of history was conditioned basically by the ability of historians to verify the authenticity of written sources, or, using professional terminology, to conduct their external criticism. The general doubt about authenticity of medieval documents was common among Renaissance humanists because of posthumous popularity of work of Lorenzo Valla (1407-1457), who proved in 1440 that so-called *Donation of Constantine*, testifying the transfer of power over Western Roman Empire from emperor Constantine the Great to the pope, was forgery. The questioning of some parts of medieval tradition was also result of later intellectual ferment inside the church, particularly works of the Jesuit priests, mainly associated with the Antwerp circle of Bollandists, called thus from the name of the leading Jesuit historian Jean Bolland (1596-1665). The search for reliable modes of authenticity verification was an effort of the representatives of the Benedictines, the oldest order inside the Roman Catholic Church, possessing the richest archives, as also receiving biggest reputation losses from the negligence of the documented church tradition. The six-volume work of French Benedictine monk, Jean Mabillon (1632-1707), *De re diplomatica*, published in 1681 is perceived as the turning point in the development of historical research. The multi-dimensional workshop of verifying document authenticity included, above all, some external propensities of the source, allowing for precise determination of the source's age – general type of document, handwriting, seal, heraldic emblems, etc. The knowledge of those basic features of the written source was developed into separate, auxiliary sciences of history. All of them are practised today and were initially strongly influenced by Mabillon's research. The traditional auxiliary disciplines include diplomatics (study of documents), palaeography (history of ancient and medieval handwriting), sigillography (history of document seals, also known under Greek-derived name sfragistics), numismatics (history of coins), genealogy (study of families and their lineage), chronology (study of locating events in time, along with history of calendar and systems of dating). In the countries, which unlike for example England, did not have their own offices of heraldry, dealing with families' coats of arms, also heraldry was to be refined and verified by professional historians. The achievement of Mabillon and his Benedictine fellow-brethren from congregation of St. Maur (hence also called Maurists) was also beginning of editing and publishing of critically verified and systematized collections of sources, being a basis for future research for further generations of historians, from that time not having to confront directly with the original (Marwick 2001, pp. 55-58, Szymański 2002, pp.18-20, 304-305, 441-442; Bloch 1954, pp. 81-85, Aylmer 1997, pp. 252-253, 267).

The workshop of historian, when created, was used first to research the history of the Roman Catholic Church and further to survey political history of separate countries, enabling thus creation of national histories of modern states, being a basis for wider national identities spreading from late 18th century. Because the auxiliary sciences developed by Mabillon were associated with research of Middle Ages, the knowledge of pre-modern and modern sources was also to be refined and systematized during that later period. These processes were preceded by institutionalization of science of history inside existing universities and most of the efforts increasing stock of historical knowledge and perfecting methods of research were coming from rising army of academics. Among this already quite impressive crowd, historiographers usually distinguish German scholar Leopold von Ranke (1795-1886) who deserves most to be called father of modern historical science. The pressure was put on the use of wide variety of primary sources and their detailed examination, combined with identification of sources for every fragment of the published text, allowing for verification of the work results by other historians. Features of Rankean empiricist orientation of historical research were: domination of political history of the states as main theme, pursuit of objectivity (despite Ranke's conservative political orientation), particularly when describing conflicts, reconstruction of historical process ("how it actually was" – *wie es eigentlich gewesen*) as a main goal, without any far-reaching axiological or teleological aspirations, inductive method of reasoning from particular to general, possibly without any previous prejudices or assumptions, introduction of historical methodology to academic curricula. All the elements of Ranke's methodological attitude became points of reference for further generations of modern historians, even when they were challenging his views. The most often criticisms of later generations concerned impossibility of Rankean ideal of objectivity and impartiality and the hopes for full reconstruction of historical facts and processes (Marwick 2001, pp. 61-66; Bentley 1997, pp. 419-423; Green, Troup 1999, pp. 2-8).

At that point we can state, that the economic history can be defined most generally as history of economic activity of human societies.[3] It is thus an effect of arbitrary classification of human activity, excluding most of it from the research, as it is in the case of economics. It differs in its scope from general political history, being the oldest and most traditional branch of historical science, shaped by Ranke and his

[3] Of course, there are many more or less different definitions. Carlo Cipolla agrees with the definition of economic history included in *Dictionary of Modern Economics* (Horton, Ripley, Schnapper, Washington, DC, 1948): "Economic history is the study of past and *present* economic events in one or more countries" (Cipolla's emphasis; Cipolla 1991, p. 6). Such conceptualization underlines two factors – national economy as a main unit of analysis (or at least point of reference) and, which is more important, usefulness of results of historical research to analysis of current economic affairs. Cipolla also quotes in that place Polish economic historian Witold Kula "the notion that economic history is a science of the past and economics a science of the present just won't bear scrutiny" (ibid., p. 6).

contemporaries and focused on history of political developments in the national and international dimensions, with the state as primary category defining the field of research. The opposition between these two ideal types of historical writing does not exclude the cases of interdisciplinary works, crossing the rather artificial boundary, especially when we take into account the strong interdependency of political and economic factors in the process of historical development.

A similar situation of diverging focuses takes place when we take into account the relationship between economic history and social history. The latter surveys the historical record of different kinds of social processes and structures, usually those of non-economic character or at least non-reducible to purely economic components. In its methodology, economic history, besides the traditional historical workshop developed in the framework of political history, recalls the theoretical achievements of economics, while the basic analytical concepts and ideas of social history come rather from sociology (although in British tradition, social history developed as off-topic of economic history, mainly history of labour, and became independent after World War II, mostly as a result of Marxist opposition to "traditional" economic history; Royle 2001, pp. 314-316). Because of the components taken from economics and sociology, both, economic and social history, can be treated as social sciences, having origin in the Enlightenment efforts to provide a scientific basis for state policies, rather than pure traditional humanities to which history (with long tradition developed before Enlightenment) is more often assigned. There is also a tradition more rooted in humanities and traditional history (although less visible in Anglo-Saxon countries), expressing scepticism concerning the role of history (and economic history) in formulating general rules. That scepticism is explained among others by changes in human behaviour induced by results of earlier experiences. Instead, humane orientation of economic history pronounces the role of historical inquiries as a source of knowledge about origins of current state of society, a goal being the adequate justification of its significance (Cipolla 1991, p. 13).

Economic history thus is a discipline of hybrid character and unclear boundaries, mediating between the erudite tradition of humanities and the

Enlightenment heritage of social sciences with their tendency to be more "scientific" in method (i.e., to more resemble natural sciences) and ambition of formulating general, universal rules of human activity. One side is based on facts discovered through critical analysis of available source and then integrated into narrative thanks to creativity, intuition and experience of the researcher, rather than to any specified set of strict rules, the second is based on the widest possible use of numbers and quantifiable variables organized by logically formalized reasoning. (Cipolla 1991, p. x). History, especially in Ranke's traditional version, is oriented towards particularities of the past and uniqueness of specified epoch and its more general characteristics. Such attitude is referred to as idiographic. Economics is nomothetic – it develops general theories, often claiming universality of application. The gap between both sciences is increasing along with the development of analytical framework of economics and its rising complexity.

Neither history, nor economics, does not meet the strict criteria of scientific research of natural sciences because of lack of possibility of adequately conducted experimental verification of theories. History deals with "experiments" that already happened and happened once. Historical sources are residuals of history's "experiments" and historians try thanks to them construct possibly exact description of historical event or process. So in fact there are no experiments in history – the events are not repeatable and the researcher is not their observer. The scope of achieved generalizations is always limited and generalizations do not lead to the creation of universal laws (exceptions are historiosophical concepts but they are usually created by people not being professional historians). In the case of economics, existence of general patterns is assumed and theories are expressed usually by modelling, which is based on defining relations between variables (including categorization of them into dependent and independent ones) and exclusion of all other phenomena from the model with the help of *ceteris paribus* clause, assuming that only model variables change. Such attitude is called a reductionist view on reality, where the picture is clear thanks to underlining some of its aspects and the removal of all the rest, deemed as insignificant. The simplification thus achieved allows for making more or less accurate predictions, a feature which is not possible in the case of idiographic methodology of history. So economics theories are created in order to approximate reality in the way the theories of natural sciences do but they cannot meet the condition of exact repetition of the experiment and their predictions are much less precise. History stands firm on the ground of its own methodology and rather does not attempt to emulate natural sciences (Cipolla 1991, p. 29; Gaddis 2004, pp. 54-68).

The distinction between economic history and other branches of history can be also explained, as it was in the case of relations between archaeology and history, by different kinds of sources used in the research. Political history concerns itself mostly with documents left by rulers and governments and their chanceries, as also with general accounts of the political developments coming from the period researched. Relatively narrow group of sources lets us describe quite comprehensively the main currents of political developments in a specified period, as well as their background. The economic historian researching the same period and trying to construct the basic outline of economic activity at that time, had to resort to a different group of documents, usually left by people and organizations engaged in economic activity, or that part of archival legacy left by rulers and governments, which was associated with state economic policy. Those sources are almost always much larger in volume (who in the society is not really engaged in economic activity?) and therefore need much larger effort during research. Hence the willingness to create quantitative indices in order to achieve some level of information synthesis, allowing to reduce the volume of the final work, as well as the tendency to narrow the source base in order to ensure the adequate level of carefulness during research and then to achieve general conclusion from the previously limited source base. The example of the latter tendency could be use of the records left by one city or a few landed estates in order to outline general situation in craft industry or agriculture in the whole country. Therefore much of the works on economic history, which are based on primary sources, are focused on quite detailed topics, especially when we compare them with the representative works on political history. The same problem of quantity of initial material to be researched before reaching any conclusion is also a feature of social history.

To understand the sources and nature of the tensions between interests and methodologies of history and economics we must briefly look at the process of the development of the field between them - history of economic history. The interest in economic affairs as other cause of historical phenomena was paid even by some early-modern historians but the separation from mainstream historical science and development of distinctive features of the discipline took place in the 19th century, just after the fast development of political history and partially in opposition to it. It was also opposing the main current of rather speculative political economy, which was focused more on building general explanations than detailed looking through historical records, although Adam Smith (1723-1790), the founder of classical political economy, used quite extensively historical arguments. The significant impulse for the research of past economic events was the will of verification of achievements of British political economy advocating, among others, free-trade policies in external relations of the state. The members of so-called German Historical School of political economy argued in their works that free-trade attitude was a result of England's leading economic position, which was achieved thanks to protectionist policies in previous centuries. They supported the view that there was no universal economic policy, British case was particular and not representing general law, and the application of external barriers to trade was depending from the stage of economic development achieved by the country at that moment. That current in the history of economics had its predecessor in the person of Friedrich Georg List (1789-1846), and was represented by three generations of researchers (respectively old, young and youngest school). First included its real founder Wilhelm Roscher (1817-1894), as also Karl Knies (1821-1898) and Bruno Hildebrand (1812-1878), second was represented above all by Gustav Schmoller (1838-1917), third by Werner Sombart (1863-1941) and to some extent also by father of modern sociology, Max Weber (1864-1920). Their variety of interests caused that none of them is referred to as an economic historian, mostly they are classified as economists or sociologists. The practical policy advice of

Historical School at its beginning was creation of high-tariffs at the outer borders (in order to protect from competition of more advanced countries the newly created industrial branches, called in modern terminology infant industries), associated with opposite internal policy of economic integration of German political area. The members of the School (especially Schmoller) supported state intervention in the economy and social paternalism of conservative state, reflected by the beginnings of modern social legislation, supposed to counteract German strong labour-class movement. The scientific significance of the whole current of economic thought was resulting from the use of historical records for the first time so intensively in arguments over economic theory and policy, as also from the fact that the effect of historical research were extensive generalizations and policy prescriptions, an accident which would not take place too often in the following decades. (Morawski 2010, p. 7; Cipolla 1991, p. 68; Marwick 2001, p. 80; Bentley 1999, p. 86; Hodgson 2001, pp. 56-64, 116-134; Milonakis, Fine 2009, pp. 74-80). The concept of national economic development divided into separate stages, characterized by distinctively different features of economic system, which was one of main contributions of the School to economic history, became later subject to general criticism, mostly due to the lack of explanation for moving from one stage to the other.

German nationality of the thinkers associated with the Historical School meant the primacy of continental researchers at the beginnings of the study area. Germany was also the country of first journals dedicated solely to the subject (*Hansische Geschichtsblätter* were published for the first time as early as 1871, *Vierteljahrschrift für Sozial und Wirtschaftsgeschichte* in 1903, while most of leading journals from other countries started in three decades between 1925 and 1955; Cipolla 1991, p. 5). It was accompanied by high position of economic history in the academic curricula, as also of great significance of researchers engaged in historical inquiries in government's policymaking, especially on the ground of social policy (so-called *Kathedersozializmus*, socialism of professor's chair).

It must be also added, that historical references were used in opposition to the main current of political economy (especially that of David Ricardo), being the basis of modern, neoclassical economics. The divide was deepened along with transition of the discipline from political economy to economics, put in motion by marginal revolution (based on the concept of marginal utility) and increased use of refined mathematical analysis for economic problems. From 1883-1884 academic circles of German-speaking countries were the stage of so-called *Methodenstreit* (debate over method) between empirical and inductive German historicists (Schmoller) and apriorical and deductive Austrian School of neoclassical economics, represented by Karl Menger (1840-1921). The latter, although admitted indispensability of historical research for understanding of economic phenomena, explicitly ascribed it the position of merely auxiliary to economics, not one of the constituting parts of political economy. (Bentley 1999, pp. 88-89; Hodgson 2001, pp. 77-94; Milonakis, Fine 2009, pp. 100-117, 150-151). From that point, economic theories based on historical research appeared usually on the fringes of mainstream economics.[4]

The late nineteenth century was also a period wider phenomenon of final division between major social academic disciplines (i.e. sociology, anthropology, political science, history, etc.), starting after ca. 1880, which made interdisciplinary flow of ideas more difficult. In that context, the debate over method was a symptom of gaining independence from external influences and criticisms by the newly created economics. The price was its individualistic methodology, opposing historical and social conditioning of economic processes (Sewell Jr. 2005, p. 2, Milonakis, Fine 2009, pp. 91-117).

The development of economic history as a study area is also closely associated also with the works of Karl Marx (1818-1883), German philosopher and social thinker, contemporary of the members of old German Historical School. His critique of capitalist system equipped economic history with still useful conceptual framework,

[4] An echo of *Methodenstreit* can be seen in the views of Austrian economist and one of the founders of neoliberalism Friedrich August von Hayek (1899-1992). He criticized "historicism", being a combination of making far-reaching generalizations from the study of history (laws of historical development, division of the past into distinct stages) and treating the historical phenomena as unique (historically specific). The latter component was making social and economic processes insusceptible to deductivist methodology represented by Hayek. Such critique was close to the Popper's attack on historicism and also was focused on wider scope of thinkers than only historical economists (besides them, among others: Hegel, Comte, Marx; Milonakis, Fine 2009, p. 261).

although the weakness of the Marxist system was its historiosophy and ambitions of scientific prediction of the future. The term "dialectical materialism", which is synonym of Marx's philosophy, comes from reception of Hegel's pattern of historical development as constant struggle of opposites, giving as a result synthesis, which is again opposed by its own contradiction. The dialectical development is determined, however, by developments in the material world, not in the sphere of ideas ruled by "spirit", as it was in the case of Hegelianism. The concept of socio-economic forms, changing along with the development of production relations, consecutively from primordial (or tribal) community through ancient slavery, feudalism, capitalism to future final goal of communism, despite its utopian view on the end of history, was often used by later generations of historians inquiring the economic and social life in each of those great epochs (of course, except for communism, which never happened)[5]. According to Marx every epoch (socio-economic form) developed on the foundation (base) of relations of production (shaped by available productive technology, and including social institutions determining its use - ownership of means of production, distribution of created income and labour participation in them) an ideological and cultural superstructure being an ex-post explanation of status quo. The relations of production were shaping class structure of society in the way assuring unavoidability of social conflict, which took the form of class struggle. The change of the epoch was always resulting from the change in the foundation fuelling class struggle. The perception of relations of production as decisive source of social change is the most known example of economic determinism in social sciences. The other feature of Marxism being significant to us was its class-conflict pronouncing opposition to neoclassical economics, on the grounds of interpretation of neoclassical

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[5] An exception in the universalist pattern of consecutive row of great socio-economic forms described by Marx was so-called "Asiatic" mode of production, being a regional particularity, characterized by despotic form of government, managing big irrigation systems necessary for agricultural development and accompanied by lack (or rare occurrence) of private land ownership. It was to be determined by particular geographical conditions and according to Marx was still present in 19th-century India, China and some Islamic countries. Because it was a breach in the whole philosophical system, undermining claims to universal applicability of Marxist doctrine (due to particular allowance for the role of natural conditions as determining force, as also because of purely regional character of that form, indicated even by its name), it was neglected by official version of Marxism prevailing in Soviet Union and Eastern Bloc countries (Kołakowski 2001, pp. 418-422).

doctrine as justifying capitalist status quo by seeking harmony within the market equilibrium. Conflict with the neoclassicists occurred despite common indebtedness of both schools of economic thought to the classical political economists like David Ricardo and Adam Smith.

Thus, two different approaches, at least partially critical to the abstracted, theoretical economics, were created on the European continent. The first was popular mostly in the zone of influence of German-speaking universities, second became widespread wherever Marxist left was gaining political importance.

The development of economic history in Anglo-Saxon countries was somewhat different and a little bit delayed. In Britain it was rather off-topic to mainstream economics and its significance was not appreciated also by traditional historians focused on political and constitutional issues. Earlier it had place in the writings of Scottish Enlightenment thinkers like David Hume (1711-1776), Adam Smith or Smith's pupil John Millar (1735-1801), but it was marginalized by later generation of political economists, led by David Ricardo (1772-1823). The ideological status quo, implying general disinterest in the economic past lasted until last quarter of the nineteenth century, when the outcome of economic crises of 1866 and 1873 shook the belief in adequacy of Ricardian political economy. In methodological disputes sparked in 1870's, an English proponent of enrooting political economy in historical context was Thomas Edward Cliffe Leslie (1826-1882), known to the public also thanks to application of political economy combined with historical research to the analysis of problems of contemporary agriculture. He polemicized, among others, with the founder of marginal neoclassical economics, Stanley Jevons. His views were presented in 1876 article, meaningfully entitled *On the Philosophical Method of Political Economy.* An interest in the past thus resulted from the epistemological confusion of economists. Leslie is perceived as the founder of English Historical School of political economy, which was however less known than the German one. On the other hand it was becoming less and less theoretical, transforming gradually its field into economic history. A significant achievement were the lectures given at Oxford University by Arnold Toynbee (1852-1883), published posthumously in 1884, introducing the concept of Industrial Revolution to the analysis of changes in British economy in the years 1760-1830, as also doubting in universality of most laws of economics. Other important representative of British economic history of the period of its creation was William Cunningham (1849-1919). His opposition to the use of assumptions of human behaviour and universality of economic laws, prevalent in neoclassical economy, led to the dispute with Alfred Marshall, the most important neoclassical economist. The controversy, being an extension of earlier disputes of Cliffe Leslie, was also British counterpart of *Methodenstreit* but the positions of both sides in the history of world science indirectly show us asymmetry of influences of its main participants, something which less surely could be stated in the case of continental debate. Nevertheless, it ensured lasting separation of economic history from economics in the British science. Cunningham's attitude had also some practical policy implications – he was one of the first British academics preferring protectionism to free trade. In almost the same time, the growing support for social reform among intellectuals resulted in the beginnings of history of labour and social policies, pioneered by Sidney (1859-1947) and Beatrice Webb (1858-1943), founding members of British reformist, non-Marxist socialist group, the Fabian Society. Their main works were *History of Trade Unionism* (1894) and multi-volume *English Local Government* (1906-1929). The Webbs along with other notable Fabians were also co-founders of the London School of Economics and Political Science, established in 1895, where economic history had its place in curriculum from the very beginning. Former Toynbee's and Schmoller's disciple William Ashley (1860-1927) was the first British economic historian using periodization not determined by political events, as also the first university professor of economic history in English-speaking world, employed at Harvard in 1892. First full-time university employments dedicated solely to economic history appeared in Britain over decade later (Marwick 2001, pp. 80, 99; Hudson 2003, pp. 226-228; Coleman 1987, pp. 9-17, 20-62; Harte 2001, p. 2, Lyons, Cain, Williamson 2008, pp. 5-6, Hobsbawm 1997, pp. 103-104; Hodgson 2001, pp. 104-110, Milonakis, Fine 2009, pp. 141-153).

The final separation of British economic history from economics took place in the interwar period, whole discipline was further institutionalized by creation of Economic History Society at LSE in 1926. It was followed by establishment of *Economic History Review* in 1927, one of the most important journals in the field at that time, as also in the post-war period. Leading British economic historians in those years were John H. Clapham (1873-1946), seeking for ideological neutrality and overcoming of Cunningham-Marshall methodological divide, author of three-volume *Economic History of Modern Britain* (published 1926-1938), and early-modern period specialist and supporter of social reforms in political life Richard Henry Tawney (1880-1962). The studies of medieval English economic history developed significantly mainly thanks to Eileen Power (1889-1940; Marwick 2001, pp. 99-101; Hudson 2003, pp. 226-228; Coleman 1987, pp. 63-96; Cipolla 1991, p. 5; Lambert 2003, p. 50; Harte 2001, pp. 1-6).

In the United States, beginnings of the economic history were partially associated with the development of American school of institutional economics, focused on constraints and rules of economic activity created by law and social customs. Institutionalists were generally distrustful to neoclassical economics, which was perceived by them as too abstract, and were seeking for empirical basis of economics, hence their contribution to development of statistical research of economy. It should be noticed that in the situation when American universities and business schools were still developing, an advisable element of academic curriculum was visit paid to one of the leading German or Austrian universities. It caused popularity of German Historical School among American economists in the last quarter of the 19th century, as also general awareness of problems of historical specificity and context of economic phenomena. The founder of institutionalism was Thorstein Veblen (1857-1929), whose work *The Theory of the Leisure Class* (1899) was a critique of some social aspects of capitalism (among them conspicuous consumption of the eponymous "leisure class" of businesspeople, being a parasite of materially productive industry) and capitalism's indiscriminate approval by neoclassical economics. However, he also opposed historicists' works as content with narrative description. In pursuit of coherent theory, Veblen attempted to include in it a more nuanced version of human psychology, supported by theories of pragmatist philosopher and psychologist William James and being contrary to neoclassicist assumption of always rational *homo economicus*, motivated by precisely defined self-interest. Later, Veblen's followers started to apply concepts of behaviourist psychology, instead of pragmatism, which diminished the distance to neoclassicists. Institutions (defined by Veblen as "prevalent habits of thought with respect to particular relations and particular functions of the individual and of community") were subject to Darwinian processes of evolution and natural selection in the historical development. However, Veblen opposed application of concepts taken from biology to social science because it would deny the role of culture (irreducible to purely biological terms) in shaping of human societies. The institutions were constraining and modifying natural human behaviour and were themselves gradually modified by impact of technological change. The rapidness of technological progress and its consequences, being qualitatively new phenomenon, was slowed by institutions, culturally conditioned and inherited from the past. But interplay between technology and institutions would finally lead to completely new ways of revealing basic human instincts, as also new social relations. The main followers of Veblen were economics professors Wesley C. Mitchell (1874-1948) and John R. Commons (1862-1945), the former researching the macro-level business cycle on the basis of low-level empirical data and introducing systematic statistical research on American economic development at National Bureau of Economic Research, founded in 1920, the latter contributing to the development of separate sub-field of history of labour. The microeconomic and empirical approach of most of institutionalists caused that the USA had from the beginning very strongly developed current of business history, independent from mainstream economic history (mostly focused on researching whole economies from the macro perspective). It was partially reflected by the fact the first of important journals of the field in the United States was *Business History Review*, established in 1926. (Hodgson 2001, pp. 137-142; Hodgson 2004, pp. 381-383; Cipolla 1991, p. 5; Lyons, Cain, Williamson 2008, pp. 7-8; Milonakis, Fine 2009, pp. 159-171).

Interwar period was also associated with development of economic history as independent discipline in other countries, where researchers active before the war were gaining adequate eminence, as also new generations of historians spoke with their distinctive voice. From the former perhaps the most known was Belgian Henri Pirenne (1862-1935), focusing mainly on multidimensional research of history of Middle Ages. For the latter, the most important were events occurring in France, where reception of Pirenne works was immediate because of lack of language barriers and where *Annales d'histoire économique et sociale* were established in 1929. The journal, usually called simply *Annales*, grouped many talented French historians, which constituted very specific school of historical thought, united by their holistic (all-embracing) approach, trying to include in the research all the sub-fields of history, as also achievements of different social sciences, because of interdependence of different categories of social phenomena. Hence the postulate of writing *histoire totale*, a total history, avoiding divisions between political history (although neglecting its significance and leading role in research), history of culture, economic and social histories, etc. The economic history in the *Annales* version was thus more rooted in spatial, political, social and cultural contexts, than in most of the other academic orientations. The interdisciplinary character of *Annales* demanded great erudition, as also great talent of observation, enabling the researcher to gain maximum result from the source base thanks to use of different methodological approaches. A big achievement was introduction in the post-war period by Fernand Braudel three different timely perspectives of historical happenings. Some issues according to the *annalistes* belonged to the time of events, *l'histoire événementielle* (eventful history, the usual time perspective of traditional historical research, similar to perspectives of journalist or chronicler), some to cyclical and conjunctural history (*histoire cyclique et conjecturelle*), with time horizon measured in years and decades, typical for perspectives of some social sciences, including economics, and some to *longue durée*, long term history, being a history of rigid, very slowly evolving or unchangeable (as in the case of geographical frameworks) structures and social inertia. The *longue durée* perspective was perceived as the most important for history, which meant important role of historical geography in the investigations and was contrary to the fashions of traditional, narrative-based, historical writing. Additional dimension of *Annales* resistance to the patterns of political history narratives was its interest in everyday life and minor, often anonymous people, not the "great men" described by political historians. (Morawski 2010, pp. 8-9; Santamaria, Bailey, 1984; Hunt 1986; Huppert 1997, pp. 873-887; Bentley 1999, pp. 107-115; Sewell 2005, p. 83).

Before World War II the most important members of *Annales* circle were the journal founders Lucien Febvre (1878-1956) and Marc Bloch (1886-1944), the former being the author of the whole concept of the journal. In the post-war period, when the journal was renamed to *Annales: Economies, Sociétés, Civilisations* (in 1992 the title was again changed *Annales: Histoire, Sciences Sociales*), the most famous was Fernand Braudel (1902-1985), author of monumental works dedicated to creation of pre-modern capitalism and economic life of the Mediterranean (*The Mediterranean in the Time of Philip II*, 1949, 1966, Eng. ed. 1972-1973, Pol. ed. 1976-1977; *Civilisation and Capitalism: 15-18th Centuries*, 1967-1979, Eng. ed. 1979, Pol. ed. 1992), as also unfinished *Identity of France*, published posthumously in 1986 (Eng. ed. 1988). Besides him one may mention at least Pierre Chaunu (1923-2009), Emmanuel Le Roy Ladurie (1929-) and eminent medievalists Georges Duby (1919-1996) and Jacques Le Goff (1924-). The *Annales* school became highly influential in post-war years and gained international prominence. The third generation of *Annales* writers, associated with Le Roy Ladurie, initially focused on quantitative aspects of economic history, later (from ca. 1975) intensively researched long-lasting structures of mentalities as cultural constraints of human actions, at least partially abandoning pursuit of total history. The fourth generation focused on social history of cultural practices and historical anthropology. The most important among non-French authors influenced by *Annales* was perhaps Immanuel Wallerstein, author of *The World System* (1974, 2nd vol. 1981, 3rd vol. 1989, 4th vol. 2011), a controversial account of economic divergence caused by the development of international trade system after 1500 due to inequality of exchange between 'core' countries of Western Europe and the rest of the world, being the system's peripheries and semi-peripheries (Hunt 1986; Huppert 1997, pp. 875-887; Marwick 2001, pp. 90-96, 118-126; Sewell 2005, pp. 34-37, 67-70, 85-88; Dosse, pp. 129-131, 152-154, Lloyd 1993, pp. 117-127). The focus on circulation of goods, particularly for long distances, as main source of differentiation of economic structures was one of the basic features of *Annales* milieu and Wallerstein drew further-reaching consequences from this intellectual tradition. His books initiated increasing wave of studies into world history, based on world-system concept and hence applying global perspective (which tries to reject eurocentrism) and abandoning 19th-century tradition of using nation state as basic unit of analysis (Moore 1997, pp. 952-953).

Post-war period was associated with rapid development of the field, reflected by growing numbers of academic posts, often in newly created departments on newly created universities, rising membership levels of existing societies, creation of new national societies and journals in countries with no earlier institutionalization of economic history, as also growing integration of international economic history community. It had an effect in the form of International Congresses of Economic History. First Congress was organized in 1960 in Stockholm and at the same time International Economic History Association (IEHA) was created. IEHA organized another Congresses, held every three or four years (Coleman 1987, pp. 93-98; Cipolla 1990, p. 5; Lyons, Cain, Williamson, pp. 4-5).

The other feature of discipline's growth was surging range of its sub-fields (histories of banking and finance, agriculture, transport, material culture, historical demography), focused on even more narrow aspects of human activity than economic history itself, often possessing separate journals and societies, many of international character. They increased enormously the knowledge about specified aspects of economic past but its critics point out that their development is associated with losing the perspective of broader historical process, which was a feature of most of earlier schools of economic history (Hudson 2003, pp. 233-234).

It must be added that World War II was a significant dividing line in the development of economic theory in the sense of marginalization of specificity-oriented, less universalistic approaches and isolation of economics from other disciplines. The definition of economics (coined before the war by Lionel Robbins of the London School of Economics), as a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses, became commonly accepted. The choices analysed by economists were in that approach excluded from any historical or social context, which was not so obvious in the case of approaches focused on creation and distribution of wealth or study of the business system. The critics argue that economic activity according to Robbins definition is in fact determined by its future ends shaping the uses of scarce, not the past events preceding the moment of decision. Robbins definition also indirectly rules out influence of other social sciences on economics and extends the impact of economics as the science of choice (which is always market-oriented) into their study areas (the process tagged as "economic imperialism"). Simultaneously, in the first years after World War II, institutionalism was losing ground at American universities, while German academic life was damaged by Nazism and consequences of war. Ordoliberalism, the main current of post-war German economic thought, represented among others by Walter Eucken (1891-1950) and strictly associated with defining economic system of Federal Republic of Germany, was opposing tradition of German Historical School. (Hodgson 2001, pp. 28, 174-175; Hodgson 2004, pp. 379-395; Backhouse 2010, pp. 40-42; Milonakis, Fine 2009, pp. 240-242).

Besides huge achievements of *Annales* School, the years after the war were marked with development of Marxist or Marx-inspired economic and social history also in the Western countries. One of the factors behind growth of ranks of Marxist historians was the search for a broader theory, which Marx's philosophy was supplying, differing thus from empiricist and descriptive traditional historical writing. Paradoxically, Marxism developed better in the West than in the Soviet Union, where censorship and Marxist-Leninist orthodoxy were preventing researchers from posing too uncomfortable questions. In Britain, Marxist influences were represented by the milieu of the journal *Past and Present*, established in 1952. The other significant periodical was *History Workshop Journal*, representing the current of "history from below" – history of the lower classes, based on the dispersed sources collected from their representatives (often by amateur historians from their closest environment) and supposed to reflect the perspective of common people, neglected by traditional historical narratives. The most distinguished representative of the British Marxist history was Eric Hobsbawm (1917-), beginning as social historian, initiator of debate about the general crisis of the seventeenth century, later an author of widely acclaimed syntheses of history of the "long" nineteenth century. Besides him one should mention leading social historian of the 1960's, Edward Thompson, author of influential (but controversial outside the circle of leftist historians) *Making of the English Working Class*, published in 1963, and 17th-century specialist Christopher Hill. (Bentley 1999, pp. 137-139; Sewell 2005, pp. 32-34; Eley 2003, pp. 68-78; Green, Troup 1999, pp. 36-41).

Except for Marxists who had more radical social perspective than pre-war social reformists, a significant group of British economic historians diverged from the local traditions by revising criticism of its predecessors towards social changes brought by industrialization. They got close in the views to free-market neoclassicists who by then had found themselves on the fringes of economics, dominated after the war by the Keynesians pronouncing active role of the state in the economy. The most quoted example of such shift is *The Industrial Revolution 1760-1830*, the work of Thomas S. Ashton, published in 1948, containing no condemnation of social changes, like it was in the case of Fabians, and quite oppositely perceiving Industrial Revolution as British escape from the results of demographic expansion and the fate of overpopulated agricultural Ireland. The orientation represented by Ashton, which also was dominant in British scientific circles despite delayed growth of Marxism, was pragmatic, avoiding general, theoretically constructed categories like "stages of growth" and focused on economic processes, not totalities, which was in contrast to *Annales* approach, treated initially on British Isles with a dose of underappreciation and misunderstanding. In the survey of economic processes analytical framework of neoclassical economics was employed, which constituted further shift from the heritage left by social reformists (Coleman 1987, pp. 82-85, 102-104, 111-119; Burke 1990, pp. 96-97).

Among the new currents of economic history, created completely after the war, two gained high appreciation. Although differing in terms of method and research instruments, both had in common attempts to introduce elements of neoclassical economics to explanation of historical phenomena, as also reflection of economic theory in historical records. Taking into account the traditions of history as a science, it meant abandoning Ranke's view of inapplicability of general laws to history. Whole process was part of broader interest of professional economists searching in the past for proofs (or denials) of economic theories, as also seeking more generalized and transparent historical description of economic development.

The first of new directions was initially known as new economic history, which, after the charm of novelty had slowly melted, was renamed cliometrics (although the term was coined as early as in 1960). "Clio" came from the name of Greek muse of history, "metrics" from the application of highly advanced methods of statistical and quantitative analysis to economics under the name "econometrics" by neo-Keynesian economists. Thanks to the use of formalized models (simplified and abstracted economic and social relationships, presented usually in the form of bunch of equations) borrowed mostly from the theory of economics, including explicit models of human behaviour (usually purely rational *homo oeconomicus* of neoclassical economics), cliometricians gained and used the possibility of counterfactual reasoning and assessment of alternative scenarios of historical development. It was with no doubt, most spectacular and most controversial part of the innovations brought by cliometrics and it is being contested until now, in part due to traditional perception of science of history, enrooted in Rankean "*Wie es eigentlich gewesen*" and resistant to speculations unsupported by direct evidence. On the other hand, cliometrics allowed for more precise reconstruction of past events and their interrelations. By reconstructions of trends it enabled also focus on long-term developments in economy, lasting for decades or centuries, escaping thus from short-termism, as also from incoherent and fragmented attempts of describing long-term changes. Thanks to formalization, cliometrics applies rigorous analytical framework, something which traditional economic history was lacking, with its usual use of hidden assumptions during reconstruction of economic processes and often occurrence of contradictory statements in the same piece of work.

Searching for the predecessors of cliometrics, it is stated that the use of statistics and economic models to the study of history was pioneered as early as in 1930's, among others by American economist Paul M. Sweezy (1910-2004), who later switched his views to Marxism. Application of quantitative methods to economic history became more complex and better based in facts in the 1940's and 1950's thanks to American economist Simon Kuznets (1901-1985), former student of Mitchell and his long-time collaborator at NBER, the Nobel Prize winner in 1971. He was accompanied by such economists as Walt Rostow (1916-2003), future security advisor to presidents John F. Kennedy and Lyndon Johnson, and Robert M. Solow (1924 -), the Nobel Prize winner in 1987. All of them surveyed the issue of long-term economic growth and its structure, which lead to the formulation of so-called Solow model of economic growth. (Lyons, Cain, Williamson 2008, pp. 12-13, 303-306). The fact that most precursors, as also members of the whole movement, were trained economists helps to explain its character. Taking some dose of simplification – it was application of methodology of neoclassical economics to the study of the past, instead of the study of the current affairs, as most of economists used to do. It was also opposite to European continental tradition of economic history, more closely associated with history than economics, which explains delayed reception of cliometrics in Europe. "With the exception of the historical school of German economists in the nineteenth century, European economic historians – especially on the continent – have traditionally been extremely weak on theory. (...) The inadequate use that most European economic historians (including such major figures as Pirenne, Sapori and Braudel) have made of the conceptual tools of economics may be largely owing to their training as historians and lawyers." (Cipolla 1991, p. 56).

The cliometric research really took off in the late 1950's/early 1960's, just after introduction of new quantitative techniques to the economics and soon became the most important sub-branch of economic history in the USA, to lesser degree also in other Anglo-Saxon countries, represented in the rising share of the content of economic history journals. First significant conference dedicated to the application of new methods took place in Williamstown, Massachussets, in 1957. The conference volume *Trends in the American Economy in the Nineteenth Century* was published three years later. In the same year annual conference of cliometricians was organized for the first time at Purdue University, Indiana (later moved to Wisconsin University and other places, among them University of Iowa). Further institutionalization of cliometrics took place when Cliometric Society was established in 1983 and started to organize world congresses of the sub-field (first held in 1985). (Lyons, Cain, Williamson, 2008, pp. x-xi, 3-4, 10, 14-17).

Cliometrics spread to Europe gained momentum in the early 1990's when European Historical Economics Society (EHES) was founded in 1990 during the 10th International Economic History Congress in Leuven. This shows delay of European reception of cliometrics, although many European cliometric projects were initiated in 1970's. However, treating cliometricians as not belonging to historian profession and hence ignoring them was quite common in that period. The leading exception was France, where part of *Annales* school research became highly quantitative for about decade after 1965 but it was a temporal affair and it is assessed by cliometricians as not associated with adequate level of economic analysis despite amassing huge factual material. Typical inductive approach of historians was thus reflected in French "serial history", collecting data available after critical evaluation of sources, without any econometric backward extrapolations of discovered trends. From 1990's rising significance of quantitative surveys is being observed in most Western European countries. The alternative, although less popular recently, name of the school of thought, "historical economics", shows the high importance of economics and its analytical instruments in relation to historical workshop during research process. The parallel tendency of increasing role of quantitative analysis in American social history, beginning in 1960's and having its apogee in 1970's was dubbed "new social history". It should be also added that among currents of economic history, business history was much less influenced by quantitative methods than “mainstream” economic history (Bentley 1999, pp. 133-134; Elton, Fogel 1983, pp. 23-31, 61; Sewell 2005, pp. 26-32; Lyons, Cain, Williamson 2008, pp. 37-38; Boldizzoni 2011, pp. 5, 124-125).

The more advanced quantitative techniques and their application to history contributed also to the development of more precise demographic studies, which enabled correction of many deep-rooted views on the historical population changes and indirectly also knowledge of living conditions and mechanisms of economic growth. The main obstacle was dealing with large data sets concerning whole population, which were initially based on information about individuals hidden in parish registers of England. The beginnings of new demographic history were associated with Cambridge Group for the History of Population and Social Structure (set up in 1964) and the activity of Peter Laslett (1915-2001) and Edward Anthony (“Tony’) Wrigley (1931-). Development of information technology and further advancement of quantitative methods made historical demography perhaps the fastest developing sub-branch of economic history in the last decades.

The most eminent cliometrician is American Robert W. Fogel (1926-) who was awarded Nobel Prize in economics in 1993. His innovative and controversial research on influence of railways on American economic growth in the 19th century and on economic efficiency of slavery on American South sparked lively debates concerning methodological, as also axiological issues and changed their common perception. His views and defence of the earlier work on Southern slavery were presented in *Without Consent or Contract*, published in 1989.

The immense popularity of cliometrics and a lot of contributory research amassed through the years allowed for writing whole syntheses of economic history from the cliometrician’s point of view. On British Isles, where quantification of research was slower than in the USA and Canada, breakthrough was *Economic History of Britain since 1700* edited by Roderick Floud and Donald McCloskey (1981), in the same year E. A. Wrigley and R. S. Schofield summed up revisionist efforts of almost 20 years of research of British new demographers in *Population History of England 1541-1871.* A quite recent result of pan-European cooperation is

Cambridge Economic History of Modern Europe (2010), edited by Steve Broadberry and Kevin O'Rourke.

The side-effect of the development of the sub-field, which from some time tended to dominate whole discipline, was partial rejection of work with primary sources and of source criticism, an indispensable, it would seem, part of historian's craft. Quantitative evidence was strongly preferable to any form of literary evidence coming from primary sources. The search for statistically significant general laws was perceived sometimes as leading to inability of dealing with particular, separate events, which were traditional interest of methodologically conservative historians. Despite ambitions to be "scientific" history, the results of the research appeared to be disputable also in the inner circle of cliometricians (Fogel, Elton, 1983, pp. 76-88, 118-121; Lyons, Cain, Williamson 2008, pp. 186-285). Basing on secondary data sets had some hidden dangers, underlined by historians from older generations: "Recently, especially in the United States, there has emerged a school of economic historians who, having been trained primarily as economists and being concerned above all with contemporary economic history, fail to appreciate the problems posed by the available sources. Concerned first and foremost with the theoretical 'model' that they have fabricated, and failing to unearth adequate sources to substantiate and verify the same 'model', they readily turn to so-called 'proxy evidence', assuming equivalences which instead should be often demonstrated" (Cipolla 1991, p. 17). The use of proxies and "guesstimates" became widespread partially because of illusive immediate precision of results they were giving. Despite refinement of analytical tools of econometrics and statistics, the unreliable data, requiring high criticism, or lack of data (even in the proxy form) remained serious limitation to the use of cliometrics. It concerns especially period before the nineteenth century, but in fact the twentieth century was a period of creation of full-fledged modern statistical apparatus of bureaucratic state. Even in the case of professionally gathered historical data, the issue of comparability in time and space remains serious because of different methodologies of receiving the final aggregates. So a lot of precise and, at first glance, solid results of cliometric research are prone to serious doubts because of the quality of data input (Hudson 2001, pp. 13-21).

The critique of cliometrics was also coming from historians combining their interests with the achievements of social sciences other than economics (sociology, anthropology) and humanities. From the social historian's point of view cliometrics was transmitting equilibrium- and aggregate-based models taken from neoclassical economics into historical research, which was associated with abandonement of constructing narratives about whole socio-economic process and omitting structural, social and cultural factors. The reductionism of all the aspects of economic activity to purely quantitative terms, usually monetary values, skipped over all the qualitative aspects of economic life – social conditions, mentality, quality of goods, gains from increased leisure, non-monetary forms of exchange (very important for less developed economies), opportunities resulting from particular changes in economy and politics. The apex of quantification debate was reached in the late 1970's, then together with the spread of relatively cheap personal computers second wave of quantification research led to further increase of cliometrics importance in economic history, while historians dealing with sociocultural issues generally abandoned their interest in economic sphere of human activity, focusing on issues of language and culture (Lloyd 2003, pp. 97-98; Hudson 2001, pp. 4-6; Hudson 2003, pp. 231-233; Tosh 2010, p. 224-225). The criticism of cliometrics has, however, recently recurred. It is associated again with the resistance against apriorical subordinating the historical research to neoclassical economic theory and lack of understanding the non-quantifiable context but also goes further, indicating at political consequences of cliometrics as historical support of what is called as neoliberal doctrine (Boldizzoni 2011, pp. 3-13).

The other important contribution to theoretical development of economic history in the second half of the twentieth century brought new institutional economics (NIE) or new institutional history. Its main representative is Douglass C. North who was also a pioneer of cliometrics, hence repeating from time to time confusion of NIE with new economic history by the less oriented scholars from outside the discipline (the other cause were attempts of constraining the reasoning by framework of cohesive theory, common for both cliometricians and new institutionalists, while more traditional historians were using concepts from social sciences in an eclectic way). North's beginning of studies on influence of institutions, or as he simply put it "rules of the game"[6], on economic performance was resulting partially from disillusionment with cliometrics, failing to take into account non-quantifiable factors, leading to diverging patterns of economic development, as also to explain the major changes in economic past. He can be classified as historian of wide interest in social sciences, especially economics, while other leading new institutional economists, Elinor Ostrom and Olivier Williamson should be ascribed to economics. All three are Nobel Prize winners – North in 1993 (together with Fogel and appreciated as cliometrician), Ostrom and Williamson in 2009. The analytical framework of NIE was based on neoclassical model modified by introduction of more realistic assumptions closing it to the real life, among them the problem of transaction costs, assumed by the neoclassicists to be non-existing, and raised to significance as main determinant of organizational and institutional structures by

[6] It is worth adding (to avoid further confusions), that institutions are generally of immaterial character and are either formalized rules (law, f. ex.) or generally accepted rules with source of the acceptance based in social custom or tradition. Polish word "instytucja", in the usual meaning of an administrative government body, usually with all its material infrastructure and personnel, is referred to as one of the types of "organization". Organizations are perceived in new institutionalism as type of institutions in terms of their internal rules, without all the material context, which is ascribed to them in colloquial Polish. In the latter meaning, they are perceived as "players" of the game, not "rules". Hodgson 2004, pp. 426-429; North 1990, p. 4. Definition of institutions by North: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change." North 1990, p. 3. Brief summary of new institutional approach was presented by Joel Mokyr: "The idea that institutions play a central role in determining economic outcomes and performance, long reviled by economists, has been revived in the past decades and become something of a mantra among economists interested in long-term development. The literature has not quite agreed what is precisely meant by 'institutions' but clearly the definition includes the rules by which the economic game is played, and how they are enforced and obeyed. It has been realized that a central issue in economic performance is what protected property and enforced contracts, and that any agent who was placed in charge of justice and law enforcement needed to be constrained in critical ways to avoid the situation in which the state would be taken over by rent seekers. Another insight of this literature is that some apparently inefficient past institutions that limited entry or protected privileges in one form or another, and which would have been detrimental in a world of well-functioning markets and perfect competition, may actually have been well suited to the highly imperfect world of pre-modern economies, where first-best arrangements were simply impossible." Mokyr 2011, p. 368.

another Nobel Prize laureate in economics, Ronald Coase (Lyons, Cain, Williamson 2008, pp. 197-198). However, new institutionalists are sometimes criticised for extending some general rules of economic behaviour taken from neoclassical economics into fields of other social sciences, and describing possibly widest range of social interactions in terms of market exchange, which is universalized by them, also when referring to economies very distant in the past and very different from contemporary market economy. The more recent romance of North and the new institutionalists with the evolutionary genetics of Richard Dawkins and sociobiology of Edward Wilson, which are used as a proof of universality of self-interest driven behaviour (or rather genome-interest determined selfish behaviour) is also criticized as biological reductionism based on highly speculative generalizations of evolutionary biology (Hodgson 2001, pp. 250-253, 274-275; Boldizzoni 2011, pp. 17-53).[7]

North, taking into account influence of knowledge, technology and demographic phenomena on economic performance (as also environmental constraint in the pre-industrial period), focused on the influence of institutional arrangements on economic performance and efficiency. In his subsequent books (North, Thomas 1973, North 1981, North 1990, North 2005), he was gradually moving further away from the neoclassical model in order to better describe the processes of economic change and stagnation. His general line of reasoning can be presented with general simplifications in the following manner. Institutional arrangements of the economy (including property rights) generally suit some basic proportions of rates of return from main production factors, which usually are conditioned by relations between their general quantities available. Along with the changes in rates of return (influenced by changes

[7] It must be noted that North himself makes general distinction between evolution and large scale social processes: "In contrast to Darwinian evolutionary theory, the key to human evolutionary change is the intentionality of the players. The selection mechanisms in Darwinian evolutionary theory are not informed by beliefs about the eventual consequences. In contrast, human evolution is guided by the perceptions of the players;" North 2005, 3% Kindle edition. North's perception of markets is also more nuanced than standard neoclassical attitude: "Because there is a widespread prejudice among many neo-classical economists that simply an absence of government intervention is a sufficient condition for good economic performance in a particular market, it is important to stress that the performance characteristics of any market are a function of the set of constraints imposed by institutions (formal rules – including those by government – informal norms, and the enforcement characteristics) that determine the incentive structure in that market." North 2005, p. 76 (40% Kindle ed.).

in relative scarcity of production factors or by changes in their productivity thanks to technical progress) the corrections in the institutional arrangements should follow. In the world without transaction costs it would result in the constant remodelling of social institutions and constant legislation. In fact, transaction costs of introducing institutional change, are often large enough to prevent any actions focused on changing status quo. It is mainly due to the fact, that most of social gains of new institutional arrangement would reach other persons (free-riders in economics slang) than initiators of the change of institutional arrangement. So ensuring well-defined (exclusive), secured and transferable property rights would lead to much more flexible adaptations of institutional system to changes in the economy and greater efficiency of the economy. In the situation of lack of adequate property rights the institutional system is much prone to inertia and hence deepening economic inefficiency as it responds in still lower grade to the productive potential of the economy. So economically inefficient institutional system can avoid reforms for long because nobody is adequately materially motivated towards any action in their favour, as also ruling elite is benefiting from the status quo. It explains thus the persistence of inefficient institutional arrangements and numerous cases of economic stagnation and decline of whole economies throughout centuries.

Another part of the mechanism described above is the phenomenon of path-dependency. The whole concept was invented in 1985 by Paul David and five years later adopted by North to the study of institutional systems. Choosing specified institutional arrangement in one field, usually leads to further arrangements implied by that one particular, earlier choice, which is usually irreversible because of high transaction cost of reversal. So further development of institutional structure is conditioned by historical legacy, which is often unfavourable. It shows difficulties of reforming inefficient institutions as also the fact that “history matters” – incentive structure for economic actors was largely predetermined in the past. For example, divergent developmental paths of North and Latin America in the eighteenth and nineteenth centuries were reflecting the previous imposition of the institutional patterns from the mother countries upon the colonies, as also radically different ideological constructs influencing perceptions of economic actors, which were also conditioned by cultural differences between England and Spain. The problem of path-dependence concerns not only legal frameworks and property rights structures but also common, customary solutions of particular problems, including technical standards. Standardized machines and consumer appliances are rarely technically most effective but the cost of individual choice of non-standardized technical solution is too high to allow for appearance of technically best choices once the specified standard became common. The often quoted example is persistence of uncomfortable QWERTY standard of typewriter keyboard, discussed by Paul David (North 1990, pp. 92-104; Dzionek-Kozłowska 2011, pp. 266-276; David 1985, pp. 332-337).

The economic history research of post-war period was also characterized by growing interest in the life of oppressed and discriminated minorities. This focus came from outside, mainly from social and cultural history and was accompanying the ideological development of the New Left in Western politics and academic life. The whole tendency was reflected among others in the research of economic life of American Black population, including basic problem of economic characteristics of slavery. The other current was concerned with contribution of minorities to economic development. It included the role of minorities' social networks in facilitating international trade and diffusion of innovations, as also significance of economic advancement as a means of overcoming discrimination or offsetting its effects. Even more grew the studies over participation of women in economic life and their relative discrimination across the centuries, which was complementary to the fast development of gender studies, exceeding the boundaries of traditional academic disciplines. The research showed the underestimation of women's influence on the economic development, as also significance of women's rights and social position for economic success. It also helped to break many stereotypes concerning social roles of women in the past.

Together with the progress of decolonization process, the newly created states initiated development of historical studies over their own past, perceived from the different point of view than it was in the case of their colonial powers where colonial affairs were often treated from "deck of the ship" perspective and at least part of conquered peoples were described as "people without history". Combining the effects of the new research of local historians with the rising interest of historians from former metropolises and the USA, as also with new global approaches, based often on core-periphery model drawn from *Annales* tradition and Wallerstein's work, gave new insights into pre-colonial past of Asia and Africa and the influence of European expansion on the life of local populations on both continents (Wesseling 2001, pp. 76-92). Processes treated as specific for Western world started to be perceived in the global context and with the inclusion of their echoes overseas. For example, British industrial revolution and European industrialization is more often discussed along with the collapse of handicraft industries and return to domination of agriculture in the 19th-century India, resulting from the massive inflow of cheap British fabrics on Indian market. The de-Europeanization of perspective was enhanced by Edward Said's (1935-2003) book *Orientalism* (published in 1978), underlining culturally constructed European perception of Asia and Muslim countries, almost without regard to real situation in the conquered and penetrated lands. The colonial era stereotypes were, according to Said, lasting further after decolonization. The global approach led also to comparisons between European and more advanced Asian economies of pre-industrial periods, which frequently appeared to be in favour of the latter until very late periods. Perhaps the most known work on the subject is Kenneth Pomeranz's (1958-) *Great Divergence* (2000), pronouncing high level of economic development in China before the nineteenth century.

These two revisionist approaches often appeared in a mixed form and their led to the questioning of many wisdoms of traditional historical writing. Careful studies of economies of the Indian Ocean in the period before European intrusion showed vibrant economic life created by many ethnic trading communities living in diasporas in main ports across the whole South Asian coasts. Except for piracy, it was generally based on the freedom of the seas principle and the trade relations were more market-oriented and based on free than in the colonial times. The sophisticated economic system was soon destroyed by monopoly-pursuing European conquerors, first from

Portugal, later from the Netherlands (Findlay, O'Rourke 2007, pp. 134-156). So free trade was in that region a completely "un-European" affair. Other category could be studies in the colonial societies and especially mixed, interracial populations, created by amalgamation of European and local culture and interracial marriages. Their role was often neglected by researchers focused on the market of the colonial metropolis and transfer of goods from colonies to home country by European merchants. An interesting example could be case study of local wives and mistresses of Dutch traders settling in the seventeenth century on the islands of today's Indonesia. It showed the significant role of merchants' spouses and concubines in the conduct of their businesses (often done at the cost of interests of Dutch East India Company, so not reflected in the Company's papers, creating the source-base for the previous, mainstream research). The women were the useful contacts to local communities because of knowledge of local customs and languages, as also could control local affairs during the absence of their husbands, often sent to Europe or to other Asian ports. The whole situation led to the creation of thin caste of rich and independent women (often widowed by less acquainted to climate conditions and older husbands), living in the culture-crossing environment but also subject to ostracism or condemnation because of their unusual social position, conflicting traditional values of main religions of the multi-ethnic society (mostly Dutch Calvinism and Malay Islam). Inclusion of the local and cultural studies thus allowed for more complex and nuanced pictures of many historical processes leading to the integration of world economy (Pomeranz, Topik 2006, 13-14%, Kindle version). Both currents discussed briefly above also indicated at different costs of processes dubbed as "economic progress", often paid by minorities or extra-European cultures, closing thus economic history to trends prevailing in other social sciences.

The so-called "linguistic turn" in historical science, which began in early 1980's, by focusing on literary and narrative aspects of historical writing, as also by paying less attention to highly conceptualized methodologies of "new" social and economic histories, changed the general interests and curricula in historical departments of universities in Anglo-Saxon countries, which was reflected by the retreat from research on economic history. It was also partially resulting from fall of Marxism as respectful social theory at that time and from impossibility of keeping the fast pace of development of institutionalized economic history recorded in three post-war decades (Jordanova 2000, pp. 202-203; Hudson 2003, p. 234; Coleman 1987, pp. 94-101; Lloyd 1993, pp. 67-68; Boldizzoni 2011, p. 169). On the other hand, rising interest in the past among economists and development of historical economics, as also dating from 1960's expansion of economics into areas of other sciences, increased the role of people trained primarily in economics and econometrics and less interested in interdisciplinary approach combining social, cultural and political issues. The mediation between two different sciences, which was the unintended role of economic history, became even more difficult (Wallerstein 2001, pp. 420-422). One must notice, however, economic history, as its no-adjective-before older sister, has developed its own rich tradition and pluralism of schools, approaches and sub-fields. Pluralism is one of the basic values of modern society. In science, it ensures constant competition of ideas leading to their gradual refinement or allowing for rapid breakthroughs. It does not exclude dialogue, what else, it is dialogue's precondition – where there are no different opinions, dialogue is unnecessary. The values and procedures of academic community ensure the flow of ideas between different branches of the still growing tree, so the development of the field will continue in the future.

2. Economic history in Poland

After the extended general outline of the field and the review of research currents in economic history, it is worth to take a look at specificity of its development in Poland, its contribution to the world trends as also some local flavour. The special features of Polish science of economic history were in part resulting from stormy political history of the country in the twentieth century. The growth of the discipline became faster after regaining the independence by Poland in 1918 and it was resembling contemporary processes in Western European countries. Most of the founders of Polish economic history studied before World War I at Polish universities in Cracow and Lwów (now Lviv, Ukraine) in the autonomous then

Austrian partition or were educated at different Western European universities (Zurich, Paris, etc.). It was a side-effect of repression of Polish intellectual life in the Prussian and Russian partitions (especially in the latter). So from its very beginning Polish economic history was in close contact with contemporary developments abroad and it was a continental tradition in which Polish researchers participated. In 1931 a new journal, existing until now, *Roczniki dziejów społecznych i gospodarczych* (*Annals of Social and Economic History*) was created from the initiative of two leading economic historians, Jan Rutkowski (University of Poznań, himself educated in Lwów) and Franciszek Bujak (University of Lwów, founder of the so-called school of history of prices). When the nestors of Polish social and economic research like Ludwik Krzywicki (1859-1941) were still active, new generation of historians educated on universities of independent Poland joined the academic circles just before World War II and they continued research in new, unfavourable conditions after the war (Morawski 2010, p. 8).

World War II brought significant personal losses to the whole milieu (f. ex. the most prominent Bujak's disciple, Roman Rybarski, was killed in Auschwitz in 1942 for his engagement in structures of Polish Underground State, where he was the head of treasury department). Equally devastating impact took place in the material basis – during the 1944 Warsaw Uprising German troops and SS burned significant part of the historical archives, including most of not researched files concerning economic history of Poland, especially state finances. It makes an exact survey of Polish economic development in the early modern period impossible, particularly in quantitative terms.

The break caused by the war, was extended by stalinization of Polish academic life in the years 1948-1956. Domination of orthodox Marxism resulted in the retirement of old professors and stopped the careers of part of the younger generation. Despite that, together with political reforms of 1956, the relaxing of censorship constraints and destalinization process brought fast development of economic history and perhaps its best period, lasting from 1957 to 1968. Except for domestic policy causes, such developments were corresponding to general trends in

Western countries. In that time *Annales* milieu under Braudel was becoming more and more influential in France and beyond its borders, cliometrician research took off and economics departments widened their perspectives by historical issues in the USA, the number of economic history departments and academic posts for economic historians was rising rapidly in the UK (Lyons, Cain, Williamson 2008, pp. 303-413; Coleman 1987, pp. 100-119; Burke 1990, pp. 43-51). Summing up, it was a period of unprecedented (and unrepeated) expansion of the whole discipline in the academic world.

Polish economic history during those years was dominated by unorthodox, westward oriented Marxism and rising influence of *Annales* school, maintaining lively contacts with Polish economic historians after 1956, which was renewal of tradition damaged by the war and Stalinism (Jan Rutkowski used to be one of journal's authors in the pre-war period). The most important centre was Warsaw University. Faculty of History was represented by Marian Małowist, specializing in the Middle Ages, early-modern period and the roots of the 16-century agricultural divide, whose works inspired members of *Annales* school, as also Wallerstein. Małowist's seminar was the most important place of formation of new academics. His pupils included (only among economic historians): Antoni Mączak, specializing in Polish trade history, history of voyages and social structures of clientelism, Bronisław Geremek surveying the lowest castes of medieval society and Henryk Samsonowicz specializing in economic and urban history of Poland in the Middle Ages and early-modern period. Faculty of Economics was the place of work of Witold Kula, theoretician of feudal system and historical methodology (*Economic Theory of the Feudal System*, published in Polish in 1962, English edition 1976), showing in his research behaviour patterns of economic actors of the feudal system as completely different from profit-maximizing, envisaged by neoclassical theory. Kula also had fundamental contribution to historical metrology, publishing *Measures and Men* (Polish ed. 1970, American ed. 1986). He was the mentor (among others) of 20th-century Poland historian Andrzej Jezierski, Marcin Kula (specialising in Latin American studies), Elżbieta Kaczyńska, Kazimierz Piesowicz (Morawski 2010, pp. 8-9; Kochanowicz 2006, pp. 169-171; Burke 1990, pp. 95-96; Boldizzoni 2011, pp. 87-94).

Economic history was also practiced by some of the researchers from the Warsaw-based Institute of History of Polish Academy of Sciences. Among them one must mention Maria Bogucka (1929-), a renowned urban historian of early modern period, specializing also in cultural history, and Polish pioneer of early modern women history.

Separate position was kept by economic historians based at Main School of Planning and Statistics (Szkoła Główna Planowania i Statystyki), where Krzywicki's pupil Andrzej Grodek (1901-1959), researching preindustrial history of Poland, was a rector. His successors as the heads of the department were agricultural historian Irena Kostrowicka (1922-2008) and leading specialist in Polish inter-war history Zbigniew Landau, co-author (with Jerzy Tomaszewski of Warsaw University) of monumental 4-volume synthesis of Polish economic history between World Wars. Despite censorship limitations, archive-based research on history of communist Poland was begun by Janusz Kaliński.

The traditions of Rutkowski research were continued in Poznań by historians of Nazi economic policy Czesław Łuczak and Czesław Madajczyk and specialist in feudal system Jerzy Topolski. The Lwów school, however, did not survive the war as the institutionalized team of researchers.

In other academic centres groups of economic historians also formed relatively strong teams. Usually, the cities possessing both university and economic university had two separate teams of researchers, usually being in close contact, such was the case of Cracow, Poznań and Wrocław. Sometimes two groups were affiliated in different parts of the same university structure, as it was in Łódź. Universities in smaller cities had their teams, usually specializing in regional economic history.

The political changes of 1989 were reflected by final abandoning of already unused Marxist methodology and re-examination of some issues critically assessed by official Marxist history. Thanks to the cultivation of academic freedoms in adverse conditions by leading professors, the economic history milieu performed really well throughout the communist period, although the price was relative isolation from the new methodological propositions in Anglo-Saxon economic history research and distrust of too formalised methodologies. The other causes of such state of affairs could be the earlier predomination of humanities-based style of economic historical writing, attachment to European continental traditions of economic history, as also relatively narrow source base, resulting, among others, from partial destruction of archival deposits during World War II, limiting the possibilities of constructing large data sets. Also focusing on purely domestic affairs could be noticed, which is to be partially attributed to decrease in funding for archive work abroad.

The members of Polish community of economic historians participated actively in the international congresses of the field, as also contributed to the work of international research teams. For today, the most active on the international level are Jacek Kochanowicz of Warsaw University (former disciple of Witold Kula) and Piotr Franaszek of Jagiellonian University in Cracow.

In the last years the circles of economic historians were integrated by conferences co-organized by teams based in Wrocław at Economic University (led by Jędrzej Chumiński) and Faculty of History of Wrocław University (led by Elżbieta Kościk). The final result was the creation of Polish Society for Economic History in May 2011 with Wojciech Morawski of Szkoła Główna Handlowa (Warsaw School of Economics, formerly MSPS) as chairman.

3. Selected general problems of economic history

After the review of trends in economic history research, associated with closer look on particular Polish case, let us move to the main problems appearing in explanations of the past given by economic historians. They are associated with the basic question about the long-term determinants of economic growth and economic development, or of social change in general. Are there any decisive factors behind them? Or maybe one, particular factor determines all the changes? And are the factors associated with the organization of human societies (in economics jargon: are they endogenous to societies)? Or maybe they are located outside societies (they are "exogenous" using more proper terminology).

Having in mind the objections about non-generalizing character of traditional historical research let us look at the different explanations, coming from the social-science bend of economic history or simply borrowed from social sciences. There are many theories of social change and economic development and mostly they are associated with endogenous properties of society. The theories pronouncing decisiveness of exogenous factors usually are associated with the role of geographical conditions, or more widely environmental characteristics, as main determinants of societies' activities, including economy. The view, that geography has the main causal power concerning economic and societal development, is named geographical determinism. It must be noticed that in its more rigorous form it rejects the influence of endogenous factors, so it denies the human activity (especially in individual forms) any chance for diverting the developmental path. It is thus deeply pessimistic and it implies subordination of an individual to a geographically conditioned community, which is unique and separate among other big communities, because of uniqueness of every particular geographical area. So it is not a big surprise when we find elements of extreme geographical determinism in political ideologies of ethnical exclusivity and hostility to other ethnic groups. The most extreme example is official ideology of Hitler-era Germany, where except for racial component (*Blut* – blood) keeping together the ethnic community of *Volk*, the land (*Boden*) was the other prerequisite for German superiority.

An example of acceptable form of using geographical factors as explanation of historical process is the case of Russian separateness from Europe, as also from Asia, which is perceived by Russian historian Lev Gumilev (1912-1992) as an expression of distinctive Euro-Asian civilization, being a heir to former Giant Steppe civilization initiated by medieval Mongols. The influence of geography and environment is perceived indirectly, as a main determinant of economic activity of nomadic peoples, dependent from their herds. The determinant exerts its influence in different directions because of changing environmental conditions, which in the longer perspective were never constant, and the author rejects strict geographical determinism (Gumilow 2004a, Gumilow 2004b, pp. 27-35). Besides solid erudite basis, Gumilev's interpretation of history has its hidden anti-Western and anti-liberal attitude, as also openly anti-Chinese.

However, even when we underline the dangerous flaws of perceiving economy and society as geographically conditioned, there was some undeniable influence of geographical factor on the economic development across the centuries. Hence many interpretations of economic history included, more or less, geography along with significant endogenous variables. Even not all the determinist approaches lead to so deeply illiberal and fatal conclusions. Some of geographers and historians in Anglophone countries of the early twentieth century saw geography as directing the historical development but also perceived the history as change in the relationship between Man and Nature in favour of the former. One of the most influential hypotheses of American economic history, assuming decisive role of moving settlement frontier and constant availability of free land in the West, formulated by Frederick J. Turner (1861-1932) in 1894, pronounced the role of geography in the creation of American free spirit, distinctively separated from the roots in European civilization (Baker 2003, pp. 16-18; Butlin 1993, pp. 190-191). On the other hand, it is hard to find the Turner's view about American exceptionalism as liberal, it was rather result of search for deeper explanation of dominant societal values, pursuit similar in some aspects to the parallel European developments. However, the set of values explained did not bring so dangerous consequences, as for example search for proofs of Germanic superiority.

On the field of economic history, the role of geography was perhaps the most pronounced in the writings of *Annales* historians, where geographical constraint on human activity was main cause of Braudelian *longue durée* phenomenon, which gave basis to the concept of "geohistory" (Dosse 1994, p. 109; Baker 2003, p. 22) and to describe the theoretical framework by external observers as "geohistorical structuralism" (Kinser 1981). But the concept of *longue durée,* perceived sometimes as "geographical time", next to its social and historical dimensions from Braudelian classification, did not include associations with superiority of any ethnic group. It was partially effect of Febvre's pre-war critical reappraisal of the German human geography from the late nineteenth century, created by Friedrich Ratzel (1844-1904), and seeking for relationship between land and people as basis for German nationalism, subordinating society to the state and being very deterministic in its meaning. Febvre's main point of reference was French geographer, Pierre Vidal de la Blache (1845-1918), surveying reciprocal, not one-way, interactions between culture and natural environment. (Febvre 1950, pp. 18-87; Bentley 1997, pp. 467-468; Dosse 1994, pp. 59, 95-96; Burke 1990, pp. 14-15, 37-38, Baker, pp. 19-24). It was rather pronouncing role of large geographic regions ("world-regions") as basic economic entities, overlapping the ethnic and political boundaries, as it was in the case of Braudelian Mediterranean, or carefully studying smaller-than-nation historical regions, giving the final assessment that they were of historical origin, constructed as an effect of human activities, geographically very incoherent, not primarily determined. Such verdict was given by Febvre researching 16th-century Franche-Comté, as also by Bloch, concerning Ile-de-France. The other issue was constant character of geographical landscape – studies over historical landscape were showing that in the longer term it was being deeply transformed by the man, so the relation was not one-directional, as it had been previously simplified. Thus geography was perceived as a significant constraint on human activity but the final result depended from that activity, not its constraints. Even in more pessimistic, Braudelian view on Mediterranean as sort of cage or prison for its inhabitants, the need for pluralistic explanations was underlined (Burke 1990, pp. 38-41; Dosse 1994, pp. 54-60; Middell 2003, pp. 111-112; Febvre 1950, pp. 89-90; Geremek, Kula 2004, pp. 6-10).

The close attitude was represented by writings of American historian Edward Fox who tried to establish connection between geography and history in his book *History in Geographic Perspective*, published in 1971. He concentrated mainly (as the *Annalistes* did) on the history of pre-modern France and showed contrast between two different types of exchange of goods: trade (exchange of local products within the usual radius of market town, transport rather by land) and commerce (transactions over large distances, usually involving luxury goods, transport by water). Hence was coming his typology of exchange centres: trading towns (landlocked, hinterland areas) and commercial towns (located along coasts and rivers). His explorations of geographical constraints underlined also opportunities to human actions given by geography and perceived the constraints in two dimensions - spatial and environmental (Baker 2003, p. 23; Wuthnow 1989, pp. 41-43, Fox 1989, pp. 331-336).

The significance of geography and natural environment in determining development of human societies stays part of the tradition of research of very long-term growth, using the timely perspective close to *longue durée*. Good sample of such reasoning gives following quote from Eric Jones: "Good natural defences such as Britain, Spain and to a lesser degree France possess have helped to give them greater stability than Germany, Austria and Poland." (...) "Burgundy seems a case in point. A congeries of smaller regions, some of them individually well demarcated, the fluidity of its outer boundaries and the greater riches of the Ile de France put it at a long-run disadvantage. Burgundy became the region; the Ile de France became the centre of the French nation-state." (Jones 2003, p. 107)

There are two main ways in which "geography" influences economies and their performance and structure in the explanations of the past. In first, the geographical constraint is understood as barrier to trade and travel resulting from the physical distance which people and goods have to pass, as also geographical determination of trade routes. So it could be simply addressed as transport constraint. It should be emphasized that using only physical distance as the measure of constraint's rigidity would be highly misleading. Thing that matters is relative distance expressed in time of travel and transport cost, depending from the available transport techniques and transport infrastructure. Because at least from the mid-Middle Ages there was rather continuous process of improvements in these spheres of human activity, the phenomena of shrinking space and integration of local and regional markets could be observed, especially when we take into account longer timespans. The real breakthrough was, however, brought by the Industrial Revolution thanks to railways and steamships. Thus the economic history of last millennium could be partially resumed in terms of weakening grip of geographical transport constraint on economic activity. The abortive influence of transport constraint was especially significant for the transfer of goods and persons and its gradual removal led to integration of markets for physical goods and increased social mobility (on both national and international levels). The last two centuries saw also other breakthrough in overcoming spatial limitations - in the sphere of communications. The wave of inventions, beginning from telegraph, gradually integrated the spread of information around the globe. The development of information technology and communication networks in the latest decades by rapid reduction of costs added to that process new dimension of democratized and decentralized access. It resulted in many sweeping changes, beginning from abandonment of barriers to real-time coordination of the economic activity on the global scale on the one hand to the sudden availability of efficient and sophisticated information and communication technologies (ICT) to the members of the most underdeveloped societies on the other. The transformation, we are witnessing, has deep social and international consequences, of much larger scope than purely economic effects on productivity and internationalization of services sector and another boost for increased international division of labour. Probably it is in close relation to the process of economic convergence between developing and developed countries in the last decade (the former recording the biggest technological progress because of their initial backwardness).

The phenomenon of disappearing of geographical constraint had its implications not only in the terms of decreasing costs and integrating markets but also in the changes of geographical distribution of economic activity. The stagnant, agricultural economies with low urbanization and high transport costs (especially when land transport is concerned) were quite well characterized by settlement patterns implied by theoretical model developed by German geographer Johann Heinrich von Thünen (1783-1850), despite its many idealistic assumptions. Because of lack of possibilities of efficient long-distance land transportation of agricultural products (accounting then for vast majority of national income), the completely flat land surface was an independent, isolated area with central position of market town supplied from the countryside. Town was surrounded by rings of production of different ranges of products. The products requiring the most frequent transport to the town market were fruit & vegetables and the relatively quick wasting dairy products. So the closest circle was dedicated to intensive farming and gardening. The outer circles were forests (for wood used in construction and as a fuel in preindustrial economy), grain production (less bulky than wood) and herd breeding for meat (not requiring carriage transport – animals went to town's butchers on their legs), the least intensive form of land use. Outside the rings, the wilderness remained because of unprofitability of any economic activity arising from transport costs. So the rural landscape was determined by the distance from the market town. Additionally, the land rent (which was in the economics terminology an owner's return from a factor of production) and land price determined by rent were declining along with the distance. The highest were in the gardening/dairying ring, the lowest in outer pastures. The spatial differentiation of economic activity in Thünen model took place on the level of basic centrally-oriented unit but not among the units, which in their ideal form should have been similar to each other. The real situation was more complicated, however, and the model best fitted the "trade" subsystem from Edward Fox classification. The world of "commerce" was associated with greater spatial differentiation and hierarchization resulting from the regional specialization, as also different sizes and functions of urban centres.

The process of rising disparities between leading urban centres and those of only local importance, although already visible in the early modern period and even in the Middle Ages, significantly gained pace with the Industrial Revolution and new wave of urbanization induced by industrialization. The spatial differentiation of economic activity through processes of its concentration and agglomeration in metropolitan areas reached previously unrecorded levels. Although already von Thünen in his later works was concerned with agglomeration phenomenon, it was in fact soon forgotten. The whole process was mostly explained in the extended framework of neoclassical economics, concerned with perfect competition. The idea of industrial localization advantages of big cities in the form of externalities (mostly influencing supply side of a company - access to thick labour market for specialised skills, access to specialised suppliers, but also to large market (so-called market linkages), inter-firm information and knowledge diffusion) was present for the first time in the works of Alfred Marshall (Cieślik 2004, pp. 115-119; Fujita, Krugman 2004, pp. 153-154; Fujita, Krugman, Venables 1999, pp. 4-5, 18). The explanations of agglomeration processes usually were later following some of Marshall insights, although the most important explanation of settlement patterns were the works of German economic geographers Walter Christaller (1893-1969) and August Lösch (1906-1945), combining the idea of central place with the gradual hierarchies and systemization of human settlements.

The new approach to the spatial economics was ensured quite recently (in the early 1990's) by the so-called new economic geography. Among its founders the central figure is American economist and Nobel prize laureate Paul Krugman (1953-). The sub-discipline based its development on sophisticated and formalized models based on the microeconomic theory. They were focused not only on the agglomeration processes on the lowest (i. e. urban) level but also included concentration of activity on the higher (national or regional) levels with the final stage of whole world economy divided into strongly concentrated activity of the core and spatially dispersed peripheral economies. On the micro level agglomeration was resulting from increasing returns to scale on company level, which implied imperfect, usually monopolistic, competition (smaller firms were in worse position to the bigger ones etc.). The rising scale of firms was partially constrained by rising transport costs of supplying new markets located outside the base of company. Increases of transport costs inside agglomeration are also constraint on its development. On the other hand, the rising positive externalities of the agglomeration process (big labour market with very differentiated offer, attracting another businesses and workers; access to inputs; specialised services available only in very big cities; big local demand) lead to further development of urban area. Successes of firms facilitate inflow of labour, making the cities grow even bigger. The mechanism of agglomeration in the absence of significant centrifugal forces allowing for stabilizing growth in an equilibrium would mean rising advantage of once successful urban area or country with adequately concentrated economic activity at the beginning of a given period. In the historical perspective it was explaining the stability of centres of economic growth in the long term and disappointing outcome of most hopes for gradual economic convergence between developed and undeveloped areas, suggested among others by Heckscher-Ohlin theory of international trade. It also shows that slight change in the initial conditions can completely alternate the development paths of analysed territories, leading to strikingly contrasting outcomes. The areas almost similar at the beginning of the process, can form highly polarized core – periphery system at its end. On the other hand, that implies that there are in fact many possible equilibria as the ends of the process, depending from small changes in the initial conditions. All of it supports the argument for government intervention in the economy – even modest reaction can give hugely divergent results (however, it is hard to formulate specified policy prescriptions on the basis of NEG). Additionally, new economic geography indicates at the natural tendency of spatial systems of human settlement to evolve in the dynamic process towards more and more complex forms. On the lower levels of analysis, theory and its models explain the issues of regional economic specialization and very intensive concentration of firms of the same branch (the creation of so called business clusters, often competitive not only on regional or national level but also internationally). Finally, the impact of falling transport cost is counterintuitive – stagnating or falling settlement in remote areas is associated with quick development of centres (Cieślik 2005, pp. 122-148; Fujita, Krugman 2004, pp. 142-158).

It must be added that the NEG models best fit the economies driven by manufacturing. So Krugman himself admits that the strongest regional specialization and industry in the USA were recorded before 1920 and their decrease could be observed from the end of World War II. The latest transfer of industrial activity to the developing countries and rising role of non-exportable services in the local economies of the developed countries create puzzle for the new economic geography. However, the agglomeration and clustering typical for the USA over a century ago are today's reality of south-eastern China (Krugman 2010, pp. 10-16).

The second dimension of geographical influence on historical economic performance is the constraint of the set of physical properties of given territory, or even whole Earth, which could be defined as environmental capacity. It is usually pronounced by researchers directly or indirectly referring to the theories of Thomas Robert Malthus (1766-1834), author of *An Essay on the Principle of Population*, published in 1798 and gradually improved in another editions, last time in 1826. Malthus stated that population growth was outpacing in the long term the increase of available food due to shortage of arable land and declining marginal productivity of labour, when employing additional workers (being an effect of population growth) to fixed land area. What else, divergence of two trends was to be rising in the future because of arithmetical nature (constant amount added in every time unit) of food production increases compared to geometric progression (initial level multiplied by constant factor in every time unit) of demographic developments. It meant declining output per capita in the conditions of population growth sparked by temporary rise of average income. The surge of numbers of people could not be fully contained to keep per capita output (and respectively wages) at that relatively higher level. It was happening because of deeply flawed human nature, steered by sheer instincts, unable to respond to falling incomes with adequately strong 'preventive checks' to the population resulting in the lower fertility ("vice" like contraception, but also delayed marriage and moral restraint). The surplus left by the activity of preventive checks inside society, was to be reduced by the external factors like war, famine and epidemics ('positive checks'), stopping uncontrollable population growth by increased death rate after breaching the limit of equilibrium of stable population. That equilibrium was to be achieved only with people incomes lowered to the so-called subsistence level, ensuring survival of existing population but not allowing for feeding any additional people in the long term (Mokyr, Voth 2010, 5%). It must be added that subsistence level did not mean complete poverty but the lowest income adequate to resist usual temporary exogenous shocks, like bad crops, resulting in rising food prices. The views of Malthus were used in his epoch as argument for not increasing workers' wages because any additional income in the longer term would be consumed by population increases until return to subsistence level. Therefore they were criticized by utopian socialists and Marxists, pronouncing need to improve existence of the working class. It appeared that Malthus' pessimism was too strong because of rapid progress brought by Industrial Revolution, allowing for rise of living standards as also feeding of additional population (the latter thanks to rising agricultural productivity and growing global flows of agricultural products enabled by revolution in transportation techniques). Malthus simply did not predict that technological change could free whole economies from constraints of fixed supply.

Malthus theory and model of environmentally limited economic growth was finally opposed by Robert Solow who argued that the capital and labour could maintain high productivity ratios thanks to technical progress and did not take into account land as production factor (Bartkowiak 2011, pp. 99-104). Therefore when discussing the issues of preindustrial and modern economic growth, the tags Malthusian and Solow growth are often applied respectively. The discontinuity between the two periods characterized by divergent economic growth patterns urged some economists and economic historians to search for kind of unified theory, explaining in terms of theory of economics the transition from Malthusian to Solow (or Solowian) type of growth (Mokyr, Voth 2010, 3-5%).

After relative abandonment, Malthusianism was appreciated as general description of stagnating trends and cyclical nature of preindustrial economy, dominated by low-productivity agriculture. The existence of Malthusian barriers was treated however, as rather conditional and depending from outcome of policies and economic activity. Such was attitude of neo-institutionalists, reflected in following quotation: "Why did the thirteenth-century Europe not break out of the Malthusian trap? The answer lies in the nature of the property rights that developed, or failed to develop, during this century." (North, Thomas 1973, p. 69). On the other hand, some researchers investigating traditional agriculture found no link between demographic expansion and stagnation. Instead, quite opposite process was to occur. According to Danish agricultural economist Esther Boserup (1910-1999), increased number of people was to speed technological progress thanks to increasing number of new ideas, technical solutions and spreading effects of learning-by-doing. Whole process was in best way summed up with the old proverb "necessity is the mother of invention".

Technological improvement and increased labour effort per unit of land were to allow for feeding population surplus and for deep transformation of agriculture. However, the intensification could not last as unlimited process, given constant population increases and barriers to growth were to be met in the long term in the pre-industrial conditions. The general crisis was thus long delayed, not avoided (Anderson 1995, pp. 30-33).

It should be added, that despite often cyclicality and sometimes sharp declines, the European population was not stagnating in the early modern period, which denies the most rigorous Malthusian thesis of long-term subsistence equilibrium. More detailed research on regional demographic trends and wages also show quite numerous cases of model variables behaving contrary to assumed interdependencies in different sections of the pre-industrial period. Sometimes simply population growth was accompanied by rising wages. In Tudor England, between 1495 and 1575 steep fall of wages was associated with longer-than-before life expectancy, which meant lack of allegedly unavoidable positive checks of high mortality. The other problem is that real wages do not reflect perfectly the trends in output per capita because of changing labour participation rates and number of hours worked by an employee. Sometimes, reserves were found in the leisure time sacrificed by the workers, motivated by the need of feeding their families, as also wider range of market goods available (something completely unaccounted by Malthusian model), which took place in the decades preceding Industrial Revolution. On the other hand, empirical failure of the most rigorous Malthusian predictions does not deny the more flexible Malthusian-type explanations. The existence of Malthusian-type equilibrating mechanisms was observed in many cases, especially when concerning shorter terms, and rather without full model-based result. Lack of positive checks (or their weak activity) in the Renaissance England means also relative significance of preventive checks, mostly delayed marriage (Mokyr, Voth 2010, 5-6%; Ogilvie 2003, pp. 172-173). Lack of modern type of economic growth in the preindustrial period does not exclude, however, the existence of longer growth periods, at least partially breaking the Malthusian barriers. Opponents of Malthusianism indicate at two sources of temporary overcoming of pre-industrial stagnation. The first was the division of labour – specialization of workers in one, specified part of the complex production process, allowing for significant increase in output without any additional outlays. Because of Adam Smith's role in showing increases of wealth resulting from division of labour, this type of growth is called in economics jargon as Smithian growth. The second source were the relatively rare and accidental technological changes, allowing for productivity increases and creating basis for so-called Schumpeterian growth (the adjective comes from the name of Joseph Schumpeter (1883-1950), Austrian-American economist pronouncing role of technology and innovations in economic development). Despite unsustainability of both kinds of growth in the long term, they are said to allow for temporary crossing of Malthusian limitations and reaching new equilibrium at higher population level.

Revised Malthusian theories were applied to forecasting trends in global economy when in the early 1970's the danger of exhaustion of some natural resources became visible. The trend represented by series of gloomy predictions (the most famous coming the report of international think-tank Club of Rome, entitled *Limits to Growth* and issued in 1972) was named neo-Malthusianism. Besides becoming ideological basis of some radical environmental movements, it renewed interest in the survey of relations between mankind and environment in the past. Part of the research was associated with works of historical anthropologists and archaeologists who were dealing with less complex and often pre-agricultural societies. Second part was coming from economic historians and historical demographers who researched relations between productivity, population level and standard of living throughout last centuries. It was enhanced by development of cliometric workshop, allowing for precise reconstitution of trends. The joint efforts resulted in attempts of describing the history of mankind in Malthusian terms, with perhaps the most radical Malthusian synthesis of economic and population history written by Gregory Clark (Clark 2007). According to neo-Malthusians, period before the Industrial Revolution was associated with no increase in the standard of living, while all the productivity increases resulting from random technical and organizational progress were in the longer term offset by population growth leading to new equilibria with income on the subsistence level. The geographical, or rather environmental, constraint in the Malthusian sense is thus scarcity of natural resources limiting economic growth and leading to stagnation in the standard of living through the channel of population pressure. In preindustrial times, the scarcity constraint was mainly limited supply of arable land, in modern economy we are said to cope in the future with limited supply of series of industrial inputs. The most often pronounced case of potential danger is the exhaustion of fossil fuels.

The separate category of environmental or geographical explanations of economic performance are those associated with long-term climatic change. Change of climatic conditions is echoed by responding swings in agricultural output, followed by economic, social, as also political adjustments. The problem is that analysis of available data usually do not let isolate the climatic influence from other causes of historical trend. The data, except for the last three centuries of meteorological measurement, are to be recovered mostly from the physical reminiscences from the given period, thanks to highly advanced methods of natural sciences, so also the methodological problems add to the uncertainty of the outcome. The explanations are of *longue durée* scale and the most known of them is the explanation of medieval crisis of the fourteenth and fifteenth centuries by cooling of the climate from the former warming with the peak around 1200. The cooling continued further into early modern period with the "Little Ice Age" from mid-sixteenth to mid-eighteenth century with the bottom in the seventeenth century when another crisis occurred. However, the catchy phrase for cold climate period is also applied to the years 1300-1500, when, for example, the Norse population of Greenland perished due to impossibility of agricultural activity in the new conditions. The European crises were accompanied by respective falls of Yuan (1368) and Ming (1644) dynasties in China, so the whole explanation assumes the highest, global level of climatic determinism. The climatic theories are based on causality from the supply-side of economic system and do not take into account demand factors resulting among others from demographic change, so they are opposed to classical Malthusianism. They usually do not include any regular pattern of moves of variables mediating between climatic and social change, especially population. For example, during the crisis of the fourteenth and fifteenth centuries the food prices were declining, so the population decrease was not generally caused by malnutrition. The accompanying abandonment of marginal, the most inappropriate for cultivation, lands was a response to falling demand, not result of technical impossibility of growing anything there. (Anderson 1995, pp. 23-25; Diamond 2005, pp. 371-373, 423-424). The extension of climatic theories are contemporary environmentalists' predictions about the fatal outcome of global warming caused by the greenhouse effect, resulting from rising presence of carbon dioxide, methane and some other gases in the atmosphere due to the increased consumption of fossil fuels.

Because of interdependence of the views about leading role of environment in economic development with natural sciences, much of the research is interdisciplinary and often concerned with prehistory. An example of work concerning influence of environment on historical development is *Guns, Germs and Steel* published in 1997 by American geographer and physiologist Jared Diamond (1937-). As he put it, the encapsulation of his book in one sentence should be "History followed different courses for different peoples because of differences among peoples' environments, not because of biological differences among peoples themselves." (Diamond 2005, p. 25). We can see that the two considered options were environmental perspective and racist one, not any of those concerned with purely social, economic or cultural phenomena. Further he added a creed-like statement: "Naturally, the notion that environmental geography and biogeography influenced societal development is an old idea. Nowadays, though, the view is not held in esteem by historians; it is considered wrong or simplistic, or it is caricatured as environmental determinism and dismissed, or else the whole subject of trying to understand worldwide differences is shelved as too difficult. Yet geography obviously has *some* effect on history; the open question concerns how much effect, and whether geography can account for history's broad pattern." (Diamond 2005, pp. 25-26).

Most of the representatives of the new current of environmental history, seeking its tradition in the works of earlier determinist geographers, are either geographers or historians, with almost no academics with the background in economics (Baker 2003, pp. 75-84).

It does not mean, however, that economists are today completely uninterested in the long-term relationship between environment and economic performance. It is studied especially when differences in development levels are analysed. The role of climate and geography as source of backwardness and poverty of tropical countries is underlined among others by American economist Jeffrey Sachs (1954-). He sought for development policies accommodating local specificity and avoiding one-size-fits-all attitude represented by Washington-based international economic organizations, where he began his career as policy expert. His reasoning concerning relationship between geography and economic performance was not focused only on properties of physical geography (in that field, he indicated at lower quality of tropical soils, seriously handicapping agricultural productivity) and climate, but also included biological components of the environment, especially diseases and parasites, as additional constraint on economic performance. His views are opposed, as the other forms of geographical determinism, on the grounds of neo-institutional economics (for not taking institutions into account), as also of historical argumentation (for skipping over lack of universality of development gap between temperate and hot climate zones in the past; Acemoglu, Robinson 2012, pp. 47-49).

Having discussed the role of exogenous factors in general explanations of the economic past we can move to the role of endogenous properties of society. They are usually divided in more or less general categories and the relationships studied are those among these categories like culture, religion, technology (although some argued, that technology was an independent variable due to its randomness and unpredictability), ideology, legal system, etc. The theoretical explanations tend to be associated with underlining different characteristics of society as the most crucial to economic development (and more widely - social change). Because of complex interdependencies between different characteristics of economy and society, attributing causal power to specified set of societal features is almost always disputable and unconvincing to significant part of the discourse participants. Perhaps the most popular among the theories of economic and social change were those associated with leading role of the technology in the modernization process - transition from traditional, agricultural society to its modern, industrial stage. The role of the technology was associated with introduction of new modes of production, as also series of social processes induced by new technology (for example, new wave of urbanization sparked by location of modern factories outside traditional urban areas). The decisive role of technology was perceived in different ways and one of the first theories in that group was Marxism, with the central position of production relationships in shaping the social structure. Theories embracing technological determinism appeared also in the Western social science after World War II and were opposing Marxism. They usually assumed some universal pattern of development since the optimality of given technology was almost universal and independent from local conditions. The so called "logic of industrialization" was to influence the economic and social development towards one direction. Thus the most radical and technocratic type of such theories implied gradual convergence among countries to the common economic model, independent from the cultural and institutional factors (the latter implied that systemic differences between capitalist and communist countries were to disappear in the long period). Following the economic leader was in this way the best recipe in economic policy for fast catching-up. The most known example of search for universal pattern of economic and social change in history (besides works of sociologists and political scientists) was perhaps *Stages of Economic Growth. A Non-Communist Manifesto* (1960, 3rd ed. 1990) by Walt Rostow, seeking the crucial transition to industrial society in the take-off period of surging investment rate of the economy. However, Rostow took into account influence of a series of social and non-economic factors and his theory cannot be classified as an example of technological determinism, especially that his model had safety-valve in the assumption about necessity of country leaders' will to modernize and he admitted some level of uniqueness of national patterns. After the economic failure of American aid to Latin America and the newly decolonized countries (mainly African) in 1960's, the policy prescriptions based on universal pattern of development stopped to be applied and explanations of the past started to be focused on causes of technological development as preconditions of economic success. They were found, among others, in the legal system, giving incentives to seek for technological inventions and ensuring constant inflow of new technologies to the economy, thus allowing to keep the fast growth pace. Only countries with adequate patent law and safe property rights were to succeed in the long-term, independently of universal technological patterns. The exemplary work on the issue was *How the West Grew Rich* (1986, Polish ed. 1993) by Nathan Rosenberg and L. E. Birdzell. Thus technological determinism was exchanged by institutional conditioning, associated with the new institutional economics. Researchers interested primarily in the influence of technology on economic development started to make more nuanced assumptions, abandoning the technological determinism. For example, the outcome of given technology application in different places could be different because of the interplay with the existing structures of society. Path-dependence of knowledge increases and its unpredictability also contribute to the multiplication of possible results of particular technological change (Lipsey, Carlaw, Bekar 2005, p. 16). Combined with increased interest in culture from the side of sociologists and historians ("cultural turn" in social sciences and history), new direction of seeking possibly general explanation of economic past turned to widely defined institutions, mostly those customary and informal, which could be described as part of the society's culture. An example of cultural explanation of the economic development was *Wealth and Poverty of Nations* (1998, Polish ed. 2000) by David Landes, also renowned as technology historian, giving really deep insight in the reactions between social structures and technology (*The Unbound Prometheus*, 1969). The role of culture, underlined strongly by social sciences other than economics, became thus one of the issues strictly associated with the inquiries of economic historians. Analysing culture and its different aspects widened the scope of interest. Paradoxically, it meant in some aspect return to the current initiated at the beginning of the twentieth century by Werner Sombart (attributing genesis of capitalism to the "capitalist spirit") and Max Weber who indicated at Protestant Reformation and its moral values (especially those of Calvinist version of Protestantism) as the source of the "spirit". Ascribing decisive role to ideas, Sombart and Weber were opposing technological determinism of Karl Marx in terms of causality. This example shows clearly cyclical recurrence of particular debates.

This brief look at selected explanations seeking general features of society, responsible for its economic success, shows that most of the sets of causes were conditioned by some other factors, which also could be found decisive. Abstracting main line of economic development, having in mind decisiveness of social processes for final outcome (as opposed to geographical determinism), is very complicated task and always stays subject to further debate. General outlines and syntheses representing specific modes of economic historical reasoning are published quite rarely, usually by very experienced academics. Most of the research is associated with explanation of particular processes limited in space and time and not claiming universality.

To remember:

primary & secondary sources, source criticism, auxiliary disciplines of history, Karl Marx, Leopold von Ranke, idiographic & nomothetic, German historical school of economics, institutional economics, *Annales*, Marc Bloch, *longue durée*, Fernand Braudel, cliometrics (new economic history), Robert Fogel, new institutional economics, Douglass North, geographical determinism, technological determinism, Malthusianism, Malthusian, Schumpeterian, Smithian and Solowian types of economic growth.

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Part 2. Lectures and their Structure

Lecture 1

1. **Introduction to economic history** – selected issues discussed in Part 1
   - basic concepts: economics and social sciences,
   - history and archeology, material and written sources,
   - primary and secondary sources, institutions,
   - economic determinism in historical sciences,
   - geographical and institutional determinism in economic history (institutional economics vs new economic geography)
   - malthusianism & neomalthusianism
   - geography as a beginning of developmental path
   - economic vs political history
   - new economic history (cliometrics)
2. **Differences between feudalism and capitalism**.
   - wider meaning of **feudalism**: stage in history that preceded capitalism; the entire social and economic structure of medieval Europe; based on mode of agricultural production defined by the relation between lords and the peasants (working their own land and that of the lord)
   - peasants owing labour service to the lord possessing police & judicial rights over peasants in exchange for military protection; gradual exchange of labour services and payments in kind with cash payments accompanied by development of market relations and loosening of the feudal ties (Western Europe)
   - feudal rights and duties subject to inheritance
   - feudalism lasting until bourgeoisie revolution (16th century – the Netherlands, 1640's – England, 1789 – France, revolutionary and Napoleonic wars – rest of Europe; liquidation of feudal relations in Eastern European agriculture – until 1860's)

- narrow (non-Marxist) meaning of feudalism: exchange of allegiance for a grant of land (fief) between two people of noble status; private hierarchical relationships established during feudal anarchy among the nobility, the smaller nobles military service and homage in exchange for income from the fief (dependent landed estate); whole process typical especially for France - helped restore public order and strengthen royal power (11th-14th century) but the whole network was eventually replaced by bureaucratic structures of government of late-medieval and early-modern state (14th-16th century)
- **The estate-based society and equality before the law**: feudal society defined by hereditary character of social and legal status (so people were born unequal); hence its division into basic estates: aristocracy, knights (sometimes joined in a single estate of nobility), townsmen (burghers), peasants (in Western Europe those two estates belonged to a single estate of commoners), clergy; the exceptions in the system were due to different causes: clergy (result of celibate), migration from countryside to urban areas (due to negative demographic balance of pre-modern cities), ethnic or religious communities with distinctive legal status – Jews, Muslims, some foreign settlers and merchants
- Transition to capitalist society: abandonment of hereditary privileges and obligations – equality before the law, theoretically equal opportunities
- in Marxist terms, class struggle between feudal landlords and peasants exchanged in the capitalist phase of development by conflict between bourgeois capitalists, owning the means of production, and proletariat, living from selling its work on the market – except for question about the real existence of class struggle, such attitude induces also statement, that transition from feudalism to capitalism was a passage from mainly rural to mainly urban society
- **Feudal and capitalist idea of property**: feudal property: both sides have limited (although asymmetrical) rights to the same property; in the case of agriculture dominant relation between feudal lord and dependent

peasant; open fields divided into lord's land, peasants' fields and commons (usually pastures and woods). Commons often subject to overexploitation and overgrazing (Garret Hardin's *Tragedy of the Commons* vs Elinor Ostrom views on common property)

- capitalist property: sole owner possessing exclusive rights to the specified object, transferable character of rights, property rights central to the legal & political systems as the guarantee of individual freedoms against the state; Western legal systems regard individual ownership as the norm, derogations from which must be explained; in agriculture dominant relation between proprietor and fixed-term tenant (contractual character under equality against the law), alternative to tenancy existing in the form of independent farmer households (usually created by land reforms); no commons, enclosure on British Isles
- **Guilds**: two different forms: merchant guilds associating merchants and craft guilds, being organizations of artisans.
- Merchant guild: association of traders interested in international commerce; first merchant guilds originated probably in the 11th century from fraternities (neighbourhood religious associations and drinking clubs typical for early Middle Ages); most merchant guilds confined membership to inhabitants of one city, with usual high entrance fee, giving them an exclusive character; merchant guilds quickly became leading political power in medieval cities but the urban social upheavals of the late 13th and 14th centuries, called Zunftrevolution ("guild revolution"), transferred all or part of the political and economic powers of the patriciate to the craft guilds; since the 15th century - most merchant guilds in England and Low Countries disappear or survive as attenuated bodies, sometimes as kind of social clubs (return to the initial function); in different parts of continental Europe merchant guilds often enjoy trading privileges and monopolies until late 18th century, although reduction to social functions is also common

- Craft guild: occupational association usually comprising all artisans (often suppliers, retailers, wholesale merchants) from specific branch of industry or commerce; hierarchical body, divided into the three categories of masters (only they were full members), journeymen, and apprentices;
- promotion to the rank of master warranted by proof of technical competence (masterpiece) demanded from journeyman; along with market saturation rising scale of demands associated with promotion)
- first recorded guild: weavers' guild in Mainz in 1099 but greatest expansion of this type of organization after 1250
- besides economic importance, significant social, religious, military and political duties to perform
- primary economic objective: establishment of complete monopoly in the common profession, hence focus on obligatory membership; despite frequent attempts at price-fixing, usually not efficient due to other guilds' competition (f. ex. conflicts between weavers and fullers) or the breach of the monopoly by craftsmen working beyond city limits (or beyond political power of the city); additionally municipal supervision and interference in craft policy common at all stages of guild history and from the 15th century - intervention of national governments in Western Europe
- the need of avoiding guild regulations was the primary motive behind the putting-out system (transfer of production to unregulated rural areas, production and its marketing organized by rich merchant/entrepreneur from the city)
- drift of industrial activity from towns into the countryside (the case of English and Flemish cloth production) left the guilds isolated from the main currents of economic power
- guilds as obstacles to free competition were the basic feature of feudalism in industry and hence their abolishment after the French Revolution: France (1791), Rome (1807), Spain (1840), England (1835), Austria and Germany (1859–60), and Italy (1864)

- paradox of revival of guilds under the rule of communist party – obligatory membership in Poland since 1948, its abolishment in 1988 (prime minister M. F. Rakowski, industry minister M. Wilczek)

3. **Chronology of the Middle Ages**.
   - International commerce and urban development as main indicators of changes in almost completely agrarian economy
   - Dark Ages – ca. 400-1000 AD, fall of Western Roman Empire (476); at their end Western Europe as one of the peripheries of Islamic world.
   - Carolingian renaissance – Charlemagne (768-814) and most of 9th century; growth processes broken by Viking and Magyar incursions; stabilization brought by Otto I and creation of Holy Roman Empire (962)
   - growth of medieval society – 11th-13th centuries; urban revival since ca. 1000 AD - disputable continuity with Roman towns in Western Europe, disputable continuity with tribal centers in Central and Eastern Europe outside former Roman borders; municipal self-government (commune) as the revival's distinctive feature; fast political emancipation of the cities (emperor Frederic Barbarossa defeated by Lombardian townsmen at Legnano in 1176)
   - start of the Crusades (1095) and the beginnings of Italian dominance in Levantine trade (Venice and Genoa, initially also Pisa and Amalfi), decline of Byzantine and Muslim trade
   - Champagne fairs as a meeting point of Northern and Southern European trade in the 13th century
   - Mongol incursions, Pax Mongolica in Eurasian landmass (1220's-1340's), Silk Route
   - "Microbian common market", The Black Death (1346-1349) – the main census in medieval history due to large population losses (30-50%), reshaping the economic and social situation throughout Europe

- 14^{th}-century crisis of feudalism in the West, successes of Central European economies, Hanseatic League (Hansa) of German-speaking cities dominating trade in the Baltic and Northern Europe
- 15th-century growth and preconditions for agrarian dualism. Bruges as leading trade centre between North and South, growth of Antwerp
- The end of the Middle Ages – alternative dates (1453, 1477, 1492, 1494), Italian early start of modernity (leadership of Italy visible also in the economic dimension – invention of double-entry accounting, bills of exchange)

4. Dualism in the agricultural development of Europe

- beginning from the 14^{th}-century specialisation of Central & Eastern Europe in primary exports (metals, wood, flax, hemp, grain, cattle)
- together with 15^{th}-century population growth in the West rising demand for Central European agricultural products
- gradual refeudalisation of agriculture in the East associated with political domination of nobility, "second serfdom" (rising labour duties of peasants; lack of settling feudal obligations in cash; usually rising judicial prerogatives of landlords)
- Elbe as a border between two areas
- domination of Amsterdam in Baltic trade – source of future Dutch trade supremacy
- territories without access to the Baltic specialising in cattle – Hungary, Ukraine (case of geographically induced export specialisation)
- place in the historiography: Marian Małowist (relations between Eastern & Western Europe, place for elite's policy choice); Witold Kula – theory of feudal system, underlining lack of profit maximizing behaviour in the case of late feudal lords; Fernand Braudel – "Annales" School & research of international trade in the early modernity; Immanuel Wallerstein – theory of World System, asymmetric, automatic (no place for elite's choice) and dependence-creating character of core-periphery relations

- results: fall of Eastern European cities due to absence of internal market; general economic backwardness; dominance of nobility in politics; enlightened absolutism policies in the 18th century; in case of Poland – partitions; need of land-enfranchisement reforms in the 19th century; delayed or uneven start to capitalism

5. **Land-enfranchisement reforms in the Polish lands**

- abolition of servitude in the Napoleonic period (Russian exceptionalism – 1861)
- Prussian way to capitalism – gradual reforms of the whole state, being an answer to military defeat at Jena in 1806; peasants buying out feudal obligations from landlords for cash and part of their plots; whole process mediated by the state through the system of special local commissions; creation of completely capitalist property and large labour market – poorer peasants disallowed from enfranchisement (main legislation concerning land reform: 1811,1816, 1823, 1850, end of the enfranchisement processes: 1865)
- Austrian response to the Spring of Nations (1848, end:1858) – all peasants enfranchised; dispersed agrarian structure, especially in overpopulated Galicia
- Russian delayed modernisation attempt after Crimean War (1861- Russia, 1864 – Congress Kingdom)
- Russia and Austria: problem of commons and indemnisation; lack of such problems after carefully conducted Prussian reform

Lecture 2

1. **Basic rules of 19th-century liberalism**

- Political features of liberalism: equality before the law, constitutionalism & rule of law, political representation & franchise (usually on the census basis – hence source for future social radicalism and women's suffrage movement)
- freedom of trade (abandonment of monopolies and trade privileges, lack of internal tolls & tariffs + pursuit of complete liberalization of foreign trade

– in reality some tariffs could be left for fiscal purposes on limited range of luxuries)

- *laissez-faire* – non-intervention of state in the economic affairs (state reduced to "night watchman"), free competition in all branches and deregulation (postulate formulated in situation of lack of increasing returns to scale in most of industry), ban on associations of employers and employees (trade-unions illegal in the initial phase of industrialization)

2. Historical antecedencies of post-1815 liberalism

- rule of law guaranteed in England after the Glorious Revolution of 1688
- 18th-century parliamentary democracy in England continued mercantilist policies inaugurated by Cromwell; they, being successful in ensuring England international economic supremacy, were opposed domestically because of side-effects of privileging vested interests and corruption
- On continent, opposition to mercantile policies combined with political opposition to absolutism - French physiocratism (Quesnay, 1760's): source of the wealth is in agricultural production, not in precious metals; phrase *laissez faire, laissez passer;* failure of physiocratic ministers (Turgot) to balance French crown's budget – end of physiocratism as intellectual movement
- English liberalism (Adam Smith, *An Inquiry into the nature and causes of the Wealth of Nations*, 1776): human labour (also outside agriculture) is the source of wealth, free competition on the internal market and free trade in external relations are the best ways to full use of human potential to create wealth (overregulation and trade monopolies are obstacles, trade is a positive-sum game)
- Smithian economic growth through increased division of labour and trade (not through technical progress – treatise written just before industrial revolution); future stagnation included in the model; call for limited role of government (defence, police, public works and institutions not profitable to a single entrepreneur)

- 1786 Anglo-French trade treaty – free trade without revolution
- Abandonment of feudalism in French legal system during first revolutionary years
- Le Chapelier law (1791) against guilds and trade associations (workers as also employers) – future weapon against trade unions
- egalitarian policies under Jacobins' terror
- Anglo-French trade war (1793) develops into full armed conflict, return to protectionism, Continental Blockade (1806) and embargoes
- Napoleonic codifications and their spread all over occupied Europe – quick implementation of modern law unavailable through normal legislation; Code Civile 1804 (freedom of contract, force of law granted to the valid contracts; inviolability of private property) - main influence on civil codes of most continental Europe and Latin America; Code de commerce 1807 regulating forms of business enterprise – simple partnerships, sociétés en commandité, sociétés anonymes (in that case limited liability of all owners but required charter by the government); correction of Code de commerce in II Empire (rule of Napoleon III) – limited liability and incorporation in 1863 (under 20 million franc of capital), extended in 1867 to all companies – all countries follow French example before 1900 (exceptions – Russia and Turkey)
- decisive unification of French law and administration during revolutionary and Napoleonic rule (goal not achieved under absolutism – kind of paradox)
- destruction of part of the privileged trade companies (Holland) during Napoleonic Wars
- Prussian reforms after 1806 Jena defeat

3. English liberal policies after 1815

- protectionist policy in agriculture after Napoleonic Wars (Corn Laws 1816) inducing fight for foreign trade liberalization

- liquidation of the ban on woolen imports (1819), deeper deregulation of foreign and colonial trade (1822-1824), abolishment of trade with India monopoly of East India Company (1813, tea trade and trade with China - 1833) and Navigation Acts (1822, 1849, 1854)
- liberalization of machine exports, forbidden in 1774 (1820's)
- tariff decreases (1820's and 1840's), the second along with abolishment of duties on primary products and exports,
- the Anti-Corn Law League, led by Manchester industrialist Richard Cobden, and campaign against Corn Laws (1838-1846); repeal of Corn Laws (1846, Robert Peel, conservatist, acting against his party); from that point Britain pursuits unilateral free-trade policy
- full free trade: prime minister William Ewart Gladstone (1809-1898) reforms (1860)
- abolishment of Combination Acts (1824 - acts of 1799 and 1800 making trade unionism illegal) and Usury Laws (constraining banking activity)
- repeal of Bubble Act (1825) and lack of charter requirements for companies (1844)
- introduction of limited liability acts (1850's) and general availability of limited liability (1862)

4. Trade liberalization outside Britain, return to protectionism (neomercantilism)

- German integration through trade (*Zollverein* – German Customs Union, established in 1818, enlarged 1828, 1834; Prussia unifies its customs area in 1818 after 1815 territorial gains – no tariffs and tolls inside the state, high tariff on the borders; negotiations with other German states concerning joining the Prussian union, followed by enlargements – from 1821 onwards (the most important: 1828 – Hessen-Darmstadt; 1831 – Saxony, Hessen-Kassel, 1834 – Bavaria, 1835); leading role of Prussia as the biggest state; abolition of numerous tariffs and tolls between union members combined with protective tariff on the borders; exclusion of Habsburg Empire competing with Prussia for leadership in Germany; Zolverein initiated Germany's political unification, enabled by Prussian victories against Austria (1866) and France (1870) and conducted in 1871; paradoxically customs unification was completed as late as 1888 (17 years after political one)

- Anglo-French trade treaty 1860 (Cobden-Chevalier): reduction of French abortive tariffs to maximum 25%; no tariffs on French exports except wine; introduction of *most favoured nation* clause – net of bilateral treaties between different European countries becomes in fact multilateral system
- Protectionism and its intellectual fathers: Alexander Hamilton (1755-1804) in the USA, German Historical School in continental Europe
- Implementation of protectionism – the USA: Republican Party: Morill tariff (1861), McKinley tariff (1890), Dingley tariff (1897); rising scale of protectionism in consecutive regulations; victory of protectionist Union against free-trade Confederacy in the Civil War (1861-1865) – creation of stable environment for future industrialization of the USA
- Germany: imperial chancellor Otto von Bismarck (1815-1898) to gain support of landed interests introduces tariffs on agricultural products to prevent Russian and overseas competition (1878); at the same time German industrial export expansion at foreign markets, including British; introduction of country of origin marks (Merchandise Marks Act 1887) as an early example of non-tariff barriers to trade; *Made in Germany* as argument for counterproductivity of at least part of such measures in the long term
- Russia – tariff increases in 1877 (retaliated by Bismarck year later)

5. Beginnings and history of the business cycle before 1914.

- oversupply as a result of industrial revolution, earlier crises were mostly due to financial speculation and big debt defaults, first oversupply crisis in British textile industry in 1788

- period between crises close to 8-10 years (the Juglar cycle) – surprising regularity
- oversupply leading to numerous bankruptcies, financial instability and deflation (at least falling prices in most affected branches), as also rapid unemployment (as a result, no strikes during crises – workers afraid of losing their jobs)
- brief and self-purifying nature of the crises (return to production activity after short period of emptying stocks/liquidation, leading to higher than pre-crisis production levels), opposed to secular character of agricultural crises and stagnations
- most striking feature - moment of change of greatest prosperity accompanied by financial speculation into rapid fall of economic activity (boom turned bust)
- other cycles – Kondratieff 50-year cycle (25-year waves of growth and decline), growth – 1787-1814 (1792-1815), 1850-1872, 1896-1920
- economic crises of the 19th century: contractions due to political factors during Revolutionary & Napoleonic Wars (1793, 1797, 1803, 1810)
- 1815 – post-war crisis because of evaporation of army demand (England)
- 1825 – crisis due to speculation on the prospects of trade with liberated South America (England), next year crisis in continental Europe (Prussia, Saxony)
- 1836-1837 – oversupply in textile industry, end of hand-weaving in English countryside; England, USA
- 1847-1848 – crisis preceding the Spring of Nations, overinvestment in British railroads, potato blight (started in 1845; the worst outcome in Ireland), spread of crisis in continental Europe (France, Germany)
- 1857 – crisis after Crimean War, although start in USA (basis for Republican victory in 1860), first of truly worldwide character

- 1866-1867 – relatively mild, perceived as the last crisis of *laissez-faire* economy, fall of big banks: Crédit Mobilier in France and Overend & Co. in England
- 1873 – greatest crisis of the century, started by speculation in Germany (inflow of capital thanks to French war reparations after 1871), transmitted to Austria-Hungary; collapse sparked by the crash on stock exchange in Vienna, immediate spread to Germany and other countries
- Relative stagnation after 1873, deepened by European agricultural crisis (trans-oceanic flow of commodities), return to protectionism, mainly in agriculture (1877- Russia, 1878 – Germany), first wave of labour unrest in USA
- 1882 – Union Générale bankruptcy in France (catholic and monarchist political affiliations of fallen bank compromised enemies of the III Republic), end of railroad speculation in USA (1884), first crisis in Japan, effects: social legislation in Germany (1883-1884), legalization of trade-unions in France (1884), recovery thanks to boom in electrical industry
- 1890 – fall of Baring's bank due to engagement in Argentina, new wave of investment in Latin America and colonies followed recovery, further instability in world economy in 1893-1894 (Panama affair in France, crashes in Australia and USA)
- 1900 – Russian crisis after boom financed by French capital, development of international commodity cartels – next stage of monopolization process, recovery fueled (among others) by car industry and aluminium production
- 1907 – first monopolistic crisis started by stock-market crash in USA – fall of production, without deflationary effects, result of effective supply control, strong effects in commodity-exporting countries; situation under control thanks to John Pierpont Morgan (1837-1913) acting as lender of last resort – need of more systemic ensuring of that function led to the creation of Federal Reserve system in 1913.
- 1913 – crisis stopped by outbreak of World War I.

6. **Monopolization and its influence on the business cycle.**

- 1873 - beginning of monopolization of capitalist economy
- monopolization mostly due to market-cleaning effects of previous crises and technological properties of new industrial branches
- lower price-falls combined with high unemployment as a result of monopolies' abilities to control supply
- different forms of monopolization (initially at national level): syndicates (independent firms cooperating periodically in one stage of their activity, usually sales), cartels (agreement of independent firms ensuring possibly greatest control over specified market), trusts (integrated cartel – shareholders of cartel firms become shareholders of trust, managed by board of trustees and receive dividends from the trust; usually term used for every monopolist agreement)
- anti-trust regulations – USA – Sherman Act, 1890; dissolution of Standard Oil - 1911
- increased concentration of industry – increased political role of labour movement
- international context: first globalization, peripheral sources of global crises, new wave of colonialism

Lecture 3

1. **History of money and credit before 1800. Metal currency systems. The origins of paper currency.**
   - functions of money: medium of exchange (means of payment) & value unit, asset (wealth accumulation)
   - medium of exchange: solution to avoid barter in multi-good exchange (separation of buying from selling); value unit: need of standardization to ensure price transparency (basis for becoming medium of exchange)

- wealth accumulation: saving instead of spending, trade-off with medium-of-exchange function; in primitive economies saving often in the form of hoarding
- occurence of coinage (standardization and certification of means of exchange) at relatively late stage of human history (7th century BC, Lydia), instead of use of generally accepted commodities (metals as early as 2000 BC) or tokens; counting easier than weighting
- wide use of metal money in ancient Greece & Rome (denaturalization of economy), problems resulting from lowering the precious metal content in coins (fiscal purposes of authorities, counterfeiting coins by the public) – first recorded effects of Gresham's Law in action ("bad money drives out the good [from circulation]" – rule named after treasurer of Elisabeth I, sir Thomas Gresham (1519-1579), who formulated it in 1558; previously stated by Copernicus and French philosopher Nicole Oresme (1320-1382)
- monetary crises in Rome resulting from often debasements (making coins by state mint from smaller quantity of metal than officially acknowledged) and lack of precious metals – beginnings with the reign of emperor Nero (54-68 AD)
- demonetization of economy in early Middle Ages, an attempt of remonetization – Charlemagne reform: 240 denari minted from one pound of silver – system which survived Middle Ages (last reminiscent: British division of pound in 20 shillings, 12 pence each, abandoned in 1971)
- remonetization after 1000 AD (together with development of commerce and cities)
- lack of stable currencies for most of the Middle Ages (debasement as temporary fiscal remedy, especially during war years)
- Italian (Florence, Venice, Genoa) cities as places of origin of most popular coins

- increasing role of Central Europe as a source of precious metals in late Midle Ages (Bohemian silver for coins like grossus and thaler, Hungarian gold)
- domination of silver in coinage (gold used for wealth accumulation; exceptions – some Italian coins)
- inflow of Southern American silver - 2nd half of 16th century, rising price of gold (change of price ratio to silver from 1:10 to ca. 1:15)
- paradox of declining economic position of Spain combined with main role as a supplier of specie for Europe
- Crisis of the 17th century – monetary explanations – decreased or slowed inflow of silver from America as a cause of economic contraction – still disputable
- monetary debasements and crises – central bank as solution (1668 - Sweden, state's owned Riksbank; 1694 – Bank of England as private company), beginnings of paper money (fiduciary emission of central bank notes, mechanism known from earlier activity of merchant banks; in the Swedish version notes as proofs of depositing large sums in copper currency in Riksbank's treasures – due to copper cheapness big value coins were extremely heavy, hence the demand for depositing them in safe place)
- Sir Isaac Newton (acting as master of the mint) sets gold-silver parity of the pound at 1:16, while market relation is 1:15.5 and retires before making any adjustments to official gold/silver ratio, which remains constant (overvalued gold drives out silver as a consequence – accidental origins of future Gold Standard), 1717
- French failure (John Law system 1716-1720 – central bank with capital on joint-stock basis issuing redeemable paper money of fixed value + tax collection + coinage + joint-stock Mississippi Company promising profits from colonial trade & uninitiated exploitation of Louisiana – after initial success of restoring state budget solvency collapse due to lack of real basis

for repaying bank notes & state-issued securities), hence French distrust of banks and central banking

- English speculation on joint-stock companies (South Sea Bubble, 1720) parallel to John Law, hence English distrust of limited liability expressed in Bubble Acts (abandoned in 1825)
- French revolution and paper money inflation - fiat money (from Latin “fiat” – “let it be done”) based on the government’s regulation – later inability to redeem in specie without discounts; hence bad opinion of paper money
- Bank of England suspends redeemability of its notes into specie in 1797 (de facto paper money system until Waterloo)

2. Money in the long 19th century. Different versions of gold standard. Bimetallism.

- Britain adopting officially monometallic Gold Standard in 1821 (after 1797-1815 suspension of conversion of notes into specie and return to redeemable currency in 1816); along with rapidly rising role of Britain in post-war economy of the first half of the 19th century, attractiveness of its monetary system increases (network externalities – increased use of gold-based money raises its international acceptability – self-amplifying effect; therefore Portugal, dependent heavily on trade with Britain, adopted Gold Standard in 1854 – much earlier than most of European countries)
- continental experiences with bimetallism (in the 1st half of the century de facto silver standard, usually based on the parity of French franc from 1803 – so called franc germinal), Latin Monetary Union (France, Italy, Belgium, Switzerland) created in 1865 to coordinate silver parities of coins in bimetallist system - adjustment achieved by reduced fineness of silver used in mints (previously coins of greater fineness were disappearing from circulation); open character of the union – soon other countries set their currencies on franc germinal parity (Romania – 1867; Greece – 1868; Spain – 1868; Finland – 1877; Serbia – 1878; Bulgaria – 1896)

- Austria and Russia – coins less visible in circulation, domination of paper money
- monetary explanations of Kondratieff cycles (1850's expansion – gold discoveries in California and Australia, 1890's - Alaska and South Africa combined with technology shock – improved method of gold extraction with the use of acids)
- after 1850 gold money drives out silver, Gold Standard adoption by most of European countries: Germany 1871-1873 (side-effects - deflationary character of reduction of monetary base after sudden expansion associated with French reparations – sharper character of following cyclical contraction), other countries follow German example: LMU 1873-1878 (silver coins based at franc parity remained in circulation, although being gradually withdrawn, silver 5-franc coins stopped to be minted in 1878), Scandinavian Monetary Union (Denmark, Sweden & Norway 1873-1875), the Netherlands 1875, Russia 1890, India 1898
- universal character of Gold Standard during First Globalization (except China & Far East), gold points (values of maximum deviation of exchange rate from the value resulting from gold parity – after their breach automatic equilibrating mechanism started to act in the form of trans-border gold flows), inability of governments to conduct expansionary policies
- American experience (lack of central bank for most of first 130 years of independence (exceptions – Bank of the United States 1791-1811 – ended by Thomas Jefferson, second Bank of the United States – 1816-1836 – ended by Andrew Jackson); 1792 (1:15) and 1834 (1:16) dollar parities (as effect silver standard between these dates); inconvertible paper money ("greenbacks") issued during Civil War, Confederacy notes declared invalid after the War; dollar convertible into specie as late as in 1879 - Gold Standard after lack of international support for bimetallism at Paris monetary conference in 1878; silver party – coalition of silver-producing

states overrepresented in Senate fighting for bimetallism, highly populist (height of influence in 1890's), obligatory silver purchases by Treasury in exchange of silver certificates being in effect part of money in circulation; final absorption of Gold Standard – 1900; 1913 – Federal Reserve System [Fed] – final creation of central bank)

- World War I – end of classic Gold Standard

3. The quantity theory of money

- Inflation (rising price level) is in close positive relation with changes in money supply
- Developed by empiricist philosophers of the Enlightenment (David Hume)
- Anti-mercantilist implications: if accumulation of money is raising prices, so positive trade balance (goal of mercantilist policy) would increase inflation but would not increase wealth
- Part of liberal, free-trade economic program in the 19th century
- Failure to formulate adequate policy response to Great Depression
- Refreshed by Milton Friedman and monetarists in 1960's and later decades (monetary roots of economic cycles)
- Problems with policy applications due to imprecision of the term "money supply" since early 1980's

4. Historical models of banking.

- British model – based on discounting of short-term commercial papers and negotiable instruments – short-term credit only (less stable financing for enterprises but much safer banking system); outside Britain introduced in Russia
- German model – securing long-term financing (thanks to transformation of many small short-term deposits into large long-term credits), as also acquiring shares in financed enterprises – fostering much more robust industrial development (especially when large investments were concerned) but not so safe – bank funds "frozen" in less liquid, long-term investments,

in the case of bank panic quite sure recipe for insolvency; popular in most of industrializing countries

- American exceptionalism in banking organization – banking licences granted on state, not federal level – many small banks without branches (Bank Units System, opposed to British Bank Branches System – a few large banks with many branches)

5. Creation and significance of the central banks.

- Precursors – Riksbank and Bank of England
- Privately owned institution at the beginning – exception Riksbank and its followers (Bank of Finland, Russian State Bank); created mostly at the beginning of the 19th century – France (1800), Finland (1811), the Netherlands (1814), Austria (1816), Norway (1816), Denmark (1818), Portugal (1821), Poland (1828), Greece (1841), Belgium (1850) – quite late as for the fastest industrializing country on the continent; Switzerland - 1905
- usually one of many banks issuing notes, gradually achieving legal monopoly for the issuance in return providing services to the government (holding part of public debt, cash advancement to national treasury, oversight of financial system)
- <u>Banking Charter Act (Peel's Act) 1844</u> – regulating banking sector and Bank of England; separation of Issue and Banking Departments inside BoE – acknowledgement of separate functions of the central bank
- <u>lender of last resort</u> function during crises as a result of Peel's Act – central bank exits from supporting real economy and becomes bank of the banks (another level over system of commercial banks), in the case of international panics cooperation of central banks (in the 19th century usually Bank of England helping Bank of France and vice versa – two most important central banks of that time); lender of last resort function contrary to the goal of ensuring stability of the currency

- Gold Standard assumed coverage of issuance by gold reserves held in central bank, in practice some central banks held part of their reserves in foreign currency convertible to gold (mostly pounds) or the British Treasury bills or bank deposits in London (interest-bearing reserves) – Russia, Japan, India, Austria-Hungary, Scandinavian countries – precursors of post-World War I Gold Exchange Standard
- Issuance conducted in fiduciary system (limited value of currency issued without coverage) – Britain, Russia, Japan (more deflationary version) or in proportional system (bank reserves held in some proportion to currency in circulation) or in hybrid of these two systems

Lecture 4

1. **Industrial Revolution.**

- fast development of modern industry, which began in 18th-century England
- Preconditions: <u>agricultural revolution</u> (development of Dutch innovations in England at the turn of 18th century), development of financial market and easier capital availability (<u>London replacing Amsterdam as leading marketplace</u> during 18th century), patent laws – subject to debate, demographic explosion – previously said to follow industrialization, in fact in English case it started before Industrial Revolution
- Mechanization of production processes (first in <u>textile industry</u>) accompanied by new energy sources (<u>steam engine</u> instead of muscles, water wheel or windmill) – the basic technological feature of whole process
- Economic sense: <u>capital substituted labour</u>, <u>independence from environmental conditions</u> (implying continuity and regularity of production process, free choice of new locations for industrial activity, <u>abolition of Malthusian barriers</u> also thanks to spillovers to agriculture and abandoning charcoal for coke in iron mills), <u>economies of scale</u> (abandonment of diminishing returns constraint, increasing returns along with technological

progress), technical progress as new source of much faster economic growth (Solow growth)

2. **Social implications**: decline of traditional crafts and decentralized countryside industries organized in putting-out system, new wave of urbanization (Lancashire, Belgium, later coal basins, also industrial sectors of old cities), creation of urban proletariat and mass society (partially because of demographic explosion resulting from improving of living standards and medicine)
3. **Structural changes in the economy**: development of heavy industry (production of machines for other industrial branches and agriculture, possible thanks to coke-fueled iron smelting and precise machine-construction techniques with use of spare parts), increased spatial concentration of economic activity implying development of transport infrastructure (canals and better roads, later railroads)
4. **International implications**: Great Divergence (between Europe and America and other parts of the World), Pax Britannica thanks to British technical dominance, increasing need of economic and social reforms in backward countries (first Prussian way to capitalism, later other countries – process impeded by ancien-regime domination after Vienna and Waterloo)
5. **Industrialization of continental Europe**

- Belgium: first country to industrialize on the continent; Liège - coalmines, heavy industry (Cockerill family – emigrant British engineer succeeding in business because lack of competition resulting from his superior knowledge), Verviers – woolens; secession from the Netherlands – Belgian revolution of 1830, further industrialization – 1830's, later development of chemical industry (Solvay)
- France – July revolution (1830), Saint Etienne, Lille (heavy industry), numerous textile clusters, problems due to insufficient coal supply (import from Belgium, reliance on hydropower implying low urbanization),

importance of agriculture and small & medium firms – deviation from common pattern, fastest growth – 1850's-1870's

- Germany – leading position of Prussia (the Ruhr [Germ. Ruhrgebiet] – 1830's, Upper Silesia – 1790's/1800's, zinc besides coal & iron, leading role of feudal aristocracy), decline of traditional weaving in Saxony and Prussian Silesia, strong ties between banking & industry; industrial development conditioned by previous solution of problems of backward, feudal agriculture (hence importance of Prussian land reforms)

6. Second Industrial Revolution

- second wave of industrial expansion associated with commercialization of inventions in electricity physics and chemistry (electrical and chemical industries)
- rising role of machine & heavy industry (Bessemer steel, 1856), lowering importance of textile industry
- other branches - oil mining, later car industry
- increased role of patent laws and (in Germany) universities
- new countries as leading industrial powers in new branches – USA, unified Germany
- beginning of decentralization of power sources (electrical & combustion engines)
- after 1900 - first assembly lines (Fordism), scientific management (Taylorism)

7. Development of labour movement and trade-unions

- Britain: legal persecution in the early phase of capitalism, luddism – spontaneous damaging of machines by traditional craftsmen and unemployment
- Trade-Union Act (1871)
- Trade-unions of skilled workers evolved towards mass participation, including unskilled (industrial unions, European model)

- political activity: unions as a basis of Labour Party (1906), evolutionary and reformist attitude of the movement under the intellectual influence of fabianism
- USA: gradual abolishment of anti-union measures through court verdicts
- Knights of Labor (1869)
- Chicago massacre of May 4, 1886 (side-effect of strike started May 1) – remembered as Labour Day by labour movements throughout the world
- American Federation of Labour (1886) – politically neutral, focused on collective bargaining, only skilled members in craft unions
- secession of Congress of Industrial Organizations (1935, industrial unions), creation of AFL-CIO (1955)
- continental Europe: Socialist and social-democratic parties, more radical than Labour Party and earlier founded (Allgemeiner Deutscher Arbeitverein, 1863, in 1875 transformed into Sozialdemokratische Partei Deutschlands)
- social legislation as an attempt to destroy social-democratic influences (Bismarck in 1880's in Germany)
- Marxist internationalism vs national loyalty – loyalty prevails in 1914
- Revolutionaries vs reformists – revolutionaries win in Russia

8. **Development of cooperative movement**:

- Two currents, both started in Germany, both built country-wide structures, centralized within special bank; common features – associations of individual farmers, craftsmen and small traders without sufficient capital to compete alone on the gradually concentrating markets
- Friedrich W. Raiffeisen (1818-1888) system – cooperative credit unions with unlimited liability of its participants (first – 1864); scheme popular among relatively poorer people, copied in Austrian Galicia (Kasy Stefczyka) and most of the Habsburg lands, also Germany and the Netherlands; descendants – Raiffeisen Zentrobank (Austria), Rabobank (Netherlands)

- Hermann Schulze-Delitsch (1808-1883) – cooperative credit unions with the limited liability of the members – popular among relatively richer people, first in 1850; scheme popular in Prussian partition of Poland (Bank Związku Spółek Zarobkowych in Poznań), as also in Austria and Belgium
- Role of cooperatives in modernizing agriculture – case of Denmark
- Granger movement in the USA – supposed to protect Prairie farmers from monopolist position of railway companies – peak in 1880's-1890's (along with the silver party popularity)

9. Economic aspects of American Civil War

- abandonment of slavery not the initial cause of war – it was addressed as war's goal by Abraham Lincoln in the middle of the conflict
- conflict of interests between industrializing and protectionist North and agricultural and free-trade South – effect of war was also determining American developmental path
- much greater military potential of industrialized North decisive in the final Union victory despite relatively better command of the Confederacy troops

10. Industrialization of Polish lands

- Congress of Vienna (1815) – Polish lands again divided among 3 powers, although with significant doses of autonomy: Kingdom of Poland (most of Duchy of Warsaw) – formally independent state being in personal union with Russia; Eastern parts of former Polish-Lithuanian Commonwealth – provinces of Russia, de facto autonomy in education until 1820's – perceived mistakingly by Poles as sign of future reunification; Grand Duchy of Poznań – autonomous land inside Prussian state; Republic of Cracow – formally free city under protection of 3 powers; most unfavourable situation of Poles under Austrian rule (Galicia being normal province inside absolutist state, separated from rest of Austria by mountain barrier – cause of deepening of economic backwardness)
- Kingdom of Poland 1815-1830: industrial policies: Old Poland industrial district near Kielce (since 1817 Stanisław Staszic, since 1824 treasury

minister Ksawery Drucki-Lubecki), new coal deposits (Dąbrowa Górnicza, discovered by Staszic), textile industry based on German settlers (Łódź and *Lodzermenschen*), schools supporting industrial development; trade war with Prussia 1823-1825 (as effect construction of Augustów Canal joining Vistula with Niemen [Memel]); infrastructure development (paved roads system with Warsaw as its center); restrictive fiscal measures (trademark of Drucki-Lubecki ministry since its beginning in 1821) meet opposition of liberal landowners focused on development of agriculture (so called Kalisz opposition) industrialization policies enhanced by creation of Bank of Poland in 1828 (money issuance combined with active credit policy); new industrial ventures planned from the beginning under Drucki-Lubecki as more ambitious and capital intensive than in the years of Staszic (source of future problems due to overinvestment)

- Kingdom of Poland after 1830: economic modernization not paired by political counterpart – November uprising 1830-1831; after Polish defeat Kingdom's constitution suspended (rule of marshall Paskevich); economic policy subordinated to Russian strategic military defensive plans; Bank of Poland failures in industrial finance under count Łubieński; tariff barrier between Kingdom and Russian Empire until 1850 – capital jumps the border – development of textile industry around Białystok; mechanization of textile industry in Łódź (1840's – Ludwig Geyer, 1850's – Karl Scheibler) – rapid technological advancement; sugar beet refineries (1830's & 1840's) – rich landlords, often with financing from Bank of Poland, example of industrialization not followed by urbanization
- Kingdom of Poland after 1864: Aleksander Wielopolski reforms (1861-1863, abandoning of corvée as allowable form of settling feudal tenancy payments, end of discrimination of Jews, polonization of administration) stopped by January Uprising of 1863-1864; tsarist repressions ending the rest of Kingdom autonomy (Bank of Poland being part of Russian State Bank, end of separate budget, russification of administration, degradation

of smaller towns into category of villages, keeping village status of new industrial centers until early 1900's); 1864 – land reform (3 years after rest of Russia); slow development of railways due to military doctrine, despite this fast industrialization in 1870's and 1880's and concentration of industry; rebirth of coal & smelting district around Dąbrowa and Sosnowiec, Old Poland reconstructed; Congress Kingdom for short time was the most industrialized part of Tsarist Empire (until French credits industrialized Ukraine and Russian heartland)

- Prussian partition in first half of the 19th century: gradual land reforms in Prussia (1807-1850) – feudal obligations exchanged by cash & land, only rich & medium peasants allowed to participate, as a result strong landlords but also market-oriented peasant farms, use of hired labour, fastest modernization; in Grand Duchy of Poznań land reform more favourable for peasants than in rest of Prussia (political motives) but results the same as in the rest of Prussian state; development of local industry cooperating with agricultural sector; 1848 – Polish uprising around Poznań, after defeat Prussian repressions, end of German sympathy for Polish cause, basis for social unity against germanization
- Austrian partition in first half of the 19th century: Galicia – backward during Metternich era (1815-1848), attempt of Polish uprising in 1846 stopped by peasant rebellion against landlords and annexation of Cracow Republic by Austria; 1848 – Spring of Nations – land reform including all peasants in Austria – in overpopulated Galicia resulting in constant agricultural crisis
- Prussian partition after 1848: Intense economic rivalry between Poles and Germans in former Duchy of Poznań, despite unfavourable state policy (Bismarck's Kulturkampf in 1870's) won by Poles thanks to dense network of economic & cultural institutions; regional specialization in agriculture and cooperating industries (Poznań becoming heavy industry centre thanks to Hipolit Cegielski's factory of agricultural machines), except for Cegielski

- domination of small business & lack of bigger industrial centres; Gdańsk (Danzig) germanized and marginalized as port city, mostly because of dominance of North Sea ports, important as centre of shipping industry (Schichau shipyard), as Elbląg (Elbing) diverging from rest of formerly Polish lands; 2nd wave of Germanization around Poznań after 1894 due to activity of Eastern Land Colonization Society (so-called Hakata – from names of the founders: Hansemann, Kennemann, Tiedemann) – failed again; summing up - the richest part of former Poland despite European agricultural crisis in 1870's-1880's (partially thanks to protectionist turn in trade policy of German state in 1879); additional phenomenon of revival of Polish identity in industrialized Upper Silesia after 1890 – basis for its future cooptation as industrial basis of recreated Polish state

- Austrian partition in the second half of the 19th century: wide autonomy after 1867 reform of Habsburg monarchy as one of the lands belonging to Austrian part of empire; domination of Poles in provincial government, known of socially conservative policies, preventing growth of significance of Ukrainian minority; Underindustrialized economy with 2 big urban centres: Lwów (now Lviv, Ukraine) and Cracow, besides them oil mining district (Drohobycz, Borysław), despite that modern municipal facilities throughout the province; backward and overpopulated rural areas with famines as late as 1890's and with big transoceanic emigration

Lecture 5

1. Great geographical discoveries and roots of colonialism

- 1492 – first voyage of Christopher Columbus (Spain), discovery of America
- 1498 – Vasco Da Gama (Portugal), passage to India
- 1517-1519 – Magellan & Elcano (Spain) - first encirclement of the globe
- 1519-1521 – Hernan Cortés (Spain) conquests the Aztec Empire (basis for Viceroyalty of New Spain)

- 1532-1533 – Francisco Pizarro (Spain) conquests most of the Inca Empire (basis for Viceroyalty of Peru)
- 1577-1580 – Francis Drake (England) – second circumnavigation of the World, contesting Spanish-Portuguese duopoly

2. Colonialism - "The Old Empires" – Portugal and Spain.

- Treaties of Tordesillas (1494) and Saragossa (1529). Most of Americas - Spain. Indian Ocean – Portugal. Philippines - Spain, Moluccas (Spice Islands) – Portugal.
- Portuguese colonial empire: Brazil, Spice Islands, Hormuz, Goa, Melaka, Macao, African possessions, trade with Japan. Pursuit of trade monopoly on Indian Ocean (failure in Aden, controlling entrance to the Red Sea)
- Spanish colonial empire: American viceroyalties (white settlement, big estates), Caribbean Islands, Philippines (Manila galleon travelling to Acapulco in Mexico instead of direct route to Europe - result of Portuguese monopoly on Indian Ocean)
- 1503 – Casa de Contratación (House of Trade) set up in Seville in order to manage American colonial trade (monopoly until 1713)
- separation of colonies during Spanish-Portuguese union (1580-1640) – inability of policy coordination, the Dutch and the English expel the Portuguese from most of the outposts, after ca. 1630 – Portuguese ally with England
- breakup of Spanish empire after Napoleonic Wars (resistance of Creoles against the authorities sent from Madrid, American Monroe Doctrine of 1823 supported by Britain) and war against USA (1898, loss of islands)

3. Historical conditions of mercantilist policy

- Renaissance: beginnings of modern state; new ways of warfare: artillery, mercenary armies, full use - Italian wars (conflicts between Habsburgs and France, 1494-1556)
- need to increase fiscal income (resulting from reasons above)
- loss of political importance of feudal lords

- loss of political independence of city-states
- acquiring of the trade and industrial policies of the cities by the national state
- Reformation, spread of protestant values (Max Weber theory) and increase of political conflicts (internal and international)
- results of silver inflows (mainly from Potosi): inflation (especially of agricultural prices), growth of Spanish trading partners, Spanish bankruptcies (1557, 1575–77, 1596, 1607, 1627, and 1647)
- crisis of 17th century, decline of Italian and Hanseatic cities, as also Poland and Ottoman Empire, peripheral status of the Baltic and Mediterranean (consequence of *Atlantic revolution*)
- ca. 1650 – starting point of „full" mercantilism, based on coherent theory

4. Mercantilist policy

- determination to increase military potential by growth of financial and human resources of the state
- determination to increase the quantity of precious metals inside the borders (bullionism)
- determination to achieve trade surplus (trade is a zero-sum game, using contemporary terminology)
- protectionist tariffs, monopolist trade companies for exchange with particular regions, support of domestic industries (usually by the system of monopolies and privileges), development of the navy - resulting from reasons above
- usually open immigration policies favouring qualified artisans but also merchants and agricultural settlers (exception – religious matters - France expelling Huguenots 1685)
- in absolutist countries additional prestigious projects with no profit possibilities

- England: system of trade companies, abandonment of part of the monopolies as a source of political corruption after 1640, Navigation Acts, wars for trade
- free-trade attitude of the Netherlands, dominating world trade ca. 1650, Grotius and *Free Sea* (1609), exception – Dutch East Indies – extremely exploitative and monopolist policies
- Colbertism (from the name of Louis' XIV minister Jean Baptiste Colbert) - France – most known version of mercantilism, trade protectionism, bullionism (perceiving precious metals as source of wealth), economic integration of the state (abandonment of part of internal duties, development of roads and canals) successful industrial policies in the production of luxuries (mirrors, furniture, textiles, decorative arts, often organized in the form of state manufactories), fiscal drainage due to numerous wars (policy of reunions on Franco-German border)
- initial anti-Dutch character of Colbertism, later also anti-English
- impossibility of financing both the strongest navy and the strongest land army together with general overregulation of the economy - crisis of the French model in the first decade of the 18th century
- later lack of significant reforms, only more peaceful foreign policy (potential for fiscal imbalances in case of war)
- Central and Eastern Europe: cameralism (different German principalities after Thirty Year's War, estates of Austrian Habsburgs) – high fiscalism (especially in Prussia) and anti-import stance in industrial policy, concentration on unification of separate lands and overcoming their feudal autonomy, lack of colonies (or, at least, significant ones); cameralist policies were further included in the enlightened absolutism (Austria, Prussia, also Russia)
- lack of mercantilist policies in Poland – low fiscalism and complete military disability

5. Dutch, French and English colonial expansion. Role of colonies in mercantilist policies

- The Dutch: expansion facilitated by two trade companies, strictly associated with the interests of the state: *Vereenigde Oost-Indische Compagnie* (VOC, 1602, Spice Islands, Java, Sumatra, Melaka, Coromandel Coast) and *West-Indische Compagnie* (WIC, 1621, Brazil, Caribbean Islands, New Amsterdam – today's New York)
- Dutch monopoly in cloves and nutmeg, oligopoly in pepper trade, Dutch and English elimination of Venetian trade in pepper in 1620's
- Westphalian peace 1648 & zenith of Dutch trade primacy (1647-1652)
- 1652 – beginnings of settlement in South Africa (ancestors of the Boers)
- decline of Holland and VOC in the 18th century
- The English: conflict with Spain, defeat of Great Armada – 1588
- 1600 - creation of East India Company (initially allied with the Dutch against the Portuguese primacy)
- 1607 – beginning of continuous settlements in North America
- Navigation Acts (1651, 1660, Staple Act 1663), introduction of partially free domestic competition with external protection ("national monopoly") instead of individual monopolies system. Continuity of policies between Cromwellian and Restoration regimes
- Anglo-Dutch wars (1652-1654 – Treaty of Westminster – the Dutch approve Navigation Act; 1665-1667 – Treaty of Breda, concessions in interpretation of Navigation Acts – Rhine and hinterland trade, New Netherland for England; 1672-1674 – separatist peace - Treaty of Westminster, France fights till 1678)

6. Problem of slavery in the early modernity

- Portuguese colonial policies and their role in the introduction of modern slavery (15th-century roots)
- Indians initially exterminated, the surviving ones become king's vassals in Spanish colonies (1540's) – start of African slave imports

- English primacy in 18^{th}-century heyday of slave trade
- Role of slave & Caribbean trade in financing industrialization (Eric Williams) - profits and capital accumulation not as important as technological progress – current denial of Williams' theses (also disputable)
- English abolition of slave trade (1807), growth of Portuguese trade in 19th century
- Abolition of slavery in English colonies (1833), Great Trek of Boers (1835 – early 1840's) – side effect of the ban of possession of slaves
- Abolition in USA (1863) and Brazil (1888)

7. Colonial rivalry in the 18^{th} century

- Anglo-French maritime competition (Second Hundred Years' War, 1688-1783 or 1815)
- Glorious Revolution (1688) and War of Grand Alliance (Nine Years' War 1689-1697, no territorial gains or losses on the English side). Creation of Bank of England, public debt separated from royal debt
- War of Spanish Succession (1701-1713, Gibraltar, *Asiento* privilege in colonial trade with Spanish America (slave supplies + one ship loaded with industrial products a year) for England, Anglo-Portuguese Methuen Treaty – 1703 – beginnings of constant cooperation)
- Asiento abuse and War for Austrian Succession (Jenkins' Ear War, 1740-1748, war in colonies started in 1739).
- superiority of English financial system during war periods (1740-1748, 1756-1763, 1776-1783).
- paradox of rate of taxation – effective rate of taxation, enabling greater military potential, was probably significantly greater in parliamentary England than in absolutist France
- paradox of faster development of French colonial trade (eightfold nominal growth in colonial trade between 1714 and 1789 – faster than British, despite constant military failures) – catching-up effect resulting from low initial base

- Seven Years War (1756-1763) and destruction of first French colonial empire: losses in the Caribbean and Western Africa (Senegal, Gambia); defeat in India (French possessions limited to Pondicherry and Chandernagore, East India Company control over Bengal – Robert Clive and battle of Plassey 1757, expansionary policy opposite to peaceful & trade-oriented one in the 17th century); French loss of Canada and cession of Louisiana to Spain in order to compensate loss of Florida
- British state intervention (due to corruption and exploitation of the locals) in East India Company 1773, Regulating Act
- War for American Independence (1776-1783), fiscal causes of French Revolution
- gradual British expansion in India (final victory over Maratha Confederacy - 1818)

8. Colonial rivalry in the 19th century

- anti-colonial stance of liberals – lower pace of colonial expansion after 1800 (especially in period 1840-1870)
- search of markets for machine-produced goods instead of search of colonial goods
- gradual change of European demand: raw materials for industry (cotton, wool, vegetable oils, jute, dyestuffs) and food for rising population (wheat, tea, coffee, cocoa, meat, butter) instead of spices, sugar, and slaves, Great Specialization
- more internal-affairs oriented policies in existing colonies, development of local agriculture and mining, decline of local industries (India), free-trade wars (Opium Wars), white settlers engaged in non-trade activities – massive European emigration

9. Russian eastward expansion

- conquest of western Siberia in pursuit of furs – Yermak (1580's)
- Russians reach Pacific – 1640's

- detailed exploration of Arctic Asian coast until Kamchatka and Bering Strait (1730's-1740's)
- border conflicts with China, treaties of Nerchinsk (1689), Kyakhta (1727), Aigun and Peking (1858 – control over Amur, unequal treaties in Chinese historiography)
- Russians reach Alaska (1791)
- conquest of Central Asia since 1830's – bad relations with England until 1907 (Great Game); Russian industrialization of 1890's had to be financed by French capital
- summing up: large land acquisitions without overseas expansion

10.Second British Empire

- Increasing tendency to control strategic outposts on way to India
- Sierra Leone 1808, Gambia 1816, Gold Coast (today's Ghana) 1821 – expansion explained by war on slave trade
- Malta 1802
- South Africa 1806 (Cape of Good Hope)
- Singapore 1819, Anglo-Dutch treaty 1824 – Dutch give up claims to territories north of Strait of Malacca
- end of East India Company monopolies – Indian trade 1813, Chinese trade 1833
- fall of EIC rule in India after sepoy rebellion (Indian Mutiny 1857) – 1858, India subordinated directly to the crown
- colonization of Australia (from 1788 until 1840's in order to avoid overcrowding in British prisons), Norfolk Island (1825), extermination of part of Aborigins and all of Tasmanians
- New Zealand colonized since 1840's, Maori Wars
- Britain's leading position as trading partner and capital supplier of newly independent Latin American states

- Increasing autonomy of white colonies: Dominion of Canada (1867), Commonwealth of Australia (1900), New Zealand (1907), South African Union (1910, after Boer War 1899-1902)
- Statute of Westminster (1931), creation of British Commonwealth, independence of dominions in foreign policy (except Newfoundland), imperial preferences in trade
- African expansion after 1870, purchase of Suez Canal stocks (1875), control of Egypt (1882) Mahdi wars in Sudan, Fashoda incident (1898), idea of Cape Town – Cairo line - cut by German expansion in Tanganica
- Cyprus 1878
- 1888 – protectorates over Brunei and Sarawak

11.Second French Empire

- 1830 – beginning of conquest of Algiers, later the only area of white settlement
- Napoleon III (II Empire) – Indochina (beginning from 1858 – southern Vietnam, conquest completed 1893 in Laos - III Republic)
- 1859-1869 – Suez Canal (Ferdinand Lesseps) – finally serving British interests
- 1892-1893 - Panama affair (Ferdinand Lesseps) – major political scandal of III Republic
- 1881 - protectorate of Tunis
- since 1880's – intensive penetration of African interior, stopped partially after Fashoda (conflict solution serving as basis for Anglo-French alliance); French West Africa (1895 and extensions until 1909 – Upper Volta), French Equatorial Africa (1910)
- diplomatic conflicts with Germany in Morocco (1905, 1911), protectorate - 1912

12.Changes in the colonial policies of the European nations at the turn of the 20th century. Evolution of economic significance of the colonies.

- technical possibility of European penetration of Africa – ca. 1880
- colonization of Pacific islands (commercially unimportant but potentially strategic outposts – France, UK, USA, Germany)
- new players (Germany, Italy, Belgium, Japan – first extra-European country to have colonies, USA)
- "Scramble for Africa" – as a result only Liberia and Ethiopia were independent African states in 1914
- Italian army defeated at Adwa by Ethiopians (1896)
- open-door policy in China
- Russo–Japanese War 1904-1905
- Japanese control over Korea 1910

13. Economic and territorial development of the USA in the second half of the 19th century.

- fixing of American borders in the first half of the century: purchase of Louisiana Territory from France (1803); War of 1812 – Canadian border on 49 parallel; Spain's cession of Florida (1819); end of Russia's (1824) and England's (1846) claims to the Oregon; secession of Texas from Mexico (1836), followed by accession to the Union in 1845; Mexican War (1846–48) – areas between Texas and California;
- stabilization of American territory in the second half of the 19th century: purchase of Alaska from Russia (1867); end of Indian Wars (1870's-1880's); annexation of Hawaii (1898);
- end of western frontier – 1890 – no free land available for settlement, end of open-range ranching end enclosure of prairie pastures; also cause of declining wages in industry (workers had since then no possibility to become independent farmers), so the later waves of migrants – Italians, Poles, Ukrainians, East-European Jews settled in cities as proletariat (as opposed to German and Scandinavian migrations, overrepresented in prairie farming); 1880-1910 European migration estimated at 17 million people

- economic penetration of continent's interior enabled first by waterways (Erie Canal and Great Lakes, Mississippi), since ca. 1870 by transcontinental railways; in1850's during gold rush, travel to California usually by sea, around Cape Horn – very quick progress in less than 2 decades
- railway development enabled export of American agricultural products from Great Plains to Europe; along with South American and Australian supplies it led to the structural crisis in European agriculture
- development fuelled also by practical implementation of inventions: Graham Bell (1847-1922) & telephone (1876); Thomas Alva Edison (1847-1931) – phonograph, electric bulb (1879), power station and electricity distribution (1880) – basis for General Electric; George Westinghouse and Nikola Tesla – alternating current electricity distribution – Westinghouse Electric
- development of industrial metropolises inside the continent, not only on the East Coast (Chicago – meat processing, granaries, railway equipment; Saint Louis – clothes, shoes, beer, iron; Cleveland – steel and oil processing, chemicals, Detroit – switch from food processing and shipments to car production – Henry Ford)

14.Foreign expansion in China

- Manchu dynasty (Qing, 1644-1911), Confucian, bureaucratic, centralized state (widespread corruption as side-effect)
- great demographic expansion in 18th century (side-effect of geographical discoveries – despite isolationist policies), spurring emigration from southern provinces
- great territorial expansion in 18th century
- European fascination during Enlightenment (paradoxically started by Jesuits)
- Cantonese trade (1759-1842) and ban on any other form of foreign penetration, contested by the British

- Opium Wars (1839-1841, treaty of Nanking [Nanjing] - 1842, 5 ports open, Hong Kong to the British; 1856-1860 – treaties of Tientsin [Tianjin] – 1858, Aigun Treaty with Russia – 1858; Beijing (Peking) Convention - 1860 France & England, also Russia)
- Taiping rebellion (1850-1864) – greatest military conflict of the 19th century – over 20 million victims; disorganization of the whole state in critical moment; unequal treaties with other western countries during 1860's, then gradual decentralization of the state
- Sino-Japanese War (1894-1895, treaty of Shimonoseki, loss of Taiwan), then partition of the country into zones of influence (Russia, Germany, UK)
- 1899 – US proposal of open-door policy
- de facto unlimited penetration of foreign capital, associated with recognition of China's territorial integrity
- new social group of compradors – Chinese agents of foreign firms
- reform attempts damaged by court factions - 1898
- Boxer rebellion 1898-1901, international military intervention in Beijing (1900-1901)
- Russo-Japanese War 1904-1905, Japanese victory, revolution in Russia
- nationalists end the Qing rule (1911-1912)
- Japanese gains in China resulting from World War I
- civil war after creation of the republic, country divided into domains of different warlords (room for Japanese expansion in 1930's), main nationalist forces represented by Kuomintang government in Canton (1927 transferred to Nanking), initially left-leaning, then anti-communist (source of another internal conflict)
- Chinese People Liberation Army created during fight against nationalists (late 1920's) as military arm of communist movement

15.Modernization of Japan after 1868.

- Isolationist policies of Tokugawa period (1603-1867), real power of shogun, decorative role of emperor (tenno)

- 1853-1854 – commodore Perry missions, Treaty of Kanagawa 1854, Harris treaty 1858 (openness enforced externally)
- 1868 – Meiji restoration (revolution?), emperor's return to power
- Japanese missions to Europe and USA (Iwakura Tomomi 1871), imitational industrial policies, French model of civil administration, conscript land army based on German patterns, navy on British
- abolition of feudalism (daimyo becoming imperial governors, then prefectures instead of domains, end of samurai as class, land reform – private ownership by farmers, land tax)
- conservative samurai reaction to reforms - 1877 Satsuma rebellion of disillusioned restorationists (insurgents killed, but honoured posthumously)
- inflation due to increased government spending, monetary reform & central bank (Belgian style of organization)
- Export specialization: agricultural products (raw silk, tea), later cotton yarn
- privatization of state-owned infant industries in 1880's (partially fiscal purposes), creation of large industrial & financial conglomerates (*zaibatsu* - Mitsui, Mitsubishi, Sumitomo, Yasuda) with strong political influence
- 1889 – constitution (German influence),
- rise of Japanese nationalism (barrier to westernization), education reform 1890
- expansionist policies in Korea & China
- 1905 victory over Russia makes Japan first Asian power
- gradual militarization of politics & state, annexation of Korea - 1910
- enlargement of Japanese empire and fast industrial growth during World War I
- Japan endangers British domination in Far East – basis for Anglo-American alliance

Lecture 6

1. The peak of first globalization – background of World War I outbreak

- openness to trade gradually decreased by rising protectionism (neo-mercantilism), almost no extra-tariff barriers, lowering transport costs level-off impact of rising tariffs
- free capital flows under Gold Standard, developed capital markets for government debt and stocks
- free labour movement facilitated by declining transport cost (especially after 1870); intercontinental flows but also big migrations inside great Eurasiatic landmass
- rising intergovernmental cooperation (Hague Conventions)
- economic and social interpretations of roots of war: arms race as solution to satisfy interests of big industry and junkers (Prussian landed aristocracy), nationalism as means of preserving national unity and solving internal problems in age of mass society and labour movement; relative decline of Britain due to spread of industrialization; relative rise of Germany and the will of *Weltpolitik* (world policy)

2. Militarization of the economy. Models of the war economy.

- outbreak of war & common hopes for short end (Schlieffen Plan) – lack of preparation for long-term war effort on both sides
- British domination on seas – Central States cut off from supplies – self-sufficiency & autarky, state-sponsored robbery on conquered lands
- British dependence on overseas routes – reason for <u>unlimited submarine warfare</u>
- rising prices of imports due to surging transport cost
- decline of world trade by one fourth/third – unknown value, in fact
- U.S. neutrality contested from beginning by <u>rising asymmetry of their credit relations</u> with belligerents

- exhausting of material resources & agricultural production capacities - continuity of war effort thanks to drastic reduction of private consumption (malnutrition & starvation)
- rapid growth of government expenditures from about 10% in pre-war period (financing mostly from US market – Entente, or debt owed to citizens – Central States), shares in GDP: UK 1916 – 37.1%, France 1917 – 49.9%, Germany 1917 – 59%
- <u>replacement of market mechanism by bureaucratic coordination</u> (organization & supervision of private businesses, food rationing, conscription, control of raw material supplies, state-owned manufacturing)
- new instruments of traditional state policy: quotas and prohibitions in trade policy, suspension of gold convertibility & issuance of new paper money in monetary policy (rapid growth of money supply – inflation partially hidden by price & wage controls, goods disappear from imbalanced market)
- separate offices and ministries for management of war economy
- most liberal regime – UK, McKenna tariff 1915 – abandonment of free-trade policy, lasting after the war; Defence of Realm Act; 1916/1917 – rising dependence from American supplies and, above all, financial market; no food rationing
- most restrictive regime – Germany, War Resources Department in Ministry of War, led by Walter Rathenau (director of AEG before the war), separate office for coal management, Hindenburg armament program 1916 – total war, *Kriegsamt* for direct management of industrial enterprises, price & wage control, state import monopoly, obligatory supplies in agriculture, food rationing organized by municipal authorities in cities, corporatist self-governance of industry- supporting state policy)

3. Economic and social aspects of World War I.

- <u>indebtedness of Entente states to USA</u> (largest – France, hence the strongest pressure on German reparation payments)

- <u>indebtedness of Central States to their own citizens</u>
- huge deflationary potential of return to Gold Standard
- enlarged capacities in primary products (Latin America, part of colonies and white dominions, also USA)
- enlarged capacities of European heavy industry
- creation of processing industries in traditional primary products suppliers – inferior to European counterparts, hence need of protection after the war (mostly Latin America)
- new powers: USA (global leader), Japan (regional leader), relative industrial & overall decline of Europe
- economic disintegration of Central & Eastern Europe – disputable (Polish case denies the thesis)
- creation of new type of political & economic regime – Bolshevik Russia
- huge demographic losses of warring states (especially felt in France, the country of traditionally low fertility – hence post-war French pacifism); in Britain (country with voluntary military recruitment system) the overrepresentation of social elite among the victims
- problem of veterans – demobilised to the contracting post-war economies, often socially marginalised ("Lost Generation" in the USA), basis for future radical movements (mostly right-wing)
- mass employment of women during wartime – despite post-war return to domestic activities, huge factor for emancipation; spread of suffrage rights for women in interwar period
- democratisation combined with social legislation just after the war, creation of more egalitarian mass society

4. Other sources of post-war instability

- Nov. 11, 1918 - armistice on Western Front
- peace treaties of Entente with Central Powers: Versailles (Germany, June 28, 1919, valid from Jan.10, 1920), Saint Germain en Laye (Austria, Sept. 10, 1919, valid from July 16, 1920), Neuilly sur Seine (Bulgaria, Nov. 27,

1919), Trianon (Hungary, June 4, 1920), Sèvres (Turkey, Aug. 10,1920, rejected by new nationalist regime, replaced by Treaty of Lausanne, July 24, 1923)

- harsh conditions: blaming Germans for outbreak of war, territorial losses and financial burden of war reparations
- disappearance of old empires: Habsburg and Ottoman
- political fragmentation of Central Europe: Germany still the country of greatest potential in the region despite the losses
- collective security system (League of Nations) undermined at starting point due to isolationism stopping Wilsonianism in US Congress
- Washington Naval Conference (1921-1922) – complementing European peace settlements (UK, USA - 5, Japan - 3, France, Italy - 1.67 ratios for capital ships – recognition of Japan as 3rd naval power, UK gives up two-power standard)
- in fact none of the major states satisfied with new status quo
- erosion of cultural foundations of Western civilization on both sides – basis for success of totalitarian ideologies

5. The problem of war reparations and its influence on the business cycle. The crisis of 1919-1922 and its consequences. Inflations, hyperinflations and currency stabilizations after World War I.

- inconvertible currencies in all belligerent countries (besides USA – only embargo on gold exports) – need to recreate world financial system
- losers indebted to their own citizens, as also to the winners (reparations)
- winners indebted to Americans, loss of investments in Russia (especially France – additional source of pressure on reparation payments), Versailles Treaty sets structure of recipients (52% France, 22% UK, USA give up) putting full assessment of reparations aside to future work of Reparations Commission (1921 – USD 31.5 bn, including 1.4 bn of already performed material supplies)
- January 1923 - French and Belgian occupation of whole *Ruhrgebiet*

- September 1923 – large government payments supporting passive resistance of *Ruhrgebiet* & lack of gold reserves cause hyperinflation of unbacked mark
- need of new reparations schemes: Dawes Plan – 1924 (5-year payment scheme + additional credits to German government for currency stabilization; sum of payments – USD 1.7 bn), end of the Ruhr occupation -1925, Young Plan – 1929 (59-year payment scheme, until 1931 USD 1 bn of payments)
- uncompetitiveness of economies of neutral states (gold inflows during war caused overissuance of money and inflation, Sweden suspended convertibility, Gustav Cassel and concept of purchasing power parity)
- post-war deregulation of the economies – hidden inflation becomes visible with the help of governments reducing thus internal war debts, hyperinflations rage (Germany, Austria, Hungary, Gdańsk [Danzig], Poland)
- political feedback of economic instability – social radicalism, especially in losing countries and newly created states, internal policy goals determining risky behaviour in foreign policy
- post-war crisis as a source of Mussolini's rise to power (1922)
- League of Nations Conference in Brussels – 1920, attempts to return to Gold Standard, absence of USA, Russia and Germany
- 1921 – crisis in USA due to inflations in Europe (external depreciation of European currencies even faster than internal implying loss of competitiveness of American exports), lack of workplaces for veterans – "lost generation"
- 1921 – beginning of American restrictive policies towards European immigration
- Genoa Conference 1922 - Gold Bullion Standard (currency convertible for gold in bars – higher amount of cash needed for exchange) or Gold Exchange Standard (no redeemability, the currencies of Gold Standard possessed by central bank can be used as basis for money issuance) as 2

possible versions of stable money, no return to bank notes redeemability, Russo-German rapprochement (Rapallo treaty) – tsar debts not paid by bolsheviks, reparations not paid by Germany; world financial system regulated by cyclical meetings of central bank governors, USA absent again

- attempts to restore pre-war currency-to-gold parities – the most unsuccessful: 1925, UK, Winston Churchill; other examples – former members of Scandinavian Union (1924-1928), Netherlands, Switzerland – neutral countries
- currency stabilizations below pre-war parity (at 3-27% of initial level): most of former LMU members (France, Belgium, Italy, Balkan countries), Czechoslovakia – 2nd half of 1920's
- creation of completely new monetary system – countries with hyperinflation (1924-1925)

6. World Economy in 1920's.

- good business climate for most of the decade (since ca. 1923), 1924 – European industrial output exceeds pre-war level
- new industrial branches (car industry, airplane construction, electric industry), new media & entertainment (radio, sound movie - 1927)
- relative stagnation in agriculture, additionally deepened by protectionist policies, focused on self-sufficiency
- further concentration of industry, often at international level
- highest output increases in Europe – France, Italy, Czechoslovakia, worse condition of UK, Scandinavia & most of Central Europe, in second half of the decade (besides France) – Belgium, Sweden, Czechoslovakia, Hungary, Romania, boom in Germany fueled by inflow of American capital, worse conditions in deflationary economies of Denmark, UK, Norway & Italy
- 1927 – meeting of central bank governors (USA represented by Benjamin Strong from Federal Reserve Bank of NY), coordinated lowering of interest rates during period of good business conditions resulting in overheating of American economy

- 1929 shares in world industrial production: USA – 44.8%, Germany – 11.6%, UK – 9.3%, France – 7.0%, Soviet Union - 4.6%

Lecture 7

1. The Great Depression, its features and consequences.

- started by crash on NYSE in October 1929
- deflationary policy of Herbert Hoover administration & Fed, beginning of public works system (Hoover Dam) & interventionism (grain market, Reconstruction Finance Corporation – July 1931)
- 1929-1932 – 5.5 thousand of American banks bankrupt (25% of all)
- Democratic Party candidate, Franklin Delano Roosevelt (1882-1945) wins 1932 presidential elections
- decline of world trade deepened by protectionist measures (1930 - Smooth-Hawley tariff in the USA; 1932 – British imperial preference accorded in Ottawa)
- crisis fuelled by repercussions in German & Central European finances (fall of Creditanstalt in Vienna – May 1931, fall of Danatbank – Berlin, July 1931), Hoover moratorium on German reparations June 20, 1931)
- Britain suspends pound convertibility, devaluation follows (September 1931)
- final delegitimization of Weimar Republic, huge unemployment despite public works program (Franz von Papen government – May 1932) and clearing settlements of foreign trade (Kurt von Schleicher government – autumn 1932)
- Hitler's rise to power (Jan. 30, 1933)
- London monetary conference – June-July 1933 – lack of further support for Gold Standard due to FDR attitude, formation of Gold Bloc (lasting until 1936)

2. State interventionism. New Deal.

- New Deal – reform program introduced by F.D. Roosevelt in USA: bank holidays (March 6, 1933) – after 9 days 75% banks restart their activity; Glass-Steagall Act (1933) separating commercial & investment banking & creating Federal Deposit Insurance Corporation
- additional spending in different sectors of economy: Agricultural Adjustment Administration (May 1933 -1936, $ 1.5 bn of expenditures), Federal Emergency Relief Administration (May 1933 - relief payments for unemployed), National Recovery Administration (June 1933-1935 – 557 basic & 208 supplementary codes of conduct regulating specified industrial branches on voluntary basis – in exchange for Blue Eagle symbol of fair industrial practice), Public Works Administration (1933-1939 – $ 4 bn spent on public construction projects), Works Progress Administration (1935-1943 – employment program similar to PWA), Tennessee Valley Authority – economic reconstruction of Tennessee River region, Civilian Conservation Corps – forestry improvement program for unemployed youth
- dollar devaluation Jan 21, 1934: from $21 to $35/troy ounce Au; Gold Reserve Act (Jan 30, 1934)
- May 1934 – intervention on silver market – damaging effects for China
- Securities & Exchange Act (1934) – Securities and Exchange Commission (1934), Banking Act (1935) – strengthening of Fed's position against government and state banks
- Social Security Act (August 1935) – old age pensions
- Supreme Court rejects part of New Deal as unconstitutional – 1934-1936
- Return of recession in 1937
- Second New Deal (1937-1938) – agricultural subsidies for soil preservation & other solutions designed to be constitutional
- Return of good business climate – after American entry into the war
- Lack of theoretical basis for interventionism, John M. Keynes *General Theory of Employment, Interest and Money* (1935-1936) commonly accepted after the war

3.Interventionism in the fascist states.

- Italy: concept of totalitarian state – Mussolini
- corporatism (corporativism) as ideology of ensuring national unity by avoiding conflicts resulting from market system, syndicates – sole representation of labour from October 1925, strikes & lockouts illegal; Constitution for corporate state - April 1926, creation of 22 nation-wide corporations - 1934, Council of Corporations as supreme legislative body - 1936 (also basis in social teaching of the Catholic Church - Pius XI - *Quadrogesimo Anno*, 1931, hence corporatism in Spain & Portugal)
- public works projects before 1929 (mostly in backward agriculture)
- Istituto Mobiliare Italiano – IMI, Istituto per la Riconstruzione Industriale – IRI, 1933, created on basis of industrial assets of nationalized banks – 50% shares from Italian stock exchange controlled by IRI in 1933; source of finance for big industrial projects (private & public) and bailing out failing firms (without nationalization); lack of theoretical corporatist explanation – pragmatic and technocratic origins of the institution
- autarky in foreign trade, especially after League of Nations sanctions resulting from 1935 invasion of Ethiopia, at the same time rising role of state-licensing, reallocation of resources to military industry: war machine at the expense of standard of living
- Germany – fighting high unemployment as source of legitimacy for Hitler's regime
- concept of *Grossraumwirtschaft* (big area economy)
- delegalization of trade-unions, *Deutsche Arbeitsfront* instead - May 1933, Robert Ley (role in labour mobilization during the war)
- reduction of market's role in the economy – government price-fixing, bank-licensing, creation of Reich's Economic Council (*Generalrat der Wirtschaft*)
- state planning associated with private property, Reich's Ministry of Economy – Hjalmar Schacht, from 1938 Walter Funk, *Reichsbank* -1933-1939 Schacht, from 1939 Funk, War Economy Office of Wehrmacht –

Georg Thomas, Office of Plenipotentiary General for 4-year Plan – Hermann Göring; constant rivalry of administrative bodies

- cannons instead of bread – reallocation of capital towards armaments, rising role of collective consumption (*KdF*, Strength Through Joy), big public works (highways, *Organisation Todt*), 1937 – labour shortage, no rise of living standards
- mass production of industrial consumption goods on Fordist patterns – *Volkswagen*, *Volksempfänger*
- autarky in agriculture
- sources of financing: state robbery of Jewish property, pre-paid *VW* program, asymmetric foreign trade relations with Balkan countries, *Mefo* bills-of-exchange; despite that imbalances in German pre-war finances
- Japan – industrial policies similar to those of Germany – armaments expenditure at 17% in 1938, partially because of military expansion in China
- Dependence from imported supplies implied concepts of New Order in East Asia (1938) and Greater East Asia Co-prosperity Sphere (1940; both dominated by Japan and freed from Western influences – Asia for the Asians)
- Neutrality pact with Soviet Union – April 1941, clear path for southern expansion
- Summing up: totalitarian regimes intervening in economy in order to build war machine for ensuring wealth thanks to future conquests, democratic governments focused directly on wealth of citizens, especially those most affected by Great Depression, in part to avoid social radicalism

Lecture 8

1. The economy of interwar Poland. Problems of integration of the new state.

- regaining independence (Nov. 11, 1918) as result of World War I

- country destroyed by the war (front movements, exploitative German policy towards the industry of former Congress Kingdom, evacuation of part of factories to Russia)
- need of uniting different legal systems, technical standards, infrastructure (especially in transport)
- cultural differences between 3 partitions
- duality of power at the beginning of independence (Józef Piłsudski and government of Jędrzej Moraczewski in Warsaw without recognition of Entente vs National Polish Committee in Paris recognized by Entente)
- end of potential internal conflict - creation of Ignacy Paderewski government in Warsaw with support of NPC (Jan 16, 1919)
- Paderewski government: shaping the rule of full control of treasury minister over state finances (ministry of Leon Biliński, July - December 1919)
- frequent changes of governments & treasury ministers until 1926 resulting in frequent changes of state economic policy
- constant imbalances in public finance due to border conflicts, post-war reconstruction & unification, as also imperfect fiscal apparatus
- the greatest financial effort - war against Bolsheviks in 1920

2. Inflation and hyperinflation.

- money issuance at the end of war – Polish Country Lending Institution (Polska Krajowa Kasa Pożyczkowa, PKKP) – acting in the part of Congress Kingdom occupied by Germans and with German authorities, issuing Polish mark (on parity with German mark)
- monetary chaos, the need for transitory currency and central bank, hence polonization of PKKP
- inflation during armed conflicts period (until Treaty of Riga, March 1921) – result of financing budget deficit by paper money
- 1921-1923 - additional issuance of paper money (over the value of budget deficit) stimulating post-war reconstruction

- growth of dollar value in Polish marks (%): 1919 – 1123.6, 1920 – 435.8, 1921 – 395.3, 1922 - 509.1, 1923 – 35714.6 (October 1923 alone – 360.6)
- necessary reforms postponed because of failed attempts of obtaining foreign stabilization credits (USA, UK - but offered conditions unacceptable, especially British)
- January – June 1923 – Władysław Grabski in ministry of treasure in Władysław Sikorski (centre) and Wincenty Witos (centre-right) governments
- situation rapidly worsens after Grabski's dismissal

3. Władysław Grabski and his reforms. The second Polish inflation.

- Grabski elected prime minister on December 19, 1923, extraordinary prerogatives of issuing government decrees
- budget reform initially based on property tax (legislation Aug. 1923) and adequate adjustments of tax value (Dec. 1923), later new tax increases, new real estate tax, plans of future sell of part of government property & new tax monopolies; expenditure adjustment – decrease of railway subsidies, job cuts in administration, paralelly unification of fiscal system in all 3 former partitions, 1924 Budget Act assumed 10% deficit to be financed by bond issue or foreign credit
- currency reform – money exchange intervention of PKKP on prime minister's call (Jan. 1924) stopping depreciation of the mark, accompanied by organization of Bank of Poland (Bank Polski) as joint-stock private bank, independent from government; after successful subscription of Bank of Poland shares, start of activity on April 1, 1924 and issue of złoty as new currency on parity with swiss franc, złoty/USD exchange rate 5.18, złoty/Polish mark conversion rate 1:1 800 000
- consolidation of state-owned commercial banks, creation of Bank of Country Economy (Bank Gospodarstwa Krajowego, BGK) – May 1924
- 1925 Polish-German tariff war, BoP suspends złoty's convertibility – July 1925, banking crisis in Poland – Sep. 1925, stopped by government's newly

created Fund for Assistance to Credit Institutions; almost 50% drop in złoty's external value; BoP chairman Stanisław Karpiński denies intervention to Grabski, Grabski's dismissal (Nov. 13, 1925)

4. **Economic background of the May Coup. The stabilization of 1927.**

- new government of Aleksander Skrzyński (paradoxically supported by rivalring Socialists and National Democracy, no peasant parties), Jerzy Zdziechowski (ND) – treasury minister
- Zdziechowski's policy based on Gustav Cassel's idea of exchange rate as relation between price levels of trading partners' economies, so depreciation could be maintained until external balance was restored
- budget reforms – temporary salary cuts in administration, export duties on agricultural products (anti-peasant move in fact)
- improvement of business climate – ca. Feb. 1926, change of foreign capitalists attitude towards Polish economy, closing ties with USA – search for stabilization credits
- fall of Skrzyński, recreation of highly unpopular coalition of ND with Polish Peasants Party "Piast", Piłsudski's May 1926 coup – beginning of authoritarian system of government
- first years of authoritarianism (1926-1929) – good business conditions (ended by transmission of American crisis to Europe), helping to raise public support for Piłsudski; period of intense state investment activity (sea port in Gdynia, Silesia-Gdynia railway, nitrate-fertiliser plant near Tarnów – Eugeniusz Kwiatkowski as minister of industry & commerce 1926-1930) and rise of importance of etatist modernizers in the ruling elite
- Anglo-American stabilization credit October 1927 used for change convertibility standard (close to Gold Bullion Standard), not for increase of money in circulation

5. **The question of land reform**

- common in all Central & Eastern European states

- rules of reform determined by social & ethnic relations: countries with native landlords and ethnical diversity among peasants (case of Poland) the least radical, countries with landlords of different nationality and native peasants the most radical (Lithuania, Czechoslovakia)
- measure of radicalism – relation of indemnity payments to land value (ca. 5% in Lithuania – full indemnization in Poland), additional issues of voluntary or obligatory partition of estates (voluntary) and maximum allowable area of landed estate
- land reform (legislated Dec. 1925) as result of compromise between Polish Peasant Party (class interests of peasantry) and ND (class interests of landlords)
- reform executed during authoritarian Piłsudski's rule – liberal interpretation of legislation – Piłsudski's will of cutting landlord support for ND

6. Great Depression in Poland.

- the longest-lasting in Europe (until 1935), the deepest fall of industrial production besides Germany, very sharp fall of agricultural prices while increasing output (so called hunger supply resulting from peasant's demand for cash) – clear market failure; additional source of intensification of ethnic conflicts in the countryside
- length of crisis resulting at least partially from Polish participation in Gold Bloc (France, Italy, Belgium Luxembourg, Netherlands, Switzerland) created on July 8, 1933 as response to fiasco of London Monetary Conference – strong deflationary effect and loss of international competitiveness; end of Gold Bloc with Popular Front victory in French elections 1936
- worsening of economic situation after fall of Credit Anstalt (May 1931)
- active role of the state – share ownership of bankrupting enterprises (Bank of Country Economy, BGK, as main institution of such policy), increasing shares in banks with liquidity problems (Bank Handlowy SA in Warsaw),

new Acceptance Bank for solving problem of agricultural debts – spontaneous etatization of the economy

- Work Fund (Fundusz Pracy) – 1933, public works program for unemployed
- anti-monopolist and anti-cartel policies
- more autarkic economy due to disruption of international trade system

7. Eugeniusz Kwiatkowski's economic policy

- Piłsudski's death (May 12,1935), after that date decomposition of ruling elite
- new government of Felicjan Sławoj Składkowski (1936-1939), return of Kwiatkowski as deputy prime minister in 1935
- economic goals subordinated to worsening international relations: hence focus on development of military industry associated with broader modernization plans; financing partially from French government credits
- Central Industrial District (COP) – localized in south-central Poland (nowadays south-eastern Poland due to border movements) in order to be relatively safe from invasion from East and West; constructed under auspices of 4-year plan (July 1936-1940) prepared by Kwiatkowski and not synchronised with 6-year plan of Military Modernization (hence relatively strong pressure on long-time goals and infrastructure development); during the war Germans first dismantle part of the district's facilities, then heavily invest (beyond the reach of the Allies' bombers)
- success of 4-year plan as basis for long-time investment plan 1939-1954 focused on economic convergence between different parts of the country
- March 1939 – changes in the statute of Bank of Poland allowing for more expansionary monetary policy – too late

Lecture 9

1. Bolshevik revolution and its roots

- Bolsheviks - radical faction in Russian Social-Democratic Worker's Party (from *bolshestvo* – majority), consisting of professional revolutionaries, result of the breakup at 2nd congress of RSDWP (1903)
- in fact minority in RSDWP, which was dominated by more moderate Mensheviks (Lev Martov), preferring organization of mass-membership party according to Western patterns
- Bolsheviks led by Vladimir I. Lenin, create their own organization within RSDWP in 1912
- Lenin contribution to Marxism: capitalism will break in the weakest link (i.e. Russia) – earlier Marxist predictions assumed the most developed countries to go first
- 3rd radical power – Russian Socialist Revolutionary Party (SR's), popular especially in the countryside, created in 1902 (Viktor Chernov)
- heavy losses of Russian army in World War I, gradual progress of territorial losses; complete disorder in economic life of hinterland combined with revolutionary attitude of (mostly peasant) soldiers on the front
- famine endangering many Russia's regions in winter 1916/1917
- February Revolution in Petrograd (March 8), tsar's abdication (March 15), creation of provisional government (first centre-right, since May centre-left - Kerensky, liberals, mensheviks, SR's) – many reforms but weak political position, due to activity of Petrograd Soviet of Workers' and Soldiers' Deputies
- October Revolution: armed Bolshevik coup in Petrograd (November 7), Red Guard consisting mostly of mariners of Kronshtadt & workers, lack of Provisional Government resistance
- Second All-Russian Congress of Soviets approves creation of new government (Bolshevik comissars instead of traditional ministers)
- Constituent Assembly elections – Bolsheviks defeated by socialists revolutionaries – dissolution of Assembly by Bolshevik government (January 1918)

- Bolsheviks easily take power in industrial cities of central Russia, then spread their rule to remote provinces by civil war (1918-1920)
- success thanks to separateness of efforts of different Bolsheviks' enemies (whites, peasants, anarchists, Czechoslovak Corps), good organization of Red Army by Trotsky, far-reaching promises to every dissatisfied social group, red terror (Cheka & Feliks Dzerzhinsky, December 7, 1917)

2. Doctrinal basis of the centrally planned economy.

- socialising of means of production (i. e. nationalization or collectivization) as a means of dismantling capitalist system
- socialism as development stage following capitalism, transitory to the final goal of communism, where everyone receives his share of income according to his needs (promise of future wealth as an explanation of transitory difficulties – immanent part of the ideological apparatus ensuring system's legitimization); problematic shape of socialist economy – Marx did not describe it in his works
- perception of market as chaotic and typical for capitalism, anti-egalitarian and unjust; hence need of <u>exchanging decentralized market by centralized planning system</u> (being part of <u>proletariat dictatorship under communist party leadership</u>, following the principle of social justice and based on <u>scientific rules</u>) – in reality it led to the creation of administrative-command system, managed by enormous bureaucracy
- hope for creation of "new man", free from selfish incentives typical for capitalism
- lack of good theory of central planning, as also lack of any practice – experimental character of the system in its initial phases – hence opportunistic sequence of policy changes until consolidation of the planning system during Stalinism

3. War communism policy (1918-March 1921)

- moving to communist society (egalitarian, no alienation of labour, no market & wasteful oversupply crises) & winning civil war – 2 contradictory objectives
- peace with Central States - Brest-Litovsk (March 3, 1918), unfavourable terms (recognition of new states on western border)
- party renamed Russian Communist Party (of Bolsheviks)
- abandonment of money in order to abolish oversupply crises (Bank of Russia crew among first victims of Cheka, liquidation of private banking in December 1917, all financial institutions absorbed by People's Bank of Russian Republic, People's Bank liquidated in 1920)
- social property instead of private property: nationalization of land – peasants divide landlords' estates perceiving government decree as land reform, 1918 – state monopoly for grain trade; nationalization of industry (first workers' control over factories, mid-1918 – final decision about nationalization of big and mid-sized factories, subordination of nationalized enterprises to Councils of National Economy – *Sovnarkhoz*; CNE's under the direction of the Highest Council of National Economy; 1920 – nationalization of every industrial facility employing more than 5 workers)
- strategic economic decisions – Council for Work and Defence (directed personally by Lenin)
- imposition of a single plan for whole economy, compulsory labour.
- elimination of proprietary classes (class terror)
- since summer 1918 - policy focused on food supplies for Red Army and working people in towns & cities (non-working faced with starvation due to state monopoly on food distribution, peasants subject to harsh requisitions) – Leninist reinterpretation of German war economy system
- beginnings of long-term development planning – State Commission for Electrification of Russia (GOELRO)

- results: rapid decline of output (already diminished due to World War I losses and policies; 1920 – 20% of pre-war level); de-urbanization due to massive flee of inhabitants from starving cities to countryside
- Kronshtadt rebellion (mariners), Antonov rebellion (peasants near Tambov due to *prodrazvyorstka* grain requisitions), massive famine along Volga – main causes of policy change

4. NEP – the New Economic Policy (1921-1928)

- restoration of money: monetary reform of 1922 (denomination 1:10000), monetary reform of 1923 (denomination 1:100 – total denomination 1:million), red rouble of 1923 (10 roubles 1923) – gold-convertibility for non-residents
- partial restoration of market & private property; economic calculus (*khozrashchot*)
- free market for agricultural products (besides low obligatory supply quotas) – growth of production to pre-revolutionary levels, general recurrence of economic activity
- new middle class (the NEP-men), no possibilities of investing, hence ostentatious consumption
- electrification as means of modernization (GOELRO plan, implemented from 1922, fulfilled 1931)
- creation of State Planning Committee (Gosplan) – initially as auxiliary body of Council of Work and Defence
- main foreign partner – Germany (the only big country not to be creditor of tsarist Russia, treaty of Rapallo 1922)
- 1922 - creation of Union of Soviet Socialist Republics (USSR) – federal structure with theoretically wide autonomy of republics created in reconquered provinces of former tsarist empire
- NEP perceived as liberalization period, although Gulag was created
- 1925 – first voices about NEP as transitory stage and step backwards compared to war communism

- 1925 – party renamed All-Union Communist Party (of Bolsheviks)
- conflict between Bukharin & Rykov (balanced development of all sectors) & Trotsky (priority of heavy industry at the expense of agriculture – administrative prices below market levels)
- 1926-1928 – Stalinist turn – consolidation of Joseph Stalin's (1878-1953) power, practical end of NEP in 1926

5. First Five-year Plan (1929-1932). Socialist industrialization and collectivization of agriculture.

- Stalin's sole rule (elimination of Trotsky with help of moderates, after that elimination of moderates with Trotsky's program theses)
- centralization of the state at the cost of republican autonomy
- ”Socialism in one country” – autarky, military objectives of economic policy
- socialist industrialization (heavy industry first, later development of light industry)
- collectivization of agriculture – 1st wave 1929-1930 (kolkhoz- formally voluntary cooperative under strict party control), massive deportations of kulaks (rich peasants), peasants slaughter their animals, widespread famine (the biggest in Ukraine – ca. 3 million victims – estimates vary hugely, however), additionally increased by grain exports, financing imports of investment equipment
- grain delivery requirements calculated on „biological yield” – about 40% higher than real quantity
- repressions against „bourgeoisie specialists” (educated people employed in industry, suspected of conspiracy – effect of paranoid social relations due to secret police influences)
- <u>”Five-Year Plan in four years”,</u> upward revisionism
- main projects (the most gigantic): White Sea Canal, Dneprogres hydroelectric plant, Magnitogorsk metallurgical complex
- great migrations to cities from countryside

- decreasing level of living, work discipline kept by coercion and harsh legislation (1930-1932, reintroduction of internal passports for rural population to prevent them from migration - 1932)
- 2 five-year plans (1933-1937 – assumed technical progress in industry & agriculture, 1938-1942 - assumed rise of production of consumer goods & food but interrupted by the war – paradox of famine after 1945 victory)
- in reality constant failures of collectivized agriculture & fast progress of industrialization during extreme crisis in capitalist world – the latter as source of interest in Soviet experience in the West
- Centralization of decision-making process in State Planning Commission (Gosplan), planning methodology from 1928 based on "material balances" – calculation of inputs, without taking money and financial indices into account; minimization of lower levels' autonomy, complexity of hierarchies strengthened by nominal federal structure of the Soviet Union
- mass mobilization in the conditions of extreme terror, Stakhanovite movement (1935)
- transmission of central planning patterns after World War II to Central & Eastern Europe as result of the Yalta Treaty

Lecture 10

1. World War II and its first phase

- Germany attacks Poland on September 1, 1939; easy success thanks to *Blitzkrieg* strategy implying decisive role of motor and aircraft industries in supporting war effort
- Western allies unprepared for the war, later shift towards militarization implying later technological superiority in arms-race
- material & financial resources of conquered country as basis for balancing German economy (Poland first, although *Anschluss* of Austria (March 1938) and disruption of Czechoslovakia (March 1939) also had similar effects)

- Soviet Union as source of necessary German imports (October 1939 – June 1941)
- conquest of France (June 1940) - height of German military & economic power
- Battle of Britain as end of German superiority in air forces
- successful submarine warfare against British Navy & commercial fleet just after outbreak of war – risk of cutting off British supplies
- attack on Soviet Union (June 22, 1941) – despite huge initial advances, too large country for *Blitzkrieg* – mass mobilization, enormous losses in matériel & human lives, unprecedented war crimes, mostly due to ideological conditions

2. Economic aspects of World War II. Economic policy of the Axis states at home and in the occupied countries

- Germany: exploitative policies on conquered territories as main source of budget income – no need for internal debt, almost no inflation (hidden or visible), change of situation as late as in 1944 (despite declaring total war in 1943) – hence strong internal support for the war for most of its time
- German import deficit paid by Reichsbank credits to the central banks of occupied territories, further being the basis for their money issuance – strong inflation in occupied areas combined with shortages of basic consumption goods
- breakdown of industrial production in late 1944 thanks to good system of supplies, use of newly invented substitutes of primary inputs (synthetic gasoline & rubber) and despite raids of allied air forces since 1943 (Hamburg)
- ministry for armaments and munitions (since 1943 for armaments and war production) – Fritz Todt (1940-1942), since 1942 Albert Speer – main coordinator of German war effort (at the expense of Göring's influence), paralelly rising power of economic empire of SS, ruled by Himmler

(extensive use of slave labour); symbiosis between state war machine & great monopolies

- besides slave labour from concentration camps (part of SS economic empire, autonomous from government policies), large masses of forced labour & prisoners of war employed in German industry & agriculture (peak at ca. 9.5 million persons)
- Italy: military disability, showed with the attack on Greece (Nov. 1940), engaged Germany in Mediterranean & Balkan affairs; in economic terms war appeared to be equally disastrous: British Navy cutting off sea supplies, fall of output associated with rising inflation, food rationing under biological minimum
- Japan: rising industrial production at the cost of occupied Greater East Asia Co-prosperity Sphere supplying inputs; internal consumption maintained in the same way (2 million famine deaths in Vietnam alone); since 1940 state control over private enterprises; creation of Ministry of Munitions in 1943; domination of *zaibatsu* in war industry (hence post-war demonopolization of Japanese economy, similar to that in Germany)

3. Wartime economic policy of Britain

- disposal of reserves of sterling zone countries, allowing for stability of monetary system; post-war indebtedness of UK to sterling zone at ca. GBP 3.5 bn
- economy management: Churchill war cabinet with newly created committees (Food Policy Committee, Economic Policy Committee): reallocation of resources to war industry, employment of women, longer work hours, program of self-sufficiency in agriculture (citizens cultivating vegetables instead of flowers in the home gardens – one of the popular symbols of collective effort), control of supplies, food rationing
- large transfers of population (as also some institutions) from areas endangered by German bombardments

- delayed war preparation and scientific efforts leading to superiority of British equipment in later stages of war
- British demand stimulating economies of dominions and colonies – on the other hand, despite losses in submarine warfare system of convoys allowed for satisfying supply needs without dedicating too much effort to search for input supplements
- great success of domestic economic policy enabled also by large American aid

4. The stages of American aid to the Allies: Cash and Carry, Lend Lease, UNRRA. Shaping of post-war international relations.

- 1940 presidential campaign – neutrality promises despite ships for naval bases swap with the British; FDR's third presidential victory
- Cash & Carry supplies (September 1939) exchanged by Lend-Lease scheme (March 1941, non-cash payments) due to financial exhaustion of UK; later extensions of Lend-Lease to China & Soviet Union (April & September 1941); total value throughout the war USD 49.1 bn (63% British Commonwealth, 22% Soviet Union); only partially offset by allies' supplies to American forces sent abroad (Reverse Lend-Lease, USD 8 bn)
- Atlantic Charter (Aug. 14, 1941) – joint Anglo-American statement underlining the shared values (national self-determination, free-trade, social progress, lack of imperial goals) as basis for post-war international order of nations "living without fear or want" (straight influence of "Four Freedoms" from State of the Union presidential speech, Jan. 6, 1941)
- Japanese attack on Pearl Harbour (Dec. 7, 1941) – end of American neutrality
- military demand and draft – revival of American economy, full use of underutilized capacities, very fast growth of industrial production (in part thanks to application of many technological innovations), end of unemployment, labour shortages offset by women and black workers – improving position of socially underprivileged groups

- Declaration of the United Nations (Jan. 1, 1942) - beginning of creation of new system of international organizations – diplomatic negotiations along with military cooperation
- European countries with big material losses at the end of the war – need for American assistance – United Nations Relief and Rehabilitation Administration established in Washington DC already in 1943 – products of American industry & agriculture, demobilized US Army reserves & equipment, donations of member countries, usually being beneficiaries themselves - USD 3 billion until mid-1947 (Polish share ca. 16%, China 18%, Yugoslavia & Italy – 14% each)
- Besides assistance American credit supplies to former allies (50% of imports in 1946), as also former enemies; credits for repayment of Lend-Lease debts to France & UK

5. War economy of the USA

- war effort in industry coordinated by War Production Board (1942), subordinated with other defence agencies in 1943 to Office of War Mobilization (James Byrnes)
- great success (industrial output growing yearly by 15%, rising capacities of technologically most advanced industry, GDP more than doubled from 1940 to 1945)
- modernization also in transport (improved infrastructure) & agriculture (rise of demand after decade of depression, mechanization enhanced by conscription of labour surplus)
- internal demand kept under control in part thanks to big tax increases - Federal government income increased six times in 1939-1944 period, although government spending grew even faster
- Office of Price Administration (1941) – successful control of inflation during war years (opposite situation to World War I); General Maximum Price Regulation (April 1942) – upper limits for most of prices; additional influence of goods rationing – coupons & tickets additionally needed for

purchases, not only money; after abolition of most of restrictions (1946) – surge in prices (effect of postponed demand of consumer savings)

- Office of Scientific Research and Development – fast technological progress in armaments (post-war spillovers to civilian industries); Manhattan Project – creation of atomic bomb

6. War economy of the Soviet Union

- theoretically no need of introducing elements of central planning - Soviet economy was always resembling war economy; in fact coordination of war effort subordinated to State Defence Committee headed personally by Stalin, not to Gosplan
- large territorial & industrial losses due to 1941 German offensive (Donbas, Ukraine; Leningrad cut off from rest of the country) – the need of industry evacuation towards Ural and other safe regions (total figures – ca. 17 million civilians, 1500 big industrial plants), as result sharp decrease of industrial production in 1942, partially offset by inflow of Lend-Lease aid
- industrial revival in 1943 (regaining of capacities in evacuated plants, technological progress – f. ex. welding instead of riveting in tank construction, economies of scale thanks to specialization – f. ex. cars supplied by USA, not domestic industry)
- war effort at the expense of domestic consumption, hence local famines as late as in 1946
- population losses still impossible to calculate precisely - ca. 15 million dead soldiers (including 5 million prisoners of war, mostly starved to death by Germans), ca. 10 million dead civilians (malnutrition, diseases but mostly due to exterminatory policies of *Generalplan Ost*)
- end of the war: fine military industry combined with backward agriculture and underinvested consumer goods industry; reparations in kind at former German lands – low modernization effect (most of industrial equipment sent eastwards as scrap)

7. Economic consequences of World War II

- technological progress (especially in the USA) resulting with some delay also in rising productivity of civilian industries
- rising position of colonies in relation of metropolises – precondition for post-war independence; industrialization of previous suppliers of primary products – case of Latin America (process analogous to that from World War I, precondition for post-war protectionist policies)
- damage to industrial potential of Central Europe greater than in the western part of the continent
- general bad situation of European economies due to wartime losses – dependence from American aid, great reconstruction needs (on the other hand being sources of fast growth in the following period)
- creation of bipolar world with great powers competing also in economy – superiority of economic system as one of leading issues of Cold War

8. Demographic and social consequences of World War II.

- total number of victims – 50 million people (5 times losses of World War I – in part due to war crimes on civilians, much more common than during World War I); 80% of deaths in European war theatre, 26 million in Soviet Union alone; largest percentage of deaths in relation to pre-war population – Poland (21%)
- extermination of European Jews – ca. 6 million victims
- large number of wounded and disabled (exceeding usually number of dead) – problem for post-war social policies; additionally large post-war disproportion between men and women in the societies most affected by the war
- post-war demographic booms due to delayed fertility

Lecture 11

1. World business cycle after World War II

- universal adoption of Keynesian economic policies in the Western countries (government spending steering the aggregate demand and indirectly output

& employment; additional outlays financed by government debt, usually bought by central bank and being basis for money issuance – bond purchases by public were increasing total savings and creating no additional demand); quantitative proof for Keynesian theory – work of Simon Kuznets

- Keynesian policy then justified by Phillips curve (constant negative relation between unemployment & inflation – rise in employment was to be easily bought for slight increase of price level)
- low unemployment as main target of economic policy (1946 - Employment Act in USA), combined with social regulations resulting in creation of Welfare State (Beveridge Plan in Britain, pre-war regulations in Sweden, Christian democracies as right-wing bases of welfare states in countries of relatively weaker social-democratic parties; large economic programs in the USA – Fair Deal and Harry Truman, Great Society and Lyndon Johnson - 1964)
- sound economic growth in most of developed countries associated with relative price stability until 1973 (at least until 1967)
- post-war depression relatively small in USA; fast growth in continental Europe under reconstruction; low pace of growth and of abolishing wartime regulations in Britain; USA recessions in 1954 (end of Korean War) and 1958 (the biggest before 1973) – very short

2. Bretton Woods system and its fall

- need of setting rules for new international monetary relations
- conference held in <u>July 1944 in Bretton Woods, NH</u>, attended by 44 members of anti-fascist coalition, Poland represented by London government delegate Leon Grosfeld
- 2 competing views: <u>British (John Maynard Keynes) – "bancor", interbank currency unit covered by central banks' gold reserves, large scale of international lender of last resort clearing union, USD 25-40 billion; American (Harry D. White) – no need for monetary integration, small-scale</u>

international lender of last resort USD 2-5 billion – Congress would not approve the size of necessary American contribution in British version

- American prevalence reflecting power relations among western allies; clearing integration reflected in the regional form of European Payments Union (acting from July 1950 until the end of 1958 with the agency of Bank for International Settlements)
- creation of International Monetary Fund (USD 6.8 bn of initial capital) & International Bank for Reconstruction and Development
- IMF members setting gold parities of their currencies and obliged to keep their exchange rates in +/- 1% band around parity; Fund subscription in gold, dollars and partially in members' own currencies; IMF assistance focused on monetary & exchange rate stability, IBRD on long-term economic goals
- 1947 - unilateral declaration by president Harry Truman – USA could convert every amount of dollars into gold ("dollar as good as gold") – in fact change of rules, since then every country focused on exchange rate against dollar, especially that most of the currencies were inconvertible (dollar instead of bancor, system resembling Gold Exchange Standard)
- during the most intense phase of Cold War communist countries abandon their membership in IMF (Poland, Czechoslovakia)
- issue of post-war currency stabilizations: most European countries occupied by Germans during the war, hence huge inflationary potential of German occupation monetary policies; countries not occupied but participating in war - usually inflationary heritage of financing war effort (East European German allies, Soviet Union)
- as a solution introduction of new monetary units, associated with denomination and upper limit for single person of allowable exchange of old money into the new, sometimes different regulations concerning firms – usually higher limits; the most successful – German occupation zones of Western allies (Trizonia), June 1948, Ludwig Erhard; the worst negligence

– Hungarian hyperinflation – greatest ever (B-pengö – new monetary unit during inflation = 1000 bn of ordinary pengö; Dec. 1946 conversion rate: 1 forint per 2 million B-pengö = 1 forint per 2 x $(1\ 000\ 000)^3$ pengö)

- in most Western countries surpluses above limits blocked in banks on special accounts for specified time, in states belonging to Soviet zone usually inconvertible (new money as medium of egalitarian policy)
- UK: war winner does not need to introduce new currency unit; instead long-time keeping of wartime economic regulations, f. ex. food rationing - post-war austerity
- European currencies inconvertible until 1958, European Payments Union (multilateral clearing agreement) acting via Bank for International Settlements enables the growth of intra-European trade in the years 1950-1958; multilateral settlement facilitated then in the framework of <u>European Monetary Agreement</u> (1959-1972)
- during 1950's Bretton Woods system as source of currency stabilization
- since 1961 (creation of London Gold Pool – agreement of USA and 7 European countries focused on stabilizing the price of gold), serious problems of the system – dollar overvalued in gold terms (still parity of USD 35 per troy ounce), situation worsened by inflationary pressures during 1960's (de Gaulle's critique of currency relations, France converting large quantities of dollars into gold from Fort Knox), collapse of Gold Pool in March 1968
- 1967 – IMF creates <u>Special Drawing Rights</u> (SDR) as interbank unit – something resembling bancor proposed by Keynes in Bretton Woods;
- December 1971 – dollar devaluation, Smithsonian Agreement changing IMF rules (wider fluctuation band)
- 1972 Basel agreement of European states <u>("snake"</u> of narrower band of mutual currency fluctuations),
- 1974 – <u>floating</u> (currencies of IMF countries allowed to fluctuate without constraints), 1976 – <u>demonetization of gold</u> at IMF conference in Kingston;

- 1979 – European Economic Community members create European Monetary System instead of snake with European Currency Unit (constructed as weighted basket of European currencies) as settlement unit – beginnings of real European monetary integration (Werner Plan of 1970 was abandoned already in 1971)

3. Other international organizations

- United Nations and system of affiliated organizations: United Nations Conference on Trade and Development (UNCTAD - 1964), Food and Agriculture Organization, regional economic commissions (among them Economic Commission for Latin America – Raúl Prebisch, later secretary general of UNCTAD, creator of dependency theory, being base for import-substitution trade policies in developing countries - 1950); all UN system: significance lower than expected
- failure to create International Trade Organization (dispute between USA & UK), instead creation of General Agreement on Tariffs & Trade (GATT, Geneva 1947, 23 members at the beginning) – successful thanks to long-lasting rounds of multilateral negotiations (more & more complicated due to rising number of GATT members)
- initially high tariffs inherited form Great Depression being GATT's main focus as most significant barriers to trade; from 1970's along with tariff decreases - more problems with non-tariff barriers (f. ex. quotas, voluntary export restraints, detailed internal market regulations) & fair competition (labour standards, intellectual property rights) than with tariffs
- USA as main power on GATT forum; in 1960's common trade policy of European Economic Community makes Europe the most important player
- industrial goods subject to faster liberalization, while agricultural products subject to constant protectionism – farmer lobbies from rich countries, Common Agricultural Policy of EEC (later EU); some liberalization at the end of Uruguay Round

- GATT rounds: Geneva (1947), Annecy (1949 – the shortest – 5 months but only 13 countries participating), Torquay (1951), Geneva II (1955-1956), Dillon (1961-1962), Kennedy (1963-1967), Tokyo (1973-1979), Uruguay (1986-1993)
- GATT finally transformed into World Trade Organization (WTO) in 1995 as a result of Uruguay Round
- WTO being now during Doha Round, started in November 2001

4. **The Oil Shocks and their consequences. The monetarist turn in the economic policy. Sovereign debt crisis in the 1980's**

- October 1973 – OPEC (Organization of Petroleum Exporting Countries, established 1960) introduces sanctions against Israel supporters during Yom Kippur war, rapid surge of oil prices
- supply shock for developed economies, phenomena of stagflation (economic stagnation accompanied by inflation) and slumpflation (GDP decrease & inflation), Phillips curve questioned – end of Keynesian paradigm in economics & economic policy – search for new one – monetarist doctrine as solution
- monetarist turn in economic policy – 1979 – Margaret Thatcher as prime minister in UK, Paul Volcker as Fed chairman in USA
- 1981 – Republican administration of Ronald Reagan – supply side economics, continuation of Volcker's anti-inflationary policy (1982 recession as result)
- second oil shock – 1979-1981 – reaction to Islamic revolution in Iran, Soviet intervention in Afghanistan & Iran-Iraq military conflict
- falling oil prices in 1980's – effect of American-Saudi cooperation & exploitation of North Sea deposits by UK & Norway
- inflow of petrodollars to European & American banks in 1970's – big credits to communist & developing countries – debt crisis in 1982, more than USD 800 billion of developing countries debt in mid-1980's, average cost of debt service exceeding 20% of export income of given country

- solutions to international debt crisis: Baker Plan (1985) – did not worked; Brady Plan (1988 - conversion of debts to so-called Brady bonds, possibility of debt-stock & debt-national currency swaps and other non-conventional forms of settling debt payments – high flexibility)
- attempts of international coordination of exchange-rate policies as response to instability of flexible exchange rates - Plaza Accord 1985; exchange rate targets abandoned in 1990's due to popularity of inflation targeting (UK, Canada) & monetary integration in Eurozone

5. World business cycle after the end of Cold War

- 1991-1992 – recession sparked by Saddam Hussein conquest of Kuwait in 1990 and First Gulf War in 1991 (oil shock as main channel, but also reconversion of military industry – the inflow of military technologies to civilian sector, the basis for good business climate until the end of the decade – special progress noted in information and communications technologies – ICT, "death of the distance", Internet)
- 1991 recession especially painful for Japan - world industrial leader during 1980's: collapse of strongly overvalued stock market and real estate prices triggers long-time depression combined with deflation (GDP growth close to 0% or below 2% for 2 next decades)
- stability of developed core of world economy in 1990's, associated with peripheral character of crises: December 1994 – February 1995 – Mexico (big IMF package); 1997 – Czech Republic in May; Thailand, Philippines, Hong Kong, Malaysia, South Korea in autumn and winter – so-called Asian crisis, hardest hit country – Indonesia – fall of the Suharto dictatorship in 1998; very costly and restrictive IMF interventions; August 1998 – Russia (negative influence on region's countries – recessions in Ukraine and Lithuania; big IMF package partially channelled by Russian officials abroad); rising distrust of emerging markets leading to problems of Latin American countries – devaluation of real in Brasil, fixed exchange rate of Argentinian peso in the currency board monetary regime

- spring 2000 – Internet bubble bursts on Nasdaq and NYSE, worldwide recession prevented by quick response of central banks, led by Alan Greenspan's Fed
- 2001 9/11 attacks in New York induce further rate cuts by central bankers (precondition for future asset price bubble); December 2001 – insolvency of Argentinian economy – currency board collapse (constant imbalance of trade flows due to impossibility of devaluing currency, tied to USD) – hard hit for foreign creditors

Lecture 12

1. Marshall Plan

- Yalta conference (Feb. 4-11, 1945) – declaration of assistance to every country occupied by Axis states and their satellites
- Future of Germany as deindustrialized rural country – Morgenthau Plan – abandoned
- Potsdam conference (July-Aug. 1945) – occupation policy in Germany (denazification, demilitarization, decartelization, political decentralization and democratization), Council of Ministers for preparation of peace treaties (managed to deal only with European German allies)
- George Marshall speech at Harvard (June 1947) – program of economic assistance to whole Europe in order to accelerate recovery and growth of standard of living (speech held simultaneously with the end of UNRRA assistance)
- July 1947 – Soviet-zone countries give up the American offer, beginning of the Cold War
- April 1948 – inauguration of Marshall Plan (official name: European Recovery Program), administered by Organization for European Economic Cooperation (OEEC, 16 members), until 1952 USD 13.6 billion of assistance under the scheme (main recipients: UK, France, Italy, West

Germany); July 1950 – OEEC members form European Payments Union; 1949 – Dodge Line for Japan

- Jan. 1949 – Soviet-zone states set up Council for Mutual Economic Cooperation (Comecon)

2. European models of the welfare state

- welfare state – supporting well-being of citizens by creation of equal opportunities, redistributive policies and guarantees of minimal income for the poorest, also providing education, healthcare social security and policies fostering full employment; still keeping to market economic system, perceived as the opposition to laissez-faire state
- Britain – <u>Beveridge Plan</u> of Labour Party introduced after the war (<u>Clement Attlee</u> as prime minister in result of 1945 parliamentary elections); social regulation associated with nationalization of part of financial sector and industry (to be later partially reprivatized by Tory governments); introduction of elements of state planning to industrial policies; keeping to many wartime restrictions slowed the pace of reconstruction, especially when compared to other Western European countries; in later decades often conflicts of governments with radicalizing trade-unions
- Sweden – welfare state constructed already in pre-war period by Social Democratic Party, dominating Swedish political scene since 1930's; state assistance to citizens common on all stages of life - "from the cradle to the grave"; cooperation between trade-unions, government and big business
- Federal Republic of Germany – social market economy – designed by ordoliberals and introduced by right-wing CDU; relatively limited role of government; corporatist practices at industry and enterprise level (cooperation of trade-unions in management and wage bargaining)
- France – state planning in industrial policy of IV Republic (<u>Monnet Plan</u> 1947-1952), relatively low growth of real personal income despite quick reconstruction, lack of strong social democracy due to radicalism of French

left, with leading position of communists; continuation of dirigisme in industrial policy of the V Republic (since 1958); social policy focused on diminishing the influence of conflict-seeking communist trade-unions (CGT) and communist party – fast growth of consumption in 1960's

3. The beginnings of European Integration. The creation of the EEC. EFTA.

- May 1950 - initiative of cross-border coordination of coal & steel industries – Jean Monnet (1888-1979), author of French successful system of national planning (1947), commissioner-general of National Planning Board; Robert Schuman (1886-1963) – French foreign affairs minister; whole design was called Schuman Plan; project viewed as instrument of avoiding future Franco-German conflicts thanks to control over German heavy industry
- 1951, April 18 – France, Federal Republic of Germany, Italy & 3 Benelux countries sign treaty establishing European Coal and Steel Community (starts activity in 1952), Monnet – first president of ECSC High Authority; 1954 – almost full abandonment of trade barriers on coal & steel market inside ECSC associated with cartel regulation, price-fixing and allotment of production quotas
- Competing plans of integration: British (less advanced integration) vs ECSC countries proposals; finally Britain quits
- 1957, March 25 – Rome Treaties, establishing European Economic Community & Euratom (beginning from Jan. 1, 1958), purpose of EEC: free flow of goods, people & capital
- free flow of goods – July 1, 1968 – customs union (closer integration than free trade area – additional unification of custom duties at external borders); flow of people – 4 weeks later
- Jan. 1960 – Britain sets up in Stockholm European Free Trade Association with Sweden, Norway, Denmark, Portugal, Austria & Switzerland (free trade area, 1961 joined by Finland, 1970 – Iceland)

- 1960's – British attempts to enter EEC vetoed by de Gaulle; 1962 – start of Common Agricultural Policy benefiting mostly France; 1965-1966 – French obstruction in EEC, called "empty chair policy" – CAP found unsatisfactory
- 1965 – decision about merger of statutory bodies of 3 communities (executed – 1967)
- April 1972 - „currency snake" - system allowing for stabilization of EEC exchange rates within +/-1,125% fluctuation band after suspension of USD convertibility into gold
- July 1972 – free trade area agreement between EEC & EFTA

4. Integration processes after 1973

- 1973 – first enlargement: UK, Ireland, Denmark
- 1979 – EEC members (Britain excepted) create European Monetary System with European Currency Unit (weighted basket of member countries' currencies) & fluctuation band +/-2,25% or +/- 6% (selected members – Italy, later UK & Spain); June 1979 – first elections to European Parliament (previously acting as inter-parliamentary organization)
- 1981 – 2nd enlargement: Greece
- 1986 – 3rd enlargement: Spain, Portugal; Single European Act (introduced in 1987) sets date of creation of Single European Market at 1992
- 1990 – creation of European Bank for Reconstruction and Development, Schengen Convention
- 1992 – signing of Maastricht Treaty creating European Union (from Nov. 1, 1993);
- 1992-1993 – speculative attacks on EMS – August 1993 exchange rate fluctuations band widened (+/- 15%) – situation close to floating
- 1994 – creation of European Monetary Institute in Frankfurt (predecessor of European Central Bank, established in June 1998); creation of European Economic area between EU & EFTA countries (except Switzerland)

- 1995 – fourth enlargement: Austria, Sweden, Finland; fourth country: Norway - did not enter because of negative referendum outcome (the same situation as in 1973)
- 1997 – Amsterdam Treaty, changing existing treaties beginning from May 1999
- Jan. 1999 – introduction of euro (non-cash payments), exchanging ECU (1:1 parity), 11 countries, Greece joined in 2001 on the basis of fake economic data
- Jan. 2002 – euro notes & coins in circulation; ECSC absorbed by EEC
- May 2004 – 5th enlargement – Poland, Czech Republic, Slovakia, Hungary, Slovenia, Lithuania, Latvia, Estonia, Cyprus, Malta
- Jan. 2007 – 6th enlargement – Romania, Bulgaria

Lecture 13

1. **Soviet economy and policy in the years 1945-1991**

- Soviet zone of influence created at the basis of Yalta agreements, period of 1945-1948 dedicated to eradication of opposition in dependent countries (<u>salami tactics</u>), failed attempts of gaining influence in Greece, Turkey & Iran
- May 1947 - communist parties excluded from coalition governments in France & Italy, Hungarian prime minister blackmailed by communists seeks refuge in Switzerland
- September 1947 – Szklarska Poręba conference, creation of Information Bureau of Communist and Workers' Parties (Cominform), ideological unity in the communist movement
- February 1948 – communist coup in Czechoslovakia – end of unification of power process
- June 1948 – Yugoslav-Soviet conflict, Tito keeps his power, since then balanced Yugoslav foreign policy, <u>separate economic model (self-managing and self-financing enterprises, being formally nationalized)</u>

- Aug. 1948 - death of Zhdanov, place for future purges of Leningrad activists (among them most of economic policymakers), Aug. 1949 – Soviet Union becomes nuclear power; since 1950 – new wave of military investments in Soviet industry (Korean war)
- Sovietization of economies in other countries (central planning, primacy of heavy industry, collectivization of agriculture), no specialization inside the bloc - all countries build steel mills, etc.; large migrations from the countryside; underurbanization and weak infrastructure; Soviet Union as main trading partner of every country in its zone of influence; much higher share of investment in national income than in the case of Western countries – armaments programs and industrial facilities at the cost of consumption before 1956;
- Oct. 1, 1949 – creation of People's Republic of China – too big a country to be fully subordinated to Moscow; Oct. 7, 1949 – creation of German Democratic Republic as response to FRG (Sept. 21, 1949)
- March 5, 1953 – Stalin's death, followed by June worker's revolt in East Berlin, July armistice in Korean war & final victory of Khrushchev in struggle for power in Moscow
- May 14, 1955 – creation of Warsaw Pact as response to FRG membership in NATO; improvement of relations with the West on other fields (evacuation of Austria)
- February 1956 – 20th Congress of Communist Party of Soviet Union, Khrushchev's condemnation of Stalinism
- Khrushchev reforms in USSR (besides political liberalizations) – decentralization (greater autonomy of regions), structural preferences for most advanced technologies with relative negligence of heavy industry; thanks to gradual détente in international relations pro-consumption shift in USSR and Comecon countries after 1953; reduction of asymmetry in relations of USSR with Soviet Bloc countries; recurrence of accelerated industrialization from 1959; failures in agricultural policies (turning large

wastelands into arable land; promotion of corn) resulting in Soviet dependence from grain purchases in USA and Canada (from 1963)

- after Khrushchev's fall in 1964, new reforms started by Brezhnev & Kosygin in 1965 – economic calculation at enterprise & industry level, material bonuses for workers, vertical concentration of industry; structural preferences for heavy industry; partial abandonment of reforms in 1969
- stagnation in USSR in 1970's, no reform attempts, increased costs of arms race since ca. 1975; gerontocracy, corruption
- Brezhnev's death in 1982, temporary reforms of new party secretary Yuri Andropov (1982-1984), after his death brief rule of conservative Konstantin Chernenko (1984-1985) – so-called epoch of three funerals
- change with the election of Mikhail Gorbachev as party secretary in 1985; quick reforms since 1985 – perestroika (reconstruction) in economy and state administration - without successes, one of the causes of Soviet Union's decomposition in 1991
- dissolution of USSR in December on the basis of decision of leaders of 3 most important among 15 republics (in fact 12 – Baltic states previously unilaterally left Union) – Russia (Boris Yeltsin), Ukraine (Leonid Kravchuk), Belarus (Stanislau Shushkevich) – proof of political chaos in the country during its last days

2. Economies and policies of the European communist states after 1956. The activity of Comecon.

- different reactions to gradual destalinization in Soviet Union in different countries of Eastern Bloc
- March 1956 – Bolesław Bierut dies in Moscow
- April 1956 – Stalinist Bulgarian leader Vylko Chervenkov deposed from prime minister office by party's general secretary Todor Zhivkov
- October 1956 – Gomułka back to power in Poland; revolution in Hungary suppressed by Soviets in November; system virtually untouched especially in

Albania – 1961 breakout from Soviet bloc and tying to Maoist China; Poland - the most advanced country in economic reforms

- 1956 – reactivation of Comecon (multilateral economic cooperation instead of bilateral, implying asymmetrical relations with Soviet Union)
- Series of economic reforms in Soviet Bloc countries in 1960's: GDR – New Economic System (1963) – less quantitative plan targets, greater autonomy at industry level (activity of "socialist managers") associated with concentration ("socialist concerns"), relatively strong small private sector
- Romania – no reforms; Bulgaria – industry modernization, no significant institutional changes
- Hungary – after 1956 and Soviet military intervention, more favourable conditions of economic relations with USSR (exchange rate adjustment, revision of conditions of uranium export), pro-supply changes at internal market (faster growth of consumer goods production, abolishment of compulsory deliveries in agriculture), temporary character of some of reforms – agriculture finally was collectivized; 1968 – New Economic Mechanism, no quantitative plan targets, banking system verifying investment decisions, partial price liberalization, state monopoly limited to foreign trade and control over part of wages & prices – the most advanced reform in Soviet zone till 1989, although authorities partially withdrew from it after 1972 - divergence of individual incomes (market sector employment allowed for higher earnings), return to reforms after 1978; 1982 – IMF membership
- Czechoslovakia – Ota Šik's reforms (New Economic Model) since 1967 – more mixed economy, decentralization, rising position of managers in enterprises, enterprise assessment by means of production-factors efficiency, adjustments of price structure and rules determining it, partial opening to the West (tourism) – after Šik's promotion to deputy prime minister rank in April 1968 reorientation of economic system, finally prevented by Warsaw Pact military intervention in August 1968

-imitation of Western welfare states in 1970's, in part thanks to Western credits – socialist countries as victims of debt crisis in 1980's: most indebted – Poland, also Hungary (highest debt per capita), GDR, partially Czechoslovakia; Romania – managed to repay most of debts in 1980's at cost of standard of living; most bizarre policy among communist countries in 1980's, hence bloody character of communism fall in that country

- dysfunction of Comecon in 1970's despite widely promoted Bucharest Program of 1971 (mostly due to lack of convertible currencies and inflexibility of centrally planned economies in external relations)
- 1980's - lack of reforms in GDR & Czechoslovakia but relatively best performance of the system (besides Hungary) until 1989, stagnation & corruption in Bulgaria; widespread poverty in Romania due to foreign debt repayments and megalomania of investment projects introduced at that time by Nicolae Ceaucescu (hence bloody end of Romanian communism and Ceaucescu himself)

Lecture 14

1. Japan and the newly industrialized countries of the Pacific.

-reconstruction after the war according the advices of 1949 Dodge Line (anti-monopolist policies – division of *zaibatsu* and creation of more numerous *keiretsu* holdings, having much less political influences; keeping undervalued exchange rate – pro-export policies); land reform in agriculture – full ownership instead tenancy for farmers – step towards more egalitarian social structure; economic development induced by being hinterland and supply source for US Army during Korean War (1950-1953); regaining of pre-war industrial output in 1952, from that point uninterrupted high pace of economic growth until 1973

-initially international competitiveness thanks to cheapness of Japanese products (light industry), later development of more technically advanced industrial branches; focus on miniaturization (traditional way of saving on inputs in natural resource-scarce country) and cooperation between concerns and its suppliers (perfection of just-in-time system of supplies – saving on cost of keeping inventories and financing them with borrowed capital)

-political stability thanks to almost continuous rule of Liberal-Democratic Party (LDP)

-Summer Olympics in 1964 in Tokyo – symbol of Japanese enter into the club of most developed countries; fast growth of consumption (government's Income Doubling Plan – 1960) accompanied by very fast growth of GDP (over 10% annually)

-industrial concerns under big influence of MITI – Ministry of Trade and Industry - 1959 New Industrial Policy – concentration on high quality products; followed by series of very adequate strategic decisions of Japanese concerns (durable consumer goods production, especially electronics, microprocessors, etc.); creation of the most modern steel industry in 1960's (partially due to lack of the burden from pre-war period because of American war bombardments) – spillovers to shipbuilding and car industry;

-1970's and 1980's - creation of global brands in consumer electronics (Sony, Sanyo, Hitachi, Panasonic), car and motorcycle industry (Toyota, Nissan-Honda, Yamaha), photographic industry (Canon, Olympus), outsourcing of less technologically advanced production to other East Asian countries (Taiwan, Singapore, Hong Kong – beginning of first wave of Asian tigers)

-fast development stopped by Oil Shock of 1973 (Japan was completely lacking natural resources; outcome – relying on nuclear power in energy generation); growth recurred and 1980's were a period of American fear of being surpassed and bough-out by Japan and its businesses

-early 1990's bursting of asset-price bubble (Nikkei stock-exchange index exceeding 40000 points, currently around 8000); large Japanese banks left with bad assets in their balances – structural problem, partially resolved by Japanese governments despite interventions in late 1990's; attempts of reviving the economy by public spending on large construction projects (especially on infrastructure led to overrepresentation of industry in GDP structure and amassing huge public debt (over 200% of GDP – the largest level of the index among developed countries); gradual growth of unemployment, previously unrecorded in a country with traditions of "job-for-life" employment

-big economic success reflected in high GDP and very high life expectancy – source of future problems one of the most rapidly ageing societies in the 21st century (partially due to very low fertility of young generation)

-Asian tigers – usually ruled by autocratic regimes pursuing export-oriented industrialization, exception – Hong Kong (British colony until 1997, when transferred to China); in general following Japanese developmental path, with adjustments to their local specificity; economic success was followed by political democratization

-Taiwan (domestic name: Republic of China) – Chiang Kai-shek nationalist government of Kuomintang party escapes from continental China in 1949; temporary situation turns to constant; Taiwan until 1970's representing China in United Nations; initially corrupt regime, transformed with American aid into efficient state, successful in fighting poverty (widespread as late as in 1960's); traditional for the region sequence of specialisations from light industry to consumer durables, steel, petrochemicals and IT in less than 30 years (late 1970's as period of losing cheap-labour competitive edge); due to lack of energy resources, switch to nuclear power in energy sector in 1980's; exports traditionally addressed to an American consumer, later developed trade with Europe; despite lack of diplomatic relations with continental China, still rising scale of Taiwanese investments on the mainland

-South Korea – industrial development initiated by regime of general Park Chung Hee, ruling the country in 1961-1979; since 1968 state-led intensive industrialization, associated with development of steel mills (POSCO), shipyards (in 1990'sSouth Korea took from Japan world leadership in shipbuilding) and chemical industry; additionally development of consumer durables industry and electronic industry; very high share of investment in GDP; industry controlled by large family conglomerates (*chaebol*) of very complicated structure, including financial branch; financial crises of 1982 and 1997 were associated with fall of many highly-leveraged *chaebol* (1999 fall of Daewoo impacted also Poland, where it conducted large investments in car industry and consumer electronics); despite these problems country managed to develop very competitive industrial base and high-tech based education system (assessed as most advanced in the world and with the highest share of students in respectful generation). South Korean products (LG, Samsung), as late as in 1990's assessed as worse than Japanese, dominated a few leading branches of consumer electronics and IT

-Singapore – after separation from Malaysia in 1965, country ruled for long by Lee Kuan Yew (1923 -), prime minister in 1959-1990; later holding minister posts specially designed form him, leading ideologist of Asiatic values in political life and economic development; extremely stable political regime associated with the rule of (quite restrictive) law; because of the location on main trading routes in Asia, very high internationalization of the economy, possessing besides competitive maritime and financial services, very developed industrial sector

2. Decolonization and economic problems of the Third World. Mechanism of the poverty equilibrium.

- first phase associated mostly with impact of Japanese conquest in East Asia (limited ability to re-establish European rule, increased role of local populations in military effort during the war) as also with pre-war constitutional reforms in some of colonies (India, Burma, Ceylon)
- 1947 - decolonization of British Indian territories, creation of India & Pakistan, no insurgency against colonial power but communal violence between Hindus & Muslims

- bloody decolonization of Dutch East Indies (1949 - independent Indonesia) and French Indochina possessions (1946-1954; 1954 – Dien Bien Phu defeat & Geneva Accords - from that time Northern Vietnam supports guerrilla in Southern Vietnam – basis for future American engagement)
- Britain and France leave Middle East, independence of Syria & Lebanon (completed in 1946), creation of Israel from part of British mandate in Palestine (May 14, 1948), beginning of Israeli-Arab conflict & rapid decrease of British influence in the region; 1952 – Naser coup in Egypt
- Post-war UN jurisdiction over Italian colonies in Africa, recreation of independent Ethiopia
- Bandung conference (April 1955), creation of Non-Aligned Movement (Belgrade 1961 - Sukarno, Tito, Nehru & Naser)
- Anglo-French failure at Suez (Oct.-Nov.,1956) – acceleration of decolonization
- Third World as the name of decolonized countries (association with 3rd Estate & French Revolution, not with bipolar shape of international relations)
- Insurgency against France in Algeria since 1954 – basis for creation of 5th Republic and gaullism, finally the French gave up (1961)
- Year of Africa – granting independence to 16 African colonies in 1960; civil war in Belgian Congo – first of big conflicts inside newly created states; the bloodiest – Biafra secession from Nigeria (1967-1970) – over 1 million victims
- Communist influences in Third World – dropped in 1965-1967 (overthrows of Ben Bella in Algeria & Nkrumah in Ghana, extermination of Indonesian communists after aborted coup, Israeli victory in 6-day War), then returned in different places (African states & Afghanistan in 1970's)
- Portuguese African possessions (Angola, Mozambique) independent in 1975

- foreign trade structure in Third World mostly inherited from colonial empires (domination of cash crops or mineral resources in exports, usually most of export value concentrated in 2 or 3 items)
- state-led industrialization projects (attempts to overcome lack of domestic capital) – mostly failed (lack of local engineers, low labour quality, corruption, lack of resources to finance necessary investment inputs), theoretical explanation for state activity – not only Marxist, also development theorists (sir Arthur Lewis)
- social inequalities and islands of modernity (prestigious higher education schemes accompanying common illiteracy; urbanized coast and backward interior)
- Gunnar Myrdal (1947-1957 - UN Economic Commission for Europe, 1974 - Nobel Prize) - poverty equilibrium (Malthusian perspective on results of population growth in developing countries – rise of population due to declining mortality consuming any results of weak economic growth – stagnation or even decrease of per capita incomes); currently most of developing countries surviving fertility declines – end of rapid population growth

3. Latin America after 1945

- Import-substitution industrial policies from 1930's to late 1980's
- Ambitious state-led modernization projects in 1960's (Juscelino Kubitschek in Brazil) combined with American program of Alliance for Progress (most of funds transferred illegally to European safe havens) – failure due to bad performance of Latin American products on international markets, burden on state budgets, widespread corruption and often military coups
- Defence expenditures as budget burden during military rule
- in 1980's Latin American countries among the most affected by international debt crisis, common debt defaults and high inflation (sometimes turning into hyperinflation), most countries recorded decreases of GDP per capita throughout decade (exceptions: Brazil, Chile, Colombia)

- Neoliberal economic policies associated with democratization common throughout 1990's inspired by Chilean success of Pinochet dictatorship (especially after 1982): Carlos Menem in Argentina, Brazilian stabilization 1993 & Fernando Cardoso (social democrat) election in 1994
- Negative effects of neoliberal model (or some of its features – at least currency board exchange rate regime) in 2001 Argentina crisis; new wave of populist movements inspired by Venezuelan Chavez regime (since 1999)
- Brazil rise as world power during presidency of left-wing Lula da Silva combined with decrease of social inequalities

4. Stages of economic development of People's Republic of China.

- 1949-1952 – reconstruction of the country after Japanese occupation and civil war against Kuomintang forces; introduction of planning system and beginnings of industrialization with the material and expertise help of Soviet Union
- 1953-1957 – further industrialization in the framework of first 5-year plan (steel mills, coalmines, machine industry); 1953-1956 – collectivization of agriculture, concerning 96% of peasant households; 1956-1957 – temporary political liberalization, accompanying destalinization in USSR (<u>100 Flowers Campaign</u> – 100 flowers symbolizing ideological pluralism); all liberalizers soon sent to work camps, while country returned to industrialization projects designed by <u>Mao Zedong (1893-1976)</u>
- 1957-1961 – <u>Great Leap Forward</u> – accelerated industrialization based on primitive steel mills built in every rural commune – great failure – ineffective technology in economies-of-scale intensive branch; villagers usually melted their own tools in order to meet required quantities of smelted iron – almost immediate widespread famine – 20-30 million of victims; rising conflict with Soviet Union
- 1961-1966 – temporary return to normality, lower influences of Mao in the party leadership

- 1966-1971 – another Mao's campaign – Great Cultural Revolution – addressed against party bureaucracy and intelligentsia, based on high-school pupils and students; followed by anarchy in urban areas and slowing of economic growth; situation controlled only thanks to the power of army unaffected by attack on every social hierarchy; official finish in 1969, but in fact whole period ended in 1971 with death of marshall Lin Biao
- 1971-1976 – relative political instability in Communist Party, accompanied by normalization of relations with the USA (abandoning its support for Taiwan) and entrance to United Nations; foreign trade already dominated by developed western countries (due to previous loosening of ties with Soviet Bloc); import of technologies from Japan and other developed countries
- 1976 – deaths of Mao and long-time prime minister Zhou Enlai (1898-1976), prevalence of moderates with Hua Guofeng (1921-2008) in the party leadership; Hua's position contested by Deng Xiaoping (1904-1997), one of the prosecuted during Cultural Revolution
- 1978 - Deng's prevalence in party's leadership, from that time economic reforms, allowing de facto for existence of capitalist sector in Chinese economy and inflow of foreign capital to special economic zones (most successful in Shenzen); decollectivization of agriculture (despite usual lack of formal ownership titles to the agricultural land – rapidly rising agricultural output, ensuring Chinese agricultural self-sufficency, supported additionally by restrictive one-child demographic policy); from that time average GDP growth exceeding 8% (temporarily over 12%); initially great role of village cooperatives in development of industrial production and trading activity
- 1989 – repression of student protests on Tiananmen Square in Beijing - economic liberalization not followed by political one; Deng Xiaoping removes liberal reformer Zhao Ziyang (1919-2005) from communist party chairmanship

- 1990's – greater role of state sector in industrial development, especially during temporary international ostracism after Tienanmen; increased inflow of foreign capital in the second half of the decade;
- December 2001 – Chinese membership in World Trade Organization – rapid surge of Chinese exports to developed markets and big trade surplus (one of the extraordinary imbalances of world economy in the first decade of 21st century); additionally increased by tying of renminbi to weakening US dollar (further renminbi appreciation not compensating the growth of Chinese productivity); in second half of the decade China becomes the source of capital for other developing countries (mostly African); rising Chinese industrial potential and internal consumption push commodity prices upwards – 2000's as the decade of unprecedented (besides 1970's) growth of primary products prices; first attempts of creating Chinese brands of world renown (Lenovo); suddenly China became the second economy in the world with large middle class and many super-rich capitalists.

Lecture 15

1. Economic history of Poland after 1945. Post-war reconstruction and the 3-year Plan

- country destroyed by the war; additional post-war damage done by Red Army (especially at former German lands – so-called Regained Lands)
- coalition government dominated by communists with participation of Polish Peasant Party (PSL) led by former prime minister of government in exile (London) – Stanisław Mikołajczyk (here as deputy prime minister)
- border movements – special Ministry for the Recovered Territories (Władysław Gomułka, secretary general of communist Polish Workers' Party)
- Sept. 1944 - land reform – distributing large estates and German estates among peasants with State Land Fund acting as intermediary – not only

self-sufficient farmers but also small peasants & landless agricultural labourers; almost no change in average farm size (from 5 to 5.2 ha); thus obtained land-ownership structure badly-suited for normal market-oriented agriculture, better for collectivization; on former German lands – less egalitarian policy based on Sep. 1946 decree – in order to accelerate Polish colonization

- industry – gradually taken from military authorities, almost no private owners – easy nationalization of big industry, Jan. 1946 – nationalization of basic industrial branches & communication on indemnification basis (enterprises hiring over 50 workers for 1shift)
- finance & banking – money issuance given to newly created National Bank of Poland, instead of Issuing Bank in Poland (set up by Germans in Cracow) & Bank of Poland (pre-war, legally existing in London with government in exile); elimination of banks through license requirements, Oct. 1948 bank reform leaving 6 specialized banks (including NBP), no formal nationalization in banking sector; insurance – 1947 monopolies of PZU (insurance) and Warta (reassurance)
- trade – "battle for trade" from May 1947 – action against private retailers and independent cooperatives under slogans of fighting speculation & high prices
- economic planning – dominated by Polish Socialist Party (PPS) and its economists, formerly working for London government; Central Planning Office (CUP) created in Nov. 1945, led by Czesław Bobrowski, main author of reconstruction scheme of 3-year Plan (1947-1949), focused on living standards
- counterfeited communist victory in Jan. 1947 parliamentary elections - increased pressure on PSL, after Oct. 1947 Mikołajczyk escape, pressure directly on PPS – Feb. 1948 – "CUP dispute" – communists attack CUP planning – Bobrowski removed from office, economic policy-making transferred to Hilary Minc, communist minister of industry & trade

- union of PPS & PPR – December 1948, Polish United Workers' Party (PZPR), completely reflecting Soviet patterns, chairman – Bolesław Bierut (President of Poland), elimination of proponents of "Polish way to socialism" led by Gomułka; government led from 1947 by Józef Cyrankiewicz (PPS) – complete autonomy of Minc in economic policy

2. The 6-year Plan

- 1949 - CUP transformed into State Commission for Economic Planning (PKPG) – much wider competences, modelled on Gosplan, led by Minc; preparation of 6-year plan – focused on industrialization, not living standards, additionally restructured in 2nd half of 1950 in order to include more military goals (effect of direct Soviet pressure); economy additionally burdened with supplies of coal to Soviet Union at ca. 10% of world price (1945-1956 estimated cost – over $ 0.6 bn) – almost no increase of individual consumption despite fast economic growth
- peak of Stalinism – 1952-1954 (new constitution abolished President's office, Bierut combining posts of PZPR's chairman and prime minister)
- since 1954 – copying of Soviet pattern of "collective leadership" – Cyrankiewicz - prime minister again, Bierut – first secretary of PZPR; economic "manoeuvre" in 6-year plan, Minc replaced in PKPG by Eugeniusz Szyr
- collectivization of agriculture – gradual advances (20% of land), similar to other countries (30-40%), spontaneous decollectivization in late 1956, while other states complete collectivization in late 1950's – Poland as the only communist country with individual farms dominating agriculture; since 1952 obligatory deliveries from individual farmers (paid at decreased price) – reaction to fall in agricultural production
- June 1956 – workers' revolt in Poznań – need for deeper reform

3. The economy in the era of Władysław Gomułka

- Oct. 1956 – Gomułka back to power as first secretary of PZPR

- decentralization of state management, dissolution of PKPG and creation of Planning Commission at Council of Ministers (Stefan Jędrychowski), central plan disaggregated at ministry-level, branch-level management by "central authorities" abandoned, voluntary "unions" instead, very soon recreating previous patterns (strength of bureaucratic structures) economic experts grouped at Prime Minister's Office Economic Council (Oskar Lange, Bobrowski, Edward Lipiński, Michał Kalecki)
- worker councils as participants of management process in enterprises – modelled on Yugoslavian solutions, in 1958 subordinated to Conferences of Workers' Self-management – end of reforms
- 1957 – new agricultural policy – decollectivized agriculture, only individual farmers and big, state-owned farms (PGR), state-owned agricultural infrastructure (intended to enhance voluntary creation of cooperatives – no such thing happened)
- surge in individual consumption 1957-1958, partially thanks to demilitarization, since 1959 – return to fast industrialization but without excesses of 6-year plan
- 1960's – capital-intensive investments in exploitation of natural resources (sulphur, copper, lignite), after 1965 – license imports from the West (sign of technological gap), 1967 – Poland joins GATT as full member (second to Czechoslovakia in the whole bloc); previously observer status since 1960
- 1968-1970 – new reforms introduced by economic secretary of PZPR Bolesław Jaszczuk – pressure on internationalization of economy (response to success of EEC and failure of Comecon), structural preferences for electric, machine and chemical industries ("selective development"), changes in enterprise management focused on linking its economic performance with wages – ended by workers protests in Dec. 1970 and fall of Gomułka

4. Economy under Edward Gierek (1970-1980)

- intensive industrialization (licenses) combined with rising level of living financed by foreign credits, the most important institutional reform –

creation of Big Economic Organization (WOG), partially abandoned from 1976 – the "socialist concerns" behaved like classical monopolies; economic policy mostly in the hands of prime minister Piotr Jaroszewicz

- abandoning of obligatory deliveries in agriculture, combined with extension of healthcare system and social security on individual farmers; additional pressure on increasing agricultural output – high prices and subsidised purchases of inputs – very good period for farmers, on macro scale – large government transfers to agriculture (one of the source of foreign indebtedness)
- big investments in state industry led to the peak of share of government sector in national income (over 86% in 1975) and employment
- first crisis in 1976 (workers protests – Radom, Ursus), after that date no significant reforms ("economic manoeuvre" of December 1976 was never fully implemented); additional disorganization of economy by head of Planning Commission, Tadeusz Wrzaszczyk (frequent, contradictory changes of previous decisions – management style effective maybe in the case of sole enterprise)
- 1980 – Gierek's fall, creation of "Solidarity", rule of Stanisław Kania as first secretary of PZPR (1980-1981), reform proposals accompanied by further destabilization of economic situation (Poland de facto insolvent from 1980)

5. The attempts of economic reforms after 1980

- 1981 – martial law introduced by general Wojciech Jaruzelski (combining posts of first secretary of PZPR and prime minister), 1982 – martial law reforms (Commission for Economic Reform led by Władysław Baka and created in 1980 – - new status of enterprise – 3S - self-reliability, self-management and self-financing; partial liberalization of prices, partial independence of central bank, creation of preconditions of banking system reform),

- 1985-1988 – Zbigniew Messner as prime minister stops most of reforms, but in 1987 promotes an idea of second stage of reform – indirect admission of incompleteness of previous reforms
- 1988 – Mieczysław F. Rakowski as prime minister rapidly liberalizes system, new rules concerning establishment of new enterprises and the activity of private sector (including foreign capital); bank reform, focused on setting up institutions similar to those of market economy (with clearly defined position of central bank and commercial banks); exchange offices allowed to operate on the basis of new customs law, legalizing trading with foreign currencies by private persons

6. The Balcerowicz Plan and its consequences

- 1989 – non-communist government of Tadeusz Mazowiecki attempting to stabilize economy & create capitalism; Leszek Balcerowicz combining posts of minister of finance and deputy prime minister
- January 1990 – introduction of Balcerowicz Plan - in fact author design of deputy prime minister, helped by some ministry clerks and narrow circle of advisers (Stanisław Gomułka, David Lipton, Jacek Rostowski and Jeffrey Sachs) – end of "real socialism" in economy
- main short-term goal: counteracting inflation (very close to the hyperinflation levels at that time) – even before Plan: so-called compensating indexation, limiting wage growth in state-owned sector; changes in already outdated state budget, increasing its deficit and income (thanks to fuel and alcohol price hikes); Balcerowicz Plan: fixing exchange rate to the dollar at 9500 zloties/USD (so-called nominal anchor); wage control in state enterprises, not supported by profit-maximizing owners and being basis for strong trade-unions, with often excessive wage demands; setting norms of allowable wage growth combined with tax on super-normative wages, paid by the enterprise; anti-inflationary aspect also of continuation of strategic talks with the international institutions of Western countries concerning economic assistance to Poland and rescheduling of

Polish debt; also anti-inflationary goals of limiting budget deficit and the pace of money supply growth during whole 1990

- further liberalization of economy, mostly through deregulation
- structural changes (some more complicated reforms introduced gradually in following years): liquidation of the remnants of central management of the economy, recreation of local governments and municipal property, privatization, rejection of automatic financing of economic operations, tax reform, self-reliability of state-owned enterprises, internal currency convertibility, foreign trade liberalization, demonopolization, creation of real-estate market (although with restriction of foreigners), commercialization of banking and insurance sectors, creation of stock exchange, facilitation of foreign investment and social security for the unemployed; economic liberalization accompanied by institutionalization of anti-monopolist policies
- results – fast development of private sector; recession resulting from the problems of state-owned industry, negatively influenced especially by decomposition of Comecon and resulting from it reorientation of Polish foreign trade, but also by rising foreign competition on domestic market; occurrence of structural unemployment, especially on areas dominated by state-owned agriculture and dependent from heavy industry; the quickest return of Polish to economic growth among all transition countries (growth recorded already in 1992); also the highest total growth after 1990 in whole region; creation of basis for future integration of Poland with EU structures

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