

The Role of Eastern Europe in Development Economics' History¹

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Abstract: Until the 1980s, development economics was dominated by analytical approaches formulated during the 1930s and 1940s in response to international instability. The relative backwardness of Eastern Europe had stimulated early thinking that carried over to the post-World War II agenda of reconstruction and nation-building. This paper examines the influence such analysis had on the history of development economics. Explanations for Eastern Europe's backwardness suggested strategies for development that played an important role in orienting development thinking. In addition, research institutes and development thinkers that had dealt with Eastern Europe played central roles in formulating development economics from the 1940s on.

1 Introduction

Eastern Europe played an important role in the early modern formulation of thinking on 'development economics'. In the interwar period, its location between the more advanced Western Europe and the rapidly advancing Soviet Union raised questions about the causes of its underdevelopment and the possible strategies that could bring about development. Early thinking on 'labour surplus' economies came out of Eastern Europe and the 'Big Push' strategy of development was based on Eastern Europe. Generalisation about development processes based on one geographic area is a common pattern in development thinking. The most recent case is the effort to distil development lessons from the 'East Asian miracle' (IBRD 1993). The early 1990s approach, with the demise of Comecon, was based on Latin America and was termed the Washington Consensus. It favoured liberalisation and market development (Williamson 1990).

It is ironic, and the result of the continuing underdevelopment of Eastern Europe, that these modern lessons directly contradict the earlier lessons. In the thirties and forties, most development economists saw the need for heavy government involvement in the economy. Even the conservative English journal, *The Economist*, noted in 1942, 'Given the need for state control as a means of exercising a positive and directive function, it remains to evolve a suitable technique' (p. 100). Now the state is assigned a much more limited role, and laissez-faire is often advocated as the key to development. Policy in Eastern Europe should concentrate on 'stripping away the administrative economic cocoon to reveal the butterfly of comparative advantage' (Junz 1991, p. 177), and '[we must] give full scope to the entrepreneurial spirit' (Weschler 1989, p. 89).

Nonetheless, one of the striking similarities in the pattern of development thinkers is their confidence: once the problem is correctly identified, there is little doubt that it can easily be solved. For example, a 1943 study of Eastern Europe's agriculture stated: 'The task may be gigantic; but the men are there, the knowledge is there. They only need to be applied to the job' (Yates and Warriner 1943, p. 67). One of the principal development writers of the same period, Paul N. Rosenstein-

Rodan, reflected the optimism about the development prospects in Eastern Europe, stating that this was 'in many respects the most fruitful and interesting field of action, because the solution of the problem there can be envisaged within the lifetime of one generation' (Rosenstein-Rodan 1944, p. 159).

In a similar vein, Jeffery Sachs, a central figure in Poland's economic transition, noted in 1991 that the problems of Eastern Europe were primarily political, not economic, and that stable political leadership, acting decisively, would solve the problems of Eastern Europe in a relatively short period of time (Sachs 1991, pp. 26, 31).² Sachs's shock therapy for these economies was designed to restructure them so that they could return to the mainstream of European life (Sachs 1991, p. 26), since '(e)ven after forty-five years, they have the makings of a regular European economy here' (Weschler 1989, p. 88). 'The restructuring of Eastern Europe is the great economic experiment of this generation' had much the same ring (Jefferson and Petri 1990, p. 6).

This paper examines the importance of Eastern Europe and its economic experience to development thinking at the end of World War II. It begins by examining the 1930s and 1940s and summarises the explanations offered for Eastern Europe's relative backwardness. From this treatment, it moves to examine the strategies for development that were suggested at the time and that played an important role in orienting development thinking during that period. The next section examines in more detail the most important research institutes and development thinkers that contributed to these advances in development thinking at the end of World War II.

Their approach to development dominated until the 1980s, when the Washington Consensus's market-oriented approach gradually supplanted it. However, the continuing malaise of most developing countries, the relative success of the East Asian countries, and the singular success of the pragmatically heterodox Chinese economic policy since the 1980s, suggest that the direction of development thinking may again be changing. This paper's historical treatment takes on added interest in that light.

Methodologically, the structure of economic development analysis begins with an explanation of 'underdevelopment' and moves then to the policy proposals for 'development' (Weaver and Jameson 1983). Consistent with this approach, we begin by treating the explanations of Eastern Europe's underdevelopment offered by economists writing in the 1930s and 1940s.

2 How Eastern Europe's Underdevelopment Was Understood

Czechoslovakia, Poland, Rumania, Hungary, Yugoslavia and Bulgaria, i.e. Eastern Europe, were considered underdeveloped by most economists and policymakers in the 1930s and 1940s. However, they were far from homogenous politically, economically or socially (Basch 1943a, p. 414). They may have shared a common set of problems, but with notable individual variation that affected the interpretation of each country's underdevelopment as well as the suggested strategy of development. Indeed many of the central tenets of traditional development economics were initially discussed in the process of explaining Eastern Europe between the wars.

By the 1930s, economists began to recognise that some countries were developing while others were not. For a variety of reasons, ranging from physical proximity to the location of exiled governments in England, Western economists

began focusing on the differences between Eastern and Western Europe. They perceived 'that there were two Europes: the wealthy one, with highly developed industry, and the poor one, with undeveloped economy and extensive agriculture' (Basch 1943a, p. 409). For whatever reason, Eastern Europe was 'left virtually untouched by the vigorous industrial development of Western Europe' (Mandelbaum 1945, p. iii). Although held outside the mainstream economic discussion, a debate on the causes of Eastern European backwardness began in the 1930s and peaked by 1945, with the onset of Soviet control (Arndt 1972, p. 16). It centered on explaining the causes and exploring possible solutions to this lagging economic performance.

There was widespread agreement that the outward manifestation of the Eastern European problem was 'too many people and not enough capital'. While most economists agreed that economic development in Eastern Europe had lagged, the explanations offered for this underdevelopment were quite diverse. This section will summarise six of them in the order of their prevalence and popularity. The listing will highlight the links of this thinking with the origins of the field of economic development.

Vicious Circle of Poverty

One of the most common explanations of Eastern Europe's economic malaise was the 'vicious circle' of agricultural poverty. A multitude of reasons for the existence of surplus population and of its resultant problems was offered, and the theme recurs throughout the literature of the time (Feierabend 1943, p. 360; Mandelbaum 1945, p. iii; Warriner 1939, pp. 22-3; Royal Institute of International Affairs 1944, pp. 54-5). In its most common form, the argument was that population growth outstripped productivity gains in agriculture and placed increasing pressure on arable land; this led to further subdivisions of agricultural plots, which in turn reduced productivity. This generated a vicious cycle of poverty and was the underlying weakness of all peasant economies (Warriner 1949, p. 158). Overpopulation meant that there were too many peasants on too little land, which created high labour-to-land ratios with consequent low marginal productivity of peasant farmers. Low marginal productivity caused incomes to be close to subsistence and therefore offered little possibility for saving. A low saving rate generated little financial intermediation and small capital markets, which in turn hindered industrial development. Stagnant industrial development and increasing overpopulation problems made the subdivision of arable land inevitable, further lowering the marginal productivity of the agricultural worker, reducing rural incomes closer to subsistence.

Many writers on Eastern Europe subscribed to a 'Lewis' approach to agriculture. There was an assumption that the marginal productivity of labour in agriculture was close to zero or, in other words, '[superfluous family members] participate in their family's income without contributing to it to any noticeable extent' (Mandelbaum 1945, p. 2). Some went so far as to say that if this 'disguised unemployment . . . were removed from the land agricultural output, far from falling, would increase' (Rosenstein-Rodan 1944, p. 160). Therefore, if employment were found for these redundant workers in agriculture, at the very worst agricultural output would remain the same.³ While development strategies will be discussed later, it is important to realise that many were predicated on the underlying problem of overpopulation on agricultural land.

While further immiserising the general population, the resulting low productivity also hurt potential agricultural exports in world markets. Backward technology and low productivity prevented Eastern Europe from competing with more efficient world producers (Feierabend 1943, p. 360; Royal Institute of International Affairs 1944, pp. 54-5). Thus Eastern Europe was mired in a vicious circle of poverty and the surplus population problem blocked development (Basch 1943b, pp. 234-5). Development economists of the 1930s and 1940s took it as their challenge to determine the causes and provide solutions to this problem.

The International Economy

The second major explanation for lagging development in Eastern Europe pointed to the manner of its insertion into the international economy. The agricultural export earnings that Eastern Europe had relied upon to finance its needed imports collapsed during the depression. Previously, Eastern Europe had enjoyed rising international prices, unrestricted markets and relatively free access to foreign capital (Royal Institute for International Affairs 1936, p. 62). All of this ended with the depression, and this region may have been more affected than most because loan repatriation was demanded by industrial countries that now faced their own economic problems (Basch 1943b, p. 35). This crisis was aggravated not only by a perceived state of over-indebtedness but also by the earlier reliance on short-term credit (League of Nations 1945, p. 30). The economic downturn led the lending countries to demand full loan repayment rather than rolling over the debt as they had previously.

The depression pushed international agricultural prices to extremely low levels, which in turn directly lowered real agricultural wages in Eastern Europe. While protectionism had begun to increase in the 1920s, it accelerated in the 1930s, and import quotas were established to balance trade flows (Basch 1943b, p. 42). The policy of protectionism escalated, leading to a total breakdown of international trade. As politics moved to the front, economic self-sufficiency went from a political aim to a 'vital economic necessity' (Royal Institute of International Affairs 1936, p. 115). The trade wars had pushed states into minimising the need for international trade; in reality Eastern European countries were reeling from the loss of markets for their industrialised products in the West.

The disruption of international trade made maintenance of international loan payments extremely difficult. Initially, some states attempted currency depreciation to help spur international trade, but the increase in exports did not compensate for the reduction in income caused by the devaluation (Royal Institute of International Affairs 1936, p. 67). Farmers' real income declined and they were unable to service their own debts. The state intervened with price supports to farmers to help buoy their earnings and to facilitate loan repayment. It soon became clear that debt repayment, domestically or internationally, was impractical. In addition, the price supports were not simply smoothing fluctuations, but rapidly became long-term commitments which could not be maintained given the underlying economic realities (Royal Institute of International Affairs 1936, pp. 67-70). The effort to cushion the international shocks created a severe internal financial strain on all Eastern European governments.

With international trade falling by 70% in value between 1929 and 1935 (Basch 1943b, p. 88) and severe reductions in international agricultural prices creating the need for price supports, governments resorted to exchange controls to prevent further devaluation of their respective currencies. This was in part a

response to increased capital flight when many of the wealthy lost confidence in their countries' currency (Basch 1943b, p. 71). Monetary 'stability' was achieved by state decree, not through underlying economic relationships; '[t]he introduction of foreign-exchange control was, certainly, not a step toward the solution of the crisis, but rather a measure of defense...' (Basch 1943b, p. 73). Increased protectionism not only diminished trade but also caused international monetary relations to deteriorate. Eventually, trade was conducted using 'clearing agreements' which amounted to barter-like arrangements (Basch 1943b, p. 84). The disintegration of international trade and financial relations meant that the international debt problem reached crisis proportions.

The Eastern European countries were simply unable to continue debt service.⁴ While some loans were scrutinised and criticised as supporting luxury consumption rather than development (Economic Research Group, 1945 p. 110), changing international conditions made repayment impossible. Nonetheless, the international system took a familiar approach. For example the League of Nations issued a statement on January 1, 1932, concerning Hungary's debt moratorium: '[The League of Nations] demanded a reduction of public expenditures, and a balanced budget, and advised a curtailment of imports to improve the balance of payments' (Basch 1943b, p. 54). The League was seeking to restore stability in an increasingly unstable environment (League of Nations 1945, p. 18). Others took a stance more favorable to Eastern Europe, arguing that repayment of the debt would hinder any chance Eastern Europe had for economic recovery (Royal Institute of International Affairs 1936, p. 130). The precarious manner in which Eastern Europe was inserted into the world system meant that any world economic downturn was particularly severe for these less developed countries.

The collapse of world trade pointed both to the importance of international economic relations and also to the relative weaknesses of Eastern Europe's domestic economies. This theme is as pertinent to the development discussions of the 1930s and 1940s as it is today.

Economic Inefficiency

The collapse of world trade isolated the Eastern European economies so that they had to rely on their domestic economies to supply their needs; and the depression stimulated growth in the relatively small domestic Eastern European industrial base. It also offered yet another explanation for poor performance, this time from a market efficiency approach. Current events had created a defensive import substitution policy, and this protectionism had created an industrial boom of sorts because of the absence of foreign competition (Basch 1943b, p. 80). Many felt that industry had always been favoured and the depression intensified the preference for industry over the traditional agricultural base. The higher standard of living the industrial workers enjoyed relative to the peasants was offered as evidence. A dualistic economy was emerging in which 'industrialisation benefit[ed] mainly the towns' (Royal Institute of International Affairs 1939, p. 185) and the peasants were unable to participate.

By necessity, industry was favoured in the short run; but critics found a bias toward industry and contended that favouring industry was clearly inefficient, given Eastern Europe's comparative agricultural advantage. Further substantiation was the claim that several industries were overdeveloped, for example, the agricultural processing sector, including flour milling and alcohol (Economic Research Group 1945, p. 52).⁵ The League of Nations condemned this 'hasty

process of industrialisation', claiming that the relative prices were skewed in favour of industry over agriculture (League of Nations 1945, p. 28).

In any case, an urban-based industrial policy had nurtured an industrial base in Eastern Europe, long before Soviet domination of the area. Despite this, there was still extreme vulnerability in Eastern Europe to external influences.

International Dependency

The long-run effects of the depression and the rise of protectionism were devastating to Eastern Europe. Western Europe turned its consumption of agricultural products to the United States and away from Eastern Europe. Faced with the closure of traditional markets, Eastern Europe had no real alternative but to increase trade with, and dependence on, Fascist Germany. It was forced to link its economic and political fortunes to a dubious ally. The link was not an equal one, and Germany manipulated Eastern Europe to fit its growing military needs. Some observers believed that this trade diminished Eastern Europe's ability to progress towards its long-run development goals (Moore 1945, p. 128; Basch 1943b, p. 4; League of Nations 1945, p. 73). However, the peasants favoured trade with Nazi Germany because it provided an outlet for their grain surpluses. Since none of the other major powers were interested in trading with Eastern Europe, there was little possibility of stopping the growing concentration of trading relations. Unequal trade with Germany was better than no trade at all (*New Statesman and Nation* 1941, p. 371-2).

Economic weakness in Eastern Europe translated into control by outside powers and Western European indifference continued to play an important part in Eastern Europe's economic development problem. A key turning point in Eastern Europe's international economic relations came at the Stresa Conference of September 1932, which met to discuss international recovery plans (Basch 1943a, p. 411; Han 1942, pp. 115-16). One of the principal proposals of the conference was to establish favourable treatment for Eastern Europe's cereals so that they could become the major supplier to Western Europe. US desire to supply Western Europe with grain subverted any chance for Eastern Europe to develop stronger agricultural ties with the rest of the world. The conference ended in failure and it was widely felt that US interests were a key contributor to the failure. This also signalled the end of post-World War I international conferences (Han 1942, p. 116). In effect, the Western powers had met and decided that Eastern Europe's problems were not significant enough to warrant concerted action (Basch 1943a, p. 411). The 1930s thus resulted in a period of debilitating economic autarky for Eastern Europe and growing dependence on Nazi Germany. The importance of international assistance was generally agreed upon during this period; however, little tangible help came from that direction.

The Role of the State

The final main explanation of Eastern Europe's underdevelopment focused on the role of the state in development. The issues that were highlighted ranged from the effects of the long period of Turkish domination to the mishandling of the current depression. For example, some faulted the state for allowing Eastern Europe to be manipulated by the West's exploitative investment and claimed that misdirected political power, both internal and external, had hindered its growth. Overall, most of these analyses incorporated as a central element some understanding of the role of the state, and an underlying acceptance of the importance of the state in any development effort. Laissez-faire, or its absence, was generally not seen as central

to the development problem – nor to its solution. Some argued that the state had squandered foreign exchange earnings and was inefficient (Economic Research Group 1945, p. 110), but most called for a strong state to deal with the development problems (A Canadian Economist 1944, p. 540; Han 1942, pp. 317-18; Moore 1945, pp. 139-40; Murphy *et al.*, 1989, p. 1024; Yates and Warriner 1943, p. 85). The general approach of development economists was to identify ‘the central problem’ and then suggest how the state could play a critical role in the solution of the problem.

On the other side, while the state was seen as central to any development strategy, it was also a primary culprit for truncated development. Past government administrations were blamed for mishandling the economy and thus hindering economic progress. One general theme of this analysis was that Eastern Europe had a unique political development, which had affected the nature of the state apparatus. Eastern Europe was more rural than the rest of Europe, and serfdom had lasted over 50 years longer (Yates and Warriner 1943, p. 15). When peasants took political power, their primary issues were agrarian and so these peasant parties were primarily concerned with the distribution of arable lands. However, once land reform was accomplished the parties became conservative and factionalised (Warriner 1939, p. 38). Partly as a result of this situation and partly as a reflection of wider changes in the East and the West, strong military authoritarian rule developed by the 1930s; and the rise of fascism had an undeniable influence on most of these countries. The strong authoritarian state apparatus, coupled with the advent of the depression, created a situation where governments attempted to protect their own countries, no matter the international cost.

Local governments were criticised for their lack of spending on education. Rosenstein-Rodan and many others felt that this was critical: ‘(b)ut the fact that the more advanced countries in the area have developed their industries after emerging from largely similar economic and social conditions shows clearly that the difference in productivity is not due to any lack of natural aptitude, but mainly to lack of education and similar social handicaps’ (Economic Research Group 1945, p. 55). This hypothesis was taken quite seriously at the time.

Other Explanations

Beyond these main themes was a series of added explanations for underdevelopment in Eastern Europe. Some saw the situation as a result of social factors (lack of education, problems of traditional culture); others took a strictly economic approach (loss of world markets, small natural resource base). Still others took a political economy approach. Some felt that the European wars were particularly devastating to individual countries’ development strategies. The effects of the postwar reparations were sometimes used as an explanation for lagging Eastern European development. On occasion the case was made that South America was in a better position to develop since it had not been ravaged by continental wars (Basch 1943b, p. 36).

Finally, there was an undercurrent of radical critiques that were beginning to emerge by the 1930s. Even though these ideas were not fully articulated into analyses of underdevelopment, certain analysts did discuss the unequal relations between the advanced countries and the less developed countries (Warriner 1950, pp. xii, xiv; Han 1942, pp. 108-9). One example of an alternative perspective was the colonialisation development analysis (Warriner 1950, p. xii). It claimed that developed countries extracted needed commodities from less developed countries.

Some of the industrialisation that was taking place, by way of direct foreign investment, had 'skimmed the cream' by taking profits and production out of the country, especially in the raw materials industries. Obviously this diminished the ability for Eastern Europe to achieve long-term development (Warriner 1950, p. xii). An early (1949) essay by the United Nations pondered why countries could attract foreign investment over a long period of time but not achieve self-generating development. No explanation is given in the United Nations text (United Nations 1949, p. 26). Perhaps the most suggestive critiques were that Western Europe consciously manipulated Eastern Europe for its own needs. This manipulation even came under the guise of 'value-free' economic doctrines:

It was felt throughout Eastern Europe that the doctrine of the old economic liberalism demanding complete freedom of trade was often exacted in a very abstract way and that it was deduced from conditions prevailing in the older and economically more developed western industrial countries. It was also felt that freedom of trade could be of advantage to the stronger but that it would act as a handicap to the weaker, just as war could. The economic subjugation might even be worse and more demoralizing. (Han 1942, pp. 108-9)

These economists felt that Eastern Europe was a source of cheap food and labour and that the West sought to keep it that way. While these opinions would come to prominence in development theory twenty years later, they were harboured by only a few economists at this time.

Rosenstein-Rodan articulated a slightly more liberal critique. He felt that uneven world development had created uneven world distribution of wealth, which meant that international action was needed to help those countries that had 'missed the industrialisation "bus" in the nineteenth century' (Rosenstein-Rodan 1944, p. 158). While not calling for equality of income, he did call for equality of opportunity. He felt that this unequal distribution of wealth was the principal threat to international peace (Rosenstein-Rodan 1944, p. 159). This connection between a seeming lack of international action and the implication for Eastern Europe's stability is as relevant today as it was in the pre-World War II era.

Explanations of underdevelopment in Eastern Europe were many and diverse. Solutions were equally diverse. Individual economists believed that they had identified the problem and could determine the appropriate solution. While the theorists could not agree on a single solution, they were all equally confident in their individual assessments. The most common theme of their solutions was the ability of the state to correct the underlying problem, for great faith was placed in the ability of appropriate government action to help solve Eastern Europe's development problem. The next section reviews the most popular general development strategies for Eastern Europe in the pre-World War II period.

3 Strategies for Development Based on Eastern Europe

Explanations for underdevelopment translate in the policy arena into strategies to guide development efforts. For Eastern Europe, the most direct link was from the belief in overpopulation to a 'migration' solution to underdevelopment. Relieving population pressures would break the vicious cycle of underdevelopment and lessen the growing demand for the available arable land. The political climate of the time made this an unrealistic solution, since immigration laws were becoming increasingly strict in the developed countries. While many acknowledged that

emigration from the rural districts of the Eastern European countries was the best solution to the pressure on arable land, the idea was quickly dismissed because of its political impracticality (Rosenstein-Rodan 1944, p. 161; Moore 1945, p. 121). Nonetheless, a minority continued to advocate the migration solution as the best and perhaps the only response to the East European underdevelopment (Warriner 1939, p. 199).

Since most economists grappling with the problems of Eastern Europe realised that emigration was not possible on a significant scale, they looked for more feasible approaches to the problems of underdevelopment. The tenor of the times, with the emergence of Keynesian economics and the reality of Eastern Europe, suggested that they look to the modernising state to lead the development process, even though the particularities varied widely. We find eight discernible approaches to the development problem, most of which will be easily recognisable to modern-day development economists.

The Big Push

Rosenstein-Rodan is credited with the 'big push' thesis, which grew out of his effort to formulate a development strategy for Eastern Europe. 'There has never been a scheme of planned industrialization comprising a simultaneous planning of several complementary industries, which is part of our plan for Eastern and South-Eastern Europe' (Rosenstein-Rodan 1943, p. 204). Extensive government involvement would target and encourage those industries with large external economies; rapid economic progress would ensue and the big push would break the vicious cycle of agricultural poverty (Royal Institute of International Affairs 1944, p. 80). One of the bases for realising external economies already existed in Eastern Europe's relatively well-developed railway system, a principal component of the infrastructure required for the Big Push (Rosenstein-Rodan 1943, p. 208). However, the evaluation of which industries would be complementary via external economies would be difficult. For example, in the short run, big push development would encourage industries that might appear to be inefficient but would become efficient over the long run; government planners would have to determine which industries had long-term viability. While Rosenstein-Rodan did not go into detail on the specific industries to target, this issue became of critical importance to many early development economists.

Concentrating resources on specific sectors of the economy would have significant international, political, and economic implications, most importantly in determining the international niche the Eastern European countries would occupy. In the 1930s, targeting heavy industry meant that the Eastern European countries would tend to concentrate their international trade with the Soviet Union. If they targeted light consumer industries, they would have to deal primarily with Western Europe (Mosely 1948, p. 2). As a result, the Big Push strategy raised a host of other issues, such as the balance between agriculture and industry and the importance of comparative advantage. These industrialisation issues are the second area of development policy analysis.

Industrialisation Strategy

Most analysts acknowledged a capital shortage in Eastern Europe, and so the idea that added sources of capital had to be found to employ the large number of underemployed agricultural workers had a definite intellectual appeal. Since light industry had lower capital requirements for a given output, light industry seemed to

be the logical choice (Rosenstein-Rodan 1943, p. 210). Further, it was argued, light industry was the historical path along which older countries had developed.

Those who favoured heavy over light industry pointed to the depression as proof that light industry was the first to collapse in an economic downturn and that heavy industry was more stable in international business cycles. If 'depressions are inevitable under capitalism, as the communists stressed in this early post-depression period' (Mosely 1948, p. 2), encouraging heavy industry was the best path to development.

Although there was debate on the type of industry to develop, there was virtual uniformity in favouring industry over agriculture. Developing industry, at the initial expense of agriculture, meant a more stable and dynamic development process. Developing agriculture first would simply aggravate the rural unemployment problem, for increased capital use in agriculture would lead to a deterioration in employment prospects in agriculture (Warriner 1949, p. 158). Hungary's government had issued a decree against using harvesting machinery, which reflected the view that efficiency could only be gained by causing massive job losses. Therefore industrial capital should be developed before agricultural capital since, at the very least, increasing agricultural capital would aggravate the vicious cycle in the short run. Industrial development would serve as the necessary precursor to agricultural development. Concentrating on industry first would mean that industrial inputs, such as agricultural products and labour, would be drawn from the already underutilised rural sector. Once industrial development had started, it would attract needed inputs from agriculture and would create a rapidly evolving symbiotic development (Moore 1945, p. 138).

The success of the Soviet model, especially during the depression, prompted some economists to favour collectivisation of agriculture in large-scale state-directed farms (Warriner 1939, p. 35). They also felt that the rise of large corporations in Western Europe necessitated similar large-scale firms in developing countries, for such firms were necessary to ensure international competitiveness. Concomitantly, state action was required to coordinate these larger firms (Moore 1945, p. 138).

All of these industrialisation strategies relied upon some degree of infrastructure development. As a result, some analysts put infrastructure at the centre of their development strategy.

Infrastructure Development

Creating the appropriate economic infrastructure for development was of paramount importance to a number of development economists (Yates and Warriner 1943, pp. 54, 82; Economic Research Group 1945, pp. 75, 78). If transport costs could be significantly reduced, trade would be facilitated and economic development could take place. Building roads to complement the railways was a large investment in state-directed public works (Basch 1943b, p. 244), but it was not seen as necessarily capital-intensive: '... the immediate problem is to find industrial occupation for millions overnight. The obvious solution, in the interests of agriculture itself as well as of industry and rapid labor absorption, would be the development of communications, where required. Railways and roads must be extended' (Royal Institute of International Affairs 1944, p. 83). It seemed to these analysts that a US WPA-style program would both relieve the unemployment problem and provide the infrastructure for future development.⁶ While the WPA might have influenced some, the TVA received

even more interest. 'A Tennessee Valley Authority for the Danube Basin' was suggested and discussed extensively (Browne 1944; Yates and Warriner 1943, p. 53). Hydroelectric power had been identified as a possible source of cheap electricity for development. Its large scale, capital intensity and long-term payback meant government would have to take an active role in the planning and implementation of any hydro-development. However, the Eastern European conception of the TVA incorporated much more than just regional electricity provision. The TVA was viewed as a successful plan that involved significant regional integration between power, industry, and agriculture.

The connection of complementary industries under one administration was viewed as a viable mechanism to lower the risk of default. It was hoped that external economies of scale could cover some of the individual firm losses in this type of arrangement. The reduction of risk could also attract foreign investors (Mandelbaum 1945, p. 11). Therefore low domestic savings could be offset by such an inter-state TVA arrangement. Eastern European views were captured well by a more recent observer of the TVA: 'In short, the T.V.A. was entrusted, not with a scheme based on the making of a profit, but with the establishment and execution of an integrated resources plan, using specific undeveloped or underdeveloped natural and human resources' (Finer 1972, p. iii). Clearly there were high hopes for international TVAs in Eastern Europe.

On the other hand, critics of the TVA approach expressed a number of reservations. The US TVA had been located in one state with a relatively homogenous population. The Danube basin TVA(s) would face the daunting task of working across national borders and uniting different cultures. The politics of an Eastern European TVA would become a great deal more complicated than the one developed in Tennessee (Rosenstein-Rodan 1944, p. 164). It seemed likely to require international assistance. Such massive schemes raised the question of where the capital resources would be obtained; many looked to international investment as the logical source.

International Investment

Most analysts saw an increase in international investment as a crucial component of any development effort in Eastern Europe. On an aggregate level the argument was simple: total demand exceeded total supply and therefore pointed to the need for international loans, especially if major investment efforts were to be undertaken (Mandelbaum 1945, p. 59). This was reinforced by the widespread claim that the Eastern European countries were too autarkic in their development plans, even granting the inward focus forced upon them by the breakdown of international trade during the depression (Basch 1943b, p. 238). Clearly most analysts favoured international help: 'Th[is] study also makes clear that if any substantial development is to be achieved within the lifetime of this generation the region would need additional capital resources from outside' (Economic Research Group 1945, p. 11).

Specific approaches to international investment were varied. There were suggestions that the international funds be used for specific purposes, such as consumption, while internal funds should be channelled towards investment projects (Mandelbaum 1945, p. 9). Others made the case for foreign investment, noting that lending to Eastern Europe might mean a reduction in Western standards of living (Crump 1944, p. 49). Despite this, investment and growth were necessary to maintain European peace. Local economic autonomy, these authors felt, would

counter external domination of the countries, such as the excessive influence of Germany during the 1930s.

Although international investment was generally incorporated in strategies of development, there were arguments that unsupervised direct foreign investment was not necessarily in Eastern Europe's best interests. Recognisable radical critiques had not been well developed by this point; however, there were some who strongly objected to direct foreign investment. For example, the foreign domination of Rumanian oil fields served as a reminder that foreign investment was not the panacea that most development economists saw. There was also a more practical problem: an increase in foreign capital flows was not likely because of the debt moratorium imposed on Eastern Europe after the collapse of agricultural prices in the early thirties (Royal Institute of International Affairs, 1936, p. 3).

The League of Nations sought to restore financial flows that had broken down with the debt moratorium. After World War I the League attempted to help Eastern Europe stabilise with an international creditor scheme. The plan, named for its author, was referred to as the Meulen Scheme (League of Nations 1945, p. 9). When a general plan for the area collapsed in 1922, individual countries were targeted to receive credits, especially Hungary. Even this modest effort ended in failure with the onset of the depression (League of Nations 1945, p. 64). With no significant financial resources of its own, the League could not broker an agreement between the individual creditors and the defaulting Eastern European governments. As with the Stresa Conference, coordinated international action proved to be minimal and almost entirely ineffective, despite the general agreement that international action was of paramount importance.

The discussion of international lending was generally linked to a treatment of interest rates. Analysts felt that lowering the interest rate would increase the potential for investment, and that high interest rates in Eastern Europe were symptomatic of the higher risks of investing in the region. Any serious attempt to increase investment would require governments to provide a guarantee against the possibility of private loan defaults. This would allay fears of foreign investors and would increase funds at lower interest rates (Rosenstein-Rodan 1944, p. 164). Such suggestions drew criticism from those committed to a laissez-faire policy, since a no-default policy would not provide proper economic incentives to operating firms (Wu 1945, pp. 176-7). In more modern terms, it would create 'moral hazard'. The idea that the state would cover loan payments was anathema to some development economists, and this raised the broader issue of the financial element of development, another element of development economics that benefited from confronting the development problems of Eastern Europe.

Financial Development

Because the large, traditional agricultural sector dominated most of Eastern Europe, formal financial markets were relatively undeveloped, which meant that any large borrowing must come from international sources. When coupled with the risk premium, a system with high interest rates resulted. The Royal Institute of International Affairs reflected on the 1930s debt crisis in terms anticipating Latin America in the 1970s: 'But the readiness of lenders to advance money to these states for reasons unconnected with their capacity to repay has actually encouraged them in many cases to borrow beyond their means. It is, in fact, impossible to avoid the conclusion that some, at any rate, of these States are in an overborrowed

condition, quite apart from the question of price movements' (Royal Institute of International Affairs 1936, p. 37).

The breakdown of international financial relations should have meant a greater emphasis on domestic savings, and several observers highlighted the development of internal financial markets as a key to long-term success (Mandelbaum 1945, p. 9). Their claim was that borrowing internationally at relatively high interest rates was forced on Eastern Europe by the absence of an efficient domestic financial market, an inefficiency that then translated into high domestic interest rates. A policy of improved domestic financial performance would lower interest rates and ease the need for foreign loans. For those who saw this as the linchpin for development, '... defects in the machinery through which savings are made available to local industry, may hinder the development of existing local resources. Where this is the case in backward areas, internal reform rather than external financial assistance is indicated' (Mandelbaum, 1945 p. 9). In this view, inefficient financial markets obstructed economic progress and international loans only meant long-run balance of payment problems.

The focus on the domestic financial system raised another question central to development strategy, the sectoral balance of the domestic economy.

Sectoral Balance

As noted above, the development of Eastern Europe was usually framed in terms of providing capital to the industrial sector to alleviate underemployment in agriculture: since the population could not migrate to other countries' capital, industrial capital had to be imported (Moore 1945, p. 118). However, a minority argued against favouring the industrial sector and wanted to see more equal sectoral growth; in some cases, they favoured concentrating development efforts on the already dominant agricultural sector.

That all productive forces in a society should be complementary rather than competitive is a political statement. Experience shows that development plans tend to favour the industrial sector; such was the case in Eastern Europe. However, there were alternative views: 'Any future economic expansion obviously calls for balanced, coordinated and organic planning and development. Attempts to improve the income of the peasants by rationalizing agriculture would fail unless there was a parallel growth in industry...' (A Canadian Economist 1944, p. 539). Balanced growth, not 'balanced growth' in the sense of Rosenstein-Rodan, would allow mutually complementary improvement in both industry and agriculture. Given the immense size of agriculture relative to industry, the needs of agriculture should be framed within the context of industrialisation (Royal Institute of International Affairs 1944, pp. 55-6): agriculture should be the main factor in determining the pace and direction of industrialisation. Even this argument, which in a sense favoured agriculture, recognised the interconnectedness of the two sectors and the need for a deliberate state plan.

Much of the emphasis on agriculture originated in organisational issues, in the tension between the political/social institutions of Eastern Europe and the development imperative for change. There had been partial land reforms in many countries, and the extent of future land reform had to be addressed. Land reform was generally viewed as an equity-versus-efficiency issue, for further division of larger estates would diminish efficiency and result in a loss of output (Browne 1944, pp. 64-5). Earlier land reforms had been designed to redistribute wealth rather than for increased income creation, for they were primarily politically driven

(Moore 1945, p. 100). Only a minority of analysts argued that implementation of land reform was a precursor to efficient farming and that politics and economics were consistent.

One common argument for land reform was the role of peasant unrest in the Bolshevik revolution. Many Eastern European governments feared communist influence and as a result sought to alleviate the peasants' plight and to quell hostile political movements by distributing land (Royal Institute of International Affairs 1944, p. 40). The idea that a landholding gentry was a hindrance to capitalist development had been a mainstay in the economic literature since Ricardo. In the development discussion for Eastern Europe, however, most defended the larger farms as more efficient, with land reform a political statement for equality over efficiency. Land reform was believed to result in an improved agricultural system only if the more efficient producers could buy out the less efficient, an approach predicated on alternative work for those selling their land. For those who saw substantial underemployment in the rural sectors, selling the means of production was unrealistic (Moore 1945, pp. 105-6) and efficient capitalist farming would be impossible. The vicious cycle of overpopulation would prevent efficient concentration of land with consequent productivity gains. The relative efficiency of small and large farms soon became central in the debate. The traditional argument was that larger farms had more capital and were therefore more efficient (Moore 1945, p. 102). It was countered that farm size itself was not the determining factor, that the amount of capital per unit of land was the critical determinant (Warriner 1939, p. 4). 'For the peasant State, the real problem of farm organization is not to find the best size of farm, but to create favorable conditions for capital formation' (Warriner 1939, p. 166). All agreed that the location of peasant farm parcels was inefficient. The small separate strips that most peasants farmed were certainly a hindrance to efficient farming. 'It is no exaggeration to reckon the strip system as the biggest single curse afflicting European farming to-day' (Yates and Warriner 1943, p. 70). So reappropriation of similar size farms was supported by most analysts, though some questioned whether this was genuine land reform.

The issue of agriculture and of land reform symbolised another element of development strategy debate, the role of the state.

The Role of the State/National Action

Instituting land reform, regardless of its effect on development, was a very difficult task. The state had to participate directly in the redivision of what peasants valued most: land. Usually, '[t]he experience in all these areas indicates that the peasant grumbles about the inconvenience and inefficiency of his land arrangement, but is deeply suspicious of any attempt to consolidate' (Moore 1945, p. 105). Prior land reforms had been difficult to implement, although they had generally been successful in giving land and direct control of their central productive asset to the peasants. One ancillary effect of the relatively successful land reforms in Eastern Europe was a shift in the political power base in those countries to the urban sector and to industry. This then became the base on which state power rested.

Land reform had displaced the rural gentry, and they often sought to restore their pre-eminence by controlling the industrial sector via the state apparatus. This meant that much of the state's resources went to expand the pace of industrialisation, often at the expense of agriculture. This led to a growing economic division between the rural poor and the state-assisted bourgeoisie. The state directed taxes, tariffs and prices against the farmers and lowered the

rural/urban terms of trade (Royal Institute of International Affairs 1944, pp. 41-2). Therefore, while land reform had a positive effect on peasant self-determination, it concentrated control into a power group that sought to maintain its economic domination via the industrial sector.

Another problem in the rural sector, effective marketing, also led to calls for state intervention in the form of better state-coordinated action (Yates and Warriner 1943, p. 79) to facilitate the benefits of large-scale marketing. An effective marketing system can reduce the number of transactions involved in moving the products from the peasant farmer to the final buyer. Other aspects of good marketing include provision of storage facilities, pooling of risk and product standardisation (Economic Research Group 1945, pp. 81-96). Marketing was one area where state involvement in agricultural development was widely accepted.

Concern with marketing suggested that effective peasant cooperatives could lead to more efficient peasant farming. Cooperatives could teach peasants the benefits of more socialised work effort. If the cooperatives were large enough, they might be able to stabilise food prices on an annual basis (Yates and Warriner 1943, p. 81), and the storage of food items at peak season would help peasants receive higher incomes. State encouragement of cooperatives was one suggested policy, though grassroots, democratic formation of cooperatives was viewed as having the most potential for success (Yates and Warriner 1943, p. 84). Given the acknowledged limitations of cooperatives, they, like marketing, were seen as only one element in a successful agricultural development strategy encouraged by the state (Royal Institute of International Affairs 1944, p. 63).

There was general agreement that a successful development strategy required the state to play a key role. While those who favoured either agriculture or industry were compelled to favour central planning, advocates of balanced growth in any of its variants also saw the need for government involvement. 'Account has to be taken of the need for a balanced economic development... There can be little doubt that the *central direction* of investment would become a primary necessity, and indeed the very basis, of any large-scale development program' (Economic Research Group 1945, p. 102; emphasis added).

Other statements by development economists of the period in favour of active state participation in Eastern European development abound. '[Development] cannot possibly be satisfied under a system of small private enterprise, without complementary state action' (Rosenstein-Rodan 1944, p. 160); '[t]he vital thing is that all the sources should be coordinated and come under a broad plan' (A Canadian Economist 1944, p. 540); '... to speed up and assure the simultaneous growth of different industries in backward areas, the State must play an important role' (Mandelbaum 1945, p. 91). A multitude of specific duties was assigned to the state, including coordination issues, long-term projects, risk management, countering insufficient demand, targeting certain imports or exports, public works, land reform, marketing, fostering infant industry, stable money, education, and rural/urban income differentials (Mandelbaum 1945, pp. 5-6; Moore 1945, pp. 139-40; Murphy *et al.* 1989, p. 1024).

Critics of state-run development policy existed, although they were few in number. One criticism pointed to the need for decentralised decision making (Yates and Warriner 1943, p. 85). While the state should take a leadership role, 'local wisdom' should augment the state-level development decisions. Other supporters of state direction had recently seen an abusive fascist state in Germany and in other Eastern European countries and so they were more reluctant to support

unconditional state action. The state had become a tool for repression and a mechanism for extraction of surplus from peasants rather than an aid to their well-being (Basch 1943b, p. 246). These analysts wished to redirect state action, not eliminate it. Very few economists questioned that the state should be involved in some degree in economic planning (Wu 1945, p. 173).

Beside purely economic issues, the state was to make important strategic contributions in areas that were not strictly economic. Among these were technical education and, in a more general sense, capitalist education. Capitalist development needed a skilled labour force in order for progress to take place (Rosenstein-Rodan 1944, p. 160). Some were quite clear that laissez-faire educational systems were not adequate to deal with industrialisation needs. If development were to take place, the technicians would have to be imported initially, but then slowly replaced with domestically educated workers (Economic Research Group 1945, p. 54). One variant of this view was that agrarian institutions fostered social values that hindered the introduction of modern development. The late emancipation of serfs had made peasants still somewhat suspicious of new technology. 'In Rumania, where emancipation has been so recent, the peasants are simply cultivators of the soil ... they resent and disapprove of technical progress' (Warriner 1939, p. 24). One possible solution was state-directed introduction of industry into agriculture to develop 'socially valuable special qualities' (Warriner 1939, p. 25). State-directed education must overcome traditional values (Moore, 1945 p. 143).

The debate on the role of the state highlighted another development strategy, proposals for regional collaboration.

Regional Elements of Development

Besides being a central player in domestic policy, the national state had to take a leading role in regional coordination efforts of Eastern European nations, and the state had to undertake the initiatives in international relations that would encourage development. Cooperative inter-state action was seen as an aid to pooling resources and promoting stronger overall regional development. During the inter-war period, intra-regional trade declined precipitously, which allowed Germany to manipulate the region to its own economic ends. The domination of Eastern Europe, precisely because of the atomisation of the individual countries, meant that Eastern Europe's industries were chosen as a complement to German industry (Basch 1943b, pp. 3-4). This had deleterious effects, as the countries attempted to balance their position between Russia and Germany and to avoid dependency on one country. Regional initiatives were necessary to form an economic unit that could withstand outside economic control. A trading bloc (or free trade area) was suggested that would practise free trade within the region and be more protectionist to those outside the region (Kunoši 1944, p. 361). While political unity might be difficult, this regional economic unit could specialise on its own comparative advantages and create a dynamic superstate. The key problem was for the individual states to realise that, in order to attain real sovereignty, they must give up part of it to the regional agreement (Feierabend 1943, pp. 358-9). Sovereignty would have to be balanced with economic advantage (A Canadian Economist 1944, p. 529).

Of course, the idea of regional economic cooperation was predicated on the countries' exhibiting substantial economic complementarity, a view that was not universally held. Quite simply, '... the Balkan states do not form an economic unit and are not supplementary to each other in regard to production' (Royal Institute of International Affairs 1936, p. 32). The main doubt was that the principal

exports in the region were plainly not complementary and so it would not be efficient to try to integrate vertically.

Regional cooperation raised the problem of the relationship between Eastern Europe's advanced countries and the less developed countries. To prevent further exploitation of these Eastern European countries, as had been the case with Germany, the more developed countries, including the USSR, '... will have to play a greater economic role on the continent not only as regards trade, but also in the field of capital investment, technical assistance and in the promotion of economic expansion generally' (A Canadian Economist 1944, p. 531). There was widespread hope that the industrial countries would take an active role in the development process, with proposals ranging from international loan guarantees to a super world economic council, another theme in the strategies of development.

International Action

Most economists felt that active participation by the developed countries should include loan guarantees and adjustments to their own economies to respond to the trading needs of the less developed countries (Mandelbaum 1945, pp. 16-19). An extreme position favoured a world economic council that would '... guarantee that the world economy will not again relapse into restrictive economic regionalism' (Basch 1943b, p. 248), though the specific political nature of this body was not clearly defined. Moral arguments in favour of international aid to Eastern Europe were often made. Even if standards of living might drop slightly in the advanced countries, developing the lesser-developed countries was the right thing to do (Crump 1944, p. 49). The enthusiasm for international action was not lessened by the failure of the League of Nations. As is the case today, development of Eastern Europe was commonly seen to hinge on effective international action.

Analysts today realise the need for coordinated international action and look to agencies such as the IMF and the World Bank for appropriate action (Fischer 1990, p. 7; Wapenhans 1990, p. 2). For contrast, it is instructive to look at the inter-war period. Though countries paid lip-service to international assistance, experiences such as the Stresa Conference of 1932 demonstrated that developed countries' economic interests dominated. This potential scenario is better understood within the context of a longer-term view of the development discussions and failures of Eastern Europe.

Let us now provide some information on the participants in the discussions of economic development, growing out of Eastern Europe's experience.

4 An Overview of the Contributors to the Discussion

The Royal Institute of International Affairs received its charter in 1920 and continues to operate today, often referred to as 'Chatham House', its facility in London. Self-described as an 'unofficial and non-political body to encourage and facilitate the scientific study of international questions', its various publications (*The World Today*, *International Affairs*), hosting international conferences, and publication of monographs allowed the RIIA to play a central role in crystallising thinking about the development issues that confronted the world after the Second World War. Britain's role in world affairs at that point heightened Chatham House's importance. They had realised the continued importance of Eastern Europe to a stable world order as early as 1935, when they undertook a study of the economic conditions in 'the Balkans' since 1919. Germany's annexation of Sudetenland in 1938 led them to commission another study led by Dr F.C. Benham,

who visited other Eastern European capitals to gather updated information and analysis.⁷ The result was published in 1939, after revisions made necessary by the invasion of Czechoslovakia and Italy's invasion of Albania. Chatham House discussions during the war with economists and observers of the postwar reality of Eastern Europe led to their final volume on agrarian problems in the area in 1944. So RIIA provided a venue and incubator for the ideas on development that grew out of the Eastern Europe problem.

The Economic Research Group's study of *Economic Development in S.E. Europe* (1945) was sponsored by Political and Economic Planning (PEP), 'an independent non-party organization...interested in social and economic reconstruction'. Its study was carried out by a small group, representing all of the countries of the 'Danubian region', that was set up in autumn 1941. The members of the group were most likely exiles and remained anonymous, since many 'hold official positions' in 1944. Their study did have a particular view of the central problem of development, regional cooperation. As described in the Introduction (pp. 8-9):

PEP is not specially interested in the Danubian region...it is greatly interested in practical ways of social improvement, national and international; and it believes that (the study) may serve as a useful working model for that regional co-operation which is so often advocated and so rarely studied.

There were links between these research organisations and economists writing on development in Eastern Europe. For example, Rosenstein-Rodan's important 1944 article was prepared for an address at Chatham House and was published in their journal, *International Affairs*, as was Doreen Warriner's 1949 article on Eastern Europe. Rosenstein-Rodan's article signalled his transition from an Austrian-trained economist working on theoretical issues of time, marginal utility, and complementarity, to one of the founders of development economics. He had migrated from Vienna to Britain in 1930 and taught at London School of Economics, where he could participate in the debates on Eastern Europe and formulate his 'big push' theory, growing out of Allyn Young's 1928 paper on increasing returns (CEPA 2004). He continued his work on development at the World Bank from 1947 to 1953.

Albert Hirschman's career also began with economic theory (Wilber and Jameson 1992). His earliest publications were on the commodity structure of trade and measures of dispersion. Since he received his doctorate in economics at the University of Trieste in 1938, he had tangible experience of the Eastern European problem and was attuned to the effect of the German occupation. His first book, *National Power and the Structure of Foreign Trade* (1945) showed how a more powerful nation could use its position to extract gains from trade with a smaller nation. This dissenting view would characterise Hirschman's writings, and lead him to development economics, especially after he spent four years as an adviser to the Colombian government, partially under World Bank auspices.

Antonín Basch had a similar trajectory. He was Czech and studied economics at the University of Berlin and in Vienna. By 1943 he was on the faculty of Columbia University, and participated in American Economic Association sessions on the postwar world economy. His book on the Danube Basin was part of a Rockefeller Foundation project. After the war, he became the Chief Economist for the World Bank.

Less well known, but still an important contributor to the history of development thinking, was Doreen Warriner. She travelled extensively in Eastern Europe on a Rockefeller Travelling Fellowship to gather information for her 1939 book (Lambton 1973). She worked in Prague before the war and then in Cairo during it. She taught for many years at the University of London's School of Slavonic and East European Studies and continued to deal with peasant societies and land reform, the themes from her first experience in Eastern Europe.

Thus the writing that contributed centrally to the formation of development economics came from economists who were Eastern European or studied there, as well as some who came from outside to study that reality. They were aided by powerful, internationally-engaged funding and research organisations, and they came to play important roles in the nascent World Bank. That chapter in the evolution of development thinking is captured by Kraske (1996, p. 98):

[President Eugene] Black, with his own panache, was able to give a kind of glamour and prestige to the bank which attracted very able young men. No one could ever accuse them of being 'woolly-minded do-gooders'...A number of very able economists working in the Bank – John Adler, Antonín Basch, Andrew Kamarck, Benjamin King, Paul Rosenstein-Rodan, John de Wilde, to name just a few – were looking at the problems of developing countries and beginning to come up with remedial prescriptions.

5 Conclusions

An historical point of view could trace the problems of Eastern Europe to the Middle Ages: '...Eastern Europe was not just a little behind the West in 1500 or 1600, but very seriously so' (Chirot 1989, p. 5). This accounts in some measure for why early modern development thinking was stimulated so notably by the problem of Eastern Europe.

While current development theories may be more refined, the inter-war discussions were early contributors and placed an undeniable mark on the evolution of development economics. In fact, the issues were discussed with much greater complexity than today, when the Eastern Europe problem is often reduced to dismantling the Soviet-style bureaucratic system and allowing markets to operate freely.

Writers in the 1940s realised the importance of initial conditions. 'However, the avenues followed by those early in the field are now relatively closed to newcomers with initially poor competitive positions in world markets' (Moore 1945, p. 132). In addition, stressing comparative advantage in agriculture overlooks one of the primary reasons for the disastrous inter-war period: the backward nature of their agrarian sectors. Completely discounting the role of the state in favour of market-guided solutions may similarly err by going too far in the opposite direction. Indeed there were useful suggestions of the proper balance from the earlier writings: '... the only policy which has a hope of success is one infused with a dynamic spirit and with a clear understanding that the goal is a general increase - not a redistribution - of national income. It must be a policy powerful and stable enough to ensure security and tolerance, and liberal enough to inspire real cooperation' (Basch 1943b, p. 247).

Another theme that is critical to dealing with Eastern Europe is the role of international action. Even in the 1930s, most realised that the unrest in Eastern

Europe was tied to economic problems. Significant foreign aid would remove the threat of unrest; and yet little aid was forthcoming (Barron's 1936, p. 13). 'On the whole, however, the extent to which these countries are able to secure any appreciable degree of recovery by actions of their own is very strictly limited' (Royal Institute of International Affairs 1936, p. 131). This is equally relevant today. The recurring theme of the importance of international action, which is followed by relative inactivity, appears to be the fate of Eastern Europe.

On the other hand, the development of Eastern Europe as seen in the writings of the 1930s and 1940s was going to be a fairly straightforward process. The problems were targeted and solutions were available. What was necessary was the implementation of plans and the time needed to work the plan out. The difference between the earlier discussion and that of today is that the state was seen as a principal tool in development. In current discussion, markets are given a much greater role. For the most part, fifty years later the optimism remains, even if the problems have not changed in a substantive fashion. The new *deus ex machina*, the market, is likely to find those same structural and historical limitations on its effectiveness. One can only hope that, in the future, development thinking will be animated by the success of Eastern Europe and its lessons for other areas of the developing world.

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Notes

1 Our thanks to two anonymous referees for their helpful comments.

2 There is a certain irony in the fact that the experience of Latin America in the 1980s provided the laboratory for the policy proposals that were offered for the newly independent Eastern Europe. For example, Sachs's prior policy experience was during the stabilisation program in Bolivia in 1985. He became a modern example of the 'money doctors', international experts who influenced economic policy in Latin America during the 1920s (Drake 1984).

3 Lewis himself, speaking about Jamaica in 1944, reveals the kernel of his later, better defined, development strategy: 'one of the roads to agrarian reconstruction is to provide so many jobs outside agriculture that the land is left only with the numbers it can economically support'. (Lewis 1944, p. 160).

4 For details of particular loan agreements 1920-1931 see Royal Institute of International Affairs (1936, pp. 142-5).

5 Albert Hirschman (1992) has pointed out that contemporary Eastern Europe is criticised for its capital goods industrial base while contemporary Latin America receives criticism for having developed consumer goods industries – exactly the criticism levelled at Eastern Europe in the 1930s and 1940s!

6 This is again a theme that appears quite often in contemporary analyses: 'At this point, much of the infrastructure is outdated, seriously run down, and inefficient and major investments in this area [is]...essential' (Wapenhans 1990, p. 3).

7 Benham later published a 1950 book on the national income of Malaya as the economic adviser to the Commissioner General of the United Kingdom in South East Asia.

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