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Grafico 3

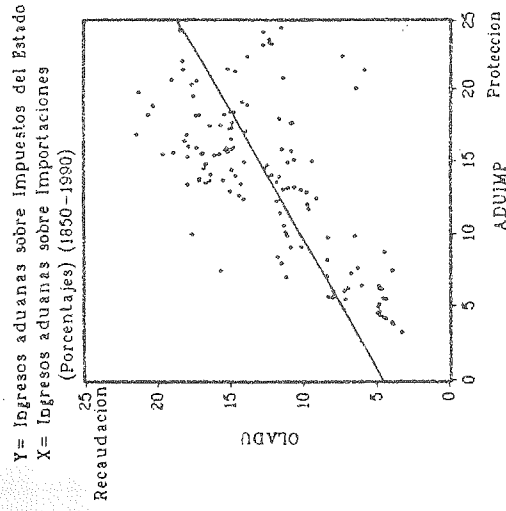


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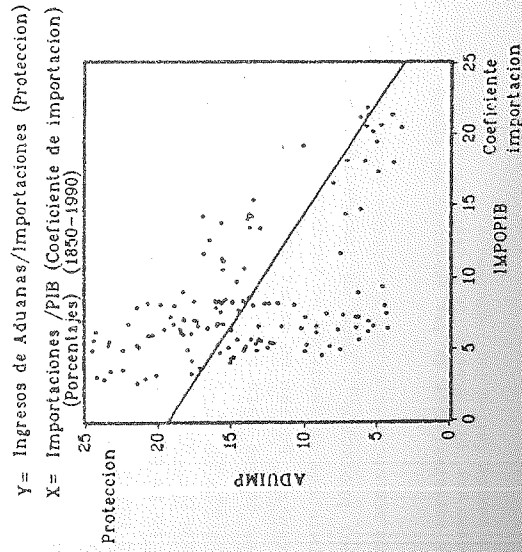


Grafico 2

Recaudacion relativa de Aduanas y Coeficiente de importacion (Importaciones/PIB) (1850-1990)

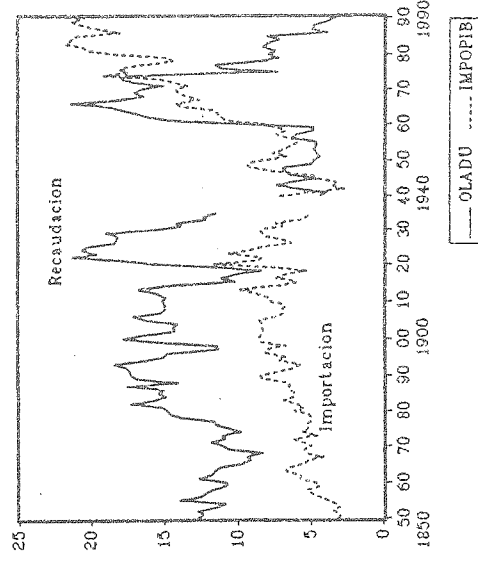
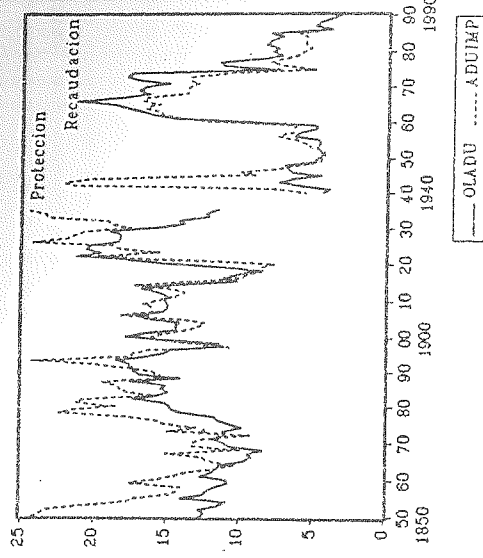


Grafico 1

Ingresos por Aduanas como porcentaje de los Ingresos ordinarios del Estado (recaudacion) y de las importaciones (proteccion)



PATERNALISM AND PROTECTION: The Institutional Response of the European Periphery to Industrialization

*When you see the house of your neighbor on fire,
carry water to your own.*

Southern Italian Proverb.

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~~A paper to be presented to
the SPES/EHES Workshop on Economic Growth
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I

Institutional development in Southern Europe has followed a distinct pattern from Northwestern Europe's to such an extent that it has brought some authors to speak of "analogous" problems between Spain and Italy (Prados de la Escosura 1992, p. 27). Current preoccupations, at least implicitly, propose the existence of a "Mediterranean" model of industrialization.¹

"National-trait" theories that emphasize institutional or cultural explanations of differences between southern and northern Europe have been put forth (Punam 1993, Zangheri 1969), but such explanations based on social norms are unsatisfying because they treat social behavior as exogenous.² Some would argue that such explanations do not really constitute explanations (Field 1981). Our hypothesis is that institutional differences were the consequence, not the cause, of different industrial patterns. Furthermore, the peripheral status of the Mediterranean countries induced growth-impeding institutional development. Treating industrialization in Northwestern Europe as a given event, we focus on the reaction of the southern periphery to greater competition from the centre. In the analysis, we presuppose that the European center-periphery pattern has developed along the lines of Krugman's (1991a) general equilibrium model of geographical localization.³ Then, using a partial equilibrium framework, we examine the response of a peripheral area as it integrates with the center. The model we propose is too crude and suggestive to produce policy conclusions, but interestingly one of the predictions of the model is that the state will tend to adopt redistributive interventionist policies. Such policies of state intervention, often encouraged normatively by dependency theorists, come out as a *prediction* of our model. Moreover, the model suggests that such policies are likely to be growth-impeding. The paper is, thus far, theoretical and highly suggestive. Its purpose is to offer a new explanation of institutions in the Mediterranean countries, Italy and Spain; the backdrop is roughly from the beginning of the waves of emigration from Southern Europe to the First World War.

II

When compared to industrial Europe, a striking feature of the Mediterranean economies at

¹ Two conferences held in 1984 and 1987 gathered specialists on the economic histories of Italy, Spain and Portugal to discuss the common characteristics of long-term growth of the Mediterranean countries. A product of these seminars is Prados de la Escosura and Zamagni, eds., (1992). See summarial comments (p. 22).

² For example, Prados de la Escosura (1992) criticizes *ad hoc* interpretations of national differences.

³ This framework accords well with the stories of the spread of industrialization told by economic historians such as Pollard (1981), Gerschenkron (1962), and Chandler (1977).

the beginning of this century was -- and to an extent still is -- a greater importance of non-market allocative mechanisms. In the Mediterranean, personal loyalty, family connections, and informal networks played a dominant role and markets and impersonal relationships were relatively less important than in the industrial center. The exact nature of this 'personalistic' economic organization varied from place to place, but there is no doubt about the primacy of the role of extended families in collecting information, sharing costs and distributing resources.

The role of family-based informal networks in allocative decisions has been much studied in the case of Italy. LaPalombara (1964) employed the term *parentela* (literally meaning family relations) to describe an informal arrangement allowing highly partisan intervention by interest groups in bureaucratic decisions with the goal of benefiting group members. Anthropologists (Banfield 1958, Silverman 1968) have talked of 'amoral familism' to describe the emphasis placed in Italian society on family and 'friendship' connections and preferential treatment for allocating resources. Banfield spoke of it as an ethos of Italian communities: "Maximize the material, short-run advantage of the nuclear family; assume that all others will do likewise" (1958, p. 85). Punam argues that this "amoral familism" exemplifies the absence of civic virtue (1993, p. 88). The 'personalism' of the Mediterranean periphery has taken many forms -- political patronage, clientelism, and corruption (Graziano 1973 on Italy, Kenny 1960 on Spain) and downright criminal activity (Hess 1973, Blok 1974). The conventional wisdom on these non-market relationships is that they represent residues of pre-capitalist value systems and institutions' (Graziano 1973, p. 19, Banfield 1958). Economic growth may then be seen as dependent upon the removal of such obstacles, or the potential for growth may be perceived as having been altered by the persistence of these institutions.

Another important difference between the European centre and the Mediterranean periphery was the greater role of the government in the economy, particularly as it related to macro and monetary policy, employment policy and regulation. Gerschenkron, writing about Italy -- the only Mediterranean country he studied, implicitly adopted this concept of relative backwardness by arguing that the degree of backwardness determined the "institutional instruments of industrialization" (1962, p. 7). In effect this says that industrial development depended on some agent (the 'German' banks or the state) intervening to modify existing, and presumably obstructive, institutional arrangements.

⁴ While we are not here considering France as part of the Mediterranean, it is significant to point out that one explanation proposed for the apparently slower growth of French industry in the 1800s was that its family-based business were more risk averse and less innovative than English firms (Landes 1949).

southern Europe, some have criticized the openness of trade with Britain in the late nineteenth century as having caused the failure of similar industrialization in those countries (Berend and Ranki 1982, Nadal 1975, Cafagna 1973). Prados de la Escosura (1988, p. 180) has criticized this view by pointing out an implicit counterfactual it contains: somehow resources employed in the export sector would have to have found a more productive alternative being redirected, under protection, to a nascent domestic industrial sector.⁶ Prados argues to the contrary, in the case of Spain, that productivity and comparative advantage must have been in the export sector since its rate of growth during periods of relatively free trade was high and resources, probably previously underemployed, were being transferred to the export sector (p. 208-09).

This argument, based on Heckscher-Ohlin, factor-endowment-determined comparative advantage, is persuasive because it is based on first principles. However, to be fair, from the dependency perspective, the Heckscher-Ohlin model is open to the criticism that it does not actually predict a center-periphery pattern of world trade. Inasmuch as world trade patterns are characterized by a center, within which both industry and the volume of trade are concentrated, and a periphery, whose connection to the system is based on comparative advantages in natural resources, the H-O model does not characterize that pattern (Krugman 1990, p. 22). It explains specialization in primary products, but it does not explain geographical concentration of industry and trade volume.

Until recently, micro-analytical models of international trade have not generated center-periphery patterns. But research in the last few years, led in particular by Paul Krugman (1991, 1991), has shown that a core-periphery pattern of trade can arise in a general equilibrium framework when manufactured goods reap economies of scale, as long as transportation costs are not so high that they prohibit international commercial integration. The combination of economies of scale and transportation costs encourages localization of industry around population centers since large firms will want to minimize transportation costs. The derivative demand for industrial labor introduces a corresponding feedback effect causing cumulative concentration of population and industry around existing industrial centers.⁷

These models are interesting from the economic historian's point of view because, by introducing economies of scale, they generate analytical stories to explain why industrialization did or did not spread to certain regions. These stories are very similar to what economic historians have been saying for some time. They tend to confirm the analyses of economic historians in a

⁶ S. A. Zamagni (1990), ch. 3.

⁷ The effects of interindustry complementarities reinforce the tendencies toward concentration, but Krugman has shown that they are not necessary to obtain concentrated localization of industry.

In addition, as a rule the Mediterranean economies were less open than the industrial leaders (Tena 1992). Their usually weak payment balances (Tatara 1992 p.300, Zamagni 1990 p.164) led to a tendency toward protectionism (Tena 1992) and repeated payments crises (De Cecco 1990, Kindleberger 1984, ch. 8). Government budgets were virtually always in deficit (Martin Aceña 1985, Perone 1967, Mitchell 1975), and the role of the state in the economy, both in its regulatory function and as owner of productive assets (García Delgado 1991, Zamagni 1990, ch.5), was significantly greater than in the European centre. Protection and regulation encouraged rent-seeking behaviour, and were in turn defended by redistributive coalitions (Fraile 1991, Bontiglieri 1991). The bias of these policies was toward employment maintenance, as became increasingly clear in the interwar period with the creation of IRI in Italy (1933) and INI in Spain (1941) (Martín Aceña and Comín 1992).

Institutional differences between the Mediterranean periphery and the industrial center do not end here. However this brief list is adequate for our present purposes of emphasizing the following point: in the Mediterranean periphery a significant share of resources were allocated not by impersonal market mechanisms but by personal connection and family-based relationships. For our purposes, the main reason for the existence of these allocative mechanisms was to divert resources toward family and friendship networks, in effect ensuring different distributive outcomes than would have prevailed with impersonal markets. In the following two sections of this paper we argue that these (and other) institutional features of the Mediterranean periphery can be usefully analyzed as a response to integration with and increased competition from the industrial centre. In section III we use Krugman's core-periphery model to sketch out a view of how integration brought about the international pattern of industrial concentration in the center. In sections IV, V and VI we present our model of the institutional response in the periphery, discuss its implications, and outline some possible extensions.

III

Characterization of the South of Europe as peripheral has been frequent, motivated by the gap in incomes per capita that came to separate the North and the South (Prados de la Escosura and Zamagni 1992, Zamagni 1990, Prados de la Escosura 1988, Nadal 1975, Berend and Ranki 1982). Although center-periphery arguments come in various forms, the basic concept is that international specialization in manufactures and primary products generated disadvantages (either relative or absolute) for the economic growth of the primary goods suppliers.⁸ Regarding

⁸ Some reviews of dependency theory are found in Palma (1978), Lall (1975), and Gunder Frank (1984).

number of different contexts, yet within a general equilibrium framework.⁹ In this context, we are interested in the dynamic context they provide with regard to the process of integration of new regions into the European international trading system of the nineteenth century. Key to the dynamic analysis is the falling trend in transportation costs. High transportation costs (consider, for example, pre-railroad) acted as a natural form of protection and caused regional markets to be poorly integrated, evidenced by significant differences in the prices of local and foreign goods. To the extent that economies of scale existed in manufacturing, they were constrained largely by the extent of local markets. Consequently, while economies of scale represented a centripetal force around pre-existing industrial centers, high transportation costs acted as an offsetting centrifugal force, and their relative strengths determined the degree of regional (or international) integration of markets (Krugman 1992). With the advance of the industrial revolution, mechanization proceeded, and greater fixed costs increased the optimal scales (economies of scale) of firms. Industrial success depended more and more on locating near the greatest concentration of demand in order to keep the c.i.f. prices of manufactured goods low. Manufacturers that enjoyed potential economies of scale tended to concentrate initially in Britain and then in Northwest Europe where the demand for the goods was greatest.⁹ Later, as internal transportation costs fell in the South, greater integration of the North and the South came about, markets in local communities of the South became more accessible, and cheap foreign substitutes came to take over the markets of traditional manufactures there.

A couple of observations should be made about this kind of explanation to center-periphery patterns. First, the feedback loop between population and industrial concentrations result in path-dependent agglomeration effects, in which early industrial concentration tends to persist. Second, the kind of center-periphery pattern that is conceived has nothing, in principle, to do with political borders: it is an explanation of the geography of localized industrial production and dispersed industrial consumption. Industrial countries, such as Britain, had

⁹ Krugman (1991) has found applications of his model to the U.S. manufacturing belt, which corresponds with Chandler (1977); high-technology clusters, which corresponds with David and Rosenbloom (1990); and Canadian industrialization. The stories that can be told also correspond well with Pollard (1981).

⁹ Krugman's models predict that, in locations where modern manufacturing (exhibiting economies of scale) first concentrated, the industrial sector enjoyed advantages over the unindustrialized regions (not exhibiting economies of scale) within newly integrated trading regions. That is, returns to investments in new industry were typically higher in the region where industry was already located because new firms could still keep their average c.i.f. prices lower by locating nearest to the greatest concentration of demand for industrial goods. Therefore, investors continued to invest in the center rather than in the periphery. Local external economies in industry reinforced the centripetal effect of the economies of scale.

peripheral areas as well. Peripheral countries were those without internationally competitive (modern) industrial centers. This is important because a two-country center-periphery model predicts migration of population from the periphery to the center. Empirically, this is picked up as regional rural-urban migration within Britain, but it is emigration abroad in the case of Italy.

It is useful to use Krugman's approach to analyze the entrance of Northern manufactured goods in the South. Schematically, we think of the North as a pre-existing industrial center; the South as an initially unindustrialized, and later, a peripheral region; and the Americas as a demographic escape valve. Initially suppose that high transportation costs in the South serve as a natural protection of traditional industry against integration. When these costs declined, Southern markets were opened to cheap manufactured goods. Their entrance tended to displace local substitutes produced by traditional methods because the foreign goods entered at a price advantage. What happened (or would have happened) to those who were employed in the traditional industry as this displacement took place? Focus on two Southern sectors — traditional manufactures and agriculture. The agricultural sector had a comparative advantage in agricultural products that were exchanged for manufactured goods, either domestic or foreign. Prior to international integration they were exchanged for domestic manufactured goods, but after the entrance of British manufactures, exchanges were redirected towards the purchase of cheaper foreign manufactures. Consequently, the domestic manufactured industries, using traditional methods of production, fell into decline because they could not compete with the entrance of foreign manufacturers using mechanical techniques and taking advantages of economies of scale.

Because of the density of the rural population, the agricultural sector offered little employment opportunity to the displaced industrial laborers as domestic traditional manufactures were exposed to international competition. Diminishing returns to labor in agriculture severely limited the absorption capacity of the rural areas without substantial reductions in wages. Another opportunity prevented such wage reductions from occurring — the possibility of emigration. The reservation wage for domestic employment was kept high because of relatively favorable opportunities abroad. In Krugman's (two-region) model, the industrial sector in the center has an incentive to offer further employment to migrants from the periphery at the prevailing wage (either reaping further economies of scale or further product differentiation). This is an incentive that explains Italian migration to industrial growth areas in north-central Europe. Additionally, high wage opportunities in the areas of recent settlement in the Americas also caused the maintenance of high reservation wages.

The high rates of emigration from the Mediterranean from 1880 to 1913 reflect a high degree of international mobility (Ferenzi and Wilcox, 1929), but they also reflect a high degree

competition from the center would have been to enhance its already strong family or personal ties.¹¹ Consequently, our model does not offer a "cultural" or "moral" explanation of slower industrial growth in the Mediterranean. To the contrary, it shows that the relative importance of personal relationships in the Mediterranean may, at least in part, be due to effects of sectoral growth or decline on self-interested economic decisions.

To describe our starting point, we assume (1) that family and personal relationships governed both consumption and production, at least for a significant portion of society; and (2) that these relationships included a strong hierarchical element. To formulate the model, we first assume that the decision-making power of this structure can be summarized by treating it as the decision of a self-interested (though well-meaning) *padrone* (owner). The most important role of the *padrone* for our analysis is his role as the decision-maker within the family firm. The *padrone* controlled the family's resources and determined how they were to be allocated towards production. The use of the word "family" can be thought of as a verbal simplification that may more broadly refer to family, community and other personal relationships over which the *padrone* might exercise authority. While this terminology is obviously too simplistic if taken literally, we propose that if taken metaphorically it offers a useful means of examining the impact of strong personal hierarchical relationships on economic decision-making in the center and the periphery.

To incorporate the influence of family values or personal ties into the economic decisions of the *padrone*, regardless of whether he was northern or Mediterranean, we propose a plausible, but simple, utility function, in which the fundamental innovation is the inclusion of a variable to represent the utility derived from family or personal ties. The form of the *padrone's* utility function is:

$$U = U(x, y, m) \quad (1)$$
$$m \leq m_0$$

where x is the amount of the traditionally manufactured good consumed by the *padrone* (x is produced by the family), y is other goods consumed by the *padrone*. The third variable in the function, m , is that which attempts to incorporate family values into the utility function. It is made operational by assuming that it is the number of family members present — living in the same community as the *padrone*. This simple attempt to capture the value that the *padrone* attaches to his family deviates only marginally from the standard materialist neo-classical

¹¹ From a modeling point of view, this is an important assumption in order to avoid asserting by assumption that some of the observed behavior be of moral origin when the cause might, as well, easily have been endogenous to economic decisions. Therefore, one of the crucial elements of the model is the assumption that economic decision-makers had the same utility functions in both the center and the periphery.

of disruption of social relationships as people decided to leave their family and community ties to migrate to the Americas or elsewhere. It is key to the analysis to recognize that this massive emigration was painless neither to the migrants nor to those who stayed behind. Separation of families and personal relationships created losses of individual welfare such that one would expect persons to have spent resources to prevent it. Persons who emigrated likely had limited capacity to change their circumstances. But for persons who commanded resources, committing them to prevent emigration by a family member, at the margin, would have been utility-improving. In a time of widespread decline in the demand for traditional products, considerable amounts of resources may have been thus committed. This expenditure of resources had profound influences not only on the institutional arrangements that prevailed in the periphery, but also on its capital accumulation, its international competitiveness, and its employment policies. In the next sections we will discuss each of these. First, however, we will analyze the reaction of the periphery to the implication drawn from the Krugman model — that emigration from the periphery to the center was a natural response to industrialization and international integration.

IV

In this section we focus on the response of economic agents in the periphery to the entrance of cheap industrial imports from the center. We show that the entrance of cheap goods from the outside can have resulted in a either a continued reliance on personal exchange relationships or a resistance to take up impersonal exchange relationships. If such tendencies were self-reinforcing, they would have generated a persistent endogenous institutional response in the periphery that differed from that in the center.

The model we propose is a simple extension of standard neoclassical economic theory to include a certain form of personal ties. There is no reason to assume that personal ties foster irrational behavior, so we assume that equilibrium in the periphery prior to the increased competition from industrial imports is described by utility/profit maximization in an economy where production and consumption centers were family units.¹⁰ We also imagine the South as undifferentiated from the North before the latter's industrialization. While this is historically inaccurate, it allows us to emphasize the prediction of our model — institutional divergence occurs between the industrial center and the periphery even if the two areas had been identical prior to industrialization. If the starting points were different, that is, if the Mediterranean was initially more 'family or community oriented' to begin with, according to our model, the effect of

¹⁰ It is worth recalling that 'economic' in Classical Greek referred to management (*oikos*) of the family household (*oikos*), the centre of both production and consumption.

framework. We might, for instance, have complicated the issue by assuming he valued, say, family consumption levels as well, but to keep things simple, we assume that the utility he enjoyed from the persons with whom he was related was derived only from their presence in the community and their continued relations with him.¹² More important, the loss or absence of a family member had a disutility effect on the *padrone*.

Specifying the value the *padrone* attached to his family in this way is particularly relevant for this period of frequent emigration, on which we focus. The absence of a family member who had emigrated caused a loss of utility to the *padrone*. For our purposes, we may effectively disregard the value of an addition to the family, whose effect may have been more ambiguous. Consequently, we assume an initial number of family members present, m_0 , and impose the constraint that $m \leq m_0$, as expressed in equation (1).

The hierarchical element in family relations is incorporated by assuming that the *padrone* had control of the family's resources and made the decisions regarding how they were to be allocated. Therefore, the *padrone* is also the family "entrepreneur." It is for this reason that we have selected the term "*padrone*;" in Italian, the term means "owner" or "boss" and etymologically it comes from the root for "father". The word "patron" is a cognate.¹³ If the *padrone* was ultimately interested in consumption rather than money income, he would maximize his utility, but the decision to maximize utility was constrained by budget constraint:

$$\pi = p_x x + p_y y \quad (2)$$

where π represents the residual to the family income stream from sales of x , which accrues to the *padrone*:

$$\pi = p_x f(l, k) - w l \quad (3)$$

The function, $f(l, k)$, is the output, l is the level of employment, and k is the quasi-fixed capital resources of the family firm. (At present, we treat k as short-run, fixed inputs. The medium-run is incorporated below.) Assuming that the family firm, in principle, could hire either family members or others, the wage rate, w , is treated as fixed to the *padrone* because of competition in the labor market.

¹² In a more realistic model of the hierarchical relationships, the social hierarchy would not be so strictly authoritarian, and the *padrone's* family network of relations would reinforce self interests mutually. At present, we ignore this by simply assuming that *padrone* gains utility from maintaining the relationships.

¹³ Silverman, in a study of patronage as mediator between community and state level, defines "*padrone*" as: "(1) the legal owner of something ...; (2) one who controls something, such as the mistress of a household ...; (3) an employer, when reference is made to him by an employee; ... (6) a patron in a patron-client relationship (1967, pp. 283-84).

Finally, we note that the domestic wage rate was not independent of international wages. Opportunity costs to labor were made buoyant by demand for labor in the industrial centers and, more importantly, in the Americas. Laborers, even if they worked in family firms, had reservation wages that were sensitive to opportunities abroad. Esteem of family ties caused members to prefer to stay home, but sometimes economic concerns took precedence over family sentiments. If economic conditions worsened, those family members who were least well-off were likely to be pushed into seeking better opportunities abroad. Therefore, a decline in demand for labor at home would lead, as Krugman's core-periphery model predicts, to migration before it would lead to substantial decline in domestic wages. As an approximation, suppose that domestic wages were fixed by international wages.

Given the conditions described, this model leads to a regime change in decision-making that is dependent on whether the industrial sector is growing or in decline. Consider two countries, one with a growing and modernizing industrial sector (the industrializing center) and the other with a traditional industrial sector in decline (the periphery). In the country in which industry was growing, it is likely that $l \geq m$. The maximum of equation (1) could be determined separately by maximizing profits, equation (3), first and then optimally allocating the consumption choices, x and y . This is true because m is at its maximum, m_0 , regardless. Meanwhile, profits were maximized by choosing the optimal level of employment, l , and as a consequence, the *padrone's* production and utility decisions were effectively independent, or better stated, recursive.

In the peripheral country, whenever it integrated with the industrializing center, the entrance of cheap foreign substitutes for domestic manufactured goods caused a fall in the prices, p_x , that the traditional industry received. With the decline in the traditional industrial sector, given diminishing marginal returns to labor, the profit-maximizing level of employment in the family firm fell. At this point, jobs in the family firm served two functions — (1) the usual labor function and (2) they offered a means to for the *padrone* to keep family members in the community rather than seeing them emigrate as conditions became worse. First, hiring preferences were formed lexicographically with family members receiving priority over other employees. Once the profit-maximizing level of employment fell below, m_0 , the *padrone* faced a dilemma as family members were prone to emigrate. The *padrone's* utility and production decisions were no longer recursive.

Under these circumstances, the *padrone* would have maximized (1) subject to

$$p_x f(m, k) - wm = p_x x + p_y y$$

where m has been substituted for l in equation (3). A necessary condition for an optimal decision is

smaller than the decline in the nominal price of the traditional manufactured good.¹⁴ The profit-maximizing response, if that had been desired, would have implied a reduction of employment to l^{**} . However, this substantial decline in employment would have required the dismissal of a number of family members; therefore, it did not maximize the *padrone's* utility. Instead, he chose to employ m^* family members in order to maximize his utility, offering a wage that was greater than the marginal product because w was the minimum necessary to keep any given member. The other $m_0 - m^*$, now unemployed, family members found it preferable to emigrate.¹⁵

How could have the *padrone* have deviated from profit maximization in order to pay the members who stayed more than they were worth to the family firm? There were two types of resources available to him. First, he sacrificed some of his consumption in order to sustain employment of m^* , yet that was subject to a diminishing marginal rate of substitution. Second, he used some of the family's capital resources for further family employment maintenance. The first adjustment implies a transfer of some of the material loss from the members to the *padrone*. The second adjustment resulted in the use for family preservation of quasi-rents that would normally (under profit maximization) have gone to capital. This implied that the family firm would likely have run into difficulties when it was time to replace the existing fixed capital. In other words, the firm resorted to capital-stretching behavior in order to maintain high employment levels. The negative implications for industrial growth are evident.

To understand the capital stretching, suppose that investment in the family firm generally depended on plowbacks of retained earnings. During stable times consistent with the pursuit of maximum profits, the *padrone* would have chosen an optimum rate of savings which he would set aside for the replacement of worn-out capital stock. However, during the period of contraction, he would find it advantageous, for preserving family employment, to dip into the amount typically saved to pay the high wages of the remaining family members. In the medium run, it would take him longer to save a sufficient amount to replace the existing capital stock, and consequently, the

¹⁴ To spell this out, suppose $w = W/P$ and $p_x = P_x/P$, where W and P_x represent nominal wages and the price of x , and P is the CPI. When P_x falls due to foreign competition, P will fall as well though more slowly since other goods also enter into its calculation; therefore, P_x falls even though the decline in P permits a reduction in W to keep w constant.

¹⁵ In the emigration literature, one challenge has been to explain why emigration was often associated with development and rising domestic real wages. Hatton and Williamson (1992) show empirical evidence in favor of a life cycle explanation which supports Easterlin (1961) — natural rates of increase and wage differentials mattered but not industrialization. Our model ignores the influence of the natural rate of increase, but it suggests higher rates of emigration with improvements in internal transportation infrastructure or other factors that stimulated integration of domestic foreign markets. Whether our model predicts that real wages increase with emigration or remain constant depends on how closely measured real wages approximate either W/P or W/P^* .

$$U_m(x, y, m) = -\lambda(p_x f(m, k) - w)$$

where U_m and f_l are the marginal utility and marginal productivity, respectively, of employing an additional family member, and $\lambda > 0$ is the marginal utility derived from the *padrone's* net income. The term on the left is the marginal utility derived from employing the last family member. The term in parentheses, on the right, is the marginal profit obtained from employing the last family member, and the condition says that it must be negative since the right-hand side is positive. This result is perfectly intuitive; assuming diminishing marginal returns to labor, it says that the utility attached to the presence of the family member caused the *padrone* to overemploy family members in order to keep them in the community. To do this, he had to trade-off some profits in order to keep the family intact; therefore, he dismissed the profit-maximization as an independent objective, which the family firm would otherwise have pursued in times when the preservation of the family was not threatened.

In summary, in a country where the industrial sector was stable and the family firm employed some outside labor, it is reasonable to think that the *padrone*, who controlled the family's resources, would use them to maximize profits which later were distributed to himself and to the family and other laborers as wages. Even so, given the *padrone's* family values, if conditions forced the contraction of the family firm, the *padrone*, pursuing his own interests, might have allowed other family goals to interfere with profit maximization.

If this was the case, the commercial integration of the South with the industrializing North might have stimulated the following events. Thinking in terms of a Krugman framework, economies of scale had already created a sustained industrial agglomeration in the North. Then transportation costs to communities in the South fell substantially so that the traditional manufactures of the family firm were exposed to entrance of cheaper foreign substitutes, driving the prices of manufactured goods down in the South. The impact of this on employment in the family firm is illustrated in Figure 1. The marginal product for labor, $f_l(l, k)$, represents the family firm's demand for labor when the vertical axis is measured in terms of unit labor costs (i.e. the ratio of the real wage, w , to the real price of the firm's product, p_x , assuming both prices are normalized by the CPI). The wage, w , refers to the real reservation wage dependent on opportunities abroad. As before, m_0 represents the initial family size, l^* is optimal employment before the decline. When transportation costs fell, the price registered a decline, from p_x to p'_x , causing an increase in unit labor costs from w/p_x to w/p'_x .

Real wages could not fall below the internationally determined reservation wage, but even if they remained constant, unit labor costs rose because the decline in the CPI would have been

firm would struggle on undercapitalized, attempting to stretch to its limits the services that could be extracted from the existing capital stock. In Figure 1, this is reflected in the necessary transfer of some of the quasi-rents, triangle b , to cover the deficit of wage payments to labor over labor's product, represented by triangle a , when the *padrone* employs m^* . This effect, which depends on the *padrone's* action of substituting some family employment maintenance for capital maintenance, also follows naturally in a simple dynamic extension of static model presented here. (See the extension in Appendix 1.)

Why did the *padrone* not simply adopt the new technologies, with the economies of scale, that were being employed in the center? He might have done this easily if the family's own financial resources were had been substantial enough to construct new plant and equipmentsufficiently large to be competitive. However, if he had to obtain capital through impersonal capital markets, anonymous investors seeking maximum returns for their capital preferred to locate, as the Krugman model predicts, where the highest concentration of demand for industrial products exists. Furthermore, the *padrone's* current tendency to stretch capital likely to signaled to investors that he was an unreliable candidate. Why did several *padroni* all with personal interests to keep industry in their communities not cooperate, joining family resources, to construct plants with economies of scale. We will show below that this strategy would likely run into problems.

V

In times of growth or stability, when the *padrone* pursued profit-maximization in the family firm, the market-wage mechanism for distributing incomes could be relied upon even within the family. Claims to income were established as earnings based on the marginal return the laborer brought to the firm (his family member status was secondary, independent of production decisions because it was not threatened). As foreign competition reduced the price of the family firm's product, the *padrone* redirected family resources towards family employment. At this point, the claims to income came to be based on family membership. Regarding the family's relation with outsiders, the posture was adopted to exclude the rest of the local population and maximize family employment. But within the family itself, this exclusionary posture imposed the necessity of rationing and thus introduced ambiguity into the property rights to family incomes since the incomes became unrelated to individual productivity. In this section, we argue that the consequences of this were (1) further productive losses due to dissipation of rent that added to productive losses caused by the transfer of resources from investment to employment maintenance and (2) reinforcement and developmental of personalized institutions to support domestic exchange at a time when, in the international arena, greater use of impersonal institutions to support exchange was being fostered.

The transfer of consumption and quasi-rents from the *padrone* and the family firm to the

family members could be realized only because the *padrone*, as the authority in control of the family's resources, could interfere with the market-wage allocation mechanism in order to achieve his redistributive objectives. Because the resources that he desired to redistribute were limited, they in effect had to be rationed to the family. To achieve the purpose of the transfer, the *padrone* had to offer income streams of no less than w . He was willing to offer m^* income streams of w to be distributed between m_0 ($m_0 > m^*$) family members.

The fact of rationing fundamentally altered the role of the *padrone* in allocating the productive resources of the family firm. Employment in the family firm became desirable not only as a means of earning an income to be applied towards material consumption; the employment, or the job, itself also was a means of obtaining utility. The consumption decisions of family members was not independent of the *padrone's* allocation of jobs. If a family member received a job in the family firm, it represented a claim to one of the incomes to be handed out, and it was a ticket to remain in the local community.

The term "rationing" in economics is usually associated with disequilibrium, but it should be thought of as a redirection of the arbitrage mechanism. The fact that there was utility attached to the job meant that family members were willing to expend energy, one way or another, in attempt to acquire one. The amount, w , of the income stream that eliminated wage arbitrage was fixed by the reservation wage; but rather than fixing the outcome, it simply diverted the arbitrage (and market clearance) to other unrestricted dimensions (Cheung, 1974). A simple rationing analogy, which has been thoroughly developed by Barzel (1974; 1989, ch.2), is the notion of rationing by waiting. Barzel has argued that in situations where the price of a good is fixed by the government, or some other authority, at a below-market-equilibrium price, arbitrage is diverted and carried out by spending time waiting in a queue, and a correspondent equilibrium time-price is established. The implication is that the effort spent represents resource costs and/or disutility that are often neglected. Besides the distortive effect that the fixed price has on resource allocation, it also has a rent-dissipation effect due to the expenditure of unmarketed resources -- such as time.

While strict queuing is probably unrealistic for family and personal relationships, imagining a simple rationing scheme based on the notion of queuing gives insight into what would have occurred over other dimensions. We may imagine queuing being realized by means of a point system in which individual family members attempted to accumulate points as a criterion for staying. These "points" might have been acquired through a variety of tactics including loyalty, friendship, signaling productive motivation, promises of reciprocal exchanges, etc. They might also have included opportunistic behavior, jostling for positions, or violence. Those members with the strongest preferences for staying (or with a comparative advantage in point accumulation) would have put greater effort into (or specialize in) point accumulation. Other members would have emigrated whenever the marginal cost of point accumulation was greater than the marginal

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signals shown to the *padrone* were not perfect, family members had incentives to misrepresent their true long-run motivations.²⁰ Comparative advantage in point accumulation would still accrue not necessarily to the most productive, while the most productive still would have the greatest opportunity costs of waiting. In sum, besides the redirection of quasi-rents exhibited by the capital stretching, the effective rationing of the family's incomes caused rent dissipation to arise out of effort spent to acquire rights to incomes and, possibly, adverse selection inherent in the process of acquisition.

Another implication of Barzel's theory is that there are limitations to the extent to which the *padrone* or any single individual can restrict how the arbitrage is carried out because one cannot depend on the passive rule-following of participants. The incentive to misrepresent one's intentions is one example. More generally, one cannot count on the "good behavior" of the family members seeking incomes. There is a cost associated with what would be viewed as "misbehavior", but if the gains were great, individuals might resort to jostling or even forceful violence, willing to incur the costs of misbehavior. Classic rent-seeking behavior is the result (Krueger 1974; Fraile 1991). Also, in general, there is no reason to expect to jostle individually. Complementarities, and economies of scope or networking would encourage the formation of coalitions between family members. All this complements the analysis, but one can see that this kind of behavior probably suffers certain irreversibilities. If one begins with an orderly line, then some begin to jostle, beyond some threshold amount of jostling is cumulative, and it is hard to imagine a readjustment to the previous orderly equilibrium. Once it begins, it will be difficult to get it to stop; therefore, the implicit institutional developments -- agreements or implicit contracts -- that form to support this kind of behavior exhibit properties of lock-in and path dependency (Arthur 1987, Arthur, Ermoliev, and Karnovski 1987, David 1988, David and Braun 1990). If all this should be stimulated by a period of industrial decline, it might easily persist when the economic conditions have changed, even during periods of substantial industrial innovation and expansion.

V1

In summary, that the *padrone* valued the presence of his family implies that he was willing to use some of his income and quasi-rents to capital in order to keep family members in the community. Our model yields three consequences: the Southern economy was (1) a net emigration area (2) suffering from capital stretching and (3) rent dissipation. Poorly defined

²⁰ Remittances, another form of intrafamily transfers that were important historically, might also have had significant adverse selection problems. Many who went abroad effectively subsidized the family members who stayed behind. In our model, if remittances came to be another source of income to the *padrone*, they would have simply added to the pool of family resources that the *padrone* would then distribute, as before, to himself, to the family firm, or to family incomes.

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expected utility obtained from staying.¹⁸

Any effort expended to secure a place in the queue implies dissipation of the overall gains to the family of the transfer from the patrimony. Some of the benefits the *padrone* attempted to transfer to the family were wasted in the scramble over who would obtain them. Therefore, in addition to the allocative distortions that caused capital-stretching, there were losses to the family associated with non-price competition among family members over the available resources. This tended to reduce the quasi-rents available for replacement investment even further as the effort of family members was directed away from production towards point accumulation. In terms of Figure 1, it implies an inward shift of the curve f_1 . Cheung (1974, pp. 56-58) has shown how this is due precisely to the initial non-exclusiveness of the incomes to be allocated.¹⁷

Additional loss could have been incurred by means of an adverse-selection effect.¹⁸ Unless the point system corresponded perfectly with family members' motivation in productive activities, there would have been a tendency to give the incomes (and jobs) to the family members who were least productive since the most productive would also have the highest opportunity cost of waiting and spending effort in acquiring points.¹⁹ Thinking of the long-run, the *padrone* had an incentive to design a point system that favored growth by tying points to expected productivity. In principle, such a point system could be designed, in which family members would prove themselves by showing high motivation for productivity. However, in practice if productivity

¹⁶ Suppose that the expected difference in utility between staying and migrating is $P(e)U(x, y, m^*) + (1 - P(e))U(x, y, 0)$, assuming that $m_0 = 0$ if he/she emigrates and disregarding any effort spent towards point accumulation. Then the marginal expected utility of staying is $P'(e)[U(x, y, m^*) - U(x, y, 0)] = C'(e)$ where $C(e)$ represents the cost (disutility) of point accumulation.

¹⁷ In principle, all family members were equally entitled to the incomes, but not all may receive them. If the rights to the incomes were clearly defined from the beginning there would have been no dissipation. For example, if an elder-first rule were adopted for distribution, there would have been no ambiguity over who had the rights to the incomes, and the younger group of family members would have migrated. However, it is difficult to imagine that a rule with such well-defined property rights could have been credibly established at the outset of the troubles in the family firm.

¹⁸ One might suggest that a point accumulation system could have arrived at an efficient outcome because those who valued staying most were allowed to signal their preferences by their efforts; however, an efficient outcome can be growth-impeding since the efficiency criterion takes into account preferences for leisure or unwillingness to move from one's community. Growth, on the other hand is a material concept.

¹⁹ We should acknowledge Leandro Prados for offering insight and an anecdote to support this idea. Of the families he knows in Malaga, Spain where he grew up, he observes that those who were most highly motivated to get ahead were those who left the community, migrating to bigger cities or elsewhere. Those who stayed in the community to run the family's businesses were the least motivated.

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property rights to family incomes caused family members to seek preferential treatment through whatever means available. Rent-seeking behavior likely encouraged the formation of personal networks or coalitions both within and between families. We can only speculate about the mechanisms through which these consequences came about; however, it does seem likely that the rationing regime which guided family decisions after integration had a pervasive and persistent effect.

First consider intrafamily coalitions. Economies of scope in point acquisition likely encouraged rent-seeking coalitions if the benefits were high enough. Interestingly, coalitions might also have formed in order to influence which point system the *padrone* adopted. How the *padrone* would select which family members would stay was not specified initially, at the onset of foreign competition. The selection criteria he employed could therefore have been influenced by family members to their own advantage. The potential relative benefits to group over individual action in this respect were great. The *padrone*, wishing to keep the largest possible number of family members, preferred selection criteria that were advocated by groups over those proposed by individuals, and favored larger over smaller groups. Influencing selection criteria constituted one of the most important ways in which coalitions obtained preferential treatment, thus it gave coalition members a reward for joining in the first place. It also gave an incentive for staying within the coalition as an insurance policy against future reductions in family size.

The rents to capital could thus be threatened -- in a scissors-like movement -- both from above, by increased competition, and from below, by redistributive demands of the family. The *padrone* was aware that just a certain point capital stretching in the long run would lead to difficulties in the family firm. Beyond that point, lay further emigration, perhaps of the entire family. The *padrone* faced various alternatives: he could respond to the adverse changes in market conditions by intervention in the market, by isolation from it, or by adaptation to it (Kindleberger 1951).²¹ Either of the first two alternatives required political action to elicit support from local or national public authorities -- cooperative rent-seeking alliances among *padroni*. Our model suggests that *padroni* had greater incentives to form regional, as opposed to sectoral, alliances. Since individual *padroni* sought to keep family members in the community, regional coalitions likely were the preferred joint action choice, because they focused on

²¹ Kindleberger bases this comment on the observations of the Danish economist, Carl Major Wright, in *Economic Adaptation to a Changing World Market*. "His book contains a message for small countries like his own. These, he believes, are too weak to intervene in the world market and will not be allowed by the great powers to isolate themselves from it. Toward this end he advocates increasing mobility of factors and competition among producers" (Kindleberger 1951, p. 38). Analogously, our model suggest the same -- that the problems in the periphery may arise from inflexibility of factor movement due, in our case, to preferences.

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preserving communities in which the local *padroni* already had in interest.²² Therefore, their intentions being to create employment opportunities within their own communities gave local *padroni* the common objective of transferring state resources to their regions. The regional base of rent seeking coalitions was reinforced by relations between different families. The most obvious were relations through marriage that caused members to belong to more than one family. These relations would tend to have a regional character so that *padroni* shared some family and mutually benefited from their staying. Therefore, mutually beneficial regional coalitions were likely to form based on local interests.

Not surprisingly, this is the kind of political alliances that social scientists have found in Italy. As a result of competition, communities in different areas of the periphery suffered from employment loss at the same time, and the attempt to secure jobs for family members became a common theme of the political process. In Italy, government policy was formed by "shifting personal and political alliances" to "broker" regional interests -- a system, as stated by De Grand, "well suited to a political class divided more by local interests than by ideology" (1982, p. 4-5). Perhaps nowhere was the regionalism of Italian political alliances more in evidence than in the 1887 tariff debate in parliament, "which was monopolized by a myriad of speeches and amendments proposed, often with success, by little known members from the provinces whose only objective consisted in obtaining a shower of customs duties for industries - or rather, firms, even though these were not named - which had some importance in their constituencies" (Toniolo 1990, p.83).

In principle, besides intervention, allied *padroni* could have organized to invest in technologies with economies of scale, in an attempt to adjust to the new market conditions rather than intervene to reduce their impact. The advantages of large scales of production in the center might have been brought to the periphery if *padroni* were willing to pool financial resources and cooperate in the construction, operation and employment of the large-scale factory. However, the regional character of relationships was likely to impede harmonious alliances if the optimal scale required cooperation of more than one community. The reason is that the large-scale factory could only be located in one of the communities. The population in other communities would have to migrate to the community where the factory was located, which defeats the purpose of the *padrone's* seeking redistribution of resources in the first place.

Another interesting aspect of the personal relationships that formed in Italy is that they obviously were not stagnant remnants of the Middle Ages. Silverman, in an anthropological study of the patron-client relationship in Italy emphasizes this point. According to Silverman, in societies where social mobility was limited, patronage offered highly sanctioned and self-

²² A family member having to move away from the community to another town was undesirable to the *padrone* as was his/her emigration to the Americas.

rely on patron-client networks to move around in the newly integrated economy. One still senses this distinction between the North and the Mediterranean countries.

In the above quote, Wicksteed is not concerned with the problem of trust in these impersonal relationships as many economists have done in recent years. Oliver Williamson has emphasized the importance in business relationships for settling disputes out of court and dependence on self-enforcing mechanisms that obviate costly recourse to the legal system (1985, pp. 165-75). Other students of economic institutions have supported his view but suggest that such mechanisms are a product of the evolution of institutions over the course of modern economic history that originated in family or community-based ties and networks (Greif 1989). Rosenberg and Birdzell (1986) argue that business organizations requiring trust in the Middle Ages were interconnected with family and community relationships, in which loyalty was instilled. Liberals around the turn-of-the-century thought that the difference between pre-liberal and liberal societies was the absence or presence of significant impersonal relationships (Hobhouse, 1911, p. 9). In any case, the spread of impersonal institutions seems to be associated with large-scale enterprise and industrialization while persistence of personalistic exchange relationships seem to be characteristic of the Mediterranean model of economic development. The regime change described may provide some insight into why this is the case. Assets and services tended to be exchanged only within family-based or friendship-based networks. This patterns, once established, created and reinforced mutual obligations within networks, and a path-dependent process was set in motion that "locked in" the network-oriented transactions even after economic growth and asset accumulation had changed the underlying economic growth tendencies.

As we already pointed out, regional coalitions sought two types of employment-creating policies: protectionism and redistribution.²⁴ The first involved the imposition of tariff barriers on imports, the second the taxing of other sectors in order to transfer resources to the communities that were suffering from foreign competition. Even though in principle these policies were not mutually exclusive, in practice on balance Italy chose redistribution and Spain protection: before the First World War, the average tariff rate on manufactured goods in Italy was 12.8%, while in Spain it was 35.7%. In the same period, by way of comparison, the average tariff rate on manufactured goods in France was 12.9%, and 8.5% in Germany (Tena 1992, p.335, tab.11.2). Italy was thus a reasonably open economy by European standards, and not just relative to Spain. Because in the protected peripheral economy prices remain higher than in an open economy after the onset of foreign competition, our model predicts that fewer workers were forced to leave Spain than Italy. In fact, between 1890 and 1910, one Spaniard in 500 emigrated

²⁴ Of course protectionism causes a redistribution of resources from consumers to producers, but we are here trying to distinguish the redistributive effects of protectionism from the more immediate redistribution directly carried out by government through its fiscal and employment policies.

perpetuating relationships that functioned as a link between the local and the national system. Nevertheless, she emphasizes that this aspect of patronage was a recent phenomenon. "Until the unification of Italy in 1860, mediation of client's dealings with the outside was only a minor aspect of the patron's role. ... [After 1860] the degree of contact between the national and local system increased steadily." When the region became more integrated, if the client had to go outside the community for any reason, the patron recommended him to some acquaintance at the destination so he could have access to the service or bureaucrat he needed (1967, pp. 287-88; 1970, pp. 133-6).

It is interesting to speculate about the contrasts in the characters of the institutional changes that occurred in both the center and the periphery upon integration. A quote of Philip Wicksteed characterizes a change that he perceived in the organization of economic transactions -- the institutions -- in England at the end of the nineteenth century. He perceives a rise in the frequency of *impersonal* economic relationships.

We enter into business relations with others, not because our purposes are selfish, but because those with whom we deal are relatively indifferent to them. ... There is surely nothing degrading or revolting to our higher sense in this fact of our mutually furthering each others purposes because we are interested in our own. ... [The nexus of exchange] indefinitely expands our freedom of combination and movement; for it enables us to form one set of groups, linked by cohesion of [diverse] faculties and resources, and another set of groups linked by community purpose, without having to find the "double coincidence" which would other be necessary.²⁵

Wicksteed was obviously curious about the rise of impersonal business relations and felt he needed to explain them. To him, the formation of relationships with persons to whose well-being one could be indifferent was key to the freedom of movement in exchange relationships -- it allowed the freedom to separate groups linked by community purpose from groups formed to allocate resources, and thus it avoided the necessity of finding "double coincidence" between community interests and resource allocation objectives. But also the impersonal relationships evidently seemed unusual to him; more common were the relationships of family and community. If Wicksteed had been commenting on business relationships in Italy in that period, rather than Britain, he would likely not have been so impressed with the workings of impersonal relationships or the "freedom of combination and movement." Family and community exercised more influence over the economic decisions to allocate resources. According to Silverman, one had to

²⁵ from Robbins, ed., (1933), cited in Williamson (1985), p. 166.

every year, whereas one Italian in 100 left during the 1890s, and one in 55 left from 1900 to 1910 (ISTAT 1976, pp.16 and 34 for Italy, Carreras, et al. 1989, pp.70 and 73 for Spain)²⁶.

Either set of policies (redistribution or protection) encouraged the creation of an active interventionist government. The public authority became directly involved in the management of productive assets and the production of commodities usually supplied (in the economies of the center) by the private sector (Zamagni 1990, ch.5). Public money was used to initiate and/or keep alive uncompetitive industrial projects, and the assurance of continued support from the government gave their managers little incentive to improve their competitive position. Budget deficits tied to employment generating policies (as opposed to other activities such as wars or the profligacy of the court) became the norm in the periphery long before the Keynesian revolution. An indication of this is the persistently higher public debt typical of peripheral economies: debt servicing charges around the turn of the century absorbed 40% of Spain's annual budget, and 43% of Italy's, as opposed to 33.9% in Germany, 34.7% in France and 19.6% in Britain (Tedde de Lorca 1985, p.250).²⁷

Hand in hand with growing public resource redistribution went the development of paternalistic, extensive and detailed regulation of economic life. Though it was only in part openly conceived to limit imports, regulation reduced competition. This put competitive domestic producers at a disadvantage because they were forced to buy inputs in restricted and regulated markets but had to sell at the international price. Thus regulation worsened the competitive position of the peripheral economy, put further pressure on employment and encouraged the redistributive coalitions seeking to protect the employment of their community. Persistent external deficits were another consequence: between 1901 and the War, Italian exports covered 73.7% of the value of imports, as opposed to 88.4 in France and 83.3 in Germany. Even with its high tariffs, Spain still managed to cover only 90.6% of the value of its imports (Tatara 1992, p.300).

Regulation demands a bureaucracy to prepare it, administer it and enforce it, and the growth of the bureaucracy also had positive employment maintenance effects. Because it was regional employment seeking coalitions that fostered its expansion, the bureaucracy came to be staffed with clients. In fact, the bureaucracy acted as a publicly funded extension of the capital stretching the *padrone* was already following on a private level. Opportunities for corruption and

²⁶ In contrast, in the same period only one German in 1250 emigrated each year (Mitchell 1975, pp.20, 138, 142), suggesting that peripheral economies, whether protected or not, tended to lose more labour than the industrial center, as we would expect from our model. Hatton and Williamson (1992) found that the coefficient of a dummy variable for Italy and Spain in pooled European data was positive and statistically significant, confirming that peripheral economies had atypically high emigration rates. Data for Spain in the text exclude the years of the Spanish-American War.

²⁷ Discussing the financial crisis of 1907, Kindleberger (1984, p.144) wrote of Italy's 'incapacity to provide its own capital needs, and dependence on steady flow of funds from abroad.'

graft multiplied, both because of the expanded role of bureaucratic decision making and because the individual bureaucrats depended on, and owed allegiance to, local coalition leaders.

Personal loyalty relationships were reinforced by the growth of government bureaucracy as *padroni* increasingly acted as the intermediary between individual family members and the institutions that redistributed community resources (Silverman 1967, 1975). The result was a culture of clientelism and hierarchy (Putnam 1993), based on personal loyalty and favoritism rather than on the equitable application of impersonal rules.

VII

The common threads running through the recent economic history of Southern Europe have been well defined by Prados de la Escosura and Zamagni: "inadequate social institutions, supported at times by state intervention in economic activity, ... protection and a tendency toward isolation from the international economy ... lack of human capital and insufficient ... capital accumulation constitute the ... ingredients that account for the poor performance of the Mediterranean economies" (1992, p. 22). Our model offers a framework to study if not all certainly most of these elements, a coherent approach to seemingly disparate phenomena. The common thread of the Mediterranean periphery was, we have argued, the capital stretching, coalition forming, rent dissipating behavior of a society subject to external competitive pressures in a world where geographical location was important and early starts in industry mattered. Once in place, these institutions on balance appear to have obstructed economic growth, reinforcing the disadvantages they were originally responding to.

It may be premature to speak of conclusions, but the model we presented in this paper allows us to focus clearly on the social forces that gave the Mediterranean economies their distinctive flavor. On a positive note, a possible corollary of the model may suggest that the growth enjoyed in recent years by Italy and Spain is a powerful factor favouring institutional change toward a more rule-based society.

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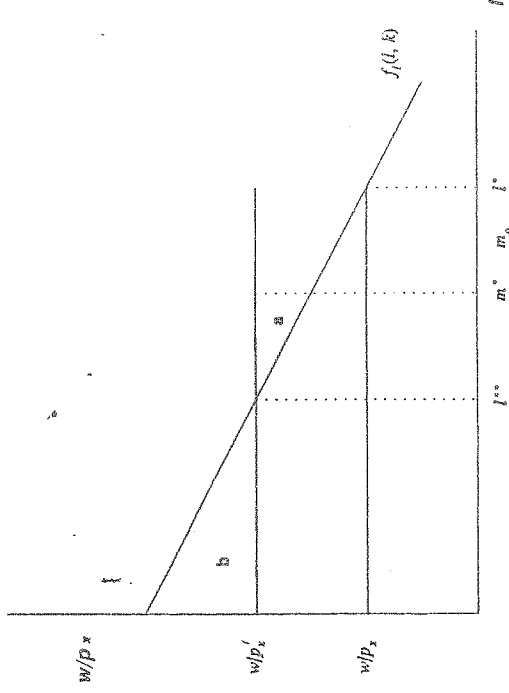
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Figure 1



Los aranceles agrarios y el proteccionismo industrial
en España, 1913 - 1931.

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*Este es un borrador muy preliminar
de un trabajo en proceso de elaboración.
Por favor, no citar sin permiso del autor.*

I - Introducción

La necesidad de la protección arancelaria para un desarrollo industrial sostenido ha sido una de las premisas implícitas más comunes en la historia económica española de los siglos XIX y XX. En respuesta a las críticas de los economistas sobre la protección industrial y sus efectos negativos, los partidarios de la protección argumentan que ésta fue, en realidad, mínima porque los aranceles sobre los insumos intermedios, especialmente agricultura, anulaban la protección industrial nominal, y que fue, además, necesaria porque la protección agraria, al elevar el precio de los alimentos, disminuía la cantidad de ingreso destinado a las manufacturas, reduciendo así su mercado doméstico e imposibilitando la consecución de economías de escala. De esta manera, los aranceles industriales se habrían convertido en una mera compensación de los agrarios y en una defensa necesaria para mantener la competitividad de las manufacturas en el mercado doméstico. Se argumenta aquí, por el contrario, que el impacto de la protección agraria española sobre los costes industriales durante los inicios de la industrialización a finales del siglo XIX y primer tercio del XX fue mucho más reducido de lo que comúnmente se supone, y que la reducción neta en el poder de compra de los consumidores de manufacturas fue igualmente pequeña. En la medida en que se puede determinar una "psua" europea de la relación protección agraria-protección industrial durante el período de éntreguerras, el caso español fue claramente divergente de esa "norma". Razones institucionales y de organización industrial explican el incremento de los aranceles sobre las manufacturas mucho mejor que la simple repercusión de los costes laborales en la industria producidos por el alza de los costes de los alimentos o que la reducción en el mercado de manufacturas originada por la caída del ingreso destinado a su compra.