the review of income and wealth

Review of Income and Wealth
Series 68, Number S1, April 2022
DOI: 10.1111/roiw.12537

HAS EASTERN EUROPE ALWAYS LAGGED BEHIND THE WEST? HISTORICAL EVIDENCE FROM PRE-1870

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The collapse of communism in Central, East and South-East Europe led to great hopes in the early 1990s. Three decades on, the initial optimism has given way to a mixed assessment: while the political transformation appears irreversible in some countries, a relapse to more authoritarian forms of government has occurred elsewhere. Similarly, the economic catch-up process takes much longer than originally anticipated. Many of the challenges might not be a legacy of state socialism but could be more deeply rooted. We provide an overview of where quantitative economic history research stands on the origins and persistence of this fundamental West-East-divide, focusing on the period before 1870 (by which time income differences were well established). Serfdom was proposed as an early answer. Non-agricultural explanations fall into three strands: demography, institutional weaknesses, and market access. We briefly discuss to what extent the factors identified here might have generated long-run stagnation in region.

JEL Codes: N13, N23, N53, O1, O52

Keywords: economic growth, institutions, serfdom, state socialist economies, market access

1. INTRODUCTION

The collapse of communism in Central, East and South-East Europe (CESEE) led to great hopes for the region and Europe as a whole in the early 1990s: freed from the constraints of central planning and transformed into liberal democracies based on the rule of law, the 21 CESEE countries would catch up quickly with their West European counterparts.[1] Three decades on, the initial optimism has given way to a more mixed assessment: while the political transformation appears irreversible in some parts of CESEE, a relapse to more authoritarian forms of

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[1]Reflecting a long and well-established scholarly tradition, we will distinguish between Central Europe, East Europe and South-East Europe. Central Europe refers to the Czech Republic, Hungary, Poland and Slovakia. East Europe relates to the European successor states of the Soviet Union (Belarus, Estonia, Latvia, Lithuania, Moldova, Russia, and Ukraine). South-East Europe encompasses the successor states of the Ottoman Empire on the Balkan Peninsula (Albania, Bosnia and Herzegovina, Bulgaria, Greece, Kosovo, Montenegro, North Macedonia, and Serbia) plus Slovenia, Croatia and Romania. The number of independent countries on this territory has increased from four (Austria, Prussia, Russia, Ottoman Empire) to 22 over the past two centuries, and the sharp distinction between the three sub-regions has become blurred in the process. We will occasionally refer to "Eastern Europe" to avoid repetition of the acronym CESEE; in this case ("Eastern" as adjective) we mean CESEE as a whole. Greece is a CESEE country and departs from the region's trajectory only after World War II (no state socialism during the Cold War period and hence no transition economy after 1989/91). For details on whether this distinction between three sub-regions still makes sense today cf. Morys (2020a).

government has occurred in others. In many CESEE countries, the transformation process remains incomplete despite a superficially successful emulation of the West European prototype. Similarly, the economic catch-up process takes much longer than originally anticipated. Ukraine, the largest and most populous CESEE country (bar Russia), remains stuck at around 10 percent of British, French and German income levels.[2] Even Slovenia and the Czech Republic, arguably the two most successful transition economies, have achieved only half of the West European average income after three decades of post-communist growth.

Of greater concern still is a growing sense that some of the challenges facing the Eastern half of the European continent are not a legacy of the communist experience but might be more deeply rooted. During the course of the European debt crisis (2009–2015), Greece acquired notoriety for characteristics commonly associated with other CESEE countries—such as tax evasion, lack of transparency, corruption and nepotism—, yet it was the only country in the region that did not undergo the state socialist experience but remained aligned to the West during the Cold War period.[3] What is "wrong" with Central, East and South-East Europe?

There is a burgeoning literature in economic history, which speaks to (negative) long-run growth effects of pre-modern institutions typical of the CESEE countries. Buggle and Nafziger (2021), for instance, examine the long-run economic consequences of Russian serfdom, a system of forced labor abolished only in 1861. They find that areas in which the local economy had been dominated by the institution of serfdom more strongly, exhibited the negative effects of forced labor not only in the late Tsarist period, but also under the Soviet Union and even today. Returning to Max Weber's famous proposition on the Protestant work ethic (Weber, 1905; Grigoriadis, 2018) makes an even bolder claim. He argues that adherence to Orthodoxy (as practiced in most parts of East and South-East Europe) and Catholicism (the dominant religion in Central Europe) makes the emergence and persistence of authoritarian forms of government more likely, compared to Protestantism which he views as conducive to the emergence of democracies. Such research is very promising, but we will need more of it given its very substantial methodological and econometric challenges. Quantitative research on long-run legacies in CESEE remains limited and is of recent vintage, very different from other parts of the world where the pros and cons of the various approaches have been discussed critically for years if not decades (Bertocchi and Dimico, 2014).

We will make reference to such research where possible, but will pursue a more limited objective in the following. 1870 is the first year for which we possess relatively reliable GDP and population figures for all CESEE countries bar Serbia, i.e. Austria, Bulgaria, Greece, Hungary, Romania and Russia. GDP per capita data indicate that income levels in CESEE ranged between 27 percent (Romania) and 48 percent (Austria) of income levels in Britain, Europe's richest country at the

[2]Based on conventional GDP data. If the GDP data are adjusted by purchasing power, the difference is smaller. Yet even in this more benign perspective (which has its merits but also its drawbacks), Ukraine only achieves ca. 30 percent of Western European income levels.

[3]E.g. the transition economies exhibit far lower institutional quality than their West European counterparts if measured by indicators such as the ones provided by Transparency International. A comparison with similar numbers for Greece suggests that the problem is a deep-seated regional issue rather than a legacy of the state socialist experience.

time (Schulze and Kopsidis, 2020, table 3.3 provides numbers for all countries). The region's relative income position achieved in 1870 has remained remarkably stable ever since, oscillating between a third and a half of Western Europe's leading economies largely independent of the prevailing political and economic system, be it late feudalism, liberal capitalism, state socialism or the transition experience (Morys, 2020; Vonyo and Markevich, 2020; Voskoboynikov, 2020). Only a very small number of CESEE countries and regions has ever surpassed the 50 percent-upper ceiling, and this small group of regional economic powerhouses has again remained very stable over time (Slovenia and the Czech republic, potentially also the Baltic countries if the available data are to be trusted).

In the following, we will outline what we know about the origins of this fundamental West-East divide, that is focusing on the pre-1870 period. Summarizing a vast body of research never is an easy task, but the quantitative economic history research of the past two decades can probably be described as falling into four categories or schools of thought. Serfdom was proposed as an early answer, has always enjoyed wide currency and has recently even seen an academic renaissance. Demography, institutional weaknesses, and market access and integration form three other important schools of thought. Some of these schools of thought overlap, as the example of serfdom shows (serfdom as an institution), and even where they do not, they are not necessarily in contradiction to each other. Yet for the sake of clarity, it will prove useful to distinguish these four main schools of thought on the question why Central, East and South-East Europe lagged behind Western Europe in 1870.

2. The "Rise and Fall" of Serfdom in the Historiography

In his famous collection of essays on economic backwardness in historical perspective, Gerschenkron (1962) argued for the inefficiency of serfdom, and he saw in this institution the single most important factor impeding growth in late Tsarist Russia. Gerschenkron also took issue with the specific form in which emancipation was implemented in 1861 in that it did not result in property rights for individual farmers, but effectively substituted peasant communities and collective decision-making for the erstwhile landlord. In his own words, the peasant land commune "tended to preserve, if not reinforce, the traditionalism and the inefficiency of peasant agriculture" (Gerschenkron, 1965, p. 747). In this view, productivity increases were delayed until the early 20th century reforms under Prime Minister Pyotr Stolpyin (1906–1911), who recognized the limitations of the earlier reforms and allowed the emergence of ubiquitous small-scale independent farmers.

In a didactic oversimplification, Gerschenkron's position can be summarized as follows: If serfdom had not existed at all or had been abolished earlier than the early 20th century (in practical terms), Russia would have been less backward and would have developed along Western European lines. Subsequent research has challenged this hypothesis by unpacking its individual parts:

- Was serfdom necessarily inefficient or did this institution emerge as an efficient solution to specific economic circumstances? How homogeneous or heterogeneous was serfdom over time and across space? If the latter was

the case, were there some varieties of serfdom more conducive to growth than others? (Dennison, 2006; Dennison, 2011; Malinowski, 2016)
- What were the consequences of the emancipation on agricultural productivity, urbanization and industrialization? Did the effects of the 1861 legislation materialize quickly, or have to wait until the early 20th century? Has serfdom left a long-run legacy on Russia and CESEE? (Nafziger, 2010; Markevich and Zhuravskaya, 2018; Buggle and Nafziger, 2021)

2.1. *The Efficiency of Serfdom*

Serfdom is usually seen as having a negative impact on economic growth and development, being characterized as a rent-seeking institution tailored to benefit landlords. More precisely, serfdom has been held responsible for: (1) constraining mobility between the agricultural and non-agricultural sectors, (2) discouraging improvements in agricultural productivity by undermining incentives, (3) hampering the accumulation of human capital, (4) being wasteful because of the costly way that it transferred resources from workers to employers, and (5) decreasing the purchasing power of villagers (Acemoglu and Wolitzky, 2011; Acemoglu and Robinson, 2012; Ogilvie and Carus, 2014). Recently, a number of authors have complemented these qualitative and theoretical investigations with quantitative analysis. Klein and Ogilvie (2016), analyzing a dataset covering 7,000 villages in mid-17th century Bohemia, established that serfdom discouraged rural non-agricultural activities of peasants. The two authors demonstrate that, even though landlords might have stimulated some demand for non-agricultural goods and services, they tended to crowd out serf crafts and commerce by siphoning off labor and stifling enterprise through surveillance and rent extraction.

Yet in recent years, serfdom has seen a reassessment, with some authors arguing that it was a dynamic institution sustaining a considerable rate of economic growth (Moon, 1996; Cerman, 2012; Stanziani, 2014). In essence, this strand of literature argues that serfdom was an efficient response to specific economic circumstances. If agricultural productivity is low, peasants might find such arrangements beneficial. Bush (1996, p. 5) and Epstein (2001), for instance, argued that serfdom, precisely because it was based on surplus extraction from risk-averse peasants, might have allowed for the development of large-scale commercial farming, encouraged the commercialization of agricultural production, and stimulated city growth. In this view, rising agricultural productivity in the late Middle Ages might have changed incentives for farmers in Western Europe, resulting in the demise of the institution. By contrast, as agricultural conditions did not improve to the East of the river Elbe (or at least not to the same extent, cf. Allen, 2000), the institution persisted in Central and Eastern Europe and was even strengthened over time in a process typically referred to as "second serfdom."

Confronting such theories with data encounters a number of problems. Does low agricultural productivity lead to serfdom, or does serfdom trap the agricultural sector in low productivity? Second, it is not easy to establish testable hypotheses for "efficiency," reminding us of Ogilvie's (2007) critical remarks on the practical use of this concept for historical research. Consequently, the same set of results might

be interpreted in support of the efficiency of serfdom but potentially also against it; an important point made in a thoughtful recent contribution by Malinowski (2016, pp. 143–144) who tested the Bush/Epstein hypothesis for the case of early Modern Poland.

Both drawbacks are related with the fact that we know little about the emergence of serfdom (or continuation/re-emergence in the case of the second serfdom). Considerable energy has gone into explaining the origins of this institution of forced labor, including in Domar (1970)'s classical essay on "The causes of slavery or serfdom: a hypothesis," which tried to explain serfdom as an institution emerging under the conditions of a "frontier economy" (abundant land, scarce labor, non-Malthusian). Yet the more recent research has been skeptical of such overarching explanations (Cerman, 2012), and only accepts that serfdom was typically a lived reality for centuries before we see the first piece of legislation related to it (Markevich and Zhuravskaya 2018, p. 1081).

It is tempting to understand serfdom instead from its historical end, that is the 18th and 19th century emancipation acts which all required explicit legislation. CESEE is such an interesting case in a comparative European framework, as emancipation came earlier everywhere else, often by centuries. The eventual end to serfdom, for the entirely of their territories, was achieved only in 1848 for Austria-Hungary, 1861 in the Russian Empire, and 1864 in Romania (Nafziger and Morys, 2020). Yet focusing on the late emancipation in Central and Eastern Europe creates its own problems, as serfdom was far more heterogeneous than the emancipation acts suggest (in clear parallel to slavery in the U.S., which avoided a legal definition and was typically referred to in the opaque words of the "peculiar institution"). At this late stage, our perspective might be biased for yet another reason. Enlightenment reformers resisted the institution for its lack of personal liberties but not for its alleged inefficiency; given their urban background, they would typically have very little practical understanding of what serfs on a particular estate actually did.

This is precisely where the research from Tracy Dennison (2006, 2011) comes in. Dennison's starting point is that there is little point in theorizing about the origins of Russian serfdom. In addition, it is potentially misleading to rely—as so many researchers including Gerschenkron did—on "outsider" accounts of government documents, the legal code, or testimonies of upper-class observers. In her ground-breaking study titled "The institutional framework of Russian serfdom," she studies serfdom as it actually existed on one particular estate in central Russia, namely the Voshchazhnikovo estate in the central non-agricultural province of Iaroslavl ca. 250 km to the North-East of Moscow. Her research focusses on various social, economic, legal and administrative aspects of serf life on the estate. Her careful marshalling of evidence from household tax lists, petitions to the estate administration, contracts between serfs, work passport records, and myriad other types of documents add up to a complete evisceration of any simple conceptualization of serfdom as completely backward, inward-looking, or economically stagnant. She successfully undermines the long-held stereotype of the peasant and the peasant economy: impervious to outside influences, market-averse, egalitarian, satisficers not maximizers. She provides evidence to show that some landlords were able to credibly commit to follow rules that fixed the amount of the obligations of

peasants, avoiding the so-called ratchet effect and maximizing the stream of payments over a longer-term horizon. In her account, peasants were rational actors who responded to incentives like any other economic agent would do. In this view, serfdom emerges as an institution "fit for its time"—not least because serfdom was not a single unified system, but there was enormous institutional heterogeneity in the Russian empire, and variation in economic outcomes seems to correspond to this variation in institutional arrangement (Buggle and Nafziger, 2021).

2.2. *The Consequences of Emancipation on Agricultural Productivity, Urbanization and Industrialization*

Markevich and Zhuravskaya's (2018) study on "The economic effects of the abolition of serfdom: evidence from the Russian empire" is the most detailed and up-to-date study on the second question outlined above. Their econometric findings support Gerschenkron's basic premise that serfdom held back economic development. Yet they modify his view by demonstrating that the growth enhancing effects materialized, for the most part, quickly after 1861 and did not have to wait until the further set of reforms in 1906/10 by Stolypin.

The authors measure the impact of emancipation on agricultural productivity and industrial output in 46 European provinces of the late Tsarist Empire.[4] Employing a difference-in-differences methodology and exploiting pre-1861 cross-province variation in the share of serfs (as percentage of total agricultural laborers), the authors estimate the effect of the abolition of serfdom on the two outcomes. Crucially, their estimation technique allows them to disentangle the emancipation itself from the subsequent land reform. Emancipation happened immediately in 1861, granting personal freedom to all serfs. At this point, the obligation of former serfs to landlords was fixed as the institutionalized rent payment for land use. Fixing the level of peasant obligations meant that landlords could no longer unilaterally increase them; a widespread practice under serfdom, creating perverse incentives for the serfs. By contrast, the subsequent land reform was a process stretched out until 1882. This second stage marked the actual transfer of ownership over the land in exchange for an immediate payment, the terms of which were regulated by the buyout contract between the landlord, the peasant commune, and the state.

Markevich and Zhuravskaya (2018) report three key findings. First, the abolition of serfdom improved agricultural productivity considerably, and three quarters of this effect materialized in the first decade after emancipation. The speed of this effect suggests that the single most important change of emancipation was the cessation of the ratchet effect,[5] as described above (as opposed to other possible mechanisms such as investment in land or human capital, which would have taken longer to show positive effects). Second, the positive effect of emancipation was counteracted by the subsequent buy-out procedure involving the transfer of land

[4]Excluded are the Baltic provinces, where serfdom had been abolished between 1816 and 1819.

[5]The findings of Buggle and Nafziger (2021), who are concerned with negative *long-run* effects of serfdom, incidentally raise doubts over the immediate positive short-run effect from abolishing serfdom in 1861, as found by Markevich and Zhuravskaya (2018).

into the hands of the peasant commune. In their estimations, the transfer into communal lands halved the positive effects of prior emancipation (to be precise, only 56.5 percent of the reform potential was realized). Still, their view of the abolition as "glass half full" contrasts positively with Gerschenkron's view that the modalities of the land transfer essentially cancelled all positive effects of emancipation. Third, the authors find a large effect on industrial development. Assuming that industry was not (negatively) affected by the abolition of serfdom in provinces where labor was free to begin with, the difference-in-differences estimates yield that, in an average province where 45 percent of rural population was comprised of serfs, the abolition of serfdom led to an additional increase in industrial output of 39 percent throughout the second half of the 19th century. This result is consistent with findings on the substantial level of labor migration within provinces from villages into the provincial industrial sector in the late 19th century in spite of the constraints erected by the peasant commune (Borodkin *et al.*, 2008; Nafziger, 2010). When projecting these results on the national level, the authors find that the abolition of serfdom led to an increase of Russia's GDP of 17.7 percent.

The research by Nafziger (2010) is another example of a positive re-appraisal of the 1861 emancipation act. It challenges Gerschenkron's assertion that the post-emancipation land commune restricted household behavior to the point that it cancelled out any positive effects from the abolition of serfdom. Under the emancipation legislation, peasant households were assigned membership into villages, which entitled them to a share of their village's communal property endowment while making them liable for a corresponding portion of collective taxes and land payments. The village/communal assembly of household heads were granted legal control over access to collective property resources, the distribution of fiscal obligations, and household decisions regarding off-farm labor and exit from the commune.

Gerschenkron's reasoning was based on the observation that the legal position of the land commune was very strong, and the position of individuals correspondingly weak. In moving away from a narrow legal focus, Nafziger asks a simple but important question: did communal enforcement of collective property rights and fiscal liabilities make it impossible for households to effectively allocate their land and labor endowments? Based on household-level data from a sample of communal villages in Moscow province at the end of the 19th century, Nafziger analyses the workings of rural factor markets in this specific institutional context. He documents land and labor market participation by peasant households. Particularly noteworthy is the significant involvement of households in non-agricultural pursuits, in the hiring of agricultural workers, and in renting shares of the communal allotment land. These market transactions allowed households to adjust land and labor holdings in ways that sharply contrast with a conventional view of Russian peasant autarky.

2.3. *Can the Conflicting Views of the Recent Literature Be Reconciled?*

How does the more positive assessment of serfdom by Dennison (2006, 2011) and the rehabilitation of the "backward Russian peasant" by Nafziger (2010) square with Markevich and Zhuravskaya (2018)'s (partial) return to Gerschenkron's initial hypothesis? A close reading suggests that they do not necessarily contradict each other. Dennsion does not argue that serfdom was efficient; she merely contends that

serfs were rational actors who responded to incentives like any other economic agent would. Likewise, Nafziger's rehabilitation of the "backward Russian peasant" is not equivalent to saying that the post-1861 institutional set-up was "efficient." He merely argues that emancipated peasants participated in land and labor markets as well as they could, given the institutional constraints at the time. His results are consistent with Markevich and Zhuravskaya's (2018) finding that the transfer into communal lands undermined, but by no means eliminated the positive effects of prior emancipation.

The emerging consensus is therefore that the abolition of serfdom in 1861 increased agricultural productivity, but also allowed former serfs to leave the countryside altogether, thereby fostering urbanization and industrialization. All this supports Gerschenkron's basic idea, i.e. that serfdom was an inefficient institution and its abolition an important step towards economic growth and development. The validity of Gerschenkron's idea is further strengthened by the recent work of Buggle and Nafziger (2021) who demonstrate the negative long-run legacies—to this very day—of serfdom in those parts of Russia whose economy was characterized particularly strongly by serfdom before 1861. Yet Gerschenkron was probably overly skeptical on the post-1861 period. While emancipation remained an incomplete step, it unleashed important changes (relatively) quickly and greatly contributed to the strong economic growth performance of the last three decades before WW I.

Yet important questions remain, of which only two shall be briefly mentioned here. First, holding serfdom responsible for the economic retardation of Central and East Europe is based on late emancipation in European comparison (cf. above). However, serfdom did not exist at all in the Balkans under Ottoman rule (Pammer and Tuncer, 2020), but 19th century South-East Europe was economically as backward as Tsarist Russia and more so than Central Europe (Schulze and Kopsidis, 2020). We concede that the Balkans knew other, less formalized forms of coerced labor (Nafziger and Morys, 2020), but future research will need to transcend the relatively well-studied Russian experience to include the experiences of Hungary, Romania and the Balkan countries.

Second, despite all their differences, the research summarized above has the same direction of causality in mind: from agricultural productivity growth to the twin processes of urbanization and industrialization. Yet what if causality runs the other way, that is that a more urbanized population requires more food and hence spurs agricultural growth in its environment? In this view, agriculture reacted to urban and industrial development rather than shaping it, a point made by different authors for various parts of Europe at different points in time (O'Brien, 1985, for England and Kopsidis and Wolf, 2012, for Prussia). Alvarez-Nogal *et al*. (2016) provide an example of the consequences of a lack of urban push in the case of Spain. Kopsidis and Wolf (2012), for instance, demonstrate for late 19th century Prussia that the more urbanized and industrialized Western part witnessed dramatic agricultural improvements in response to urban demand, far more so than in the Eastern lands of this far-flung German state.[6]

[6]Incidentally, this line of research might provide yet another explanation for the second serfdom. The less urbanized part of Europe to the East of the river Elbe failed to provide sufficient urban demand for agricultural productivity growth in the late Middle Ages and the early Modern period; as productivity remained low, serfdom (re-)emerged as an efficient solution along the lines proposed by Bush and Epstein (cf. main text).

3. Institutional Weaknesses

Research into the economic backwardness of CESEE is much wider than agriculture and serfdom, partly because this school of thought could never conclusively rule out the possibility of reverse causality (from economic underperformance to the establishment of serfdom) nor explain why South-East Europe was equally poor even in the absence of serfdom. An alternative explanation has focused on institutional weaknesses, but much of the detail has remained obscure or not been put to a testable hypothesis. The allure of this hypothesis is that we know today that institutions in CESEE countries are weaker than in their Western European counterparts (Csaba, 2020, Kossev and Tompson, 2020). But can we be sure the same was true for past periods?

What are institutions and how can they help us understand CESEE economic retardation? North (1991) defines institutions "as the humanly devised constraints that structure political, economic and social interaction," differentiating between formal constraints (constitutions, laws, property rights) and informal constraints (norms of behavior, conventions, self-imposed codes of conduct). Polities and societies introduce such institutions to create order and reduce uncertainty in exchange; they come to "define the incentive structure of societies and specifically economies." The Northian definition of institutions is deliberately broad, and encompasses easily serfdom as an institution, but even cultural and religious factors—such as the research of Grigoriadis (2018) allured to above—would fall under this definition. In the following, we will approach institutions from a more narrow perspective and are specifically interested in institutions relating to statecraft.

Malinowski's (2019) "Economic consequences of state failure. Legal capacity, regulatory activity, and market integration in Poland, 1505–1772" is a recent attempt to break free from the deficiencies of earlier research. He studies the relationship between state capacity and commodity market integration for the region's largest state in the Early Modern period, namely Poland between 1505 and 1772 (First Polish Partition at the hands of Austria, Prussia and Russia). The basic idea is that a more active parliament will pass more legislation, including laws and regulations conducive to foster market integration; conversely, if legal capacity is low (as proxied by the number of days the Polish parliament, the Seym, was in session each year), there will be less regulatory activity of parliament (as measured by the laws relevant to the economy passed each year) and markets will fragment.

In the successful economies of North-Western Europe, all three quantitative indicators used by Malinowski (2019)—parliamentary activity, regulatory output of parliament and market integration—would probably grow over time, potentially resulting in spurious econometric results. This makes Poland a historically interesting (and econometrically attractive) case study, as parliamentary activity *did not* grow over time. Rather, an initially very active parliament was severely undermined by the introduction of the so-called *liberum veto* in 1652; a stipulation which gave a single member of the aristocratic parliament the right to suspend proceedings, effectively introducing unanimity into the Seym. Consequently, Malinowski can show econometrically that the introduction of the *liberum veto* reduced the regulatory output of the Seym and reversed the high levels of market integration that a more active Polish parliament had achieved initially.

An important consequence of the *liberum veto* was that it gave foreign powers an easy tool to intervene in the domestic affairs of the Polish aristocractic republic. By aligning themselves with a single Polish aristocrat represented in the Seym, foreign powers could undermine the Polish state; an easy tool of foreign interference, which ultimately contributed to the complete dissolution of the Polish state in the three partitions of 1772, 1793 and 1795. Poland is an extreme example, yet it points to a broader regional pattern that has spurred institutionalist research in recent years: the role of West European countries in the economic development of the poorer, and often small, CESEE countries.

An older qualitative literature tended to highlight the negative role of foreign (Western) countries in their dealings with CESEE. This was the case in particular if written from the perspective of the so-called dependency theory (Berend and Ránki, 1974) or under residual influence from 19th century nationalistic historiography. Berend and Ránki in particular connected their work to the "World Systems School" of Immanuel Wallerstein (1974), which hypothesized that the global economy was exploitative in nature and was characterized by the political and economic dominance of "core countries" over "peripheral countries." In this view, underdevelopment and income inequality between countries was the result of a particular international "system" that perpetuated stagnation of the poorer countries to the benefit of rich nations. This theoretical framework allowed the two authors to explore the economic relationships the Central European "peripheral" countries had with the Western "core" economies. This is precisely where the mismatch between theory and evidence alluded to earlier, begins. In the first half of the book devoted to the period 1750 to World War I, the authors show in chapter after chapter how trade, capital flows, political influence, and western-inspired institutional change spurred on the backward Central European countries. If in some cases modernization seems to have failed, foreign investment and trade with core countries were not to blame. Instead, the authors argue that foreign influence failed because there was not enough of it. While paying lip-service to dependency theory, Berend and Ranki effectively turn the argument around; and point out that countries located more closely to the core countries (such as Hungary) benefited more than countries further away (for instance Romania). This important insight also explains the lasting appeal and legacy of Berend and Ranki: the empirical evidence they present is fully consistent with modern economic geography concepts. Gerschenkron had been concerned with *domestic reform*, and the failure thereof, in closing the gap with England. Berend and Ranki, by contrast, were the first to systematically point out that the economic development of Central Europe can only be understood by its *integration and interaction* with economically more developed Western Europe.

The more recent literature has tended to focus more explicitly on the positive role played by foreign countries. Some of this research has made an explicit institutionalist argument, often in the form of helping to support weak domestic institutions or even build new institutions with outside help. Tooze and Ivanov (2011) and Morys (2021), for instance, argue that policy-makers in South-Eastern Europe acquiesced into foreign financial supervision not because they necessarily had to, but in an attempt to compensate for domestic institutional weaknesses. Recurring problems of Bulgaria, Greece, Romania and Serbia/Yugoslavia with large external

debts before World War II led to the introduction of financial control by the countries' West European creditors on various occasions. From the perspective of the dependency theory, such arrangements are typical examples of how core countries attempt to control peripheral countries, undermining their sovereignty in the process. By contrast, the authors show that there were strong domestic constituencies in favor of these arrangements. Foreign creditors constrained monetary policy and, to a lesser extent, fiscal policy. Yet such constraints were appealing to a large part of the domestic constituency, which blamed a legacy of fiscal deficits and debt monetizations (known as "fiscal dominance" in the relevant literature) for the country's inability to follow the gold standard. In this view, foreign financial supervision acts as an external commitment mechanism in the presence of weak domestic institutions. Using a Granger causality analysis of time series for budget deficits and debt monetizations for all SEE countries between 19th century political independence and World War II, Morys (2021) shows that a prevailing pattern of fiscal dominance was broken only under financial supervision, when the treasury's influence on the central bank was scaled back. Only then were central banks able to stabilize their exchange-rates. An accompanying political economy analysis shows that financial supervision was politically acceptable as it made successfully adhering to gold more likely in the view of contemporaries.

The research by Malinowski (2019), Tooze and Ivanov (2011) and Morys (2020) is primarily concerned with institutional weaknesses, what they led to and how CESEE countries tried to address them. There clearly is a lack of "positive" institutionalist research on the region, reflecting the perception that institutions in the region were part of the problem, not the solution. A rare exception is Nafziger (2011), who analyses the functioning of the *zemstvo*, an institution of local government created as part of the emancipatory reforms of the 1860s. While the peasants were heavily underrepresented in this new institution, they did have, for the first time ever, some political voice in a decision-making body that was extensively involved in providing local public services, from school and medical care, to agronomy and road maintenance. Nafziger presents econometric evidence that peasant electoral power in the *zemstvo* was positively associated with relative tax rates (shifting the burden in the peasantry's favor) and spending per capita, especially on education—which was arguably the category of expenditure most attractive to the peasantry. As with his research on rural factor market participation by former serfs after 1861, Nafziger takes an intermediate position: despite the *zemstvo* being confined to the local level and despite the heavy underrepresentation of peasants, this was a step in the right direction with beneficial effects for the farming population.

The main problem with institutionalist research on CESEE is that most studies focus on individual countries and lack a comparative perspective based on well-defined quantitative indicators. Pammer and Tuncer (2020), in their magisterial survey of economic policy in CESEE during the long 19th century, list a large number of qualitative and quantitative studies on institutions and institutional change in the region, but few of them allow us to understand systematic institutional differences among the CESEE countries, or between them and their neighboring countries further to the West. Researchers should take inspiration from similar research on the recent transition period, where a great deal of such research

exists, allowing to understand similarities and differences between the 21 European transition economies (Aslund and Djankov, 2014).

4. Demography

Not unlike the way Gerschenkron continues to shape the debate on serfdom, Hajnal (1965) remains a cornerstone for demographic research. His strong assertion of a line from St. Petersburg to Trieste, separating a growth-conducive Western regime from a less benign Eastern one, has polarized and antagonized for half a century now (Cvrcek, 2020). Countries and regions intersected by this line have witnessed considerable research efforts trying to undermine or even completely overcome this sharp distinction. Polish research in particular has played an important role in these endeavours (Szoltysek, 2007; Szoltysek and Zuber-Goldtein, 2009).

Yet recent research has tended to reconfirm Hajnal's strong assertion, at least as far as his main findings on Eastern Europe were concerned. Based on a large data set for 39 European countries/societies between 1500 and 1900 and drawn from 365 publications in historical demography, Dennison and Ogilvie (2014) provide more details than Hajnal (1965) ever could. In particular, they are able to systematically cover four centuries, whereas Hajnal's strongest evidence was confined to population censuses from 1900. The article is written *against* the European Marriage Pattern (EMP)[7]; which makes it all the more powerful that Hajnal's *Eastern European* results not only survive but emerge strengthened. We confine ourselves in the following to the author's findings for the 14 CESEE countries/regions included in their study.

Dennison and Ogilvie's (2014) approach is to estimate demographic differences between the 39 European countries related to the two indicators that mattered most for Hajnal (1965), namely female age at first marriage and female lifetime celibacy. Controlling for differences over time within one country and choosing England as the numeraire, their coefficients measure how many years older/younger a woman typically was at first marriage compared to her English counterpart (Table 2 on p. 661), and how many more/fewer women remained unmarried in a specific country compared to England (Table 3 on p. 665). E.g. over the period 1500–1900, a woman marrying in what is Bulgaria today was typically 6.8 years younger than her English counterpart; and among all Bulgarian women, lifetime celibacy was 12.6 percent lower than in England.

While their results (might) contradict conventional wisdom for Western Europe, their findings on Eastern Europe are actually supportive of Hajnal's original research. From the 12 countries with the lowest female age at first marriage, 11 are in CESEE (EE: Russia, Ukraine, Belarus; CE: Poland, Hungary, Slovakia; SEE: Serbia, Croatia, Bulgaria, Greece, Romania). Likewise, the ten countries with

[7]The article is written against two important pillars of the EMP school. First, it provides evidence against the idea that the more extreme version of the EMP necessarily coincides with the North Sea area where modern economic growth is said to have begun. Second, it challenges the idea that the EMP, where it was present, necessarily led to higher growth. We will not go into this discussion here, as we are concerned with the implication of this article on Eastern Europe.

the lowest female lifetime celibacy were all located in CESEE. The only three countries from the region that were systematically different are the three Baltic countries, Bohemia and Slovenia; precisely the countries located (at least partially) to the West of the St. Petersburg—Trieste line.

In sum, while the demographic research of recent years has tended to undermine Hajnal (1965)'s assertion of a reasonably homogeneous (West) European marriage pattern, it has vindicated Hajnal's research findings on Eastern Europe and arguably strengthened them. Pan-European studies such as Dennison and Ogilvie (2014) are complemented by country-specific or regional research for Eastern Europe, surveyed in Cvrcek (2020), which on balance delivers the same message: demographic patterns and family systems in Western and Eastern Europe remained different at least until the demographic transition, which in most parts of CESEE only happened in the first half of the 20th century (Morys and Ivanov, 2020). Researching the full implications of such differences will be key in better understanding the West-East divide in future.

5. Market Access and Market Integration

Agricultural, institutional and demographic approaches have been very prominent in explaining CESEE backwardness. Despite their many differences, they all imply (to a varying degree) that backwardness was "a home-grown problem," and could have been overcome by specific policies. By contrast, recent approaches have emphasized market access and market integration (and the lack thereof) as a key issue bedeviling the CESEE economies. Such approaches are not entirely new, as the classic contribution of Berend and Ránki (1974) shows. Komlos (1983, p. 23), for whom the driving forces of growth in the 19th century Habsburg monarchy were "not in government policies but in the interaction of market forces," would be another example. In the Russian case, such themes were often discussed under the rubric of "space" and "distance." But the meteoric rise of economic geography over the past two decades has equipped research with new tools and instilled greater confidence to counter the other three schools of thought.

There are a limited number of studies on market access and industrial location choice, yet they are confined to individual countries (Wolf, 2007, on Poland, Nikolic, 2018 on Yugoslavia). Notwithstanding the substantial data requirements to conduct such a study, this research avenue is potentially very promising; not least because we know for the post-1989 period that economic geography forces pulled the Visegrad economies of Central Europe towards the West (Czech republic, Hungary, Poland and Slovakia), whereas the gravitational center for countries such as Belarus and Ukraine are more ambiguous (Kossev and Tompson, 2020).

Prima facie, there are many publications on market integration. Such studies require only price data for a single commodity (typically grain) collected for a large number of markets, and are hence much easier to conduct. Yet on closer inspection, the studies we currently possess often do not speak sufficiently to the CESEE experience, offer little comparative perspective vis-à-vis better integrated markets or are difficult to reconcile with results for other parts of Europe and the world. There clearly is an opportunity for research here in the years to come.

To begin with, CESEE is poorly covered in pan-European studies. Chilosi *et al*. (2013), for instance, conduct one of the largest studies on the integration of European grain markets in recent years. Covering the long period from 1620 to 1913, they are able to include 100 cities into their sample; yet only six of them are located in Central Europe and their data do not contain a single observation of historical Russia or of South-East Europe. Federico *et al*. (2018) address some of this imbalance by including observations for Russia, but there are again no observations for the entire Balkan peninsula with the exception of Greece. From their sample of 500 cities, less than 10 percent belong to the Eastern half of the European continent. A partial exception to this incomplete coverage is Jacks (2005) who includes Austria-Hungary and Russia among the ten countries for which he investigates intra- and international commodity market integration in the Atlantic economy, 1800–1913. There are a number of country-specific market integration studies, but they are all confined to Austria-Hungary (Komlos, 1983; Good, 1984, Schulze and Wolf, 2012) and Russia (Metzer, 1974; Goodwin and Grennes, 1998). It remains unclear to what extent their findings can be generalized with respect to the many small CESEE countries. Federico's (2012, p. 473) verdict that there is a lack of market integration studies for CESEE still holds true almost a decade later. With this caveat in mind, we shall now discuss the six most important studies on CESEE market integration.

The first two studies by Metzer (1974) and Goodwin and Grennes (1998) both relate to grain markets in late Tsarist Russia. Metzer's (1974) early contribution studies domestic market integration as shaped by railroad construction. He shows that only with the introduction of the railways did transportation costs come down to the point where a national market for agricultural goods could emerge. In his calculations, 83 percent of the decline in the price differentials between different Russian cities could be attributed to the railroad-induced decline in transportation costs. Goodwin and Grennes (1998) support Metzer (1974) on both accounts—the strength of market integration and the role of railways therein—but add an international dimension to it. They compare market integration of the world's largest wheat *exporter* (Russia) with market integration of the world's largest wheat *producer* (U.S.). They show that by the 1880s, a strong connection had been established between Russian ports and cities at the center of the world wheat trade. Deviations from equilibrium price relationships were eliminated more rapidly for trade between Odessa and England than for wheat trade between New York and England.

The findings of Metzer (1974) and Goodwin and Greenes (1998) for Russia are not easy to reconcile with the results of Jacks (2005) for Austria-Hungary 1800–1913 (Jacks' findings for Russia cover only 1893–1913 and are excluded from our discussion). Where the former two studies document increasing market integration both internally and externally, Jacks holds up Austria-Hungary as the quintessential case (among the ten countries he studies) of a country with a strong domestic market integration but a weak international one. This is surprising, as distances to Western Europe and tariffs vis-à-vis them were lower for the dual monarchy than for Russia. Another potential inconsistency between CESEE-centered and pan-European / global approaches relates to what drove market integration. The CESEE-centered research has tended to highlight infrastructure

improvements—and the railways in particular—as the driving force behind market integration, whereas the more general research has argued, in recent contributions anyway, that most of the price convergence process had already taken place by the time such improvements happened (Jacks, 2006; Federico *et al*., 2018).

Some of the inconsistencies mentioned might be attributed either to the fact that Austria-Hungary and Russia were relatively closed economies with large domestic markets; or that infrastructure improvements related to the railway had a much larger impact on the region given that riverine transportation had played a bigger role earlier on in Western Europe. But there are very few studies allowing us to make such a claim. One of the few studies investigating trade integration (as a driving force behind business cycle synchronization, which is the main focus of the article) for the small SEE countries is Morys and Ivanov (2015). Their story is more conventional in that they document exceptionally low but then steadily rising levels of trade integration (and business cycle synchronization) for Bulgaria, Greece, Romania and Serbia/Yugoslavia between 1875 and World War II. In fact, it is one of the few studies speaking both to market access and trade integration: the authors show that proximity to British, French and German markets mattered, and that countries located more to the West (Serbia) or with easy shipping (Greece) enjoyed higher levels of integration than Bulgaria and Romania.

Last but not least, some research has tried to show that market integration was no simple process, neither economically nor politically. Studying market integration between 1878 and 1910 in Austria-Hungary, Schulze and Wolf (2012) demonstrate that market integration was "asymmetric": markets became more integrated across the dual monarchy, but even more so between cities sharing the same languages. Ethno-linguistic networks emerged within the Austro-Hungarian empire, which in many respects presage the borders as they came into place between the various successor states of the dual monarchy after its dissolution at the end of World War I. Finally, there also is a limited number of research on labor market integration in CESEE (surveyed in Nafziger and Morys, 2020). On balance, this strand of research shows that labor markets were poorly integrated before the late 19th century. The late spread of steam and rail lines in the context of poor road networks kept travel costs relatively high. The long life of the second serfdom, coupled with the persistence of other, quasi-feudal or ethnic restrictions on occupational and residential choice, generated considerable constraints on the mobility of workers and households. Labor market interactions were local, and long-distance migration out of CESEE was confined to the last three or four decades before World War I.

6. Conclusion

Our starting point was the compelling statistical evidence available today that Eastern Europe has lagged consistently behind the Western European economies for the past 150 years. There have been notable differences across Eastern Europe and over time, yet on balance the CESEE economies have achieved only 30 percent–50 percent of Western European income levels since 1870. This is true despite the fact that the CESEE countries have tried out any possible economic policy

framework available to them, from feudalism and (more or less) liberal capitalism in the 19th and early 20th centuries, to four decades of state socialism, and to today's Westward-leaning liberal democracies. The top-performing countries and regions, all of which have been located in Central Europe and in the Baltics with little change over time, have often exceeded 50 percent of Western European income levels, but even they have found it difficult to close in with Western Europe.

In searching for explanations for this seemingly persistent gap between East and West, we outlined four major schools of thought. The persistence of serfdom and feudal institutions well into the 19th century in large parts of the region were proposed as an early answer, going back to the seminal works of Alexander Gerschenkron. We broadened the discussion by including other schools of thought such as demography, institutional weaknesses, and, more recently, market access and market integration. Crucially, the four schools of thought are not necessarily in contradiction to each other, and future research will need to determine with greater precision where the *prima causa* of the divergent economic development lies.

Our analysis stopped in the mid-19th century, i.e. around the time for which we have reasonably reliable GDP and population data for most CESEE economies. By that point, the income per head differential between West and East was established that has remained with us since then, oscillating between one third and one half of the West European experience. We hold the factors identified in this paper, on their own or in conjunction, as responsible for the relative backwardness of the CESEE economies in the mid-19th century. Did they also lead to long-run stagnation in the region? Recent research provides some clues. As for institutions, a large body of literature not only argues that institutions matter for economic outcome, but that they show strong patterns of inertia. Efficient institutions often benefit from a self-stabilizing mechanism. Yet even inefficient and "bad" institutions have shown themselves to be remarkably persistent, with some of the relevant research specifically concerned with the experience of CESEE countries (Morys, 2021). Likewise, the determinants of market access and market integration often change little over time. The importance of better market access (to Western Europe) for the Central European economies over their East and South-East European counterparts has been documented by Schulze and Kopsidis (2020) for the long 19th century as much as by Kossev and Tompson (2020) for the recent transition period. The latest research has even argued that serfdom might have long-run effects to this day: abolished more than 150 years ago, Buggle and Nafziger (2021) find that less urban agglomeration and slower industrial development in areas with a greater degree of serfdom perpetuated the negative effects of forced labor before, during, and after the Soviet period.

Future research along the lines of Buggle and Nafziger (2021) will need to establish to what extent, and by what exact mechanism, the factors identified in this paper have generated long-run stagnation; and weigh their importance against the results of later policy mistakes and other political and economic developments unrelated to the earlier experience. We will confine ourselves to a parallel between 1850–1914 and the recent transition period since 1990. The research of the past two decades portrays the decades before World War I as a period in which the CESEE countries left behind many of the factors impeding growth. This involved,

among others, abolishing serfdom in places where it was still in operation after the Napoleonic Wars, reforming existing institutions and launching new ones, as well as gaining better market access by improving infrastructure. Yet while the 19th century saw far-reaching change in all parts of Eastern Europe, the transformation was often slow and remained uneven across the region. In terms of per capita output, all economies grew substantially, but there was no general catching-up of the East with the West, and some countries even fell behind in relative terms. This finding is not dissimilar to the 1990–2008 period where the Central, East and South-East European economies launched another broad-based attempt at catching up with Western Europe. On both occasions, catch-up occurred for most but not necessarily for all CESEE economies (Schulze and Kopsidis, 2020; Voskobynikov, 2020).

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