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Economic Responses to Nazi Aggression in Europe. Albert Hirschman and Paul Rosenstein-Rodan on the Economic Sovereignty of Central and Eastern Europe

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Abstract

Germany's expansion in Central and Eastern Europe was not just one among many aggressive moves by the Third Reich, but the central strategy of the Nazi imperial project on the continent. Prominent economists, politicians and think tanks agreed that crucial to this project was Germany's economic domination of the area, and committed to developing a new vision for a postwar international order that avoided the instability and turmoil of the interwar years.

This article discusses the analyses of the crisis of Central and Eastern Europe and solutions to it that Albert Hirschman and Paul Rosenstein-Rodan, then both virtually unknown and working independently one from the other, produced during World War II—Hirschman with a focus on the international dimension, and Rosenstein-Rodan with a focus on the domestic one. This article offers a synthetic discussion of how the war deeply affected their economic thinking and how, in turn, their analyses became foundational elements of new and important disciplinary fields in the postwar decades, such as international political economy and development economics.

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Germany's expansion in Central and Eastern Europe was not just one among many aggressive moves by the Third Reich, but the central strategy of the Nazi imperial project on the continent. The tragedy of World War I was followed by an explosive mix of developments, notably the dissolution of the Austro-Hungarian and Ottoman empires, the rise of fascism in several countries, the rearmament of an undemocratic and aggressive Germany, the birth of a number of weak and often internally fractionalized independent states east of the Rhine, and finally the economic depression of the 1930s. International economic conferences and projects of economic and political alliance among Central European states proved totally ineffectual, and the crisis that crushed the regions of Central and Eastern Europe paved the way for the Nazi European imperial project (Mazower 2008).

Commenting on Germany's *Drang nach Osten* and economic domination of Central and Eastern Europe, an economist well versed in international economic relations and a high-profile consultant to the League of Nations wrote in 1943, "The second world war began on this economic front" (Condliffe 1943a: xi). Not surprisingly, prominent economists, politicians, and think tanks put their energies into studying this new economic scenario: once the Nazi European empire was defeated, a new vision would be needed for a postwar international order that avoided the instability and turmoil of the interwar years. A number of analyses of the problems of economic backwardness in Eastern Europe as well as the asymmetric economic relations between this area and Germany were thus developed. After the war, it was felt, Central and Eastern European countries would need to overcome their domestic economic and political fragility, lest they again were to become easy prey to the expansionistic ambitions of more powerful neighbors. And since any meaningful balance of powers would in any case be very difficult to attain, an international system of governance able to defuse major tensions should be put in place.

During World War II, Albert Hirschman and Paul Rosenstein-Rodan, then both virtually unknown and working independently one from the other, produced insightful analyses of these questions—Hirschman with a focus on the international dimension, and Rosenstein-Rodan with a focus on the domestic one. This article will follow their parallel biographies and studies in the interwar years (next section) and then focus, in two subsequent sections, on their analyses of the crisis of Central and Eastern Europe and solutions to it. In this way, I hope to offer a synthetic discussion of how the war deeply affected their economic thinking and how, in turn, their analyses became foundational elements of new and important disciplinary fields. As we will see, Hirschman and Rosenstein-Rodan offered important insights to the discussion of the European economic roots of World War II and immediate postwar national and international policies.

The intellectual trajectories of Hirschman and Rosenstein-Rodan have been extensively studied—not least by this author (among others, on Hirschman: Adelman 2013; Alacevich 2011; 2014; 2015; 2016; 2017; 2018b; 2021b; Alacevich and Asso 2023; Álvarez, Guiot-Isaac, and Hurtado 2020; Bianchi 2010; de Marchi 2016; on Rosenstein-Rodan: Alacevich 2013; 2018a; 2018b; 2021a). The novelty of this article, therefore, resides not so much in the discussion of specific ideas in their work, but in a comparative analysis showing the points of contact and the differences between them and between the war period and the postwar years. As will be evident, the roots of their better-known contributions to international and development economics were solidly planted in their wartime studies. After World War II, both would become prominent pioneers of development economics, a disciplinary field that took shape between the late 1940s and the 1950s. Hirschman and Rosenstein-Rodan's contributions to the new discipline are deeply rooted in their war experience, though in different ways. Rosenstein-Rodan's contribution is more direct and fully formed both in terms of shape and contents. Indeed, his 1943 article on how to trigger industrialization in Eastern Europe is often considered to be a foundational text of development economics (Rosenstein-Rodan 1943). Hirschman's pioneering contributions to the new discipline would appear only in the 1950s, but from a methodological point of view, his work during the war and in its immediate aftermath is fundamental.

The discussion of how unbalanced and apparently unpromising industrial and foreign trade conditions could be harnessed to promote economic development, so prominent in his postwar development economics writings, were first tested with regard to the asymmetrical power relations between Nazi Germany and its weak neighbors and then with regard to the challenge of postwar European reconstruction. Also, as we will see, Hirschman developed statistical tools that would be highly appreciated by the economics profession after the war (Hirschman 1945; 1954; 1958; 2022). Furthermore, Hirschman's study of Nazi expansionist trade policies in Eastern Europe (Hirschman 1945, but the manuscript was written in 1941-42) would be recognized as a foundational work in a disciplinary field that had some overlaps with development economics, but emerged in earnest only in the 1970s, namely international political economy.

Though they arrived at these fields from different routes, Hirschman and Rosenstein-Rodan have in common the fact that the roots of their contributions are to be found in their wartime studies, and more precisely in a common set of questions about how to create the conditions for a solid and lasting peace in the postwar period. An anonymous reviewer has wondered whether this does not show that development economics started to take shape earlier than usually held by scholars, that is during the 1930s and World War II, and not with the canonical works of Ragnar Nurkse, Hans Singer, W. A. Lewis, Raúl Prebisch, Celso Furtado, and others in the 1950s. Development economics, in other words, appears to be related not only to the Marshall Plan, postwar US foreign policy, and the newly created international organizations—a quintessentially Cold War social science—but to dynamics that predated the Cold War and indeed World War II. I agree, though not entirely.

The studies of Hirschman and Rosenstein-Rodan from the early 1940s directly influenced the discipline of development economics, both because they nurtured their more explicit work on the subject and because other development economists engaged with them. It should not be forgotten that Rosenstein-Rodan's 1943 article is an important element in the early canon of the discipline, and indeed, one could go further back in time, at least to the early 1920s, when Sun Yat-sen published important studies on China's economic development and international cooperation (Sun 1922; on the relevance of Sun, see Helleiner 2018). In this sense, I agree with the reviewer that important building blocks of development economics did not appear in a Cold War framework but predated it. This is an important antidote to histories of development that tend to frame it purely as a Cold War outcome and one of the many arms of US foreign policy.

Yet, a recognizable disciplinary field with its journals, textbooks, university courses, and jobs, emerged in earnest only in the postwar period, stimulated by a reorganization of international relations in a postwar world characterized by the demise of empires and the onset of the Cold War. This new disciplinary field incorporated the earlier studies of Hirschman and Rosenstein-Rodan. Another way to put it is that this article explores important seeds of development economics at precisely the moment when they started to sprout. It makes little sense to discuss whether the plant was already there in its entirety or not. What is important is that both seeds and plant belong to the same organism.

The final section discusses the relationship between the questions that Hirschman and Rosenstein-Rodan addressed during the war and, on one side, their own professional postwar trajectory, and on the other side, the characteristics of the disciplinary fields that they pioneered in the postwar years. In other words, besides the serendipitous convergence of these two scholars toward the emerging field of development economics in the postwar period, this final section inquiries *why* the study of the economic responses to Nazi aggression produced analyses that would prove useful for the study of economic development in the postwar era.

Negotiating the 1930s Crisis

Born to a bourgeois Jewish family in Kraków on April 19, 1902, Paul Rosenstein-Rodan went in the 1920s to the Law School of the University of Vienna to study economics. Famous in particular for the private discussion circles that characterized its intellectual landscape, Vienna was then considered one of the three best places to study economics, alongside Stockholm and Cambridge, UK (Craver 1986a; Leonard 2011). By the end of the decade, Rosenstein-Rodan had established himself as a promising young participant in that milieu, publishing works on utility theory and the concept of time in economic analysis, and being appointed, with Oskar Morgenstern, the managing editor of the newly established journal of the Austrian National Economic Association, *Zeitschrift fuř Nationalökonomie* (Rosenstein-Rodan 1927; 1929).

In the 1920s Vienna, however, anti-Semitic sentiments were rampant and professional prospects for Jews were quickly vanishing. Thanks to a Rockefeller Foundation fellowship, in 1930 Rosenstein-Rodan moved first to Italy, where he worked under the mentorship of Luigi Einaudi, and then to London, where he entered in contact with Friedrich Hayek, Lionel Robbins, Nicholas Kaldor, John Hicks, and Piero Sraffa, among others.[1] There, Rosenstein-Rodan worked on personal utility and the configuration of economic equilibrium through adjustment processes and cumulative dynamics in the economic behavior of individuals. Though rooted in the Viennese tradition, the articles he wrote on those subjects

[1] On the Rockefeller Foundation's fellowships program in Europe, see Craver 1986b.

prefigured important elements of the analysis of cumulative processes, complementarities, and disequilibria that he would later discuss in his writings on development (Rosenstein-Rodan 1933; 1934).[2] A few years later, he landed a tenured position at University College London. As he wrote to Einaudi less than one month after Hitler had seized power, "I do not want to go back to Germany now. . . . The last events made me feel disgusted by this whole world. Now I hope I will be able to live in a quieter environment—I trust I will have a contract here."[3]

Whereas for Rosenstein-Rodan the year 1933 brought a semblance of stability for the first time in many years (for the subsequent fifteen years he resided in London, married and had a son), for Albert Hirschman it marked the beginning of a decade of wandering. A mere two months after Hitler's rise to power, Hirschman, the son of an assimilated Jewish family of Berlin's high bourgeoisie, was on a train bound for Paris, where he would join the community of German and Italian antifascist exiles.[4] In Paris, Hirschman studied at the École des Hautes Études Commerciales (HEC), where he attended Albert Demangeon's course in economic geography. As he later commented, that "early schooling in physical geographic concreteness [was] probably at the bottom of my later refusal to explain growth and development exclusively through macroeconomic aggregates" (Hirschman 1989: 116). He then spent the 1935-36 academic year at the London School of Economics and 1937 and 1938 at the University of Trieste, where he was able to continue his studies with some of Italy's most talented economists, demographers, and statisticians—such as Renzo Fubini, his thesis supervisor, Giorgio Mortara, and Pierpaolo Luzzatto-Fegiz—and where he defended his BA thesis on recent French monetary history and

[2] For a more in-depth discussion of these articles, see Alacevich 2021a.

[3] Rosenstein to Einaudi, circa February 1933, Archivio Fondazione Luigi Einaudi.

[4] On Hirschman's life and ideas, see Adelman 2013 and Alacevich 2021b.

the devaluation of the franc (Hirschmann 1938 HIRSCHMANN WITH TWO "n" IS THE CORRECT SPELLING ONLY WHEN THIS NOTE CONFIRMS THIS).

Mostly gravitating between France and Italy, Hirschman became an expert on the economy of these two countries, writing reports for French magazines on exchange control, banking and monetary policies, agricultural and industrial production, the employment rate, imports and exports, the results of autarkic policies, and the failing economic policies of Fascism in its eastern African colonies. In those reports, Hirschman showed a particular ability to look behind the government's opaque statements and find useful sources from which to extrapolate actual economic trends. Also notable was his emphasis on the importance of unexpected events and unpredictable developments in the unfolding of political and economic processes, as well as on the relevance of political and ideological factors to explain developments in financial and economic realms. These would all become fundamental elements in his methodological approach to the discussion of how to promote economic development in less developed countries.

In 1938, Hirschman was invited by economist John B. Condliffe to contribute preparatory documents for an international conference to be held in August 1939 in Bergen, Norway, on national economic policies and foreign trade in relation to world peace. Hirschman wrote a long memorandum on exchange controls in Italy, and a briefer, though no less compelling, statistical note on equilibrium and bilateralism in international trade (the note was one of the first attempts to construct a synthetic representation of the hundreds of bilateral agreements that had been concluded after the 1929 crash) (Hirschmann 1939a; 1939b HIRSCHMANN WITH TWO "n" IS THE CORRECT SPELLING ONLY WHEN THIS NOTE CONFIRMS THIS). In both the memorandum and the note, he rejected interpretations of exchange controls and bilateralism as the logical offspring of authoritarian governments. Fascist Italy, he noticed, had been among the last to adopt exchange controls, and Great Britain had had a crucial role in spreading bilateral agreements.[5] The note, as mentioned, offered an early example of valuable statistical analysis. Moreover, as for the earlier reports on France and Italy, in these early writings Hirschman showed a tendency to develop analyses that questioned the common wisdom and opened new vistas and policy options.

Throughout the 1930s, first in Germany and then during exile, Hirschman was deeply committed to antifascist activism. In autumn 1936, he joined the international brigades that supported the Spanish Republic against Francisco Franco's coup, fighting in the Asturias and Catalonia. He participated in the Italian antifascist underground, and served in the early months of the war in the French Army. In 1940, he joined the underground in Marseille to run a clandestine operation established by American journalist Varian Fry to help Jewish intellectuals, politicians, and artist flee the Nazis.[6] Risking arrest, Hirschman fled to Lisbon with a Lithuanian passport, and from there, thanks to a Rockefeller Foundation fellowship, emigrated to the United States, joining John B. Condliffe at U.C. Berkeley.

Reaction to Nazi European Imperialism I: Hirschman, Viner and Meade on Trade Policies and Supranational Government in Central Europe

At Berkeley, Hirschman wrote his first book, *National Power and the Structure of Foreign Trade* (written in 1941-42 and published in 1945). With that book, he entered a lively debate on the crisis of the interwar period and plans for a postwar international economic order. Of particular concern in the debate was the question of how to avoid the mistakes made after World War I that had ultimately led to a second world conflict. As Hirschman put it in a letter to Condliffe during the

[5] On bilateralism and Hirschman's innovative approach, see Asso 1988.

[6] On Hirschman's biographical vicissitudes, see Adelman 2013 and Alacevich 2021.

drafting of the manuscript, “My digging into economic post-war planning during World War I has much enhanced my confidence in the utility of the kind of work we have been doing. Nearly all the disasters of the later period can be deduced from faulty planning or lack of planning during the war.”[7] To elaborate his own proposal for a postwar order, Hirschman decided to focus on international economic aggression. In particular, he aimed at analyzing the specific mechanisms through which this aggression was made possible, offering a systematic analysis of “why and how foreign trade might . . . be used as an instrument of national power policy” (Hirschman 1945: 12).[8]

Perhaps not surprisingly, Hirschman’s analysis followed in the footsteps of Condliffe’s. In a 1940 volume based on the Bergen conference and combining in an original way Arnold J. Toynbee’s studies on nationalism and power politics with Eugene Staley’s theory of a shrinking world and globalizing economy, Condliffe had examined the new, conflictual relationship between political and economic forces that characterized the modern world (Toynbee 1939; Staley 1939; Condliffe 1940). For a long period, he argued, national states and economic activities—or “Nationalism” and “Industrialism” in Condliffe’s parlance—had proceeded hand in hand, and governments used to avoid interfering in the economic domain. “In the modern world, however, Industrialism and Nationalism are in sharp conflict,” he added, as not only did national states begin to react against the growing transnational dimension of the world economy, but they increasingly used trade policies in the service of goals for national power (Condliffe 1940: 16–17). The Nazi invasion of eastern Europe, he concluded, was the result not only of military expansionism but

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[7] Albert H. to Professor Condliffe, July 6, 1942, John B. Condliffe Papers, The Bancroft Library, University of California, Berkeley.

[8] This section is based on Chapter 2 of Alacevich 2021b.

also of economic imperialism—the product of this novel combination of political nationalism and globalizing economic forces.

Through the analysis of several stylized cases of unbalanced bargaining positions between countries, Hirschman's book offered a detailed panorama of strategies of trade manipulation for power policy. Because of its consideration of trade structures as foundations of unbalanced power relations between countries, Hirschman's analysis had a distinctive "structuralist" flavor, and this is how it was read and appropriated by later generations of scholars, especially in Latin America.

For example, Hirschman analyzed how power-seeking countries develop trading relations with other countries initially offering particularly favorable conditions, only to change the overall political and economic gains in their own favor, when trading partners have been de facto captured, either because it is too late for them to curb foreign trade in general or specifically with the aggressive country. The trade policies of Nazi Germany were for Hirschman the textbook example for all of the theoretical cases he discussed.

The attention devoted to dynamic processes, economic geography, and the time dimension in processes of adjustment meant that Hirschman's study resonated with the analysis of other scholars interested in how "power" and "plenty" combined in trade relations. Jacob Viner, for example, had insisted on the same points that Hirschman later emphasized:

> Germany's first overtures to the Balkan States for special trading arrangements . . . appeared very attractive to the Balkan countries. In the first year or two or three most of the Balkan countries were thoroughly satisfied, on the whole, with the outcome of their trade arrangements with Germany. . . . But gradually, as Germany made these countries more and more dependent on the German export market by taking more and more of their exports, it became a stronger and stronger bargainer (Viner 1940: 52).

At the Bergen conference, Viner had been a direct witness of the changing attitude of weak countries increasingly captured by Germany's trade strategies:

> At the International Studies Conference which took place at Bergen, Norway, last August, it was interesting to hear one representative after another of the smaller European countries tell very much the same story on the whole. While they first entered into bargaining negotiations with Germany with misgivings and fears, there was general satisfaction with their outcome after the first two or three years of the experience. But gradually increasing pressure was applied, and soon the pressure became not merely economic, not merely a pressure for better terms of trade for Germany . . . but for acceptance of a measure of German control over national policy in the various countries, including authority over direction of production . . . away from manufactures and toward the provision of the foodstuffs and raw materials in most urgent demand within Germany (Viner 1940: 53).

How would it be possible, according to Hirschman, to curb the use of foreign trade as an instrument of national power, and avoid its attendant conflicts? In his words, "How can we escape from a process of causation leading directly from one war to another?" The standard view of free trade as producing increasingly peaceful relations among countries was, according to Hirschman, unsustainable. Only an international landscape, characterized by an absence of monopolistic powers and populated by a multitude of states with very similar volumes of trade, economic importance, and domestic productive diversification, would make the correlation between free trade and international peaceful relations credible. But this was, at best, a textbook case. The real world was anything but balanced and instead prone to cumulative processes of power and economic polarization.

Such a structural disequilibrium in international power relations and trade policies was indeed a formidable problem to address. Hirschman had solidly described and analyzed it, but he was ultimately unable to find a credible solution out of it. His proposal was that of "denationalizing the administration of international economic relations."[9] But this was nothing more—as he would admit several decades later—than evoking a *deus ex machina*, who, totally unexpected and unexplained, would descend on Earth and solve a problem too complex for humankind to solve. The following passage encapsulates Hirschman's difficulties in elaborating a credible solution to the conundrum:

> The Nazis have merely shown us the tremendous power potentialities inherent in international economic relations, just as they have given us the first practical demonstration of the powers of propaganda. It is not possible to ignore or to neutralize these relatively new powers of men over men; the only alternative open to us is to prevent their use for the purposes of war and enslavement and to make them work for our own purposes of peace and welfare.
>
> This can be done only by a frontal attack upon the institution which is at the root of the possible use of international economic relations for national power aims—the institution of national economic sovereignty (Hirschman 1945: 79).

The first part of the passage refers to Hirschman's analysis of the dynamics of foreign trade and unbalanced power relations as exemplified by Nazi policies, including a realistic recognition that, insofar as those relations and "tremendous power potentialities" are inherent in the structure of foreign economic relations, they are bound to stay. But the next passage is much more confused and perplexing: how exactly should it be possible to prevent the use of those tremendous powers for the purposes of war and enslavement and to

[9] Albert H. to Professor Condliffe, August 18, 1942, John B. Condliffe Papers, The Bancroft Library, University of California, Berkeley.

turn them instead into instruments of international peace and welfare? The solution—a frontal attack upon the institution of national economic sovereignty—is no more credible, nor does he explain how it could be enforced.

To be fair, Hirschman was not alone in this exercise of international institutional imagination. Condliffe, for example, had likewise argued against a restoration of laissez-faire policies as the most direct way to reinforce economic nationalism, and in favor of the surrender of many elements of national economic sovereignty to a supranational authority: "If international co-operation is to be effectively organized, long steps must be taken in the direction of a world-state. This means the transfer to some international authority of many aspects of economic sovereignty" (Condliffe 1940: 392). Along similar lines, in 1940 British economist James Meade put forth a very detailed proposal for an International Bank that would issue an international currency, control the money supply in member states, and engage in open market operations—de facto, a worldwide central bank. Moreover, this bank would cooperate with an international organization to regulate international trade as well as supervise production, sales, and prices within the different national markets (Meade 1940).[10]

Although the most radical proposals for surrendering national sovereignty, such as Hirschman's, were soon forgotten, the problems they tried to address were indeed real; in due course, they prompted solutions that had at least a distant family resemblance to these early elaborations, though usually on a much smaller scale. Hirschman's work on the European Payments Union in 1949–1950 would have been

[10] Similar positions were held by many others. See, e.g., Walter Laves (1940), the chair of the department of political science at the University of Chicago, and British historian and student of international relations, E. H. Carr (1942).

considerably more difficult without these early wartime exercises in envisioning radically new postwar institutional organizations. And indeed, the postwar international economic order included strong multilateral coordination on, and control of, exchange rates.[11]

Despite its limits, Hirschman's book had important strengths. First, as in his prewar studies, Hirschman developed a number of statistical tools that were favorably received by the economics profession. By discussing an index of preference by power-seeking countries for trading with countries characterized by a small amount of foreign trade, Hirschman was able to substantiate the claim that power-seeking countries tend to direct their foreign trade toward smaller and poorer countries. The reaction of the latter was the subject of a second index, which measured the concentration of a country's trade with other countries. A third statistical study focused not on the geographical distribution but on the sectoral distribution of trade, and demonstrated that the largest share of world trade did not consist, as usually held, of raw materials against manufactures, or manufactures against other manufactures, but of another exchange that had been much less studied: foodstuffs and raw materials against foodstuffs and raw materials. As he argued, "The traditional view that world trade is based primarily upon the exchange of manufactures against foodstuff and raw materials is not even approximately correct" (Hirschman 1945: 146). In years in which the view of economics as a modeling science gained new traction, Hirschman's statistical studies offered new important insights into concentration mechanisms in economic geography and international trade. In a very positive review, for example, Wolfgang Stolper argued that "the heart of the book consists of the three important statistical studies" (Stolper 1946: 562). These indexes, and in particular the concentration index, acquired a new

[11] See, for example, the evolution of Condliffe's proposals in Condliffe 1940, 1942, 1943b, 1946.

popularity in the early 1960s, contributing in a few years to the emerging field of International Political Economy (see, among others, Michaely 1960; Kindleberger 1962; Kuznets 1964).[12]

Second, Hirschman's emphasis on asymmetrical power relations in international trade was recognized as an important contribution by two groups of scholars. The first one was that of structuralist social scientists and dependency theorists. In particular with the latter, however, Hirschman disagreed on important points. According to him, dependency was not destiny, as he believed that even in situations of heavily unbalanced economic relations, less powerful countries could find ways to pursue policies in their own interest. Indeed, it was possible to imagine mechanisms in favor of the weaker countries that were intrinsic to asymmetrical relationships. For example, a poor country rich in natural resources usually enters in negotiations with foreign multinationals planning to open a branch in the country with little bargaining. But once foreign firms have built their plants, they become captives, so to speak, of the poor country, increasing that country's bargaining power (Hirschman 1978: 49). Also, Hirschman noted that often the asymmetrical relation implies that the more powerful country is less vested in the relationship, and as the result, "economic disparity generates a disparity of *attention*" in favor of the dependent country, which will "pursue its escape from domination more actively and energetically than the dominant country will work on preventing this escape" (Hirschman 1978: 47, emphasis in the original). Hirschman recognized that these outcomes are just "possibilities rather than certainties," but here lay his main difference with dependency theory, namely, in the fact the latter was not open to considering what is possible even though perhaps not probable (Hirschman 1978: 49-50). Because of this rigidity, dependency theory would then consider revolution as the only way to change the course of history—but again, like for young

[12] A more in-depth discussion of the indexes is in Alacevich 2021.

Hirschman, revolution was no less a *deus ex machina* solution than surrendering national sovereignty to some fantastic world-state or international central bank. The second group was, at a later moment, that of international political economists, intent on studying "the reciprocal and dynamic interaction in international relations of the pursuit of wealth and the pursuit of power" (Cohen 2007: 197).

Hirschman's experience as a young economist in war-torn Europe was instrumental also in another way. A couple of years after the publication of *National Power*, Hirschman was hired by the Federal Reserve to study postwar reconstruction in France and Italy, his first area of expertise, soon becoming responsible for the entire Western European desk. From that privileged position, Hirschman could observe European recovery policies and the implementation of the Marshall Plan. His direct, long-term knowledge of some of the most important European economies, as well as his previous studies on exchange controls, foreign trade, and bilateralism, made him particularly sensitive to the specific problems that those countries were encountering in the reconstruction years. As a consequence of Hirschman's ability to read the European predicament, the Economic Cooperation Administration, which managed the Marshall Plan, asked him to prepare a project for a European Monetary Authority that would steer European countries out of the strictures of bilateral trade policies and currency inconvertibility toward multilateral monetary cooperation. Once again, Hirschman was able to tap into his knowledge of European wartime economic policies to devise institutional solutions that would facilitate peaceful cooperation among European countries, barring the way to a possible resurgence of imperialistic aggression on the continent. Furthermore, as we will see below, in his analyses of economic policy-making and economic reconstruction in Europe, Hirschman developed a number of concepts that he would put to great profit in his later work on development theory. Indeed, one of the crucial central pillars of his development theory—the concept of backward and forward linkages and their consequences for industrial policies—was initially discussed by Hirschman (though not christened with the name we associate with it today) in his Fed reports about European reconstruction.[13]

Reaction to Nazi European Imperialism II: Rosenstein-Rodan and Exile Economists on the Industrialization of Eastern and South-Eastern Europe

An entirely different approach to the problem of Nazi aggression against Eastern Europe was pursued in those same years by Paul Rosenstein-Rodan and the Economic Group he directed at Chatham House (on Chatham House, see also Hagemann, this volume). The starting point was very similar to that of Hirschman and the Berkeley group. Chatham House officers, too, believed that the mistakes of World War I and its aftermath were precious bases on which to build a more solid European peace.

Indeed, Chatham House was founded in 1920 precisely to counter what many considered the shortsighted and punitive attitude of the British delegation at the Paris Peace Conference, and to lay the foundations of a more rational and perspicuous British foreign policy. The interwar period, however, had not seen any significant improvements in international relations, and Chatham House did not always show particular acumen in reading the evolution of the international landscape, as shown most notably by the effort of some of its top representatives to pursue a policy of appeasement with Hitler. Just one month before the German invasion of Poland, Arnold Toynbee, Chatham House's scientific director, admitted that Europe was in the same "tragically inept situation" in which it had found itself

[13] A huge selection of Hirschman's Fed reports is available in Hirschman 2022. For a discussion of Hirschman's tenure at the Fed, see also Alacevich and Asso 2023.

during the summer of 1914.[14] This diplomatic debacle, and the prospect of a second world war only twenty years after the end of the first, prompted Chatham House to study the conditions for a durable peace.[15]

However, the Economic Group decided to pursue a line of inquiry based on an entirely different set of questions than that discussed by Hirschman at Berkeley. Rosenstein-Rodan and his colleagues focused not so much on international economic relations as on the domestic economic conditions of weak countries that, as a consequence of their weakness, became easy prey for stronger aggressive countries. The question was how backward countries could develop stronger economies, on the assumption that by overcoming economic fragility, they would be better prepared to resist and fight back potentially aggressive neighbors. Under Rosenstein-Rodan's chairmanship, the Economic Group at Chatham House became the institutional house for a network of scholars working on strategies to trigger economic development in backward regions. In particular, it relied on the contributions of a large cohort of exiled economists and social scientists from Eastern Europe who were reflecting on very similar problems, and collaborated with scholars at Nuffield College and the Institute of Statistics at Oxford, both of which were elaborating plans for post-war reconstruction in Britain. A number of those Oxford economists, such as Michael Kalecki, Kurt Mandelbaum, E. F. Schumacher and Thomas Balogh, would later offer important contributions to the emerging field of development economics.

Rosenstein-Rodan and his colleagues discarded the orthodox notions of free-trade, comparative advantage and country specialization in international trade relations,

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[14] Arnold J. Toynbee, "First Thoughts on a Peace Settlement," 26 July 1939, 2, Chatham House Archives, London [henceforth CHA], 9/18f.

[15] For an in-depth analysis of Chatham House's Study Group and Rosenstein-Rodan's role in it, see Alacevich 2018a, on which this section is based.

and emphasized indivisibilities, complementarities, and economic planning to trigger processes of industrial development in backward and overpopulated agrarian regions. By adopting this perspective, they relied on a well-established tradition of Eastern European economists who had reinterpreted and adapted classic economic analysis to the specific conditions of their region. Liberal Rumanian economists, for example, had historically supported protectionist and import-substituting policies against ultra-conservative free-trade agrarian parties (Love 1996: 28-29). And Eastern European Marxists, far from accepting Marx's view of the ultimately progressive—though violent and disruptive—nature of the participation of backward areas in the international economy, considered the economic backwardness of their region as a distorted condition of a peripheral region subjected to an "unequal exchange" with more advanced industrial countries. Populists, too, often shared this view. For example, Rumanian populist Constantin Stere claimed: "Our situation is not only backward, which would be bad enough; it is abnormal, which is much worse" (as quoted in Love 1996: 32).

In the analysis of Paul Rosenstein-Rodan and the Economic Group, Eastern European economies were characterized by an overpopulated and underemployed agricultural sector and a weak and limited industrial sector. The question was how to improve the productivity of that large mass of underemployed agrarian population. In a sense, the Chatham House economists were discussing a phenomenon that was similar to that of "disguised unemployment," proposed only a few years earlier by Cambridge economist Joan Robinson (Robinson 1936). The context, however, could not be more different, for Robinson discussed how, in times of crisis, workers accepted jobs characterized by lower productivity than those they previously held, whereas the Chatham House group was trying to analyze a much more static situation, in which an agrarian workforce had as its only professional horizon a low-productivity, subsistence agriculture. Joan Robinson, in other words, discussed "disguised unemployment" from the Keynesian perspective of the "economics of crisis", whereas the Chatham House group saw it as a central feature of an "economics of backwardness." The solutions were thus very different: increasing effective demand for Joan Robinson; increasing investment to support industrialization for the Chatham House study group.

A 1943 article published in the *Economic Journal* by Rosenstein-Rodan summarized some of the main conclusions of the research, but it soon transcended the work of Chatham House to become a standard reference on strategies for regional industrialization. Indeed, this article set the terms for broader discussions on the development of "backward" areas. Rosenstein-Rodan highlighted the problem of "agrarian excess population," whose productivity was equal or close to zero, as one of the major causes of backwardness in Eastern Europe. The solution was to transfer that excess population into a newly established industrial economy, large enough to exploit inter-sectoral complementarities and external economies. Rosenstein-Rodan insisted in particular on this last point, that is, on the need to trigger a comprehensive investment plan in many different sectors. To explain his view, he offered the example of a shoe factory, which is to development economics what the pin factory is to political economy. As Rosenstein-Rodan put it, a newly established shoe factory isolated in an agrarian landscape will quickly go out of business, as agricultural workers, almost entirely employed in a subsistence economy, will not be able to buy shoes. The only industrial workers who could afford to buy shoes—those employed by the shoe factory itself—would not be able to guarantee a sufficient demand. The bottleneck, however, could be overcome by a concerted industrializing effort:

> If, instead, one million unemployed workers were taken from the land and put, not into one industry, but into a whole series of industries which produce the bulk of the goods on which the workers would spend their wages, what was not true in the case of one shoe factory would become

true in the case of a whole system of industries: it would create its own additional market (Rosenstein-Rodan 1943: 206).

The assumption was that a backward agrarian economy did not offer incentives for private entrepreneurial risk, and that only the state would be able to finance an investment program large enough to make private economic initiative remunerative. Also, because of the dynamic interdependences and complementarities between different sectors, time was of the essence. This meant that once an industrialization plan had been decided upon, the new factories should be established quickly and as close to simultaneously as possible. Only in this way would the newly established industrial sector achieve the minimum critical mass to sustain itself. An investment plan that unfolded too slowly would have created isolated factories destined to fail. This is why, according to Rosenstein-Rodan, such a strategy implied the defusing of traditional distinctions between basic and consumer industries: "complementarity," posited Rosenstein-Rodan, "makes to some extent all industries 'basic'" (Rosenstein-Rodan 1943: 208). Rosenstein-Rodan would label this concentrated investment effort as a "Big Push" only at a 1955 development economics conference in Rio de Janeiro, but the elements of the strategy were already well shaped and visible in his 1943 article.

Rosenstein-Rodan's article established a canon. Others would discuss processes of industrialization along similar lines (most notably Kurt Mandelbaum 1945), yet the article managed to crystallize the intellectual co-ordinates of the development debate to come. Also, despite its regional specificity, the article conveyed a number of points that had a much broader relevance. It was Rosenstein-Rodan himself who made this step in a follow-up article in 1944. He individuated "five vast international depressed areas, five economically backward areas" globally, home to approximately 80 to 90 per cent of the world's population, namely the Far East, especially India and China; the regions under colonial rule, especially Africa; the Caribbean; the Middle East; and Eastern and South-Eastern Europe (Rosenstein-

Rodan 1944: 159). This last one, he noticed, was "in many respects the most fruitful and interesting field of action, because the solution of the problem there can be envisaged within the lifetime of one generation" (Rosenstein-Rodan 1944: 159). Eastern Europe, in other words, was becoming a laboratory for the analysis of a problem actually present in all continents, and that involved the vast majority of the world population.

The Chatham House study could not be applied to Eastern Europe in the postwar period as the area fell under Soviet control, but its major tenets were applied in other areas in Cold War Europe, more prominently in what by the early 1950s was considered a crucial region for the economic, social, and political stability of Western Europe and a laboratory of development: Southern Italy. Rosenstein-Rodan, by then a prominent economist at the World Bank, resuscitated the Chatham House industrialization strategy for Eastern Europe and used it as the cornerstone of the development plan for the Italian South (Alacevich 2013; 2018a). Rosenstein-Rodan's theory of the big push became the orthodox position in "classical" development economics throughout the 1960s.

Development Economics

As mentioned, Hirschman's analysis resonated with structuralists analyses. Also, his emphasis on unbalanced relations and on dynamic sequences of economic policies, discussed in his 1945 book and in the reports he wrote on postwar reconstruction in Europe for the Fed, became important aspects of his own contribution to development economics (especially 1958, 1963, and 1967). Interestingly, his *Strategy* was framed as a rebuttal of Rosenstein-Rodan's development theories. In their contributions to development economics, like in their contributions to economic responses to Nazi economic imperialism, while Rosenstein-Rodan always focused on how to build a solid and well-balanced multisectoral economy, Hirschman focused instead on how to succeed on an unbalanced and asymmetric playing field. Despite their differences, both were prompted by German imperialism in Europe and World War II to develop highly innovative analyses on how underdog countries could free themselves from aggressive neighbors and build their own economic and political independence.

One interesting feature of this tale of two economists is that the analyses elaborated by both Hirschman and Rosenstein-Rodan during World War II later became major influences for disciplinary fields such as development economics and (in Hirschman's case more than in Rosenstein-Rodan's) international political economy. Of course, we recognize in those analyses the anticipations of subsequent, more mature theories by the same authors. So, Rosenstein-Rodan's emphasis on the need to establishing an entire industrial sector prefigures the "Big Push" theory he would discuss in 1955 in Rio de Janeiro, and Hirschman's discussion of asymmetries in foreign trade prefigured his analysis of the complex and often counterintuitive relationship between flows of trade and domestic development policies in less developed countries (e.g., Hirschman 1958; 1968).

But the really notable thing is that those analyses, advanced in specific contexts for specific reasons, ended up influencing altogether different theoretical debates. Indeed, those analyses reappeared at the core of new disciplinary fields that did not exist when they were first advanced. First elaborated within the framework of a historically specific conversation, they were later transfixed as foundational elements of a very different and much more theoretical and general discourse.

We are observing here the double movement of ideas from the specific context to a general one (that is, from the problem of how to strengthen Central European countries vis-à-vis Nazi Germany to that of how to develop underdeveloped countries globally) and from old to new disciplinary fields (from industrial development to development economics, from trade theory to international political economy). It may be worth asking whether this shift helps understand how the work of those two economists changed in the transition from war to postwar, and if it illuminates anything about the economics profession more in general. Moreover, does this shift say anything about the specific characteristics of the new disciplinary fields that those early ideas contributed to shape?

As far as Hirschman and Rosenstein-Rodan are concerned, perhaps the first thing to notice is that, once involved in the war effort to devise ways to avoid future economic and military aggression, they never abandoned their interest in matters of macroeconomic growth with a distinct blending of theoretical analysis and applied economics. As many have observed, development economics emerged from practical occasions, like the Marshall Plan. Hirschman, for example, credited the Marshall Plan for having shown that rapid economic development was possible if generous amounts of foreign aid and "beneficent, 'indicative' planning" were provided (Hirschman 1979a: 61; see also Hirschman 1997), and another prominent development economist, Hollis Chenery, emphasized that "the field of development economics emerged as a by-product of America's aid programs" (Chenery 1992: 379).

Perhaps more interesting is how both Hirschman and Rosenstein-Rodan reframed their past experience in ways that would make sense for, and would be useful to, their research agenda and scholarly status in the postwar years. In a 1961 interview, for example, Rosenstein-Rodan claimed that the title of his 1943, "Problems of Industrialization of Eastern and Southeastern Europe," was misleading, because "that was really a general development theory," and "Eastern Europe served as an example of the general thinking and not necessarily as the main purpose."[16] Thirty years later, he was still eager to reiterate the point: "We selected Eastern European countries only as an example for a model of the Third World . . . not because of any interest in Eastern Europe or Germany but only because representatives of the

[16] Paul Rosenstein-Rodan, transcript of oral history interview, August 14, 1961: 51, World Bank Group Archives.

Eastern European governments in exile were in London, and one could use them."[17] These statements, however, are simply untenable; we know for certain, based on archival documentation, that the principal and indeed the only goal of the Chatham House research had been very specifically and strictly related to the question of how to develop the Eastern European region economically, in order to make it less of an easy target of the aggressive imperialism of neighboring countries (in that case, Nazi Germany). The reorientation toward a broader analysis started to emerge only later, certainly not earlier than Rosenstein-Rodan's 1944 article. Yet the claims are interesting, as they show how, in the transition from one conversation to an altogether different one, the attempt was not only to save and reuse specific ideas, but to reframe them as general analyses when in origin they had been very context specific. Moreover, the attempt was to predate the general nature of those early analyses, and show that those involved had been fully aware of this general question from its inception.

Hirschman's study had many points in common with structuralist analyses—not least a style of inquiry that connected specific and highly contextual discussions to more general dynamics. But he also highlighted the differences and indeed the opposed perspectives that separated, if not his younger self, certainly his mature self from a specific strand of structural analysis, namely, dependency theory. Hirschman argued that dependency theorists, by considering asymmetrical trade relations as immutable and irreformable, reiterated what had been his own error as a young scholar: invoking a *deus ex machina* to solve the asymmetry—with the notable difference that for Hirschman, the *deus ex machina* had been the surrender of national sovereignty to a supranational organization, while for dependency theorists it often was revolution (Hirschman 1979b). Based on this difference that, in a sense, was

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[17] Paul Rosenstein-Rodan to Joseph L. Love, May 13, 1981. I am grateful to Joseph Love for sharing this document and for permission to quote from it.

more political than theoretical, Hirschman insisted that dependency theorists and neo-Marxist scholars more generally, did not actually belong to the field of development economics because of their revolutionary stance. Not only was this characterized (according to Hirschman) by a strong theoretical identity that separated it from orthodox mainstream economics, but also by a general understanding that the economic relations between advanced and less developed countries "could be shaped as to yield gains for both" (Hirschman 1981: 3). Through a self-critical assessment of his past scholarship, Hirschman conflated two very different objectives in close sequence: (i) he advanced a theoretical critique of dependency theorists, and (ii) he forced them out of the perimeter of development economics based on his generalization of their usual revolutionary political stance. In other words, Hirschman ably used a reassessment of his earlier scholarship to advance his current scholarly and political agenda.

If we turn our attention to the new disciplines that emerged from their work, it seems evident that what they retained of those early debates was a focus on deeply unbalanced and uneven relations among nation states. Thus, economic reactions to Nazi imperialism in Europe and strategies for the industrialization of Central and Eastern Europe offered particularly insightful analyses to disciplinary fields that focused on the economic development of former imperial colonies, unbalanced trade relations, and the economic power of regional and global hegemons. Both development economics and international political economy took shape as fields that focus on international and domestic disequilibria, how to overcome them or at least how to use them, counterintuitively, as means for progress. It is no surprise, therefore, that both disciplines found such insightful sources in analyses originally developed to interpret states of war and how to create the social, political, economic and institutional framework to avoid them. Development economics, in this perspective, can be seen as the discipline that studies the continuation of wars of liberation from colonial oppression with other means, while international political economy as the discipline that studies the continuation of international conflict with other means.

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