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**THE THREE ARCHETYPE EUROPEAN HISTORIC
DEVELOPMENT MODELS AND THEIR IMPACT IN
EAST-CENTRAL EUROPE**

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The three archetype European historic development models and their impact in East-Central Europe

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Abstract

This paper deals mainly with the historic origins of the special rent-based East-Central European development model. The Atlantic competition-based model used to serve as a benchmark for the region's development. However, due to various reasons discussed in this paper the Atlantic institutions remained rather weak, and much of the Ottoman-Balkan model's features also made lasting imprints. As a result, a specific hybrid socio-economic model evolved that featured the state-permeated creation of rents and their politically predetermined distribution. The rent-based economy's stability has been supported by external political and economic assistance. The social tensions of the political and economic backlashes have been covered by politically inflated regional conflicts, mainly ethnic rivalry. The study provides evidence on the historic determination of these features of the rent-based ECE development model.

JEL: N13, N14, N43, N44, P14, P16

Keywords: historic development, private property regime, dependence, rent seeking, East-Central Europe

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Introduction

The historic approach is an important branch of the most current neo-institutionalist research efforts (Acemoglu et al., 2001; Tabellini, 2010; Acemoglu and Robinson, 2012; Nölke, 2014; Roland, 2018). This string of literature tries to find empirical evidence on the impact of historic cultural, political or economic development patterns on current social and economic performance. Most specifically for the ECE region Grosjean (2011), Djankov and Hauck (2016) conducted research tracing back current performance deviations to historic imperial affiliation of various ECE regions. Grosfeld and Zhuravskaya (2015) tested within country differences of Poland. They found that most of the historic economic differences stemming from the partition period of the country disappeared. However, differences in the intensity of religious practices and beliefs in democratic ideals remained in place still influencing political, social and economic institutions and processes. Djankov and Hauck (2016) compared the transition performance of East-Central European and post-soviet countries. They stated that political systems' differences have been greater than economic development patterns'. Countries of the Roman Catholic and protestant religions moved quicker and more definitely towards Western-type political democracy than Orthodox or Muslim (post-Byzantine) countries. Also, the imperial affiliation (Austria-Hungary versus Ottoman Empire and Russia) proved to be an important factor of differences. While they thought that economic performance was less uneven, it seems likely that the economic institutions and systems might have developed differently.

Some pieces of the literature provide some details of the nature of historic differences that they test for current day impacts (for example Grosfeld and Zhuravskaya, 2015; and Grosjean, 2011). These are important contributions to the better understanding of the linkages: they do not treat the past as black box. However, only a few historians made efforts to develop a theory of comparative historic systems (Szűcs, 1983). The complex comparative view of historic models is an important precondition for the reliable explanation of the nature and rationale of the historic differences that made long lasting imprints in social and economic development of the ECE region. The main aim of this

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paper is to trace back historically the differences between the major European socio-economic models.

The analysis of the historic events and processes is carried out in four main dimensions. These seem to be significant in historic terms and also applicable in explaining the current differences of economic systems. The exceptionally quick and powerful economic development of the early capitalism that created the most significant difference between European nations, was based on economic liberty, decentralized and not hierarchical organization of the economy, contractual business conduct on all levels and political and economic independence of the countries. More closely, the analysis of property rights, centralized/decentralized social and political structure, the existence of contractual relationships or rather command economy and the degree of economic and political independence is carried out². The analysis will compare social, political and economic development trends focusing on those periods and features that earmarked a detour from the Western (Atlantic) development model.

The analysis starts with the early medieval times with the Byzantine Empire upholding rather rigidly the heritage of the Roman Empire and the chaotic circumstances in the West that dissolved both the ancient and failed political and economic structure but also the tribal heritage of the victorious German peoples (see also in Kundera, 1984). This anarchy, the destruction of the previous social institutions and models created a very much decentralized economic and political scene with the dominance of local landlords or warlords. The only stable framework structure that was also socially acknowledged was the Roman Catholic Church that also played the role of archive and preserved the timely rather remote heritage of the ancient cultures. This bipolar setup was typical for the eight hundred years after the fall of the Roman Empire in the West until the collapse of the Byzantine Empire in the East during the fourteenth-fifteenth century. Thereafter the Byzantine heritage split. The sacral center was integrated into the then boosting Russian empire. The territory of the ancient Byzantine was captured by the ottomans. They too integrated much of the ancient heritage and combined it with values of the Islamic confession. Thus, by the fifteenth century, the

² These dimensions are also key variables of the comparative model applied by Roland (2018).

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starting point of the takeoff of the Atlantic model two other, alternative socio-economic models existed in Europe: the Russian-orthodox and the Ottoman. In the following parts of the paper first the Atlantic and the Byzantine/Russian models are compared, than the Ottoman characteristics are added. The final part describes the development pattern of East-Central Europe as a mixture of the archetype models.

The Atlantic and Byzantine models

After the dissolution of the Western Roman Empire the lack of central state power, anarchy followed, landlords and tribal kings exercised military and political power in the various segments of the ancient empire. This decentralized power structure dissolved both the old imperial institutional structure with the prominent role of the emperor, the military service and public administration, and also the tribal heritage of the conquerors. The only stable institutional framework that remained in place was the Christian Church that also preserved much of the antique cultural heritage. In fact, Rome was the only steady point and authority that institutionally integrated the Western part of Europe in this period. In the Eastern part of the empire the Byzantine Empire followed the old suit and preserved in an increasingly rigid fashion the centralized state functions and institutions with the emperor on top as the mundane governor of God. The state hierarchy was organized as centralized bureaucratic and military order in top-down fashion. This model was later taken over by the Ottomans in their military-theocratic autocracy too.

The Atlantic model became more decentralized with bottom-up social hierarchy on top of which the emperor was the head of vassals who was bound by social customs later also by legal contracts to perform duties and to exercise rights that were allocated to him by the society. The social hierarchy was treated as human institution and people at lower level social status also preserved some social respect. The separation of spiritual and secular, society and state in the Atlantic model was a major deviation from the late Roman and Byzantine heritage. The overwhelming spread and integrating power of the tributary relationships produced a society of feudal ranks. The

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membership in given social strata or rank was the strongest determinant of personal identity, stronger than for example nationality. This concept of political power and social cohesion was also strongly supported by the Roman Catholic Church. The systemic divide had evolved between the fifth and ninth centuries (Kundera, 1984; Szűcs, 1983) and culminated in the factual divide of the two major branches of the Christian Religion (schisma), as well as state- and society forming principles of the regions influenced by them.

By the first millennium the Atlantic model of feudalism was fully developed. The specific Atlantic development trend provided important drivers for boosting the economy, especially agriculture. This resulted in the important technological changes of the eleventh-thirteenth century. The medieval technological revolution also launched a demographic revolution. Western Europe's population had doubled during this three hundred years. Accelerated urbanization was boosted by peasant migration. Towns enjoyed important liberties in many functional areas, most importantly in self-regulation of their own internal relations including crafts that were concentrated in guilds. This process propelled urban citizenry to higher levels of social appreciation that was also expressed in their presence in politics. Szűcs (1983) emphasized that these processes could unfold also because of the lack of high centralization of state bureaucracy, economy or military functions (weak state). The Atlantic model featured a spatially dense, decentralized urban structure with increasing volumes of trade and other exchanges in a largely autonomous, self-governing institutional setting. The Eastern metropolises served as headquarters of the central or regional administrative and military organization and included heterogeneous population. The staff of state-military- and religious institutions depended financially from the prebendal incomes and not from merchandise or crafts activity pursued in the town. They were linked together through state institutions and not the municipality. Otherwise the urban network remained loose, economically weak, politically insignificant.

The acceleration of economic and demographic growth between the eleventh and fourteenth centuries provided then the necessary economic and political power of establishing stronger, more centralized monarchies in Western Europe. This process

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reduced the degree of liberty of the various social strata and strengthened the power of the sovereign. Also, the role and influence of the Roman Catholic Church was reduced. Political centralization was a response to the major crisis of feudalism that happened during the fourteenth century. Further expansion of the feudal states within their accessible territories became difficult. The increasing population suffered from congestion and famine, political anarchy and not independent from these the major pest epidemic that killed half of the European population.

Three main features of the Atlantic model helped Western cultures overcome the crisis. They all contributed to the evolution of a still newer model that of capitalism. Firstly, the economic weight of urban settlements increased and took over agriculture. Money as well as all kinds of handicraft products necessary for state servants and the military stemmed from urban settlements and the evolving bourgeoisie, engaging in long distance trade already in the fourteenth century but especially after 1492. Secondly, despite of brutal repressions of peasant movements and riots the economic relationship of peasant and landlord was increasingly based on land rent and was also monetized. Feudalistic features of the contracts lessened and the peasants' personal independence increased. This was later a crucial precondition of urban industrial development, especially from the sixteenth century. Thirdly, spatial expansion of the countries became possible from the fifteenth century. Finally, the grand geographic discoveries provided occupation and expansion room for the oversize population. But they also provided the necessary boost to corporate capitalism first in the Netherlands and Britain, later in other Western states too.

Overcoming the crisis prepared the ways for the centralization of political power. The absolute monarchy became the typical form of state of the Atlantic model between the sixteenth and nineteenth centuries. At this stage some elements of the East-European absolute monarchy, the Russian Empire were similar, although the Russian model was based on different fundamentals. The Russian political centralization's most important element was the elimination of the boyars by Ivan III. Spatial expansion soon followed with the conquest of Eastern, Asian and Southern territories. This provided the necessary incomes for the state and also space for expansion for the following three

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centuries. These opportunities helped sustaining thy Byzantine model in Eastern Europe. It still differed largely from the Atlantic one. The Russian development stuck to the subordination and state control of the spiritual life and the supremacy of the state and the head of the state, the Tsar over every citizen. The Russian aristocracy could find prestigious positions only in service of the sovereign, either in the bureaucracy or the military. On lower levels of the society serfdom was maintained. This type of economic expansion kept nobility supporting the centralized state power.

Sixteenth-seventeenth century absolute monarchies tried to reconstruct or at least preserve the existing feudal structures. In the Western mode this meant a rather perverse symbiosis of old and new social and economic institutions. The monarchy centralized economic and political power in order to generate the necessary resources to finance itself, including the aristocracy, but it relied on revenues coming from expanding trade and manufacturing activity of the third rank that he effectively supported. The foundation of the first commercial companies like the Dutch West India Company (founded in 1621) or the British Hudson's Bay Company (founded in 1670, still existing) and many others simultaneously served the imperial interest of the sovereign and the commercial interest of the business people. The absolute monarchy effectively supported the business success of these companies even by the use of military force (e.g. the British occupation of New Amsterdam on the Southern tip of Manhattan Island). Thus, the Western absolute monarchy accelerated the erosion of the old feudal structures even if it wanted to preserve them. The absolute monarchies opened the ways for the early capitalist development with some rather uniform policies. The inflated state bureaucracy, permanent military service (mostly paid professional soldiers and also marines), centralized state organizations (ministries), homogenization of the subjects, mercantilism and protectionist economic policies were applied rather generally.

The Russian absolute monarchy was established rather quickly after the elimination of the renitent boyars (the last competing economic and political force against the emperor) by III. Ivan. Contrary to the Western pattern it gained economic power from centralized policies and the territorial expansion that did not meet serious competitors

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after the collapse of the Mongolian rule and the decline of Ottoman Empire. The political centralization was therefore rather a continuation of the previous patterns in Russia. The similar policies with the West (bureaucracy, military, protectionism, etc.) served solely the state interest and their actors were state servants. The stability of the system was further strengthened by the legal codification of serfdom. Homogenization of the subjects was done by Peter the Great who established the unified 14 class system of state servants, a continuation of the ancient servant system. Sporadically existing urban self regulation was also subdued by III. Ivan who occupied and plundered Novgorod, and deported its citizens (1478). Thus, the Russian absolutism did not leave any social strata without central control and dirigisme. Mercantilism in the Russian Empire meant business support of the state and the emperor who was a monopolist of trade and manufacturing (most importantly in military-related industries). These tools produced limited success in the modernization of Russia too but lagged behind in development thrust compared to self-governance and entrepreneurship of the Atlantic model.

In later capitalist development of the two models the difference in the legitimation of the sovereigns played an important role. In the Atlantic model the legitimation of the concentrated political power around the sovereign stemmed from the old social contract that allowed its legitimate change when the bourgeoisie required more influence in state matters. The legitimation base of the Russian Empire was different. From III. Ivan on the Orthodox Church established a neo-byzantine framework structure for the Russian state reconstructing autocratic state mysticism. Missionary role was allocated to the Tsar of all Russian subjects, the mundane governor of god and Moscow the "third Rome". Russian subjects' role was that of the servants in this divine division of labor. The Orthodox Church still had big spiritual influence in the society but was interlocked with the centralized political power. The true unity of autocracy, orthodoxy and serving subjects supported the central figure of the system, the Tsar. This system proved to be rather stable on the one hand and very rigid and slow to react to changes on the other. Its development depended on the talents of the absolute ruler.

Some features of the Ottoman-Balkan model

The Byzantine Empire had lost influence over much of the Balkans during the fourteenth century. The territory of the current day Macedonia and Bulgaria, later also Serbia was lost to the Ottomans and the Romanian principalities became their vassals. Finally, Constantinople also fell in 1453, and the whole territory became part of the Ottoman Empire. Hence the Ottoman version of the Byzantine development model evolved in the region parallel with the Russian version in the territory of Eastern Slavic peoples.

The Islamic heritage was combined with the Byzantine. An important common feature was the exceptionally high prestige of the sovereign (the emperor and the caliph) supported by strong religious institutions and a centralized state apparatus. The empire at its apex in the sixteenth century was basically bureaucratic rather than feudal. The force and extent of central command was too powerful during the sixteenth century to permit local notables to capture customary rights for themselves. The almighty emperor owned all lands, tangibles and subjects of the empire and the actuation of its various systems was charged to professionals rewarded after their performance. The most important was the military performance. The cutting edge Ottoman army was supported by two economic institutions designed to maintain military supremacy: land tenure and craft regulation.

The *timar* system of land tenure was granted for military occupation and tax collection. Newly acquired land was incorporated in the system used for the remuneration of participants in successful campaigns. Recipients got the land granted by the sultan to collect prescribed amounts (10-20 %) of harvest to maintain the several horses and horsemen that the grant obliged him to bring to the summer campaigns. The grant also directed them to collect money taxes from the peasants, most importantly the head tax paid for the exemption of the adult, non-Moslem males from military service. This type of land tenure was not the Western-type peasant serfdom. It was instead a system of military occupation, staffed and controlled by the central government. The urban residents were obliged to belong to one of guilds (*esnafi*). Their origins too lay in a combination of Byzantine precedent and the Islamic ethics. The Porte organized the

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guilds into a comprehensive system to control non-agricultural activity and urban population. On the one hand the state leased facilities for all guild shops to prevent private ownership and unauthorized changes in the products. On the other hand, a list of maximum prices for artisan guild wares was fixed, which was based on the Islamic code of commercial conduct by fixing the rate of profit by 10 percent. Local judges and inspectors enforced the regulations.

Both rural and urban activities were regulated by institutions of the central government not allowing the existence of private property and blocking private initiatives. The system effectively supported the military expansion of the Ottoman Empire. But the expansion came to a halt in the seventeenth century. Boosting trade performance, the starting capitalist development with its new business models relying extensively on capital collection and credits multiplied the economic strength of the West-European nations. In contrast the Ottoman performance was further restricted by the absence of commercial banking tradition that was barred by the Islamic legal code. Central government's power started to decline while the absolute monarchies strengthened on the basis of capitalist economic expansion. The economic fundamentals of the Ottoman Empire were shaken both in agriculture and manufactured goods.

The ailing *timar* system and the ownership monopoly of the Caliph had to be given up since rule and order had declined in the empire and the state monopoly could not be effectively enforced. By 1630 the number of *timar* on the Balkans fell from 63000 in 1475 to 8000 (Lampe and Jackson, 1982, p.26.). By the eighteenth century many of the rural notables became influential enough to take over all local authority from the central government. They became virtual warlords. A new rural regime *chiflik* was created far less amenable to central control than the *timar* system. The estates could be passed on to the *chiflik* owners' sons. The property monopoly of the emperor was thus banned. However, despite of the appearance of private ownership the commercial sale of land remained curtailed. In fact, until the late nineteenth century no formal code existed to define property rights for the marketplace. This hiatus together with the ban on charging interest on loans effectively blocked the development of capital markets and

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institutions. The small size of the land units prevented them from realizing economies of scale. Moreover, the peasants were ruled as serfs.

The increasing oppression led to peasants migrating to areas not under the control of *chiflik*. Increasing instability and growing oppression launched massive long-distance migration from the empire to the North. Greek, Serb and Bulgarian peasants and merchants settled to the Romanian principalities and Hungary. Between 1690 and 1718 half of the Serbian peasant villages were left deserted. Several hundred thousand persons, 40000 families moved to the depopulated Southern parts of Hungary (Lampe and Jackson, 1982, p. 46.). Merchants moved to the Romanian and Hungarian towns (for example to Újvidék, Bucuresti, Giurgiu).

East-Central Europe between the two development poles

Feudal states of ECE had been established during the tenth and eleventh centuries when the development of the Western feudal model had been completed and its schemes were used by the peoples of ECE to create more stable, institutionally solid feudal states. State formation occurred simultaneously in Poland, Czechia, Hungary and Croatia around the year 1000 with the strong support of the Roman Catholic Church and neighboring feudal states of Germany and Italy. The border line of the Atlantic model had been extended from the borders of the Caroling Empire to the ECE region. The inherited tribal structure (found both in the early German and later Hungarian and Polish societies, the "Gefolgschaft") was not transformed to the Western type chivalry with decentralized economic (feudal tenure) and political structure (tribute). ECE was propelled into the development process in the period when the classic chivalry started to give place to the feudal ranks from the ninth century. Therefore, this later phase did not root in the first one, when the organic evolution of the feudal ranks and their socially embedded relationships took place in the West. Rather, the later phase's structures were imitated by the use of central power in ECE. Hence their social embeddedness was different and provided much weaker traditions of decentralized, economically and politically autonomous functioning. This is a big difference compared to the Atlantic

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model's gradual evolution process that fundamentally determined social relationships, institutional embeddedness, and the way of thinking. This was a top-down process assisted also by the Roman Catholic Church. The balance between various social strata and the position of the sovereign was different. The "modernization effort" required strong centralized political power that allowed relatively less freedom and liberty for the society. Even the process of urbanization was initiated and promoted by the sovereigns partly also because of the need for social and economic support for the centralized monarchy. The process of social embeddedness of the feudal institutions was completed only during the thirteenth century in ECE.

The successful consolidation period of feudalism in ECE region was followed also here by economic and demographic expansion in the thirteenth century up till the mid1300s, similarly to the Western patterns. Western technological and social innovations were taken over in ECE countries. From the social processes most important was that peasantry was homogenized and treated as special social strata. Urbanization took place, though less intensively than in the West, and much of the process was bound to active recruitments for migration mainly from Germany. At the end of the 1270s parallel with more Western states national assemblies of nobility and clericals (who were assisting the administrative roles in the feudal states as experts in law and other sciences) started to gather. Szűcs emphasizes also the timely appearance of contracts between landlords and peasants in both Poland and Hungary (Szűcs, 1981, p. 333). This is an important Western feature that had been absent to the East and South of the ECE region.

Another important consequence of the ECE feudal development pattern was the relatively larger social strata of nobility which had proliferated exactly at the time of taking over the institutions of the feudal rank system that were promptly utilized for the strengthening of the privileges of the oversized nobility. The local nobility powerful in size and influence became later the most important barrier of social development in ECE³. Last but not least urban development also remained relatively weak. The number

³ By the eve of capitalist development, the share of nobility in total population was around 1 % in the Western countries, 5 % in Hungary and 7-8 % in Poland (Szűcs, 1981, p. 335).

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of towns did not increase between 1200 and 1350. Hence, it is small wonder that in the feudal national assemblies of Poland and Hungary representatives of towns were usually not invited. The political representation of the nation was captured by the nobility.

European crisis of feudalism hit the ECE region only by the late fifteenth century. The late monarchs of the feudal ranks period, the Hunyadis in Hungary and the Jagiello dynasty in Poland pursued successful external policies. They could resist the Ottoman advance and kept on competing for ECE supremacy with the Habsburg family's Eastern branch. The Ottoman advance in Hungary as well as continuous attacks against the Southern flanks of the Polish-Lithuanian confederation soon pushed also the ECE region into crisis. Unlike successful Western countries or even the Russian Empire, ECE did not find room for economic and political expansion and became dependent of larger neighboring powers. In fact, the process has already started with the death of the last powerful kings in the succeeding feudal anarchy. Poland and Hungary were dominated by the coalitions of local nobility the role of urban citizenry remained marginal both politically and economically, peasants were pushed back to serfdom by the late 1490s in all ECE states. The obsolete military structure of nobility was however not able to resist the Ottoman attacks. Both Hungary and Poland lost their political independence and were occupied by stronger neighboring states and were treated as borderland, a defensive region. This status further curtailed economic development.

The seventeenth-eighteenth century development of the ECE region was a special hybrid of the Atlantic and Byzantine models. The mingle of the elements of the two models is seen in several aspects in the Habsburg Empire. Serfdom for example was restored in Hungary, but at the same time peasants were represented in the national assemblies of Tirol and Vorarlberg. The degree of centralization could never reach the levels experienced in Russia. The various parts of the monarchy possessed special legal and institutional systems remaining from their independent periods. Joseph II. (1780-1790) made substantial efforts to unify the empire but cancelled his reform acts on his deathbed. Nevertheless, the maintenance of territorial integrity of the empire was reinforced by ruthless military force similar to Russian conflicts. The riot of the Czech nobility was declined with exceptional brutality (1620). The rebel Hungarians were

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given similar treatment several times (1671, 1703-11, 1848-49). However, the unexpectedly strong opposition of the Hungarian society forced the Austrian absolutism to conduct compromises, which could not be possible in the empire of the Tsars, and has no parallel in the West either.

The lack of social and national homogenization in the ECE region is also an important result of the hybrid form of absolutism. The most important centripetal force of the Habsburg Monarchy was loyalty to the dynasty, but not to the state like in centralized Russia. With the advance of nationalism, the centrifugal forces grew bigger and destroyed the Habsburg Monarchy. In the new setting after the First World War successor states inherited all social problems of the Monarchy, most importantly the weak democratic tradition based on the body of civil society. Another feature was the lack of homogenous societies and political centralization that served group interests in terms of both social strata and nationalities. Szűcs concludes: "Hungary maneuvered into a dead-end street after 1526... the essence of which was that Hungarian history moved with its more 'Western' like temper into such an 'ECE-type' structure during the 'East-European' feudal crisis that excluded solution of the crisis situation following either the Western or the Eastern pattern. On the one hand the serious defensive nature of the regional situation made impossible the organization of Western type 'national monarchies', on the other hand, the existence of the western-like *corpus politicum* excluded the Russian-type one sided subordination to any imperial absolutism" (Szűcs, 1981 p. 352). While the West featured national absolutism and Russia imperial autocracy in the eve of capitalist development ECE countries' feudal nobility continued sticking to its privileged political status based on the feudal ranks, and matching social and political institutions including feudal serfdom. The possibility of social contract based political development towards popular sovereignty was largely blocked by this development.

Essential differences of the three models

Using the statements of the above analysis it is possible to compare the European development models of the period of capitalist take-off in the seventeenth-nineteenth century. As it is usual in European historic analysis we use the Atlantic model as benchmark mainly because it proved to be most competitive in this period. However, it is important to note that the other three models also showed historic stability over time. What differs is their ability to contribute to the overall economic and social development in their areas. The most important aspects of the Atlantic model's success are observed in the four models. Findings are summarized in Table 1.

Table 1. Systemic features of the four European development models

	<i>Atlantic</i>	<i>Russian</i>	<i>Ottoman-Balkan</i>	<i>ECE</i>
<i>Land ownership</i>	private ownership	state ownership	emperor/landlords	landlords
<i>Urban development</i>	dense, self-governing	administrative centers	administrative centers	self-governing, weak
<i>Degree of centralization</i>	decentralized state-permeated	highly centralized	administratively regulated	admin. regulated state-permeated
<i>Ethnic homogeneity</i>	relatively homogenous	heterogeneous	heterogeneous	heterogeneous
<i>Independence</i>	independent	independent	economically dependent	economically and politically dependent

The capitalist take-off of the seventeenth-eighteenth century was largely promoted by the massive reallocation of capital and labor from agriculture to industry. Profits from agribusiness were invested in industry and trade, and commercial activities were financed to an increasing degree by interest loans provided by an expanding financial sector and capital markets. This process required that barriers to the flow of capital and labor were lessened if not removed entirely, and the Weberian ethos of profit making

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economic activity (including financial services) rose (Weber, 1927). The four European development models met these requirements to different degrees.

Perhaps the most important constituent of this process was the presence of private ownership, ability of capital owners to control the usage and the income streams from their investments. No less important was the adequate legal regulation and institutional framework that guaranteed property right enforcement thus creating trust in business. The archetype of the modern capitalist property right system is found of course in the Atlantic model. The most important milestone in this regard is perhaps land ownership: whether land is in private ownership and if yes, is it negotiable or not. The free transferability of land ownership in the Atlantic model allows massive reallocation of capital from agriculture to commercial business, moreover it is suitable collateral for the extension of interest loans. The most remote status compared to this was the Russian model of state ownership. Until the 1905 Stolipin reforms land was leased by the state to private persons, but the property rights could not be obtained. The same principle was applied in the Ottoman-Balkan model's *timar* system, and also the later revisions of land tenure rights included various forms of state ownership. The *chiflik* on the other hand introduced private ownership, yet ownership rights could not be transferred in commercial contracts. Similarly, ECE land ownership was also based on non-transferable private property. The right to transfer land ownership from one subject to another was reserved for the emperor. Attached to this land tenure model serfdom was reintroduced in ECE, and the role of peasants in Ottoman *chiflik* was also similar. Serfdom blocked the legal migration of the labor from agriculture to towns and commercial activities.

Urbanization relied on long traditions of decentralized economic and political development patterns in the Atlantic model that produced a dense network of urban settlements equipped with high level self-governance. Urban commercial activities provided the thrust of early capitalist development. In the Russian and Ottoman-Balkan models no comparable network of self-governing urban settlements developed. Towns were mainly used as administrative, religious and military centers. The most important ones were inflated to large megapolises of the time consisting of diverse population that

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served their state- religious- or military related superiors and not the municipalities. The *esnafi* system's strict central regulation aimed exactly the curtailment of private property development. Islam's usury prohibition further reduced incentives for private initiatives and effectively banned the development of interest-based financial transactions and modern financial system (see: Kuran, 2011, an empirical test on current impacts is provided by Grosjean, 2011). In the ECE model urban development was similar to the Western archetype, however the density of urban settlements was lower. Because of the borderland status and continuous wars large areas were depopulated in the ECE regions. Only a loose urban settlement structure remained that typically collected peasants migrating from war torn villages to the more protective towns that usually remained in the possession of the Sultan. Economic activity in these settlements was basically agrarian.

A third important aspect of systemic differences is the organization of the state and its involvement in economic regulation. The analysis in this article showed that the Atlantic model had evolved from a fundamentally decentralized, at the beginning perhaps even chaotic political structure. The coexistence of various economic and political power centers provided bottom-up social legitimation for the state. This basic feature could not be depressed entirely even in the apex of the absolute monarchy. On the contrary, decentralized business of emerging bourgeoisie lived in close symbiosis with centralized political power featuring the state as simultaneous promoter of imperial and private business interests. This combination made the Atlantic model's economic and political expansion extremely powerful. In contrast to this the ancient Byzantine state model survived in both the Russian and the Ottoman-Balkan model. The supremacy of the state was without question the most important driver of Russian development that effectively used political and military power for the expropriation of agrarian population and the peoples of newly acquired lands for the purpose of industrialization and infrastructural development. Instead of relying on private business and market-driven allocation of resources, the Russian state itself commanded the industrialization process. It seems that the Ottoman-Balkan model could not effectively modernize its bureaucratic state structure. Oversized and inefficient bureaucracy

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provided declining power of control over the provinces of the huge territory of the empire. The disorganization of the empire gave room for the emergence of self-appointed landlords and warlords. Effective tax collection had remained a big problem resulting in declining state revenues. Thus, unlike Russia the Ottoman Empire was unable to initiate effective industrialization and modernization.

In the ECE region the nature of state organization and involvement varied. The few attempts to apply homogenization policies applied in absolute monarchies principally failed. This allows the assumption that the central state was less powerful and efficient than for example in Russia. But the centralization efforts were blocked by the local nobility and not the evolving bourgeoisie. Self-governing ambitions were especially strong in the nobility, far less in the otherwise weak bourgeoisie. The nobility successfully reinforced the protection of its inherited feudal privileges including serfdom and ban on commercial alienation of land. The state policies served permeation of capitalist development to varying degree among the regions. The true borderland to the Ottoman Empire received little support. On the contrary, the Habsburg emperors successfully supported the embourgeoisement in the Austrian and Czech territories at the expense of the Hungarian and Polish parts that were treated as agricultural suppliers of the more industrialized lands. The directions of trade within the empire was regulated by the double tariff system between 1754 and 1850. Grosfeld and Zhuravskaya (2015) found significant and lasting differences in state activity in the various parts of Poland during the partition period with higher level of industrialization in the German (Prussian) controlled part, more liberal and decentralized state bureaucracy in the Austrian part and stronger (though unsuccessful) homogenization efforts in the part controlled by Russia. Thus, state permeation of capitalist development had been present but affected the various ECE regions differently, the least effectively the parts of the borderland.

Ethnic homogeneity is an important issue since it serves social cohesion. The homogeneity of the ethnic structure depended on two factors: the desirability of integration to the social structure of the state in power and the deliberation and strength of the state towards homogenizing the peoples of the empire. In the Atlantic

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model the bottom-up evolution of the societies provided better opportunities for the establishment of ethnically homogenous societies in many cases with various political and legal institutions serving the adequate representation of marginal interests. This is reflected in the federal state system and the two chambers parliamentary structure in many countries of the Atlantic model. The Russian empire also made attempts to reinforce ethnic homogenization. Grosfeld and Zhuravskaya (2015) provided some historic evidence on this in the case of Poland including also the mass-scale deportation of various ethnic groups to the newly acquired and remote underpopulated parts of the empire. In the case of the Ottoman Empire the main division line in the society was drawn along the religions. Only Islamic peoples obtained opportunities to become respected servants of the sultan, Christians and Jews were treated as secondary citizens and were also harassed by the majority, especially during the late 1800s and in 1916. Therefore, even if certain peoples like the Bosnians changed religion and hence also social status, the multiethnic structure of the Ottoman empire remained in place. Also, within the Islamic religion serious tensions survived that also took the form of ethnic rivalry.

In the case of ECE ethnic homogeneity could not be achieved. The spontaneous or state administered assimilation of ethnic minorities has remained unsuccessful. The Habsburgs for example replaced the Czech aristocracy by German/Austrian one after 1620 and massive immigration occurred around the Czech ethnic border line. Yet, the Czech nation and its culture survived. Hungary with its larger size was more difficult case. In this multiethnic part of the Empire the Habsburgs intended to counterbalance the ethnic weight of Hungarians with mass scale settling of Germans and other peoples especially in the depopulated borderland areas in Southern Hungary. Ethnic homogenization of Poland was not successful either. By the time of the evolution of nation states in the eighteenth century Poland lost independence to three larger empires. Thus, multiethnic structure of the region has changed only after Second World War when the Polish inhabitants of Eastern Poland moved to the territories gained from defeated Germany, where German inhabitants were driven away from. Massive people movements and the Nazi genocide of Polish Jews under German occupation established

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an ethnically fairly homogenous Poland only by the 1950s. Germans in Czechia were also deported after Second World War thus homogenizing the Czech lands. However, multiethnicity of most other ECE countries remained in place producing continuous tensions among the peoples of the ECE region in all directions. Resentment and hostility against historic rivals have remained strong also in the relatively homogenous Poland (Germans and Russians) and Czechia (Germans, Austrians).

The effective role of the state in historic modernization of society and economy largely depended on its opportunities to tap external sources for the domestic development. The Atlantic model effectively utilized the resources of the colonies monopolizing trade with them. The expropriation of newly acquired Eastern and Southern territories gave also the Russian Empire abundant new material and fiscal resources to maintain strong military and administrative control and develop infrastructural networks. The Ottoman Empire used to monopolize eastern trade routes between China and Europe. However, this monopoly vanished in the sixteenth century. The importance of Levantine trade was pushed back after the discovery of the Americas. Instead, Ottoman trade was specialized on agricultural commodities most importantly grain. Trade was carried out mainly by non-muslim population towards Italy and the ECE region. Thus, commercial activity increased the economic potential of politically subdued Christian (Greek, Armenian and Serbian) and Jewish population thus increasing internal ethnic tensions in the empire. By the nineteenth century the Ottoman Empire became economically dependent from various Western state creditors who extended loans for the Porta to purchase necessary industrial goods and finance badly needed infrastructural developments.

ECE lost political independence after the military failure of its nobility. Lost independence largely increased the region's economic vulnerability too. Self-governance suffered and the direction of state permeation policies usually worked against their modernization needs. Most importantly, they had not been big and powerful enough to participate in the geographic expansion process of the early capitalist era. The least so when they lost independence. In many cases they themselves suffered from the

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expropriation policies of their conqueror, even if their status had not been equal with the colonies of states in the Atlantic model.

The rent-based dependent capitalist model of ECE

From the analysis of the three European historic models the main features of the modern ECE countries' socio-economic model can be drawn. Modern history of the ECE region featured the breakup of the dominant empires. Independent small states have been established in the region. They all inherited special mixes of the three archetype European models' elements. They all showed repeated swings in their development patterns between the Atlantic and the Ottoman-Balkan models. Nevertheless, despite of the oscillation a few structural elements show stability in the region. The most important one is the role of rents in the society. Unlike in the Atlantic model where the main organizing principle of the society is competition and self-governance, ECE states and governments distribute various licenses, privileges, material benefits based on political loyalty. Due to the weak democratic social institutions (lack of self-governance experience) society does not exercise strong control over the rent distribution process of the governments. Citizens are not self-confident either: the level of entrepreneurship is low, the society does not tolerate competition. Without social and political control rent seeking poses not just the risk of moral hazard. Rent seeking becomes the primary form of subsistence. During the transition period all the succeeding governments and elites in ECE countries tapped various sources of rent. Honest "reformers" (Gajdar, Bokros, Balcerowicz for example) were rare and their personal impact was not overwhelming therefore the creation and utilization of rents could not be limited and replaced by competition based activities. The momentum of social development process patterns turned over and eroded pro-competition policies.

The strong social underpinning of the rent economy stems also from the traditions of state centralization, the omnipotent state bureaucracy, the Byzantine heritage of overly exaggerated trust and admiration for the head of state (be it imperator, president or prime minister). The lack of private initiatives and entrepreneurship is also linked to the weak private property institutions. It is not only the lack of experience, but rather a legally predetermined situation: in both the Russian and the Ottoman models' legal

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institutions private property was not defined. Rather, state owned assets' utilization rights were extended, in many cases auctioned for private persons. Rents stemming from various types of properties or licenses (e.g. tax collection) were the main carriers of economic activity. This practice directly affected not only the territory of Russia and the Ottoman Empire, but also the neighboring area of the Habsburg Empire (mainly historic Hungary) and Poland (especially after its partition).

The conception of the rent-based economy of the ECE development model uses the recent research findings of Mihályi and Szelényi (2017; 2019). Their main concern is the separation of profits and wages on the one hand and rents as income source on the other. The differentiation is crucial because the levels of profits and wages are determined by the market process and competition in a positive sum game situation (dynamic efficiency). In comparison rents exhibit a zero sum game: rentiers increase incomes at the expense of others. Rents do not deliver incentives to economic agents and therefore they deteriorate the allocative and dynamic efficiency of the economy. Rents were essential parts of all pre-capitalist societies. The exceptional acceleration of economic development occurred when the traditional feudal sources of rents (privileges) lost importance and non-privileged classes of the society took over the command in the economy. The Weberian entrepreneurship succeeded in the transatlantic world, however, this does not mean that rents disappeared altogether. But rents should be only secondary sources of income behind profits and wages. In contrast the rent-based economy does not share the values of the competition state for example the separation of the spheres of business and politics, political and economic competition, political and social control over politics and business. The primary goal of the system is the opposite: the creation of close ties between the two spheres and capturing the business by a usually autocratic political regime.

Political dependence of the ECE region distorted economic development as well. During the time of the Turkish wars the area was not worth to invest in due to the high risks of enemy invasion. Large areas were depopulated. Later on the dominant states made no serious modernization efforts either. The ECE region served as market and raw material and food supplier of more industrialized parts of the empires. They were cut off

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from the economic resources of newly acquired colonies that propelled most of the larger economies of the Atlantic model. They were practically land locked and remote from the main Atlantic trade routes. When industrialization took up in the ECE region during the second half of the nineteenth century it was already delayed by centuries compared with the Atlantic model. Nevertheless, this progressive epoch was perhaps the most successful in modern ECE history in terms of narrowing the development gap (Szanyi and Szabó, 2020). Foreign dominance in the economy, dependence from more powerful states resulted in prolonged latecomer situations in the region. The smaller size of the economies, the land-locked status, weak domestic capital accumulation and the relative under-development also meant that ECE countries were effectively forced to rely on the support of larger countries both politically and economically. ECE region became the interest area of Germany, later the Soviet Union. Today the European Union plays this role. External financial support is also required in order to keep pace with worldwide economic development. The obtained finances have been returned in form of political cooperation.

A third important systemic element of the special ECE development path is the role of ethnic conflicts in the state mastered orientation (manipulation) of the societies. The homogenization of the societies has not been successful, and the existence of ethnic minorities, lack of social cohesion has always been treated as a primary reason for the latecomer status and weak economic progress. This type of ethnic rivalry has flourished since the early nineteenth century. Countries of the Atlantic model made serious efforts to manage the still existing ethnic conflicts with peaceful political and institutional solutions. In the ECE model however, ethnic conflicts play an important systemic role: they divert public attention from the fundamental reason of weak economic performance and underdevelopment, the system of rent economy. Due to this reason the conflicts are deliberately fueled by the political parties and sometimes also governments of the ECE region (Szanyi, 2019).

The rent-based economy works with limited growth capacity. Economic progress is a function of external financing coming from the dominant power and today also multinational firms' economic activity contributes to macroeconomic stability. The

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politically more interesting part of the economy where the rents are created exclude competition and work with limited efficiency. The system as a whole is still stable, but does not develop with highest potential speed. Competitive multinational firms may also withdraw much of the locally realized incomes if they are troubled by global shocks or simply when they find more secure and better yielding investment opportunities. Hence, the long-term development performance of the rent-based ECE countries falls short of the potentials. This limited development pace threatens with the middle income trap. A significant and qualitative change and increase of the development path would need massive investments in the society. This does not happen since neither the rent-based sector nor multinational business is willing to reallocate profits for these purposes. The state uses its resources mainly as new sources of rent and also for servicing the multinational companies to secure their presence.

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