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**LONG IS THE JOURNEY**

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Dossier N.3, Fall 2017

**LONG IS THE JOURNEY**

Dossier n. 3 - December 2017

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*Photos:* Mario Giacomelli - Senigallia, 1925 - 2000.

*Mario Giacomelli, printer and photographer, a mostly appreciated author in photography. His contribution recreated a personal and original view of a distant and mythical rural world: a suggestive journey in the lost spaces of our memory, a contemplative and timeless photography. His works are less poetry or stylistical exercises than powerful tools for transforming the landscape in a realm of thought, meditation and creativity.*

*Cover:* From the series "On Being Aware of Nature,"  
c. 1954-2000



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Ursula Hirschman, Albert Hirschman and Eva Hirschman, 1981

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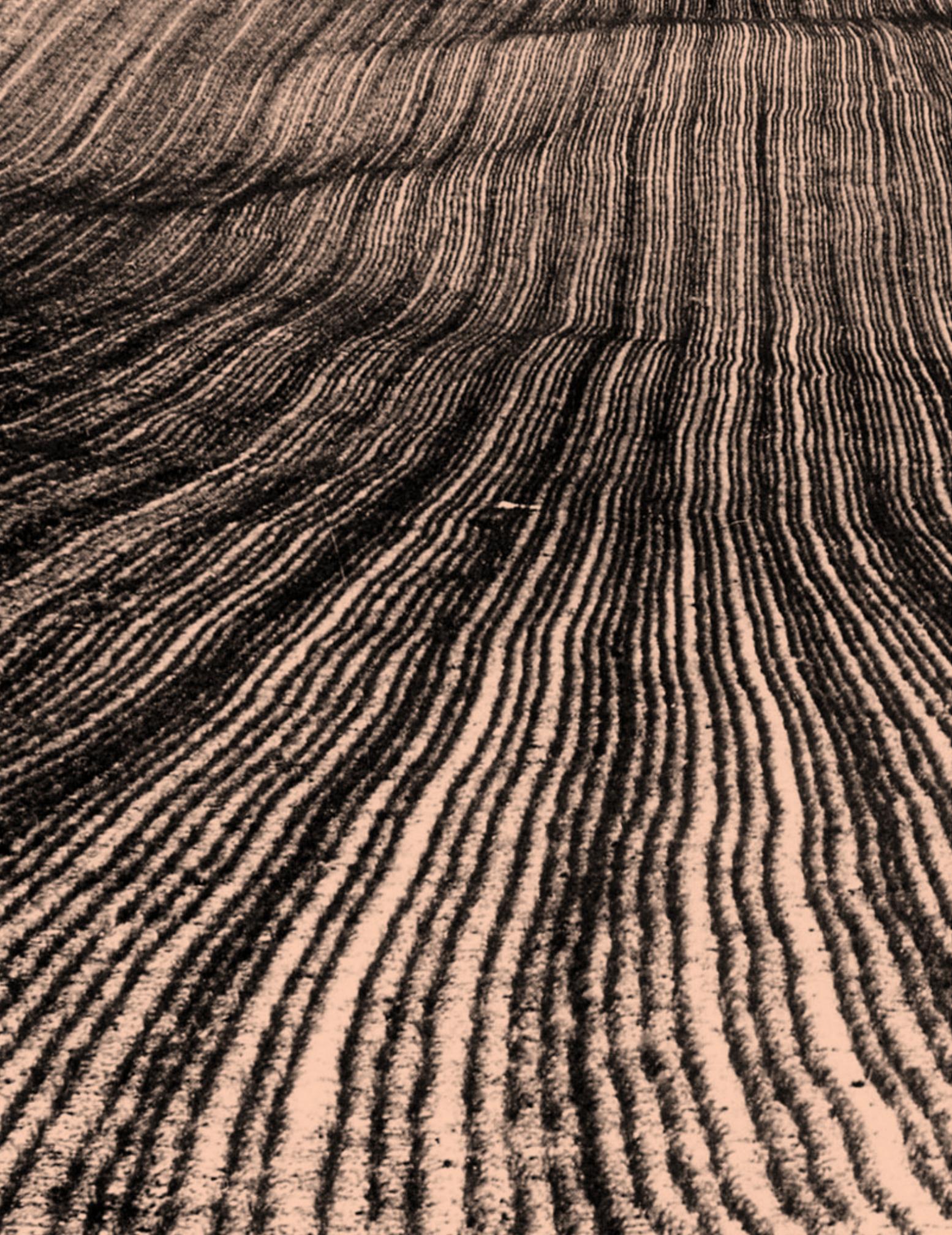
## PRESENTATION by Luca Meldolesi

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Completed already before the First Conference on Albert Hirschman's Legacy held at the Pardee Center of the Boston University the 6th-7th October, the following n. 3 of our review on line knocks at your door at the end of the year, as an Hirschmanian greetings for the next one. Participants to our Conference will find in it some themes of *Critical Thinking in Action* by Eugenio Colorni – a book produced and distributed for that occasion; and some papers that have been discussed there. Participants and non-participants may also appreciate those materials and other ones on Judith Tendler and on “saying and doing” as anticipations of *For 'a Better World'* – an e-book of excerpts from that Conference that is in preparation and will be ready early next year.

More important, however, is to recognize retrospectively that the Boston Conference has confirmed and vigorously enhanced the hypotheses on which our review “Long is the Journey...” and “A Colorni-Hirschman International Institute” as a whole have been working so far. Because it has shown the significance and the creativity of actual reunions of dispersed Hirschmanian intellectuals and operatives around the world; the need of unleashing and consolidating their debates and concrete initiatives; the functions for “a better world” that they can perform – individually and collectively, in the private and in the public realm, in culture as in practice, in addressing human predicaments as well as in discovering and architecting civilizing solutions...

Our hope is therefore that in the future “Long is the Journey...” will be able to contribute to the development and the continuity of that process, intercepting gradually the potential upsurge that was perceived at the Boston Conference, and facilitating further meetings and publications in countries and Continents.



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**PART I - THE CLASSICS**

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# 1. LEARNING FROM EUGENIO COLORNI

## *The discovery of the possible*

### Introductory note

by Luca Meldolesi

The name of Eugenio Colorni is quite familiar among the many intellectuals who knew Albert Hirschman. This is not true, however, of his work. The reason for this is that while Albert often spoke about his brother-in-law and close friend and acknowledged his influence on Albert's own thinking, Eugenio's work, with one notable exception<sup>1</sup>, has not until now been translated into English.

Born in Milan to an upper-middle class family of Jewish origin, Eugenio Colorni enjoyed a close-knit fabric of family and friends in the middle-class 'reseau', the network that had sprung up spontaneously in central and northern Italy after the liberation of the Jews by the Risorgimento. He studied philosophy, and went to Berlin to learn from (and about) Leibniz, meeting Ursula and Albert Hirschmann just before Hitler's ascent to power. He became professor of history and philosophy, first in a secondary school in Voghera and then in Trieste. He intensified his political activity, taking responsibility for the Internal Center of the Socialist Party, and was jailed by the Fascist regime after racist laws were enacted by Mussolini in 1938.

He was then interned on the island of Ventotene, where, while developing his fascination with science and the philosophy of science<sup>2</sup>, he shaped the basis of the European Federalist Movement together with Altiero Spinelli, Ernesto Rossi and Ursula Hirschmann<sup>3</sup>. Following his transfer to Melfi (Basilicata) for family reasons, he escaped confinement and reached Rome where, as a federalist and socialist, he helped lead a movement of rebellion that later contributed to bringing a victorious end to the creeping Italian civil war. Just a few days before the liberation of Rome, he was brutally gunned down while unarmed by the Nazi-fascists. He earned the gold medal for military honor of the Italian Republic.

The following excerpts come from Eugenio's early political writings (1935-37) and bring together excerpts that show Eugenio's largely spontaneous knack for finding existing loopholes and *ad hoc* solutions under difficult conditions – such as those produced by the strict fascist repression of democratic politics. I consider this group of writings a real discovery in political thought and action, and the source of a position later called “possibilism” by Albert Hirschman (1971)<sup>4</sup>.

Indeed, an unusual feature of these brief texts is that they provide us with a lively and concrete introduction to Italian social conditions under fascism and to the inevitable conspiratorial dimension of the time. Led almost by the hand, the reader appreciates the feelings of the middle classes when faced with the war in Abyssinia, interacts with workers in a fascist setting, discovers the spontaneous communications networks that spring up among the masses, confronts the problem of intervention in the face of repression, and debates the workings of the socialist policy center and the organization of local groups. Finally, an extraordinary tract is published herewith on the secondary schools which Eugenio intended as a model for similar pamphlets in various areas of political action.

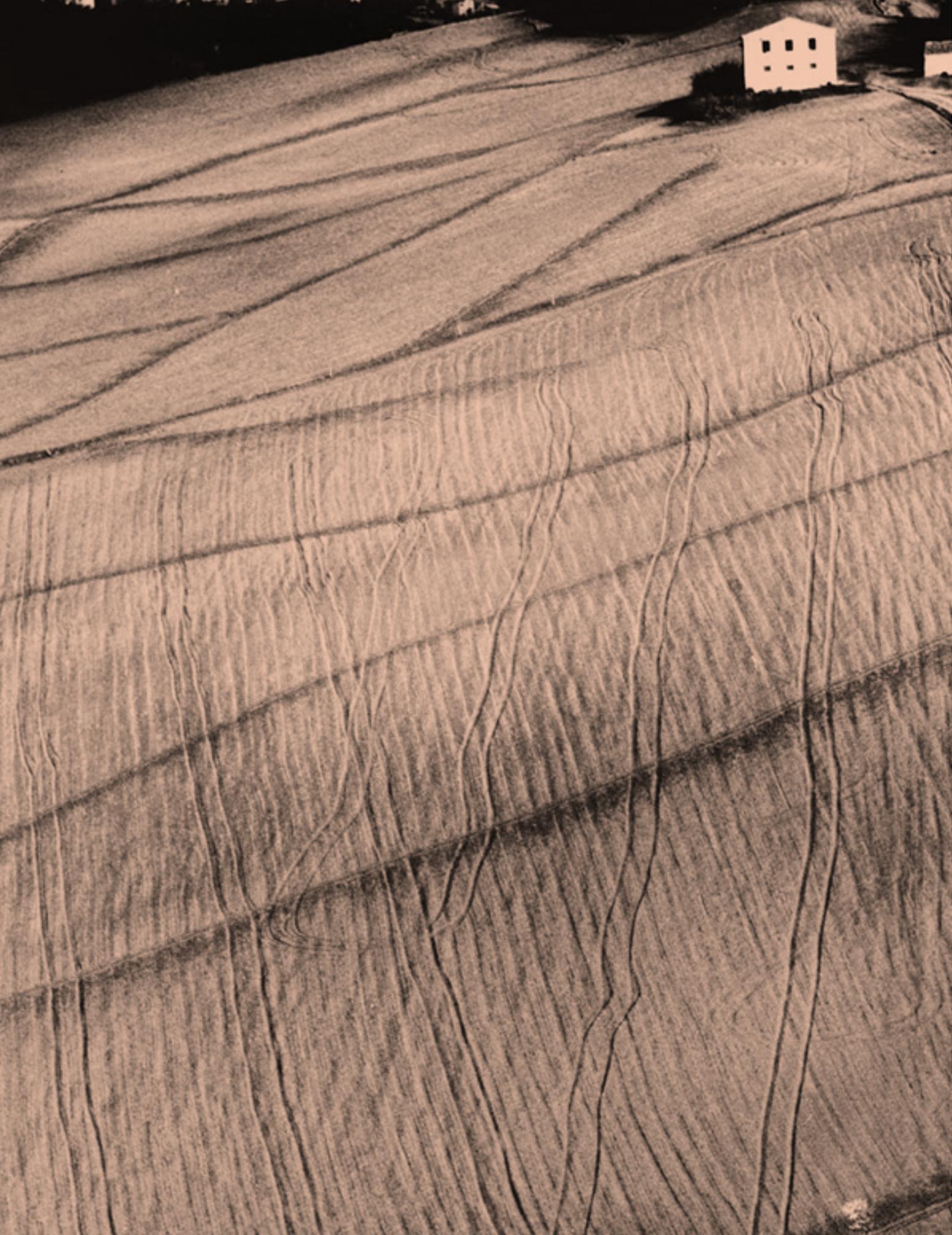
This then is possibilism under conditions of political-social oppression and repression, and it is these conditions that lead the author to ‘make a virtue of necessity’ and develop the keen powers of observation and levels of practical engagement required in achieving the best possible outcome in the antifascist struggle. It is concrete necessity that sharpens the wit and produces small breakthroughs, enlightened proposals, ways around mental and material obstacles, etc.

<sup>1</sup> “Preface to *Problems of the European Federation* by Altiero Spinelli and Ernesto Rossi, 1944 (a booklet that contains the Ventotene “Manifesto”).

<sup>2</sup> By working mainly in physics and with the legacy of Kant.

<sup>3</sup> By discussing at length with this group, inter alia, the well-known Manifesto for which he later wrote the preface in Rome (January 1944): see note 1.

<sup>4</sup> Hirschman A. O. (1971) *A Bias for Hope. Essays on Development and Latin America*, New Haven (Conn.), Yale University Press. Meldolesi L. (2017) “Introduzione. Attualità politica di Eugenio Colorni” (“Introduction. Political actuality of Eugenio Colorni”), in Colorni E. (2017) *La scoperta del possibile. Scritti politici* (The Discovery of the Possible. Political Writings), Luca Meldolesi ed., Soveria Mannelli, Rubbettino. Meldolesi L. (2013) *Imparare ad imparare. Saggi di incontro e di passione all'origine di una possibile metamorfosi* (Learning to Learn. Essays on Encounters and Passions at the Origin of a Possible Metamorphosis), Soveria Mannelli, Rubbettino, Ch. 2.



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## Eugenio Colorni: *Critical Thinking in Action* (excerpts)

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### Problems of war

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*This excerpt comes from the first full-fledged political article (signed as Agostini) by a 26-year-old Eugenio Colorni, on the fascist colonialist adventure represented by the Abyssinian war, which appeared in August 1935 in *Politica Socialista* – a journal published in Paris and edited by Angelo Tasca. In it, Eugenio spontaneously discovered his attraction for specific observations that would lead him to interesting openings and actions.*

Already, the Abyssinia mobilization allows us to make interesting observations and offers new opportunities for our struggle. There is no point in deluding ourselves about the revolutionary possibilities that might derive from this enterprise, viewed in isolation. Even failures in Africa (which would be carefully hidden from the public and dressed up as victories) would not in my opinion lead to significant upheavals in this country. Meanwhile unemployment is creating a favorable situation for the government, leading to voluntary enlistments. In any case, these early reactions should be carefully studied as an indication of what may follow. First of all, there is a notable absence of enthusiasm, even among volunteers. Enlistment is an entirely calculated way of swapping their present unemployment for a job they hope will be lucrative and not very dangerous; they think that if the war were to become serious they would be called up anyway, and that until it is serious they have everything to gain and little to lose. They go to war in the spirit of mercenaries. I believe the strongest climate of opposition is to be found among the middle classes, where there

is a feeling, more widespread now than ever and sorely tested on this occasion, that they are at the mercy of a despotic will over which they have no control. For four days families watched their sons going off, in the wake of a simple postcard call-up, without knowing anything about their destination, without so much as a line in the newspapers. And suddenly there was a sense of panic; the muttering immediately began to get louder. Reassuring statements have quite naturally caused increased anxiety. Again, there is no need to overstate these phenomena, but perhaps on this occasion more than ever the Italian middle classes have the feeling that the chickens have come home to roost and that this fascism, for which they sold their souls as a guarantee against socialism, will lead them to ruin as well.

Our action will have to take these factors into account and not commit the traditional error of overlooking the middle classes. It should not be forgotten that without the support of at least part of this group, the revolution will not happen. If these classes should prove to be the starting point of an initial anti-authoritarian movement, we must not shut ourselves off from it, since it might be from there that our own anti-capitalist struggle begins. And this war, which for the first time does not affect the spiritual interests that the middle classes have shown themselves willing so casually to give up, but rather hits their closest material interests, may awaken in them some desire for autonomy and freedom. It is to them, therefore, that we must direct our propaganda, using language that responds to the state of mind described here. [...]

### The struggle within fascism

*In the same vein as the previous excerpt, Eugenio discusses here some alternatives for antifascist action among the workers (an alliance with some fascist workers, “brothers in black shirts”; proposed by the Communist Party, or a return to the origins of Fascism and to its early revolutionary program). And he suggests that the most promising struggle is actually taking place within Fascism. Enlarging the range of choices, evaluating them and deciding accordingly is indeed a typical turn of the “possibilist” mind. This article appeared in Paris in the October 31st, 1936 edition of the socialist paper Nuovo Avanti!.*

[...] The only [position] [...] that can really be adopted on a large scale among the working masses with a chance of success, calls for propaganda not among the fascists, but in the context of fascism. Italian workers, although almost entirely non-Party members, nevertheless come under the influence of fascism in after-work recreation, trade unions, schools and sports clubs. This influence does not make them militants, but it makes people feel that fascism is an established fact to be passively put up with, something they do not always see as a direct oppressor. The links between fascism and capitalism are hidden, twisted, and confused by official propaganda in such a way that it is often difficult, especially for young people, to see clearly that the regime is the main support of the ruling class. Our activity will have to try to raise this awareness by accepting the political state of affairs and directing workers’ attention towards more obvious purposes. But even in addressing aims that appear to them as fascist we must not present ourselves as socialists or communists, but rather as normal people for whom fascism is, as it is for everyone, simply the world

we live in – a fact that we cannot help but accept, and to which direct opposition would be madness. We have to ensure that the masses of young people are educated to see the class struggle as something independent, not involving an immediate collision with the regime. Fascism has never raised its flag in defense of capitalism, nor has it ever bestowed a halo of national sanctity on the magnates of finance. On the contrary, it proclaims its concern for the working class and poses as their defender. We must take advantage of this hypocrisy and lead a propaganda campaign against institutions or people (better institutions than people) that it is not yet sacrilegious to offend. Let us promote action in support of claims that fascism has never officially said it wants to deny. We will thus set the workers on a path toward rediscovering the language of class with a new virginity, as if it had never existed, and without immediately incurring accusations of anti-fascism. [...]

### Spontaneity is a form of organization

*This is an excerpt from a surprisingly innovative article (signed as Anselmi) by Eugenio, written with the upcoming Congress of the Socialist Party of June 1937 in Paris in mind, and published in Nuovo Avanti! on June 12th, 1937. Contrary to prevailing doctrines, and based on the observation of the day-to-day life of workers and their families and friends, Eugenio asserts that spontaneity is itself a form of organization and that the party should adapt to the rhythms and propensities of the people and not the other way round.*

Looking for direct collaborators in every workshop, every trade union, every neighborhood, is much more difficult than might be imagined, considering the general mood among the masses. The socialist or communist worker, although extremely concerned with political problems, is today reluctant to take on specific responsibilities which he knows carry great risks and whose effects long experience has made him skeptical about. Cadres formed in this way have always been unstable, deficient and inconsistent. The form of organization of groups linked to a single trustee would be excellent if such groups were already there, formed and organized, and ready to make contact with the Center. But if they are not? The job of forming them cannot be done by a single trustee; this would entail a set of relationships and ties of a type that can wreck a group even before it begins working.

Experience teaches us that the greatest dangers arrive when individuals from different environments come into contact: intellectuals and workers, trustees from the center and individuals from the base, petty bourgeois and proletarians.

People with different mindsets and different habits end up having trouble understanding each

other, losing their political sensitivity and no longer able, in an environment that is not theirs, to recognize provocateurs and spies. It is obvious that the difficulties listed here are typically intrinsic to our work which, as we know, is not easy – and I would not dream of proposing that we abandon our deeper efforts which, though continuously interrupted by current conditions can never be abandoned. That said, however, I would like to suggest the possibility of a job which, although less radical, would be more wide-ranging and whose true scope and possible developments we have witnessed in the anti-fascist wave of last April.

#### *Spontaneous action and organizational action*

Our political parties’ behavior toward the masses has always started with the idea of having to organize them according to the parties’ own structures and methods. Spontaneity has always been considered a sign of both the maturity of the public and the weakness of the party. “Spontaneous” action and “organized” action have always opposed one another, like two antitheses. Too little thought, however, has been given to the idea that in every mass political action there is an element of organization, perhaps difficult to pin down, which is very important for us to understand if it is to serve our purposes. We commonly refer to any action as spontaneous if it hasn’t been directed by a party. It hasn’t occurred to us that spontaneity is itself a form of organization. [...]

The immediacy of people’s reaction to recent events and the speed with which news, moods and slogans spread have revealed elementary forms of organization latent in the masses that it would be a very serious mistake to ignore.

Connections – contacts between people and among groups – already exist independently of parties. They are the links of long-standing friend-

ship, kinship or cooperation that every worker has with every other, they are the ties of shared labor, reciprocal trust and everyday habit. The spirit of the masses is so homogeneous and widespread that every worker and every bourgeois may be said to have their own way of obtaining information, expressing opinions, commenting on facts; they each have, in other words, a personal political environment that feels safe, and that they wouldn't want to trade for other regulated and tested systems. Up to now, these environments have almost always been reserved for ineffectual grumbling and harmless gossip. But they can quite easily (as we have seen in recent months) evolve into more serious shapes. Once a word, a news item, or a pamphlet has been inserted into this network, it moves and spreads by itself, with no need for an additional push, and in no time the word or pamphlet is known to everyone.

#### *The propaganda significance of the war in Spain*

This situation, it seems to me, makes our work immeasurably easier.

The socialist or communist worker feels no need to make new contacts. He is not isolated at all. What is missing is not a sense of solidarity in the workshop, at home or in the tavern but rather a wider sense of solidarity that extends to the nation and the whole working class.

What is missing is the sense that the ideas that he and his friends develop are not just relics from the past, but are ideals that the affairs of the world still revolve around. This is the propaganda value of the war in Spain. Today once again the workers know that they are part of a whole; they have recovered their center of gravity, the security of being in the right, their trust in the future.

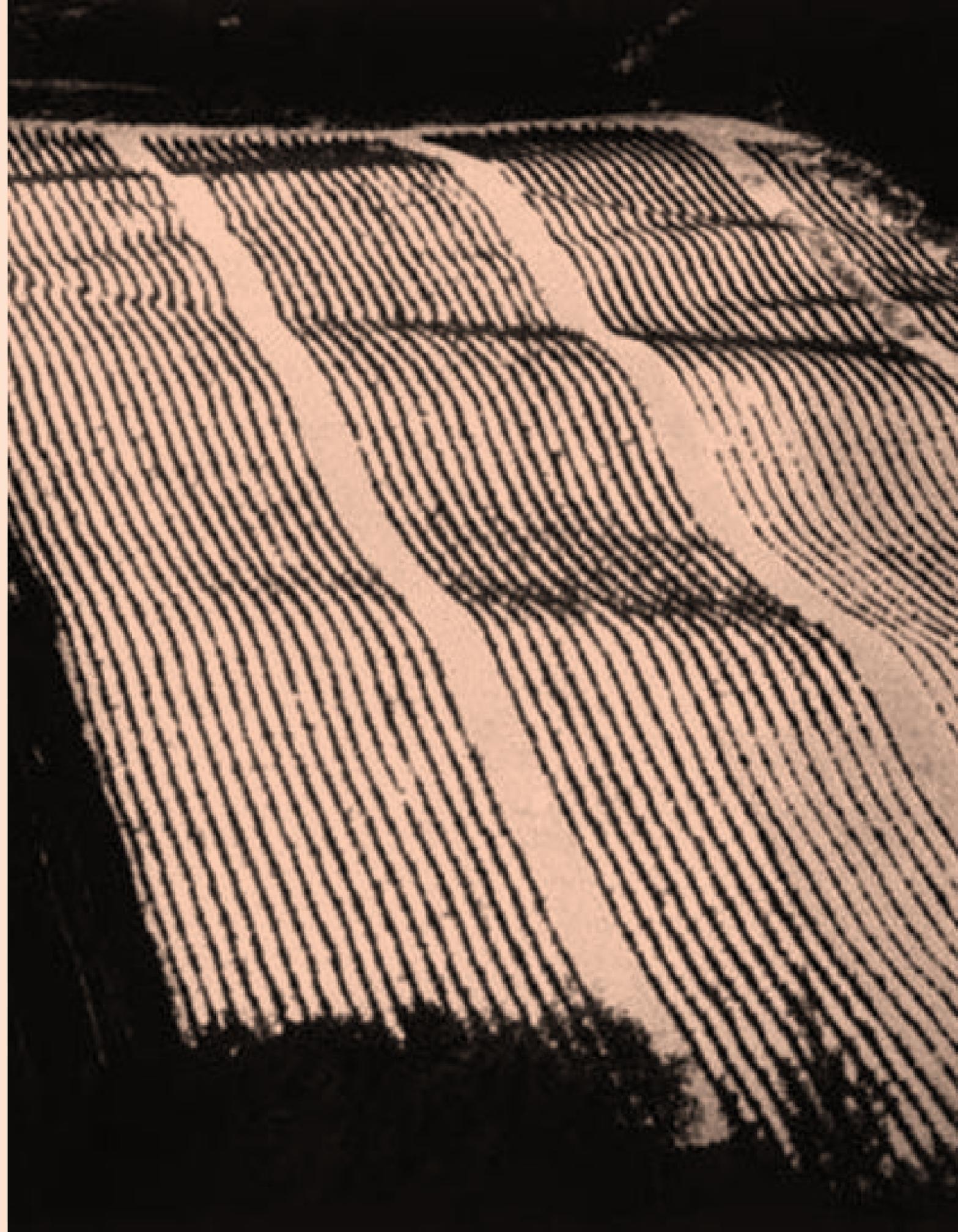
The party's job will be to make use of this system of natural connections invisible to the poli-

ce, and give it political fuel. This does not mean eliminating spontaneity, but rather cultivating it, strengthening it, giving it content. Between the so-called uncontrolled action of the masses and the totally steered and disciplined action of the party there is a scale of infinite gradations. And concrete political action will from time to time graft itself to some point on this scale.

The April movements were spontaneous, it is true, but it must also be said that they were promoted, thanks to the deeds of our comrades in Guadalajara and Bermeo, and to the rapidity with which these victories were brought to the attention of the masses. We must act on this spontaneity of the masses, giving them increasingly precise directives and increasingly concrete words.

But if we want to avoid the dangers I have mentioned, we have to do this impersonally, allowing the latent and secure system of connections operating at the base to function as a distribution device.

Among the means available for this purpose, the recently rather neglected press has a predominant role to play. The main risk of the press as a propaganda vehicle is the difficulty of distribution, which can easily allow the police to piece together the structure of the organization. But when distribution is entrusted to a system that is automatic, so to speak, and separate from the organs of the party, the only problem left is delivery and packaging at the site. This is not a serious difficulty and resolving it only requires a very small number of secure officers. The danger is greatly reduced both for readers and distributors (who would be friends, relatives, long-time acquaintances). Contact between center and periphery is no less direct and immediate this way than it would be if there were a cumbersome and dangerous network of emissaries and trustees.



### **Political function and organizational function**

This letter to Joseph (Giuseppe Faravelli), signed as Anselmi, of August 6th and the (attached) Directives of September 1937 show Eugenio's skills as a surprisingly young secretary of the Internal Centre of the Socialist Party. To avoid repression and act at the grass roots level, Colorni proposed a practical separation of organizational activities from political functions, along with the formation of small hubs for organizing Party initiatives outside Italy in nearby ports and railways stations which would directly feed the clandestine press of internal socialist groups in Italian towns.

[...] The recent arrests have shown that there was a defect in the composition of the Italian Center. In my view the error was that political and organizational functions were not differentiated and were entrusted to the same people. The Italian Center had control of virtually all the work in Italy, in all the cities. The comrades in charge knew all the soldiers on the ground and had contact with all the Party's business. This fact, a reflection of their splendid work and total dedication to the cause, is nevertheless what got them into trouble and allowed the police to carry out their huge raid and seize the most active and important centers. It also led to some confusion in the distinction between political and organizational work: for example, an extremely dangerous underground publishing apparatus of an ideological character [...] was set up locally when this could have been done abroad. In my view the function of the local press should be to produce immediate propaganda for the masses, the sort that requires extremely rapid circulation (this last is my own personal opinion; I didn't get a chance to discuss it with our friends at the Center). Conclusion: the Center must remain active and be rebuilt as soon as pos-

sible. It is an inescapable necessity for the practical effect of our work; it is the body that underpins our decisive superiority over the communist organizations. But the Center, as such, has to have a political, not an organizational function. It has to be a body that is compact and agile, composed of people who have long been in touch with the political situation and have maintained continuous contacts abroad. If possible these people should come from different Italian cities (but be able to meet periodically). Their business should be to draft policy directives for immediate transmission abroad. This way, the Center will not have to deal with organizational work (which does not rule out a member having a personal organizational activity in his specific field). But organizational work, in short, should not be centralized in the Center. For organizational purposes, each group, each city, should have its own direct foreign contacts [...]. Each group should receive the Center's directives, printed material, etc. from abroad. In this way, the pressure on the Center can be relieved. All that's required is that one person in each group have a passport. And the foreign Center, I repeat, will have to be modified. The leading elements in each Italian group must not have any contact with any other Italian group. Such contacts can be established among the masses, spontaneously, but among the people responsible, in organizational work, watertight compartments must be established.

### **Directives for establishing border posts and for the work involved**

[September 1937]

Each border post must consist of one responsible person, recruited from among our Party's best local elements, or else from the on-site ranks of the Socialist Party. It would be pointless to go on about the level of commitment this person is expected to offer. It has to be in any case someone local, someone who was born in the area and has lived there many years, who has a long-standing association with the inhabitants and possibly a good knowledge of the border situation. It must be someone *absolutely above the suspicion of the Italian and local police*. The person should have a normal occupation which requires a constant local presence but leaves some amount of spare time. The job will be modestly compensated, and the work will require a genuine commitment, rather than being simply something done for us. A tendency to talk or to brag to friends about having been entrusted with this responsibility will result in immediate termination. I would add that the ideal person would be someone who for work-related reasons often travels back and forth across the frontier.

The duties of the position of border trustee would be as follows. Keeping a depository for printed material, which will be sent periodically from Paris, and either delivering such material to Italian personnel who will arrive with proper identification to collect it, or – and this is the main job – locally managing its introduction into the country. This task would engage the abilities of the comrade in question, whose local knowledge and contacts would be put to use to find travelers, smugglers, etc. As a general rule the border

trustee should not be the one who brings material across the border, and travel should be limited to making organizational contact with Italian leaders. The job will involve giving the travelers and smugglers addresses that have been previously agreed upon, *which will never, under any circumstances, be those of the comrades in charge in Italian cities*, and making sure that the smugglers and travelers have as little contact as possible with the addressees, limiting themselves to delivering the material. The trustee will maintain personal contact with one or two (at the most) of the leaders in each of the designated Italian cities, corresponding with them using invisible ink, meeting them during any journeys that might be required, and transmitting directives from the Center. The trustee will be personally responsible for their names, addresses and contact information, which he alone should know and never under any circumstances communicate to anyone. In case he should need to be replaced temporarily, he must first obtain explicit authorization from the Paris Directorate. Through his connection with the leaders in the cities, he will maintain contact with the Center and will receive from them articles, decisions and directives to be immediately transmitted to Paris – this in cases where the Center considers this route better than direct contact with Paris. If he notices even minimal surveillance by the local police or the Italian consulate, the border trustee will report this immediately to the Central Station in Paris. He will also be obliged to report any case in which, whether by his own or someone else's carelessness, information has been leaked to someone. I must insist on strict Party discipline being applied to the work of the border trustee. He will have to take responsibility for the commitment taken on, and will be sanctioned if the job is done badly; penalties will range from removal from office to exclusion from the

Party to, in extreme cases, public condemnation as a dangerous element.

*Internal centers:* Each city will have to set up one or more organizational centers, to be directed by a very limited number of leaders. These people will be in contact with the border post, from which they will receive directives from the Center. Together with the border post they will organize the job of introducing printed material. Their internal contacts should concern organization more than propaganda. Roughly, these contacts can be set up as follows:

1) Contact with one or more people whose addresses are maximally secure and who will be responsible for receiving printed material.

2) Contact with a limited number of people who have relationships in various workers' environments or among the middle classes, to whom printed material will be delivered for distribution. The leader should not participate personally in this distribution. Eventually the distributor will probably be able to identify who it is that receives the printed material from abroad. This should be avoided if possible, however, so that the address does not come under police suspicion.

3) Contact with people from the Center. This contact will consist mainly of communicating to the person at the Center impressions, ideas, news about the local situation, and so on. The base leader may receive directives from the person he is in contact with at the Center. The most common way, though, would be to receive them from his border post. [...]

The Italian Center



### The function of the teacher in fascist schools

*As a secondary school teacher Eugenio carefully studied the reactions of the students, writing these telling and illuminating articles (which appeared in *Nuovo Avanti!*, July 1937, with the signature Agostini) based on his observations. Refusing to countenance any sort of apologia, they serve as a guide for teachers of middle-class students under authoritarian conditions, particularly with regard to explaining fascism objectively in a history course. Colorni felt that these articles, printed as a pamphlet, might also serve as an example for analogous evaluations in other sectors.*

#### 1. Secondary school [: middle class students]

The problem of the political education of young people has quite different characteristics in elementary school, secondary school and at the universities. In primary schools it is mainly a problem of training the class of teachers and educating pupils' families through the teacher; that is, the problem primarily concerns the contact between the petty bourgeois teachers and the proletariat that the vast majority of pupils belongs to. In the universities, the work must take place in student circles directly, not only in the classrooms. Middle school, on the other hand, offers the possibility of direct influence of professors on students during the lessons, and presents a class of teachers that is particularly qualified for such work.

And first of all it should be kept in mind that secondary school cannot be identified, as it too often is, exclusively with Classical High School. Secondary school not only produces university students and the future so-called ruling classes but also – and mainly – the totality of clerks, officers, teachers, shopkeepers, accountants, surveyors and technicians who make up the middle classes

that have up to now far too easily fallen prey to fascism. The families of the students generally belong to these same classes and often (especially in the case of technical schools, teacher's colleges, and industrial and commercial institutes) to the upper layers of the proletariat. These classes aim to move up, to improve their social position, and therefore to be responsive to the appeal of fascist bourgeois ideologies in which they recognize the ideals of the classes they aspire to belong to; but it would be a most serious mistake to abandon them to their fate based on this bourgeois lackey tendency. In the secondary schools the young people who belong to these classes comprise the highest percentage of good students. They are attentive, intelligent, and interested in their studies, and school is for them not a burdensome obligation but rather a tool for success, an investment of time and money from which they seek to reap the maximum possible benefit. They often make sacrifices in pursuit of this aim, even against the will of their parents, who would like to see them working and earning as soon as possible. The fact that in many schools around a third of the students are partially or totally exempt from fees on the basis of merit gives an indication of the force of will of these young members of the petty bourgeoisie, the agricultural middle class and the proletariat, who see in education their only chance to rise from the poverty of their present state.

Now these young people's earnestness and sense of responsibility opens them to a curiosity about life that makes their political education easy and productive. Having been raised in a climate of fascism and almost unaware of the possibility of any other conception of politics, they are nevertheless eager to find some content in the empty words of propaganda they hear from the [...] hierarchs. It is true that they have no wish to object; but they do have a great desire to explore.



In a confused way they hear in political problems a concrete expression of collective morality; they have a sense that this is where their most important material, moral, and intellectual interests are decided; they are bored and disaffected by simple phrases.

Professors have indisputable moral influence on them. Unlike students from rich families, who see in their teacher little more than some poor devil paid to give them lessons, and who are constantly led into a contemptuous comparison between the teacher's modest standard of living and their own luxurious lives, the great majority of students see the professor as the most cultivated person they ever come into contact with, and sometimes also (depending on the professor) the one with the broadest views.

He has travelled, he has a university education, he knows some foreign languages, he has had contact with the upper middle class. In their eyes he often represents the man who has achieved the modest ideal of bourgeois esteem that they aspire to. If the professor knows how to make use of his daily contact with his pupils so that one way or another he takes part in the things that interest them, if he is able to establish a certain confidence with them, and especially if he allows them the freedom of speech and discussion in the classroom which makes the lessons lively and interesting, if he is careful to free himself of all the musty scholastic and doctrinal rot and to come before his students as a modern man, living in his own time and taking an interest in today's problems; then he will easily succeed at winning their hearts and will gain significant influence over them.

Now secondary school teachers are largely not fascists. Whether enrolled or not, they still belong to the intellectual bourgeoisie that finds its spiritual bread and butter and its intellectual and moral purpose in struggles and debates over demo-

cracy. The youngest of them belong to the group of somewhat peculiar youths who in departments of arts and sciences distanced themselves from the sporting and carefree lives of the fascist students. Dedicated fascists are rare among secondary school professors; many have gone along, with or without difficulty, in a spirit of bureaucratic acquiescence; not a few of them still maintain an attitude of manly independence. Finding precise currents of political opposition among them would be difficult. Their opposition is generic, often of a liberal and masonic nature. It is the opposition of the intellectual offended in his most prized possession: his freedom of conscience, and exasperated by continuous mandatory interference in his teaching.

The teachers find themselves grappling with school curricula that at every turn impose statements and explanations of fascist concepts and ideals. This is highly embarrassing for them, and not only on the occasion of official commemorations, but in their actual teaching as well. Courses in Italian, history, Latin, philosophy, economics, and law constantly compel them to say things they don't believe and to glorify people and ideals that are hateful to them. This is precisely the issue that we think needs to be examined.

Almost all teachers under Fascism are essentially concerned with protecting their dignity, adopting a severe and disdainful attitude, where possible avoiding gestures and words that show acquiescence or participation in official policy, and either passing over thorny subjects or addressing them with a tone that clearly shows that they do so under obligation and against their conscience. This more or less pronounced attitude is one of passive resistance; it has a certain nobility and is positive in the impression it can make on the students, which is that independent spirits and clear consciences do still exist; that there is still room

in the world, and not only in books, for the attitudes of the heroes of the Risorgimento, for a Cato, a Bruno, a Vanini.

In this way the teacher has at least partly protected his conscience, his moral prestige. But has he looked after the education of his students? With this stance he has looked after his duty to himself, but not to the part of society he is professionally called upon to affect. One might respond that the example he sets is in itself educational. But what is the educational value of this mute example that dodges explanations? The students may or may not admire it, but they do not understand; and most of the time they consider the professor's reserve as simply the quirkiness of a man who belongs a world gone by.

To be satisfied, in front of young people, with this position as a "relic" or (as in some cases) to be almost pleased with it is not only sterile, it is reprehensible: it is surrendering and becoming an artifact commemorating one's own defeat.

The young are eager for explanations. They are impatient for those moments in the course when the professor is supposed to open up a bit, explain things, justify his attitude. And they are disappointed and irritated by the embarrassed and elusive phrases they get instead.

It is not true that students are in themselves inert and indifferent. They are when what they are offered is the usual declamatory fare; but as soon as they get into an actual political discussion they are more than interested.

Indeed, such discussions are the only conversations they are deeply interested in. And what's more, they don't know, they don't realize, that such discussions are prohibited. The great majority of young people today (especially the petty bourgeoisie) have never heard politics discussed, other than in a strictly local sense. They have never had occasion to experience the oppression of

the police, because they have never known opposition, rebellion or struggle. They do not know in detail what a political party consists of or how a democratic state is organized. And it is precisely this ignorance, this intellectual segregation, that is fascism's most powerful weapon. It is more powerful than favorable enthusiasm which, being attentive, involved and active, can therefore quickly change to disappointment and rebellion.

Now this ignorance, what I would call almost political naiveté, leads young people to view with great curiosity any perspective that opens new horizons to them, and shows them flashes of other social possibilities; it is curiosity about what is new and different, untroubled by any suspicion that it has already been officially branded disgraceful and is punished as a crime. And so, if on one hand the fascist teacher's empty ranting bores them, on the other, the decent, shy and reticent tone of the anti-fascist teacher, unaccompanied by anything remotely positive, arouses their suspicion: what they usually sense is sterile obstinacy.

Now how is it possible to escape from this ivory tower and make the sort of contact with young people that responds to their needs? And at the same time, how is it possible to put into operation an anti-fascism that does not risk becoming an empty ceremony of abstention for personal satisfaction. [...]

## 2. Secondary school [ : discussing fascism objectively ]

Obviously we cannot propose that explicit anti-fascist propaganda should be disseminated in the schools. But I think the only possible solution is that instead of ducking them, the teacher should face up to current political problems, especially the question of fascism; that he should overcome



his horror at things he would rather not mention, aiming to arrive at an objective account, especially from a historical standpoint. He should first of all make it clear to the students what fascism is: how it arose and what its historical and doctrinal origins are. Young people don't know these things and, despite the provisions of the curricula, they don't learn them from their fascist professors, who limit themselves to vague and inconclusive panegyrics. The antifascist professor can earn the respect and gratitude of his students if he explains to them in a way that is objective, historical and scientific what these things that they are expected to idolize really are and, even more importantly, what the things are that they are expected to revile. Left in total ignorance about these things – and this quite often happens during lessons in history or corporate law – the students have to ask the professor what liberalism or socialism or communism refers to.

Explaining these things clearly and pervasively is not only possible, it is the official duty of the schools. And when students know and understand them, this is already a formidable element of propaganda against fascism.

It is not at all necessary that the professor should take a position. All he has to do is explain objectively, just as he lays out the facts of history objectively and without bias. And the facts speak for themselves: young people, on their own, whether because of social background or material and moral interest, will be drawn to the ideas they feel most strongly connected to.

This form of influence and education cannot be prevented by any ministerial directive, not unless the ministry decides to eliminate fascism from its curricula. But every time someone speaks of fascism, any conscientious professor should not be able to avoid framing it historically, and showing its position with respect to other

political views and to the international situation.

What will we get back from this? The young people in the schools will certainly not simply and immediately become antifascists. Suggesting this as a goal would be utopian and absurd. But what we will get is that an intelligent student will realize that fascism is not the only possible and existing political reality, nor salvation sent to us by God to fight all evils, nor the army of light struggling against the army of darkness; but rather that it is one of several political systems, that it protects certain interests and opposes others; that it is predominantly represented by certain social classes, follows certain traditions and repudiates others, and takes a specific position when it comes to certain internal policy methods, which are distinct from other methods. What these conceptions are, these interests, these methods, and those they oppose (not just that the former are good and the latter bad): this is what all young Italians, who were born and live under the fascist regime, want to know. This is what every conscientious teacher, fascist or not, has the duty to teach them. And simply learning such concepts is of inestimable value for our struggle and has a destructive value for fascism, which cannot be maintained without suppressing and disguising the truth.

Without wishing to give directives that are too detailed, I will indicate some examples of how instruction that adheres more closely to the needs and attitudes of the students might be practically implemented by teachers of any political shade, without incurring any danger of disciplinary or police action.

The word 'homeland' has so often been dragged through the mud of fascist propaganda (and for that matter by all reactionary propaganda), it has been so cynically used for supposedly righteous purposes, and it has with such deliberate skill been used to sell ideologies of selfishness, social

oppression, and international plunder, that all socialists and antifascists now hesitate to pronounce the term for fear of being mistaken for those who speak the word only to prostitute it. It nevertheless remains a word that carries the evocation of a certain ideal and finds an immediate heartfelt response, especially among the middle classes. It is a word that young people have since their childhood been in the habit of pronouncing with devotion, as a symbol of everything pure and unselfish. Are we to allow this word to be stolen by the people's enemies?

The professor who to distinguish himself from his fascist colleagues does not speak of the homeland at school risks incurring the incomprehension and contempt of the students. He risks being seen as cold-hearted in their eyes, closed to collective ideals.

But the word homeland has a value that goes much deeper than the way it is used by the class of exploiters to gain an advantage by confusing people's ideas.

Why not explain this value to the students? Why not teach them that the feelings that go with the homeland are nothing else but the sense of belonging to a community that has its own particular characteristics with respect to language, culture, history, traditions, and political and social problems, along with the will to resolve these problems within this same community? And why not emphasize actively resolving them and the fact that loving your homeland means getting to know its evils, contradictions and internal injustices, and trying to change it?

In this way young people will acquire a concept of homeland that is different from the imperialist idea based on believing, obeying and fighting, but is not for that any less seductive, but rather is much more responsive to their need for responsibility and sacrifice. They will come to realize that

we ourselves are the homeland and that any battle fought to eliminate privilege and exploitation is in reality patriotic.

The Italian teacher finds himself regularly having to assign and correct compositions of a patriotic and fascist character. This is a task that even fascist professors find extremely embarrassing, because the students come to school with the finished paper in their pocket, or else they sprinkle with ardent expressions of praise taken from the newspapers, confident that the professor will not be in a position to disapprove. Teachers are thus prevented from making any assessment of the value of the student.

Irritation and aversion toward topics on current affairs and the overblown rhetoric with which they are presented has therefore by now become widespread. Everyone feels the need to go back to concrete topics that allow an evaluation of the literary and historical thinking of the students and their ability to formulate and express their own ideas. The antifascist professor must be at the forefront of the fight against this rhetoric. This is a struggle that fascism will never be able to prohibit, and already some fascist newspapers sometimes find themselves championing this campaign.

### 3. *Secondary school [teaching history without apologies]*

The antifascist Italian teacher can and must always mark as insufficient any composition compiled from set phrases taken from official apologies. Even while acquiescing in the assignment of compositions concerning politics, the professor must require substance, information and a knowledge of the factual data. He must cease to accept generalities and insist on a detailed knowledge of the historical, political and economic situation in question.

The highest marks will then go to the most accomplished and intelligent students, who will thus be pushed to see with their own eyes a truth that transcends journalistic formulas, a truth that often, especially to young people, speaks for itself.

It is the history curriculum that most regularly and insistently forces the teacher to come to grips with these arguments. The political subject par excellence, history contributes more than any other to forming young people's consciousness. It is essential to ensure, however, that it not become the most arid subject of all, and to think of it as unified with the history of culture, philosophy, economics and literature.

Antifascist professors mostly affirm their own principles in the glorification of certain historical figures, events, and periods. Their political leanings are applied to exalting the Athenian Tyrannicides, or Spartacus, Brutus, or Cato, or to taking the side of the Communards, the peasants' revolt, the Reformation, the Huguenots, Holland in the 1600s, America in the 1700s, and above all to praising the French Revolution and placing Mazzini at the center of the Risorgimento.

This is an attitude that is right, but not sufficient. This way, the students will know where the professor's sympathies lie and will make note of it. But they will not acquire actual criteria for historical judgment. History will remain for them an account of events and struggles in which you can take one side or the other according to your own tastes or your own current political interests. But it will still not represent the human reality from which we are directly descended and which has passed down to us a set of concrete situations and problems that we cannot escape.

If the professor's idea of history is limited to looking for a certain number of analogies with the present political situation, he will reduce his course to a series of allusions; he will basically be

accepting, although inverting it, the fascist understanding of history as a continuous struggle between the principles of good and evil.

Now it is not necessary to be orthodox followers of historical materialism to have a more complete and organic vision of events than this and to recognize that economic and social factors are fundamental to political and cultural factors; to recognize, that is, that only a vision of these factors as dependent on one another can impart a vivid awareness of historical reality and link it with the present. This is indeed a conception that several official historians (Volpe, Rodolico, Gaggese) strongly influenced by Marxism followed in their best work, before they became fascists and before the genius De Vecchi arrived to set everyone straight and establish once and for all that each and every historical event was the exclusive work of the House of Savoy<sup>1</sup>.

Now the best way of giving a socialist or antifascist history course is to teach it in as complex and complete a way as possible, including all its social and economic connections; to see for example beneath the feudal economy and its derived social problems the substratum of the respective positions of the Empire and the Church and the culture that derived from them; to study the City-States, the Signoria, Humanism, the Renaissance, and the Reformation in relation to the new forces of the nascent bourgeoisie, the struggle of this bourgeoisie for political dominance, its position in relation to absolutism, its victory in the French Revolution, and the constitutional state as the political form that it bestowed on itself.

It is only when it has become a matter of course that historical facts and political ideologies are seen to be tightly bound to the social and

<sup>1</sup> Where the kings of Italy came from.

economic world from which they arise, that students can be trained in a serious and concrete vision of the current political reality that will keep them from being duped by rhetoric and show instead that behind every gesture, every pose, and every legislative measure there is a set of needs that these things serve. Only then will the professor be able to talk of fascism without recourse to the hymns of praise that so revolt him and without the clumsy evasions that revolt the students, discussing it instead as a current historical phenomenon that can be analyzed in terms of its origins, its causes in the post-war crisis of the middle class, its agrarian and petty bourgeois social makeup, its servitude in becoming the tool of Big Capital, and its reciprocal relations of support with the Monarchy and the Church. Only in this way can the origins of nationalism be sought in the ideologies of Bismark and of France in the early 20th century as distinct from the national unification movements of the 19th, showing the vitality and historical justification of the latter, and making it clear how today, now that national unification has arrived, the same words are being used and the same ideals exploited for purposes quite different from those that gave rise to them: purposes of imperialistic expansion that benefit no one but the big capitalists. This is the only way young people will come to understand how it is that in a Europe in which national problems have been almost completely resolved, the only point instirring up national feelings that no longer have a real object to turn to is to distract attention from the real burning question of the age: the social problems within each country. This way they will also understand how, in the area of relations between one country and another, an ideology of all against all can be replaced with the ideology of cooperation of nation with nation, leaving to each the chance to resolve its own internal contradi-

ctions. This is the only way to set an ideal before the eyes of the young that includes the knowledge that they indeed belong to a national community, but that it has a function and meaning in the larger arena which is the human community. And in doing this, in my view, the schools should not (as they often do) show or imply a limitless admiration for democracies like France or England or the United States. In spite of holding on to their democratic forms of government, these were nevertheless the countries that introduced the concepts of imperialism and colonialism to the modern world and in the recent Abyssinian crisis it was clear that attempts to defend them found no resonance in the expectations of even the most unprejudiced young people. Undoubtedly, siding with one or the other of these countries is appropriate in certain political situations. But the task we can perform in the schools is more general. And it would be neither fair nor possible, talking to young people who see things with innocent, and therefore unprejudiced eyes, to deny that the present balance in Europe, built as it was by capitalist countries, is intended to preserve these countries' commercial and colonial privileges. This fact is there for all to see, and for a professor to challenge it would give his teaching a sectarian tone that would alienate the minds of his students.



## 2. LEARNING FROM ALBERT HIRSCHMAN

### Three Texts on (and around) National Power

Luca Meldolesi: “Infinitely naïve”? An introductory note on *National Power and the Structure of Foreign Trade* by Albert O. Hirschman (1945). Remembering Marcello de Cecco.

- Albert O. Hirschman: “Preface” to *Potenza nazionale commercio estero. Gli anni trenta, l’Italia e la ricostruzione*, Pier Francesco Asso and Marcello de Cecco, eds. Bologna, Il Mulino, 1987.
- Albert O. Hirschman: “Etude statistique sur la tendance du commerce extérieur vers l’équilibre et le bilateralisme”, original mimeo – 1939.
- Albert O. Hirschman: “Bilateralism and ‘Proportionalism’ – Two Aspects of Trade Structure”, *Review of Foreign Developments*, December 1946.

Appendix:

- Pier Francesco Asso: “Bilateralism, Trade Agreements and Political Economists in the 1930s: Theories and Events Underlying Hirschman’s Index”, *Political Economy*, 1988, n.2 (courtesy of Pier Francesco Asso).

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#### “Infinitely naïve”? An introductory note on *National Power and the Structure of Foreign Trade* by Albert O. Hirschman (1945). Remembering Marcello de Cecco

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by Luca Meldolesi

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*The present note aims to explore some aspects of the young Albert Hirschman’s political inspiration that emerge from his writings, especially National Power. The incentive for this is that now, considering the historical development of his thinking, including his repeated returns to this early book, and what has happened since then down to the present, it is finally possible to question whether and how, under current conditions, one should help controlling and gradually master nationalistic tendencies.*

1 - Following the enactment of Mussolini’s racial laws, Albert Hirschman escaped by pure chance (he happened to be in the mountains) from the police raids of 9 September 1938 that led

to the capture and imprisonment of his brother-in-law, mentor and close friend Eugenio Colorni. He returned to Paris, where he began a collaboration with the newly founded Institute of Economic and Social Research directed by Charles Rist and Robert Marjolin as an economics journalist specializing in the Italian economy<sup>1</sup>. In this role he came into contact with John Bell (Jack) Condliffe<sup>2</sup>, an economist from New Zealand who had studied at Cambridge (UK) and who was organizing a “Conference generale d’études sur les politiques économiques et la paix” at Bergen, Norway for the League of Nations<sup>3</sup>.

At the request of Condliffe, Albert then wrote “Mémoire sur le contrôle des changes en Italie”<sup>4</sup> and “Etude statistique sur la tendance du commerce extérieur vers l’équilibre et le bilateralisme” (included below)<sup>5</sup>.

“Using the formula of standard deviation to measure the extent to which import and export from and to particular countries are consistent with the relation between total import and export, Mr. Hirschmann,” Condliffe recalled<sup>6</sup>, “has calcula-

ted indices of bilateralism” for five countries: Great Britain, Germany, Netherlands, Belgium and Sweden. The result (1929-37) was a strong tendency toward bilateralism (and therefore away from multilateralism) in all five countries...

“Dr. Hirschmann’s results,” Condliffe added<sup>7</sup> (1940, p. 283-84), confirming previous studies made with different methods by the Economic Intelligence Service of the League of Nations, “offer striking evidence of the extent to which bilateral is replacing multilateral trade<sup>8</sup>. There are three main reasons why this trend to bilateralism has been economically disadvantageous in recent years. It destroys the effective international specialization that is based upon price comparisons in a world market, directs trade into politically rather than economically advantageous channels, and renders this trade more erratic since the bilateral bargains on which it depends may be abruptly terminated for political reasons”<sup>9</sup>.

Later, as we know, Albert Hirschman was once again “captivated” by political commitment. He enlisted in the French army; after his demobilization, he took the name Albert Herman and joined a group in Marseilles directed by Varian Fry that was dedicated to rescuing European intellectuals and artists<sup>10</sup>. Almost at the point of being found out, he escaped on one of the group’s roads through the Pyrenees and traveled to the United States from Lisbon on a visa obtained through the presentation thanks to Condliffe of a Rockefeller fellowship<sup>11</sup>. While this was without doubt an incredible journey, Albert had had no alternative but to follow it. At the same time, as he wrote to his mother, it might allow him to show, after the fact, that he deserved the luck that had so far been on his side<sup>12</sup>, and might in the end lead him back to his studies.

It made sense that after a period of political initiative (let’s call it) as intense as this had been, the

personal and professional aspects of Albert’s life should take precedence. When he arrived in Berkeley (Cal.), he kept away from the political gossip of the European “survivors” and their friends; he fell in love with (and then married) Sarah Chapiro<sup>13</sup>; and resumed his collaboration with Condliffe. The latter, in the meantime had published *Reconstruction of World Trade. A Survey of International Economic Relations* (1940) and had drawn inspiration for a new collective study, the “Trade Regulation Project”, on “how states manage their commercial relations in ways that enhance or thwart cooperation between governments and thus keep peace or fuel conflict”<sup>14</sup>.

Hirschman gave serious thought to what he should do<sup>15</sup>; finally, in agreement with Condliffe, he decided to concentrate his efforts on the first of his famous monographs: *National Power and the Structure of Foreign Trade* (written in 1941-42 and published in 1945). It is a book of great appeal, “of uncertain classification and exceptionally long lived”<sup>16</sup>. It deals at the same time with the history of thought in political-economy (and economics), economic theory, and the statistical analysis of international trade, and may be read retrospectively as a general logical background for Hirschman’s work. It belongs to that small group of works written by intellectuals from Europe aimed at making clear to the educated English-speaking public what actually happened in the great German imperialist expansion and why. Finally, its aim was to combine a purely political desire to contribute on an intellectual level to the successful conclusion of the ongoing conflict with an individual need for professional affirmation in the field of economics and statistics<sup>17</sup>.

Of course, and not least out of respect for these choices, understanding *National Power* means approaching the economic and political problems of the time. How? One way is to keep in mind, con-

currently, a vast interpretive range of international economic relations, perhaps beginning with Condliffe's outline<sup>18</sup>; another is to begin, as a preliminary step, with a survey of the literature on the topic, which Hirschman evidently considered incomplete<sup>19</sup>; yet another is to study *National Power* beginning with the author's experience – with the many observations he brought with him from Europe, above all his view of the statistics on commerce between Hitler's Germany and the Balkan area which, as is known, acted as a detonator for the construction of the entire work<sup>20</sup>...

#### ***National Power* and the “methodological break”**

2 - In the opening of *National Power*, Hirschman observed that discussion on the extensive use of international economic relations as an instrument of national power “has not generally proceeded from a re-examination of the various theories of imperialism.” Instead current “inquires mostly take as possible or as given a power-minded policy, whatever may be its political, economic or psychological origins, and examine the use which such a policy make of the economic instruments at its disposal. [...] The present inquiry”, he added, “is directed [however] to a more fundamental problem. It is concerned with the nature of a system of international trade that can very easily be exploited for purposes of national power policy. Is there [he asked himself] in the trading system some inherent weakness which makes it vulnerable to the will of any government so minded to use it in the pursuit of power?”

*National Power* therefore represents a return to basics<sup>21</sup>, centered on an idea on German commercial expansion in Eastern and Southeastern Europe that he had brought with him from France, and that he had already discussed with Abba Ler-

ner in Chicago, on his way to Berkeley (by train)<sup>22</sup>.

Much later, in the early 1980s<sup>23</sup>, Albert proposed to a mutual friend, an economist expert in currency and international economic history, Marcello de Cecco, that he publish in Italian a selective anthology of his writings during the Second World War – which Marcello proceeded to edit with one of his ex-students, Pier Francesco Asso, under the title *Potenza nazionale e commercio estero. Gli anni trenta, l'Italia e la ricostruzione* (1987)<sup>24</sup>

In this anthology, along with the above mentioned “Mémoire sur le controle des changes en Italie” and several postwar pieces on Italy, Asso and de Cecco published “Part One: Theoretical and Historical Aspects” from *National Power* and the *Structure of Foreign Trade*<sup>25</sup>. As they state in their introduction, they wanted to “present a contemporary interpretation of that period capable of inspiring an analysis of current international economic history on the basis of hypotheses ‘alternative’ to the theoretically orthodox ones that continue to permeate the study of economic reality”<sup>26</sup>

“In any case”, they added<sup>27</sup>, “we have to say that the texts offered here strike us as important because they transcend their immediate historical climate. What mainly interests us, and we hope will interest the reader, is their methodological message” – that is, Hirschman's decisive stance “concerning three analytical-methodological pillars of political and economic theory dominant at the time: the orthodox analysis of gains from trade; the over-use of the logical-deductive method and the connected losses in heuristic value; the identification of economics as an end in itself and not as an instrument of statecraft”.

3 - The idea then – if I understand correctly – was to learn to navigate between history and economic theory in order to explore anew, à la Hirschman, the relationship between national power

and foreign trade. So the two curators, after reviewing some of the essential terms of their analysis (such as the affirmation of bilateralism in the evolution of international trade between the two wars; its relationship with domestic demand support policies triggered by the crisis of '29; the exercise of power politics in various trade integration projects; the acquisition of significant positions of control over sources of supply, the composition of imports, and their users; the divergent results reached by the main countries involved; the reception in successive periods of the works of Hirschman presented in the book; the ability of such works in interpreting historical facts as compared with the literature on the subject), concerned themselves in particular with the specific aspect of Albert's work that dealt with “gains from trade”.

“Carried out utilizing Marshall's theoretical apparatus”, they affirm, “[Hirschman's analysis] is able to reach conclusions different from those of Marshall. It is an analytical operation of the same type as the one applied by Keynes to orthodox theory, and has the same purpose: to present arguments and considerations in a way that makes them plausible to orthodox economists even though they arise from philosophical foundations opposite to their own”<sup>28</sup>. They added, however, that in so doing the Hirschman of *National Power* “is not yet a ‘subvertor’ of orthodox analytical methods. Like Keynes, he seems above all intent on showing that Marshall's own instrument can be used to play very different music, and that such music is not typical only of Germanic folklore, but belongs to the common tradition of modern states”. This would indicate a real “methodological break” between Hirschman's writings during the war and those that followed<sup>29</sup>.

The Hirschman of *National Power*, the two editors concluded, “seems to be an economist more

susceptible to the charm of the power of economic theory [than he would later become], and to its enriched but systematic use as a means of understanding and describing a changing reality. His is an attempt, rigorous although at times naive, to provide an alternative vision, the crowning of an intellectual process that starts within an already established theoretical tradition and takes careful account of the economic lessons of the thirties and the post-Versailles period in general”<sup>30</sup>.

4 - As shown in Hirschman's “Prefazione” to *Potenza nazionale* (see below) elicited by these statements, Asso and de Cecco succeeded – and it is no small feat – in opening the way to new reflections on the subject by the Author himself (a case unusual in his vast intellectual opus). In addition, they suggested an interpretive-cognitive perspective that in my judgment is worth re-examining from various points of view.

In the first place, a glance at the first part of *National Power* reveals that the text, unlike most of the scientific literature on international trade, actually deals in depth with what the title of the book promises – that is to say, with how (via supply and influence effects) national power can effectively be *increased* through foreign trade<sup>31</sup>. In the first chapter, Hirschman published an agile review of this theme in the history of economic thought<sup>32</sup>. He then took up the task of discussing it in a broader key chapter – the second, entitled “Foreign Trade as an Instrument of National Power” – which culminates in a daring reworking of current economic theory.

Why? Albert's youth at the time comes to mind; his need for professional affirmation in the notoriously stern atmosphere of Economics. But such thinking is off base: it was nothing of the kind. In his “Prefazione” to *Potenza nazionale* (May 1987), so far unpublished in English, it was Hirschman

himself who offered a quite different interpretation, one that at first glance might seem paradoxical, that seeks to substantiate an exquisitely political (rather than economic-theoretical) “effective cause” for this particular way of proceeding.

The critical passage is worth re-reading: after recognizing the problem “perceptively observed” by the two editors, Albert commented that “Up until the final defeat of fascism and Nazism, everything I wrote was in some way made to fit into that struggle; [while] after 1945 the tension had dropped, with consequences of various kinds. First of all, there was no longer the same necessity as before to subordinate all thought to a single goal, always coming to definitive conclusions capable of inspiring action”<sup>33</sup>

The “reason” behind the Hirschmanian analytical exposition of the commercial domination of the great powers over the small and weak ones is not to be sought in an interesting re-working of economic theory as such, leading to certain political conclusions (of which we will speak forthwith), but rather the contrary: it was his anti-fascist and anti-Nazi *political* choice that prompted this illuminating theoretical-economic exercise (illuminating in itself and for economists in general)<sup>34</sup>.

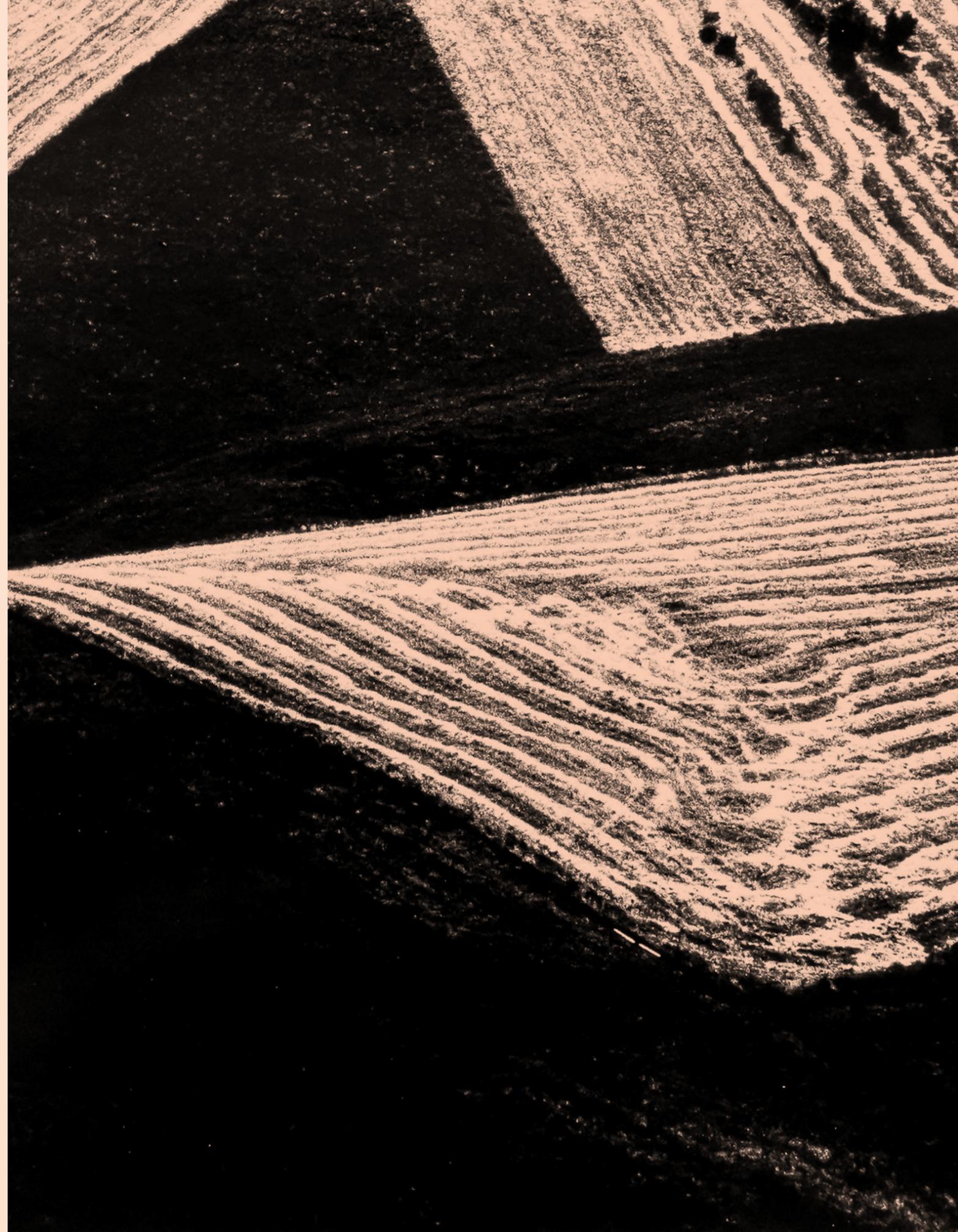
And thus it is the “federalist” proposal to limit drastically the sovereignty of states and place postwar foreign trade under international control that “rules the roost”<sup>35</sup>. As unexpected – if not downright far-fetched – as it may seem in retrospect, there can be no doubt that in the eyes of Hirschman, the re-working of the pure theory of international trade and of the gains from trade fits perfectly into the struggle going on at the time<sup>36</sup>.

Actually, if we re-read the text with this explanatory key in mind, it immediately becomes clear that this is a pet theme of Hirschman’s – as in the introduction, for example, when he points to the end of the first section where “we arrive at the con-

clusion that nothing short of a severe restriction of economic sovereignty can [...] prevent the use of foreign trade as an instrument of national power politics”; or at the end of the first chapter, where he states, “we believe that by a theoretical analysis we may arrive at a fundamental diagnosis and ultimate cure of the ills which under the name of ‘economic penetration’ and ‘bloodless invasion’ have repeatedly afflicted recent history”<sup>37</sup>.

On the other hand, if we move ahead to the second chapter with this key in mind, it is easy to see that the youthful Albert was applying his ingenuity (enjoying himself) as he worked his way gradually through the labyrinth of literature on the economic theory of international trade, collecting useful insights on national power, correcting others, patiently building on still others, etc.<sup>38</sup>. There follows a careful line of reasoning that clarifies policies of supply and of commercial influence aimed at increasing the power of countries that have no trading alternatives or have difficulty adjusting to them; next there is an outline summary and an application of it to the actual policies followed by Nazi Germany, policies pursued brutally, through processes of trial and error, with the aim of increasing national power. Finally, there is a theoretical and economic re-working of the explanation of how this was actually possible and, at the end, a look back to try and better understand what really happened between the wars...

“The important point is”, Hirschman had previously written<sup>39</sup>, “that power elements and disequilibria are potentially inherent in such ‘harmless’ trade relations as have always taken place, e.g., between rich and poor, big and small, agricultural and industrial countries – relations that could be fully in accord with the principles taught by the theory of international trade<sup>40</sup>. Political power may only be latent in such commercial relations. But so long as war remains a possibility



and so long as a sovereign nation can interrupt trade with any country at its own will, the contest for more national power permeates trade relations, and foreign trade provides an opportunity for power that it is tempting to seize”.

### “Infinitely naïve”?

5 - “The Nazis”, Hirschman concluded<sup>41</sup>, “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 of 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”.

Actually, this is his proposal for a frontal attack on national sovereignty, which Hirschman would later consider to be “in retrospect infinitely naïve”<sup>42</sup>. But was it, really? This is the question that this note intends to explore.

In the first place, the doubt in question has (“Colorni-like”) a certain foundation. The thesis did not spring from the mind of Zeus: it responded, as mentioned, to a political and intellectual need that Hirschman felt deeply, and it dovetailed with the collective efforts developing around Condliffe toward the regulation of international trade which should be established after the war as a bulwark against new conflicts. Moreover, it had led to a significant analytical result regarding a mainstream economic literature proud of its scientific appro-

ach, but de facto out of touch with the real world<sup>43</sup>. Finally, it was perfectly in line with and drew inspiration from the federalist theses of Albert’s sister Ursula and Eugenio Colorni which – while *National Power* was being written – were advanced (sub speciae unitatis europeae) at Ventotene in a work group that also included Altiero Spinelli and Ernesto Rossi.

Why dominate? – Albert wondered at Berkeley. Why dominate? – wondered his California colleagues. Why dominate? – wondered his relatives and their friends in Italy. The importance of *National Power*, first and foremost, is its straightforward posing of this question.

Thirty-five years later, as we know, Hirschman himself – once again proving to be “his own best critic”<sup>44</sup> – initiated a characteristic process of correction and re-affirmation of his own point of view (which he would later call his “propensity for self-subversion”<sup>45</sup>). This ultimately led to an interesting development in his reasoning.

In the mid-seventies, in fact, Albert had come across a theory of imperialism of Hegel’s<sup>46</sup>; and he had been invited to chair the 1976 plenary session of the Latin American Studies Association, entitled “Dependency Theory Reassessed”. “In my remarks as session chairman”, wrote Albert, opening “Beyond Asymmetry: Critical Notes on Myself as a Young Man and Some Other Old Friends”<sup>47</sup>, I presented some of the speakers, such as Fernando Henrique Cardoso and Osvaldo Sunkel, who were among the first to discuss ‘dependencia’ in the early or mid-sixties, as the founding fathers of the theory. Then I proceeded to introduce myself as the frequently unacknowledged founding grandfather, on the strength of my book *National Power*. The point, however, he added, “is not to substantiate this claim; it seems more useful to spell out my critical present perspective on that *Jugendschrift* of some 35 years ago [...] and, in the

process, to criticize as well some aspects of the dependencia literature”.

This is his propensity to self-subversion, undertaken not least “pour encourager les autres”. It is a crucial démarche that allows him to republish a (by then) largely unknown book, *National Power*, using “Beyond Asymmetry” as “Preface to the Expanded Edition”.

To that purpose, Hirschman<sup>48</sup> borrowed the following opening sentences “from the forward to the second edition of Erwin Panofsky’s classic”: *Idea: A Concept of Art Theory* (1924). “The suggestion of republishing a little book that appeared more than thirty-five years ago and has been long out of print is uncommonly flattering to the book’s author. But at the same time it presents him with a problem of conscience. It is only too clear that in such a long time not only has scholarship as such gone forward, but also the opinions of the author himself, even if fundamentally unchanged, have been altered in many details. To take this development into account would be possible only if the author could bring himself to write a completely new book probably three or four times as big; but for this he lacks the time, the strength, and – to speak frankly – the inclination”.

“Any ‘updating’ of this old essay of mine”, Albert commented<sup>49</sup>, “would indeed be a formidable undertaking. My main object of study was the politics of *freeing trade*, the possibility of using trade as a means of political pressure and leverage. During the first two decades of post-war period, foreign aid<sup>50</sup> and capital flows largely replaced trade as the principal arena for the political element in international economic relations. More recently, with the negotiations at the United Nations Conference on Trade and Development and the discussion about the New International Economic Order, trade and the institutional framework within which it is carried on have come

back into the picture. Time and inclination apart, – he concluded – any attempt to refurbish or modify the book’s analytical tools so as to have them come to grips with this experiences could easily become an exercise in self-importance”.

6 - However, Hirschman added, this was not the case for a simpler purpose: “criticizing one of its features that has become unsatisfactory to me”<sup>51</sup>. He was obviously referring to that aspect of the text that he had come to consider “infinitely naïve”. Indeed, after having recalled some of the key aspects of *National Power*, he wrote<sup>52</sup>: “having explained how relations of influence, dependence, and domination arise right out of ‘mutually beneficial’ trade I left matters there except for some, in retrospect infinitely naïve, proposals to ‘arrive at an internationalization of the power arising out of foreign trade’ [...]. In other words, I invoked a *deus ex machina*: I wished away the unpleasant reality I had uncovered instead of scrutinizing it further for some possibly built-in modifier or remedy”.

At this point we already grasp that Albert has in mind a basically interactive conception of the dominance relation, which recalls, as he himself told me, a well-known page on the relation between master and servant from Hegel’s *Phenomenology of the Spirit*<sup>53</sup>. “It may be instructive,” Hirschman continued<sup>54</sup>, “to indicate how the common defect of my original treatment and of most *dependencia* writings could be remedied by taking as a point of departure the very situation of asymmetry previously noted: an identical trade flow that represents the bulk of the small, poor country’s total trade while occupying only a small percentage in the large, rich country’s trade. The straightforward inference of this observation is that the large country, having a much smaller stake in the common trade than the small country, is able

to bend the latter to its will by subtle or not-so-subtle hints that the benefits of this trade might otherwise be withdrawn. But the next question is now: how solid or stable is the resulting relation of domination and dependency?"

A new observation (or rather a new set of observations) is needed to obtain a relation more reliable than what emerges from the simple recognition of that domination. "Perhaps," Hirschman suggested<sup>55</sup>, "such a relation can be made to arise out of the following conjecture, based primarily on the observation of United States-Latin American relations. A country whose trade or investment is dominated by ties to a large and rich country is, at some point, likely to devote its attention with single-minded concentration to this uncomfortable situation and to attempt to loosen or to cut these ties".

That is to say: referring to the interactive relationship between dominant and dominated countries, it is immediately clear that Albert's "possibilist" conjecture regarding United States-Latin American (and Soviet Union-socialist countries) relations corrects a theoretical weakness in the previous treatment<sup>56</sup>; but that, however illuminating, it fits with specific situations which cannot easily be reproduced in other times and arenas.

7 - And what is more, maintaining that "our basic economic disparity generates a disparity of attention"<sup>57</sup> should not in my opinion be interpreted as indicating that small and poor ones enjoy a political asymmetry, while large, rich countries simply enjoy a basic economic asymmetry (and what would become then of the political-military asymmetry?). Actually, economic and political aspects of the question cannot be fully separated. Indeed, when we talk of economic and political disparities, we indicate the *predominant influence* (in certain conditions) of one or of the other aspect within a

many-sided dominance relation that evolves over time. In such a way that it is perfectly possible, as we see today, that the dominant country should decide at a certain point to... reconsider, from the ground up, its *trade policy*.

In saying this I certainly do not intend to deny, in reference to United States-Latin American relations during the cold war period (and other important cases), that the "wise and salutary neglect" of the dominant country and the "correspondingly concentrated attention on the part of dependent country [...] is inscribed in the asymmetrical trade percentage just as much as the facts of dependence and domination themselves"<sup>58</sup>. I just want to point out, as Hirschman himself makes clear, that there are limits to the room for maneuver that dominated countries have; and that there are also many other cases of changes in dominance relations that need to be taken into account, such as those driven by economic performance<sup>59</sup>.

What all this adds up to is that moving "beyond asymmetry", as in the title of the essay we are discussing, undoubtedly takes us into a very complex analytical and normative field that leads us instinctively in two opposite directions. In one of these, the focus remains on the existence of dominance relations as they gradually take many different forms, all needing to be decoded. In the other lies the need to understand thoroughly – in an articulated, subtle, and perceptive way – the specific nature and evolutionary processes of these forms, through "drilling" *in corpore vili*, comparisons, cautious generalizations, etc., in order to focus on their potential for change and thus be able to guide concrete action.

This is a need that today seems increasingly urgent, after another 35 years. Indeed, it takes only a moment of reflection to realize that the main economic and political events that have in the meantime influenced international commerce – such as



the rise of the WTO, the so-called globalization, the fall of the Berlin wall, the eastward expansion of the European Union, etc. – have been accompanied by processes of horizontal and vertical power dislocation.

And there is more: after an entire era of trade liberalization (which Hirschman had basically called for in *National Power*), we now observe askance a sort of “about-face” from an American administration which has, it would seem, rediscovered protectionism and hence bilateralism in foreign trade (in the form of the direct “deal”) in opposition to multilateralism<sup>60</sup>.

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#### Concluding remarks

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8 - In the first place, we can finally answer the question that this note began with: “Infinitely naive”? Yes, of course; but up to a point – seems to me the correct answer. Because in actual fact, the solution offered by the young Hirschman of a frontal attack on national sovereignty over the issue of foreign trade... was not feasible; while the idea of the mature Hirschman – to exploit with skill and perseverance the maneuvering space that in fact exists within the dominance relation itself – most certainly is, and has a long history behind it that would be worth exploring. But it is also true that nationalism, imperialism, and relations of oppression and domination have in no way abandoned this world; on the contrary, they are presently enjoying a period of strong resurgence in large countries like Russia, China and India, in middle-sized countries like Turkey or Saudi Arabia, and even in the West: from Brexit to Trump to Macron (not to mention, of course, Germany)...

Bless the naivety that allows us to see clearly and act accordingly – how we would marvel in seeing the world from this angle. Not least because

naivety and even innocence undoubtedly had an important role in the overall intellectual development of Eugenio Colorni and Albert Hirschman – right from the moment in 1937 when Colorni wrote, referring to his students, that young people look at the world “with eyes that are naive, and therefore without prejudice”<sup>61</sup>.

In addition, if we turn back and reflect on what happened in the last century (two world wars included), we cannot help but observe that the overall record of dominance relations is anything but reassuring. Gradual as it is, the world-level battle for federalism – as Eugenio Colorni and Albert Hirschman in effect imagined it in Trieste in 1937-38 and as each on his own then began to develop it in the early 40s (Eugenio with the Ventotene group and Albert writing *National Power* in California) – remains crucial. It is still the pole star for any carefully considered democratic political action<sup>62</sup> alternative to nationalism and sovereigntism.

From this perspective, it is necessary then to invert time’s hourglass and defend the young Hirschman from the retrospective (and corrosive) irony of his mature self. This in fact means maintaining a value viewpoint without which it is easy to lose one’s bearings – what the Albert we knew sometimes evoked tersely (but also somewhat enigmatically) when he said we needed to work “for a better world”. It also means consolidating and building concretely on the positive results achieved, limited though they may be, beginning with the presence of the UN and the international community (above all in humanitarian emergencies) and with the pushes for federalism that have shown up at the regional level on different continents.

Moreover, partial it may be, any process of liberation from a relation of dominance requires a careful analysis of particular concrete conditions and their evolution, an analysis that seeks the famous constellation of favorable circumstances to

be wisely exploited in the service of the possible desired change. It is also essential to take account of dominance relations in their entirety, not only considering the aspect that is (generally) most familiar. This means going beyond simply making better use of the maneuvering space that the relation usually affords to the dominated country: through multiple initiatives (from the bottom and/or the top, from outside and/or inside), that space must be expanded and the political choice more beneficial to the dominated people or peoples must prevail in the dominant country. This is what Eugenio Colorni began to think (and put into practice) starting in May of 1943<sup>63</sup>. It is what Albert Hirschman pursued, shortly thereafter, in the experience of the Marshall Plan<sup>64</sup>, starting with operations in his own office. “Above all”, he wrote in the 1987 “Prefazione” to *Potenza nazionale* included below, “I worked hard to undermine the certainty of my colleagues (whether pro-market or pro-planning), many of whom saw no harm in using the fullest extent of their power in the service of their opinions and beliefs”.

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#### Post scriptum

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Keeping inter-imperialist rivalries under control and pointing the world in a civilizing direction (that is, toward collective prosperity, democracy, justice, and peace) cannot help but play a central role in the present and future experience of humanity. This is an enormous problem that comes up again and again both in the short and the long run. How can we bring trade operations under international regulation? How can the authority of the international community be increased in relation to the various individual powers? How to restore vitality to the WTO and trigger a new phase of development in world trade? These are questions that

in practice, converted into concrete action, take on different characteristics, depending on how each of us is positioned and how events unfold.

Absorbed, as we are, in current predicaments, we are often unable even to *imagine* positive evolutions of the human experience. Of course, we all know that the “end of history” incautiously theorized by Francis Fukujama after the fall of the Berlin Wall is, in retrospect, hopelessly out of truck. But we often have no idea on how to even desire human progress, improvements, as part and parcel of individual and group orientation without illusions; as something we need at least to glimpse at – even as hypotheses or conjectures. Therefore, it may be useful to spell out a few points on a target not so far away: a sort of up-dated outline of the federalist polar star initially, as we have seen, suggested by Eugenio Colorni and Albert Hirschman.

Tentatively, it seems to me that: 1) one should work for gradually taming nationalistic-imperialistic rivalries, big and small, and their dangerous, present and future possible consequences, by enhancing human solidarities among different peoples and within them; 2) as an alternative to nationalist-imperialist undertakings, one should favor federalist-democratic processes that actually exist inside and around many realities all over the world; 3) the West, in particular, should unleash the potential of its regional initiatives – as Ue, Nafta and Marcosur; and, in so doing, quicken up its material and social progress by processes of democratization and empowerment of people in territories, countries, regions, continents; 4) moreover, it has to learn from everybody else to qualify its legitimate ambition: i. e., be a *magnet* in the civilizing process (incivilimento) by encouraging liberty, democracy, well-being, discoveries, improvement, welfare, justice, human rights, solidarity etc. world-wide; 5) and, last but not least, to prevent future possible disasters, it should re-

cognize that ordinary, exclusive interest in one's own garden, with the carelessness that it implies for the life of billions of buddists, hindus, muslims etc. is becoming more and more grotesque in the modern world.

I understand that this pole star is observed from my observatory. Other ones, say in Africa or in Asia, would produce partly different pictures. But it is true, however, that the comparison between what we desire and the actual wear and tear of the world around us should suggest us what to do. Eugenio Colorni believed that an insurrectionist anti-Nazifascist movement would have decisively helped the cause of European federation in the eyes of the Allied Forces; later Albert Hirschman set down for the European-federalist-friendly-side of the Marshall Plan, and then worked intensely for the development of Latin America.

Indeed, one may conclude, the work for a better world may take thousand of different forms and suggest incredible, sensible adventures: as well...

1. In this area he had in fact already published "Les finances et l'économie italienne: Situation acutelle et perspectives", Supplement au bulletin quotidien 123, n. 1 (June 1938), Société d'études e d'information économique. This essay was followed by a "Histoire de la lire de la rivalorization au controle des changes" (1938a, unpublished) and three quarterly reports, "Italie", in the January, April and July 1939 editions of L'activité économique. This specialization, as an economic journalist expert on the Italian economy, had been constructed gradually by Hirschman in Trieste, where he worked with the institute of statistics at the university, directed by Prof. Paolo Luzatto Fegiz, and applied himself to a careful scrutiny of the Italian financial newspapers. The purpose was to circumvent the regime's increasingly restricted publication of economic statistics and to obtain from other sources data on "industrial production, real wages, the budget, foreign trade, foreign exchange reserves and so on. I enjoyed the detective work involved", Albert later recalled (1995, p. 118), "and whatever success I could claim in outwitting the fascist authorities".

2. It was Henri Piatier, a leading French statistician who had read Albert's pieces on Italy and had then met him, who spoke to Condliffe about him (Adelman, 2013, p. 162).

3. "Conference permanente des hautes études internationales", XIIème session, Istitut international de Coopération intellectuelle, Société des Nations, June 1939. For obvious reasons of force majeure, the planned conference never took place. Condliffe's opening paper and Piatier's summary on exchange control were published in 1940, while most of the other contributions, with specific studies on 82 different countries, circulated in manuscript form.

4. A highly detailed and meaningful documentation of the diverse aspects of the question: the origins of control, its administrative organization, payment mechanisms, commerce and trade policies, currency, the economy, and economic trends. Archival research and successive studies have confirmed "the 23-year-old Hirschman's capacity for information and notable gift for intuition" manifested in this work (Asso and de Cecco 1987, p. 20; Meldolesi 2013 p. 79 and n. 9). Skimming through this text it is easy to see how Albert's expertise on the Italian economy had by then reached a surprisingly advanced level – above all concerning the intricate state-controlled commercial web that typified the economy of that country at the time, with its sub-imperialist nature with respect to Germany. Along with the statistics on German trade with Eastern and Southeastern Europe, this minute knowledge of exchange rate control in Italy and its structural effects undoubtedly had a leading role in the origins of National Power. This in the sense that, starting from that knowledge, Albert for the first time developed a general question of how a national power can actually shape the countries that it dominates through commercial flows.

5. In this text, for the first time, Albert placed his youthful "statistical expertise" (see n. 1 above) in the service of economic analysis. "Etude statistique sur la tendance du commerce extérieur vers l'équilibre et le bilateralisme" (1939a), is today also available in English in Political Economy 4, n. 1, 1988, P.F. Asso, ed.

6. Condliffe 1940, p. 283. Hirschmann – it will be noted – had not yet lost one of the final n's of his surname, which happened when he first went to the United States (Adelman 2013, p. 187).

7. Condliffe 1940, p. 283-84.

8. Albert later returned to this theme. Working for the international division of the Federal Reserve Board of the United States, he wrote (as his first article in the institute's overseas economic bulletin – the Review of Foreign Developments), "Bilateralism and 'Proportionality' – Two Aspects of Trade Structure" - 1946 (also included below). In this article, along with bilateralism as it had been studied by the Economic Intelligence Service of the League of Nations, Hirschman took into consideration (p. 2) "an additional aspect of trade structure, namely, the degree to which a country maintains the same ratio of imports to exports with all its trading partners".

9. As an aside, I would like to add that this first statistical analysis of Albert's (perhaps together with "Bilateralism and 'Proportionality' – Two Aspects of Trade Structure": cf. previous note) ought,

in my view, to be recommended reading in the American middle schools, as a serious "reminder" for those who discover lightweight protectionist bilateralism with no historical memory – almost like it was the egg of Columbus, rather than... the "tool of power politics par excellence" (Asso and de Cecco 1987, p. 15).

10. With the nickname 'Beamish': meaning hilarious and radiant – for his capacity to get things done with a smile.

11. To be enjoyed at the University of California at Berkeley where Jack Condliffe had become professor of economics: Coser 1984, p. 164. The story of the initiatives undertaken in his favor by his cousin Oscar, Max Ascoli, Jack Condliffe and others is told in detail by Adelman (2013, p. 181-82).

12. See his letters to his mother of the 8th and the 13th of February 1941 - in *ibid.*, p. 185-86. "I shall enter this country [the US] – wrote Albert in the second letter – with the will of getting to something, of showing that I have merited the extraordinary chain of lucky incidents which have led me here". (Notable is the typical Hirschman inversion of the cause-effect relation that later comes to the fore in *The Strategy* – in the sense that an unexpected positive event can lead its beneficiary subsequently to live up to it).

13. Sarah, from a good family of Russian-Lithuanian origin and educated in Paris, was an expert in philosophy and French (as well as Russian) literature. This was the origin of what she, along with Albert, called with a pinch of self-irony "the distinguished couple". Notable in this regard is the dedication that opens *The Rhetoric of Reaction* (1991): "To Sarah, my first reader and critic for fifty years" (i.e. since 1941-42); which in Italian (from Machiavelli and Gucciarini) reads: "A Sarah, primo lettore e critico dei miei ghiribizzi".

14. See Adelman 2013, p. 202. Albert's fellowship began with this project. Indeed, he presented *National Power* as "an outgrowth of my collaboration with the Trade Regulation Project" (Hirschman 1945; now 1980, p. xiii).

15. Although fully aware of the risks carried by the decision, Albert did not follow the advice of many to pursue a Ph. D because, he maintained, he already had a doctorate from the University of Trieste (something he continued to affirm till the end of his life). In reality, this was the first of what Hirschman himself later called (1986, p. 4) "a half-truth". His studies in economics had in fact begun in Berlin (at Humboldt Universität), continued in Paris (at the Ecole des Hautes Etudes Commerciales) and then in London (London School of Economics), and concluded in Trieste in 1938, where he received a degree in economics and trade (at the time equivalent to a BA), after having completed the required exams and discussed his (interesting) thesis, entitled "Il franco Poincaré e la sua svalutazione" [The Franc Poincaré and its devaluation] (now 2004).

16. Casanova (1990).

17. Meldolesi 2013, p. 80. I have considered the question of whether Jean Claude Casanova (1990) was right in maintaining that with *National Power* Hirschman found his inspiration all in one go. In a certain sense I have to say he was. But not only for the reasons given in the text; or because it links together the "order of power" of the German tradition and "the order of the market" of the British tradition. With this book (quite difficult to conceive and construct) Albert courageously carved out his innovative path (that of intellectual discovery indicated by Eugenio Colorni) as well as his way of developing it over time. In fact, it is a work eternally in the making – for reasons that, as we shall see, surprisingly extend into our own time (and beyond).

18. "This volume", Condliffe explained (1940, p. 9), "falls naturally into three parts. The first [Ch. 1-3] analyses the collapse of the international trading system that was restored, on the prewar model, after the last war. The second [Ch. 4-8] examines the challenge now presented by totalitarian methods of bilateral trade. The third [Ch. 9-11] surveys the problems that must be faced in any attempt to reconstruct world trade after the present war comes to an end. [...] It is a study in political economy rather than in economics or political science, [...] a personal interpretation of the conclusions to be drawn from a great body of original research [including the one prepared for the Bergen Conference: see n. 3 above] conducted in cooperative spirit by scholars from many different countries". Chapter titles: "The Background of Economic Policy", "The Process of Disintegration", "The Causes of Breakdown", "Regulated and Unregulated Trading Systems", "The Complication of Tariffs", "Quota Politics", "The Monetary Weapon", "Commercial Diplomacy", "The Limits of Regionalism", "New Aspects of International Organization", "The Conditions of Economic Co-operation".

19. So much so that he opened his introduction to *National Power* (1945, now 1980, p. xv) with the following statement: "A textbook for the modern prince should indeed contain, in addition to Machiavelli's classic chapters, extensive new sections on the most efficient use of quotas, exchange controls, capital investment, and other instruments of economic warfare. In this respect, practice has preceded theory. The extensive use of international economic relations as an instrument of national power has been together with the 'war of nerves', one of the main characteristics of the period" (emphasis added).

20. Because these statistics clashed quite literally with current teachings on the theory of international trade. "German-Bulgarian trade in 1938, for example," writes Albert in *National Power* (*ibid.*, p. 30-1), "represented 52 and 59 per cent of Bulgarian imports and exports respectively, but only 1,5 and 1,1 per cent of the German Imports and exports. These figures indicate that although the same absolute amount is involved, it will be much more difficult for Bulgaria to shift her trade with Germany to other countries than it will be for Germany to replace Bulgaria as a selling market and a source of supplies". (Note, in this regard, the typical Colornian-Hirschmanian logical process: an observation contradicting current thinking

must be taken very seriously instead of being filed away so as not to call into question the status quo ante [‘comfort zone’ included]. It is the petite idée, the Chinese paper flower that opens little by little when thrown into the water. In this case, as we shall see, this occurred for both robust intellectual efforts and successive self-subversions).

21. Hirschman *ibid.*, p. xv: also to cope with the fact that “practice has preceded theory” (see n. 19 above).

22. Hirschman had already met Lerner during his year at the London School of Economics (Adelman 2013, p. 121 and 189-90).

23. It was in the spring of 1983, to be precise, as guests of the de Ceccos in a “maisonette” at the Institute for Advanced Study at Princeton that Nicoletta Stame and I met Sarah and Albert Hirschman for the first time.

24. Hirschman 1987. (The two editors maintained in their introduction that the collected texts assumed a particular significance for the Italian reader because “they concern, to a great extent, facts about the economic history of our country, facts of which Albert Hirschman proved himself at an early age to be – and as we know remained thereafter – an extremely acute and passionate observer”).

25. To answer in quantitative terms some of the questions raised in part I, the second part of the book presents three statistical inquiries into the structure of foreign trade – “The Preference of Large Trading Countries for Commerce with Small Trading Countries”, “Concentration upon Markets and Supply Sources of Foreign Trade of Small and Weak Nations”, and “The Commodity Structure of World Trade”. Later, in 1951-52, Hirschman revised the final analyses of the book to reflect his emerging interest in underdevelopment. (Meldolesi 1995, p. 25-8).

26. Asso and de Cecco, “Introduzione” a Hirschman 1987, p. 8. This worthy intention was immediately put into practice in “Bilateralism, Trade Agreements and Political Economists in the 1930s: Theories and Events Underlying Hirschman’s Index” – an important essay by Pier Francesco Asso (included below).

27. Asso and de Cecco, “Introduzione” a Hirschman 1987, p. 8.

28. *Ibid.* p. 25-6. “Actually”, as they explained further on (p. 34), “in this work the main desire seems to be to find stable relations between magnitudes, so as to crystallize the analysis in a conceptual modelling alternative to the traditional one but still a mirror image of it”.

29. *Ibid.* p. 33 and 35.

30. *Ibid.* p. 37.

31. “While the proposals put forward by various schools of economic thought were usually aimed at strengthening the power of a

nation, Hirschman worked against the grain, taking national power as given and studying at a theoretical level the characteristics of foreign trade that can be exploited by the politics of power”. But “the ‘opposite line of causation – from political to economic asymmetry – is not analyzed”. (Meldolesi 1995, p. 12 and n. 21).

32. Which to the Hirschmanian reader calls to mind the more detailed discussions that would follow – such as those on economics and politics in *Passions* (1977) and on political thinking in *Rhetoric* (1991).

33. Thus it was at this point that a new orientation emerged, about which Albert wrote retrospective pages of great interest (1995, Chap. 14 and 1998, Chap. 2). Cf., also, Meldolesi 2014, Chap. 2.

34. Who, proud of their profession, obviously wants to be able to verify reasoning through theoretic-economic logic, perhaps accompanied by corresponding tables and figures.

35. Viewed from this perspective, the analogy with Keynes’s procedure in the General Theory proposed by Asso and de Cecco loses some of its critical-heuristic weight. It is true that both Keynes and Hirschman proceed with their re-workings in order to reach a determined result; but it is also true that while Keynes works in strictly economic terms, Hirschman speaks of politics and economics, as well as (albeit only one-sidedly, as we shall see,) of interaction between the two.

36. And precisely for this reason – it is worth noting – he ended up falling into a well-recognized type of thinking. With an intellectual archetype that can be traced back to Marx and Saint-Simon, “Hirschman used economic analysis here as a platform for stating a political thesis” (Meldolesi 1995, p. 16 and n. 23; and 1982).

37. 1945; now 1980, pp. xvii and 12.

38. See, for example, the following statement from Alfred Marshall (1923, p. 168): “The rich country can with little effort supply a poor country with implements for agriculture or the chase which double the effectiveness of her labor, and which she could not make by herself; while the rich country could without great trouble make for herself most of the things that she purchased from the poor nation or at any events could get fairly good substitutes for them. A stoppage of the trade would therefore cause much more real loss to the poor than to the rich nation”.

39. 1945; now 1980, p. 40.

40. “It is of course this position”, Hirschman commented later during the Cold War (1978; now 1980, p. vii), “which accounts for the durability of my book: the political dimensions and side effects of foreign trade and investment are still very much with us – two obvious examples are the relations of the United States with Latin America and of the Soviet Union with Eastern Europe”.

41. 1945; now 1980, p. 79.

42. Hirschman 1978; now 1980, p. vii.

43. And had also led to an analytical result that was far from secondary for the less-mainstream literature – mercantilist first, then free-marketeer, then imperialist – which did take on board some valid points, but then had trouble processing them properly.

44. Asso and de Cecco, “Introduzione” to Hirschman 1987, p. 34.

45. Hirschman 1995.

46. “While doing research for *The Passions and the Interests* – Hirschman later wrote (1981, p. 141) - I found, to my considerable surprise, that the essentials of the economic theory of imperialism, usually associated with the names of J.A. Hobson and Rosa Luxemburg, are anticipated in Hegel’s *Philosophy of Right*”. An essay came from that realization: “On Hegel, imperialism, and structural stagnation” – “originally written as a contribution to a volume of essays in honor of Felipe Pazos, published in Spanish in *Política económica en centro y periferia* [...] (Mexico: Fondo de Cultura Económica, 1976)” – now in Hirschman 1981, p. 167. It is likely that it was this renewed interest in the works of Hegel (with which Albert had been involved in his youth: cf. below, n. 53) that facilitated the task of “self-subversion” mentioned just below in the text.

47. Hirschman 1978; now 1980, p. vi.

48. *Ibid.* p. v.

49. *Ibid.* p. v-vi.

50. To which Albert dedicated two articles (1962 and with R. M. Bird 1968) which maintain, in his view, – “a certain continuity with the analysis of the present ”book” (Hirschman 1978; now 1980, p. v, n.).

51. *Ibid.* p. vi.

52. *Ibid.* p. vii-viii.

53. Hegel 1977, p. 111-19. It is the very book he had studied in a working group at the *Französische Gymnasium* in 1932-33 (Meldolesi 1995, p. 4 and 17).

54. Hirschman 1978; now 1980, p. vi.

55. *Ibid.* p. ix.

56. Cf., above, n. 30 and 35.

57. Hirschman 1978; now 1980, p. ix.

58. *Ibid.*, p. x.

59. “For example, when a country that dominates the world market

in one commodity or product raises its price and thereby eventually loses its monopoly [...]; or when a country that initially has little bargaining power in relation to a firm wishing to exploit its natural resources increases its power over time both because the firm’s installations, once built, are captive of the country where they are located and because the country is likely, in due time, to insist on training its own technologists and other experts”. (*Ibid.* xi).

60. Indeed, I should add that it was specifically the emergence of this attitude and the consequences it immediately produced in trade relations between the United States and Mexico that led me to reconsider the whole question. Specifically, in reading an article by Azam Ahmed in the *New York Times* of 26 March 2017 I realized at a certain point that the Mexican president felt obliged to ask for a rapid revision of trade agreements with the United States that would favor the latter (!) – in order to combat the great economic uncertainty the American administration had created, with its consequent blockage of investments, and to avoid losing the incoming election. It was at that point that I exclaimed to myself, “but this is just National Power!”

61. July 1937; now 2017, p. 109. Cf., also, Colorni 1998, Hirschman 1963. So it was this political need for change, however naively experienced at first, (cf. Hirschman 1963, p. 271-75), that was the true driving force of the journey that now, looking back, we can finally evaluate. From the theoretical crystallization of National Power, to its being interactively surpassed in the 1970s, right up to what will need to be designed for the still largely unarticulated process now getting underway following the end of the cold war and the exhaustion of so-called globalization (first version). The historical facts from different eras suggest advances in theoretical thinking which however, as Asso and de Cecco observed in 1987 (p. 8), in a certain sense transcend such events and present humanity with a key task, one that has to be steadily pursued but, it would seem (we can now add), can be fulfilled only by degrees in time.

62. See the Post scriptum below.

63. Colorni 2017, Chap. 13.

64. Hirschman 1998, Chap. 2 and Meldolesi 2013, Chap. 2.

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## "Preface" to *Potenza nazionale commercio estero. Gli anni trenta, l'Italia e la ricostruzione*

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by Albert O. Hirschman

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It seems to me that people who write are often exposed to a form of childish narcissism that causes them to look upon the unpublished or little-known writings from their youth with particular tenderness. To suddenly find these collected texts before one's eyes, carefully edited and elegantly published, inevitably produces a surge of pure joy. I am truly grateful to Marcello de Cecco and Il Mulino publishers for having offered me such an experience with this volume.

Of course, having this book in my hands brings many other feelings as well, and my thoughts go back to the extraordinary time when the texts gathered here were written. This is certainly not the place to speak of such feelings, but it may be helpful for the reader to have an idea of the changes my life passed through during those years. I spent the last year before the war in Paris: I had gone back in the middle of 1938 after two years in Trieste, where I had continued with my studies. I set myself up in Paris as a journalist specializing in economics, an "expert" in the Italian economy. In September of 1939 the war put an untimely end to this promising career. After nine months in the French army and another six in Marseilles in the wake of the *débâcle*, I found myself at the beginning of 1941 miraculously settled in Berkeley at the University of California, where I spent the next two years, which were essentially dedicated to the writing of *National Power and the Structure of Foreign Trade*. At the beginning of 1943 I enlisted in the US army; this lasted almost three years, but luckily half the time was spent between Siena, Florence and Rome. Back in the

United States at the end of 1945 I decided to look for a job as an economist in Washington. In the fall of 1946 I joined the international division of the Federal Reserve Board, initially assigned to "follow events" in France and Italy. The enormous economic power in the hands of the United States at that historical moment made even my position, apparently devoted exclusively to research, surprisingly influential both inside the American government and in economic relations with western Europe.

Brief as they are, these notes may help to explain of the differences between the prewar and postwar writings, perceptively observed by Marcello de Cecco and P. F. Asso in their introduction. Up until the final defeat of Fascism and Nazism, everything I wrote was in some way made to fit into that struggle; after 1945 the tension had dropped, with consequences of various kinds. First of all, there was no longer the same necessity as before to subordinate all thought to a single goal, always coming to definitive conclusions capable of inspiring action. Moreover, in my new role in postwar Washington I found myself in an ironic position. If until quite recently I had been a political refugee with no power at all who had criticized the political use of economic power in what was then my most ambitious work, I could not now fail to recognize that the economic power of the country I was by now a citizen and representative of gave undeserved weight and resonance to my opinions and those of my government colleagues. The result of this (from the perspective of my international conscience) was a situation that was almost schizophrenic. My reaction, perhaps excessive at times, was to suppress the use of whatever power I had; but above all I worked hard to undermine the certainty of my colleagues (whether pro-market or pro-planning), many of whom saw no harm in

using the fullest extent of their power in the service of their opinions and beliefs. Such an attitude perhaps explains the “pruning” noted by de Cecco and Asso, which may even have become a methodological habit underlying a great part of my successive work.

A.O.H.,  
Princeton, May 1987



## “Etude statistique sur la tendance du commerce extérieur vers l'équilibre et le bilateralisme”

by Albert O. Hirschman

XII<sup>ème</sup> SESSION, BERGEN 1939

CONFERENCE GENERALE D'ETUDES SUR LES POLITIQUE ECONOMIQUES ET LA PAIX

Institut International de Coopération Intellectuelle  
Société des Nations  
PARIS

### Introduction

Quand on parle de la tendance du commerce mondial vers les échanges compensés, on confond facilement deux tendances que la présente étude se propose de distinguer: la tendance vers l'équilibre et la tendance vers le bilatéralisme. Si les déficits et les excédents des balances commerciales de divers pays se réduisaient relativement aux valeurs échangées, cela tendrait à indiquer que les mouvements de capitaux et les postes invisibles perdent de l'importance au sein de la balance des comptes dont l'équilibre devrait par conséquent être assuré par les seuls échanges de marchandises. Dans ce cas, il importe peu que l'équilibre de la balance commerciale soit réalisé isolément avec chaque pays, ou comme résultat de la compensation entre déficits et excédents des balances particulières. C'est dire que la tendance vers l'équilibre ne signifie pas abandon des échanges triangulaires.

D'autre part, le bilatéralisme n'implique pas nécessairement l'équilibre des balances commerciales. Prenons un pays assuré d'obtenir des montants considérables de devises par les revenus du tourisme. Une politique d'échanges bilatéraux fixerait pour ce pays une certaine marge relative pour le déficit de sa balance commerciale et s'emploierait à reproduire cette marge dans les échanges avec tous les pays individuellement. En fait, un grand nombre d'accords de clearing et de paiement prévoient non pas l'équilibre mais le déséquilibre des échanges.

Nous allons étudier sur la base des statistiques si et dans quelle mesure, au cours des dernières années, ces tendances soit vers l'équilibre, soit vers le bilatéralisme des échanges se sont manifestées. Nous allons rechercher d'abord une méthode pour mesurer la tendance vers l'équilibre à l'échelle mondiale et nous analyserons ensuite la tendance vers le bilatéralisme dans quelques grands pays.

### I. La tendance vers l'équilibre à l'échelle mondiale

La façon la plus simple de comparer le degré d'équilibre réalisé par les différentes balances commerciales est de prendre la différence absolue entre les importations et exportations et de la diviser par le total du commerce extérieur du pays en question.

Soient  $i_p$  et  $e_p$  les importations et les exportations d'un pays  $p$ , l'indice de l'équilibre de sa balance commerciale sera  $n = |i_p - e_p| / (i_p + e_p) \cdot 100^1$ . Cet indice évolue entre 0 (cas d'équilibre parfait :  $i_p = e_p$ ) et 100 (cas de déséquilibre parfait :  $i_p = 0$  et  $e_p = 0$ ).

L'indice général  $N$  de l'équilibre des balances commerciales nous est ensuite donné par la moyenne pondérée de tous les indices nationaux:

$$N = \frac{\sum |i_p - e_p|}{\sum (i_p + e_p)} \cdot 100 = \frac{\sum |i_p - e_p|}{I + E} \cdot 100,$$

en désignant par  $I$  et  $E$  les importations et les exportations mondiales. Le numérateur  $\sum |i_p - e_p|$  n'est autre que la somme de tous les déficits et des excédents de toutes les balances commerciales.

Voici les résultats numériques pour le commerce mondial de 1925 à 1938:

Tableau I

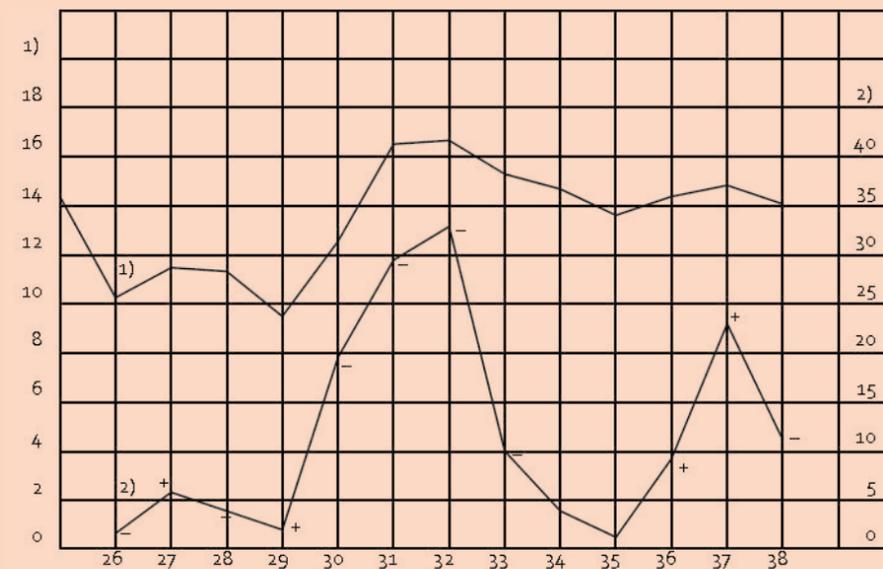
Années	$\sum  i_p - e_p $ (1)	$I + E$ (2)	$N = (1)/(2) \cdot 100$
	en millions de dollars-or		
1925	8.698	62.872	13,9
1926	6.605	61.888	10,7
1927	7.605	65.048	11,7
1928	7.625	67.582	11,3
1929	6.390	68.606	9,3
1930	6.879	55.558	12,4
1931	6.549	39.704	16,5
1932	4.471	26.868	16,7
1933	3.762	24.224	15,6
1934	3.506	23.314	15,1
1935	3.259	23.802	13,7
1936	3.660	25.722	14,3
1937	4.643	31.592	14,7
1938	3.860	27.736	13,9

<sup>1</sup> On emploie souvent les rapports  $n^1 = (i - e)/i \cdot 100$  et  $n^2 = (e - i)/e \cdot 100$  selon qu'il s'agit de balance déficitaire ou excédentaire, car les valeurs indiquées par ces indices ont une signification concrète puisqu'elles indiquent soit la part des importations non couverte par les exportations, soit la part des exportations non compensées par les importations. Cependant, notre indice est plus commode quand il s'agit de mesurer le déséquilibre sans tenir compte de la nature de ce déséquilibre: excédent ou déficit. Il est d'ailleurs facile de se convaincre qu'entre les indices  $n^1$  et notre indice  $n$ , il existe la relation simple:  $n^1 = 2n/(100 + n) \cdot 100$ .

En 10 cas sur 13, les variations d'année en année de  $\sum |i_p - e_p|$  et de  $I + E$  sont dans le même sens, et dans 7 cas, la variation de  $\sum |i_p - e_p|$  tout en étant dans le même sens est plus forte que celle de  $I + E$ , de sorte que notre indice varie alors parallèlement aux deux séries de base. Par contre, dans six cas, l'indice varie dans un sens opposé à celui du commerce mondial, soit que les mouvements du commerce mondial et de  $\sum |i_p - e_p|$  soient divergents (1928-1929, 1929-30, 1934-35) soit que, tout en étant dans le même sens, la variation du commerce mondial soit plus accentuée que celle de  $\sum |i_p - e_p|$  (1927-28, 1931-32, 1932-33).

Diagram 1

- 1) Indice du déséquilibre des balances commerciales (Index of disequilibrium of trade balances)  
2) Variation annuelle des valeurs échangées (Annual variations of commodity trade)



Les signes + ou - dont chaque point de la courbe fine est affecté indiquent s'il s'agit d'une expansion ou d'une contraction du commerce mondial (en valeur) par rapport à l'année précédente (Positive or negative signs peculiar to the thin curve indicate that world trade - in value - has expanded or contracted relatively to the previous year).

Il s'ensuit que l'indice du déséquilibre des échanges commerciaux ne présente point une allure régulière au cours du cycle économique. Tantôt il suit la conjoncture: il baisse en 1925-26 et se relève en 1926-27, il hausse de 1935 à 1937 et baisse de 1937 à 1938 - tantôt il montre la corrélation inverse: ainsi, il baisse de 1927 à 1929 pour monter très fortement de 1929 à 1932.

Ces observations nous ont suggéré l'idée que l'allure de l'indice n'était pas conditionnée par les fluctuations en hausse ou en baisse de la conjoncture, mais par l'intensité de ces fluctuations. Nous avons donc calculé les pourcentages de variation annuelle du commerce mondial ( $I + E$ ) et nous avons relié par une courbe les valeurs ainsi obtenues, sans égard aux signes qui indiquent le sens de la variation par rapport à l'année précédente. Le résultat représenté par le graphique I est frappant: sans la moindre exception, l'indice du déséquilibre et la courbe des variations annuelles du commerce mondial varient dans le même sens de 1925-26 jusqu'en 1938. La traduction en paroles du graphique conduit à l'énoncé suivant: une variation du commerce mondial de l'année  $x + 1$  par rapport à l'année  $x$ , qui soit plus forte (dans le sens de la hausse ou de la baisse) que celle de l'année  $x$  par rapport à l'année  $x - 1$ , s'accompagne d'une hausse de l'indice du déséquilibre des échanges de l'année  $x$  à l'année  $x + 1$ , et inversement.

Ainsi, de fortes contractions et expansions du commerce mondial - qui se concentrent toujours sur un nombre limité d'années et par conséquent font hausser la courbe des variations annuelles (courbe 2) - ne vont pas sans renforcer le déséquilibre des balances commerciales des différents pays. Par contre, dès que le mouvement s'amortit, se ralentit et que le commerce international se stabilise ainsi sur un niveau donné - soit bas, soit élevé - le déséquilibre diminue.

Les observations précédentes peuvent être mises en parallèle avec un phénomène souvent constaté dans les sciences économiques, sociales, et même en physiologie: à savoir qu'une forte croissance (ou décroissance) s'accompagne de disproportionalités qu'un arrêt de croissance tend ensuite à faire diminuer.

En examinant dans le détail les variations annuelles de notre indice, l'épisode le plus intéressant est sa montée en flèche de 1929 à 1931. En se reportant au tableau I, on remarque qu'entre ces deux dates, le commerce mondial a diminué de 42,1% tandis que la somme des déficits et excédents augmentait de 2,5%. On peut expliquer cette anomalie par le fait que les paiements internationaux d'intérêt et d'amortissement ne diminuaient pas avec la même rapidité que le commerce mondial, de sorte que les déséquilibres des échanges commerciaux nécessaires pour le transfert de ces paiements devaient être maintenus coûte que coûte. En effet, ce sont les excédents qui de 1929 à 1931 augmentent de 1912 millions de dollars-or à 21331 millions de dollars-or et ceci malgré la chute des prix des matières premières exportées surtout par les pays à balance excédentaire; tandis que la somme des déficits baisse de 4.477 à 4.218 millions de dollars-or<sup>2</sup>.

D'autre part, non seulement les autres parties de la balance des comptes ne se contractaient pas au même rythme que les échanges commerciaux, mais encore il s'y ajoutait des mouvements de capitaux qui forcèrent alors des mouvements de marchandises à sens unique. Rappelons comme exemple le cas de l'Allemagne avec ses excédents anormaux de 1930 et 1931.

Jusqu'ici on n'a fait attention qu'aux mouvements annuels et cycliques de notre indice. Quant au trend, nos chiffres ne nous permettent qu'une conclusion négative: dans la période observée, il n'y a

<sup>2</sup> Si les importations mondiales étaient égales aux exportations mondiales, la somme des déficits devrait être égale à la somme des excédents. En fait, les exportations sont toujours inférieures aux importations, principalement parce que les prix à l'importation comprennent les frais de transport. Il est pourtant extrêmement rare que la somme des déficits et la somme des excédents n'évoluent pas dans le même sens.

certainement pas eu une tendance nette vers l'équilibre des balances commerciales. On dirait plutôt que le déséquilibre a augmenté, mais il reste à voir si l'élévation du niveau de l'indice due à la hausse rapide des années 1930-1931 est stable ou passagère. Il est assez significatif que l'indice ait retrouvé en 1938 sa valeur exacte de 1925, début de la période sous observation.

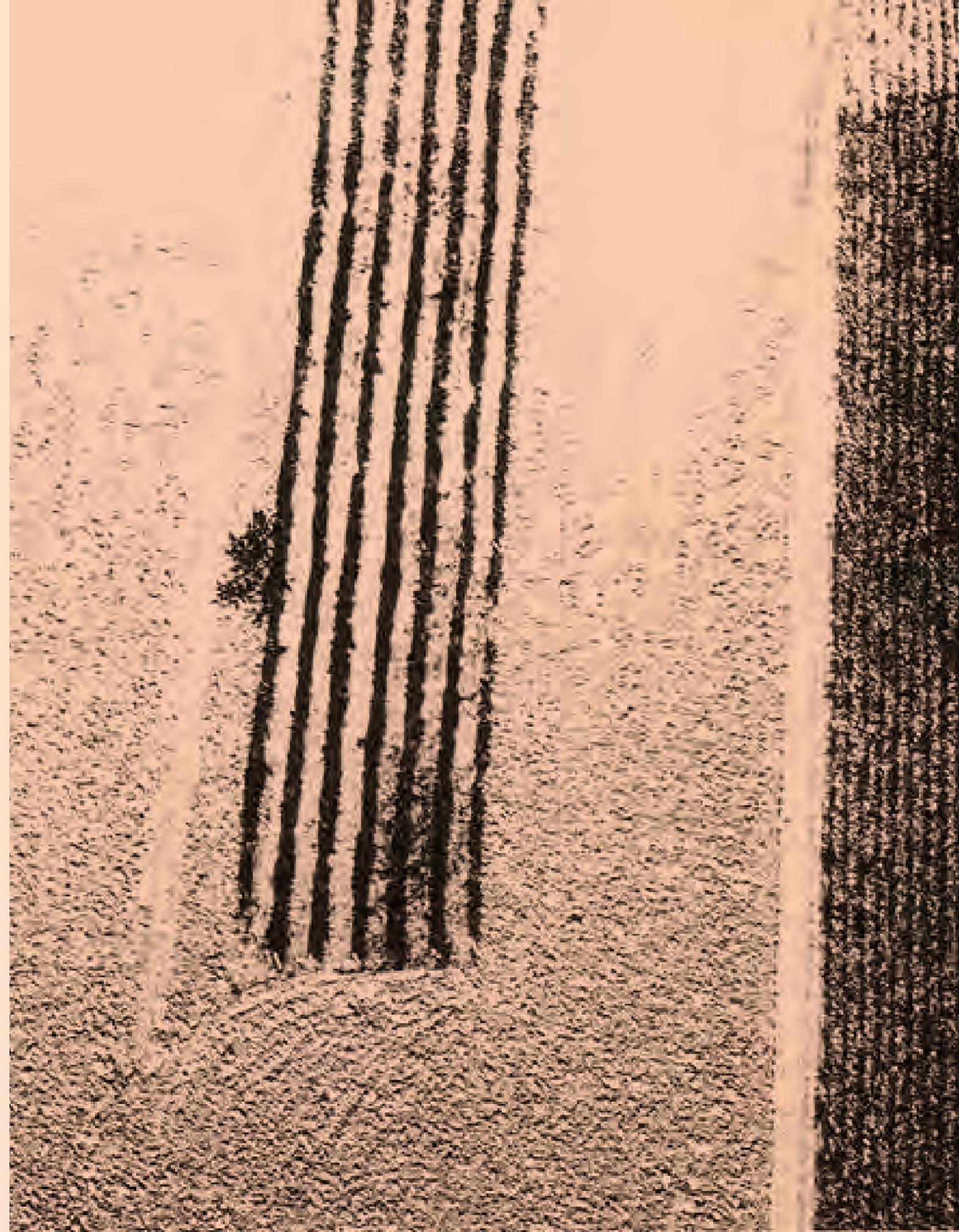
L'absence d'une tendance prononcée vers l'équilibre à l'échelle mondiale s'explique par le fait: 1) que les efforts désespérés des pays à balance déficitaire pour équilibrer leur balance commerciale, s'ils n'ont pas été frustrés par d'autres éléments de la politique économique de ces mêmes pays, ont été contrecarrés par les efforts non moins énergiques de tous les pays à balance excédentaire de conserver et d'augmenter leurs excédents; 2) que même s'il y a diminution du déséquilibre de la part d'un pays ou d'un groupe de pays, cela peut entraîner une désorganisation des échanges d'un autre groupe de pays et avec cela une augmentation des déséquilibres de leurs balances commerciales.

## II. Tendance vers le bilatéralisme

Pour étudier la tendance vers l'équilibre à l'échelle mondiale, nous avons considéré les indices nationaux du déséquilibre des balances commerciales comme les termes d'une série statistique élémentaire dont l'indice général du déséquilibre était une des caractéristiques. A l'opposé de cette étude qu'on pourrait appeler macrocosmique, nous allons considérer maintenant l'indice national du déséquilibre comme la moyenne d'une série élémentaire dont les termes seront les déficits et excédents relatifs des balances particulières du pays considéré dans son commerce avec chaque pays étranger pris isolément. Et nous adopterons une autre caractéristique de cette série, à savoir la plus ou moins grande concentration des termes autour de leur moyenne comme l'indice du bilatéralisme.

Pour rendre plausible notre procédé, considérons d'abord le cas simple d'un pays dont la balance commerciale générale soit en équilibre: cet équilibre peut provenir soit de l'équilibre des balances particulières, soit d'une corensation entre les soldes passifs et actifs de ces balances. Il est évident que selon le premier ou le deuxième cas, le système des échanges du pays en question sera bilatéral ou plurilatéral. Pour le cas plus général d'un pays à balance déficitaire (excédentaire), on dira qu'il y a bilatéralisme si les balances particulières sont toutes déficitaires (excédentaires) dans à peu près la même mesure, tandis qu'on sera en présence d'un système d'échanges triangulaires si on rencontre dans les balances particulières tantôt des déficits (excédents) très importants, tantôt des déficits (excédents) très faibles, ou même des excédents (déficits). La dispersion de la série des déficits et excédents particuliers – mesurés en termes relatifs – par rapport à leur moyenne – qui est le déficit de l'excédent relatif général – est donc plus qu'une simple caractéristique statistique: elle a la signification économique d'indice du bilatéralisme des échanges.

Soient  $I$  et  $E$ , les importations et exportations totales du pays observé, et  $D = (I - E)/(I + E)$ , le déficit relatif général, soient  $i_1, i_2, \dots, i_n$  et  $e_1, e_2, \dots, e_n$  les importations et exportations en provenance ou à destination des différents pays étrangers, et  $d_k = (i_k - e_k)/(i_k + e_k)$ , la valeur relative du déficit avec l'un quelconque ces pays, valeur qui sera négative s'il s'agit d'un excédent. En mesurant la dispersion de la série par l'«écart moyen» et en pondérant chaque écart suivant l'importance du commerce dont il provient,



nous obtenions comme indice du bilatéralisme:

$$e = \sum |d_k - D| \cdot (i_k + e_k) / (I + E) \cdot 100$$

Cet indice évolue entre 0 et 100. En cas de bilatéralisme parfait, nous avons  $d_1 = d_2 = \dots = d_n = D$ , et par conséquent  $e = 0$ . Il y aurait par contre absence complète de bilatéralisme si la balance générale était en équilibre, les importations venant exclusivement d'un pays et les exportations d'un autre. Dans ce cas, l'indice devient 100.

Cependant, soit pour la commodité du calcul, soit pour faire ressortir un certain nombre de qualités de l'indice, nous allons le transformer de la façon suivante:

$$\begin{aligned} e &= \sum |i_k - e_k| / (i_k + e_k) - (I - E) / (I + E) | (i_k + e_k) / (I + E) \cdot 100 \\ &= \sum |i_k - e_k| (I + E) - (i_k + e_k) (I - E) | (I + E)^2 \cdot 100 \\ &= \sum |2E \cdot i_k - 2I \cdot e_k| (I + E)^2 \cdot 100 \\ &= \sum |E \cdot i_k - I \cdot e_k| / (I \cdot E) \cdot 2I \cdot E / (I + E)^2 \cdot 100 \\ &= 1/2 \sum |i_k/I - e_k/E| \cdot ((I + E)^2 - (I - E)^2) / (I + E)^2 \cdot 100 \\ e &= 1/2 \sum |i_k/I \cdot 100 - e_k/E \cdot 100| \cdot (1 - D^2) \quad (1a) \end{aligned}$$

L'indice ainsi transformé nous permet de faire les constatations suivantes:

1°) Il est beaucoup plus commode pour le calcul. En effet  $i_k/I \cdot 100$  et  $e_k/E \cdot 100$  sont les pourcentages dans les importations et les exportations totales des importations et exportations en provenance et à destination de différents pays. Ces pourcentages sont d'un calcul facile; ils sont d'ailleurs donnés dans un certain nombre de publications statistiques nationales et sont calculés chaque année pour tous les pays par le Service économique de la S.D.N. qui les publie dans les volumes annuels sur le commerce international. La formule (1a) a de plus l'avantage de rester inchangée en cas de balance excédentaire; en effet  $D^2$  est toujours positif.

2°) En cas d'équilibre parfait  $I = E$  et  $D = 0$ , et l'indice devient pour les deux formules:

$$1' = \sum |i - e| / 2I \cdot 100 = \sum |i - e| / 2E \cdot 100 \quad \frac{\sum |i_k - e_k|}{2I (ou E)}$$

Dans ce cas, par conséquent, l'indice du bilatéralisme est au commerce d'un pays ce qu'était l'indice du déséquilibre des balances commerciales au commerce mondial.

3°) Le coefficient  $(1 - D^2)$  diffère généralement très peu de 1. Supposons un pays à balance très déficitaire de sorte qu'il importe le double de ce qu'il exporte: en ce cas,  $D = (2 - 1)/(2 + 1) = 1/3$  et  $1 - D^2 = 8/9$ .

On se rend compte ainsi que pour des déficits et excédents d'une ampleur normale, le facteur  $1 - D^2$  n'apporte qu'une correction très légère aux chiffres trouvés par le calcul de l'expression  $1/2 \sum |i/I \cdot 100 - e/E \cdot 100|$ .

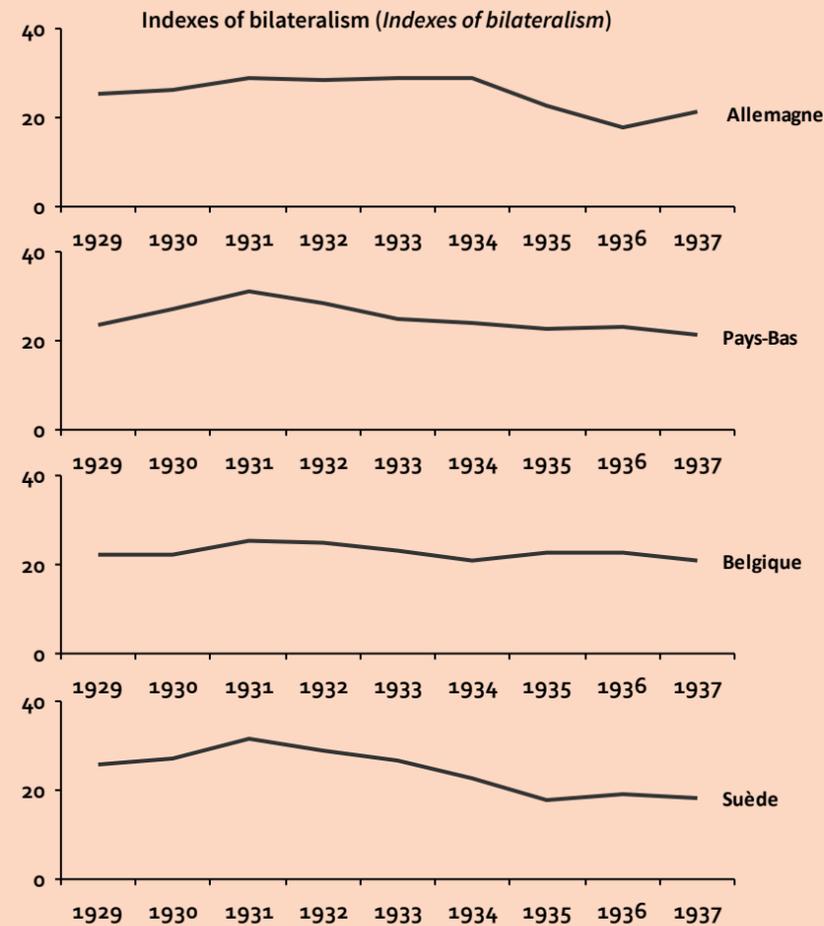
On peut même dire que notre indice a sa valeur d'indicateur du bilatéralisme seulement à condition que  $(1 - D^2)$  ne s'écarte pas trop de 1. En effet, les notions même de triangularité et de bilatéralisme des échanges impliquent qu'il y ait importations et exportations en quantités d'un même ordre de grandeur. Si nous avons dit au début que nous nous proposons ici de distinguer nettement l'équilibre et le bilatéralisme, nous n'entendons pas pour cela dissocier entièrement les deux conceptions.

4°) Le terme central de la formule (1a) est donc  $1/2 \sum |i_k/I \cdot 100 - e_k/E \cdot 100|$ . Moins grand sera l'écart entre les deux pourcentages occupés par chaque pays dans les importations et les exportations totales du pays considéré, moins grande sera cette expression, plus le commerce du pays sera bilatéral.

La politique commerciale actuelle de beaucoup de pays tend ou aboutit effectivement à obtenir une plus forte concentration des déficits ou excédents relatifs des balances particulières autour du déficit (ou de l'excédent) relatif général. Nous citerons le cas de la Turquie qui veut obtenir qu'avec tous les pays, ses exportations se trouvent par rapport aux importations dans la relation de 5 à 4. Dans la mesure où cette relation est respectée, les importations en provenance du pays étranger sont entièrement libres. Dans le cas contraire, elles sont frappées par des contingentements et restrictions divers<sup>3</sup>. Mais même sans vouloir réaliser d'une façon aussi consciente la notion de bilatéralisme telle qu'elle est donnée par notre indice, les négociateurs des traités de commerce y travaillent chaque fois qu'ils mettent en avant dans la discussion plutôt que les chiffres absolus du commerce, les pourcentages dans les importations et les exportations totales. Egaliser ces pourcentages ne veut pas dire équilibrer le commerce entre les deux pays; cela veut dire précisément faire concorder le déficit (ou l'excédent) relatif de la balance particulière avec le déficit (ou l'excédent) relatif général.

<sup>3</sup> Voir le mémoire présenté à la Conférence des Hautes Etudes Internationales: "Exchange Control in Turkey" p. 41.

Diagram II



Avant cette étude, le Service économique de la S. D. N. a entrepris dans son «Aperçu général du commerce mondial» de donner une mesure du bilatéralisme (voir Aperçu général du commerce mondial, 1933 p. 61 et suivantes, 1933, p. 65 et suivantes, 1934, p. 70 et suivantes).

A cet effet, l'Aperçu distingue dans le commerce d'un pays – par exemple la Grande Bretagne – trois parties:

1°) le déficit général,

2°) la somme des déficits et excédents des balances particuliers diminuée de 1°), ce que l'Aperçu général appelle le commerce triangulaire de marchandises,

3°) ce qui reste, ce sont les exportations vers les pays avec lesquels le commerce de l'Angleterre est déficitaire plus les importations des pays avec lesquels le commerce de l'Angleterre est excédentaire, c'est à dire le commerce compensé bilatéralement.

Cette troisième quantité rapportée au commerce total est l'indice du bilatéralisme de l'Aperçu. Il correspond exactement au nôtre s'il y a équilibre parfait de la balance commerciale générale (sauf qu'il varie de 0 à 100, là où notre indice varie de 100 à 0) mais la différence peut devenir assez sensible dès que cela n'est plus le cas. L'indice de l'Aperçu en effet ne tient aucun compte du groupement des déficits (excédents) particuliers autour du déficit (excédent) général. Pour donner une idée de l'insuffisance de l'indice dans des circonstances déterminées, nous formulerons l'exemple suivant du commerce d'un pays dans deux années différentes, le pays ayant par hypothèse des échanges commerciaux avec deux autres pays seulement:

	Année a		Année b	
	Imp.	Exp.	Imp.	Exp.
Pays I	125	125	150	100
Pays II	175	75	150	100
<b>Total</b>	<b>300</b>	<b>200</b>	<b>300</b>	<b>200</b>

L'indice du bilatéralisme de l'Aperçu resterait inchangé de l'année a à l'année b, étant dans l'année a de:  $(2 \cdot 125 + 2 \cdot 75) / 500$  et dans l'année b  $(2 \cdot 100 + 2 \cdot 100) / 500$  tandis que noter indice indiquerait bilatéralisme parfait ( $l = 0$ ) dans l'année b contre bilatéralisme incomplet ( $l = 20$ ) pour l'année a. Or, il est évident qu'en effet, le bilatéralisme a augmenté considérablement pour pays de l'année a à l'année b et c'est donc l'indice proposé ici qui "a raison".

## Résultats

Nous avons calculé l'indice du bilatéralisme des échanges pour la Grande-Bretagne, l'Allemagne, la Belgique, les Pays-Bas et la Suède et pour tous ces pays de 1929 à 1937. Voici les résultats:

Tableau II

Indices du bilatéralisme (Indexes of bilateralism)					
	Angleterre	Allemagne	Pays-Bas	Belgique	Suède
1929	25,8	25,2	23,7	22,3	25,6
1930	25,0	26,1	27,3	22,3	26,9
1931	24,9	29,0	31,0	25,3	31,6
1932	24,3	28,5	28,3	24,8	29,1
1933	24,3	28,9	24,9	23,2	26,7
1934	22,8	28,8	24,1	20,8	22,6
1935	21,2	22,8	22,6	22,5	18,0
1936	19,2	17,8	23,0	22,8	19,2
1937	17,5	21,5	21,2	20,8	18,2

Le graphique II reproduit ces séries; rappelons qu'une diminution de l'indice (courbe descendante) indique un renforcement du bilatéralisme.

Nous avons choisi les pays qui par leur structure économique sont en quelque sorte préposés au commerce international. Non seulement ces pays avaient un important commerce triangulaire, mais encore ce commerce est reparti sur un grand nombre de pays, ce qui permet la compensation des oscillations accidentelles. Il est ainsi permis de voir dans les variations de l'indice auprès de ces pays, le reflet de la tendance générale du commerce international. Ceci vaut particulièrement pour l'Angleterre dont le commerce extérieur ne connaît qu'un seul pourcentage qui soit supérieur à 10%: il s'agit des importations des Etats-Unis qui occupent généralement 11% des importations anglaises totales.

Or, c'est précisément l'indice anglais qui, par sa diminution continue d'année en année, fait ressortir le renforcement le plus notable du bilatéralisme. Par contre, le déficit de la balance commerciale anglaise ne s'est point atténué: après des mouvements dans les deux sens, il a été en 1937 plus élevé – par rapport au commerce total – qu'en 1929. Soit politique voulue, soit évolution naturelle, soit tendance imposée du dehors, le déficit du commerce extérieur anglais a donc tendance à se répartir de façon de plus en plus uniforme sur toutes les balances particulières. Ajoutons que, pour l'année 1913, l'indice anglais est de 29,5

c'est-à-dire de beaucoup supérieur au niveau d'après-guerre, quoiqu'il y eût en 1913 moins de pays indépendants et par conséquent, moins de possibilités de commerce triangulaire qu'aujourd'hui.

La tendance générale vers le bilatéralisme apparaît nettement dans le graphique. En particulier, si l'on compare les deux années de prospérité 1929 et 1937, on trouve que pour tous les pays examinés, l'indice est inférieur en 1937 à sa valeur de 1929.

Rappelons que, par contre, l'indice mondial du déséquilibre avait nettement augmenté de 1929 à 1937; cela prouve encore une fois que dans certaines limites, la tendance vers le bilatéralisme est indépendante de la tendance vers l'équilibre. Dans certaines limites: car des mouvements violents de la tendance vers l'équilibre ont de grandes chances d'entraîner la tendance vers le bilatéralisme. Ainsi nous observons qu'en 1931 presque tous nos indices atteignent leur maximum et font ainsi ressortir un minimum de bilatéralisme, tout comme en 1931-32 le déséquilibre des balances commerciales s'était fortement accentué.

Finalement, il est intéressant de noter que le niveau des indices est très semblable pour tous les pays que nous avons examinés. L'Allemagne qui a fait du bilatéralisme le dogme de sa politique commerciale n'est pas arrivée à abaisser son indice plus que les autres pays et même le cours de l'indice est d'une interprétation moins immédiate que par exemple celui des indices anglais et suédois.

## Explications statistique - Sources.

1) **Tendance vers l'équilibre** - Pour calculer  $\sum |i - e|$  on s'est servi du tableau donnant pour tous les pays la valeur du commerce extérieur calculée en dollars-or. Ce tableau a été publié pour la première fois à partir de l'année 1928 dans l'Annuaire statistique de la S.D.N. de 1933-34 (p. 194); ensuite, il a été régulièrement publié en annexe à l'Aperçu général du Commerce mondial. Pour les années 1925 à 1927, le Service économique de la S.D.N. a bien voulu mettre à notre disposition des données sur le commerce d'un certain nombre de pays, données qui avaient été rassemblées dans la rubrique «Autres pays» dans les publications précédentes de la S.D.N.: Memorandum sur le Commerce International 1912 à 1926 et 1926 à 1928.

2) **Tendance vers le bilatéralisme** - Nous avons déjà indiqué que pour le calcul des indices du bilatéralisme, nous nous sommes servis de la formule (1a) qui demande la connaissance des importations et exportations en provenance et à destination des différents pays dans les importations et exportations totales du pays considéré. Pour l'Allemagne, ces pourcentages sont publiés par le «Statistisches Jahrbuch» pour une liste complète des pays. Quant aux autres pays, nous nous sommes servis des «Statistiques du Commerce international» de la S.D.N. qui donnent elles aussi les pourcentages à côté des chiffres absolus du commerce de chaque pays avec les pays étrangers. Ces statistiques cependant avaient l'inconvénient de laisser une rubrique «Autre pays» assez importante; pour l'Angleterre, les Pays-Bas et la Belgique, elle dépassait parfois 15%, soit pour les importations, soit pour les exportations. Or, c'est souvent avec les petits pays que les déséquilibres les plus importants se produisent. C'est pourquoi nous avons tenu à spécifier - en nous servant des statistiques nationales du commerce extérieur - les pourcentages des importations et des exportations en provenance et à destination d'un certain nombre de pays non énumérés par les statistiques de la S.D.N.

Nous avons ainsi ramené le pourcentage des «Autres pays» aux environs de 5%.

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## “Bilateralism and ‘Proportionalism’ – Two Aspects of Trade Structure”

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by Albert O. Hirschman

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In this Review for September 9, 1946, Hinshaw and Hinrichs presented a method of measurement of the degree of bilateralism in trade and applied it to the trade statistics of 26 countries for the years 1928 and 1935. The present article comments critically on this method and draws attention to another measurable aspect of trade structure, related to, though quite distinct from, bilateralism.

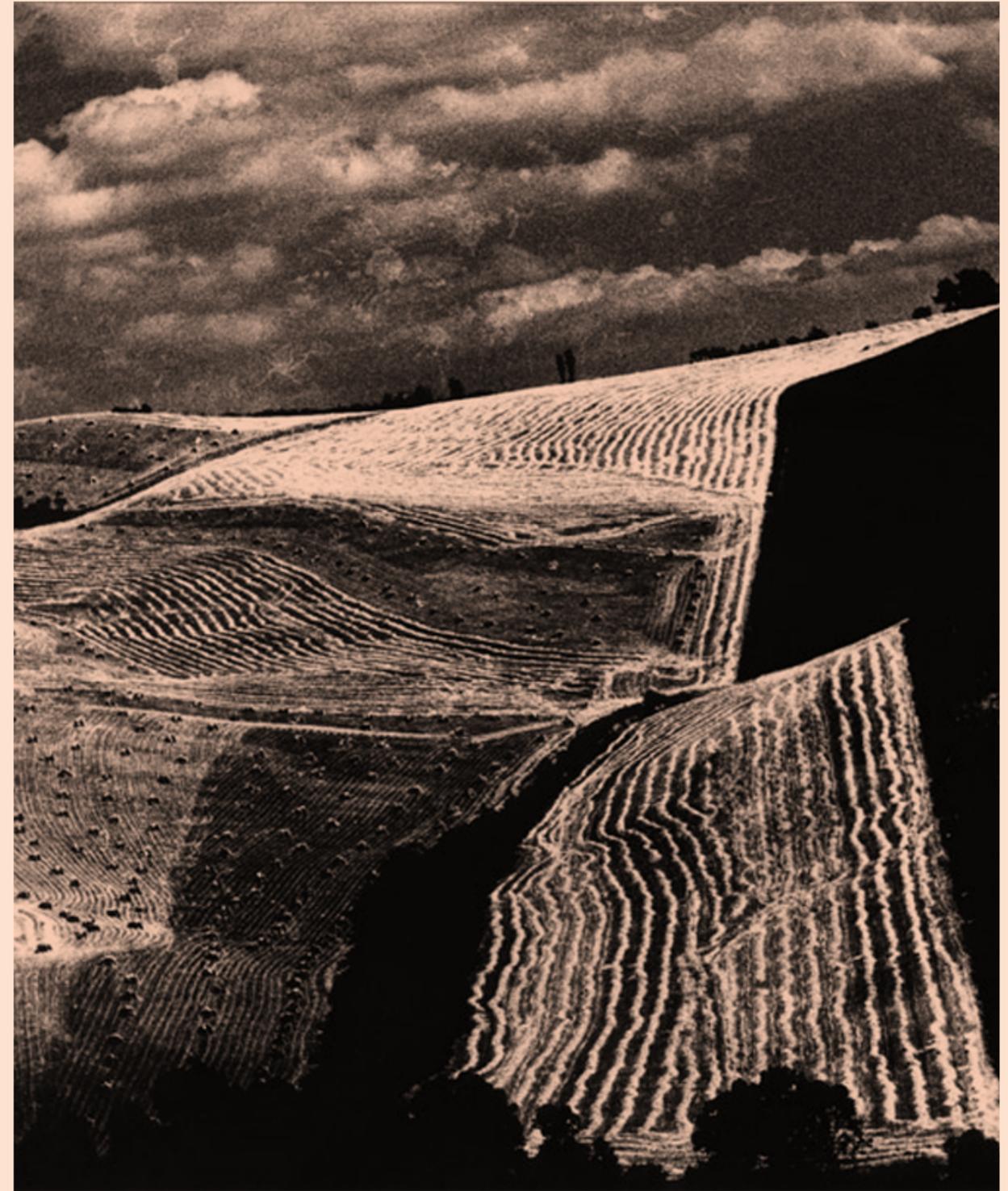
The measurement presented by Hinshaw and Hinrichs proceeds along lines similar to those made familiar by the League of Nations in its Review of World Trade, for the years 1934 (p. 70) and 1935 (p. 65). The League of Nations method consisted in showing total trade of a given country as the sum of (1) trade balanced bilaterally between that country and its trading partners (2) the remainder made up by (a) the general trade balance (b) the bilateral trade balances compensated multilaterally, i.e. twice the amount of the bilateral export surpluses for the trade of a country with a general import surplus and vice versa.

To obtain an index of bilateralism varying between 0 and 100 the bilaterally balanced trade - (1) above - is calculated as a percentage of total trade (import plus export). This method of measurement was modified in the Hinshaw-Hinrichs article by relating not the compensated trade to total trade, but half of the compensated trade to imports only. This procedure, however, imports a clear bias to the index. Assuming two countries, A and B, trading exclusively with each other, A's imports from B being 200, and A's exports to B being 100, the index for country A would be 50 per cent while the index for B would be 100 per cent! For the behavior of the index to be open to commonsense interpretation, it is clearly necessary that it be symmetrical with respect to the direction of a country's trade balance. The bias of the Hinshaw-Hinrichs index is strikingly illustrated by its behavior in the case of the U.S.S.R. The huge increase indicated in the degree of bilateralism for Russian trade from 53 per cent in 1928 to 92 per cent in 1935 is due primarily to the fact that while Soviet trade showed an import surplus in 1928, it had developed a considerable export surplus in 1935. If the unbiased method is used, i.e. if bilaterally compensated trade is computed as a percentage of total trade rather than as a percentage of imports alone, the increase in the degree of bilateralism of Russian trade is cut down by more than two thirds.

Within its own frame of reference, the old League of Nations method must therefore definitely be preferred to the method used by Hinshaw-Hinrichs. It is the correct measure of the commonsense concept of bilateralism. The contention of this article, however, is that even the League of Nations method stands in need of supplementation lest important developments in the structure of trade remain concealed. To make this clear, certain aspects of the behavior of the League of Nations index may be pointed out.

In the first place, the League index can become simply a measure of the relative importance of the general trade balance. This is particularly likely to be the case when there are strong variations of the export or import surplus relative to total trade from one year to another.

Secondly, important changes may take place in the way in which a given total import or export surplus is made up without affecting the value of the index. Thus, a given general import surplus can be the



result of a combination of very large and very small import surpluses or of bilateral import surpluses which are all approximately equal (relative to total trade transacted bilaterally). But this difference in trade structure would not be reflected by the index since it is affected only by the magnitude of (1) the general trade balance and (2) the bilateral balances which are in a direction opposite to that of the general balance. These properties of the index are responsible for its “disappointingly” small increase from 1928 to 1935 (disappointing in the light of what might be expected on the basis of well-known developments of commercial policy and trade structure between these years).

It might be desirable to construct an index which would not be subject to these properties. This can be done by analyzing an additional aspect of trade structure, namely, the degree to which a country maintains the same ratio of imports to exports with all its trading partners. For want of a better term, this concept will be referred to in subsequent discussion as the “proportionality” of trade.

The above definition implies that complete “proportionality” of trade coexist with a small degree of bilateralism. On the other hand, complete bilateralism necessarily carries with it complete “proportionality”<sup>1</sup>.

<sup>1</sup> Calling  $I$  and  $E$  the total imports and exports of the country whose “proportionality” is measured,  $i_k$  and  $e_k$  its imports and exports with country  $K$ , then complete “proportionality” would be present if we could write

$$i_k : e_k = I : E \text{ or} \\ i_k = e_k \cdot I/E$$

Actual imports from  $K$  will therefore differ from what they would be under conditions of complete “proportionality” by the expression

$$i_k - e_k \cdot I/E = I(i_k/I - e_k/E)$$

The absolute sum of these departures of actual from “proportional” imports for all  $n$  trading partners of the country considered; is

$$I \sum_{k=1}^n \left| \frac{i_k}{I} - \frac{e_k}{E} \right|$$

Dividing by total imports  $I$ , we obtain, in the expression

$$\sum_{k=1}^n \left| \frac{i_k}{I} - \frac{e_k}{E} \right|$$

an index of the relative discrepancy of actual trade structure from complete “proportionality”. This index is easily seen to vary between 0 and 2. To make it vary between 0 and 100 and to make it increase, rather than decrease, when proportionality increases, it should be written in the form

$$100 \left( 1 - \frac{1}{2} \sum_{k=1}^n \left| \frac{i_k}{I} - \frac{e_k}{E} \right| \right)$$

It would be easy to derive the same index by starting with the discrepancy between actual and “proportional” exports. That the index is symmetrical with respect to imports and exports is clearly evident from the algebraic expression derived.

The index is simply calculated by computing the percentages held by imports from and exports to individual countries in total import and exports and by adding the differences between pairs of these percentages. It is identical with the League of Nations index of bilateralism in the special case of  $I$  being equal to  $E$ , since it then become

The League of Nations index of bilateralism and our index of “proportionality” have been calculated for the trade of the countries and years selected by Hinshaw-Hinrichs, on the basis of the same source material (The Network of World Trade, League of Nations, 1942). However, while Hinshaw-Hinrichs calculated their index only for the intra-trade of the group of countries selected, the indexes of bilateralism and of “proportionality” reproduced in the table on the following page have been computed for the total trade of each of the countries listed<sup>2</sup>.

The most striking result apparent from the table is that, for all countries taken together, the increase of “proportionality” from 1928 to 1935 is almost double the increase of bilateralism. While “proportionality” increased in 20 countries out of 26, bilateralism was on the increase in only 14 countries, a bare majority. This means that the strong pressure toward bilaterally compensated trade which was exerted by many important trading countries between 1928 and 1935 did not achieve impressive results, presumably because of the general upsetting of trade balances during the depression. The greater increase in “proportionality” shows that countries succeeded to a much more substantial extent in bringing their bilateral trade balances in line with the general balance. In how far this may have been the result of conscious policy or of a change in trade structure not consciously aimed at, is discussed below.

The countries in which the increase in bilateralism was most notably exceeded by the increase in “proportionality” are Germany, the United Kingdom, Switzerland, Spain, Argentina and Australia. Strong advances of both bilateralism and proportionality are noted for Denmark, the U.S.S.R., India, Brazil, and Canada<sup>3</sup>.

Four of the ‘six decreases of the index of “proportionality” are accounted for by Far Eastern countries (British Malaya, China, Japan, and the Netherlands Indies). For all four countries the decreases of bilateralism are even more marked. Upon going back to the source material, it is seen that this exceptional development is largely due to inter-trade among these countries having become much more unbalanced. In general, the Far-Eastern countries stand out as being most impervious to the tendencies toward bilateralism and proportionality with respect to both movement and comparative levels of the indexes.

It should be pointed out once more that the index proposed here is not advocated as a better, or not even as an alternative index of bilateralism. Both indexes, the League of Nations index and the one proposed here, are equally “right” within their own frame of reference. Differences in construction and behavior derive from the difference in underlying concepts. The question to be decided is therefore not which index is better, but how relevant each concept is in any given situation or investigation. The following points can be made as to the relevance of the concept of “proportionality” reflected in the index proposed here.

$$100 \left( 1 - \frac{1}{I + E} \sum_{k=1}^n |i_k - e_k| \right)$$

which is precisely the algebraic definition of the League of Nations index.

<sup>2</sup> The author is indebted to Mrs. L. M. Doebler for Help in the calculations.

<sup>3</sup> Whenever the levels of the two indexes are very close in both 1928 and 1935 this can generally be traced to approximate equality between exports and imports of the countries concerned.

Indexes of Bilateralism and of “Proportionalism”

Country	Indexes of Bilateralism		Indexes of “Proportionalism”		Increase (+) or decrease (-) between 1928 and 1935	
	1928	1935	1928	1935	Bilateralism	Proportionalism
Denmark	52.6	74.3	52.8	74.0	+ 21.7	+ 21.2
Switzerland	70.7	74.7	74.0	87.5	+ 4.0	+ 13.5
Germany	74.1	78.0	65.7	78.0	+ 3.9	+ 12.3
India	68.0	82.1	68.6	80.4	+ 14.1	+ 11.8
U.S.S.R.	58.1	69.8	60.5	71.3	+ 11.7	+ 10.8
Sweden	70.6	78.6	70.8	79.4	+ 8.0	+ 8.6
United Kingdom	65.4	68.0	70.7	77.5	+ 2.6	+ 6.8
Spain	66.8	68.9	64.9	71.6	+ 2.1	+ 6.7
Brazil	65.8	73.1	66.4	72.9	+ 7.3	+ 6.5
Canada	66.5	73.2	65.6	71.5	+ 6.7	+ 4.0
Czechoslovakia	77.1	82.0	76.8	80.8	+ 4.9	+ 5.10
Argentina	67.3	67.3	71.4	75.0	0.0	+ 3.6
United States	67.9	71.7	70.3	73.6	+ 3.9	+ 3.3
Australia	63.2	63.0	63.9	67.0	- 0.2	+ 3.1
France	71.9	74.9	71.7	74.2	+ 3.0	+ 2.5
Poland	71.6	69.8	68.6	71.1	- 1.8	+ 2.5
Italy	69.9	68.8	78.1	79.5	- 1.1	+ 1.4
Egypt	65.5	68.2	68.3	69.2	+ 2.7	+ 0.9
Belgium	78.5	76.9	78.3	78.9	- 1.6	+ 0.6
Netherlands	70.1	69.9	73.8	73.9	- 0.2	+ 0.1
Japan	75.2	71.9	73.1	72.1	- 3.3	- 1.0
British Malaya	51.0	47.1	51.2	47.8	- 3.9	- 3.4
Austria	73.8	73.2	82.5	78.6	- 0.6	- 3.9
Cuba	66.4	61.9	74.2	69.9	- 4.5	- 4.3
Netherlands Indies	65.2	53.2	70.5	63.8	- 12.0	- 6.7
China	75.2	57.5	80.9	66.9	- 17.7	- 14.0
All Countries*	68.8	71.4	70.0	74.9	+ 2.6	+ 4.9

\* Average weighted by country trade totals.

(1) To start with a restrictive remark, it may be noted that the relevance of “proportionalism” is limited to the analysis of trade for countries whose import or export surplus relative to total trade exceeds, say, 5 per cent. Whenever imports and exports are very nearly equal, the concept of “proportionalism” practically merges into that of bilateralism and does, therefore, not deserve separate treatment.

(2) Many countries realize that they can afford a passive trade balance since they can count on a surplus from their non-commercial foreign transactions. Other countries know that they will have to develop a merchandise export surplus to meet the expected deficit on service and/or capital account. However, the latter countries may object, for reasons of economic security and political independence, to relying too heavily on their trade with one or a few countries for the financing of this deficit. The countries which can expect a surplus from service and capital transactions, on the other hand, may believe it possible to obtain on the whole better terms of trade by some shifting of imports from high import-surplus to low import-surplus and to export-surplus countries.

If such policies are followed the realization of “proportionalism” rather than of bilateralism would be the aim of commercial policy. Conscious attempts of this kind are generally not made on an overall basis (except that, in 1938, Turkey attempted to bring its imports from and exports to all its trading partners into a 8:10 relationship), but payments and commercial agreements often provide for some bilateral export or import surplus rather than for complete merchandise balance<sup>4</sup>.

(3) Even though conscious policy may aim at an increase of bilateralism, a special combination of circumstances may thwart these efforts, while resulting in an increase of “proportionalism”. If, for instance, a country attempts to reduce its trade deficit by bilateral bargaining, it will naturally make a particularly vigorous effort in the case of those countries with which the import surplus is highest. If, at the same time, international economic developments cause a general worsening of the country’s foreign trade position, the combined outcome of these opposing forces may be a situation in which bilaterally compensated trade is not larger and may even be smaller than before, but where, due to the particular effort brought to bear upon the countries with which the deficit was largest, the total deficit is more equally distributed among all the country’s trading partners. This is probably the explanation for the near constancy of the degree of bilateralism and simultaneous substantial increase of “proportionalism” in the trade of the United Kingdom, Switzerland, Spain, and other countries between 1928 and 1935.

(4) Finally, it can be shown that the index proposed here has a meaning in terms of a generalized measurement of bilateralism inclusive of the non-commercial items in the balance of payments.

To arrive at quantitative measurement of the extent of bilateralism in all international economic relations, it would be necessary to ascertain the breakdown of the service and capital transactions as between pairs of countries. Should we arrive at knowledge of this breakdown, the issue of bilateralism vs. “proportionalism” would no more arise, since, because of the equality of total payments and receipts in the balance of payments, the two indexes would necessarily be equal (cf. supra p. 3).

<sup>4</sup> The disparity of the percentages held by trading partner’s imports and exports in a country’s total imports and exports is often brought up as an argument in commercial bargaining; insofar as the objective of commercial policy is equalization of the percentages rather than of the absolute amount of imports and exports, “proportionalism” is aimed at.

In the absence of precise knowledge of the country breakdown of non-commercial transactions, there exists an infinite range of possible, and more or less plausible, assumptions about it. One extreme assumption would be to suppose that the bilateral balances of payments become active for those countries with which the trade balance is passive and vice versa; the opposite extreme would be to assume that all non-commercial receipts are concentrated upon countries with which there exists already an export surplus and all non-commercial payments upon countries with which there exists an import surplus. A reasonable method, lying between these extremes, consists in basing the unknown country breakdown of the non-commercial transactions upon the known, and usually dominant, pattern of trade. This can be done by assuming the share of non-commercial payments to (receipts from) countries A, B, C, etc. in total non-commercial payments (receipts) to be the same as the share of imports from (exports to) countries A, B, C, etc. in total imports (exports). But this is the very assumption which is embodied in the index of "proportionalism" when we wish to consider it as an approximate measure of balance-of-payments bilateralism<sup>5</sup>. In addition to its contribution to our knowledge of a new aspect of trade structure, it can therefore be regarded as a first step toward the measurement of bilateralism within the balance of payments.



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<sup>5</sup> The assumption will generally make the bilateral balances inclusive of non-commercial transactions smaller than the bilateral trade balances. This is in accordance with what can be expected because of tied loans, payments agreements, short-term capital movements in the wake of trade, etc.

## “Bilateralism, Trade Agreements and Political Economists in the 1930s: Theories and Events Underlying Hirschman’s Index”

by Pier Francesco Asso<sup>1</sup>

1. Ever since 1939, quantitative studies on interwar economic policy have emphasized the growing importance of bilateralism in international trade relations<sup>2</sup>. Bilateralism was the way trade relations survived and the vehicle through which trade restrictions and *ad hoc* discriminatory policies were imposed. As a consequence of the depression the average duration of trade treaties was significantly reduced, renewals or abrogations usually occurred at less than 12 monthly intervals, while all most-favoured-nation obligations were more or less formally dropped.

At a theoretical level too both the realistic free-trader and the ardent protectionist were often found united in advocating reciprocity as the optimal post-1929 trade policy, and the failure of ambitious multilateral Conferences gave credit to their opinion.

By the end of the decade international institutions were actively sponsoring scientific research on the nature of the new policy, and ambitious research-projects on exchange control, bilateralism and import restrictions were being launched. The

<sup>1</sup> I am grateful to Professors M. de Cecco, R. Fiorito, G. Fodor, A. Ginzburg and A.O. Hirschman for helpful comments on an earlier draft of this paper. Any errors remaining are solely my responsibility. Financial support from Ente Einaudi (Roma) and Fondazione Einaudi (Torino) is gratefully acknowledged. For permission to quote from the Frank W. Taussig papers, I wish to thank the Curator of the Harvard University Archives.

<sup>2</sup> A useful quantitative survey of commercial policy based upon a study of over 510 bilateral conventions is R. SNYDER, “Commercial policy as reflected in treaties from 1931 to 1939”, *American Economic Review*, December 1940, pp. 787-802.

starting point was the impressive amount of data collected by the League of Nations’ economic and financial service, and the most distinguished international economists offered their assistance to unravel the changed nature of international economic relations<sup>3</sup>.

The idea of constructing a statistical representation of bilateralism after hundreds of bilateral agreements had been concluded, and of comparing it with the post-depression readjustment process, was advanced by Albert Hirschman, at that time a free-lance economic researcher with a speciality in the Italian economy, living in Paris<sup>4</sup>.

The results of his calculations – which are published hereinafter – revealed two rather striking facts<sup>5</sup>. First of all, the postwar acceleration in the

<sup>3</sup> See, among the others, International Chamber Of Commerce, *Separate memoranda from the economists consulted by the Joint Committee on the improvement of commercial relations between nations and the problem of monetary stabilization*, Paris, 1936, whose final report was written by T. E. Gregory, D. E. Boehler, B. Ohlin, L. Pasvolksy, A. Predochl, C. Rist; League of Nations, *World Economic Survey and Review of World Trade* (annual publications usually drafted by J. B. Condliffe and F. Hilgerdt respectively); League of Nations, *Enquiry into clearing agreements*, II. Economic and financial, 1935, II. B.6; League of Nations, *Report on exchange controls*, II. Economic and financial, II.A. 1938; League of Nations, *Commercial policy between the wars*, II. Economic and financial, II.A.6, 1942; F. Hilgerdt, *The network of world trade*, League of Nations, 1942.

<sup>4</sup> A collection of Hirschman’s early works is now available in A. O. Hirschman, *Potenza nazionale e commercio estero. L’Italia, gli anni trenta e la ricostruzione*, a cura di Pier Francesco Asso e Marcello de Cecco, Bologna, Il Mulino, 1987. On Hirschman’s early works and political activity, see also L. Meldolesi, “Alle origini del possibilismo: Albert Hirschman, 1932-1952”, in A.O. Hirschman, *L’economia politica come scienza morale e sociale*, Napoli, Liguori, 1987; and F. Ferraresi, “Laudatio”, in *Notiziario dell’Università degli Studi di Torino*, n. 8-9, ottobre-novembre 1987.

<sup>5</sup> Hirschman’s paper on bilateralism was part of an International Studies Conference on “Economic policy in relation to world peace” which met at Bergen at the end of August, 1939. The Bergen Conference was the ideal continuation of previous League of Nations Conferences on “The state of economic life” (Milan, 1931 and London, 1933), “Collective security” (Copenhagen, 1935) and “Peaceful change” (London, 1937). The President of the Conferen-

ce was Frede Castberg, Professor of International Law at the University of Oslo, while the General Rapporteur was J. B. Condliffe who wrote the general report then published as *The reconstruction of world trade. A survey of international economic relations*, New York, Norton, 1940. A. Piatier, Secretary-rapporteur to the Conference, published the summary report on *Exchange control. A general survey*, Paris, 1940, while 82 case studies on single national experiments provided the factual outlook on the legal, administrative, economic and political factors which had influenced external economic policy. The materials circulated in mimeographed form, and most of the papers — Hirschman’s included — were never published. Hirschman also contributed with a *Memoir sur le control des echanges en Italie*, now included in A.O. Hirschman, *Potenza nazionale e commercio estero*, *op. cit.* For a history of the Conference and for the List of Memoranda presented there, see J. B. Condliffe, *op. cit.*, Appendix, pp. 395 ff. At Bergen the Programme Committee also invited economic experts to submit international studies of related interest. Among them, see L. Baudin, *Free trade and peace*, M. Heilperin, *International monetary organization*, M. J. Bonn, *Wealth, Welfare or War*, H. J. Tasca, *World trading systems*.

trend toward bilateralism was not tantamount to achieving a second-best level of trade somehow stabilized around a new equilibrium. Bilateral barter negotiations and the collapse of international loans, direct investments and invisible transactions, had not eased the process of international readjustment. In the early 1940s, in fact, other economists integrated Hirschman’s work and different indicators of bilateralism were examined in order to show how possible adjustment-related facilities — such as differential clearing rates, or the way clearing arrears were financed — had never been systematically analysed<sup>6</sup>. Hence, after

<sup>6</sup> That the way the Great Powers successfully concluded clearing agreements was becoming incompatible with the process of readjustment either of financial or commercial arrears was a fairly widespread conclusion among the economists of the time who often pointed to a cause-effect relationship. See, besides Condliffe’s book and the works there cited, C. Bresciani Turrone, “La funzione del regime aureo e del regime dei ‘clearings’ e la ricostruzione dei rapporti commerciali internazionali”, *Giornale degli economisti ed Annali di economia*, luglio-agosto 1941, and P. Nyboe Andersen, *Bilateral exchange clearing policy*, London, Cumberledge, 1946. Bresciani’s overview goes back to Cournot’s Recherches, where the additional constraint imposed through bilateralism first proved to be inconsistent with international equilibrium. For a history of how clearing rates were set, see Andersen, pp. 41 ff, whose closing remarks con-

firm how “it is not to be denied that the policy of clearing rates has got the lion’s share of clearing discussions in the course of time. But at no moment can it be said to have constituted a predominant component of the clearing policy actually realised”. Andersen also critically examined the various statistical attempts to measure bilateralism, Hirschman’s included (pp. 68 ff).

1929, the generalized tendency to engage in bilateral negotiations had not entirely coincided with a prudent desire to deal more directly with balance of payments disturbances and their effects on exchange rates, official reserves or hyperinflation. The suspicion grew that they were mainly directed at alternative targets which varied according to more general macroeconomic, microeconomic or merely political strategies.

The second and perhaps more unexpected result that Hirschman’s indices showed was the rather uniform pace shared by such different policy-oriented countries in the trend toward bilateralism. Totalitarian Germany, which a rough knowledge of the 1930s literature has often identified with bilateralism, not only did not emblematically stand out to lead Hirschman’s intercountry bilateral ranking, but throughout the decade systematically lagged behind her European rivals. Quite significantly Great Britain — the utmost upholder of multilateralism — had taken Europe’s lead toward bilateralism: the very country that no less than three years previously had pompously replied to a League of Nations’ inquiry that she could provide no useful information on bilateralism since “no clearing agreements had been concluded by H. M. Government”<sup>7</sup>. In this respect, Hirschman’s statistical calculations usefully supplemented an already accepted view that the “outstanding fact about British external trade policy since the adop-

<sup>7</sup> See League of Nations, *Enquiry into clearing agreements*, *op. cit.*, p. 9.

tion of full-blown tariff protectionism is its strong bilateral flavour”<sup>8</sup>.

2. The reference to bilateralism as one distinctive feature which had characterized the new mercantilistic policy at the turn of the 1930s was indeed common among contemporary observers. Many economists shared Ohlin’s view that, if compared to other stages of commercial history, “perhaps the most characteristic feature of international trade policy of the present day is the effort to balance the value of imports and exports from country to country”. By the mid-1930s economists at the League of Nations — such as J. B. Condliffe and F. Hilgerdt — had already provided useful insights on how the postwar trend towards bilateralism had been accelerated by the almost universal adoption of bilateral agreements<sup>9</sup>.

The measurement of its extent, however, required the solution of specific methodological problems. The League’s index, for instance, identified reciprocity with bilateral equilibrium, an assumption which was unrealistic. By contrast, Hirschman’s use of the standard deviation — as a method to quantify the pervasiveness of bilateralism — was by no means a neutral indicator

of the new policy turn, being dependent on what had happened to the business cycle since 1929. In fact, the dramatic contraction of the levels of trade and their comparatively slower recovery after 1933 had probably caused by themselves a lower trade variance and a greater similarity between bilateral and global balances. Hirschman himself was well aware of the “proxy” nature of his calculations having made numerous references to it in his parallel work on the Italian trading system<sup>10</sup>. The influence of bilateralism could not be easily separated from the general evolution of international trade, while the tendency of bilateral trade balances to become more evenly dispersed around a more or less equilibrated path was probably the result of more structural factors which required further investigation.

In this perspective Hirschman’s index of bilateralism must be viewed as a “work in progress”. In fact the need for a more structural approach to the study of international relations, which would focus on intercountry preferences, the concentration of imports and exports, and commodity composition, may have offered to the author the occasion to relate the changing nature of foreign trade to the possibility of its manipulation through bilateralism and similar devices.

Whatever its “internal” history, and although it has never been published before, Hirschman’s index is sometimes found to give statistical support to part of the literature on 1930s trade issues. This paper seeks to provide some historical “humus” for Hirschman’s calculations. Widely borrowing from Hirschman’s conclusions, we will first analyse some peculiar aspects of 1930s bilateralism; particular stress will then be laid on two so far rather neglected aspects: the way the British au-

8 See H. J. TASCA, *World trading systems. A study of American and British commercial policies*, Paris, International Institute of International Cooperation, League of Nations, 1939, p. 146. Subsequent statistical elaborations all generally confirm Hirschman’s findings. See P. N. Andersen, *op. cit.*, pp. 81 ff; M. Michaely, “Multilateral balancing in international trade”, *American Economic Review*, September 1962, 685-702; P. Friedman, *The impact of trade destruction on national incomes. A study of Europe 1924-1938*, Gainesville, University of Florida Book, 1974.

9 See B. Ohlin, “Report on the problem of international economic reconstruction”, in joint Committee, Carnegie Endowment, INTERNATIONAL CHAMBER OF COMMERCE, *International economic reconstruction. An economists’ and businessmen’s survey of the main problems of today*, Paris, 1936, p. 93. F. Hilgerdt, “The approach to bilateralism. A change in the structure of world trade”, *Index*, X, 1935, pp. 175-188; League of Nations, *World Economic Survey*, 1935-36, pp. 183 ff.

10 A.O. Hirschman, “Memoria sul controllo dei cambi in Italia”, in A.O. Hirschman, *Potenza nazionale...*, *op. cit.*, pp. 221 ff.



thorities adopted bilateralism as an instrument for influencing the country's economic and diplomatic policy; and finally what weight contemporary economists attached to this new commercial weapon and how much Hirschman's results contrasted with or supported the economists' interpretation.

3. In the 1930s the almost universal resort to bilateral trade agreements as the instrument of trade negotiations reaffirmed two recurring features in the history of economic policy.

On the one hand, as had often happened before with other protectionist measures, the success of bilateral trade agreements had nothing to do with the emergencies which favoured their introduction. While clearing agreements were first inaugurated by the Swiss-Austrian and Swiss-Hungarian treaties (November 1931) as the natural subterfuge to by-pass the post-1931 trade deadlock, prevent panicky pressures on the balance of payments, and rationalize the allocation of international liquidity<sup>11</sup>, they soon became part of a more complex strategy of import substitution, or extensively used as a means to impose upon one's trading partner the opening of new credits in times of virtual capital immobility.

Secondly, the trend toward bilateralism was further evidence of the highly creative powers of worldwide depressions. The 1929-1931 events can perhaps be considered as the most fruitful single source of institutional and administrative changes. And it is all too obvious to point out that such events were reflected in both a greater inventiveness in the use of policy instruments and in the rise of potential institutional needs that formed much of the basis for postwar innovations.

<sup>11</sup> The technical inventor of the first clearing agreements was the President of the Austrian National Bank, Dr Reisch, who had first advocated them at the 1931 Prague Conference of Central Banks.

Indeed major changes in intra-European protectionism had made their appearance since the War, with an increase in the number of customs regulations and the failure of international cooperation plans; and even more numerous were the protectionist signals which pervaded postwar industrial relations. If however a comparison is made with the no less turbulent 1920s, we could generalize and say that traditional arguments had supported both the high supply of, and demand for, restrictive interventions. The highly active protection of the 1920s seems, in fact, part of a different protective cycle and mainly aimed at the safeguarding of numerous War-derived "infants", and at obtaining revenue, tax consumption, and labour-intensive goods. As to its instruments, wartime trade instruments were soon set aside and despite the exception of a few underdeveloped agrarian countries, 1920s real protectionism coincided with the reshaping of tariff policy and legislation<sup>12</sup>.

On the contrary, in the 1930s, the blatant comeback of wartime direct controls helped to introduce a new era of economic policy experiments where protectionism was more directly linked to the evolution of macroeconomic magnitudes until, as the decade wore on, the faltering boundary that exists between trade and foreign policy was further narrowed<sup>13</sup>.

<sup>12</sup> On interwar protectionist practices and levels see, among other, H. Liepmann, *Tariff levels and the economic unity of Europe*, London, Allen & Unwin, 1938; A. IsAacs, *International trade, tariffs and commercial policies*, Chicago, Irwin, 1948; C. P. Kindleberger, *The world in depression, 1929-1939*, London, Lane, 1972; and A. G. Kenwood - A. L. Loughheed, *The growth of the international economy, 1820-1960*, London, Allen & Unwin, 1977.

<sup>13</sup> As we shall later see in greater detail, the distinction between the micro or macroeconomic foundations of 1930s protectionism is difficult to assess. For instance, the history of U.S. tariff policy together with the making of its implementation would not necessarily lead us to agree that "the outstanding event in protection history and

However, as the first pioneering studies were already beginning to reveal, a tendency toward bilateralism was so deeply entrenched in the network of world trade that its emergency-oriented interpretation needed to be dealt with cautiously<sup>14</sup>.

From a global perspective, as Hirschman's index also shows, all countries shared the trend toward bilateralism, despite the sometimes radical differences in the way their foreign exchange and import markets were regulated. This was probably the consequence of a long term structural development. Historically, multilateralism was something peculiar to a certain network of trade which the first three decades of the new century had seriously compromised. The diffusion of technology had brought about processes of substitution and economies in the use of raw materials which, it was feared, would have reduced purchasing power in important markets and increased the vulnerability of the industrialized world. The growing relevance of horizontal trade and the need for greater self-sufficiency in the face of international fluctuations were also potential hindrances to closer multilateral links.

Multilateralism also required high capital mobility and investment opportunities; and the War first and the depression later greatly interrupted the process of financial integration<sup>15</sup>. In this per-

macroeconomics is often thought to be the 1930 Smoot-Hawley tariff ". Cf. R. Dornbusch and J. Frankel, "Macroeconomics and protection", in R. M. Stern (ed.), *U.S. trade policies in a changing world economy*, M.I.T. Press, 1987, P. 79.

<sup>14</sup> See F. Hilgerdt, "The approach to bilateralism", op. cit.

<sup>15</sup> In the search for a cause-effect relationship, Hilgerdt dated back to the 1920s European monetary reforms the spurt in the trend toward bilateralism. See F. Hilgerdt, "The case for multilateral trade", *American Economic Review*, 1943, Supplement, pp. 400 ff. On the structure of foreign trade see also A.O. Hirschman, *National power and the structure of foreign trade*, Berkeley, University of California

spective, the reparations issue, the extreme volatility of short term capital, and the first alarming signals of a dollar shortage had greatly undermined the stability of multilateral trade relations; Britain's strategic surplus with the third world dramatically shrank in the 1920s and turned into a deficit in the 1930s, while developing countries were no longer performing a stabilizing role in international trade and suffered terms-of-trade deterioration due to the slow pace of recovery of world demand. To most European countries, the settling of international payments on a bilateral basis seemed, if not more convenient, certainly less risky, and a policy of strict reciprocity was well suited to the changed nature of international economic relations.

Finally, as has more recently been argued<sup>16</sup>, multilateralism often needs a pivotal agent which, despite its more or less bilateralistic attitudes, can strengthen the transfer-links with its own injection of confidence and liquidity into the network, thus acting as a reference point for the survival of triangular relations. Even in this perspective the interwar years bear witness to both the British decline and the U.S. refusal to wed this cause.

Since the end of the 1930s, however, both contemporary observers and historians have put more effort into explaining the switch to bilateralism as a policy result where mutual consent is arrived at only after a strenuous bargaining process and the imposition of specific sets of rules. On welfare grounds — especially if bilateralism is modelled as a forced balancing of trade flows — their

Press, 1945; F. Hilgerdt, *Industrialization and foreign trade*, League of Nations, Geneva, 1945. On developing countries and the depression see A. J. H. Lathan, *The depression and the developing world, 1914-1939*, London, Helm, 1981.

<sup>16</sup> M. Mychaeli, Op. Cit., p. 701.

effects were clearly negative, as specific studies on German trade diversion have shown<sup>17</sup>. On the other hand, bilateral negotiations in their various guises were one of the few possible forms of trade in times when the formation of customs unions and regional blocs had turned out to be either unsatisfactory or vetoed by interested third parties<sup>18</sup>. As all international conferences failed, bilateral agreements were deliberately underwritten as a way of overcoming the impasse created by the lack of an international solution to the crisis; they then became the technical lever for implementing and perfecting the working of quantitative restrictions, voluntary export restraints and multiple exchange rates.

Therefore, although it is hard to distinguish between structural and policy-derived effects<sup>19</sup>,

17 H. S. Ellis, *Exchange control in Central Europe*, Cambridge, Harvard University Press, 1944; P. Friedman, "The welfare costs of bilateralism: German-Hungarian trade, 1933-1938", *Explorations in Economic History*, XIII, 1976, pp. 113-125, and L. NEAL, "The economics and finance of bilateral clearing agreements: Germany 1934-38", *The Economic History Review*, 1979, pp. 391-404. For a general equilibrium approach to bilateralism with some applications to the interwar economic history, see P. Friedman, *The theory and measurement of bilateralism*, University of Florida, Working paper, 73/09.

18 Beyond other wellknown precedents, Belgium, Luxemburg and The Netherlands attempted in the early '30s to launch a Western European Customs Union. Their efforts, culminating in the Ouchy Convention (July, 1932), were frustrated by Britain's veto. See, among the others, W. McClure, *World prosperity as sought through the economic work of the League of Nations*, New York, Macmillan, 1933, pp. 320 ff; C. RIST, "The past and the future of the most favoured nation clause in its limited and unlimited forms", in *International Chamber of Commerce, Separate memoranda...*, op. cit., pp. 118 ff; J. B. Condliffe, op. cit., ch. IX; National Institute of Economic and Social Research, *Trade regulations and economic policy of the United Kingdom*, Cambridge University Press, 1943; and F. Machlup, *A history of thought on economic integration*, London, Macmillan Press, 1977. On British imperial preference, see the very detailed I. Drummond, *Imperial economic policy, 1917-1939*, London, Allen & Unwin, 1974.

19 Hirschman's index, however, clearly shows that accelerations of the trend (such as Great Britain's after Ottawa and Germany's after the four-year plan) were concomitant on specific policy events.

the trend towards bilateralism was, to say the least, reinforced as the device of last resort against the shrinkage of trade and the deflationary pressures which the withdrawal of financial flows and the highly erratic fluctuations in the terms of trade had exacerbated. Given both the desperate need to reflate and the desire not to see the financial means thus created leave as capital flight, bilateral agreements generally operated through the imposition of an additional constraint upon the external economic relations of the two trading countries. Up to now many specific contributions on the most relevant bilateral clearing agreements have clarified the nature of bilateralism. To investigate the specific nature of this constraint — as well as the type of payments covered by different agreements — we would need to go beyond the object of this paper<sup>20</sup>. Here it is sufficient to broadly distinguish between the two different typologies of bilateral agreements which varied both according to the financial status of the more powerful players and according to the way British policy authorities controlled their international economic policy after 1931. At a later stage I will briefly analyse the spectrum of positions taken by

20 For contemporary histories of the various types of bilateral agreements — other than the contributions presented at Bergen — see P. Einzig, *The exchange clearing system*, London, Macmillan, 1935; H. Heuser, *The control of international trade*, London, Routledge, 1939; J. B. Condliffe, op. cit.; M. Gordon, *Barriers to world trade. A study of recent commercial policies*, London, Macmillan, 1941. A good descriptive and theoretical account is given by P. Nyboe Andersen, op. cit. For specific case studies we refer to H. J. Tasca, op. cit.; C. Kreider, *The Anglo American trade agreement. A study of British and American commercial policies, 1934-1939*, Princeton University Press, 1943; P. Friedman, "The welfare costs of bilateralism", op. cit.; R. Gravel - T. Rooth, "A time of acute dependence: Argentina in the 1930s", *Journal of European Economic History*, 1978, pp. 337-378; L. Neal, "The economics and finance of bilateral clearing agreements ...", op. cit.; T. Rooth, "Limits of leverage: The Anglo-Danish trade agreement of 1933", *Economic History Review*, 1984, pp. 211-228; and G. Tattara, "An example of countertrade: The Anglo-Italian clearing", *Rivista di storia economica*, 2, 1985, pp. 115-154.



economists on the bilateralization of international trade.

4. In the early 1930s traditional instruments of international economic policy were soon discarded as possible alternatives to bilateralism and exchange controls. Deflation — under the economists' Cassandra-like prophecies — had already burnt more than a few Prime Ministers' fingers and received only the lukewarm approval of some indomitable representatives of orthodoxy<sup>21</sup>. Because of the growing rigidities of the market, the low supply and demand elasticities, and the semi-automatic "goaded into reprisal" effect, devaluation — where it occurred in real terms — proved

21 Cf. F. Maculup, "Die theorie der Kapitalflucht", *Weltwirtschaftliche Archives*, Bel 36, pp. 512-529; L. Von mises, *The return to a free foreign exchange market*, mimeographed Report to the Vienna Congress of the International Chamber of Commerce, May 1932, quoted by H. S. Ellis, *Exchange control...*, *op. cit.*, p. 9; and L. Robbins, *The great depression*, London, Macmillan, 1934. Subsequently Machlup criticised his article on the grounds of its dogmatic perception of the deflationary process and never let it be published in English. Hayek himself wrote an article to criticise the Brauns Committee's proposals to fight unemployment by means of credit reflation. In the paper — which was sent to the most distinguished scholar on the Committee, W. Röpke — he confirmed that, "apart from political considerations I feel you ought not — not yet at least — start expanding credit. But if the political situation is so serious that continuing unemployment would lead to a political revolution, please do not publish my article. That is a political consideration, however, the merits of which I cannot judge from outside Germany, but which you will be able to judge". F. Hayek, *New studies in philosophy, politics, economics and the history of ideas*, Chicago, The University of Chicago Press, 1978, p. 271. From the same source we learn that Röpke rejected the article. Shortly after (1932) Hayek more bluntly reaffirmed the necessity for the system to thoroughly undergo the process of liquidation and reorganisation of the productive apparatus. See F. Hayek, "Das Schicksal der Goldwahrung", in *Deutsche Volkswirt*, 1932, February; n. 20, pp. 642-645 and n. 21, pp. 677-681, now in F. Hayek, *Money, capital and fluctuations. Early essays*, London, Routledge and Kegan, 1984, pp. 118-135. Röpke's suggestions were decisively anti-Bruning and supported Government investments at least as a first anticyclical measure. See W. Röpke's recollection of the Brauns committee proposals in "Trends in German business cycle policy", *Economic Journal*, XLIII, 1933, pp. 430 ff.

to be too weak and short-lived<sup>22</sup>. Tariff policy, besides the difficulties in its effective determination, was limited both by its legislative encumbrances and by its low discriminatory potentialities. Inflation-phobia and the fear of an increased burden of foreign debt<sup>23</sup> further restricted the field to direct controls.

Not surprisingly, the chaos of financial and commodity markets led to the formulation of a "psychological" theory of exchange controls<sup>24</sup>. In Germany when the choice had to be made, the nightmarish 1922 vision is often said to have been the authorities' main adviser: devaluation, hyperinflation and social upheavals stood on one side; intervention, direct controls and economic regimentation on the other. Nevertheless, in the midst of the financial crisis, Bruning's policy was also subjected to more concrete conditioning. In fact there is some evidence that the temporary imposition of a "Devisenbewirtschaftung", more than devaluation

22 More recent research has confirmed the view that devaluation did not work as an emergency measure. See A. Cairncross - B. Eichengreen, *Sterling in decline. The devaluations of 1931, 1949 and 1967*, Oxford, Blackwell, 1983. For early interpretations, see T. E. Gregory, "Twelve months of American dollar policy", *Economica*, May 1934, pp. 121-146 and S. E. Harris, "British and American exchange policies", *Quarterly Journal of Economics*, 1934, pp. 471-510 and 686-726.

23 In H. S. Ellis' interpretation devaluation was quickly dismissed on the simple grounds that in debtor countries "throughout exchange control history the 'real burden' argument has deterred devaluations or the recognition of de facto depreciation". See &us, *Exchange control*, *op. cit.*, p. 12.

24 Cf. L. Robbins, "The fundamental reasons for increased protectionism", in International Chamber of Commerce, *Separate memoranda...*, *op. cit.*, pp. 27 ff; W. Guillebaud, *The economic recovery of Germany from 1933 to the incorporation of Austria*, London, Macmillan, 1939, and H. Henderson, "International economic history of the interwar period", in *The interwar years and other papers*, edited by Sir H. Clay, Oxford, Clarendon Press, 1955.

itself, was tolerated by foreign financial circles<sup>25</sup>.

Almost everywhere, bilateralism and *ad hoc* restrictions, as non-tariff barriers were to do after WW2, rendered administrative protection possible and greatly served to take the tariff-revising process out of the hands of the legislative body. The fixing of quotas, the issuing of licenses and the determination of exchange restrictions greatly augmented administrative responsibility and flexibility. In fact, trade agreements merely fixed general commercial conditions whose "interpretation and execution was left in the hands of permanent officials"<sup>26</sup>. France was a major protagonist of the turn towards neoprotectionism mainly because her anachronistic policy of duty consolidation needed to be bypassed with more flexible administrative devices; and Hicks talked about the lower incidence of tariffs and price instruments as the way the 20th century administrative, neomercantilistic revolution became possible<sup>27</sup>.

Financially weak countries or intermediate

25 See K. Borchardt, "Could and should Germany have followed Great Britain in leaving the gold standard?", *The Journal of European Economic History*, 1984, pp. 471-497.

26 J. B. Condliffe, *op. cit.*, p. 270. On how such powerful bureaucrats viewed or retrospectively judged their "creature", see, for Germany, K. Ritter, "Germany's experience with Clearing Agreements", *Foreign Affairs*, XIV, April 1936; for Austria, R. Schueller, "Commercial policy between the two wars", *Social Research*, X, 1943; and for Great Britain, F. Leith ross, *Money talks. Fifty years of international finance*, London, Hutchinson, 1968, ch. XIV.

27 Hicks himself had contributed as early as in 1931 to the understanding of non-tariff barriers describing their administrative potentialities in a detailed chapter of Sir William Beveridge (et al.), *Tariffs: the case examined*, London, Longmans, 1931, pp. 210 e ss. The need to understand the working of Import Beards and licenses is perhaps more evident if we quote Keynes' reply to an official questionnaire on the adoption of quantitative trade restrictions as a possible means to readjust Britain's accounts: "I do not yet know much about these. But I am attracted by the idea". See *The Collected writings of John Maynard Keynes*, vol. XX: *Activities 1929-1931: Rethinking employment and unemployment policies*, Macmillan, Cambridge University Press, 1981, p. 380.

powers concluded bilateral agreements essentially for defensive purposes and as a device to maintain a certain amount of trade. Their use of clearings assured them against the fear of retaliation, excessive trade volatility, and the risk of capital flight, and allowed them to discount pessimistic expectations on the future of international trade<sup>28</sup>.

Both contemporary observers and historical reconstructions have put great emphasis on how Germany's economic performance was crucially affected by her trade offensive against South Eastern Europe. Generally speaking, through bilateralism, Germany aimed at the twofold objective of securing an automatic credit mechanism (achieved by freezing the partners balance in blocked mark accounts) and maintaining a high level of imports without suffering from the leakage of liquidity means into marginal areas.

Indeed, at least until 1937, German commercial policy was both fairly orthodox and far from being of dramatic importance. In any case, substantial claims by raw materials suppliers were created on Germany through clearings — the claims being later used when Germany had rearmament goods available for export<sup>29</sup>.

28 See the case of Holland, Belgium and other intermediate powers in H. Tasca, *op. cit.*; M. Gordon, *op. cit.* The greater stability of clearing trade relatively to world trade was in the 1930s a common feature of all different trading blocs. See the disaggregations provided by P. Nyboe Andersen, *op. cit.*, pp. 73 ff.

29 At least until Schacht was replaced by Goering, German protectionism had followed more old-fashioned paths than contemporary accounts often emphasize. The accumulation of frozen mark balances and the possibility of displacing local agriculture on behalf of Balkan producers, "were not regarded as beneficial by German authorities". See D. E. Kaiser, *Economic diplomacy and the origins of the second world war. Germany, Britain, France and Eastern Europe, 1930-1939*, Princeton, Princeton University Press, 1980, p. 131; moreover the ratio of blocked balances to German imports differed considerably according to the country, and Eastern European Governments by no means passively accepted the idea of having

Counterintuitive though it may seem, many have observed that German methods succeeded in maintaining a higher level of commodity trade with a historically low record of capital mobility. Little attention was then given on the German side to the adjustment process; on the contrary, clearings allowed the country with an unfavourable balance to increase its liabilities, secure a forced loan, and bring forward all residual balances. In a period when her industrial capacity was both inward-oriented and expanding, the switch to bilateralism did not entail, therefore, the shrinkage either of loans or trading opportunities.

In this light, as a way of interpreting the economic meaning of Hirschman's results, a comparative analysis between German and British commercial policies, should be undertaken. This however would lead us too far, and a greater number of variables would need to be considered. In the case of Great Britain, however, clearing and payment agreements can perhaps be more easily isolated from the global political history of the 1930s, and simply considered as one instrument of self-protection. It is in this perspective that a specific analysis of how British policy-makers first viewed and then used the new instrument may help towards an understanding of how much of Hirschman's intercountry performance depended on the British "new deal".

In the study of bilateral agreements signed by creditor countries Great Britain has been the natural stereotype and contemporaries referred to it as the English system of clearing agree-

ments<sup>30</sup>. Indeed, after 1931, when the attacks on sterling smashed away what was left of Cobden's legacy, Britain made such a resolute turn toward protection that many — perhaps unaware of Britain's more informal ways of dictating policy rules — have been surprised to see that "the quality of being a free-trade country did not hinder the ability to restrict imports afterward"<sup>31</sup>.

However, as to bilateral treaties, the way the instrument was introduced within the administrative "gears" of British official policy was, as one may guess, not as straightforward as the German and even the Italian experience might lead one to think; on the contrary, until the failure of the 1933 World Economic Conference, the idea of deliberately abandoning multilateralism and the most-favoured-nation clause encountered remarkable opposition even outside City circles, and the British Government actively intervened to hamper even such minor infringements as low tariff clubs and reciprocity.

The opposition to bilateralism first came from the Board of Trade which paradoxically rejected a policy which would have meant a sudden increase in its departmental powers and prestige; both in Parliamentary debates and in internal memoranda, its President often talked of the "pernicious effects of a system of clearing agreements". Bilateralism was an outright synonym for a smaller quantity of trade and, as was correctly anticipated, conflicts would arise between the servicing of bondholders and current commercial payments. Not without a polemical hint at his colleagues' policy preferences, Runciman adopted a "welfare approach" to warn that "if against our will we are

become creditor countries thanks to the financial "innovation": see A. Basch, *The Danube basin and German economic sphere*, New York, Columbia University Press, 1943, pp. 216 ff; D. Kaiser, *op. cit.*, pp. 140 ff; and R. J. Overy, *The Nazi economic recovery, 1932-1938*, London, Macmillan, 1982.

30 See J. B. Condliffe, *op. cit.*, p. 154; H. W. Arndt, *The economic lessons of the 1930s*, London, 1944; see also P. Friedman, *Impact of trade destruction on national incomes*, *op. cit.*, p. 30.

31 P. Friedman, *Impact of trade destruction*, *op. cit.*, p. 45.



forced to adopt clearing agreements, the effect upon the volume of trade is bound to be bad for everybody concerned. What strikes us is that undue attention is paid to the need for maintaining currency and too little to the need for maintaining trade<sup>32</sup>.

This view was also shared in Whitehall. The City-Bank of England intention to implement bilateral payment agreements as a means of collecting blocked credits was ostensibly opposed. As the Treasury economist, Richard Hopkins minuted to Chamberlain on the eve of the historical change, “the latter (Norman) is, I understand, meditating an alternative method of dealing with the German default and I imagine his plans will be ready before long... I look upon a clearing arrangement with very mixed feelings. Throughout the world crisis we have strenuously opposed clearing arrangements on the grounds that they are injurious to world trade. They are always devised, as here, in the interest of the creditor and money lender and are generally hampering to trade, particularly entrepot trade which is one of our greatest national resources<sup>33</sup>.”

Distinguished economic advisers too spoke against Britain’s sympathy for bilateral agreements. The argument was delegated to a Com-

32 Public Record Office, Hopkins Papers, T/175/88, “Miscellaneous papers on the budget”. Again in 1932 the Board of Trade felt that “Britain’s trade was far too diversified and that if the most-favoured-nation instruments were abandoned discrimination against it might bring disaster”. See T. Rooth, “Limits of leverage...”, *op. cit.*, p. 212. Further documents against a radical reformulation of trade principles are quoted in D. Kaiser, *op. cit.*, pp. 90 ff.

33 P.R.O., Hopkins Papers, T/175/84, “Monetary policy”, letter from Hopkins to the Chancellor, 16.1.1934. In a recent article on the way London banks dealt with the German debts, Neal Forbes cites evidence that “a City source informed the Foreign office that more and more methods of payment outside the standstill seemed to have been found”. See N. Forbes, “London banks, the German standstill agreements, and ‘economic appeasement’ in the 1930s”, *Economic History Review*, XL, 4 (1987), p. 577.

mittee on international economic policy whose first report appeared by the end of 1933<sup>34</sup>. Partially opposing official policy, economists advocated full liberty in the formation of low tariff clubs with a redefinition of the most-favoured-nation clause in order to “prevent bilateral trade agreements from assuming an exclusive character, by ensuring the benefits of most – favoured – nation treatment to any country willing to adhere to the provisions of the agreement”. Finally regional agreements at the expense of unconditional multilateralism were likewise supported at the Bank of England, which took semi-official steps to investigate what direction British trade policy was taking. At the end of 1932, the economic adviser to the Bank of England, Harvard monetarist O.M.W. Sprague, contacted the *eminence grise* of international trade policy, Frank Taussig, on the possibility of using bilateralism as a tactical weapon against trade restrictions. Here is a rather interesting passage from his private correspondence: “The American Government and the British Board of Trade strongly support the [m.f.n.] clause but that is neither here nor there. Industrial and shipping opinion here is divided, with the balance of opinion leaning toward some modification. I feel the same way though rather uncertainly... It has seemed to me at times that regional arrangements such as that proposed between Holland and Belgium might be a stepping stone in the right direction. Similarly with arrangements among the

34 CAB 58/183, “Reports, proceedings and memoranda on International economic policy, 1932-1933”. The members of the committee were C. Addis, Viscount Astor, B. Blackett, Lord Essendon, J. M. Keynes, W. Layton, A. Salter, J. Stamp, and H. Henderson. Also the Federation of British Industries – perhaps lest the Government bargained bilateral tariff concessions – manifested its doubts about clearing agreements. See T. Rooth, “Limits of leverage”, *op. cit.*, p. 212.

various succession states of Central Europe<sup>35</sup>.

In any case, until 1933, despite both the protectionist turn and a number of exogenous shocks, Hirschman’s index for Great Britain is stable.

During the spring of 1933, coinciding with the devaluation of the dollar and the breaking up of the World Economic Conference, the British government reconsidered the whole matter. When the introduction of clearing agreements within British economy policy was imminent, with the delegation of operative powers from Parliament to the Government, F. Leith Ross – chief economic adviser to the Cabinet – suggested the compromise that “it will of course be desirable to explain that this country remains opposed in principle to bilateral clearings, that it is not intended that there should be any general or immediate use of the powers but that they are designed to place H. M. Government in a favourable position to obtain fair treatment<sup>36</sup>.”

Nevertheless between the summer of 1933 and 1935 new treaties were negotiated with Denmark, Argentina, Norway, Iceland, Sweden, Finland, Russia, Italy, Latvia, Lithuania, Estonia, Germany, France, Poland, Uruguay, Turkey, and South Africa<sup>37</sup>.

35 Letter to F. Taussig, Bank of England, 19.XII.1932, Taussig Papers, Pusey Memorial Library, Harvard University Archives. Taussig’s detailed answer of January 6, 1933, strongly replied in favour of strict, expansionary reciprocity taking up the arguments that he was shortly to publish as “Changes in our commercial policy”, *Foreign Affairs*, II, n. 3, 1933.

36 P.R.O., Hopkins Papers, T/175/84, “Monetary policy”: F. Leith Ross, *Memorandum on foreign trade and Finance Bills*, 9 May, 1934. As Paul Einzig observed “it is an open secret that the British Government is determined to avoid exchange clearings at all costs”. P. Einzig, *op. cit.*, p. 113. Einzig supported his conclusion by noting that Leith Ross and Niemeyer were influential members of the League’s Committee that drafted the critical *Enquiry into clearing agreements*, *op. cit.*

37 For a detailed indication of British agreements, see, besides the already cited works by Tasca, Condliffe and Gordon, F. Capie, *Depression and protectionism*, London, Allen & Unwin, 1983.

It is perhaps interesting to note that once the clearing act was finally introduced, spokesmen at the Board of Trade ceased to be critical of such an unprecedented novelty: “It is my opinion that foreign countries realize that we do not possess the power with which they have armed themselves and think it is not our policy to impose these powers, just as they appear to have imagined before the imposition of the tariff that the United Kingdom was definitely and forever a free trade country<sup>38</sup>.”

5. The decision to lift most-favoured-nation obligations and sign bilateral treaties is perhaps easier to understand if it is seen in the light of the way British economic policy was devised once the forced abandonment of the gold standard had opened new possibilities for influencing the pace of economic recovery. The structure of the British economy was based largely on a few export-oriented sectors (banking, shipping, coal and textiles) and on a very promising building industry. New industries (electrical engineering, motor vehicles, chemicals etc.) far from constituting a “development bloc<sup>39</sup>”, were growing at a rather modest rate and probably needed a more vigorous process of import substitution. Since domestic consumption was booming, while imports were low and international confidence in sterling again high<sup>40</sup>, the British government decided not to wor-

38 Unsigned minute sheet, Bt/II/274, quoted by Tattara, *op. cit.*, p. 147.

39 See N. K. Buxton, “The role of ‘new’ industries in Britain during the 1930s: A reinterpretation”, *Business History Review*, 49, pp. 205-222; B. W. E. Alford, “New industries for old?: British industry between the wars” in Floud and McCloskey (eds.), *Economic History of Britain*, II.

40 See A. Cairncross - B. Eichengreen, *op. cit.*, pp. 83 ff; S. Howson, *Domestic monetary management in Britain, 1919-1938*, Cambridge University Press, and *Sterling’s managed float: the operations of the Exchange*



ry about the country's external accounts, placed a prudent embargo on gold exports and foreign capital issues, and happily started to experiment with such degree of freedom as the new instruments allowed.

Great Britain's early recovery in a still deeply stagnating international environment was basically cyclical and supply-sided. The expansion of demand depended mainly on the growth of domestic consumption induced by the terms of trade appreciation, and only the building industry provided a viable productive alternative to attract the net disinvestment of foreign funds. Neither heavy nor light sectors received immediate benefits from the industrial "rationalization" programme, and the Government, already actively involved in the merging process<sup>41</sup>, seriously considered the granting of selective incentives while still making faces at public works proposals<sup>42</sup>.

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*equalization account, 1932-1939*, Princeton Studies in International Finance, n. 46, November 1980; N. H. Dimsdale, "British monetary policy and the exchange rate, 1920-1938", in W. A. Eltis - J. W. Sinclair (eds.), *The money supply and the exchange rate*, Oxford, Clarendon Press, 1981.

41 L. Hannah, *The rise of the corporate economy*, London, Methuen, 1976.

42 The debate on the nature of British recovery is far from concluded. It started in the 1960s after the works of H. W. Richardson, *Economic recovery in Britain, 1932-1939* (1967), and D. Winch, *Economics and policy*, London, Hodder & Stoughton, 1969. For more recent references, see M. Beenstock, F. Capie, and B. Griffiths, "Economic recovery in the U.K. in the 1930s", *Bank of England Panel of economic consultants*, Panel paper, 23 (1984), pp. 57-85; D. N. Worswick, "Economic recovery in the United Kingdom in the 1930s", *Bank of England, Panel paper*, 1984; P. N. Sedgwick, "Economic recovery in the 1930s", *Bank of England Panel...*, *op. cit.*; S. Broadberry, *The British economy between the wars. A macroeconomic survey*, Oxford, Blackwell, 1986; P. K. O'Brien, "Britain's economy between the wars", *Past & Present*, 115, 1987; and A. Booth, "Britain in the 1930s: a managed economy?", *Economic History Review*, XL, 1987. On the role of economists in the shaping of Government policy, see S. Howson - D. Winch, *The economic advisory council, 1930-1939. A study in economic advice during depression and recovery*, London, Cambridge University Press, 1977.

Real policy options at the Government's disposal have been scrutinized by recent research and confronted with the way unemployment was fought and the reconquering of British international prestige attempted. The public archival sources have also permitted a comparison with early interpretations<sup>43</sup>. In any case, whether we can retrace in British economic performance unexpected elements of Keynesianism or reaffirm the charge of "overcommitment" on 19<sup>th</sup> century values; whether we can talk of inner coherence and intellectual continuity or of fragmentation and "ad hoceries" of British economic policy, it seems indisputable that the Treasury was involved to an unprecedented extent in the destiny of the industrial system. With historically low interest rates, an unchanged faith in Britain's role on the world scene, and a strong bargaining power to throw on the scales, British commercial and international financial policy were thus important means that the government could resort to for reviving depressed trades<sup>44</sup>.

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43 A good summary together with an ample bibliography of the debate on British unemployment in the 1930s is now available in S. Glynn - A. Booth, *The road to full employment*, London, Allen & Unwin, 1987.

44 This argument finds little echo in recent literature. Some authors emphasize "the great importance of the external problem for Britain" (Booth) but largely focus on exchange rate and interest rate policy; many dismiss it on the grounds that the role of commercial policy in English recovery is either: hard to assess (Winch, Richardson, Broadberry, Glynn-Booth); simply a once and for all exogenous stimulus (Sedgwick); or negligible (Beenstock *et al.*, Cain-Hopkins); finally there are authors who more generally question the present of any active involvement on the part of British policy authorities and talk of "the Board of Trade's and the Treasury's long-standing prejudices against Government intervention in international commerce (that) virtually ruled out many steps to increase trade... London's reaction to the German challenge shows how difficult it was to get the British Government to take any initiatives in commercial policy". (See D. Kaiser, *op. cit.*, pp. 184 and 196). This view is also partially shared by Rooth who puts the blame on the Treasury: "there was no evidence that they (clearing agreements) were even

Although no clear line of demarcation can be traced between different forms of bilateral treaties British agreements, technically speaking, were not simply barter agreements, but payment agreements and the constraint was usually split between specific import quotas and a “sterling clause”<sup>45</sup>. The latter was used to establish preferential links with exchange control countries, after the 1931 standstill agreements and the accumulation of commercial arrears had made the collection of frozen assets particularly difficult.

The *ultima ratio* of British trade policy coincided with the strategic safeguard of her socially most valuable assets, i.e. coal and sterling<sup>46</sup>. Like

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subject to a rigorous assessment at Whitehall... this may reflect a bureaucratic distaste for upsetting the status quo... but by the late 1930s the Board of Trade and Foreign Office wanted their continuation with the minimum of modification” (T. Rooth, *op. cit.*, pp. 227-228). Only the National Institute of Economic and Social Research regarded commercial policy as the National Government’s “most successful feature” (see *op. cit.*, p. 12).

45 Rethinking British trade policy, D. H. Robertson wrote to Keynes: “whether the Danish sterling is or is not paid into some sort of special Account before being disbursed for coal is a matter of mechanism. In fact a trade agreement of this kind (which was the usual model of our agreements made in the 1930s) is *more* restrictive than our present payment agreements, for it stipulates that Danish sterling must be spent on *British coal... and not on something British*”. See *The Collected Writings of John Maynard Keynes*, vol. XXVI: *Activities 1941-1946. Shaping the post-war world. Bretton Woods and reparations*, edited by Donald Moggridge, Macmillan, Cambridge University Press, 1980, pp. 23-24 (letter of May 22, 1944).

46 A great number of British agreements contained a provision giving Great Britain the right to denounce its obligations whenever the amount of British coal imported by the other contracting party fell below a specific percentage. Sometimes, as in the Polish agreement, a textile clause was undersigned. In her agreements with Scandinavia and Eastern Europe the minimum share of coal exports on a 1929 basis ranged between 47 and 85%. Coal exports with Scandinavia doubled in 4 years while those to Lithuania, from 8% in 1930 and 2% in 1931, reached 78.2% of her total imports in 1934. In exchange, Great Britain guaranteed fixed quotas for bacon, dairy products and timber. One of the best accounts of Britain’s administrative machinery is the British Memorandum presented at Bergen, British external economic policy in recent years, 1939. The memo had been drafted by a Study Group formed by A. Plant, F. C. Ben-

Germany, Great Britain showed no interest in securing through clearings the forced adjustment of her accounts, even when her deficit grew<sup>47</sup>; nor was she interested in promoting actions to stimulate world trade and reflate through a concerted widening of the sterling area. On the contrary, although acquainted with the use of new instruments, her policy appears predominantly backward-looking and still at the mercy of the so-called “overseas alliance” whose strength was undermined by the lower demand for her specialized international functions<sup>48</sup>.

From the outset, Great Britain actively bargained to impose bilateral agreements and collect

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ham, J. F. Cahan, A.G.B. Fisher, F.W. Paish, and P.A. Wilson. From a more general perspective the increase of British staple exports even brought about the introduction of exchange control measures on the part of her partners who were incapable of extending elsewhere their concessions to Britain: many countries set up import control agencies to compulsorily divert their trade into British channels and fill the subscribed coal quotas. See H. J. Tasca, *op. cit.*, pp. 60 ff. See on this point, W. A. Lewis, *Economic survey, 1919-1939*, London, Allen & Unwin, 1949, pp. 83 ff.

47 Judging from the treaties that Great Britain signed between 1933 and 1936 the only valuable exception seems to be that with the USSR (February 1934). Article 3 provided that “the payments of USSR in the U.K. shall bear to the proceeds due the USSR in the year ending December 1934 the proportion 1:1.7; in the year ending December 31, 1935, 1:1.5; in 1936, 1:1.4; in 1937, 1:1.2 and subsequently, 1:1.1. See Great Britain, *Treaty Series*, n. 2, 1934, Cmd. 4567 also quoted by Snyder, *op. cit.*, p. 798. The agreement, however, hardly ever worked: see F. Benham, *Great Britain under protection*, London, Macmillan, 1941, pp. 133-134.

48 “Unlike German clearings (British) agreements did not increase trade; if anything they tended to limit it”. See D. Kaiser, *op. cit.*, pp. 175 ff. On the City-Industry-Government nexus see J. Cain - A. G. Hopkins, “Gentlemanly capitalism and British expansion overseas. II: new imperialism, 1850-1945”, *Economic History Review*, XL, 1987, 1-26, and J. Ingham, *Capitalism divided? The City and industry in British social development*, 1984. Indeed, on her general manufactured trade, British agreements had little influence. Capie sees in that an indomitable faith in British competitiveness and in the most favoured nation clause, although a possible explanation may also lie in the Government bias for sterling and the old staple industries. See F. Capie, *Depression and ...*, *op. cit.*, pp. 129 ff.

frozen credits, but did not believe in the promotion of additional exports through a policy “to force other countries to accept a greater quantity of British goods, even those countries whose balance was clearly negative”<sup>49</sup>. Before the final approval of the Debt Clearing Office and Import Restriction Act (1934), which empowered the Cabinet to enter into agreements with individual countries, Leith Ross convinced the Chancellor that bilateral agreements were the only available device for freezing the proceeds of the sale of foreign imports and ensuring that they were applied to meet the claims of nationals of the exporting country<sup>50</sup>. As much as creditor nations had made the German transfer difficult, exchange controls had rendered the safeguarding of British fair trading practices virtually impossible. Even in her pure barter agreements, British current trade was heavily subordinated to debt collection. It was not infrequent that British exporters who had infringed Board of Trade directives to voluntarily restrain their trade relations with debtor countries, had as a consequence to face official negotiations that specifically cut British exports<sup>51</sup>.

In order to illustrate the different objectives of

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49 P.R.O., Phillips papers T/177/8, “International monetary policy”, 27.10.32. See also the British Memorandum at the Bergen Conference, P.R.O., Leith-Ross Papers, “Correspondence with Schacht”, Letter to Schacht, 25.10.1934, and the history of the highly favourable agreements successively signed with Argentina and Scandinavian countries which are analysed in the articles by Rooth and Gravel-Rooth quoted above.

50 P.R.O., Hopkins Papers, T/175/84, “Monetary policy”, F. LEITH Ross, *Memorandum on foreign trade...*, *op. cit.* Article 1 of the Bill did not differ very much from Leith Ross’ statement: “in the case of any foreign country payment or transfer to persons in the United Kingdom subjected to official restrictions or prohibitions, or in the case they had been discontinued, a clearing office may be set up. The surplus in the hands of the clearing office had to be used to meet debts due to U.K. residents”. The percentages varied according to the agreement.

51 On these points see again H. TASCA, *op. cit.*, pp. 94 ff.

the leading nations, it may be useful at this juncture to go back to Anglo-German relations by describing the genesis of the 1934 payment agreement. Germany, who was both defaulting on her foreign debt and collecting free sterling, delayed negotiations with Great Britain as long as possible. Under the threat of a unilateral clearing, German officials made use of orthodox arguments to blame their own new instrument as having proved “ruinous to trade”<sup>52</sup>.

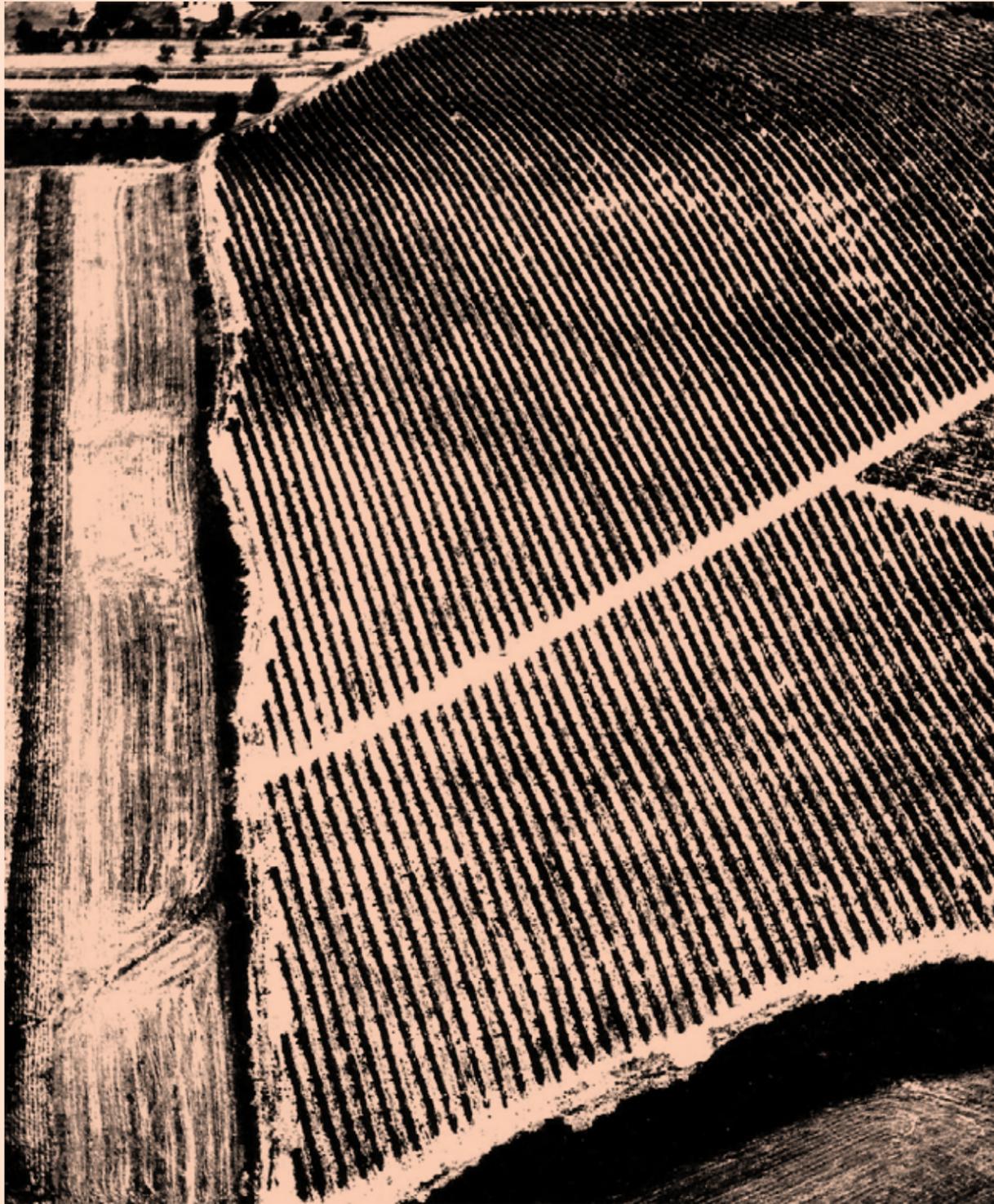
As the bilateral balance with Great Britain went progressively in her favour with no parallel reduction in her international indebtedness, Germany was forced into the agreement: “it seemed to him (Schacht) that the only reason for a clearing was our insistence on the Dawes and Young loans. These he could not pay and if we insisted that they should be paid then we should have to have a clearing as the only means of convincing us of our folly”<sup>53</sup>. The agreement was signed and British holders of commercial bonds received preferential treatment at the expense of British bondholders<sup>54</sup>. To make it effective, despite all

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52 P.R.O., Phillips Papers, T/177/20, “The Anglo-German clearing agreement”, letter from F. Leith Ross to the Chancellor of the Exchequer, 21.10.34: “...They would like at all costs to avoid a similar experience with us as their sterling receipts represent the only free *devisen* they have left and if these dried up under a clearing the whole situation would become untenable”. Leith Ross is reporting a conversation with Dr Ritter, the German technician of clearing agreements: see footnote 25.

53 P.R.O., Phillips Papers, T/177/20, “The Anglo-German clearing agreement”, Letter from H. Phipps, 19 October 1934.

54 Germany agreed to limit her imports to a maximum of 55% of her export proceeds. Of the remaining part, British creditors accepted a funding scheme; priority had to be given to the payment of commercial arrears with more than three months’ delay. See F. Benham, *op. cit.*, p. 127. The agreement was amended in 1938 when the percentage assigned to the payment of German debts was replaced by a fixed sum (£ 4,500,000) which was liable to be raised or lowered if the excess of German exports differed from £ 7,500,000. See the British memo at Bergen, *op. cit.*, Addendum,



previous assurances, a credit of £750,000 was granted to Schacht. Both British bankers and Foreign Office officials reacted angrily<sup>55</sup>.

The final recovery-effects induced by British neoprotectionism are yet unclear despite the many attempts to gauge the effectiveness of specific measures<sup>56</sup>. As far as protectionism is generally concerned, macroeconomic historians have recently manifested their skepticism with regard to the long run effects of commercial policy. Many have asserted that the most tangible outcomes of traditional protectionism fall within the domain of political and diplomatic history<sup>57</sup>, and the history of 1930s trade wars could also be viewed in this light. As to its macro or micro effects, the everlasting protection versus free trade contro-

versy now appears, to say the least, redundant. Indeed macroeconomic history is sometimes an insufficient complement to industrial history, especially when — at a theoretical level — rent-seeking activities, market imperfections, and the search for strategic initiatives have gained ground as accepted economic rationales for protection<sup>58</sup>. If however we depart from structural models of growth and protection and concentrate on the policy process, we would conclude that in the new British protectionism it was the “ancient industry argument” which prevailed.

Thus, we may agree with many contemporaries that the British system of bilateralism turned out to be harmful both to British and world recovery<sup>59</sup>; we may also share the more optimistic view that British economic policy successfully reacted against the 1920s sacred “commitment” on sterling parity, while also maintaining that her interwar policy philosophy was “still the philosophy of the early 19<sup>th</sup> century”<sup>60</sup>.

p. 11. Neil Forbes uses unpublished sources to illustrate the intense conflict that originated between the government and the London bankers on whether commercial credits or reparations bondholders should receive what was intermittently arriving from Germany. Apparently, throughout the decade, the bankers never succeeded in turning official policy to their advantage. See N. Forbes, *op. cit.*, pp. 571-587.

55 See N. Forbes, *op. cit.*, p. 581. Although we cannot take it as representing the Foreign Office official position, at the beginning of 1934 Vansittart considered financial stringency “as the principal safeguard against wholesale German rearmament; and we should do all we can to keep Germany financially lean, even at a cost to certain people here. I have heard lately that there is a slight tendency in the City to increase lending to Germany. I hope this is not the case to any marked degree”. P.R.O., Hopkins Papers, T/175/86, “Miscellaneous Correspondence, 1933-1935, From Vansittart to Warren Fisher, 6 January 1934. Since the summer of 1933, Sir Robert Vansittart — the Permanent Under-Secretary of State — believed war with Germany to be inevitable for Great Britain: see Ian Colvin, *Vansittart in Office*, London, Gollancz, 1965.

56 See D. Winch, *op. cit.*; F. Capie, *Depression and protectionism*, *op. cit.*; and P. O'Brien, *op. cit.*

57 See A. Milward, “Tariffs as constitutions”, in S. Strange - R. Tooze (eds.), *The international policy of surplus capacity*, London, Allen & Unwin, 1981, and F. Capie, “Tariff protection and economic performance in the Nineteenth Century”, in J. Black and A. Winters (eds.), *Policy and performance in international trade*, London, Macmillan, 1983.

58 For a recent overview of these aspects, see B. Eichengreen, “Macroeconomics and history”, in A. J. Field (ed.), *The future of economic history*, Boston, Nijhoff, 1987, and P. R. Krugman, “Is free trade passé?”, *Economic perspectives*, I, 1987.

59 See L. Robbins, *op. cit.*, D. H. Robertson, “The future of international trade”, *Economic Journal*, 1938, pp. 1-14, and H. Henderson, *op. cit.* Even Keynes, in one of his few hints at direct controls included in the General Theory, said that “a policy of trade restrictions is a treacherous instrument even for the attainment of its ostensible object, since private interests, administrative incompetence and the intrinsic difficulty of the task may divert it into producing results directly opposite to those intended”. (CW, VII, p. 399).

60 See A. W. Lewis, *op. cit.*, p. 83. From the monetary standpoint, the management of sterling through the Exchange Equalization Account can in no way be compared to the early 1920s monetary policy and Treasury officials took no steps to prepare stable conditions for a return to gold. Continuity even in this sense has been, however, recently reaffirmed and Ham argues that “the gold fever in the Treasury did not die, as might have been expected, with the collapse of the world financial system in the early ‘30s... The experts in the Treasury still continued to hanker after gold and after greater freedom for world trade and capital”. A. HAM, *Treasury*

When compared with contemporary tariff policy, the greater popularity of *ad hoc* bilateral restrictions seems, therefore, to depend upon its more direct links with those productive sectors which ultimately decided trade policy issues. Blind allegiance to the “coal clause” probably went as far as to penalise all “development blocs” and push the country toward imperial isolation<sup>61</sup>. Britain decided to fight exclusively against debt moratoria and took a rather equivocal role in the universal manouvres towards import substitution. By the end of the 1930s, opportunities to stimulate new exports and move away from an immiserising growth pattern appeared more unrealistic.

The success of British bilateral policies turned out to be limited and the economic recovery independent of the gains from trade. Even before the United States had imposed the first very restrictive commercial treaty on Britain, economists in Whitehall clearly perceived this flaw in British commercial policy. As early as 1933, when the country’s agricultural policy had already been sketched out, Leith Ross directed heavy criticism at the way the Government had used the new po-

rules. *Recurrent themes in British economic policy*, London, Quartet Books, 1981, p. 56.

61 During the negotiations with Germany, Schacht had assured Leith Ross that “he would also be ready to give specific quotas for any particular class of United Kingdom exports to which we attached special importance”. See Leith Ross to Chamberlain, 21.10.1934, P.R.O., T/177/20. In 1933 Great Britain had already agreed on an exchange of notes where Germany took an additional license of 180,000 tons of British coal per month (together with sliding scale adjustments if Germany’s domestic consumption increased more than 1% per month) to be exchanged against a 50% nominal rebate of duties on German chemicals and precision instruments (See H. Tasca, *op. cit.*, p. 56, and F. Benham, *op. cit.*, p. 134). This policy was wildly criticised by Parliamentary opposition (BT/11/310) and when six months later Italy — which like Germany competed with British textiles — applied for the same treatment and offered coal preferences in exchange for concessions on Italian textiles, the proposal was rejected. On these aspects, see G. Tattara, *op. cit.*, pp. 123 ff, and F. Capie, *Depression ...*, *op. cit.*, p. 131.

licy instrument at the expense of both domestic and international readjustment: “the depression demanded readjustment of production which ought to have been made by restriction of production in the least efficient areas. Our quantitative restrictions of trade, on the contrary, have encouraged production in those areas and aggravated the necessity of readjustment. Vested interests have grown up behind these restrictions and completed the vicious circle”<sup>62</sup>.

Therefore, what has been called the “tunnel effect”<sup>63</sup> — to describe the fact that, in times of development or resurgence, the increase of existing disequilibria may sooner or later generate gratifying side effects for the rest of the economy — may have been the unconscious hope hovering about Whitehall corridors. Despite Britain’s lead in the recovery process, the export trades had not been able to absorb unemployment and re-establish competitiveness in British industry. Once world prospects seemed brighter, the chief economic adviser, Leith Ross, acknowledged that the Government had paid a heavy debt to traditional sectors, and had failed to exploit the gradual industrialization of primary producing countries and to decisively shift export subsidies to the new industries: “it is to these groups of industries (electrical engineering, mechanical, etc.) that we must look to replace the losses that our export

62 P.R.O., Leith-Ross Papers, T/188/50, “World Economic Conference: Memo on import restrictions”, F. Leith Ross, “International trade restrictions”, January 1933, p. 35. A detailed account of the American agreement is C. Kreider, *op. cit.* Tariff reductions on behalf of US exports were considerable thus reversing the tendency of the whole decade. In her previous agreements, Britain’s concessions were negligible, and the mere threat of further upward revisions was successfully bargained against new privileges.

63 A.O. Hirschman, “The changing tolerance for income inequality in the course of economic development”, *Quarterly Journal of Economics*, 1973, then in *Essays in Trespassing: Economics to Politics and beyond*, Cambridge, New York, 1981.

trade has suffered by reason of the progressive closing of overseas markets to the goods of our older industries, and to the increasing competition of semi-industrialised countries, such as Japan... we should help our new industries to develop the exports side of their businesses and encourage our export trades to maintain efficient organizations abroad and raise special funds to enable them to meet foreign competition”<sup>64</sup>.

It is also in this perspective that many authors, despite the many breaches with traditional orthodoxy and the deceptively active performance of the British economy, have found evidence of a substantial continuity in the targets of British policy which the end of laissez-faire did not substantially alter<sup>65</sup>. What was worse, as time went on, the failure of British bilateralism in stimulating economic recovery gradually acquired a political tinge. Britain’s efforts to increase her trade flows towards Imperial and quasi-Imperial nations had occurred at the expense of a trade diversion from European commercial routes. By the end of 1937 there are signs that the widespread awareness of having specialized in the wrong commodity was dramatically reinforced by the fear of having chosen the wrong countries. For these reasons too, economic advisers warily suggested that the British Government should reverse policy and increase the dependency on Britain of European countries: “We cannot help feeling that Germany’s task has

64 See P.R.O., Phillips Papers, T/177/24, F. LEITH Ross, “Balance of Payments”, 27.11.1936 (pp. 17 and 23). Leith Ross basically endorsed the position of the Committee on Economic Information of which he was a member. In a memorandum on the “Coordination of trade policy” written in 1934, CEI strongly advocated rationalization in the exportables at the expense of the defence *ad infinitum* of traditional sectors. The report is now published in S. HOWSON - D. WINCH, *op. cit.*, pp. 292-319. Cf. in particular p. 307.

65 See J. INGHAM, *op. cit.*, and P. J. CAIN - A. G. HOPKINS, *op. cit.*

been made easier for her than it would otherwise have been by our tariff policy which has reduced our imports from Europe by something like one half. Any modification in that policy which would tend to increase our trade with the Continent may thus have a beneficial effect politically as well as in the trade field”<sup>66</sup>.

6. From a purely theoretical standpoint, bilateralism did not induce any major revision of the theory of commercial policy, and economists did not go beyond Scitovszky’s statement that “bilateral trade agreements are a matter of higgling and bargaining and have little interest for the economist”<sup>67</sup>.

The 1930s, however, had at various stages made economists reconsider the mechanical equivalence between commercial instruments, especially with respect to their different expansionary attitudes. Resource mobility also seemed to react differently and particular stress was put on the difference between tariffs on one side and quotas and exchange controls on the other<sup>68</sup>.

66 Comments by Phillips on a Report by the Interdepartmental Committee on Trade Policy, P.R.O., Leith Ross Papers, T/188/176, “United Kingdom, Trade barriers and trade policy after the interdepartmental trade policy committee, 1937”, Phillips to Hopkins, 31 December 1937.

67 Cf. T. De Scitovszky, “A reconsideration of the theory of tariffs”, in *Review of Economic Studies*, IX, Summer 1942, pp. 89-110, then reprinted in H. S. Ellis and L. A. Metzler, *Readings in the theory of international trade*, London, Allen & Unwin, 1950, p. 378.

68 F. Graham, *Protective tariffs*, New York, Harper & Brothers, 1934; J. Viner, *Trade relations between free market and controlled economies*, League of Nations, II. economic and financial, 1943, IIA.4; G. Haberler, *Quantitative controls of international trade: causes and nature*, League of Nations, 1943, IIA.5; for more recent reformulations, see J. Bhagwati, “On the equivalence of tariffs and quotas”, in R. E. Baldwin et al. (eds.), *Trade, growth and the balance of payments*, Chicago, Rand McNalley, 1965, pp. 53-67; J. Bhagwati, “The theory and practice of commercial policy. Departures from unified exchange rates”, in R. C. Feenstra (ed.), *Essays in economic theory*, vol. 1, MIT Press, 1983;

In the presence of foreign trade imperfections, this exercise in comparative efficiency which was later to influence the 1950s debate on direct controls and discrimination, led to a view of bilateralism and trade agreements as a more efficient method of intercountry discrimination<sup>69</sup>.

The economists' debate about bilateralism was basically centred on three aspects: first of all, a search for the devil who broke the golden "rules of the game" led to the rather sterile debate about who lit the first match: either the nationalistic and irrational moves of the mean creditor who, by restricting his own market, caused inevitable repercussions abroad; or the poor debtor countries of Continental Europe who, willing to default on an unjust treaty, switched to barter as the only possible form of trade relation.

The transfer question was often invoked as an explanation for German conduct<sup>70</sup>, and if in the 1920s the Treaty's diktat had placed the noose around Germany's neck, the explosion of the capital account strain on the one hand and the sudden

U.S. withdrawal from granting further lending opportunities on the other, were the guilty material "hangmen" that put the classical mechanism of adjustment to death.

Where reparations and the movement of short term balances had failed, clearing practices and the forced accumulation of blocked balances had succeeded in becoming the aptest means of linking the transfer of goods to the settling of financial arrears. Thus German economists advanced the opinion that clearing agreements "were called by the foreigners, primarily to secure the payments of current trade debts, but also in connection with the German capital debts... The system involves in itself the danger of leading to new German debts on current trade accounts"<sup>71</sup>.

The discussion then turned to the positive macro effects of bilateralism as the only conceivable policy for increasing the level of trade and decreasing global imbalances. A debate on the hidden orthodoxy of exchange controls and clearing agreements arose, and the common charge that they had caused a relatively greater collapse of trade found distinguished opponents<sup>72</sup>. Given political and psychological constraints, clearings were a subtle method of recognizing devaluation and opening adequate loopholes in the net of controls. Thus they were ultimately conducive to a more equilibrated situation in international

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and J. H. Gassing and A. L. Hillman, "Political influences and the choice between tariffs and quotas", *Journal of international economics*, 19, 1985, pp. 279-290 and the bibliography here quoted.

69 As Scitovszky put it, a bilateral agreement "may be to mutual advantage if it supersedes protective tariffs, provided that it does not increase already existing exploitation but merely makes it more efficient. To the extent that it increases the degree of exploitation it turns political ascendancy to economic account by exacting tribute from defeated, conquered or intimidated countries. As such it is more efficient than, say, the reparations imposed in the Versailles treaties, because it presents no transfer problem... it imposes tribute in a veiled form" (*op. cit.*, pp. 381-382). The argument had received careful examination in F. Graham, *op. cit.* His starting point was that "protectionism exists only if discrimination exists. The real point at issue is how to discriminate and to what degree".

70 Many would agree with Kindleberger's remark that Bruning adopted deflation and the control of exchanges as a means to get rid of reparations using as an excuse the foreign exchange bottleneck originated by the sudden shrinkage of foreign lending. See C. P. Kindleberger, *op. cit.*, p. 174.

71 Cf. F. Schumacher, "Germany's present currency system", in A. Gayer (ed.), *The lessons of monetary experience. Essays in honour of Irving Fisher*, London, Allen & Unwin, 1937, p. 219. See also on this point F. Meyer, "Memorandum on an analysis of exchange restrictions at present in force in Germany", Bergen Conference, 1939.

72 W. Ropke, *German commercial policy*, 1934; P. Einzig, *op. cit.*; P. Jacobson, "Comment" to N. Crump, "The economics of the third Reich", *Journal of the Royal Statistical Society*, II, 1939, p. 207; H. Henderson, *op. cit.*, and K. Mandelbaum, "An experiment in full employment. Controls in the German economy, 1933-1938", in *The economics of full employment. Six studies in applied economics*, Oxford, Blackwell, 1945. See also C. P. Kindleberger, *op. cit.*, p. 238.

relations already upset by incompatible exchange rate regimes and high global imbalances. German experts and a group of Oxford economists did not fail to recommend — even for “normal” times — the relief of implementing some sort of compulsory adjustment mechanism in times of deep-seated disequilibria; and as Balogh put it, international trade would be zero without the black bourses and clearing agreements<sup>73</sup>. From the Western front, economists acknowledged that the process of German exploitation of smaller countries proved to be “of little foundation”; and indeed an impetus to economic development and agrarian modernization of distressed areas has often been connected with the development of clearing practices<sup>74</sup>.

Theoretical contributions also reinforced the assumption that bilateralism could work as an expansionary device by minimising the leakages of the international multiplier. In times of depression, with low income effects and whenever the reaction of greater imports on additional exports is small, bilateralism could be employed to “increase domestic expansion, conserve the stimulating effects on income and protect the balance of payments by insuring that the full amount of the rise in imports is reflected back on exports”<sup>75</sup>.

Therefore, bilateralism was often described as

73 See T. Balogh, “Dynamics of adjustment. Monetary versus direct controls”, in *Unequal partners*, vol. I, Oxford, Blackwell, 1963.

74 See Lewis, *op. cit.*, pp. 83 ff. In effect Lewis reports a fairly widespread conviction that the network of clearing agreements had contributed to the reorganization of Balkan countries: see on this point B. Ohlin, “Report on the problem...”, *op. cit.*; A. Basch, *op. cit.*; Royal Institute of International Affairs, South Eastern Europe, 1939; T. Balogh, “The international aspects of full employment”, in *The economics of full employment*, *op. cit.*, p. 151 and footnote. For secondary works see L. Neal’s and D. Kaiser’s already cited works.

75 W. Salant, “Foreign trade policy in the business cycle”, *Public policy*, II, 1941, reprinted in H.S. Ellis - L.A. Metzler (eds.), *Readings in the theory of international trade*, London, Allen & Unwin, 1950, p. 210.

a compulsory mechanism of international settlement, which would have restored barter equilibrium in presence of capital controls. This by itself would have solved adjustment related difficulties which had fueled the international transmission of the depression<sup>76</sup>.

Economists and economic advisers, however, chose to investigate the more stimulating topic of the terms-of-trade effects which bilateralism was bringing about<sup>77</sup>. Indeed, not a few authors were tempted, in typical idealistic fashion, to divide the arena between “large” and “small” countries. Probably influenced by one of the theoretical novelties of the moment, a remake of the optimal tariff argument was carried out and Germany was often depicted as applying the theory of bilateral discriminating monopoly to her foreign economic policy thus forcing the foreigner to pay for her rearmament tax.

The starting point was — as Mandelbaum suggested — that at least theoretically “the system could be administered as to maximise the foreign revenue and secure the best terms of trade obtainable”<sup>78</sup>. For all these authors, to increase the

76 In contemporary textbooks we read that “bilateral forms of exchange control represented more strikingly by clearing agreements, tend to equalize the balance of payments between a pair of countries”. See G. Haberler, *The theory of international trade*, London, Hodge, 1936, pp. 89-90; and similarly Röpke asserted that it is “the main feature and the declared purpose of bilateral trade agreements to equalize trade balances and force one country after another to adjust its commercial relations in the direction of equalizing trade balances the tendency toward international economic disintegration contains also compensatory and self-adjusting elements”. See W. Röpke, *International economic disintegration*, London, Hodge, 1942, pp. 40 and 62.

77 The violent controversy among British economists originated by BENHAM’S book on *South Eastern Europe*, Royal Institute for International Affairs, 1939, is well known. See the articles by Einzig, Guillebaud and Benham himself, in the *Banker* 1940 and *Economica* 1940.

78 K. Mandelbaum, *op. cit.*, p. 185. Others in textbook fashion argued that “exchange control which maintains an overvalued cur-

capacity of imposing forms of discriminating monopoly upon dependent countries was “the real *raison d’être* of bilateralism”<sup>79</sup>.

The great majority of experts, however, stood on the opposite side. Sometimes to their embarrassment, economists recognised in the small countries those who were receiving, through bilateralism, windfall gains from terms-of-trade appreciation at the more dynamic cost of a higher dependence on German trade. Later studies<sup>80</sup>

rency will improve a country’s terms of trade and increase its gains from trade. The essence of the action is monopolistic pricing of the currency relative to the price it would receive in a free market. The international market is thus exploited and a monopolistic nation’s economic welfare is improved at the expense of others “. (F. Child, *The theory and practice of exchange control in Germany. A study of monopolistic exploitation in international markets*, The Hague, Martinus Nijhoff, 1958, p. 82). And more appropriately “if she is bargaining directly with a foreign country, and can arrange a deal at a price which is above the world price for what she imports, but at a competitive price for her exports, she may still be better off on balance than she would be either if the deal did not come off at all, or than if she were to buy at the world price and... had to sell in markets where it was necessary for her to subsidise her exports very heavily in the face of an inelastic demand”. (C. Guillebaud, *op. cit.*, pp. 158-159). While Ellis finally concluded that “Germany enjoyed the advantage of industrial exports and high terms of trade throughout the 30s”. (ELLIS, *Exchange control op. cit.*, p. 295).

79 H. S. Ellis, *Bilateralism and the future of international trade*, Princeton Essays in International Finance, n. 5, Summer 1945 then reprinted in H. S. Ellis and L. A. Metzler (eds.), *Readings in the theory of international trade*, London, Allen & Unwin, 1950, p. 432. According to the German official representative at the Geneva conference on exchange controls, “exchange control represented a new type of monetary economy. The real difference existing between the two systems is that in one there is the influence of the Government in balancing the clearings and in the other the influence of the private entrepreneur in doing the same thing ...in Germany discrimination is official and in other countries it is private”. Geneva Research Centre, Provisional record of the Conference on exchange control, Geneva, May 12-13, 1939 (quoted by ELLIS, *Exchange control... op. cit.*, pp. 344-345).

80 C. Kindleberger, *op. cit.*, L. Neal, *op. cit.* In a comparative fashion Alan Milward has suggested that “the sterling area and the Reichsmark bloc certainly provided better terms for their primary producer goods exporters than the multilateral agreements of 1925-1930”. See A. S. Milward, *op. cit.*, p. 63.

have given their support to this latter interpretation.

This conclusion was also shared within the restricted circle of official economists in Whitehall. After all, the way Germany could impose her economic policy on South Eastern Europe never left British observers indifferent. Of course, at the outset, they may have felt the usual “sense of frustration that can be seen in the attention paid to the economic experiments elsewhere: ‘if the excitement of trying to be active is forbidden to invalids by their doctors the milder excitement of watching others may still be permitted’”<sup>81</sup>. The Ottawa agreements, however, had specifically introduced the fundamental principle of bilateralism, and Imperial preference had no longer to be regarded as a concession but as a bargaining weapon to secure reciprocity. Once their trade creation effects proved to be negligible and the rich dominions turned away from British exports as a response to Britain’s agreements with Scandinavia and South America<sup>82</sup>, official economic advisers, such as Hubert Henderson, did not restrain their admiration for, and perhaps envy of, German bilateral-led economic growth as compared to other illiberal stages in international economic history. Germany had managed to erect quite a consistent “trading body” that enabled her “despite her internal indebtedness and her lack of monetary reserves, to maintain and to increase the volume of her trade. It enabled her, in other words, not to buy cheap and sell dear, but to buy more and sell more. It is a mistake to suppose that her Nazi rulers set out to reduce Germany’s external trade to, a minimum... a sufficient volume of trade is much

81 D. Winch, *op. cit.*, pp. 199-200. Winch quotes from Dalton’s, *Unbalanced budgets*.

82 See I. Drummond, *op. cit.*, p. 310

more important than favourable terms of trade for a country in a weak financial position, but possessing a large industrial capacity”<sup>83</sup>.

We could thus say that many writers drew a distinction, as Hirschman did, between the trend towards equilibrium and the one towards bilateralism of commercial exchanges. For them, more than as an equilibrating or a restrictive factor, bilateralism had worked as a factor of growth: its adoption guaranteed the continuity and the stability of markets in a period of high political and economic fragmentation; it served to reduce uncertainty and risk, and shelter domestic recovery from external fluctuations. And it was widely acknowledged that “purely from the economic standpoint there is much more ‘method’ in the German madness than the critics generally give her credit for”<sup>84</sup>.

Germany therefore did not act as a discriminating monopoly which charges differential prices according to specific market elasticities, nor were

83 Memorandum by Henderson later published in H. Henderson, *op. cit.*, pp. 268-269. We cannot therefore agree with Larry Neal’s generalization that “to date, the economic analysis of the bilateral clearing agreements of the 1930s has been cast in terms of the monopoly-monopsony theory which was perfected at the same time... Doubts did not occur in the analysis of this problem in the late 1930s, when it seemed that here was a perfect place to apply the recently developed tools of analysis of imperfect competition... It is the residue of this misapplied analysis which remains in the textbooks of today... The novel hypothesis offered here is that the bilateral clearing agreements offered them (East European economies) the best means available for financing economic recovery” (*op. cit.*, pp. 391 and 393-394). Apart from the ample margin of doubt on the validity of the optimum tariff argument that one can find in Ellis, Guillebaud or Child’s works, the conviction was rather widespread that the “charge (of monopolistic exploitation)... cannot be scientifically altogether maintained”. See T. Balogh, “The international aspects...”, *op. cit.*, p. 151; see also Mandelbaum’s rejection of the terms of trade argument (*op. cit.*, p. 186) and A.O. Hirschman’s treatment of the “influence effect” elaborated in National power..., *op. cit.*

84 C. Guillebaud, *op. cit.*, p. 159.

bilateral agreements devised to achieve a more perfect separation between intercommunicating areas; rather she proved to be more interested in the manipulation of other variables — such as the length of contracts or the quantity of raw materials — which helped the financing of her domestic expansion and rearmament.

Therefore, many shared the conviction that the ultimate rationale of direct protectionism was not the successful exploitation of existing market imperfections in strategic sectors. On the contrary, economists were more sympathetic with a macro-dynamic view of bilateralism as one discriminating device which could revive domestic demand under the working of price and exchange controls.

Also in this respect the bargains that Great Britain had achieved, of already doubtful advantage to the rationalization schemes of depressed trades, did not seem to be the proper policy to increase the effective demand for British specialties, and proved particularly deleterious to the reshaping of British financial supremacy. Despite its many advocates, it could not be taken as a model for postwar commercial relations. On the eve of Bretton Woods, Keynes repeated his preference for antidiscriminatory instruments that nonetheless could exert more powerful aggregate effects than the driving of specific bargains: “to suppose that a system of bilateral and barter agreements, with no one that owns sterling knowing just what he can do with it — to suppose that this is the best way of encouraging the Dominions to centre their financial system in London, seems to me pretty near frenzy. As a technique of little Englandism, adopted as a last resort when all else has failed us, with this small country driven to autarky, keeping to itself in a harsh and unfriendly world, it might make more sense. But those who talk in this way in the expectation that the rest of the Com-

monwealth will throw in their lot on these lines and cut their free commercial relations with the rest of the world, can have very little idea how this Empire has grown or by what means it can be sustained”<sup>85</sup>.

7. When Albert Hirschman set about writing his early works on exchange controls and the power policy elements inherent in international economic relations, times were ripe to reconsider exchange control and bilateralism as the instrumental catalysts around which regional blocs were developed and expansionary strategies pursued.

In this perspective Hirschman’s statistical exercise, which gave a quantitative substratum to the Bergen research project, helped to undermine the still widespread fallacy that bilateralism acted as a buffer against wild terms of trade fluctuations and to roughly maintain a certain equilibrium in external accounts. Both the statistical and the qualitative evidence indicate that the need for safeguarding the balance of trade was shortly dismissed and basically used as the official justification for the introduction of new measures. Other things being equal, clearing agreements would, at best, have guaranteed the reciprocal equalization of payments and not that of trade. Moreover, the greater independence from the vagaries of the international business cycle, that many coun-

85 *The Collected Writings of John Maynard Keynes*, vol. XXVI, *op. cit.*, p. 12. Originally a speech by Keynes in the House of Lords, House of Lords Debates, 23 May 1944. Often-quoted examples of this “little Englandism” are the clauses included in the Danish agreement whereby Danish bacon exporters were obliged to wrap their products in “jute woven in the United Kingdom from yarns spun in the United Kingdom” and that all salt used in connection with commodities exported to Great Britain (butter, ham, bacon etc.) had to be purchased in the United Kingdom. See also the chapter on administrative protection in the British memo presented at Bergen, *op. cit.*

tries sought throughout the 1930s, allowed the needs of the domestic economy to be disposed of more swiftly. Commercial policy became more inward-oriented thus postponing the reduction of deep-seated external imbalances.

Complementary to this view and anticipating a major theme of National power, Hirschman’s index confirmed that the nature of bilateralism was not inherently “teutonic”, but part of a more universal desire to discriminate in the fixing and freezing of specific disequilibria, tending in the last instance to directly enforce “legal” imbalances. A similar perception had already been anticipated when the Enquiry on Clearing Agreements promoted by the League of Nations reached the conclusion that bilateral treaties were not used as a means to adjust the external accounts in a phase of liquidity crisis. Clearings, the argument thus ran, “have caused the balance of commodity trade to move in exactly the opposite direction”<sup>86</sup>.

As to its “democratic” counterpart, Britain’s intention to regain the lost ground in the commercial battlefield appears clear, if we again look at the official records and read that “we have arrived relatively late and our quotas have to be of no general character but devised to control specific goods and hit individual countries”<sup>87</sup>.

These conclusions can be linked to a certain extent to future developments in the history of ideas and facts. Hirschman himself probably found in it

86 League of Nations, *Enquiry op. cit.*, p. 51. Furthermore, “experience shows, however, that over a short period, their effect is not necessarily to equalize the volume of reciprocal trade between two countries; in some cases it has, on the contrary, been to increase bilateral trade balances”, (League of Nations, *Review of World Trade*, 1935, Geneva, 1936, II.A.14, p. 66).

87 P.R.O., T/175/84, Leith Ross, “Memorandum on foreign trade and finance bills”, *op. cit.* That the U.K. treaties contained comparatively more specific provisions than Germany or the United States for the organization and management of her quantitative restrictions was first emphasised by K. Snyder, *op. cit.*

support for his future reflections that the search for vulnerable partners can be equally exerted by those who rigidly plan their international relations as much as by those who claim to leave the market to decide. The much-cultivated postwar desire to investigate more thoroughly the concept of dependency, and the manifold ways in which it is internationally exerted, can perhaps be ultimately traced back to the variety of responses that the same instrument had stimulated. Finally, the need to devise mechanisms for regulating and “taxing” asymmetric behaviour in intercountry relations may also find its origin in the 1930s history of bilateralism.

The factual lessons of bilateralism can be summarised in its greater comparative efficiency of flexible “end-use” or “by source” discrimination as compared to traditional ways of intervention. In this sense, the importance that the Great Powers had attached to these new protectionist expedients is perhaps clearer if we superficially look at the postwar history of commercial policy and negotiations. The lower incidence of tariffs together with the growing anachronism of GATT clash strikingly with the administrative innovations which have restricted international commodity and capital flows whenever a depressionary shock appears on the horizon.



### 3. INTERPRETIVE SOCIAL SCIENCE

#### Interpretive social science and morality

by Nicoletta Stame

##### Interpretive social science and morality.

At a moment when moral issues are increasingly relevant to the life of our societies (growing inequalities worldwide, environmental damage, renewed imperialistic policies, terrorism and wars) the question of the place of morality in social science is once again on the agenda. Forty years ago, the same question was raised for the first time by the group of social scientists, from different disciplines, who had converged on the idea of “interpretive social science” as practiced at the School of Social Science at the Institute of Advanced Study (Princeton). Under the intellectual influence of Clifford Geertz and Albert Hirschman<sup>1</sup>, these authors openly dared to challenge an omission that was imprinted in the very origins of their disciplines. This episode of responsible creativity still speaks to our current predicaments.

“Interpretive social science” was a reaction to mainstream social science as it had developed in the ‘60s and ‘70s, with its positivistic tenets of value-freedom, “objectivity” and the detachment of the researcher. It aimed to “criticize and refine the prevailing theories and methodologies of the human sciences (characterized by) overspecialization, present-mindedness and unwarranted scientism without much compensating capacity to provide satisfactory solutions to the pressing social and economic problems of the day”<sup>2</sup>. “In-

terpretive social science” was a plea for a more modest approach to reality that included understanding the meaning of social action before trying to explain its causes, developing middle range theories and remaining open to new discoveries, and a sense of moral commitment by the researcher, who is part of the research. In Geertz’s words: “As ‘interpretivists’, self-declared and self-understood, we were interested in work that reached beyond the narrowed confines of a fixed and schematized ‘scientific method’, one that connected up with moral, political, and spiritual concerns” (2001: 8).

Indeed, “interpretive social science” does not limit itself to appreciating subjective values without fearing the charge of relativism, but aims to submit values, meanings, behaviors to a sound analysis. This is implicit in the way these social scientists addressed a question that had no relevance in mainstream social science: “what is morality that should guide social science?”. In the words of Bellah et al. (1983: 17), “at stake is the issue of how empirically described life and ethical vision can be brought into relation”.

My aim is to reconstruct how morality became an important topic within “interpretive social science”, overcoming its exclusion from positivist epistemology, by examining the ways in which this exclusion had come about: the object of research was defined as “facts, not values”, the goal of research as “descriptive, not normative”, the attitude of the researcher as “detached, not involved”. Ethical considerations were therefore considered the realm of the humanities, not the

science” was prepared for fund raising. It was written by Quentin Skinner and William Sewell under the supervision of Albert Hirschman and Clifford Geertz.

sciences. Geertz first, and then the other authors who identified themselves as interpretive social scientists, contested these dichotomies: they considered together the various spheres of life and of inquiry that both positivist social science and hermeneutic philosophy, each for their own good reasons, wanted to keep separate<sup>3</sup>. Actually, these authors did not feel at ease in these paradigm wars, nor in the company of such strong dichotomies (scientism vs. subjectivism).

#### Overview

What does it mean to say that “social scientific research is a variety of moral experience” (Geertz, 2000: 23)? This relates to what morality is understood to be, as well as to how to deal with it within one’s field of research.

Two types of content are attributed to morality in this literature. On the one hand is understanding the meaning people attribute to their actions – that is, their mores (“persons are moral agents, they question themselves and take responsibility for the stances they adopt”, Sullivan, 1983: 306). On the other, there is defining what it is to live a human life (Sullivan, 1983: 304). These two types of content may refer to both the object of research and the attitude of the researcher.

Given the pervasiveness of the “amoral” stance in all social disciplines, there can be no single

<sup>3</sup> Geertz, in *Available Light* (2000: 145) criticizes the schematic opposition between the natural and human sciences posited by the hermeneutic philosopher Taylor, the idea that between them there is a gulf, a dichotomy instead of a mere difference. While praising Taylor’s contribution to defending the integrity and vitality of the human sciences (including sociology) from the attacks of positivism, Geertz criticizes him for not having distinguished ruptures and discontinuities within the natural sciences.

way of combining morality and social science. Among the interpretive social scientists two main strategies can be detected:<sup>4</sup>

- Recognizing that ethical orientations have always been present in scientific research, although in disguise, and exposing them: “ethical orientations are present, disguised or not, everywhere in the enterprise of social science” (Bellah et al. 1983: 8).
- Keeping the tension between the two poles of these oppositions open. This is what Bellah calls “to criticize the weaknesses of modern thought from within its own assumptions” (ibid.: 9).

In what follows I will examine how four social scientists tackled the topic from the standpoint of their own disciplines (anthropology, sociology, economics, political science), thus helping to create a space for morality inside a social science better equipped at addressing the problems of the day.

I will present the position of each author with reference to:

- The relationship between morality and social research
- how to understand moral issues: mores vs. ethical values
- main topic tackled: the object of research vs. the relationship researcher/subject
- strategy for dealing with the topic: keeping the opposition open vs. exposing what already exists.

<sup>4</sup> These are among the strategies identified by Bellah et al. (1983: 15) in the “Introduction” to *Social Science as Moral Inquiry*. Referring to the various chapters in that book, they dismiss a third way of approaching the topic, the “deconstructionist strategy”, which is a complete rejection of the whole problematic: “those in the deconstructionist position view power and knowledge as so closely related that one cannot deal with one without dealing with the other”.

<sup>1</sup> On the School of Social Science at the Institute of Advanced Study (IAS) at Princeton, see my note in <http://colornihirschman.org/article/long-is-the-journey-n1/the-school-of-social-science>

<sup>2</sup> School of Social Science: 7. The document “Our idea of a social

At the end I will draw some comparisons among them.

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### Clifford Geertz

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In 1968<sup>5</sup> Clifford Geertz wrote an essay entitled “Thinking as a moral act: ethical dimensions of anthropological fieldwork in the New States”<sup>6</sup> that started by quoting Dewey, whose thought is synthesized in the sentence: “thought is conduct and it is to be morally judged as such” (2000: 21).

In that essay Geertz affirms that social science research, contrary to the tenets of the “scientific method” and of the “detached observer” – is a moral experience:

“methods and theories of social science are not being produced by computers but by men and women(...) operating not in laboratories but in the same social world to which the methods apply and the theories pertain” (22). “social research (is) a form of conduct” and “implications (should) be drawn for social science as a moral force” (23).

Geertz discusses two instances of the ethical dimensions of anthropological fieldwork, his own scientific domain and one that has found its *raison d’être* in the age of imperialism. He exposes the personal dilemmas of the researcher and criticizes the way they have usually been kept under control by what he mocks as the anthropologist’s “vocational stoicism”.

The first instance refers to “the imbalance between the ability to uncover problems and the

power to solve them”(37): one is often confronted with dilemmas like choosing between the different effects of an intervention, and it is useless to pretend that social scientists are uninterested in their moral implications.

The example concerns agrarian reform. This is a recalcitrant problem, which Geertz has analyzed in Indonesia and Morocco:

“In both situations (there is) a radical short-run incompatibility between the two economic goals which together comprise what agrarian reform in the long run consists of: technological progress and improved social welfare. (...) In Indonesia,(...) this contradiction expresses itself in terms of an extraordinarily labor-intensive, but, on the whole, highly productive mode of exploitation. (...) Technological progress of any serious scope (...) means the massive displacement of rural labor, and this is unthinkable under the present conditions”(25).

In “the Moroccan situation (...) there is a split between large-scale (...) modern farmers and very small-scale four- and five-acre traditional dirt farmers”. The dilemma that it presents distinguishes between, on the one hand, a continuation of the situation which “over and above its social injustice, (is) not one that is likely to endure very long in the post-colonial world, and indeed has now already begun to alter. On the other, a disappearance of such farmers and their replacement by small peasants threatens (...) a fall in agricultural output and foreign exchange earnings which(...) cannot (be) regarded with equanimity” (27).

Apparently both countries have ‘chosen’ “higher levels of rural employment over economic rationalization”. But “this sort of ‘choice’ is, for all its welfare attractions, a most dubious one, given a physical setting where advanced techniques are necessary not just to prevent the decline of output but to avoid a progressive deterioration of



<sup>5</sup> At that time he had not yet met Hirschman, but had quoted the latter’s work on development (*Strategy of Economic Development*)

<sup>6</sup> Now in Geertz (2000). The quotes that follow come from this edition.

the environment to levels for all intents and purposes irreversible” (27).

Observing that “technological progress and improved social welfare pull very strongly against one another; and the more deeply one goes into the problem, the more apparent this unpleasant fact becomes” (28), Geertz believes that this epitomizes “what the moral situation embodied in the sort of work (anthropologists) do is like”: “the imbalance between an ability to find out what the trouble is (...) and an ability to find out what might be done to alleviate it, is not confined to the area of agrarian reform, but is pervasive: in education (...), in politics (...), in religion” (29). All this being “on a rather impersonal, merely professional level”, it is usually met “more or less well, by conjuring up the usual vocational stoicism” (29) according to which “many social scientists (protest) ‘I don’t give advice, I just point at the roots of the problem’” (39).

The second instance of the ethical dimension in social work involves what Geertz calls “the ethically ambiguous character” of the “inherent moral asymmetry of the field situation”, “the inherent moral tension between investigator and subject” (34, 33, 37). Something the “usual vocational stoicism has found it harder to neutralize”.

“The relationship between an anthropologist and an informant rests on a set of particular fictions half seen-through” (34), what Geertz calls the “anthropological irony” (29), which is not understood in the traditional conception of the detached researcher.

“After awhile one even develops a certain resignation toward the idea of being viewed, even by one’s most reliable friends, as much as a source of income as a person. One of the psychological frin-

ge benefits of anthropological research – at least I think it is a benefit – is that it teaches you how it feels to be thought of as a fool and used as an object, and how to endure it” (30).

The anthropologist comes to represent “an exemplification (...) of the sort of life-chances (the informants) themselves will soon have, or if not themselves then surely their children” (31). This is what Geertz calls “the touching faith problem”: “it is not altogether comfortable to live among people who feel themselves suddenly heir to vast possibilities they surely have every right to possess but will in all likelihood not get” (31). Thus the anthropologist “is left ethically disarmed, (...) back on a barter level; one’s currency is unnegotiable, one’s credits have all dissolved (which leaves the one with) a passionate wish to become personally valuable to one’s informant – i.e., a friend – in order to maintain self-respect. The notion that one has been marvelously successful in doing this is the investigator’s side of the ‘touching faith’ coin: one believes in cross-cultural communion (one calls it ‘rapport’) as one’s subjects believe in tomorrow” (33).

“The anthropologist is sustained by the scientific value of the data being gathered (...) the informant’s interest is kept alive by a whole series of secondary gains (...) but if the implicit agreement to regard one another (...) as members of the same cultural universe breaks down, none of these more matter-of-fact incentives can keep the relationship going very long” (34).

This awkward situation is faced by people who are eager to deny “their personal subjection to a vocational ethic” (that implies “failing to have emotions nor perceiving them in others”), who “insist that social scientists are unmoved by moral concerns altogether – not disinterested but uninterested” (39), and invoke their “detachment”, “relativism”, “scientific method”. Geertz admits to

the “difficulties of being at one and the same time an involved actor and a detached observer” (39). And yet, he reminds us that “the anthropological field as a form of conduct does not permit any significant separation of the occupational and extra-occupational spheres of life. (...) In the field, the anthropologist has to learn to live and think at the same time” (39).

Thus “the central question to ask about social science is (...) what does it tell us about the values by which we – all of us – in fact live?” (38). The answer provided by Geertz suggests that social science can offer moral judgments by keeping the tension between the usual opposites open. It is a suggestion:

- “to combine two fundamental orientations toward reality – the engaged and the analytic – into a single attitude”, and
- “to look at persons and events (and oneself) with an eye at once cold and concerned”, which represents a “sort of research experience (that) has rather deeper, and rather different, moral implications for our culture than those usually proposed” (40).

In conclusion:

“A professional commitment to view human affairs analytically is not in opposition to a personal commitment to view them in terms of a particular moral perspective (...) the flight into scientism or, on the other side, into subjectivism, is but a sign that the tension cannot any longer be borne (...) these are the pathologies of science, not its norm. (...) To attempt to see human behavior in terms of the forces which animate it is an essential element in understanding it (...) to judge without understanding constitutes an offense against morality” (41).

Where Geertz stands:

- Considers social research as a moral experience.
- Considers morality as the meaning people attribute to their acts when faced with ethical dilemmas (people are moral agents).
- The anthropologist undergoes a moral experience when facing the dilemma of the imbalance between uncovering problems and solving them (the object of research) as well as in relating to his/her subject (the ironic asymmetrical relationship).
- Strategy for keeping the tension open between morality and social science: analyzing with commitment.

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#### Robert Bellah

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In 1980 Robert Bellah organized a seminar at Berkeley on *Social Science as Moral Inquiry*, the idea that the dimension of morality is constitutive of social science itself. His intention in acknowledging that “value commitment in some form or another is inevitable in doing social research”, was to grant visibility to a way of thinking that existed but was never discussed as such (Bellah et al., 1983: 8).

The seminar was to answer two broad questions: “a) Why has this interest and concern about moral issues in social science occurred? In other words, what are social science’s difficulties? Why are past guidelines unsatisfactory, suspect, pallid, wrong, or whatever? b) If we are to abandon the stance (or some would say, pretension) of value-neutrality, how can we act so as to assure that social science doesn’t disintegrate into ideologies? In other words, what kind of moral theories can we use and how can we use them and still

retain legitimation in our own and others' eyes?"<sup>7</sup>

In a 1983 book with the same title (Haan et al., 1983) that collected some of the remarks from the seminar (and added other chapters as well), Bellah et al. (1983: 8) warn that thinking along these lines will lead to a reconsideration of the character of the various disciplines ("how the failure – of economics, psychology, anthropology and history – to deal adequately with the ethical dimension has precipitated questioning and doubt and stimulated the beginning of new formulations") and of the "role of social science in social policy".

For his own part, Bellah (1983)<sup>8</sup> leans toward the strategy of reviving the moral stances that have always been present, although disguised, in social theory, and sets out to provide a reformulation of social science going as far back as the tradition of Aristotelian social and moral thought. He finds a continuity from ancient social *inquiry* to modern social *science* as regards the relationship between morality and social thought; and he opposes it to the contemporary idea that it is possible to speak of a social *science* only when such concepts as detachment, value-neutrality, etc. have been established.

Following Aristotle, who considered social *inquiry* as "a practical science, one indelibly linked to ethical reflection", Bellah sees the terms "moral sciences" and "social sciences" as interchangeable (1983: 360). The notion of "social science as practical reason" (361) sets the stage: "the purpose of social science (is not) to provide the most effective means to predetermined ends. Social

science as practical reason must, on the contrary, make ends as well as means the objects of rational reflection" (362).

While the ancients (Plato, Aristotle) were concerned with what the good life is (p.362), the modern Machiavelli was "not interested in how the world should be, but how it actually is"(362) – which is considered the starting point of a social *science*. Yet Machiavelli had no less passionate ethical ends in view (the unity and independence of Italy). The same could be said for other giants in modern political thought: Hobbes envisaged the role of an absolute state with the moral aim of survival. Tocqueville, who spoke of a new political science, was gripped by the passion for liberty. And Marx too, for all his "scientific" socialism, was moved by moral passion.

Then, coming to his own disciplinary field, sociology, which is a comparatively recent product of social thought, Bellah contrasts the ethical aims of the main figures in the field with their claims of "establishing a genuine scientific sociology" (p. 373).

Durkheim, the father of a positivist sociology who preached that social facts should be considered as things, was imbued with a fundamental morality. His idea of "society" as prior to the individual, "had profound and political implications that determined the practical meaning of his science" (366) and his practical activities as an educator. At the same time, he thought "about society 'scientifically' by deriving the ethical ends of action from empirical investigation" (367).

Weber, talking about science as a vocation, had "eloquently argued that the relation between scientifically discoverable means and ethical ends is extrinsic and that science had nothing whatever to say about ends" (368). Yet his work expressed a conflict between the ethics of responsibility (the use of legitimate force) and the ethics of ultima-

te ends (brotherly love), between power and the religion of salvation, between science and ethics (369).

This mixture of ethics and science allows Bellah to borrow a concept from Weber that would become central to his own thinking: that of tradition<sup>9</sup>, which would even incorporate the germane Weberian concepts of charisma and rationality.

"In modern societies, both the general social tradition and the tradition of social thought are multiple, diverse and partially in conflict" (372). And the individual will continually move among all of them, using one tradition (e.g., social inquiry) to criticize another (e.g., the norms of society) or "reflecting on the logical coherence of, and the empirical evidence for, different traditional views (...). In this process of reception, practice and reflection it is quite arbitrary to decide what is cognitive and what normative, when we are being scientific and when ethical. Indeed intellectual acuteness and ethical maturity in this area go hand in hand. Wisdom is the traditional word that includes both" (373).

Such wisdom had however been repressed as, following Parsons' way of understanding the "professionalization of science", sociologists like Collins denied pursuing any practical benefit, but rather "a coherent, powerful, and verified set of explanatory ideas" (374). Since our heads are filled with false consciousness and traditions, Collins maintained, "a distinction between value judgments and logical and descriptive statemen-

ts" (375) is mandatory. Helping us to see people as animals maneuvering for their interests, and making us "aware of the plurality of realities, the multiplicity of interests, and the tricks used to impose one reality upon others", social science will free our minds from illusions.

In rejecting this attitude, Bellah clarifies the reason for his strategy of combining morality and social science by exposing what had always been there: "it is extremely unlikely that sociology can ever be a paradigmatic science in Kuhn's sense (...) what creates coherence and continuity in social science is not consensus around a theoretical paradigm" (like the one proposed by Collins as the last word) "but concern for practical problems in the world" (377). "Social science is not cumulative, and we still have much to learn from the ancients" (380).

If we understand that "in the social sciences we study the same kinds of beings that we are" (376), we cannot put ourselves outside or above what we study, and "we can undertake our inquiry only by continuing our dialogue with those we study and relative to whom we are as much students as teachers" (377). "If social science is to be practical in (the) classic sense of the word, it means something very different from technological application on the model of the natural sciences. It means, above all, the participation of the social scientist in the process of self-understanding" (378).

Where Bellah stands:

- Considering social science as practical science, he sees ethical and cognitive issues intertwined.
- Understands moral issues as being concerned with ethical values: what is good.
- His focus is double: the object of research (ethical values such as community, responsibility, etc.) and the relationship between the

<sup>7</sup> Letter of Norma Haan to Albert Hirschman, October 5, 1979. Hirschman Archives, b. 8, f.6.

<sup>8</sup> The quotes that follow come from Bellah's chapter in the Haan et al. (1983) book.

<sup>9</sup> Sullivan (1983), in the same book, reconsiders the communitarian tradition in American political thought, contesting the liberal tradition that ignores the moral dimension, and reclaiming the earlier notion of society (republican) and of responsible citizens that existed alongside the liberal tradition.

scientist and the object of study (the same social matrix).

- Strategy for dealing with the topic: exposing what already exists in social thought, starting from the ancients.

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### Albert Hirschman

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The contribution of Hirschman to this episode is highly meaningful. In a single essay, notably entitled “Morality and the social sciences: a durable tension”, Hirschman completes the journey between the two strategies of combination envisaged by Bellah et al.: from admitting that morality could exist in disguise, to advocating a new social science based on the interconnection between “proving and preaching” – that is to say, keeping the tension open between analysis and moral commitment, in consonance with the thought of his colleague and friend Geertz.

The story of this article goes back to the Berkeley seminar promoted by Bellah. Initially Hirschman was uncertain whether, and how, to attend the seminar<sup>10</sup>; in the end he did participate, and spoke about “shifting involvements”<sup>11</sup>, the oscillation between the pursuit of happiness through consumption (private life), subsequent disappointment and enthusiasm for public action, and renewed disappointment and a return to the pri-

vate sphere: a way of looking at the meaning people attribute to their actions (“the fact that man is reflective, in addition to other things, means that there is a possibility of changing tastes”). In a comment to the seminar (*Remarks on the Berkeley Conference*<sup>12</sup>) he justifies his remarks there by claiming that his way of treating shifting involvements allows a more attractive way of viewing man than as the usual *homo economicus* maximizer, and provides a “moral in disguise”. Bellah – who was familiar with Hirschman’s intellectual and practical experience<sup>13</sup> – liked what he had to say, and asked him to write “a kind of autobiographical reflection of the moral implications of your own work over a fairly extended period of time”<sup>14</sup>.

Hirschman did not follow this suggestion literally, but – as usual having in mind his economist colleagues, trapped within their models<sup>15</sup> – started thinking about how the theme of morality fared within economic theory and social science in general: here again he found oscillations and turning points. Then he prepared a lecture<sup>16</sup> that later became the article “Morality and the Social Sciences: a Durable Tension”, published both in the anthology on the Berkeley seminar (Haan et al. 1983) and in his *Essays in Trespassing. Econo-*

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<sup>12</sup> Hirschman Archives, Box 8, folder 7.

<sup>13</sup> Bellah was certainly thinking of the motivations behind some of Hirschman’s writings, such as *National Power and the Structure of Foreign Trade, or Exit, Voice and Loyalty*.

<sup>14</sup> letter of April 24, 1980.

<sup>15</sup> A similar critique of restricted economic models, and the need to enlarge the economics perspective, can be found in mc Pherson’s (1983) chapter in the same book.

<sup>16</sup> Given on the occasion of receiving the Frank E. Seidman Distinguished Award in Political Economy at Memphis, Tennessee (25th September 1980)

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<sup>10</sup> At that time Hirschman was highly concerned with moral issues, especially with reference to events prompted by Latin American dictatorships. See the notes on *Universities and Human Rights* written for the American Academy of Social Sciences.

<sup>11</sup> Hirschman was at the time preparing a book under the title of “Private happiness vs. public happiness”, that later on saw the light as *Shifting involvements* (Hirschman, 1982). A reminiscence of the original title is found in the Italian translation, called *Felicità privata e felicità pubblica* (Il Mulino, 1983).



*mics to Politics and Beyond* (1981)<sup>17</sup>. Here he develops his argument in three steps.

First, he analyzes how social science evolved through an anti-moralist stance based on the purported incompatibility between moralizing and analytical-scientific activity, the “separation between heart and head (brains)” (23). To this end, he follows two paths which, in a note entitled *Moral and amoral thinking in economics*<sup>18</sup>, written in preparation for the article, he labeled “history” and “epistemology”, respectively.

The history of social thought refers to the “amoral birthmark of social science”, when social science emerged through a separation from morality: Machiavelli, Mandeville, Smith. According to this view, society is kept together not by love or benevolence but by interest.

The epistemology of social thought refers to the fact that social science advances through new discoveries that are counterintuitive, shocking: “affirming the hidden rationality of the seemingly irrational, defending as moral or useful or at least innocent social behavior that is widely considered to be reprehensible” (1983, 24). This trend is clearly recognizable in what he calls “the paradox of amorality”, the “‘imperialist’ expeditions of economics into areas of social life outside the traditional domain of economics”, whereby “criminals, lovers, parents, bureaucrats or voters were all found to be

busily ‘maximizing under constraints’” (25).

Second, he recognizes that there is a recent “resurgence” of morality, acknowledging the need for moral behavior in order to make society work: this is morality in disguise, meant to correct some of the limits of economic theory. In micro-economics, the need to correct certain forms of market failures is met by adherence to a code of professional ethics, or by recognition of the importance of trust over self-interest (26); in macro-economics, there is a need for forms of benevolence in the relationships between social classes in order to overcome inflation (27).

In introducing the idea of morality in disguise, Hirschman goes back to the “trained incapacity” (Veblen) of social scientists, which Geertz had in mind as well: “when one has been groomed as a ‘scientist’ it takes a great deal of wrestling with oneself before one will admit that moral considerations of human solidarity can effectively interfere with those hieratic, impersonal forces of supply and demand” (30). Therefore, given the difficulty of reconciling moralizing and analytical understanding, “one effective way for social scientists to bring moral concerns into their work is to do so unconsciously” (Hirschman, 1983: 31), as he himself had done while writing EVL<sup>19</sup>.

In the *Remarks on the Berkeley Conference* he had gone even further:

“I tend to think, in general, that moralizing social science is going to be successful to the extent that it adopts this sort of *disguise*. This is one way of reformulating the Weberian doctrine of *Wertfreiheit*, and is also the way we can have the best of both worlds: continue to enjoy the democra-

17 In a letter to Walter Lippincot, publisher at Cambridge University Press, Hirschman says that this article “makes a good ending for the book, and justifies (along with other pieces) the slightly pretentious ‘and beyond’ of the subtitle” (Hirschman Archives, box 58, folder 10). In a similar vein, Hirschman suggested as the title of a collection of his essays that appeared in Italian and included this article, “L’economia politica come scienza morale e sociale” (ed. by Luca Meldolesi, Liguori, Napoli, 1984).

18 Hirschman Archives, box 8, folder 9.

19 This is a reference to the introduction to the German edition of EVL.

tic benefits of the contention that social science must be positive and value free and yet smuggle in, as it were, some strong moral messages<sup>20</sup>. I do not pretend that this is the only way of incorporating moral judgments into social science; just that it is worthwhile to think not only *what* are the moral considerations that belong to the field, but also *how* they should be marshalled. Perhaps it is in this case that, like happiness, morality in the social sciences eludes a direct quest”.

In the note on *Moral and amoral thinking* there is a passage where he praises the merits of morality in disguise that was not reproduced in the article: “amoral myopia keeps us from noticing allied phenomena”<sup>21</sup>. What follows is a list of his own discoveries:

The tunnel effect: “mistaken for the opposite of envy when it is actually info effect”. Elsewhere<sup>22</sup> he had praised the hopeful merit of the tunnel effect: he had written that sociologists had given too much attention to relative deprivation, without thinking of the tunnel effect.

Voice: “means bringing in face-to-face relations with love and hate as opposed to anonymous exit”

“Relational exchange”: this is a reference to the presentation of Carol Gilligan at the Berkeley Conference, in which she had criticized the mainstream theory of moral development for being based only on a (male) ethic of fairness and rights and having eclipsed a morality of responsibility and care, and had instead advocated a persona-

20 This would resemble Bellah’s interpretation of Weber.

21 In *Remarks on the Berkeley Conference*: “my contention that I explain more than they do”, e.g. by introducing “disappointment” in consumption theory.

22 Letter to Claus Offe, of 15 September 1988 (Hirschman Archives, box 5, folder 16).

lity that included both characters<sup>23</sup>.

“Fusion of striving and attaining: these activities get neglected by economists who need cost-benefit split”. This may refer to:

- shifting involvements: change in attitude that is internally driven, not exogenous;
- Passions and interests: “Man is not the rational actor of the economist, but a blundering idealist, someone with interests and passions” (in *Remarks on Berkeley*).

One reason for bringing moral concerns in unconsciously is that “it seems (...) impractical and possibly even counterproductive to issue guidelines to social scientists on how to incorporate morality into their scientific pursuits”(31), for the very reason that “morality (...) belongs in the center of our work”, and only if “social scientist are morally alive and make themselves vulnerable to moral concerns (...) they will produce morally significant works, consciously or otherwise.” (31)

This admission brings him to the third step, an abrupt rise toward a “more ambitious, and probably utopian thought”, in which Hirschman imagines

“a kind of social science that would be very different from the one most of us have been practicing: a moral-social science where moral considerations are not repressed or kept apart but are systematically commingled with analytic argument without guilt feelings over any lack of integration; where the transition from preaching to proving and back again is performed frequently and with ease; and where moral considerations need no longer be smuggled in surreptitiously nor expressed unconsciously but are displayed openly and disarmingly. Such would be, in part,

23 See chapter by Gilligan in Haan et al. (1983). See also his presentation of Gilligan (Hirschman Archives, box 55, folder 5).

my dream for a ‘social science for our grandchildren’”.

Was it a hint at a future self-subversion?<sup>24</sup> The author (Hirschman) as a moral agent?

Where Hirschman stands:

- Believes that morality belongs at the center of our work.
- Deals with people’s behavior and its meaning. Understands even his own feelings about moral issues (guilt feeling for leaving Germany in 1933).
- Main topic tackled: the object of research: shifting involvements, exit and voice, passions and interests. Then, his own attitude: self-subversion.
- Strategy for dealing with the topic: keeping the tension open: preaching and proving.

24 Self-subversion, which Hirschman theorized about in the later book *A Propensity for Self-subversion* (1995), means critical reflection on his own ideas and writings. He had already done it with regard to *National Power and the Structure of Foreign Trade* (in “Beyond asymmetry: critical notes on myself as a young man and some other old friends”, 1978). In the morality article he does it for the first time within a single article, in a way similar to what he would later do within a single book, *The Rhetoric of Reaction*. Finally, in *A Propensity*, he would use the same approach for all his main books (with the exception of *Passions and Interests*) but not his articles. Thanks to Luca Meldolesi for this note.

### Charles Anderson

At that time, even within policy analysis one could find voices arguing for the enlargement of the field of interest of the discipline based on ethical principles. Charles Anderson, a political scientist expert in Latin America, from whom Hirschman (1963) had borrowed the idea of “reform-mongering”, had just written the article “The place of principles in policy analysis”, which Hirschman praised in the following words: “It is a rather eloquent statement arguing that policy analysis cannot just take policymakers’ preferences as given, as though they were consumer tastes, but must inquire into moral principles such as justice. The fact that this paper was published as lead article in an ordinarily staunchly positivist journal (the *American Political Science Review*) is highly significant”<sup>25</sup>.

Anderson criticized contemporary theories – those that had directly influenced “evaluations with a positivist approach” – that reduced political evaluation to a mere “technical appraisal of the impact of public programs” (1979, p.711). According to these theories “values cannot be justified in terms of objective criteria. Hence they must be regarded as ‘preferences’ on the part of the policy maker. ‘Technical’ or ‘rational’ policy analysis can only begin once relevant values have been stipulated” (1979: 712). Anderson, on the contrary, considered policy evaluation as “the process of making deliberate judgments on the worth of proposals for public action”(1979: 711). Criticizing the instrumental conception of rationality, he stated that “to be regarded as ‘reasonable’ a policy re-

25 Letter to Norma Haan of January 7, 1980 (Hirschman Archives, box 8, folder 6) in which Hirschman asked whether there was a possibility of inviting Anderson to the seminar.

commendation must be justified as lawful, it must be plausibly argued that it is equitable and that it entails an efficient use of resources” (1979: 712-3). To do so, it must be based on “a repertoire of basic concepts including authority, the public interest, rights, justice, equality and efficiency (which) as standards of policy evaluation (...) are not simply preferences. They are, in some sense, *obligatory* criteria of political judgment” (1979: 713).

It is remarkable how a scholar like Anderson – contrary to the many academicians who aim at colonizing a lesser research sector such as evaluation with their methodologies – shows a genuine interest in the world of evaluation, where at least a few authors (Scriven, House, Schwandt) have had a similar concern for bringing morality into their own field.

Where Anderson stands:

- Asserts centrality of ethical principles in policy analysis.
- Deals with ethical values, such as public interest, autonomy, rights, justice.
- Main topic tackled: the object of research: recommendations must rest on basic concepts, not accepting that policy goals are preferences.
- Strategy for dealing with the topic: keeping open the opposition between the concept of instrumental rationality in policy studies and the principled criteria of public interest.

#### **A framework for morality in social science**

The contributions we have considered come from four authors reasoning about the relationship between morality and social science from

within their own disciplinary domains. For all of them, the strategy for overcoming the dichotomy combined undermining some tenets of their discipline from within, and enlarging the boundaries of that same discipline.

Bellah and Anderson, looking from the perspective of “ancient” disciplines such as Aristotelian social inquiry (Bellah) or political science (Anderson), reclaimed continuity with an old tradition where morality was a legitimate topic of research. Geertz and Hirschman, from the position of the “modern” social sciences, aimed at the inconsistencies of the “amoral” perspective in the sciences of man, and proposed to keep the tension open between the two poles of morality and analysis: “analyzing with commitment” for Geertz, “preaching and proving” for Hirschman.

Each of them identified some form of morality at the center of social research, whether it referred to people’s behavior, to principles governing society, or to the relationship between the researcher and his/her object of study. The strategies proposed for making it evident reflected the theoretical position of each thinker, showing how deep the link was in their own mind, and the originality of each contribution.

At the same time, there are striking affinities. Geertz and Hirschman hinted at the “trained incapacity” of the social scientist, and looked for stratagems to overcome it. Bellah and Hirschman recognized that moral issues entered social research in disguise. Bellah and Anderson rejected an instrumental use of policy analysis. Hirschman and Anderson criticized the idea that moral values could be considered as customers’ or politicians’ preferences, not to be subject to social analysis.



What is interesting in this exercise is the breadth of arguments that can be brought to the task.

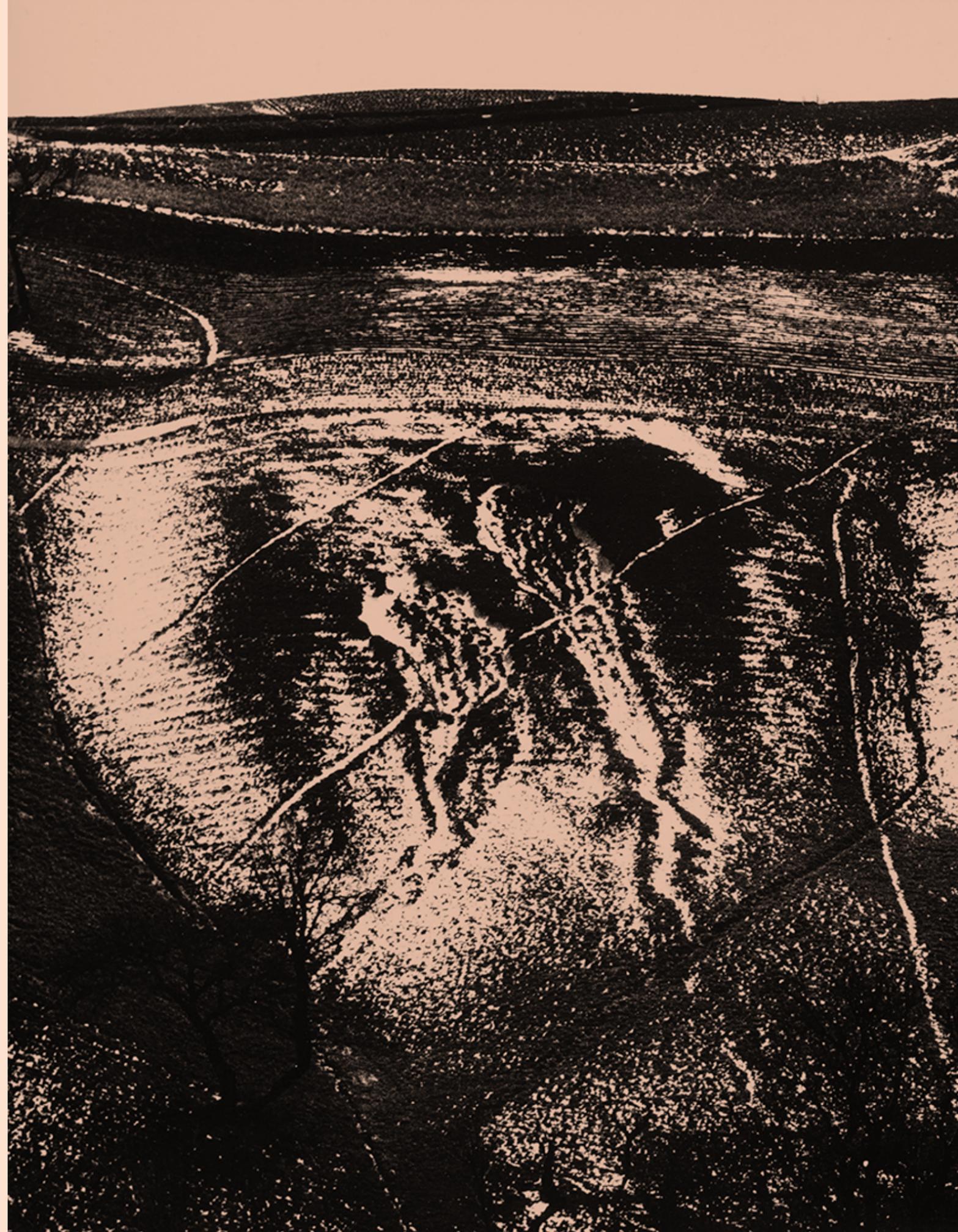
Morality can enter social science because it is a trait of people's behavior, and as such it is the object of social science. Geertz looks at the meaning people attribute to their acts when facing ethical dilemmas. Hirschman looks at how people reflect about their enthusiasm or disappointment regarding public or private life. Bellah is interested in the way people move between the general social tradition and the tradition of social thought.

Morality can also come in because of the very nature of social research, where the scientist and the object of study belong to the same social matrix (Bellah). This can be expressed by the irony of the asymmetrical relationship between the anthropologist and the informer, analyzed by Geertz, and by the introspection by which Hirschman reflects on his way of addressing the topic of exit vs. voice.

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## 4. LEARNING FROM JUDITH TENDLER

### *Teaching, what a passion!*

#### Presentation

by Nicoletta Stame

This section deals with Judith Tendler as a scholar and as a teacher, two roles strongly intertwined in her experience.

Her teaching was intended as a way of doing research collectively, her students learning from her scholarly experience, and contributing to one's another's learning. At the same time, more and more often her work was the offspring of streams of research conducted through Ph.D. dissertations, field-work conducted by groups of her students under her supervision, interactions with ex-students who had become practitioners in International organizations.

Her work reflected her teaching experience, also as she was always concerned with what questions should drive a research. Not a confirmation of existing literature, but doubts that can emerge from own observation, written reports by other scholars or practitioners, etc. Her typical question: "what surprised you?" was translated into well articulated questions about why something worked well and something else did not; why something considered negative could turn out to be positive, and viceversa.

This section brings together instances of her style of work.

1. Memories of some of her students, as collected at the memorial *Remembering Judith Tendler*, held at the University of Rome Sapienza, on February 14, 2017: Tito Bianchi, Laura Tagle, Sunil Tankha.
2. Excerpts from the syllabuses of the course "Analyzing Projects and organization", held at DUSP-MIT in 1994 and 1995.
3. The paper *The rule of law, economic development, and modernization of the state in Brazil: lesson from existing experience for policy and practice* (2007), research proposal for the WB and DFID offices in Brazil. While proposing to research four themes that are central to her intellectual interests, this paper exemplifies her way of framing the questions to be asked and a style of research based on her experience of "teaching cum research".

#### Memories by ex-students

by Tito Bianchi, Sunil Tankha

##### Tito Bianchi

Good Morning,  
my name is Tito Bianchi; I work for the Italian Government at the Department of Development and Cohesion Policy. As a first thing, I wish to thank the Colorni-Hirschman institute and Rome "La Sapienza" University for organizing this meeting with the purpose of remembering here in Italy Judith Tendler - who has been my academic advisor during my master and PhD studies at MIT, but also an intellectual model of reference.

I am indeed very happy that this seminar takes place because I consider Judith a global-scale intellectual, despite the fact that her work has been largely centered on Latin America – a researcher whose work has not been sufficiently recognized for its relevance for different branches of social science. Many Italian students have experienced her method, specially thanks to Luca e Nicoletta who have "sent" some of their students to the MIT Department of Urban Studies especially to study with her. This experience has been of paramount important in my training and career.

In a first part of this short intervention I want to talk about Judith Tendler as a researcher and teacher, while in the second one I try to elaborate on what I think could be her legacy for us today.

##### 1. Profile as a social researcher

In describing and discussing these aspects based on my experience I will try as much as possible to prevent the personal feelings affection that I felt for her as a person, to interfere in my rende-

ring of her profile and methods.

I first met Judith Tendler when she was entering her sixties, when the age of maturity was behind her, and therefore she had probably already offered her most important scholarly contributions. This was a stage of her career in which, although still productive in academic terms, she was deeply committed to organizing and overseeing a cross-disciplinary research group engaged simultaneously in research activities on different topics. Topics included small-firm productive development (the subject I was interested in), rural development, rural infrastructure, social and political dynamics at the local level, and gender issues (just to mention some) - all comprised under the umbrella of development and the improvement of living conditions. The range of research topics was indeed wide, but I could imagine it being even wider, given her insatiable curiosity extending to all aspects related to development policy.

The concept of development itself, it has to be said, was considered problematic at the Department of Urban Studies where these groups were based and was never defined precisely, but nevertheless it was placed at the center of discussion and always questioned, in particular with the purpose of insinuating in the students the doubt of being culturally insensitive, or biased with western values, in defining what is good for others.

These research groups were open in a double sense:

- open in terms of access to students of diverse backgrounds, with diverse interests, more or less brilliant and motivated. A natural selection operated within the group, per effect of the method's rigour.

- open to diverse academic stimuli that she provided, coming from several different branches of the literature that she suggested to read, that sometimes seemed not directly related to the

matter at hand. Judith was in fact an eclectic reader always establishing connections between the research questions of her students, and distant topics, or current events.

Judith's research group was not a sect, even if it was seen as such by some outside observers, only because it upheld strong and demanding methods, and featured an intense leadership.

One of her strong values was that of promoting the interests, or the "voice", of the people who find themselves in condition of poverty and disadvantage. In our work, she always encouraged us to make the effort look at our policies, at our economist's recipes, with the eyes of the poor, from the point of view of the poor people's interests and values. This is a feature of her work that I share and find very close to my own values: still today it happens to me to hear Judith's voice speaking through me, when I react critically to those who declare to speak or act in the interest of the powerless and marginalized, when it is clear that they are instead reading it through their more privileged point of view. She used to remind many of us that we are "urban elite".

Judith was first and foremost a scholar who loved the work of research. She would get excited when someone had succeeded in unveiling something new in social science. (I remember for example how she would speak with enthusiasm of the new work of Bagnasco which she held in high consideration, or about a new journal article which revealed the real workings of the Grameen Bank - the myth of the time in the development field)

She pushed many of us to undertake research, convinced as she was that we were lucky to be able to do this type of activity for work.

## 2. Her lesson. Her specificity

Sometimes I am induced to believe that the teachings of Judith Tendler, once original, have become mainstream nowadays. I ask myself if it is really so.

Indeed, some of the tenets of her policy-oriented research work such as "drawing lessons from past experience", the notion of "best practices", the study of "cases", have entered the common language of social science. However, when I observe the way in which these constructs are most often employed, I feel less sure that her method has been truly or widely understood.

Certainly Judith's work method did not develop in isolation, but was rather following an important intellectual stream - that of Don Shon, Albert Hirschmann - to whom she was deeply connected as we all know. It seems to me that her specific contribution to this intellectual venue, for strange or trivial that it may seem, has been that of applying thoroughly, truly, and honestly this body of knowledge to the problems of her time. Unlike her own mentors, Judith never really theorized the iterative moving back and forth from theorization to the direct experience of things: she did it in her research work, and induced her students to do the same. She never made explicit the strong epistemology that guided her work because this was not what she considered her contribution to be.

Her work locates itself at an intermediate level of abstraction, always trying to generalize on the basis of concrete experience, yet never crystallizing the constructs it produces, or becoming enamored of them. For some of her critics she is lost in the details. For others, paradoxically, Tendler tries to extract too much general knowledge from isolated cases.

According to Colorni (in his letters), those who

have been responsible for real advancements to human knowledge are usually forgotten by posterity because their contribution, for its universally recognized value, becomes part of ordinary culture. For this reason I wish for Judith Tendler to be forgotten. I believe this is what she would have wished for her work (but probably this time has not yet come).

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### Sunil Tankha

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Good morning,

To introduce myself briefly, my name is Sunil Tankha, and I teach and research development policy in the Netherlands. First of all, I would like to thank the organizers of this workshop for inviting me and giving me the opportunity to relive events from almost two decades ago when I was a young man just embarking on my doctoral studies at MIT. I had met Judith Tendler a year previously in Ceará in the Northeast of Brazil, where I had been working in the context of a large dam project which involved the displacement and resettlement of about 12,000 people. We were sitting down at a café in Fortaleza - Judith was clearly in her element - discussing my work and hers and I think we both immediately found a sort of common intellectual wavelength. She invited me to apply to MIT for my doctoral studies so we could work together. Unfortunately, unlike Laura and Tito, however, I did not have the opportunity to do research with her and learn from her as much in the field as in the classroom as Judith had already wrapped up her large project with the Bank of the Northeast and wasn't keen on starting any major new project. Nevertheless, what I learned from her in class was fundamental in shaping me as a scholar.

Judith stood out among the crowd of develop-

ment scholars in three ways: First, she was always more interested in finding out what worked rather than in endlessly critiquing and excoriating governments and other organizations for failed development initiatives. Even within the context of larger failures, she was curious about and encouraged her students to look for the components which succeeded, as it was those lessons which she felt were more valuable for moving development practices forwards.

Second, and related to the first point, she always asked her students to understand the surprises in development interventions. The logic behind this was sound: Given the many distortions in the institutional frameworks in developing countries within which development efforts are embedded, we should expect most interventions to be problematic. So, instead of just suggesting better institutions, she worked around the margins to find out how successful development initiatives can be devised and implemented in imperfect environments. Indeed, her favorite word was 'nuance' and it was this search for nuance that informed her approach to theory and practice - she wasn't into the grand theoretical pronouncements, but the nuances of everyday practice, of what her mentor, Albert Hirschman, had called possibilism.

Third, she was genuinely dedicated to training the next generation of development scholars and practitioners. If one looks at Judith's bibliography, one might be surprised by the fact that it is not that extensive. She published infrequently, but what she published was insightful and durable. Her book, *Good Government in the Tropics*, already has over 1,500 citations and continues to be cited. But what is more interesting about her bibliography - I recently looked at one which was prepared for her Festschrift a few years ago - was how much of her work were comments on other

research. It brings out two aspects of her scholarship that can often be overlooked but which I think is very instructive to understand her as a scholar. For one, her comments on other people's work was often more illuminating than the original work itself, and this was because she wrote wonderfully and explained perfectly and in a few words complex concepts that others were trying to develop. For another, it also shows her enduring engagement with and interest in the scholarship in the field. She wasn't just interested in and motivated by her own research but was genuinely curious.

This engagement extended to her students, both at the Masters and the Doctoral levels. She devoured everything we wrote, and commented on them extensively. Mercifully, she used green ink, for had she used red ink, it would seem like a massacre. I still remember clearly how she would rigorously correct and edit our submissions, moving blocks of text from one part to another, rearranging passages, insisting on the active voice, and again unlike other professors, she was always careful to highlight what (little) we did write which was good and needed to be reinforced.

I was particularly struck by her approach to the public sector. Here I am talking about the late 1990s, when decentralization and privatization were the rage and Judith was swimming against the current. She didn't oppose privatization from an ideological stance, far from it, she often used the logic of those supporting privatization to argue against it, but fundamentally Judith was a fan of government, not one government or another in particular, but government in the sense of the power of the state to intervene and improve the lives of people, particularly the poor. In fact, the course she taught at MIT, was

called 'Targeting the Poor', and indeed, it is this legacy of care and concern that defined Judith, as a scholar, as a mentor and as a person.

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## Syllabuses of the course "Analyzing Projects and Organizations"

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### Syllabus of the course "Analyzing Projects and Organizations", 1994

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26 October 1994  
Analyzing Projects & Organizations (11.235)  
Final Assignment

This class is structured so as to teach you some general points about how to do interviewing, how to conceptualize approaches to such projects, and how to engage with the problems and issues that emerge around each of your projects, and by pointing out the common problems of methodology and analysis that run across all your subject matters. During the discussion of the project of any particular one of your classmates, then, certain suggestions that are applicable to your work will emerge. By the end of the course, you should be able to take away a set of suggestions, related not only to your particular project, but also to the question about how to do such research in the future, and general rules you could use to advise other students starting out on such projects.

For the rest of the semester, you should bring to class a special notebook, or part of a notebook, that you use to write down these suggestions as they emerge. On the last day of class, hand in a numbered list of such suggestions – as if you were giving it to someone just starting the course, or recording in outline form what you had learned.

There is no "correct" list of learned items, nor a prescribed length for the list. Each person will take away a different set of general "learnings"

from the course, and that will be reflected in some difference between the lists. Your suggestions should be grouped according to subject matter – e.g., "interviewing," "organizational behavior," "analyzing information," etc. Don't worry about these categories beforehand, and don't try to place the principles into such categories until the end. When you look at the findings as a group at the end, they will naturally fall into certain categories for you.

The list is due on Wednesday, December 14. It should be single-spaced, with double spaces between each numbered point, and up to eight pages long, but can be shorter. No late papers will be accepted.

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### Syllabus of the course "Analyzing Projects and Organizations", 1995

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First class meets Monday, September 12, 1995

MIT 11.235  
Mon, Wed 2:30 - 4:00 pm  
Room 7-335A  
Credit Units: 2-4-6

Professor Judith Tendler,  
Room 3-405D  
Phone 3-0249  
Secretary: Tanya Henderson  
Room 3-405, Phone 3-7692

### Analyzing Projects and Organizations Course Description

Students of planning usually feel overwhelmed when faced with a live organizational environment, which seems chaotic and without order.

This is, in part, because we have been taught to expect a certain kind of order and rationality in the way organizations behave. As a result of this seeming mismatch between learning and reality, students (and even professional evaluators) often recoil from the “chaos” of reality, retreat to the tidier world of numbers and the written word and, in turn, write their own words of puzzlement, complaint, or cynicism over why the organization is not what it is “supposed” to be. This course teaches students how to understand real organizational environments, and to be comfortable and analytical with a live organization.

A good part of the task of understanding organizations and programs requires an attentiveness to what people say. Our tendency to give more credence to numbers and the written word than to the spoken word has caused us to neglect the development of skills in using spoken words as raw data for analyzing the behavior of organizations, and for understanding the meaning of numbers. Paying more attention to the spoken word can help us decide how to choose the numbers and the writings that will be most important for good and interesting analysis.

Students who take the class will carry out a project involving considerable interviewing. The class will be run like a “studio,” in which students bring their interview material to class and will be guided as to what they are learning from it, how they should proceed in subsequent interviews and formulations of their thinking, and what kinds of data and other written materials are necessary to inform their inquiry. Each student must conduct at least 15 interviews over the course of the semester. Requirements include very short written or oral assignments every week or two, chronicling the progress and thinking of students on

their projects; participation in class, including feedback to other students on their projects; and a final written list of pointers to others on what has been learned about doing evaluation.



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## The rule of law, economic development and modernization of the state in Brazil: lessons from existing experience for policy and practice

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by Judith Tendler

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Research Proposal to: World Bank Office, Brazil (Brasília) and UK Department for International Development (DfID/Brasília).

17 January 2007

Today, Brazil faces the twin challenges of rekindling economic growth while, at the same time, stepping up or at least continuing the same pace of reducing poverty and inequality. This proposal focuses on two key means to fulfilling these ambitions: (1) transforming them from tradeoffs—as they often are, or at least perceived as such—into positive-sum strategies and outcomes, and (2) modernizing the institutions of the public sector to better meet these goals in a post-ISI<sup>1</sup> and trade liberalizing world. These challenges are particularly relevant to the WB’s Brazil-program strategy at a moment when, *first*, it is re-crafting its support to this now-middle-income country that has become a significant player on the international scene, and doing so within the context of the Bank’s reduced relative significance (albeit high in ab-

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<sup>1</sup> ISI refers to the import-substituting-industrialization policy regimes that characterized Latin America and many other developing countries around the world, which have been dismantled gradually starting in the 1980s in Latin America, and later for particular countries. Many of the debates about economic development policies have been couched in these terms – ISI and post-ISI. In Brazil, the process started in the 1980s, and many of today’s current economic-development advances had significant roots in that earlier policy regime.

solute terms) in Brazil’s public investment (including of parastatals) and operating expenditures. *Second*, they lend themselves to lesson-learning evaluation research that builds on the country’s growing number of positive experiences and improving public-sector capacity. (...)

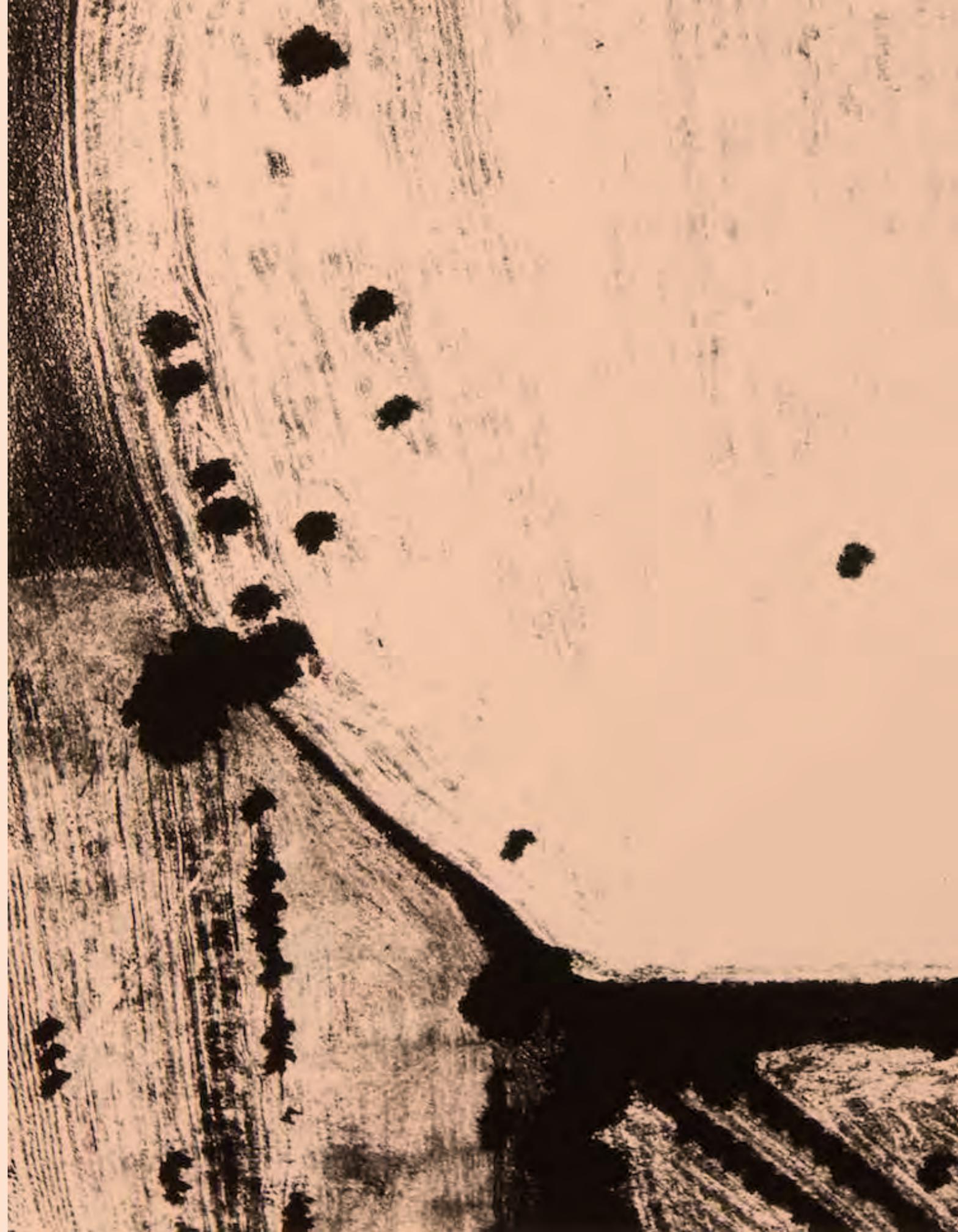
In choosing the experiences and the style of research, the proposed project’s purpose is to:

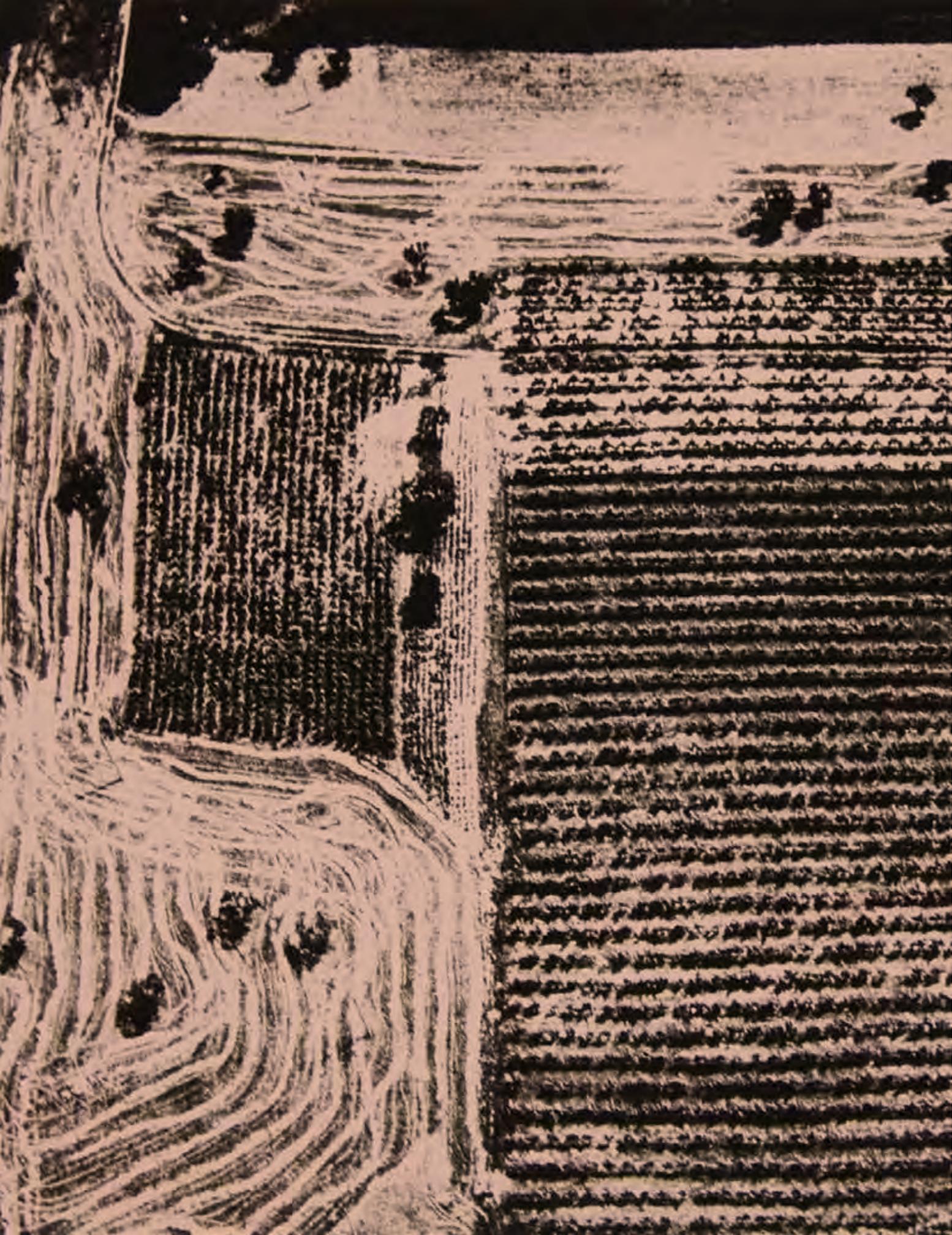
(1) Yield findings of practical interest to the WB/DFID and the Brazilian public sector over a two year period, with interim discussions with Brazilian actors and WB/DFID staff on emerging impressions, draft papers, and next-step questions throughout the period.

(2) Identify certain opportunities – sometimes missed – for a public-sector role based on existing experiences and their histories, which often would not require significant increases in resources or radically different ways of doing things – hence could generate significant impacts at the margin for a small investment of resources and time.

(3) Follow a process throughout that – in addition to field interviewing and data collection – engages with small groups of public-sector managers and “front-line workers,” as well as relevant business and NGO groups, around what they judge to be their better examples of positive-sum outcomes and, equally, of less positive ones—addressing the “why’s?” for these contrasts in outcomes, and the processes of organizational learning by which they identified mistakes (or did not) and corrected them.

(4) The project would be carried out by myself and a small team of researchers (3-6) over a twoyear period. Methodologically (and substantively), it would build and improve upon my prior experience in four similarly applied research





projects in Northeast Brazil over a ten-year period starting in 1992, in which I supervised small teams (5-8 each) of MIT graduate students trained by me in coursework and at fieldwork sites – as elaborated further in Section 5 on methodology, which also identifies the research team.

In what follows, I identify four themes together with research questions, implications, and case illustrations [linkages and spillovers; the interaction between the rule of law and economic development; institutionalizing the mediation of conflict; modernizing the state, discretion, commitment and reform fractions].

In addition, and for purposes of brevity, I use the term “regional economic development” and the acronym RED (or simply ED) to distinguish my subject from macroeconomic policies and outcomes, which are not treated here. RED outcomes and related policies and actors operate substantially at *subnational* levels (regional, state, micro-regional, and municipal, as well as related central-government actors – the latter being the central-government part of federated structures with strong subnational presence).

There is significant overlap between the themes presented, with almost every one of them present and of relevance in each of the others. They are strongly influenced by markets and civil society – including firms and their associations, nongovernment organizations, and social movements – all of which fall within the study’s analytical lens. At the same time, the proposal’s central focus is the public sector, its modernization, and lessons to be learned from existing experience. Finally, I suggest how and why some currently popular interpretations of existing experiences – including some of the well-known cases noted

below – are actually *misreadings* or, at least, incomplete. To help interpret the lessons of such cases more accurately, the proposal identifies some examples of particular cases and institutional actors that would be suitable objects of research attention. (...)

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### 1. Linkages and spillovers

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Brazil can now point to various cases of impressive micro-regional economic growth. Some are clusters of small and medium firms, some are driven by a larger “leader” firm or groups of them, and some combine the two. Some of the most broadly acclaimed agricultural cases are those of soya in the Center-West savannahs and regions of some other states, and two Northeastern irrigated fruit-exporting regions in the Petrolina-Juazeiro (PJ) region of Pernambuco and Bahia, and of Mosoró-Açu (MA) in Rio Grande do Norte.

Among the other well-known cases of manufacturing clusters are (1) Brazil’s two largest footwear producing clusters in the Sinos Valley of Rio Grande do Sul, and Franca in São Paulo state; (2) in the Northeast, Campina-Grande in the state of Paraíba; and (3), the garment clusters of Fortaleza in Ceará, Recife and its *agrestehinterland* in Pernambuco; a thriving garment sector (under-garments) has also appeared in Freixiras near Petrópolis in Rio de Janeiro state<sup>2</sup>.

Some of this growth has generated significant linkages and spillovers – the stuff of diversified and sustainable economic development – more sustained growth, and more widely distributed

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<sup>2</sup> For garments, see *Sylvia Dohnert* for Recife and Fortaleza. For footwear, see *Schmitz* (Sinos Valley), *Monica Pinhanez* (Campina Grande), and *Santanna*, and *Noronha & Turchi* (IPEA)(Franca).

income. Some, however, has not. In all these cases, public policy and actors played a significant role – historically and/or currently, directly and indirectly, highly subsidized or more lightly so – sometimes involving minimal forms of support that had significant impact at the margin.

Linkages and spillovers in such cases are, as we know, many – times more significant than the direct ones in terms of increased employment and growth – the stuff of sustainable and diversified development. With some exceptions, there are few grounded studies of these Brazilian experiences and others that look *across* a set of such cases – or within particular ones – with the purpose of comparing the variation in their linkages and spillovers across different types of sectors, sub-regions, and different policy environments – and with an eye toward discerning implications of these patterns for policy and practice<sup>3</sup>. Why, for example, have large firms had more linkage and spillover effects in Ceará’s dynamic SME garment cluster, making it one of the largest in Brazil, than has occurred with Pernambuco’s Recife-and-agreste-based garment cluster?<sup>4</sup>

The current moment is a fruitful one for such an assessment, since there is now a considerable

*post*-ISI history of subsidies and other forms of public support for subnational economic development – partly a result of Brazil’s increasing fiscal and administrative decentralization. This particular form of support has been carried out increasingly over the last decade by state and municipal governments; on the economic-development side, there are growing attempts to attract outside investment. The most significant form of such support in fiscal terms takes the form of offering tax incentives, subsidization of complementary infrastructure investments, and credit on favorable terms.

The public investments in attracting and keeping outsider firms also merit inquiry on comparative linkage and spillover effects. This is partly because so much confidence is placed by governments on them as “engines” of local development, and their role as “anchor” or “leader” firms in modernizing the local economy and the organizational culture of local firms – and partly because they have important fiscal impacts on state and local budgets. Under what circumstances and in which kinds of sectors is the impact greater and more broadly distributed? (...)

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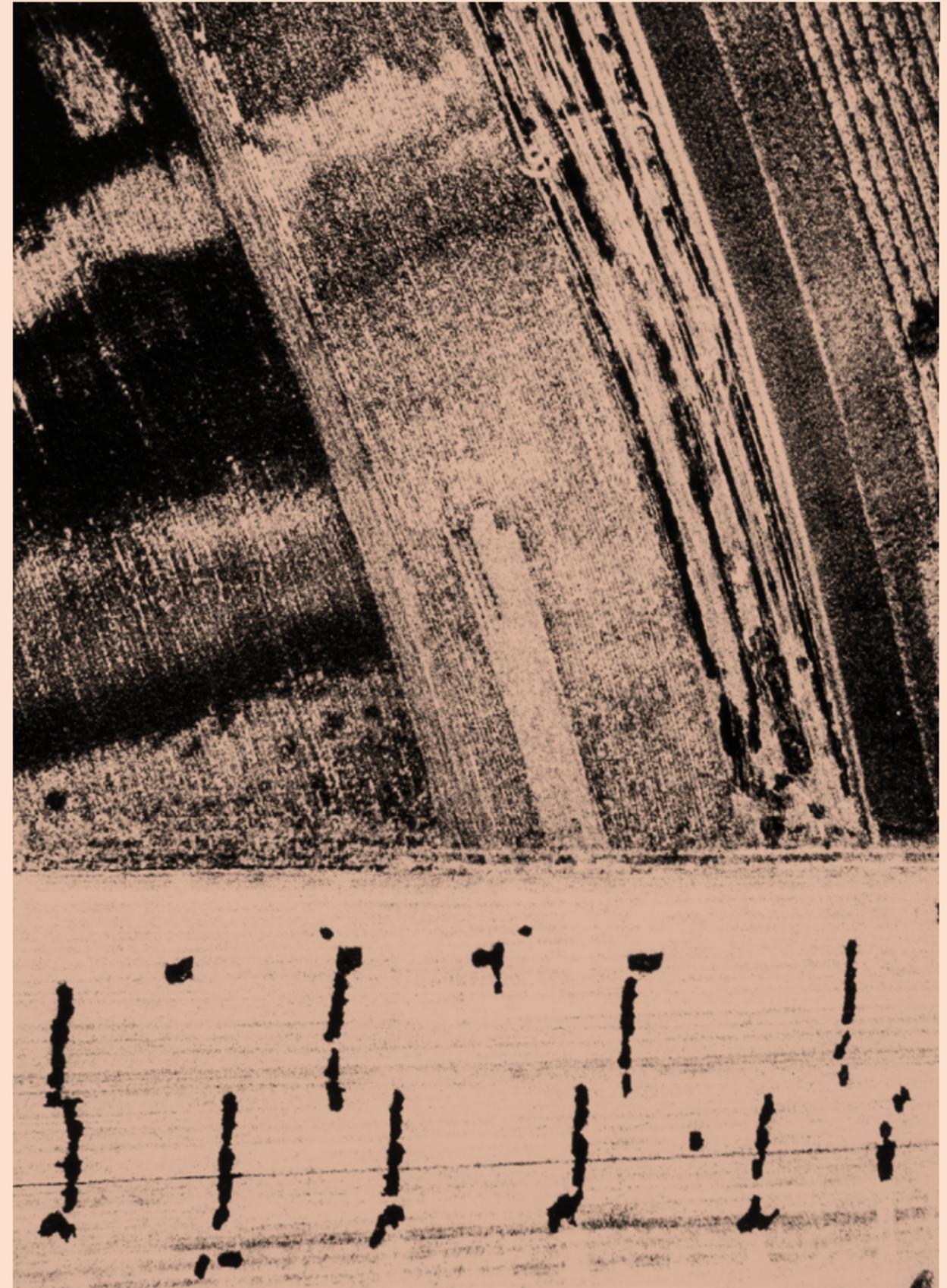
## 2. The intersection between the rule of law and economic development

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As part of the strengthening of Brazil’s institutions of governance over the last decades, certain regulatory actors have played an increasing role in enforcing the rule of law, including in areas directly affecting economic development – environmental and labor standards, uses of land and land conflicts, collection of taxes and exemptions from them, claims to land, as well as claims and counter-claims around these issues with respect

<sup>3</sup> Two comparative field studies of economist Paulo Figueiredo of FGV/EBAPE/Rio constitute an exception. He asked, among other questions, why the recent histories of two multinational auto assemblers in the metropolitan region of Curitiba reveal completely opposite results with respect to linkages to local suppliers? In a previous research, similarly, he asked why does the Manaus free-trade zone – blessed with tax exemptions and other subsidies for years – show similarly opposite results with respect to linkages and spillovers emanating out from large outsider firms manufacturing bicycles as vs. those manufacturing motorcycles? Superficially, the policy environment within each matched pair of cases seems to be the same – strong fiscal incentives, subsidies, and foregone revenues

<sup>4</sup> For more balanced, empirically grounded renderings of these two cases, see Sylvia Dohnert’s doctoral paper comparing the Ceará and Recife/agreste-outcomes.



to infrastructure, energy, and other development projects. The regulatory actors of most significance for WB concerns about economic, as well as social, development are: the *Ministério Público* (MP) and its state-level offices and lawyer-prosecutors; government institutes like IBAMA and the *Ministério do Meio-Ambiente* (including environmental-inspection services at the state level) to which it belongs; and INCRA (land) and the *Ministério de Desenvolvimento Agrário* (MDA) to which it belongs; also, the *Ministério do Trabalho* and the state laborinspection services of the Ministry of labor and tax-enforcement officers of the finance ministry<sup>5</sup>.

Non-government organizations and other civil-society actors often interact with these agencies – even making informal alliances with them in some cases, and fiercely criticizing them in others. Similarly, business and public actors concerned about re-kindling Brazil's growth complain about the undermining effect of over-zealousness by enforcement agencies. Adding to this contrasting mix, polls show that the Brazilian public ranks the MP as the most trusted public institution in Brazil<sup>6</sup>. These contrasting portrayals, together with

5 INCRA is the Intitucional Nacional de Colonização e Reforma Agrária. IBAMA is the Brazilian Institute of the Environment and Renewable Natural Resources, which operates throughout Brazil and is the regulatory and other executive presence of the *Ministério de Meio Ambiente* (MMA) – akin to a combination of the U.S. Environmental Protection Agency, Park Service, Forest Service, Fish & Wildlife Service, and perhaps a few others. On the ground, of course, there are often overlapping regulatory responsibilities between these agencies themselves, sometimes involving at least informal cooperation, and sometimes involving disagreement and even conflict, in the form of actions of one of these agencies against another—as sometimes the case as between MP vs. IBAMA in particular instances.

6 A 2004 IBOPE showed of the citizen esteem for public institutions shows MP at the top (58%), followed by 48% for the Judiciary, 40% for the Executive, and 35% for the Legislature.

the variation in outcomes across different regions and states, beg for comparative inquiry.

Most important for anchoring a comparative study of these contrasting views and outcomes, these have sometimes transformed potentially zero – or negative-sum outcomes into positive-sum ones. In these cases, in other words, that have not only improved the rule of law and protected the legal rights of citizens, but they have also contributed to making economic development more sustainable *without* jeopardizing competitiveness. This is partly because of the quality *and* process of upgrading by firms and across firm clusters with which the regulatory actions were associated their actions were associated; they were associated, also, with increased access by firms to more demanding markets – a particularly important reason for analyzing such a set of cases. Similarly, in such instances, formalization has become more attractive and financially viable to informal-sector firms because the mode of enforcement is combined with help in how to comply, which sets these firms on a path toward upgrading.

The proposed research, then, seeks to understand why some regulatory actions have had these positive-sum outcomes for economic development and for improving the rule of law, and others have not. This will also throw light on how to improve the business climate in a way that is consistent with concerns about modern standards, and protecting citizens and public goods like the environment. Without such an understanding, the twinned goals of increasing economic development and increasing the reach of the law are unnecessarily compromised.

### 3. Institutionalizing the mediation of conflict

Economic development routinely generates tensions and conflict between various interest

groups. Countries that develop and open their trade successfully, as we know, have usually done better at institutionalizing the processes of mediating such conflicts of interest (Rodrik). Some of the most important and enduring conflicts generated by ED are those between (1) firms and workers, (2) landowners and tenants, or squatters with *de-facto* rights, (3) users of infrastructure projects and those negatively affected by them, and (4) least noted but central to RED outcomes, the conflicts of interest between various subsectors along the supply-chain of a firm cluster (input producers, for example, and input buyers).

In identifying this last type of conflict and its growth-crippling effects, Hubert Schmitz' research is almost unique in the recent development literature on value chains and clusters – as illustrated through his case study of Brazil's largest footwear-exporting cluster in the Sinos Valley of Rio Grande do Sul, which caused the country to become the world's largest footwear exporter in the mid-1990s. Schmitz shows how these subsectors were unable to take the collective action that would have been necessary to overcome a major crisis – the tidal wave of cheap Chinese footwear arriving in the Brazilian and international market. Remarkably for the larger point here about the importance of institutionalized processes of conflict mediation, the federation of subsector associations – usually leery of federal-government involvement – appealed to the federal government to mediate. The government asked, instead, that the federated associations go back and reach a consensus among themselves *first* about what to ask for, and then come back for help. They couldn't.

Generically different interests across clusters of firms in the same value chain, then, can inhibit early signs of robust growth to the extent that

they hinder the collective action among cluster sub-sectors that is often central to overcoming market crises that typically face clusters, or simply reducing certain obstacles to upgrading and accessing outside markets, which often cannot be resolved by individual firm action.

Brazil's recent history of democratization, decentralization, and support for civil society and demand-making on government has increased the importance of strengthening institutions to mediate disputes. (Similarly, with respect to the emphasis placed by WB, other donors, and many Brazilians themselves on service-delivery approaches that facilitate demand-driven pressures for accountability.) In recent years, Brazil has paid serious attention to building capacity to mediate conflicts and other forms of disputation – although not necessarily calling it that, and not specific to ED-type cases. About five years ago, among other things, the federal government passed a law requiring that the government certify certain universities and other organizations to develop training in this area.

Certain public agencies are themselves taking initiatives in mediating conflicts, whether or not this is their responsibility. The *Ministério Público* (MP), for example, has mediated various conflicts at the local level in the past few years (and is proud of it), some in the ED area. A few examples involve attempts to reduce child labor in the footwear cluster of Franca and the sugar-producing region of Ribeirão-Preto, both in the state of São Paulo; and to reduce serious industrial river pollution caused by the thriving garment and jeanswashing cluster of Toritama in Pernambuco<sup>7</sup>.

7 Our attention was drawn to the MP and its prosecutors while doing research on clusters in Brazil, and looking for factors explain-

The Franca case actually illustrates one of those positive cases where enforcement actually helps competitiveness: the complying firms received a child-labor-free seal that helped them compete in domestic and foreign consumer markets concerned about these matters.

In some important agricultural and manufacturing clusters, in turn, Brazil's formal institutions for managing the generic conflict of interest between firms and workers in some cases have been able to contribute to positive-sum outcomes to conflicts between labor and firms. One major set of examples is the institutionalization of mechanisms to mediate labor-capital disputes in Brazil's successful fruit-exporting clusters in the Petrolina-Juazeiro and Mossoró regions of Northeast Brazil<sup>8</sup>, a part of the PJ story that almost never appears in the writings on that case (with the exception of *Damiani*). These developments left in place local institutions, rules-of-the-game, and improved worker protections under existing law that did not jeopardize the cluster's competitiveness.

Indeed, they were intertwined with *growing*

ning their growth or stagnation. Namely, *Salo Coslovsky's* beginning doctoral research and writing on the MP, leading him to the Franca and Ribeirão Preto cases – as part of the MP's role in such cases in general and an analysis of the ministry as a “street-level bureaucracy.” (Noronha & Turchi's IPEA-sponsored study also analyzed labor conditions in the Franca footwear cluster.) Also, the research and writing of *Mansueto Almeida, Ella Lazarte* (DUSP/MIT Master's Thesis), and Lenita Turchi (IPEA) on the Toritama case in Pernambuco as contrasted to the similar Jaraguá case in Goiás – both quite similar garment clusters with opposite outcomes, especially with respect to similar MP enforcement. (A comparison of contrasting sets of such cases with respect to the role of the MP and other public actors is the subject of a forthcoming dissertation by *Almeida*.)

<sup>8</sup> *Damiani* dissertation and LARR article; *Gomes* dissertation on Mossoró-Açu and our joint interviews there; and various e-mails from them in response to my questions about the nature of the labor mediation that took place.

competitiveness of the cluster in international markets, in that firms needed permanent and “better” workers to meet the demands of global buyers – not for labor-friendly fruit – but for better quality, reliability in meeting contract dates, and year-round availability. “Better” and permanent workers could not be found, however, and would not accept the temporary work and the absence of fringe benefits and other protections that typified the sector before the ratcheting up of buyer demands. A revisiting of the PJ case and any others like it with these questions in mind would provide a better understanding of the path to these positive-sum outcomes.

On the ED side, little research attention has been paid to these conflict-mediating institutions or, at least, to understanding why there has been more progress in some cases while conflict continues to fester and stymie economic development in others. Indeed, we ourselves stumbled only accidentally on the MP prosecutors (and MMA inspectors) during field visits to some clusters with the purpose of finding out why some clusters did better than others and why. As with other students of clusters and local economic development, we typically interviewed mainly firms, firm associations, politicians, and government only in economic-development agencies – like the *Secretaria de Indústria e Comércio*, small-and-medium firm assistance agencies (SEBRAE), the training entities for workers and firm – owners in industry (SENAI) and retail (SENAC), the agricultural research and – extension agencies, the development banks.

The relative lack of attention paid to the importance of mediating conflicting interests in furthering economic growth at the regional level may be explained, in part, by the interest in insti-



tutional forms that rely on or assume an underlying *harmony* of interests – whether as a basis for public-private partnerships, or decentralizing decisionmaking to “the community.” At the same time, however, recognizing the enduring nature of generic conflicts is also required, and the building of institutional approaches to dealing with them.

Much is to be learned from the lessons of these positive-sum outcomes of conflict mediation, then, and the institutional architecture that facilitates them.

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#### 4. Modernizing the state: discretion, commitment, and reform fractions

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In the sectors mentioned in this proposal, the histories of successful outcomes in public-sector reforms often involve sustained initiatives by public-sector professionals and paraprofessionals: from the elite prosecutor-lawyers of the *Ministério Público*, for example, through the water-and-sanitation and environmental engineers, agronomists (*engenheiros agrônomos*), to agricultural-extension agents, bank-lending officers, and on down through local-level forest workers, health agents and similar para-professionals. Also included, obviously, are: professionals like inspectors, lawyers, and prosecutors in the civil *regulatory* sphere – environmental, forest, land-title regularization, land-reform, and labor protections (such as child labor, workplace health-and-safety, and other protective labor regulations).

This study would look across a set of positive cases with matching negative cases, as described in the methodology section. Brazil’s central government’s extensive federated network of subnational offices provides an excellent comparative framework for carrying out such a study.

A few examples of relevance to the proposed research are the *Ministério Público*, IBAMA and the *Ministério do Meio Ambiente* of which it is a part, and INCRA and the *Ministério de Desenvolvimento Agrário* of which it is a part. Their federated structures, operating under uniform regulations and procedures, together with the same kinds of professionals (prosecutors, environmental and labor inspectors, lawyers, agricultural and business extensionists, etc.) – represent parameters within which outcomes vary strikingly across states and within states across *municípios* or micro – regions – as well as by type of activity, and the way professionals exercise their discretion.

Histories of progress in certain reforms often reveal that fractions of dedicated civil servants have played an important role through the years in discussing among themselves how to improve the service, experimenting collectively and learning from mistakes, and networking with other actors in this process. Equally important, their success often lies in attracting – with technically strong proposals – the fancy of politicians with power. Such ready-to-go proposals, backed by a collective history of expertise and implementation experience, hold out the promise to new mayors and governors for getting a running start on bold initiatives once they take office.

To cite one of many examples, in the last phases of the 1996 gubernatorial campaign in Ceará, the then-PMDB candidate for governor in Ceará – Tasso Jereissati – made his choice for *Secretário de Saúde Pública* after seeing him for the first time on local television, presenting an impressive proposal for a bold new approach to preventive-health in the state’s interior, where infant-mortality rates were among the highest in Brazil. Within a few years, the state and its gover-

nor became famous throughout Brazil for the new program’s dramatic achievements in reducing the state’s infant-mortality rates, among other improvements. Partly through the governor’s “marketing” of this success, the program became famous both inside and outside Brazil; it earned prestigious international awards, and was adopted by the central government for replication throughout the country.

The new *Secretário* had been a long-standing member of a network of a reform-fraction public-health physicians.

The germination periods of successful programs, in turn, usually include a combination of strong starts, subsequent setbacks and returns to the *status quo ante*, and then re-takings of the earlier pace and advance – adding up to a long upward trajectory. In Brazil, there are many examples, such as that of the public-health physicians and of nurses with respect to health reforms, and the sanitary engineers with respect to water-and-sewerage reforms (the *condominial* system), agricultural engineers and agricultural-extensionists dedicated to small-farm agriculture, and many others. If there is continuity and increasing improvement, it is often sustained in one form or another by these fractions and their group identity as professionals or para-professionals. In turn, it is the *collective* nature of the identity – as distinct from individual incentives – that elicits dedication to the job and commitment to the client.

Even when newly-elected governments bring in different political parties and new top staff – displacing previously installed reform fractions from key positions – the shared past experience of the previous government’s professionals lives on in another form. Because the new governors or

mayors are looking for ready-to-go initiatives that are technically viable and politically promising, they often call back some of the previous-government’s best technicians with remarkable ease. Frequently, the latter seem to pop up elsewhere after such changes in government – in other agencies of the same government (sometimes requested by and seconded to other agencies more interested in their experience and reform agenda); or they become private consultants, even to the very government that formally displaced them and their initiatives. Among the various examples of the seconding of serious professionals from one agency to another is the current federal government’s seconding of a fraction of top INCRA lawyers to IBAMA.

With respect to new opposition-party governments taking over and letting go of existing top professionals associated with the previous government – who then turn up as consultants to the new government – Minas Gerais’ acclaimed reform and decentralization of public education is an excellent example. The 20-year trajectory leading up to Minas Gerais’ successful education reform is a marked example of continuity lurking behind discontinuity, as well as of new governments relying on professionals of previous and even opposition governments. Of the considerable literature on this case, one study in particular discovers and traces this continuity-within-discontinuity (Carlos Rocha’s 2005 *Dados* article, based on a USP dissertation).

Another example of such continuing threads is the recruitment by new municipal governments of *ex-Secretários* from other *municípios* who had made their mark as designers and managers of successful programs there – often in governments of a party of the opposition to that of the now –

recruiting government. One example from Ceará was the serious efforts made by a PMDB mayor to recruit a previous PT *Secretário de Saúde* from a small *município* (Icapuí), which had become widely known for the awards it received and hence widely marketed by the PT as a PT success story. This kind of recruitment occurs across states as well, with a new governor recruiting a recently out-of-office government of another state – often quite far away. Ceará’s governor, again, recruited Parana’s ex-*Secretário de Educação*, drawn by his record of serious endeavor in this area.

The backing-and-forthing between different sectors and agencies results in a kind of blurred boundary between the public and private (profit and nonprofit) sectors. We know more about the negative side of such blurring, however, than its positive side – including its threads of continuity in the process of experimenting, learning from mistakes, and adapting programs accordingly.

***Street-level bureaucrats, and continuity behind discontinuity.*** Some of the above observations may seem obvious because they are central to the literature of the sociology of organizations, and grounded in empirical work inside – and across – such organizations, both public and private. The studies of “street-level” bureaucrats (SLBs) and “front-line workers” (FLWs) is particularly relevant to the matter of reform fractions, because SLB bureaucracies like those noted above face the problem of how to elicit dedication and commitment from civil servants and other workers who – because their job is out of view of a supervisor – have considerable autonomy and, hence, discretion over how to carry out the job. The relative autonomy of SLBs, and the discretion that it allows, pose an important research challenge. On the one hand, the literature – and various

other observers – point to discretion as leading to better performance in some cases and, in others, to just the *opposite*, in the form of corruption and other forms of self-interested behavior, or overly aggressive actions in enforcing the law.

The sociology of organizations and its emphasis on collective identities of workers has a long history of grounded research in large public and private organizations. It long preceded the focus of the development literature and donors on governance and capacitybuilding.

It is still rather weakly represented in this latter literature, as well as in the Brazilian research, even in public-administration schools – let alone in poorer countries. (A recent look at libraries and university bookstores in São Paulo found little analysis of this nature on public agencies, with the possible exception of a few master’s and doctoral theses).

With some exceptions, more recent studies in the development field around servicedelivery and governance tend to use the analytic lens of public and rational choice. While an important contribution, these frameworks point mainly to *individual* incentives (and disincentives) to worker performance – like pay for performance and other salary matters, and disincentives to poor performance and corruption – rather than the way in which the *collective* identities of civil servants contribute to eliciting dedicated behavior and improved performance. An interesting exception is a 2006 WB study comparing performance across two hospitals in Curitiba and São Paulo; the study found that the better performances in one set of cases was explained by the greater discretion and autonomy hospital managers had, in contrast to study’s original hypothesis of *individual* incentives in the form of better salary.



Collective identity and reform fractions have remained somewhat in the shadows for other reasons as well. Among them: (1) the tendency to explain better outcomes in terms of a single dynamic leader (or politician) – not inaccurate, but shorter-term and idiosyncratic explanations that are hard to replicate, and also miss the groundwork that preceded them; (2) the fiscal crisis of the state, which led to over-arching pre-occupation by governments and donors with reducing the size of the public-sector and, correspondingly, dealing with the high political costs of doing so; and, (3) the common view of public-sector professionals and their associations and/or unions as mainly blocking reform to protect their own private interests, rather than as also providing an identity and agenda for serving the public good in which they ground their work. (Both negative and positive behaviors of associations and unions, of course, can co-exist – but more attention of macro-reformers and other tends to be focused on the negative side).

Some reform fractions that are committed to improving their programs sometimes even break away from their professional association or public-sector union to form NGOs that can better serve the public agency that they left through improved technical analysis and experimentation. Or, they simply unite like-minded public professionals in new and smaller organizations. Brazilian examples that come to mind are: the NGO formed by ex-Bank-of-Brazil officers dedicated to microcredit; the new organization just emerging from the *Forum Brasileiro de Segurança Pública*, composed of progressive police managers and public-safety directors – civil and military, state and municipal – and others to discuss and propose reforms in the sector; a now-nationwide *Associação Juizes para a Democracia*, formed by 37

judges in São Paulo in 1991; a membership-based NGO for reform fractions of prosecutors of the *Ministério Público*; and the cross-agency group of public-sector lawyers, judges, and prosecutors concerned with environmental issues – *Instituto-Direito para uma Planeta Verde*.

Some of the many cases like these in Brazil are better known, but others have barely been chronicled for purposes of understanding their dynamics, and learning lessons about how to support them. One exception among others<sup>9</sup> – and one of the best-chronicled cases for our analytical purposes – involves a small group of economists and other social scientists who broke away from a labor-union federation to found an NGO (DIEESE)<sup>10</sup> in São Paulo dedicated to better technical analysis of cost-of-living and other relevant data, which they have provided for many years not only to workers and other workers associations, but to state and municipal governments requesting it<sup>11</sup>. Like DIEESE, some of these reform-minded profes-

9 From another part of the world, see the Joshi study of the social-forestry success story in West Bengal. Though it became world-known as a model of forestry-management reform, with many studies of its success, only one identified and chronicled the singular role played by paraprofessional forest workers, organized in the Subordinate Forest Workers' Union (MIT/DUSP dissertation, and 2006 forthcoming article).

10 DIEESE is the Inter-union Department of Statistics and Socioeconomic Studies (*Departamento Intersindical de Estatística e Estudos Socioeconômicos*). Miguel Chaia's 1990s book, based on a Ph.D dissertation at USP, chronicles this 50-year history.

11 During the military government, in fact, DIEESE's analyses led indirectly to a major improvement in the IBGE's methodology of calculating increases in the cost-of-living index and, hence, a significant recuperation of real wage levels, particularly significant for low-wage workers. Even the *Estado de São Paulo's* editorial page at that time praised DIEESE's "more technically accurate" methodology in comparison to the IBGE, and urged the government to substitute this "better" and "fairer" methodology in its cost-of-living calculations, which the government ultimately did.

nal NGOs and associations have come to be partially supported by foreign donors – after demonstrating their seriousness and expertise – such as the northern Europeans (DIEESE) and U.S.-based foundations like Ford (the Brazilian public-safety forum) and others.

**Intra-agency cleavage.** The notion of "reform fractions" with which this section began does not particularly convey a sense of cleavage within organizations. Reform fractions, however, are not always at the head of the pack, leading their agency or program through the years into its ultimate stature as "model" of the modernized state. At any particular moment in time, that is, they often represent one side of an enduring cleavage within agencies – among different groups of professionals, or within them. Sometimes they are actually quite weak – consigned to inconspicuous places like offices without windows – and sometimes, even overnight, they become strong. I turn now to these cleavages for two reasons. One is that they show how agencies are far from homogeneous in seeing through a successful "model" and then hewing to it. The other is that extraneous as well as internal events can sometimes tip the balance quickly from one side of the cleavage to the other. To understand the sequence of events leading up to the tipping points is to help identify significant opportunities for external support.

Though government agencies are usually portrayed as single actors, they are often themselves hotbeds of internal cleavage about what is the best way to proceed. As the histories of many agencies reveal, these pro – and – con fractions hew to different views on how to design and implement certain policies and programs, based on underlying differences on what causes the "best" kind of development, which priorities should come first,

and ideology. Even what constitutes the "correct" technical standard is often contested from within for these reasons. One side may gain ascendancy in some periods, and then decline in others, the balance of influence of either side being easily tipped by various events – like the appointment of a new agency or department manager, the growing political cost of outside organized protest about a particular policy or program, the election of a new president, governor, or mayor. Otherwise, the two sides co-exist uneasily.

Sometimes this paralyzes action, and other times it creates a dynamic tension with positive results.

These intra-organizational cleavages, and which side gets the upper hand and how, are often central to understanding outcomes. Yet such questions are rarely explored in the assessments of successful programs, let alone contrasted to the less successful ones. Instead, evaluations typically focus on the models' design and ingredients at the moment in time when it comes to be considered successful.

Brazil's internationally recognized agricultural-research parastatal, EMBRAPA, provides a typical example of this kind of cleavage. EMBRAPA is well known as one of the important early drivers of Brazil's achievements in developing soya and grains for export in the Center-West region, and in other cases like the much-acclaimed fruit-export success of Petrolina-Juazeiro. The cleavage among EMBRAPA and CODEVASF professionals provides a convenient way of explaining how the positive side of the dynamic can work.

Throughout the history, to simplify, disagreement has thrived between those EMBRAPA professionals favoring a model of "modern" commercial growers, and those favoring that of small-farm

agriculture, or at least insisting that the latter type of producers and support to them also be included in a program<sup>12</sup>. A similar cleavage marks the history of the equally-powerful parastatal that developed the São Francisco River Valley region, CODEVASF. That parastatal, by the way, was originally modeled on the famous example of the U.S. Tennessee Valley Authority, founded in the 1940s – and TVA’s history was similarly rife with internal cleavages, as documented particularly well in Selznick’s study.

Another example of cleavage is that, currently, within the *Ministério de Desenvolvimento Agrário* between the two departments – *Crédito Fundário* and *Reordenamento Agrário*, with respect to the question of land distribution. The two different department names are, in a sense, polite ways of distinguishing between those who believe that the best way to redistribute land is through the market (making land credit more accessible to small farmers), and those who believe that more direct forms of state management are required – with a little help from social movements. Cleavages around other central matters can be found in other agencies, like the *Ministério do Meio Ambiente*. The classic cleavage among fractions of engineers in public agencies is well known: how much standards can be “lowered” without compromising professionalism, in order to reduce the unit cost of expanding infrastructure and housing significantly to the poor, whether it be electric power for small-scale irrigators or housing and infrastructure for poor settlements.

<sup>12</sup> *Setrini*, in the doctoral program at MIT’s Political Science Department, notes this same kind of intra-agency fissure in his second-year doctoral research paper on soya development in Brazil, with respect to the agricultural research parastatal, EMBRAPA.

This sustained disagreement-*cum*-coexistence *within* the same organization sometimes fosters a kind of *intra*-organizational technical vigilance by the weaker faction of what the stronger side is doing (and vice-versa)<sup>13</sup>. The only way the weaker side has any power over the matter is to hold the other side’s feet to the fire in terms of the latter’s own standards, and carrying out things honestly and seriously. In the positive scenario, illustrated in the following subsection, this translates into pressures for accountability from *within* the organization by one side vis-à-vis the other and, in some cases, outcomes that are better – whether in technical, economic, and/or distributional terms. Sometimes, this kind of “mistrust” and demands for accountability can be just as important in improving agency performance as the more familiar demands on the organization from *outside* – i.e., from groups of users of its services and those not being served adequately.

**The political-economy of reform fractions.** The history of CODEVASF’s central role in developing the Petrolina-Juazeiro success story illustrates the sometimes-positive side of the cleavage dynamic. As often happens, it was not the two groups of technicians in this particular case who worked out their differences – which remain in one form or another to this day. The inclusion of both sides of the debate in the CODEVASF design was forged by a politician with vote-getting concerns, and for whom the project to develop the San Francisco River Valley was a major political *coup*, for which he lobbied vigorously. This governor/legislator, from a strong political family with a tradition in the region’s history, declared the solution by *fiat*.

<sup>13</sup> I first came to understand this dynamic better through *Damião*’s case of CODEVASF and PJ’s development – through conversations with him, based on his doctoral dissertation

He had a highly *desenvolvimentista* vision (in this case, “modern agriculture) and, at the same time, cultivated a large constituency in classical clientelist ways among the numerous small farmers and other poor rural dwellers in the region (“small-farm agriculture.) He insisted, then, that “modern agriculture” and “small-farm agriculture” be included in the program’s design.

The result was a regional success story in PJ that combines a modern and diversified regional agro-export economy shot through with a thriving smaller-farm fruit-growing one – as well as various input-supplying and output-processing enterprises. This contributed to, among other things, to some of the highest growth rates of PJ *municípios* for more than a decade in comparison to the rest of the poor Northeast – and, unusually for the Northeast, a net positive rate of *immigration*, indicating the higher and sustained rates of growth in employment. (In recent years, PJ has stood out less on these indicators in the Northeast, including that measuring inequality).

Politicians’ preferences and styles, then, can have a direct impact on the fortunes of both of these professional fractions within agencies, sometimes even combining the two approaches to good effect. They are able to realize their visions, however, partly because an agency with strong technical expertise and experience is already in place. That politicians and “politics” have an impact on technically “sound” development policies and programs is not a new observation. But in practice we know more about the negative side of such political “intervention” than about how to make the positive side work better.

This study seeks to understand better the way agencies and their professionals can better har-

ness this kind of political support – rather than only rueing it. It will analyze the patterns that emerge across the cases in terms of political “interference” that helped and that which hindered, with a view toward understanding how professionals can attract the support of particular politicians to the good and, when necessary, modify project details to elicit their backing.

**Implications for practice.** I call attention to the subject of reform fractions of public professionals and other civil servants because they often lack support of a technical nature, as well as the resources to network more among themselves and relevant others. In Brazil and elsewhere, dedicated professionals and other civil servants often speak of feeling isolated – let alone not being asked – with respect to their thoughts about how to improve the service they work for. This is particularly the case with those working in the poorer parts of certain states or in less developed states in the country. The isolation, paired with the greater relative technical weakness of local and state governments in poorer regions, assumes greater significance as Brazil modernizes its public sector by decentralizing to state and municipal governments, where professional expertise is already thinner and opportunities to network weaker. In this context, the most sensibly designed programs often morph into something rather mediocre, traditional, and ineffective in practice, no matter how good they look on paper<sup>14</sup>.

<sup>14</sup> A good example is the recent plethora of programs to promote local economic development and involving support for proto-clusters in Brazil (*Arranjos Produtivos Locais – APLs*). Upon arriving in many of these municipal seats in Brazil where a new cluster program is being enacted, one sometimes find not much more than a newly-built *Palácio da Microempresa*, and a standardized program or two, like training. Yet one of the main findings of earlier historical research on clusters in the industrialized countries pointed to a quite

The WB has provided numerous opportunities for professionals (and sometimes paraprofessionals) to attend meetings. Many of these involve learning about other experiences outside the country, or training in how to do certain kinds of analyses like environmental impact statements, and logframe-type spread sheets. Not infrequently, however, the attendees at such meetings and workshops say they would like more opportunities to network on their own terms about their own problems, and to acquire a more sustained informal access to experts in their field that helps them work on problems in an *ad hoc* fashion as they come up – problems that they define, along with support to learn to do the analysis themselves<sup>15</sup>. Public-sector professionals who have been central to cases of improved state performance and adoption of reforms, for example, often point to retreat type meetings with their co-professionals in government in other parts of the country as having been central to their ability to change the way they do things, partly because of the resulting opportunity to build informal networks within the country, on which they could call at any moment to discuss particular challenges.

different practical lesson about what drives cluster growth – namely, the prime importance of process rather than projects. Process meant *customized* problem-solving rather than standardized support and, hence, an iterative process in which bottlenecks are identified – step by step – by local stakeholders.

<sup>15</sup> Extensive quotes from interviews with African professional attendees at WB-organized meetings in Africa report a similar kind of longing for a different kind of interaction (as quoted extensively by Michael Goldman from meetings he observed and conversations he had there with those attending, in his Yale University Press book, *Imperial Nature*). I heard similar pleas outside Brazil from a group of directors of African Revenue Authorities at a meeting a few years ago in Sussex organized at the Institute of Development Studies, as part of a DFID – funded research project on the Political Economy of Taxation in Developing Countries – in response to a WB/IMF presentation at the meeting on their new website for African (and other) tax-collection agencies.

## 5. Methodology

This project would be carried out by myself and a small team of researchers – starting first with three or four researchers – identified in the next section – and perhaps evolving to five or six over the course of the two-year project. Methodologically, it builds on an approach I have developed in doing my own field research in Brazil and elsewhere over the last 30 years<sup>16</sup>.

The methodology also builds and improves upon my more recent experience during the 1990s and early 2000s in four similarly applied and comparative research projects within Northeast Brazil, over a ten-year period starting in 1992, during which I supervised teams (six to nine each) of MIT graduate students trained by me at MIT in prior course work and research methodology, and then in the field in Brazil<sup>17</sup>. The first three projects

<sup>16</sup> An example of the type of practical and WB-relevant results from my individual research can be seen in OED's publication in the early 1990s of my *New Lessons from Old Projects: Lessons from the Northeast Brazilian Experience*. The executive summary and Chapter 2, "Reinventing the projects," are of methodological relevance to the current proposal. Another example, from outside Brazil and the WB, is my *World Development* article, "Whatever Happened to Poverty Alleviation," based on my field study for the Ford Foundation of lessons to be learned for their programming in the future of their most successful grants in terms of widespread impact in India, Bangladesh, Kenya, and Egypt. This, and a subsequent exercise in interviewing Ford project officers in New York on what worked and what didn't through the years and why, plus the ensuing report and meetings with staff and management around both exercises – had an impact on Ford's programming, and the reports were also used as orientation materials for new program officers.

<sup>17</sup> I considered only the following types of researchers to participate in the team for this project: (1) advanced doctoral students or post-docs who have participated in my previous Brazil projects, plus those whose training and fieldwork in Brazil I have supervised subsequently; (2) only Brazilians (and other Latin Americans who speak Portuguese, and have lived and carried out field research and Brazil); and (3) those who have a track record of producing well-written papers, providing grounded evidence, data analysis,

were funded by the state governments of Ceará and Maranhão – partly out of funds for evaluation research in WB projects, though not dedicated to these projects exclusively; the last and Northeast-wide project was funded by the Bank of the Northeast<sup>18</sup>.

My book, *Good Government in the Tropics*, was based on these first two projects; the same with my four or five monographs and publications from the fourth project with the BNB. (On two separate occasions, MIT awarded these research projects and their methodology, for combining research with graduate education to produce outstanding applied research and practical findings.) The current project would not be Northeast-specific, given the additional learning to be gained from a cross-regional perspective – for example, the relevance of lessons learned in the Northeast for the North; or patterns of public performance that run across poorer and richer regions. (I have considerable fieldevaluation and other research experience in Brazil outside the Northeast, as well as outside Brazil.)

The methodology involves looking into and across cases through the analysis of existing data and intensive interviewing of actors and clients, focusing at least as much on the build-up of capacity through the years, as on current comparative judgments. Akin to a "natural experiment," it compares what has worked and what has not across various cases, and identifies patterns running

and findings with practical implications, and who have considerable experience outside academia.

<sup>18</sup> A list of the papers and publications by the graduate researchers that resulted from these four projects is available on request. The list of papers and publications for the fourth project with the BNB – project proposal – entitled *Rethinking regional development after trade liberalization* (also available on request) – includes abstracts of all the monographs, theses, and publications, including my own.

across similar kinds of public agencies, programs, and projects with outcomes that vary remarkably across regions (states, municipalities, microregions), types of activity, and types of bureaucracy. My WB/OED evaluation study – the *New-Lessons* study noted earlier is one example of applying such a methodology to WB projects: the same type of project (the Northeast rural-development projects after a ten-year history), within a roughly homogeneous region (the semi-arid and relatively poor Northeast), and the same strong funder and funder presence (WB) – nine similar projects in nine Northeast states. The Ceará-state research that gave rise to *Good Government in the Tropics* used a similar comparative approach – this time looking for patterns across different sectors (preventive health, drought relief, agricultural extension, small-business programs) *within* one state, as well as looking within each sector.

The process of case selection and development, and the questions to be asked, will be – as in the previous studies – highly iterative. Our interview and other research questions attempting to understand better outcomes will be forged partly out of a prior understanding of the reasons usually put forward for *less* impressive outcomes. We ask specifically, for example, why a particular problem like corruption or political interference or change in government did *not* occur in a particular case; or, if it *did* occur – as is often the case – why it did *not* prevent improved outcomes. In asking such questions, we often refer to other places – like the neighboring *município* or state – where the problem *did* occur and *was* undermining (either in the same program, same agency, and/or in the neighboring town or state, etc.).

Another interviewing challenge lies in the typical explanations given by those interviewed

of positive outcomes. They often give short-term and idiosyncratic explanations, pointing to the presence, for example, of a “dynamic,” “charismatic,” or “visionary” program director or elected leader. In so doing, they focus on the *discontinuity* with previous government, explaining how the new one had to “start from scratch.” Interviewing methodology requires getting beyond this “firewall” in perceptions between the current and past government, by going back in time. We also ask, for this reason, a set of questions about process, given that learning from experience is often key to learning lessons from better programs. For example: what did you do in the past that you don’t do now and why? What mistakes were made that you corrected and how were they identified? How did you know that something was not working?

With respect to the focus of questions on local and regional economic development, an analogous methodological challenge relates to the common complaints by business about government presence – whether they concern a too-heavy presence, regulatory or otherwise – or the opposite in terms of desired support, namely, little or no presence. Many analysts of government policy and programs, in turn, often point to a “*too-supportive*” presence in the form of costly subsidies and heavy-handed intervention. In the more nuanced picture, even though subsidization may have been heavy – often generating economically perverse results – it is sometimes the unnoticed “lighter” forms of support that turned out to be key in generating enduring impacts, often long after the heavier policy regime was dismantled. Looking at a longer historical trajectory, finally, does not mean that outside support requires equally long time periods to bear fruit. In many cases, however, the lessons to be learned from the past experience can

be easily “dis-embedded” from the broader policy regime under which they occurred.

The methodology is meant to allow each researcher to develop his own set of cases, while at the same time embedding the individual research in the questions running across the larger project and the themes that define it. To this end, the process will involve periodic meetings among the members of the team and myself during the research – in the field and at MIT – to elicit emerging questions, puzzles, impressions, next steps, and patterns. I also selectively accompany each of the researchers in some field interviews – partly for me to understand directly, partly to point out next questions to ask or, afterward, to mention questions that should have been asked following up on a response to a prior question – the common “missed opportunity” in interviewing.





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## **PART II - TO SAY AND TO DO**

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## 1. Social cooperatives and the proximity manager

by Roberto Celentano

A case of strategic management consulting on behalf of social cooperatives in Campania (Italy) is the starting point for an exploration of how a mode of action based on theoretical approaches linked to the work of Eugenio Colorni, Albert Hirschman and Luca Meldolesi can favor processes of internal change and improve business performance.

Two subjects (the consultant and the social cooperative) operating in a difficult and degraded environment, but both motivated to promote development, legality and civilization by acting to alter the mechanisms blocking change, saw their life and work trajectories cross.

The story takes place in an area between Naples and Caserta where doing business is a challenge. There are people here who, away from the public eye, have been trying for years to meet this challenge and promote development, working day-to-day alongside entrepreneurs for as long as it takes to solve their problems and improve their business and leadership abilities. One such person is Franco Saverio Cioffi. He belongs to *A Colorni-Hirschman International Institute*, and his work reflects the need to pursue healthy development in southern Italy, the entire country, Europe as a whole and so on without limit, from a public interest perspective and driven by a passion for change aimed at civilizing. This way of working represents a cultural operation specifically applied to the business world, in which a company becomes an instrument for affirming the civil culture of a territory. To this end it is important not only to train people in entrepreneurship, but to educate business people in civil culture.

Within this framework, after some experience in local development and economic policy projects, Franco turned to businesses, first becoming a temporary manager and successively a proximity manager. Stepping in when a company is in trouble and working alongside the owner, he initiates processes aimed at renewing business potential and recovering profit margins. In addition, he tries to act as an energy-connector, seeking to reinforce networks both among business people and between them and other local actors, with a view of strengthening development processes. *“When I take on a business I try to make it competitive”, says Franco, “but I also try to guarantee a return for the local area. In recent years my approach has changed: I concern myself less with technical questions and concentrate instead on human, social and psychological factors. I approach people, trying to discover and utilize mechanisms of change, and I do so with a desire to strengthen the ‘civilizing’ multiplier and to promote local development”.*

During a training session on business creation Franco meets the Consortium of Social Cooperatives in Campania (Italy) NCO - *Nuova Cooperazione Organizzata* (New Organized Cooperation). This is a consortium that originated from a collaboration among various cooperatives that share the same principles and the same vision of development, a vision based on local welfare, on a multidimensional approach involving local citizens that integrates the public and private sectors, and on a social economy that adds value to assets confiscated from the mafia and common goods. Specifically, the various cooperatives of the consortium concern themselves with group foster homes, rehabilitating disadvantaged people, managing confiscated assets, social farming, educational farms, and responsible tourism. The consortium decided to call itself NCO - *Nuova Cooperazione Organizza-*

*ta* as a citizens’ response to the criminal organization *Nuova Camorra Organizzata* (NCO), the Neapolitan mafia, which devastated the Campania area during the 1970s and 80s, disrupting the local economy with its criminal activity.

The relationship between Franco Cioffi and the NCO consortium is based on the requirement that the consortium and the cooperatives that comprise it integrate their social vocation with healthy business management. This need for transformation, in which profit and non-profit mix, springs from two motivations.

### Ensuring the sustainability of the rehabilitation program for the underprivileged

The first motivation is the desire to guarantee the sustainability of a social program for disadvantaged people that goes beyond public support. Simmaco Perillo (president of the social cooperative *Al di là dei sogni* [Beyond dreams] and board member of the NCO consortium) reports that *“the first guests at our group foster home are three brothers with a history of domestic abuse; their rehabilitation immediately comes up against the provision of the law stipulating an age limit of 16 for foster-home guests, posing an imminent problem for the oldest of the three brothers”.* This triggers a reaction, a desire to try to do something. *“Rehabilitation can’t simply work like a funnel that spits people out,”* states Simmaco, *“because an essential element is to look after people’s dignity”.* What they decide is to try and set up businesses in parallel with shelter and rehabilitation centers to promote the autonomy of young people and their reintegration process. Along the way, the administrators realize that their work needs to be organized following the usual principles and methods of a business in order to guarantee the sustainability

of the project, the jobs of the employees, and social rehabilitation itself. This need becomes a search and the search leads to Franco.

### Promoting the legal and responsible development of the area

The second motivation is the desire to promote territorial development in a legal and responsible manner. According to Peppe Pagano (president of the social cooperative *Agropoli Onlus* and NCO board member) fighting the Camorra means breaking the wall of isolation that it builds around people. *“The fear of being overwhelmed (threats, intimidation, ...) has acted as a stimulus for us to move beyond the limitations of individualism; the Camorra is strong because it favors isolation”,* Peppe states. *“We saw that by organizing cooperatives and starting businesses we could build an economic system capable of opposing isolation. But after a while the weak point of the system was exposed – namely that at the economic level the businesses always operated at a loss: we were good at cooperation but terrible at business”.* Thus the necessity of taking on a consultant, and Franco was the choice because, affirms Giuliano Ciano (president of the NCO Consortium), *“in Franco we recognized ourselves – we had the same concern for people, the same profile, and we liked his ideas and his approach”.*

### Governing the processes

So the NCO Consortium called Franco Cioffi with the aim of improving their ability to manage businesses. Giuliano Ciano states: *“We had become aware that we had reached an organizational and managerial limit. To move beyond this limit we*

turned to Franco, thinking we could have him work on the consortium as a whole. But after several initial meetings and a first look at the situation, Franco insisted on working to improve the organization and management of the individual cooperatives. If the cooperatives worked better, he argued, the consortium too would move beyond its limitations". Paying attention to the specifics to get to the general, Franco implemented a sort of inversion of perspective (as Colorni indicated), framing the problem differently in order to try and solve it.

Franco is convinced that in businesses technical skills are important but not fundamental; what makes the difference nowadays is the ability to steer processes and manage human capital. Franco maintains that to help businesses improve governance processes, the sociological and psychological techniques that derive from Hirschman and from the teachings of Luca Meldolesi (his example in leadership skills, his practical application of Hirschman) are indispensable. For this reason Franco's work with the cooperatives followed a double track: a technical intervention concerning organization and accounting, and another aimed at motivations and people.

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#### New procedures

The technical intervention concerned the introduction of new procedures and management systems along with specialized training to facilitate the use of new equipment. All this permitted a move from working for turnover to working for a profit. According to Tonino De Rosa (administrative officer of the *Agropoli Onlus* social cooperative and of the NCO Consortium), Franco pushed them to question the way the work and the governing of productive processes were organized: "A major effort has been made in accounting and

management control. Before Franco came we outsourced everything, but now we've installed the same software the accountants use and we handle the accounting internally. This operation led to a marked improvement in the working of the cooperative and the consortium, it increased the business knowledge (both economic and financial) available to the members of the cooperative, and streamlined the decision-making process. Now we have continuous real-time access to information on cash-flows and margins. We understand", Tonino explains, "that you need to be knowledgeable if you want to govern". Simmaco Perillo takes the same line, stating that when Franco arrived they had to put in place a new way of working, they had to learn a language they didn't know (the language of business management of company activities) and they had to master specific tools and methods. This process led them to learn to know and understand the importance of information and its production chains so that they could improve the governance of tasks and the shaping of decisions.

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#### Leveraging personal motivations

But the biggest job, Franco emphasizes, was the work done at all levels on people, on the thinking of the managers and workers of the cooperative, to help them find a new method, to get them used to working in groups and becoming more professional. He had to leverage the personal motivations of each of them (not to mention their humility and courage) and resort to various mechanisms, stratagems and pacing devices (pressure, tension, cognitive dissonance, ...) in order to create an inversion in the working mode as well as the approach to operations, and to break the unconscious constraints that bind people. According to Giuliano, empirical and



theoretical elements came together to generate this change. We worked on the sources to bring about a knock-on effect. The results came from extensive and detailed work with people. The methodological approach, built case by case with single individuals, was tailored according to the subjective characteristics of each and aimed at bringing out unharnessed abilities and intensifying their faint sense of belonging. The contrast of these new notions with the substrate of beliefs and opinions held by the cooperative's workers led to strong resistance to change. The first positive results compensated for the discord (and restored self-esteem) and made it easier to overcome internal resistance, misunderstanding and general hostility, and acceptance of the new working method has increased. "At first", says Peppe, "there was an ideological clash with Franco; as cooperative members we felt misrepresented. The process of change was difficult – the meetings were a disaster – and there was resistance on all sides. The leaders were reluctant to step down or to give up their responsibilities and the workers, for their part, didn't feel ready to take these responsibilities up. These were the two worlds that opposed each other. The way out was individual personal growth and a new balance created by the sharing of responsibilities".

In the cooperatives Franco also worked on changing the leadership style. The critical feature of the cooperatives was their excessively participatory approach. Without distorting this management style, certain vertical elements were introduced which defined roles and established responsibility for different functions. In the board of directors meetings of both the cooperative and the consortium, discussions were often pointless because the members didn't have the same level of knowledge of the problems, objectives and actions to be taken. The solution

was to bring everyone up to the level of the best, helping people metabolize the change.

According to Franco there are two requirements if his approach is to work: a predisposition to change and the ability to do so. These two things allow the potentialities of the subjects to emerge. The focus is on adapting people's skills to the context. When the approach didn't work, it was either because the predisposition was lacking or because the subjects were unable to keep up the effort required to make the change. This points to the importance of the basic human fabric available and the system of values it embodies. In the absence of that extra thrust that comes from good moral values and a sense of responsibility the process of change is blocked. In this game to achieve improvement the role of values is fundamental. Not only can they promote the growth of the entrepreneur and the business, but through emulation and example they can also spread through the environment the business operates in and favor development processes at the territorial level.

Franco has repeatedly remarked that in the cooperatives of the NCO consortium he found people of great quality, rich in humanity and solid principles.

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#### **Businesses in every sense of the word**

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Today, Franco emphasizes, the cooperatives have become businesses in every sense, able to develop entrepreneurial management methods for the rehabilitation of disadvantaged subjects. From their beginnings the cooperatives of the Consortium have been involved in residential social assistance through the "Health Budget" scheme (constructed and tested in conjunction with local healthcare agencies and the municipalities of the province of Caserta). This is organized along

three lines: home, education/social relations, and training/work. From this perspective, work becomes the cornerstone of recovery and rehabilitation, strengthening the sense of community and of membership in a social context. This system of assistance reverses the prevalent model for the treatment of disadvantage. Simmaco states that "In the province of Caserta, but also the rest of Campania, private social welfare was seen as unskilled labor for the public sector and was based on the mechanism of competitive bidding. Even today 90% of social services are managed through outsourcing and bids. The innovative thing about the "Health Budget" is the idea of the co-management (public and private) of rehabilitation projects for single disadvantaged people, the focus on the individual and the construction of rehabilitation projects according to the unique characteristics and needs of the subjects. All this is much more difficult than providing the traditional assistance based on winning a contract bid, but the question has so many different aspects that it requires complex responses. It is thanks to these complex responses tailored to individuals that people are reborn and can once again find their feet. This method has been the wooden horse that overturned the contract bidding system". The importance of work as a tool for rehabilitation and an element of personal dignity has motivated the leaders of the cooperatives to start businesses that can generate employment. Examples include a restaurant/pizzeria and a farm.

The restaurant/pizzeria "NCO" (New Organized Cuisine) was launched at Casal di Principe (in Caserta province) on a property confiscated from the Camorra. Tonino De Rosa reports that at first it was a normal restaurant that imitated the others and was not particularly successful. When Franco was brought in there were immediate changes. It was decided to market the restaurant innova-

tively, emphasizing local high-quality products, attracting customers from group tours, and serving as a cafeteria for employees of the consortium and its cooperatives. The decision was also made to change how the business was managed, to reorganize it and identify cost centers and production margins. With the help of a local chef the menu was revised. This led to a reversal in the negative trend and favored the employment of subjects from disadvantaged situations.

The agricultural business that was started at Maiano (Caserta province) has a similar story. In 2009 the cooperative *Al di là dei sogni* [Beyond Dreams] gained possession of an asset confiscated from a Camorra clan. The members of the cooperative immediately understood that to reach the goals they had set they would need to organize and strengthen the business side of the cooperative. But after this initial realization the path to something resembling a healthy business was long and arduous. "Most of it happened in recent years thanks to Franco", says Paola Perretta (production manager of the social cooperative *Al di là dei sogni*). The process started when part of the confiscated land was brought under cultivation. Out of 17 hectares of land, 10 were given over to organic farming. With time the cooperative also set up a processing plant for the production of preserves. They don't just sell a product, they sell an organic, fair-trade product made by disadvantaged people in the process of rehabilitation. They sell an idea. But today this is not enough, argues Paola, because if the cooperative is not completely able to fill a client's order, no excuse about the particular condition of the workers is acceptable. The bottom line, Paola points out, is that to stay in the market they have to be able to work like a company with advanced management and production capabilities. All this today translates into a productive capacity of around a thousand

jars a day. In addition, they are about to open a restaurant and are planning to market and promote products that will represent and promote the local area. *“Work is a tool for healing, but it has to be done with attention to the economic return within a framework of sustainability; this is our mantra”, Paola declares. “Franco gave us a method, created a changed mindset, and afforded us the opportunity to free ourselves from economic dependence on public funding. The hardest thing about this process of company transformation was the mindset change, the need no longer to think (and act) as simple social workers, but as entrepreneurs”.*

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#### A new way of working

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The fundamental thing that emerges from the words of the leading participants is the focus on people and their motivations, because it was this that changed the nature of their presence in the cooperative and led them to work in a new way, with more conviction and pleasure, and this led to greater productivity and improved quality. As Giuliano Ciano emphasizes, they also take more responsibility. *“The participatory democratic process has not changed—decisions are reached by majority vote and each vote represents one person—but the quality of this democracy has changed because everyone’s awareness has been raised concerning both what we are doing and what we want to do”.* This increased knowledge of the production process has improved the quality and rapidity of the decision-making process. Today decisions are made more carefully and are more in line with the business development plan. *“The internal success of this type of approach”, notes Giuliano, looking to the future, “has inspired the consortium and its cooperatives to modify the way they interface with the outside, attempting to create more productive*

*relationships”.* The purpose of the consortium, Giuliano maintains, is at this point not to expand but rather to increase the number of similar initiatives in the area, building up chains of social economies.

This success in business, says Simmaco, has compelled the cooperatives to fight a new enemy ready to denigrate and delegitimize them, namely mistrust and suspicion. *“If they have succeeded and are succeeding in this area, it is because they are tied to a profiteering or mafia practice”* is the most common accusation. How to fight this invisible and insidious enemy, asks Simmaco. The answer he gives is that the only weapon they have is transparency and the openness of their work areas to anyone who wants to visit them. They are convinced that by working together in and for the local area, and doing so humbly and responsibly, they can defeat the pattern of suspicion. They believe, says Simmaco, that *“if the whole environment can be developed everyone will gain from it and anyone who pulls against the tide will in the end have no choice but to back down”.*

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#### Beyond their own limits

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The future challenges for the cooperatives and the consortium, in the words of Simmaco and Giuliano, are:

- to grow as social businesses and thereby to improve in both the ability to construct and carry out rehabilitation projects for disadvantaged subjects, and the ability to manage and practice business;
- to continue to fight for legality, involving ever larger sections of civil society;
- to support initiatives similar to their own, building chains of social economies;
- to improve their own political presence and

their ability to interact with institutions for the promotion of increasingly effective and efficient actions for improvement.

These are difficult challenges, especially considering the enormous changes taking place at both the local and international levels, along with widespread uncertainty. This means learning by doing. But the consortium has the elements and characteristics needed to meet these challenges optimistically, from the professional skills in the service of company organization to the personal qualities (mindset, self-esteem, civic sense...) that produce value for the business but can also produce a return at the level of civil society. Franco is himself engaged in a complicated but fascinating challenge – to build bridges between territories and in particular to try and bring the experiences of Campania’s social cooperatives together with those of Calabria and Sicily, areas also engaged in processes of territorial improvement and development based on the management of confiscated assets.

Such challenges have to be based on a higher vision, which is to go beyond limits of one’s own professional skills. This means that entrepreneurs, in addition to doing their jobs well, have to engage with the public interest. They have to contribute to the general public welfare, not only indirectly through their business responsibilities, but explicitly, bringing the community system into their business and building reciprocal utility in the interests of the business and of society as well.

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#### Note

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This report is based on unstructured interviews and site visits at the cooperatives themselves. The research was carried out between April and June of 2017 in the provinces of Caserta (in particular in the townships of Aversa, Casal di Principe and Miano) and Naples. The people interviewed were: Giuliano Ciano (president of the “Consorzio NCO – Nuova Cooperazione Organizzata” and president of the “Cooperativa sociale *Un fiore per la vita*”), Tonino De Rosa (administrative officer of the “Cooperativa sociale *Agropoli onlus*”), Simmaco Perillo (president of the “Cooperativa Sociale *Al di là dei sogni*”), Paola Perretta (production manager of the “Cooperativa sociale *Al di là dei sogni*”), Peppe Pagano (president of the “Cooperativa sociale *Agropoli onlus*”) and Franco Saverio Cioffi (proximity manager).

The full text of the research paper and interviews can be consulted in Italian at [www.uffeddi.it](http://www.uffeddi.it).

## 2. Colornian entrepreneurship? Findings and ideas for reflection

by Vincenzo Marino<sup>1</sup>

*Humans have made true progress whenever they notice that they are not the centre of the universe. (...) throughout the history of civilization there are these “leaps outside ourselves”; this awareness that the laws that we had attributed to reality were, in essence, nothing other than an imagined reality made in our image and likeness as a good servant of our needs. Every time a step like this has been taken mankind has gained understanding from it and engaged better with reality, and powerful tools with which to control nature have fallen into our hands. The more man has dominated nature, the less he has felt like its master, its central figure. (...) You could say that the entire evolution of thought (...) made progress every time the concept of “essence” was replaced by that of “relations”. But to do this requires an enormous effort of honesty and, you might say, of asceticism. It requires the courage to look at ourselves as if we were outside ourselves (...) to give up our habits of thinking. In this sense, morals and science are the same thing. And every scientific discovery, I would say even every technical achievement, is like a slap in the face that says: things are not the way my model would like them to be organized.*

Eugenio Colorni<sup>2</sup>

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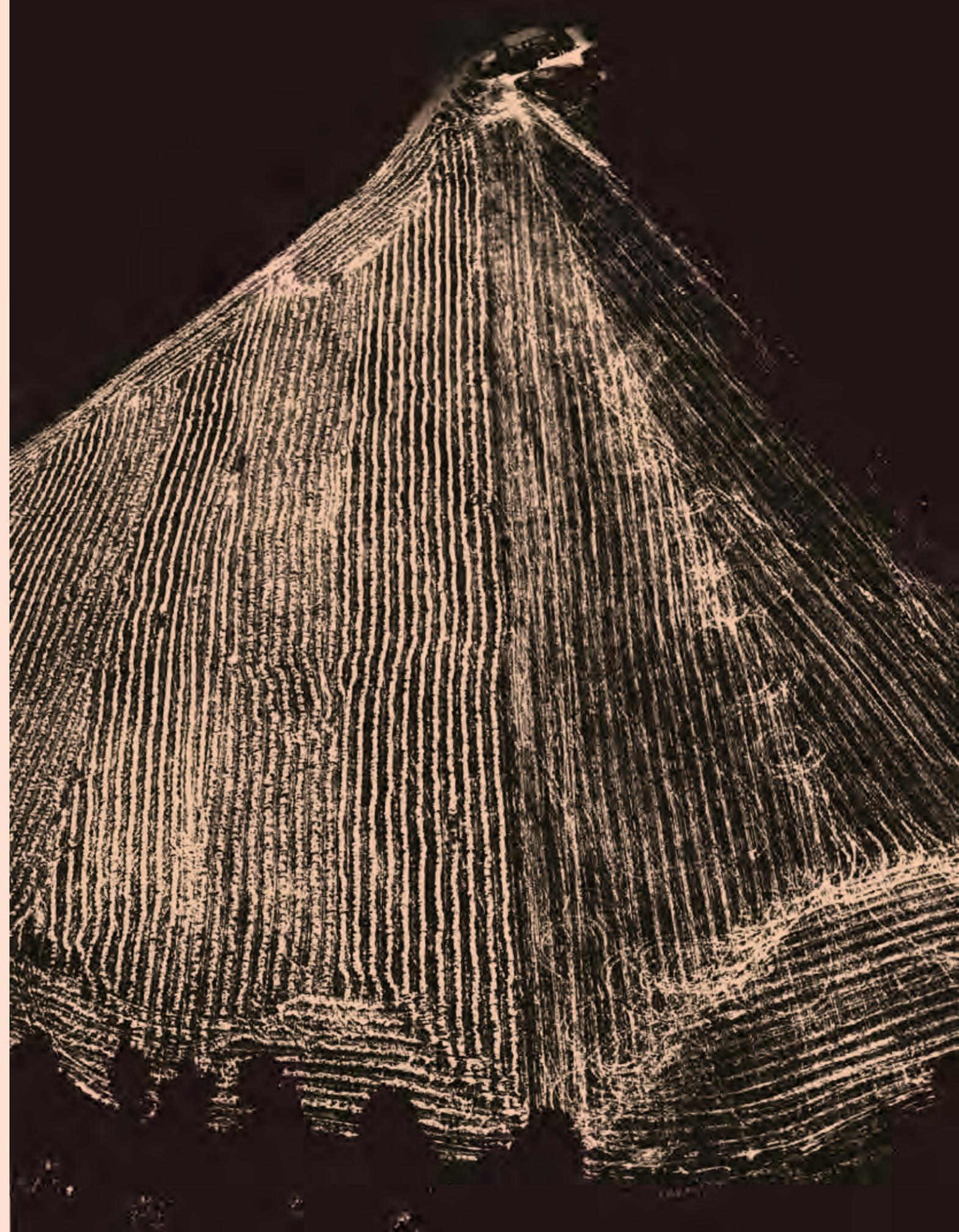
<sup>2</sup> Letter to his wife of 12 December 1938, in *“Eugenio Colorni. Microfondamenta. Passi scelti dell’epistolario”*, L. Meldolesi, ed., Rubettino 2016.

What has Eugenio Colorni got to do with being an entrepreneur? Does it make sense to speak of Colornian entrepreneurship? And above all, is it useful? It seems to me initially profitable to trust in the viability of these questions. Although in fact originating from a personal experience, both cultural and practical, that has at least partly influenced its orientation, this paper aims to explore the possibility of further advancement in understanding the entrepreneurial phenomenon and its role in promoting economic and social development.

During the course of a thirty-year collaboration with Luca Meldolesi<sup>3</sup>, the themes of entrepreneurship and businesses have always been at the center of our shared interests (which include research, policy, and evaluation). I have thought it worthwhile to examine in greater depth some parts of the work we have done to verify their relevance in an explanation of a specific point of view.

In this exercise, it is obviously essential to avoid the danger of falling into mere “classification”, of a purely definitional character. Identifying the possible attributes of the Colornian entrepreneur or, mutatis mutandis, defining a Colornian “way” of reading business phenomena cannot simply be an end in itself. The idea of singling out some particular elements of entrepreneurs’ and managers’ behavior and connecting them with the work and writings of Eugenio Colorni is in fact both attractive – from the point of view of identity and for the “lessons” that can be learned – and risky – because it is essential to avoid being perceived (by those who deal regularly with businesses) as “second-rate sorcerer’s apprentices” and thus be exposed to the risk of mutual intransigence.

<sup>3</sup> And with the group of economists, private and public managers, and researchers in the orbit of the project of analysis, research, policy-making, and evaluation now under the auspices of A Colorni-Hirschman International Institute.



In a Colornian way, this operation makes sense if it succeeds in disclosing features not fully revealed by other approaches, if it sheds light on behavior, performance, and management modes, or more generally provides a perspective on business and the business person that reveals, or rather highlights, elements that up to now have gone unnoticed.

The line of reasoning in the following pages, then, is both a point of arrival and a point of departure.

It is a point of arrival in the sense that it is the result of a long-term effort, alas going back years, concerning the role of business in economic development (particularly in the Italian South). Over the course of thirty years we have been involved with policies for businesses, the operational development of business in the South, strengthening and consolidating companies, business networks and local production systems, the development of consortium initiatives, business cooperatives...

The result is that a specific point of view undoubtedly exists regarding businesses and entrepreneurs. And that it is an approach that has numerous points of contact with other ways of looking at the entrepreneurial phenomenon, for example from the perspective of Business Economics, from the viewpoint of Local Development Economics, or from that of the Civil Economics<sup>4</sup>. But it is also a specific and unusual way of looking at businesses and business people, and that is as a social and collective phenomenon. One which at bottom connects its function to the direct or indirect positive effects that it generates, or rather

4 As “Civil Economics” we here refer to the work of some Italian economists (Stefano Zamagni, Luigino Bruni and others) who focus their analysis on relational goods, starting from the legacy of the early works of Adam Smith and/or Antonio Genovesi.

could generate, for the purpose of public happiness and possible pathways for development.

In this respect, the business and the entrepreneur are not observed, negotiated with, managed, incentivized, facilitated, conversed with as categories in themselves... But as possible tools for economic development. And therefore, in this perspective, they themselves are both the object and subject of socioeconomic research, experimentation and economic policy. They can act directly or indirectly for the pursuit of the common good. Which is not the product of an invisible hand that miraculously solves collective problems thanks only to the pursuit of individual goals, but rather comes from the actions of a number of subjects, entrepreneurs included.

It ought to be pointed out, on the other hand, that the intention here is not to emphasize – much less mythologize – the figures of the entrepreneur and the company, or to glorify – for whatever reason – their social function and responsibility. It is a field of endeavor which is in my opinion lacking in interpretive and normative content even though nowadays, as a matter of fact, this is rather inflated<sup>5</sup>. If anything, the mechanism is the reverse: it is in fact necessary to investigate in what contexts and conditions, and specifically and concretely in what ways, the entrepreneur and business can

5 The reference here is to the dissemination of various approaches to what is known as “business ethics” and the Business or Corporate social responsibility. The excessive emphasis given by these approaches to general principles and their successive “easy” (if not hasty) assimilation as regulatory features have created a climate of compliance around the issue. Thus, in the extreme case, it is now enough to have a well-crafted social budget to be considered a socially responsible company. In contrast, our approach accepts methodological and research considerations regarding the effectiveness of business values in action as well as the fact that these must be concretely verified in the strategic actions taken by the entrepreneur and the business (cf. Marco Vitale in *Valori imprenditoriali in azione*, V. Coda, M. Minoja, A. Tessitore, M. Vitale, eds., EGEA 2012).

perform the functions that generate collective well-being.

From this standpoint, our line of reasoning is also a **point of departure** and, if you like, a research project. The Colornian entrepreneurship represents a hypothesis about entrepreneurial behavior, but also an idea about the function of an entrepreneur in society which has to be verified again and again in the individual and social actions of the entrepreneur, the running of the company, and relations with stakeholders.

Inevitably, as we shall see, this point of view includes the ambitious subjective pedagogic presumption that even an entrepreneur can “learn to learn”. In thinking in a “Colornian way” about business and entrepreneurship and in studying entrepreneurial behavior from this angle, it is possible to derive indications about how to improve the company’s ability to participate in the wider collective enterprise of generating well-being (for the country). It is as if the entrepreneur were asked to “come out of him/herself” – out of his or her own specific function – and look at personal certainties and successes in order to call them into question “self-subversively” and to activate and re-activate new capabilities for generating individual and collective value. Within certain limits, therefore, this is an “incremental ability” whose use provides the foundations for successive evolutionary developments in its applications.

“In other words, the Colornian entrepreneur and manager is also a humble person who doesn’t become big headed, who subordinates him/herself and accepts, indeed encourages, processes of social democratization at all levels and in all contexts, even very far from the business, because he/she thinks that the progressive enhancement of the abilities of everyone (without exception) applied to every walk of life (not only that of the

company) is the decisive key for the pursuit of the welfare of all. He/she has a choral vision, like that required of teachers, doctors, public executives, and so on” (Cf. Meldolesi, dialogue, Spring 2017).

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### The beginning, starting from Eugenio

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1. The occasion for reflecting on the idea of Colornian entrepreneurship came from my reading *Microfondamenta*<sup>6</sup> and from the preparation of a review of it for a meeting of the Institute on the subject. I have used part of this review in my argument<sup>7</sup>. The book is a selection of the prison letters from Eugenio to his wife Ursula Hirschman. It is a nimble text that affords a gradual approach to the work and person of Eugenio Colorni and displays a specific gravity of its own.

But it should also be read along with his wider opus and in the light of his lifelong effort to build a new way of seeing and discovering the world. This reading surely promotes a better understanding of the moral, intellectual, and practical workings that Eugenio had long placed at the center of his daily striving. Viewed in this way such a reading becomes both powerful and active.

Along with his previous writings and other Institute publications, *Microfondamenta* reopens the possibility of truly understanding Colorni and what he had to offer (let’s say worldwide) to the development of knowledge and to people’s moral and cognitive growth. This is basically cultural “seed capital” that can sprout elsewhere... It is as if Colorni had sought and found the formula

6 *Eugenio Colorni. Microfondamenta. Passi scelti dell’epistolario*, L. Meldolesi ed., Rubbettino, 2016. Some chapters also published in E. Colorni, *Critical Thinking in Action*, L. Meldolesi ed., Rubbettino, 2017.

7 Remarks given at the meeting of AC-HII of 20 January 2017 at the Fondazione con il Sud, Roma.

for a fertilizer that could be used in many fields.

It is clear, then, that in my opinion his is an extraordinarily useful point of view, one that truly helps us understand the world (and ourselves) because it condenses in itself heuristics and capabilities for mastering reality through a way of observing things that is constantly open to discovering. Indeed, it is precisely this “obsession” with useful discoveries that makes this approach so fruitful at a cognitive and interpretive level.

This is a central aspect of Colorni’s contribution – the continual reference to understanding rather than explaining that Eugenio brings to bear during the course of his explorations. His basic criticism of what he defines as “the philosophical malady” is precisely this – that philosophers have been more concerned with explaining the world through a systemic conception than with understanding it.

When Eugenio speaks of useful knowledge, which is knowledge that actually affects people’s lives and their ability to come to master reality, when he recalls the extraordinary value of a discovery (...) whose effect is to enable someone to do new things, previously undreamt of (...) he is actually achieving a “revolution” with respect to the position of traditional philosophy and the prevailing need to lay down a “conception of the world”. If it weren’t for the fact that it is a work that originated specifically from the struggle against the “philosophical malady” with the purpose of rekindling the capacity of knowledge to affect real problems, it might be said that Colorni’s (and Hirschman’s) position outlines and puts into practice a specific approach to the philosophy of science.

On the other hand, as we know, this approach lives on in Albert Hirschman. It lives in the abundance of his findings and discoveries, it lives in texts, observations, experiences that “never repe-

at” either in their object or mode. The concepts of trespassing and self-subversion, the selection of objects of observation that are always different (connections, exit and voice, passions and interests, public happiness and private happiness, the rhetoric of intransigence, etc.) seem to have been devised to escape the temptation of being sucked into the “internal coherence” of theories (worse: of a single theory).

And all this without Hirschman worrying too much about the job of codification<sup>8</sup>, which would have exposed him to the risk of falling into the type of error that Eugenio attributes to “systems of thought” – always insisting on internal coherence or a closing of the circle.

2. In the selected correspondence with Ursula in *Microfondamenta*, Eugenio Colorni’s references to practical knowledge are precise, carefully thought through and I believe tested as well. Eugenio progressively abandons philosophizing in order to move closer to discovery. He reads physics and biology because he is progressively more passionate about a way of thinking that facilitates new discoveries and new findings. Discoveries and findings that do not set for themselves the goal of explaining reality, but rather of

<sup>8</sup> “Codify? We have to agree on what it means. Putting ideas in order and organizing them well is certainly possible-essential, actually. To see this just think of the care Albert took with his writings. It is also essential to avoid letting go of things: a production line of thought can last over time (according to Albert, one of his character traits was being able to follow it to the end). Finally, you have to get everything possible out of the material, as in the surprising appendices of *Journeys*. But theorizing is another story. Here the risk of being dragged out by “systemic thinking” is ever present: Eugenio never missed a chance to ridicule it. The problem remains of where to draw the line between the two... I don’t think Colorni would ever have codified (in the literal sense) what he was writing. Instead, he would always have tried to demonstrate in practice the concrete advantages of what he was saying. And in so doing would have shown how this or that discipline would reap the benefits of his way of seeing the world.” (Cf., Meldolesi, dialogue, Spring 2017).

*understanding it so as to master it to the fullest.*

“Useful knowledge” is the point. And isn’t this, I asked myself, an interpretive key for a better understanding of companies and entrepreneurs? Isn’t it perhaps, if not the only one, the main characteristic of business activity to translate knowledge into utility, value and development? In the end, indirectly, the entrepreneurial exercise is another field in which interpretative “power” becomes “actuated” and reaches important concrete results. This is a common feature of many virtuous accounts of entrepreneurs and businesses, and it more generally permeates the daily work of popular, widespread entrepreneurship in vast areas of our country... people who can’t do anything with knowledge as an end in itself... but who “find peace” if they are able to apply it in satisfying needs and solving problems<sup>9</sup>.

And yet, all this is perhaps still not enough to give a complete picture of the Hirschman-Colorni reference we make when we talk about businesses. I think this choice is best explored on at least two fronts:

1. A “possibilist” reading of the business and the entrepreneur as social and collective phenomena, with an explicit focus on the development side.
2. A reading of the business and the entrepreneur as a set of behaviors by definition susceptible to improvement, reorientation, subversion.

Before we begin exploring these perspectives,

<sup>9</sup> Several years ago, in a conversation with Attilio Giuliani (business consultant, partner at Considi, expert in marketing and in “Nuovo Modo di Fare Mercato” [New Way of Doing Business]) about issues of business development and consolidation, specifically concerning the company I was then CEO of, Attilio made a comment, penetrating and enlightening at the same time, on the refined and theoretically complete way I made my arguments: “...but all this knowledge – what do you do with it? What use is it? Shouldn’t it all be put into practice, concretely tested? Made useful?”

it is useful to highlight the fact that they are also the endpoint of a specific operation of action-research carried out on, with, and for businesses over the course of more or less thirty years.

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### The road traveled: a brief review

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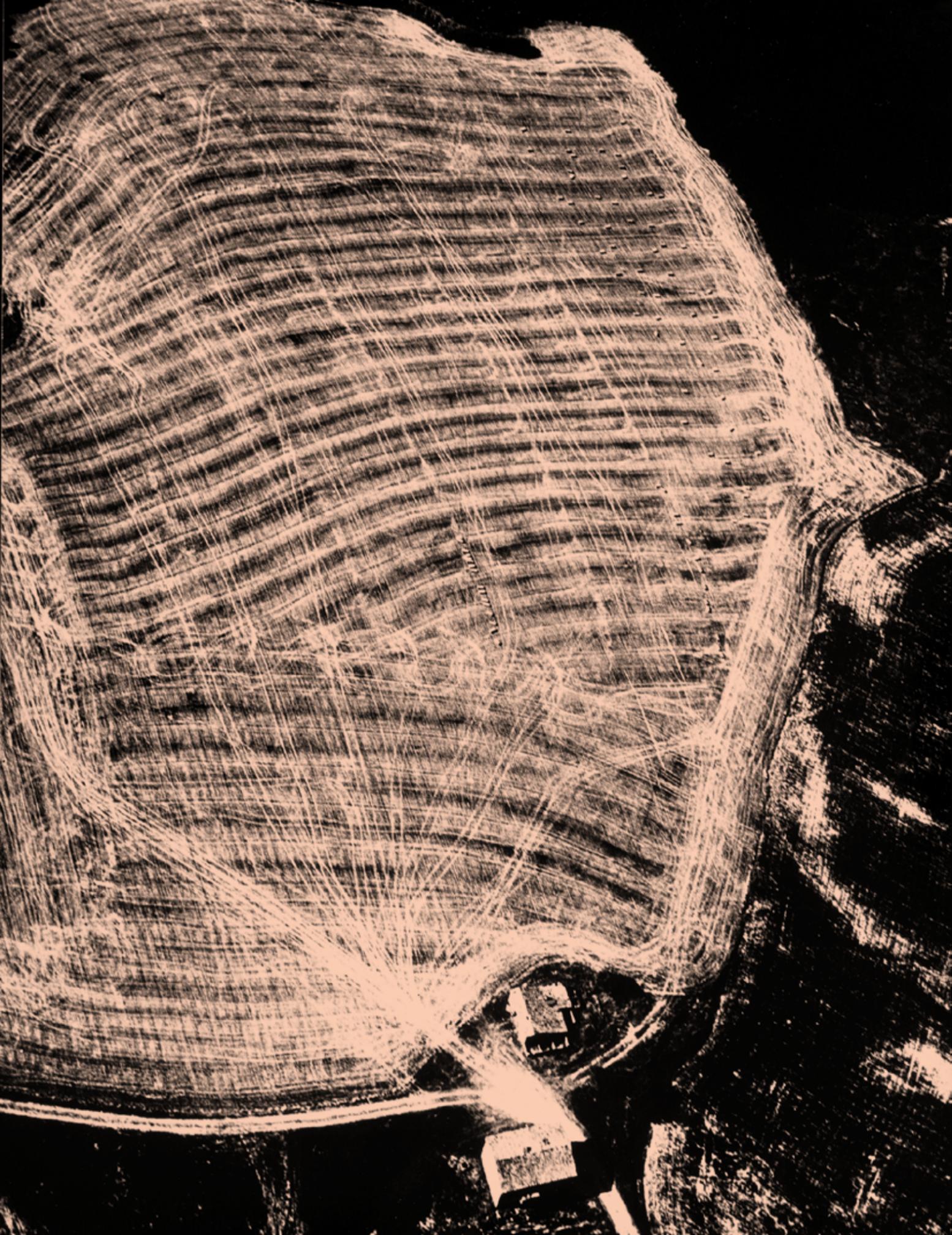
1. At the beginning of the 1990s, in the departments concerned with economic policy and development economics at the University of Naples, a research movement inspired by the work of Albert Hirschman was created for the purpose of understanding Southern Italian society and defining and building (multiple) routes for development.

Naturally, a specific area of investigation in this context was reserved for the phenomenon of entrepreneurship. This was not only because of the obvious consideration that in a market economy the company is the key tool for generating value and development<sup>10</sup>. It was also the fact that the theme itself and even its effect on Southern society were seriously undervalued by the economic and political mainstream of the time.

In those years, the explanations given by traditional Southern studies of the situation of the South were heavily influenced by the dualist approach and its main corollary – the identification of “prerequisites” for the activation of the development process<sup>11</sup>. And nevertheless, an en-

<sup>10</sup> In addition, this consideration, while obvious, collided with a socioeconomic and cultural context in which demand for “semi-public” welfare assistance prevailed. There was a perception of the function of endogenous entrepreneurship as residual if not marginal to the functioning of the Southern economy, and a call for large public and private investments from outside the region to meet the unemployment problem (held to be widespread) in the South.

<sup>11</sup> For a more detailed treatment of the issue see, among others: D. Cersosimo and C. Donzelli, *Mezzo giorno. Realtà, rappresentazioni e tendenze del cambiamento meridionale*, Donzelli Editore, 2000; V. Marino, “Percorsi e Strategie di sviluppo locale nel Mezzogiorno”, Doctoral



dogenuous dynamism in Southern society could have been detected. While even official statistics showed that the gap was not closing, in the overall growth of the country it had in fact remained fairly stable over time. A sign that endogenous growth indeed had to be there... living standards, behavior, wealth creation seemed in some areas of South similar to those in the Central Italy and the North. How was it possible?

The Colornian-Hirschmanian intuition regarding the “philosophy of discovery” together with the many avenues of attack on the problem suggested by Hirschman’s own works and by the particular methodological conditions created by the work of Luca Meldolesi, Nicoletta Stame and Lilianna Baculo allowed a group of young researchers to pursue a “journey of discovery” during their exam courses and graduation theses, in which their task was – simply – to look for unknown stories of entrepreneurial (or economic or administrative) success and to explain this<sup>12</sup> in an evaluative light.

2. An initial starting point was the evaluation of public policies involving research carried out in the 1990s on Law 44/86 concerning the “Creation of new youth entrepreneurship in the South”. Here, under a rigorous analysis of the strengths and weaknesses of the program, dozens of subsidized companies and public officials involved in the program enforcement were interviewed. One of the most important results of this work was that it allowed the potentially strategic value of small businesses in Southern Italy to emerge for

the first time in Southern Italian society. The issue concerned both the cultural significance of the law which, for the first time and in a revolutionary way, placed financing, assistance, and support for new business initiatives from young people at the center of the development strategy for the south, and the direct consequence of this reasoning (never sufficiently emphasized in my opinion), which is that there were no anthropological obstacles to the development of entrepreneurship in this large area of the country.

At the same time, the field investigation would later show the flowering of business ventures, isolated as well as within local *milieus*, and often specialized by sector (textiles - clothing, footwear, packaging, but also precision mechanics in the suppliers of Aerospace and Railways industry). The entrepreneurial density in a given sector, even though this did not emerge statistically in the specialized indices used to read the situation of the Italian industrial districts, showed an entirely respectable level of dynamism and importance to the local economy, with businesses operating even in foreign markets and acting within a dense local network connected with the entire national economy. This “looking beyond your nose in your own backyard” and discovering unexpected things (from good public practice<sup>13</sup> to the presence of many invisible agribusinesses) reinforced the image of a hardworking South able to compete in the markets, and led to a recognition (first extra-statistical and later statistical) of the local systems of the South and a recognition of widespread and “popular” entrepreneurship,

thesis, 2002; L. Meldolesi: *Il nuovo arriva dal Sud. Una politica economica per il federalismo*, Marsilio, 2009.

<sup>12</sup> It is the intuition that, in order to understand certain world operations, it is not necessary to run grand statistical elaborations (which, as Aaron Levenstein puts it: “... are like bikinis. What they reveal is striking, but what they hide is more important”). It is also useful to look at and understand reality directly ... starting from what we have right under our nose.

<sup>13</sup> Various research groups have been set up to look in several directions at the many dimensions of development: SMEs, Public Administration, Latin America, European Union. Field research also benefited from the possibility of study abroad using facilities provided through targeted investments by Luca Meldolesi and Nicoletta Stame (in Cambridge MA, Paris, Berlin and, in the future, Brussels).

otherwise invisible to many eyes.

At the same time, this work of discovery was also a manner to give value to the business pathways of the entrepreneurs who had been observed. At the end of the millennium, a real “information campaign” on the hidden economy was undertaken, which culminated in the birth of the *Comitato per l’Emersione* [Committee for Surfacing] and the many projects for local development connected to it. This favored a further important phenomenon – the recognition (and self-recognition) of the socioeconomic role of small and medium-sized enterprises in the South, with company development at the center of the picture. This gave rise to various projects of technical assistance and support, such as the C.U.O.R.E. help desks in Naples<sup>14</sup>, and the projects on business consortia<sup>15</sup> (animation, design, planning, management) in the sectors of clothing (Positano, San Giuseppe Vesuviano), canned tomatoes (Sant’Antonio Abate), and artistic crafts (Porcelain of Capodimonte). Business schools at the local level<sup>16</sup> reinforced the original point of view (of the

centrality of businesses in the virtuous functioning of wide areas of the South<sup>17</sup>). The work on the slack of the southern economy, the search for hidden, dispersed or badly used resources thus became a field for experimentation, a “laboratory”, on both the public and private fronts. The action of “rationalization” in the service of development, aimed at enhancing existing endogenous potentials and promoting their development (whether territorial, administrative, or business) was undertaken both outside and within businesses. The widespread result of this work – which it would be an error to call the prime mover, the only cause of these results, and which should be seen as part of the profound change that Southern society has experienced over the last 30 years – is that the South, even where it preserves its character as “*terra hostilis*”, no longer rejects the idea of business as one of the possible instruments of change and improvement for itself and the world around it. For a young person in 1980, running a business was considered a heresy (compared to working as a salaried employee, preferably for the government). Today this is no longer the case... and businesses (small, social, and dilapidated, that solve some of a community’s problems along with the large, successful ones that compete in global markets) represent one of the keys to credible development in the South.

Seen from another angle, this process – built by observing the Italian South and conversing with Albert Hirschman – allowed the emergence of an alternate interpretive hypothesis on questions concerning the development of the South and the country which, without hiding the gravity

17 This process of collective emergence of the phenomenon of entrepreneurship has brought about a very real and far-reaching process of entrepreneurial emancipation in the South, not least psychological. While still seen as residual and marginal by mainstream political economy, it was nothing of the kind in the daily life of the country.

of such questions, went looking for possible ways out. The same progressive expansion of economic and social potentials in the South was thus accompanied by the development of an effective awareness of them.

Finally, over the last ten years the task of field research has been enriched by a further “change in viewpoint” – that of democratic federalism<sup>18</sup>. The inter-Italian dialog with Marco Vitale, the study of federalist thinking, both Italian (Cattaneo, Sturzo) and European (starting with the work of Eugenio Coloni at Ventotene), the expansion of the field thanks to the experiences of the federalist countries of the new world (United States, Canada, Australia), and the search for possible connections with Italic potential around the world are all exercises that have helped to address the problem of the development of the South and the country from a precise perspective: the progressive democratization of society and the country in a federal key.

In the words of Marco Vitale:

“democratic federalism... is not an institutional mechanism, but rather a way of fueling, reanimating, and reinforcing participatory democracy; it is a way of experiencing democracy, a political and civil culture. In the meantime federalism is a positive value in that it helps us live better as responsible citizens in a democratic state. And historical experience (across several continents – ed.) shows us that federalism has been a useful tool in the pursuit of this goal”<sup>19</sup>.

18 See, among others, L. Meldolesi’s: *Milano Napoli. Prove di dialogo federalista* Guida, 2010; *Federalismo democratico. Per un dialogo fra uguali*, Rubettino, 2010; *Federalismo, oltre le contraffazioni* Guida, 2011; *Italia Federanda*, Rubettino, 2011; *Italic e Città IDE*, 2015.

19 Introduction to L. Meldolesi *Federalismo Possibile. Per liberare lo Stato dallo statalismo e i cittadini dall’oppressione*; Edizioni Studio Domenicano, 2012.

Meldolesi directs his efforts toward the necessary process of democratizing the country and the consequent construction of a virtuous process of collective education concerning the positive consequences of a democratic federalist approach: that it is a form of federalism in which it is not institutional features that take center-stage, but rather individual and collective behavior – that is, the leading role and responsibility of people in society, administration, business and the state. The implicit challenge of democratic federalism is that all these different dimensions should converse harmoniously among themselves and with the territorial dimension. Within this frame of reasoning, it is easier to understand how businesses and entrepreneurs (like the other roles and responsibilities throughout the national collective, the state, the administration) should be asked for an extra effort over and above the exercise of their specific primary function. This is the effort of the active citizenship to construct a democratic society based on individual and collective responsibility to the common good. And fortunately it is also a process of continual and progressive possible learning<sup>20</sup>.

3. It is appropriate, at the end of this brief review, to recall some further findings useful to our line of reasoning.

3.1 In the first place, the effects of the action-research on the subjective level. The deeply Colornian sense of this work lies in the fact that the discovery process is also a process of self-discovery, both for the observer (whose improved analytical ability, interaction with reality and command of it amount to self-improvement) and for the observed (who enters a psychological dimension of recognition of the “self in re-

20 Cf. L. Meldolesi *Imparare ad imparare. Saggi di incontro e di passione all’origine di una possibile metamorfosi*, Rubettino, 2013.

14 Centri Urbani Operativi per la Riqualificazione Economica delle Imprese [Urban Operational Centers for the Economic Redevelopment of Businesses] emerged from a collaboration between the Interdepartmental University Center URBAN – ECO in Naples and the City of Naples. Many young researchers were employed in action-research with hidden businesses in a number of neighborhoods in the center of Naples. The daily activities of these “emergency desks” were aimed at the identification, emergence, and resolution of problems – sometimes very concrete – that had led to the total or partial immersion of businesses.

15 For a fairly exhaustive picture of the work on business consortia, see *Primo forum sugli strumenti per l’emersione. Tra Pubblico e Privato il ruolo possibile dei consorzi per l’emersione e lo sviluppo locale del Mezzogiorno*, Quaderni del Comitato per l’emersione del lavoro non regolare, Presidenza del Consiglio, 2000.

16 The experience of area business schools, set in motion in the sphere of the same research group, has been spreading and improving (FIELD Calabria, SISanità, SiPavia, Giugliano Scuola d’Impresa etc.), along with the attention given by social science to the study of entrepreneurial behavior.

lation to the world”, previously unexplored).

An important part of this action-research has in fact been the capture of the widespread urge for prominence that existed and exists in Southern society, especially among the young, and its translation into acceptance of responsibility. This is true in the everyday lives and personal growth of those lucky enough to be part of this small but lasting collective venture<sup>21</sup>, as well as for the individual “objects” of the research.

The work on informal sector emergence, as mentioned, indeed had the dual purpose of making known the vitality of many business experiences in the South, and at the same time allowing these businesses to recognize themselves as potential agents of possible change.

3.2 A further aspect to highlight is the effort made to create a harmonious condition of work for the different dimensions of analysis. For example, putting together the analyses on the improvement of the state, on federalism, evaluation and businesses. Also, putting together the private and public fronts, in the collective interests of the country. From this perspective, the company, although historically proven to be the main tool for creating value and utility, does not have the exclusive role as development activator. Because in a possibilist approach, the mechanisms of activation (the way one thing leads to another) and of development consolidation (the way a thing stabilizes over time) can also be public as well as private. They may be intentional in nature, but they can also be an intrinsic effect of human action (individual and collective); they may result from exogenous shocks (such as importing a technolo-

<sup>21</sup> Later merged in “A Colorni - Hirschman International Institute”.

gy or a change in the pattern of foreign markets), or from a conscious movement on the part of the socioeconomic actors of a territory<sup>22</sup>.

The priority of emphasis on the business front has therefore always been accompanied by two other priorities: working for improved performance from public administration, and reinforcing the processes of democratization and the activation of civil society.

3.3 Obviously, the idea that a smoothly operating administrative machine at the level of municipalities, regions and the state should be strategic and linked to its dissemination, both geographical and in the social fabric, is a fact taken for granted – and considered “ideal” in common parlance. But the particular step forward our work represents is in the core position of change and in the force – centripetal and centrifugal at the same time – of the possibilist approach.

In other words, the idea of seizing any and all opportunities that come up to bring about change-opportunities that appear not only in the “normal” alternation between private and public happiness<sup>23</sup>, but also on those occasions when the mutual strengthening of the two dimensions – public and private – can be generated; opportunities that stem from stimulating the adoption of policies that motivate behavior favorable to

<sup>22</sup> For a complete representation of the richness and possibilist versatility of the Hirschmanian approach, see *Alla scoperta del Possibile. Il mondo sorprendente di Albert Hirschman*, L. Meldolesi, Il Mulino, 1994, reprinted by Rubbettino in 2017, trans. into English as *Discovering the possible. The surprising world of Albert Hirschman*, Notre Dame University Press, Notre Dame, Ill. 1995.

<sup>23</sup> Cf. A. Hirschman, *Shifting Involvements, Private Interests and public action*, Princeton University Press, 1982.



development<sup>24</sup>; and from catalyzing the possible unintentional consequences that emerge from a certain policy, for example, or a technological transformation<sup>25</sup>. On closer inspection this is a key element of the approach, one we have been practicing for some time by contributing to a small Colornian-Hirschmanian tradition in which the two dimensions (public and private) are deeply interconnected and linked to the ability to generate possible change.

In this sense, once again, enterprise and entrepreneurship are among the keys to development, and are called upon to interact with other dimensions, and to be aware of the triggering and induction role they may have in activating and consolidating development processes. Business and entrepreneurship are vectors of possible change for an entire society and can (must) openly interact with it. Hence the democratic federalist appeal for harmony among the various (even subjective) dimensions of development; hence the ongoing attempt to build mechanisms of dialogue between the different possible dimensions of change. Hence the ongoing efforts to keep communication channels open, and a proactive role both in business and entrepreneurial development and in the improvement of public administration.

3.4 And thus a further element emerges: there is in the work of the Institute an explicit reference

24 On this point, see the illuminating “Uno Schema per il Sud” in L. Meldolesi, *Sud. Liberare lo sviluppo*, Roma, Carocci, 2001; also, L. Meldolesi, *Spendere meglio è possibile*, Bologna, Il Mulino, 1992.

25 Incidentally, it is perhaps possibilism’s centrifugal potential to look in many directions that explains the professional “diaspora” we have seen in our work group, which has remained intact even as it has been enriched by many different professional dimensions and different careers. The possibilist approach has helped to foster professional positioning that respects the expectations and attitudes of individuals, with people in politics, public administration, private management, professional associations, management of private entrepreneurial initiatives, training.

to Colorni’s Socratic (maieutica) approach at the level of collective education. It is an attempt to test this construction of a renewable way of dealing with problems so as to solve them collectively. The exercise of Colornism as a subjective activity is already in itself delicate and complicated, but practicing it as continuous construction the way Luca Meldolesi has done and continues to do with young and not-so-young people is a special collective cultural experiment that has no counterpart, I believe, anywhere in the world, even among those who draw on Albert Hirschman’s work.

This focus of attention on a social and collective application of Colornism as an exercise in rallying and releasing the dormant energies of the South has its own specific applications in the education of young people, in work on local development in the South, in improving the performance of public administration, and in the promotion of collective entrepreneurship. And this modality, as Luca Meldolesi points out, coexists with the idea of a variety of possibilisms, corresponding to the subjective and objective conditions in which the various dramatis personae may find themselves: “*In short, there is a remarkably vast space – for people and experiences that are very different from each other, but are linked by the possibilist cognitive approach*”. (Cf., Meldolesi, dialogue, Spring 2017).

In the words of Cardinal Bergoglio to the Argentine leadership classes: open tracks instead of occupying spaces.

3.5 Finally, from time to time **this point of view has opened dialogue channels** in several directions and among different disciplines trying to interact at the levels of analysis, policy, and evaluation, centrally as well as locally, and in

public administration activity as well as in private ventures<sup>26</sup>. This is another case of a “genetic” propensity of the Colorni-Hirschman viewpoint. Widening the gaze beyond the habitual field of analysis in order both to avoid the risk of falling back on oneself and to seize the opportunity to discover new things is one of the teachings of the philosophy of discovery<sup>27</sup>.

This is “ante litteram” trespassing, which we find in the work of Albert Hirschman<sup>28</sup> and which comes down to our own time in the development of integrated social, economic and political analyses. It is the passage from economic development to local development, to public administration reform, to doing better with less, and to federalism; the attempt to develop the widest possible view of the entire theme of development in the South and in the country.

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### Innovations and compatibilities in a new way of looking at business

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1. Before embarking on the conclusion of the argument, it is useful to recall a dialogue that has

26 To get an idea of this it is useful to refer to, among others, L. Meldolesi “*Il nuovo arriva dal Sud. Una politica economica per il federalismo*”, Marsilio 2009.

27 This is clearly seen in one of the last letters in the collection *Critical Thinking in Action*, Rubettino, 2017, pp. 77-84, in which Eugenio hypothesizes the involvement of philosophers, biologists and physicists in the creation of a multidisciplinary scientific journal. And in his deep commitment to accomplishing this during his approximately two years of hiding before his death (cf. E. Colorni, *La Malattia della Metafisica*, Geri Cerchai ed. Einaudi, 2014).

28 The seed of trespassing sprouted primarily at Princeton when Albert Hirschman collaborated with Clifford Geertz in founding the School of Social Science. It occurs in many of Albert’s writings and explicitly in the title of a 1981 text in which he tries to overcome the obstacles between economics and politics: A. Hirschman, *Essays in Trespassing: Economics to Politics and Beyond*. New York: Cambridge University Press.

been initiated from time to time with analysts, scholars, policy makers and administrators. Specifically, for our purposes, this is the interaction with proponents of the idea of Italian industrial districts at the end of the last century, and the more recent interaction with the business school linked to the ISVI initiative promoted by Marco Vitale and Vittorio Coda.

Classical political economy (Smith, Genovesi, Marshall) and later local economists, especially of the Italian school (Becattini, Brusco, Rullani, Garofoli, Fuà, Dei Ottati) developed an analysis of business linked largely to its socioeconomic role, both as an agent of development and in its relational dimension (with other businesses and with the local area), that went so far as to analyze complex organisms on a territorial scale, such as industrial districts, the manufacturing belt, local labor systems and so on. Between 1995 and 2005, our participation (first as guests, later as co-protagonists) in the Artimino seminars organized by IRIS in Prato enabled the theme of local production systems of the South to emerge at the national level and fueled a debate with those who had until then dealt with the question of local development looking almost exclusively at the phenomenon of the industrial districts of the so-called “Third Italy”. This dialogue, in support of the program of analysis begun in those years at the University of Naples (cf. above, section 3), led to the emergence of the question of entrepreneurship in the South as an active potential to be pursued, showed that while there was indeed a different (sometimes imposing) intensity of tone from one region to another, there was more equality within the country than had been imagined. It allowed us to absorb useful considerations on policy and on local development policies that placed entrepreneurship, companies and business systems at the

center of the action<sup>29</sup>. It allowed us to open the reasoning of our interlocutors to a freer interpretation of the concepts they proposed based on their research findings so that these would not be the “shirt of Nessus” that would poison their interpretation of the “different world” of the South.

I wrote in fact in my doctoral thesis (2002, cited above):

“At this point it becomes easier to understand the usefulness of local development studies in the outlining of an interpretive framework for possible change in the South. In the same way, the motives become clearer for turning attention to the spontaneous formation, even in this area of the country, of specialized production zones. Southern business systems, while not able to fit the ideal district type and not possessing all the requirements of the northern benchmark, nevertheless present signs of systemic organization, a “district vocation”. The possible spiral shape of their hoped-for process of competitive consolidation sug-

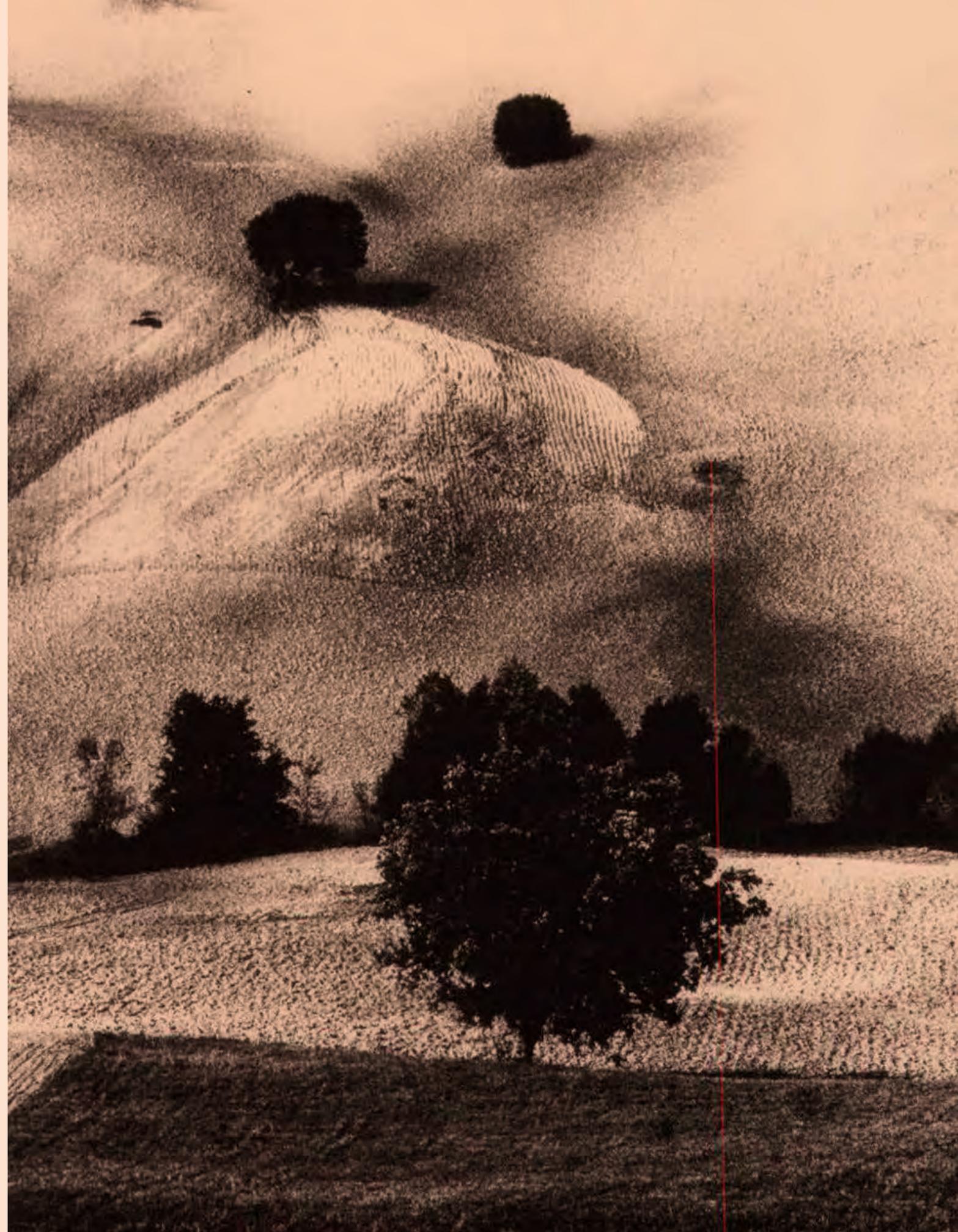
29 “The specifics of local business systems are about how the economy of the business system is integrated and how it is fueled by its environmental background. The local milieu is in fact the point of arrival of a natural and human history that provides the production organization with essential inputs such as labor, entrepreneurship, material and immaterial infrastructure, social culture and institutional organization. This territorial key thus exposes the circular or rather spiral-shaped and composite nature of the production process: production means not only transforming a set of inputs (data) into a finished product following given technical procedures in a given time frame, but also reproducing the material and human prerequisites that start the production process. The production of goods includes the social reproduction of the productive organism: along with goods, a truly complete production process should co-produce values, knowledge, institutions and the natural environment that serve to perpetuate it. The theoretical specificity and relevance of the local context lies therefore in the opportunity/necessity that it offers to examine production in vivo as a circular phenomenon that places technical or economic aspects (in the narrow sense) in “intimate relation” with those that are social, cultural and institutional.” G. Becattini, E. Rullani in “Mercato Globale e Sviluppo Locale”, *Economia e politica industriale* n. 47, 1993.

gests that the theme of strengthening Southern local systems and their businesses should be one of the cornerstones of a development strategy for the South”.

On this basis as well, the aforementioned local territorial action including support for businesses, for the creation of consortia and for local development laboratories has been strengthened. The idea of interconnected business at the territorial level, together with the coexistence of mutually supporting analysis and policy, has proved particularly compatible with the opportunity to highlight the “community” function of business and to extend the perimeter of observation for this beyond the limits of the single company.

2. More recently, it has been possible to initiate a similar dialogue with the “school” of business economics founded by Marco Vitale and Vittorio Coda. As is well known, business, the company, and the entrepreneurial function have become the object of a widespread and thorough literature. During the course of over a century of knowledge “accumulation” on the subject, fields of specialized business study have developed that extend in many directions: Business Economics, Accounting, Organizational Behavior, Entrepreneurship, Business Management, Marketing etc.

It is not the task of this short essay to provide a reasoned reconstruction of this scientific process of development, which in many fields and directions has brought about the emergence of true schools of thought as well as cultural and interpretive traditions. It is nevertheless worthwhile to recall the severe critical sentiment from within these disciplines recently expressed by Marco Vitale, among the keenest Italian observers of business phenomena:



“managerial doctrine, dealing with issues such as power and responsibility, service and property, organization, evolution and the transmission of ‘human know-how’ intersects with a central point of general cultural development. And it is precisely the inability to find a place for itself at this central point in general cultural evolution that accounts for the lack of cultural and civil maturity in the doctrine of management. It is my belief that the doctrine and therefore the practice of management will not be able to reach a more mature phase of development if they cannot situate their basic problems in a broader and more personal cultural perspective that includes the theory of responsibility, property, social organizations and their ends, learning processes, and general development” (cf. M. Vitale, in “Valori d’impresa in azione”; cited above).

And undoubtedly, the approach of Vitale and Coda at ISVI is in this respect particularly compatible with our work.

“The business values that ISVI has committed itself to developing and disseminating since its foundation may be summed up in a far-sighted conception of the company, its aims, its way of being and operating, the role it is called upon to play in society, and the relations it establishes with its various partners. In this conception, profit is neither absolute nor undervalued, but is pursued as a result of competitive strength and cohesive ability, and its primary purpose is to fuel these basic elements of success. If this conception of the company and its success becomes part of the way business is done and what it means to be an entrepreneur and manager, then economic and ethical values will tend to work in harmony, just as social and environmental needs tend to be in harmony with the needs of competition and profitability. This is a different approach from that of business ethics or corporate social responsibility. Indeed, it is characterized by a unitary, systemic and dynamic vision of business issues that is held

by the person guiding the business, who has a grasp of its problems of ethics and social responsibility within the greater context of what constitutes good management and good governance” (cf. ISVI, Missione del Portale section of website).

Consequently, “*A company is an institution of public interest under private management. A strategic and operational tool for collective development*” (cf. Vitale, *ibid.*, cited above).

The high compatibility of this position with a research method based on the reality and especially the sharing of the principle that any merit evaluation of a business’s role revolves around the actual behavior of the company and the entrepreneur are the main findings of this inter-Italian dialogue between business and development economics<sup>30</sup>.

Of course it seems obvious that in the ISVI approach the company’s contribution to the common welfare is seen essentially from the position of the company itself. The good management and governance of a business inspired by precise entrepreneurial values, put into practice on a daily basis by the entrepreneur, guarantee (through the mechanism of the company’s values in action) the company’s contribution to the common good. The primary responsibility of the entrepreneur therefore lies in the sound management of the company and its mission of creating value for the people and the community.

<sup>30</sup> These are efforts, points of view, actions and conclusions that result from intense research and interaction with reality and are fueled by a fruitful interrogation of facts rather than starting from a conception of the world. This is a mutual innovation that should be preserved and nurtured!

Our approach is somewhat different.

It is as if, entering a planetarium and looking up, we were to observe the constellations that generate development: in one approach the brightest stars would be businesses, while in the other the greater brightness derives from a specific multidimensional combination of factors favorable to development, including the behavior of individuals, the local administration, public institutions in general, and businesses.

As Meldolesi puts it,

“It is one thing to maintain that entrepreneurs have an important role even (and especially) in Southern society, and another to subsume (as philosophers used to put it) everyone’s lives under those of a few, even the most enlightened entrepreneurs. “In that case, why not scientists?” my scientist brother would say, his pride wounded by all this talk of business people. Or moralists? Or magistrates? In the history of political and social thought, attempts have from time to time been made to find a sector of society that has more right than others to understand and thus manage public interests. Happily, democracy has swept such gibberish away...” (cf. personal communication, Spring 2017).

#### **Wrapping things up: ideas for further study**

At this point the scope of the Colornian aspect of business and entrepreneurship should be a bit clearer. This is in any case a reflection on the object under investigation (entrepreneurship and the entrepreneur), the research method and the approach utilized to explore the topic, and the political and economic implications to be drawn from it. On one hand, it is in fact a specific way

of observing the workings of businesses and the behavior of entrepreneurs which links them to the general and specific needs of the surrounding environment, the area and the people. Considering the social function of a business “from the standpoint of society” obviously also means measuring its effectiveness in terms of the overall betterment of the socioeconomic system in which the entrepreneurial venture comes to life. It means observing the behavior of individuals, but also evaluating the social development of the basic entrepreneurial theme, linking it to the evolutionary dynamics of the territory and the country. But it also means looking at the enterprise as a collective possibility to emancipate people from less developed conditions. The company (with the related derivatives of self-entrepreneurship and self-employment) is a tool for building the personal dignity of individuals.

At the same time, as we have seen, this is (metaphorically speaking) a micro- and meso-economic exercise that interacts with the macro-economic level but avoids being absorbed by it in a search for general conclusions (or recipes). It is an exercise that everywhere seeks the possibilities for activating pro-development changes and that attempts, through “laboratory-style” procedures, to multiply their effects. These are research areas where the discovery of something new is also the further discovery of oneself. Where acting to favor development can generate subjective spillover that is very potent in terms of individual action.

This I believe explains the attention given to findings concerning people’s lives (be they entrepreneurs, public and private managers, or researchers) and to valuing them fully in doing research. Here there is a temptation to recognize something extra in “our Colornian entrepreneurs” as compared with others. That something extra that makes

them aware of the role they play even outside their business lives, namely the function of building common and collective public welfare. And this is not only the result of a process of accumulating behaviors, culture and relations that starts with the company and the way entrepreneurs and managers value their relationship with the vast community that revolves around it. It is also the opposite. That is, putting the idea of public welfare first and asking what the entrepreneur can do beyond the process of accumulation within the company (of all the types of capital I mentioned). And it will be consequently obvious that there is a behavioral value dimension that needs highlighting: the shift from the dimension of behavior oriented in keeping with the specific purpose of the company to the full assumption of responsibility to contribute actively to the common good (cf. below, point c).

Obviously, this approach gives the function of active citizen back to the entrepreneur. It calls for the assumption of wider responsibilities beyond the essential one of managing the business. It calls for conscious leadership based of the needs of society, not solely on the utility of the goods and services the firm produces. This is the most delicate point in the argument. And it is important therefore to be clear.

- a. The Colornian entrepreneur certainly assumes the primary responsibility of managing the company to create value for the business, for the clients, for the collaborators and stakeholders. The development of the business is never out of his/her mind. It is not enough to have arrived at a specific rent position and to maintain it; the question should be how to exercise the function of development innovatively and continuously. The Colornian entrepreneur joyously emulates, we would say with Albert

Hirschman, the labor of Sisyphus<sup>31</sup>. There is joy in the effort of pushing the boulder up the mountain, but even more in letting it go and starting again.

Such an entrepreneur is Schumpeterian *even toward him/herself*, and not only in the ability to be an “instrument” in crisis resolution and the reactivation of the economic cycle. He/she must be wary of the satisfaction that comes from success, needing, as Nietzsche would have it, always to do more. The continuous process of interaction with the market is certainly helpful in this, as, by definition, it stimulates the entrepreneur constantly to seek conditions that regenerate competitive advantage, but this has to be done independently and with humility and the results obtained need to be questioned, in the interest of creating new competitive conditions.

Thus the focus of Colornian entrepreneur’s behavior and goals is continuous learning and improvement.

- b. With this in mind, it is moreover not enough for an enterprise to produce value and innovation. It also depends on “how” it produces them. The goal-directed obsession with innovation, which is fundamental for the entrepreneur, has to be deployed in the way he/she organizes the company and stimulates colleagues to

<sup>31</sup> Homer recounts in the *Odyssey* XI, 746-758: “And I saw Sisyphus too, bound to his own torture, grappling his monstrous boulder with both arms working, heaving, hands struggling, legs driving, he kept on thrusting the rock uphill toward the brink, but just as it teetered, set to topple over – time and again the immense weight of the thing would wheel it back and the ruthless boulder would bound and tumble down to the plain again – so once again he would heave, would struggle to thrust it up, sweat drenching his body, dust swirling above his head”.

pursue continuous improvement<sup>32</sup>. People are at the center of the entrepreneur’s own actions and those of the business, and it is for then and with them that value is built<sup>33</sup>.

It should be noted that this is not about a romantic idea of a business as a place for the expression of the personal views of the workers. The idea is rather of a workplace that everywhere stimulates the assumption of responsibility. A workplace that stimulates people in the direction of personal growth and improving their skills, replacing a culture of duty-fulfillment with one of taking responsibility and which here again becomes a tool for people’s real emancipation. In this regard, the Colornian entrepreneur applies to him/herself and others the principle of assuming responsibility as a guiding element of behavior.

<sup>32</sup> It would be too long to go into detail about another series of events that led me to develop these considerations. But perhaps it is at least worth mentioning. Over the last ten years I have engaged with the topic of the centrality of people in entrepreneurial issues from the specific standpoint of a manager of a cooperative who actually deals with cooperation. As is known, the cooperative formula is based on the principle of democratic participation in company decision-making, collective entrepreneurship, and mutuality. These are topics that by definition point to the centrality of the person. Observing cooperatives, expanding their operations in various sectors, talking with presidents and managers, committing myself to organizing Confcoopertve in the fight against false cooperatives, I became even more aware of how crucial this theme is in the success and value of many cooperative entrepreneurial pathways.

<sup>33</sup> In a discussion with Nicola Lamberti, mayor of Borgarello (PV) and co-founder of 7pixel, a successful company in the information field, he told me in commenting on the reasons for a conflict with his business partners: “I’m not interested in creating value regardless. What I want is to create value for others and with others. I think businesses’ capacity for growth, especially in our sector, is bound to the ability to equip themselves with the best and most creative professional resources, and to create an organization that brings out the best in them without confining them in ‘work to rule’ hierarchies. I cannot accept that my business should work in any other way”. Nicola Lamberti, personal communication, 1 June 2017.

At this point it is easier to understand the calling of the Colornian entrepreneur to a higher level of responsibility even beyond the limits of the business. Our question then becomes this: faced with of the needs of the country and the obvious need for a leap of collective quality in terms of development, does it make sense to ask more of our entrepreneurs, private managers and consultants? Does it make sense to ask them for a direct commitment to improving public affairs through activism and responsibility in fields outside business? How can this be done and what should be done?

Is it possible to travel this Colornian-Hirschmanian road without falling into pointless rhetoric? Is there a way to verify this in the field? Acquisitions made in other fields of human life, the trans-disciplinary element, and a view of business from the standpoint of economic, democratic and civil development, fueling a dialogue that goes beyond the limits of the single enterprise – will these things lead to entrepreneurs doing their jobs better? And finally, this work is constant, personal, and continuously aimed at discovering the world and ourselves... will the ability to recognize these features in entrepreneurial matters perhaps help in the building and training of Colornian entrepreneurs?

Until now, our findings lead us to give affirmative answers to these questions.



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# **LONG IS THE JOURNEY**

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Dossier N.3, December 2017