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Carleton University

Political Economy of National Market Formation:  
Italy's Southern Question in Historical Perspective

A thesis submitted to  
the Faculty of Graduate Studies and Research  
in partial fulfillment of  
the requirements for a degree of  
Master of Arts

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by

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Ottawa, Ontario

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## **Abstract**

This thesis aims at understanding the historical origins of Italy's 'southern question' by perusing the 18th and 19th century precedents of the Risorgimento and the first fifty years of the unification. The thesis accounts for differential impacts of institutional arrangements and state-action on the unification and highlight how they shaped and influenced the economic behaviour and political actions of the social groups and classes involved. From a substantive look at the urban-rural 'divide' and industry-agriculture relationship, the thesis explores how the 18<sup>th</sup> and 19<sup>th</sup> centuries' shifts from a town-centered economy to a national-market economy took place differently across the regions and how the shifts in the scalar and spatial-locational aspects of economic organization had crucial implications in decision-making of small-scale peasant-producers and their relationship to larger-scale landowners. The analysis covers the comparisons of agricultural transitions, town-countryside relationship, social character of economic organization and the importance of complementarities-linkages in economic development.

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## **INTRODUCTION:**

Driven by the question of the origins and historical emergence of the southern question in Italy, this thesis aims to understand the implications of the change in the scale and space of economic organization. We thus explore the implications of national market formation for the organization of economic activity across the urban-rural divide. We hold that the shift from a city-centered economic organization to a national-market economy brings with it immense social and economic change and the outcome of this transition is determined entirely by how it is handled by the state. Particularly important is the way in which the state shapes the town-countryside and industry-agriculture relationships. Furthermore, the Italian case is important as its rapid transition shows us the impact of the formation of national markets and the shift from city to national market centered economic activity, which in other cases was spread over centuries, taking off some-time after the territorial states were founded.

The argument of this thesis is that the southern question is comprehensible only in light of: first, the geographic reorganization of the economy of the Italian peninsula in which the former cities of the provinces themselves were subordinated and the southern towns and villages were made even more subordinate than they were under the city-centered organization and around Naples. Second, the particular way in which the new national state directly restructured everyday material life by destroying any non-market autonomous pockets of economy and by drawing every aspect of economic life to revolve around the market. The larger scale of economic activity not only restructured former links and networks within which agricultural production was carried out, but for the small-scale producer/peasant also increased the uncertainty, risk and precariousness

associated with producing for the market, now organized on the national scale. Thus, this thesis argues that the explanatory variables for the divergence between north and south lie in the state's differential impact on the distribution of land, the town-country and industry-agriculture relationships, and collective action.

The thesis is structured in four parts. The first chapter is a critique of the mainstream and culturalist approaches to the southern question and also an exposition of how our approach fits within the literature of analyzing social transformations. As well as a critique of the culturalist interpretations best represented by Banfield and Putnam's work, we also provide an overview of Gramsci's views and revisionist approaches. We also highlight the novelty of the way in which we bring a substantive approach influenced by the different scholars of economic history, and economic and historical sociology.

The second chapter deals with the development of our alternative theoretical approach as well as the comparative perspective within which we fit Italy. Also dealing with more general issues such as the urban-rural divide and feudal-capitalist transitions, the aim of the chapter is to construct a socially and institutionally constituted model of economic organization and the implications of its shift to a national-market one from a city-centered economy. Also drawing from location theory, we try to understand the relationship between town-country and industry-agriculture within the context of national markets and industrial development (in light of linkages and social character of economic organization)

Third chapter directly concerns the Italian case as we compare north and south in their both pre-unification and post-unification contexts. The pre-unification cases consist of Lombardy of the 16<sup>th</sup> to 19<sup>th</sup> centuries and the organization of economy in the

Kingdom of Naples, especially that of pastoral economy through the example of dogana di Foggia. Then we outline the impacts of state actions and policies in the early 19<sup>th</sup> century as well as the first fifty years of the unification, in terms of land-ownership, town-country relationship, industrial organization, and collective action which informed our theoretical approach.

The fourth chapter, the conclusion, in light of the post-unification fiscal and monetary policies, summarizes our general findings and the implications of our theoretical and empirical evidence for the path that the north-south divergence followed in the 20<sup>th</sup> century.

## **CHAPTER – I:**

### **THE SOUTHERN QUESTION REVISITED**

The Southern Question has been a central point of debate in Italy (and among students of Italian politics/sociology/economics) especially since the Unification. Though regional differences are a characteristic of numerous countries and are seen to be a central characteristic of capitalism as a world-system (Arrighi, Frank, Wallerstein et al.), what differentiates Italy's 'southern question' is its persistence despite the political and scholarly attention it has attracted.

Though of interest as a post-unification phenomenon, it has frequently been regarded as a problem as is (*sui generis*). The emphasis is frequently either on the political viability (or in-viability) of the unification as it pertains to the south or the southern question as one with its roots in the culture and dynamics of the south. That is, the unification is treated as a purely political event with merely political antecedents and consequences while the southern question is regarded as a cultural one emanating from the internal structure of the south itself.

The historical studies concentrate excessively on the myriad of political events and wars over the course of the Risorgimento but usually do not explore the social impacts and the political economy of these events and the unification itself on the southern social and economic fabric. If they do so, it is seen through a western-European lens that assumes the analysis of a linear feudal-dissolution and transformation.

There was a surge of interest in Italy in the post-war period, that has escalated since the 1970s. This literature is rich with a variety of approaches to the problems of Italian democracy and the 'Italian paradox'. Of particular interest to western scholars are

those that apply tools traditionally used to view American democracy and political institutions. The chief problem with this kind of an approach could be summarized as a form of 'orientalism' if not occasional downright bigotry and racism. Another form that this approach has taken is to contrast southern Italy to its northern counterpart in the same way that Italy has been contrasted to the US and other developed capitalist states. These extremely culturalist explanations have taken a very popular form through Banfield's 'Moral Basis of a Backward Society' and Putnam's 'Making Democracy Work'. However, even when eschewing the latter's approach, a majority of work on the Southern Problem still take a very narrow static conception of a society-centered logic. That is, too frequently an un-historicized, de-contextualized and de-institutionalized perception of the (social, political and economic) conditions is taken as both the definition of *and the reason* for the problem, frequently accompanied by ad hoc justifications for why that situation prevails.

In contrast, this thesis offers a literary and scholarly critique of studies that assess the Second and Third World countries solely on the basis of whether or not they possess the formal or informal institutions of the US or western capitalist countries. The aim is to go beyond a simple notion of Italy or south Italy as backward primarily because it has not adopted 'western' political institutions.

More broadly, this study is motivated by a discontent with the western/American literature of comparative politics and policy-making that assesses underdeveloped world predominantly from the lens of its own culture, politics, and economic policies. This is analogous to the kind of orientalism that Said defines for the perception of the East. [In line with the logic of the Modernization theory, the East is problematic precisely because

its culture is not suitable for democracy, economic efficiency etc or because of a culture of corruption].

My thesis is that far from being a problem of culture or 'political culture', the southern problem is rooted within the political economy of the 18<sup>th</sup> and 19<sup>th</sup> centuries. Central to my argument is an understanding the differential impact of the process of state and national market formation. The time frame covers the 18<sup>th</sup> century to the First World War. Though the impact of the fascist rule as well as the post-war period are essential for understanding the evolution of the southern question, the aim of this study is to understand the social and institutional structures that have given rise to the divergence between the south and north. In doing so, rather than capturing a snapshot of a 'cultural dichotomy' (as in south is underdeveloped because it is 'south'), I look at the historical origins and development of the situation.

What I intend to demonstrate is first, how the social and economic fabric of the south changed over the course of 18<sup>th</sup> and 19<sup>th</sup> century relative to its northern counterpart, and how this specific form of state-making and the formal institutional structure was mediated through its own context. Second, I try to elucidate the differential impact of the state-structure, constitutional setup and institutions on the political-economy. The thesis is also a study of the reciprocal relationship between the formal structure and social context. The thesis stems from a questioning of the neutrality of the state-formation process especially in its economic and social consequences, and addresses the hypothesis of unequal incorporation rather than unification. To be sure, this thesis is not about unification or state-making per se, but about understanding the differential social and

economic impacts of this process as it was mediated through a geography of historically diverse regions.

Secondly, the thesis aims to trace the impact of the social and economic change in the 18<sup>th</sup> and 19<sup>th</sup> centuries for both north and southern Italy. The aim is to understand Italy's own 'great transformation', as well as the way the industrial revolution and French impact were absorbed differentially in the north and southern regions. My contention is that the economic and social changes in the 18<sup>th</sup> and 19<sup>th</sup> century altered the whole fabric of the south, by dissolving farmers' and sheep-grazers' associations and by expropriating the peasantry in favour of large landowners. The unification in turn locked this dislocation by way of a central system of governance that placed all the strings in the hands of the ruling class. The formation of a national market was backed by a distorted tariff and industrial structure that destroyed the means by which the people had organized their economic activity (i.e. as organized around the city commune) and cast them at the whims of the market.

The working hypothesis of this research is that more than anything else, what gave rise to the emergence of an institutional setup that caused unequal development in the south was not so much cultural and 'incipient' factors but the way in which these regions were incorporated to the state/nation at large. That is, my argument is that the key to understanding the differential development of these regions lies within the processes of state-making and national market formation. What we argue here is that clientelistic politics and the reinforcement of vertical links of dependency, which seem to be essential elements of the underdevelopment of the southern regions as they reinforce social

stratification and inequalities, are the consequences of the way in which the state-formation process took place around unification and nation-building.

I look at the state society relations at key periods and consider the way the specific form of the unification/state-formation processes affected them. What we hypothesize is that not only did the situation created during and after these processes (such as economic and political uncertainties) create opportunities for these kind of relations to develop but also gave incentive to such vertical stratification.

### **CULTURALIST INTERPRETATIONS OF THE SOUTHERN PROBLEM:**

The posing of development as a 'cultural problem' (of either social or political culture) is neither specific to the Italian case nor a recent one. Taking its most concrete form in the modernization theory, it has been one of the most enduring themes of comparative research on the Third World. Italy has also had its share of such a treatment, however not just for its place in the world system - which it owes to being a semi-peripheral *European* country - but also for the comparison of its south and north. Dependency theory is neither the first, nor the last refutation of such attempts at understanding the structural factors that give rise to underdevelopment. In a sense, in the same way that dependency theory sought to elucidate the impact of the ways in which the underdeveloped world was incorporated to the world-system (vis-a-vis the core), I try to understand the way in which the south was incorporated into the Italian state (vis-a-vis the north).

A critical review of the two most influential works of this kind in English, Banfield's 'The Moral Basis of a Backward Society (1958)' and Putnam's 'Making Democracy Work: Civic Traditions in Modern Italy (1993)', is in order. Though Putnam's

work could be regarded as a refined and expanded version of Banfield's study (with a rigorous application of the tools and methodologies that the American political science has come to adopt in the last couple decades), they differ in one respect. While Banfield's study was perceived as a depiction of *Italy* at large as his 'Montegrano' across all time and space, Putnam's study was perceived as applicable or expandable to the *South* across time and space.

Banfield's book "[i]s about a single village in southern Italy, the extreme poverty and backwardness of which is to be explained largely (but not entirely) by the inability of the villagers to act together for their common good or, indeed for any end transcending the immediate, material interest of the nuclear family. This inability to concert activity beyond the immediate family arises from an ethos - that of 'amoral familism' - which has been produced by three factors acting in combination: a high death rate, certain land tenure conditions, and the absence of the institution of extended family" (Banfield, 1967: 10).

The village that Banfield renames as 'Montegrano', is a village in Potenza named Chiaromonte. The essence of Banfield's argument is that the village is backward because its people act on a very narrow understanding of self interest that he terms 'amoral familism'. Their backwardness is rooted in culture/ethos (he uses interchangeably). Banfield claims that the people acted as if they were following this rule: 'maximize the material, short-run advantage of the nuclear family; assume that all others will do likewise' (Banfield, 1967: 83).

Banfield, then disregards poverty, lack of education, the history of class antagonisms between the landed upper-class and the expropriated peasantry, land-

distribution, distrust from centuries of formal/state oppression, despairing fatalism. All on the grounds that “there is an element of truth in each of the theories, but none of them is fully consistent with the facts that have to be taken into account, and one could not on the basis of any of them – or all of them together – predict how the people of Montegrano would behave in a concrete situation” (Banfield, 1967: 37). The problem with this kind of an approach is the assumption that behaviour is determined by specific mental modes (culture/ethos), but not by the factors and conditions that individuals find themselves in and which in fact also give rise to those very particular ethoses! The reality is that these are not mere background factors.

Banfield in fact suffers from the very narrow-mindedness that he attributes to the Montegranesi/Chiaromontesi, as he dismisses the structural factors which have destroyed the means of social and political organization and replaced it with more than two centuries of repression and expropriation - in favour of 'amoralism' which he ties to the lack of extended family (the existence of which would otherwise instil a sense of right and wrong, and thus moralism). The problem in essence is his inability to distinguish parts of the problem that are structurally determined from those that are culturally reinforced. Banfield did not consider how the design and structure of basic local institutions for the pursuit of communal and voluntary initiatives was linked to the values, norms, and attitudes held by Chiaromontesi.

Putnam looks at the performances of the regional governments in the period from 1970 to 1990 to understand the divergence between the north and the south. Through his study, he makes the case that the differential in the performances across the regions is due

to differences in 'civic culture' since the regional governmental institutions and structure are the same over all the selected regions.

Putnam highlights 'civic traditions' at large and argues that the divergence between the south and the north is rooted in the lack of collective-trust and social-capital to enable horizontal ties of cooperation within the society. This schism of civic traditions is traced back to the middle ages. Putnam's case is that the patterns of governance invented in the 13<sup>th</sup> and 14<sup>th</sup> centuries were quite different both in their structure and consequences: 'In the north, feudal bonds of personal dependence were weakened; in the South, they were strengthened. In the North, the people were citizens; in the south, they were subjects' (Putnam, 1993, 130). More importantly however, "in the north the crucial social, political, and even religious allegiances and alignments were horizontal, while those in the South were vertical. Collaboration, mutual assistance, civic obligation, and even trust – not universal of course, but extending further beyond the limits of kinship than anywhere else in Europe in this era - were the distinguishing features in the North. The chief virtue in the South, by contrast, was the imposition of hierarchy and order on latent anarchy." (ibid.)

The biggest problem is that Putnam ignores the transformations during the 18<sup>th</sup> and 19<sup>th</sup> century Italy that fundamentally reshaped the social structure and the institutional setup especially of southern Italy. Putnam focuses on involvement in secondary (in fact tertiary) associations such as bird-watching societies, soccer clubs, choral groups but never looks at the impact of governmental structures on collective action or the ways in which the state in turn directly shapes collective action or creates social capital as opposed to being uni-directionally constructed by them. In essence the

work does a better job at demonstrating a difference in the performance of regional governments than explaining the origins.

Putnam portrays a tit-for-tat type of a non-cooperative game-theoretical scheme for an understanding of reciprocity: that is if people act trustfully, they tend to cooperate and thus invite further cooperation in return which creates a virtuous circle of civic engagement and norms of reciprocity. However, what is missing here is how the game is itself rigged to dissuade cooperation (even if/when people did attempt to cooperate). His extremely thin notion of collective action and institutional set-up assumes that governmental action is neutral at worst if not benign; and basic will could/would simply translate into collective action and thus efficient governmental outcomes if individuals could simply build trust and cooperate.

The first problem with this logic is that it misses an analysis of the formal governmental/institutional structures for the facilitation of trust such as contract-enforcement, government credibility and predictability, institutions for calculating risk and reducing uncertainty (Levi, 1996: 50). The more fundamental problem with this particular form of an extremely society-centered approach is that it misses other very important actors, most specifically the state/government. The assumption is that interactions within the civil-society are the root cause of effective government. However the notion of society here, unlike a Polanyian or Gramscian one, is essentially 'asocial' in the sense that it is a mere collection of individuals, without any historical, political and economic context, imperatives or social struggles. From a Polanyian perspective, a view of society based on extreme rationality assumptions is as inconsistent with observed reality as is Banfield's and Putnam's theses of utmost societal irrationality of individuals

unable to organize in the face of common problems and plight just on the mere basis of amorality or lack of trust<sup>1</sup>.

What this thesis aims to argue is that constitutional and institutional arrangements can (and do) rig the game of life in particular ways. What I contend is that the behaviour and actions of southerners were determined rather by the institutional rules that proscribed their lives and economic organization than of their culture or ethos. Given the correct institutional channels/setting, whether the Montegrenasi are extremely self-interested or amorally familists does not really matter. As Cattaneo suggested, the question should not be 'Is there a local government?' but 'Is local government so constituted as to facilitate collective efforts on behalf of the common interests shared by villagers?' (Sabetti, 2000).

Secondly, the fact that a problem/situation reveals itself also culturally does not mean the problem is solely or essentially a cultural problem; hence, the fallacies of taking a cultural snapshot as both the description and the cause of the problem. Thus both Banfield and Putnam look at the static conditions of the problem and make an illogical leap to define it. They redefine the problem to fit their operational rationality as an explanation.

### **GRAMSCI AND THE SOUTHERN QUESTION:**

*Among the early post-unification Italian writers and political scientists, the south and the southern question have been central themes especially in the works of Benedetto Croce,*

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<sup>1</sup> Banfield and Putnam are also missing on the point that Tocqueville makes about the conditions which allowed American citizens to pursue their 'enlightened self-interest' - that is, to resist selfish interest and non-utilitarian behaviour. (Tocqueville feared that individuals would adopt the doctrine of self-interest as their rule of action without adequate understanding of the science that puts it to use). Yet we see no reference to the existence or the non-existence of such conditions in either of them.

Gaetano Salvemini and Antonio Gramsci<sup>2</sup>. Their engagements with a northern perception of the south as a 'ball and chain' for the north is crucial in understanding the position and the intellectual construction of the 'southern question' among Italian writers (also see Gramsci's discussion on 'southernists' in *Cultural Writings*, 1985).

Gramsci's critique of the northern perception of the south revolved around the refutation of the view that “[i]f the Mezzogiorno made no progress after having been liberated from the fetters which the Bourbon régime placed in the way of a modern development, this meant the causes of the poverty were not external, to be sought in objective economic and political conditions, but internal, innate in the population of the South. There only remained one explanation - the organic incapacity of the inhabitants, their barbarity, their biological inferiority.” (Gramsci, 1971: 71).

Even though Gramsci's own account of the south also emphasizes the lack of cohesion or collective ethos, in his treatment, we see an emphasis of the aspects of southern question as it has developed out of the failures of the Risorgimento, and a depiction that is characterized by socio-economic domination and exploitation. "The south can be described as an area of extreme social disintegration. The peasants who constitute the great majority of the population have no cohesion among themselves. The society of the South is a great agrarian bloc consisting of three social strata: the large, amorphous, scattered peasant masses; the intellectuals of the petty and middle rural bourgeoisie; the big property owners and the top intellectuals. The southern peasants are in perpetual ferment, but as a mass they are incapable of giving a unified expression to their aspirations and their needs” (Gramsci, 1985: 42).

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<sup>2</sup> As well as Leopoldo Franchetti, Sidney Sonnino, which were followed by those of Giustino Fortunato, and Pasquale Villari.

Gramsci's 'great social disaggregation' thus, does not imply the lack of communal/collective concern, or self-centeredness and a proclivity for clientelism, but rather the presence of formal institutional structures that impede the formation and development of both individual and public initiatives.

However, for over a century, from the meridionalisti to post-WW2 scholars, the students and historians of the Italian south tried to explain the existence of a Southern question, by concentrating on Mezzogirone's peculiar features: its backward agriculture and supposedly feudal social relations. Italy's late industrialization was also too frequently tied to the existence of this southern problem. The post-1950s period did not present too radical a break with these assumptions and evolved around similar themes, now also ripe with the culturalist explanations of the western scholars. Even the two main (and conflicting) schools - the Marxist line (also influenced by the writings of Gramsci) and the Liberal one (represented best in with the work of Rosario Romeo) - continued to center on a narrow perception of the unification as an excessively political (and unsuccessful) phenomenon and limited themselves to a few specific political questions.

A fundamental break with this approach only came in the 1980s with the revisionist historians such as Piero Bevilacqua, Biagio Salvemini, and Salvatore Lupo organized around I.M.E.S. (Istituto Meridionale di Storia e Scienze Sociali)<sup>3</sup> who started to question the view of a uniform south or a north. In the late 1980s and 1990s Petruszewicz, Marino, Zamagni also produced new studies and Cattaneo's works was rediscovered. These case studies shed light on the 19<sup>th</sup> century and early 20<sup>th</sup> century political economy of Italian south and cast doubt as to the lack of a capitalist rationality in its economic organization. A collection by Schneider et al in 1998 also brought together studies

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<sup>3</sup> Southern Institute of History and Social Sciences.

concentrating on the discourses about the south and the orientalist presumptions prevalent in the academic, statistical, and scholarly construction of the southern question. Works such as that of Schneider et al positioned themselves particularly against the literature in the line of Banfield and Putnam.

The aim of this study is to draw on these case studies, perspectives and quantitative as well as qualitative data and research (in the last two decades) to understand the development and the creation of the southern political-economic structure in a comparative manner. The uniqueness of this study lies in applying a historical sociological and economic sociological approach (within a broad understanding of Political Economy) to an area too frequently confined to a few political questions. We aim not to arrive at self-serving culturalist explanations, but to show the origins of that order and the historical development of the divergence itself. In other words, our study also offers a critique of ethnocentrism in the analysis of southern Italy.

### **THESIS APPROACH:**

An illumination of the roots of the south and north divergence requires a two-pronged approach. First, to understand the context upon which the unification or the state/nation-formation process took place, it offers an analysis of the differential impact of the unification process, i.e. the impact of formal governmental structures/institutions; and second, a political economy of the 18<sup>th</sup> and 19<sup>th</sup> centuries. This approach derives from the hypothesis that as much as the post-unification institutional structure revamped and reshaped the organization of economic activity and means of collective action; it did so upon the legacy of social transformations that took place in the preceding century and a

half. Thus, I look at the late 18<sup>th</sup> and especially early 19<sup>th</sup> century to understand the events and changes that lead to the social structures upon which the Italian state and its political-economic institutional setup was constructed.

Underlying this approach, is a circular notion of social structures and formal institutions. As much as formal structures influence and shape the society (i.e. economic and social organization), they are nonetheless mediated through social structures. In other words, the relationship between formal and informal social structures is reciprocal and not a uni-directional one. In essence, this work is also about understanding the nature of the changing relationship between economic, political and social spheres (in the Polanyian sense) for the period in question (across the Italian peninsula).

The aim of this examination of the late 18<sup>th</sup> and 19<sup>th</sup> century is not to simply pinpoint a factor, event or date of divergence but rather to understand socio-economic and institutional change within the different contexts of north and south. That is, social change is a complex process that involves a myriad of actors and interrelated/reciprocal political and economic changes that are context dependent as well as historically contingent.

From the political economy of the 18<sup>th</sup> and 19<sup>th</sup> century what I find to be of critical importance are:

- 1- The creation and impact of a market-oriented and market-driven economy - which took place at different speeds and followed fundamentally different socio-political paths - as well as the nature of the early Italian industrialization.
- 2- Within this broader framework of change, marking the differences in the structure of agricultural production over the course of the late 18<sup>th</sup> and 19<sup>th</sup> century, as well as the

dissolution of *doganas*, enclosures, and the privatization of 'feudal' lands along with the common lands (forests etc).

3- The way in which the relationship between the urban centres and the rural areas changed over this period and how this differentially interacted with the relationship of industry and agriculture in the north and south.

This analysis is thus two-fold: first understanding how the seemingly similar events and changes had different and deeper impacts over the two regions. Some of these were not specific to the Italian peninsula and were common for most of the western and continental Europe. Of particular importance are the (different) ways in which these regions were integrated into the European markets and the larger international political economy. Second, understanding how the historical precedents shaped the impact of economic and political developments in the 19<sup>th</sup> century and the Risorgimento as well as the ways in which the post-unification formal institutional structures brought about new and different social changes across the geography and the particular ways in which the regions were integrated into their previous states and the new unified one.

Though as a point of departure our approach starts from the institutionalist perspective that behaviour (social and economic alike) is constituted or shaped by the environment and constraints under which agents come to operate, we do more than just lay out the rules of the game and assume their automatic operationalization or translation into reality. Instead we focus on the role of state structures and actions-policies, emphasizing their contextuality and relational character. Though we pose the institutional constraints circumscribed by the state as very crucial elements (if not the most important ones), we hold that the ways in which they come to translate into reality are rather more

important than the acts themselves. That is, the impact of the state and state policies make sense only if viewed in conjunction with other factors with which they are codependent or simply simultaneous, the media upon which they operate and the way in which they translate into reality and affect people's every-day lives, economic organization and political life. Hence, alongside the obvious differences in policies across the regions, we also highlight the differential impact of relatively similar policies and state actions across the regions.

In short, while we hold that the state is a crucial factor/element, it is in no way the whole story. We are concerned with state action to the degree it affects economic organization across the urban-rural plane, the relationship between industry and agriculture, and the relative position and strength of social groups and classes with regard to economic power and market-access. Conceptualizing the state as a medium of contestation is of course especially prominent among the approaches that have come to analyze the southern question along the Gramscian lines. While we perceive the state as a (relatively) autonomous actor, our interest is not in the structure of the state itself. Nonetheless, this conceptualization of the state as a potentially autonomous or relatively autonomous actor hopefully helps preclude any inherent bias we might have in our own analysis.

Thus when we use terms such as the city-state, provincial state, medieval-state, the unified-state, what we are highlighting is not the particular modus operandi of the state but rather the context within which it operates<sup>4</sup>. Even when our approach tends to

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<sup>4</sup> This is in a sense different than a classification along the lines of 'developmental-state' versus the 'neo-liberal state', or the capitalist versus socialist state which highlight the predominance of certain policies in governance. Of course, the distinction for instance between a provincial state and a centralized national state also implies inherent differences in policies and structure by the mere fact of the plane and the scale

concentrate on state-action, it does not assume the dissolution of other societal factors but rather that in such instances, the state comes to have more significance in explanatory value than other societal factors. More importantly, even in a state-centric approach it would be misleading to assume that the only relevant institutional variables are the formal-legal structures of the state as this confounds the distinction between policies and institutions.

This perspective outlined here also informs our stance towards analyzing other shifts and social factors - particularly the analyses of transitions (from rural to urban, agriculture to industry, feudal to capitalist etc). The way in which they happen, we hold, is more determining than the transitions themselves. Institutional change, much more frequently than not, is a path-dependent process and even such sweeping acts as unification and constitutional set-ups do not come upon clean-slates. Building on historical legacies they rather resemble a palimpsest.

One of the novelties of this study lies in the way in which it brings together diverse perspectives, some of them taken as points of reference in their respective areas. One of the reasons is the way we try to construct an open-model of economic organization by bringing aspects of political economy and economic history together with historical and economic sociology.

Our approach is quite strongly influenced by Braudel to provide an adequate lens for understanding the economic history and political economy of the period of Italian

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on which they operate. However, this is essentially our point that the state as a relatively independent actor (which has its own imperatives, interests and autonomy as distinct from the society and class relations) cannot be taken to imply the same thing at its face value.

history interest<sup>5</sup>. Despite the obvious historical experiences of the Italian peninsula under the city-centered economies, the shift to a larger scale organized around the national market has not attracted scrutiny. Braudel, also helps put the Italian experience at large into comparative perspective.

His distinction between 'material life', 'market economy' and 'capitalism' plays a pivotal role. This distinction can be combined with the different perspectives of Polanyi, A. G. Frank, Von-Thünen, Hirschman, Granovetter et al. While, Braudel's work has especially been operationalized in Arrighi's 'The Long Twentieth Century' and Wallerstein's 'The Modern World System' with reference to the *longue duree* of capitalism and its city-centered, or geographically manifested organization, rather than using this to build a generalizable model, we have chosen to merge its various aspects and the central distinction (of the hierarchy of economic organization), with historical sociology, economic sociology, location theory and industrial organization, for a better understanding of the spatial and scalar aspects of economic organization through economic links, networks and linkages. One of the most important here being Braudel's emphasis on the town-countryside relationship in the pre 19<sup>th</sup> century phase of capitalism.

Our evidence also draws strongly from 19<sup>th</sup> century political economists such as Von-Thünen, A. Weber, Bücher, List, Cattaneo et al for the reason that the mainstream disciplines of today not only concern themselves with specific narrow questions but also tend to be anachronistic. For instance, especially important in the works of these 19<sup>th</sup> century scholars is the importance that transportation, transportation costs and the space

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<sup>5</sup> While historical studies on Italy had for a long time remained concentrated on the political developments (of especially the unification), the social and economic analyses in them have had a sharp English- and French-centric bias, simply taking most aspects of 'feudalism', the 'nation-state' or class- /social-relations directly as they have been used in the context of England and France.

of economic activity play in organization. Yet, the discipline of economics has long regarded such spatial aspects as simply a trivial cost element swamped by the importance attributed to the relative abundance of capital and labour.

Taken together Gerschenkron, Hirschman, and Schumpeter's relevance for our case derives from their conception of economic activity as successive states of disequilibria rather than a world that can be captured in a snapshot. The essence of economic organization thus lies not in trying to explain the equilibrium of a static world but in being able to explain changes and shifts in activity and organization. In fact, our approach to analyzing economic activity stems from the institutional economics of Veblen, Myrdal, Hodgson et al that defines economy as an instituted process embedded in social relations and institutional structures extending well beyond the exchange of atomized individuals on the market. Seen from such a perspective, neoclassical economics' concentration on the point of equilibrium and prices simply assumes away the real process of economic activity; and the instrumental isolation of economy from the political and social in other disciplines.

Such understanding of economic organization as that derived from these authors has not been applied to the Italian case. In fact except for Gerschenkron (who wrote on Italian industrialization) and Cattaneo, most of the lenses we borrow have not been used to understand the origins and the emergence of regional divergence in Italy. Even Cattaneo's writings (which are more familiar to Italian-speakers) have not attracted the attention they deserve in the understanding of the southern question except for the discussions of alternative constitutional models of the unification where Cattaneo was an ardent advocate of the federal model.

It has also been easier to put Gerschenkron and Hirschman together because they wrote directly on industrialization and complementarities but rarely so as to understand the relationship of industry to agriculture. Furthermore, complementarities have too frequently been regarded as exclusive to industrial organization. Here however, influenced by the dependency theory's notion of the 'dual economy', we introduce them to help analyze the relationship between industry and agriculture in conjunction with the town-countryside relationship. In fact substantive analysis of the town-country relationship in general, particularly with regards to the organization of economic activity, remains extremely under-studied. Except for Braudel, the only works on the relative positions of town and country remain to be Tilly et al's (1994) and Epstein et al's (2001) rather historiographic studies.

Given such an outlook, this study is structured in two thematic clusters. In the first we develop our theoretical and methodological approach to social transformations, transitions to modernity and more centrally the social, temporal, scalar and spatial aspects of economic organization. These sections also serve to put the Italian case into comparative perspective as well as to outline the implications of our analysis. The second part, concentrates exclusively on the cases. Going through the precocious 16<sup>th</sup> century development of Lombardy to the organization of pastoral economics in the Kingdom of Naples down to the 19<sup>th</sup> century, we lay a base for understanding the historical and institutional legacy inherited by the unification. Finally we assess the impact of Italian unification through various specific cases as well as historical statistics and structural analysis.

**CHAPTER - II:**  
**THE CITY-COUNTRYSIDE RELATIONSHIP, AGRICULTURAL TRANSITION  
AND ORIGINS OF CAPITALISM: HISTORICAL ASPECTS AND  
COMPARATIVE PERSPECTIVES**

Our approach to the southern question stands upon a three-part theoretical framework: 1) drawing from the substantial notion of an economy, the role of markets in economic organization and the social character of economic exchange; 2) the linkages and employment affects of industrial development/industrial-capitalism in light of the reality of economies of scale, and 3) the relationship between the countryside and the town, the spatial and scalar aspect of economic organization.

In culturalist interpretations, the 'southern question' is described as economic backwardness (in terms of per capita income), a static social order, and a narrowly defined notion of interest that prevents inhabitants from engaging in any collective undertaking. We first question the validity of such theses and then illuminate why the existing state of affairs in the south might lead these authors to such a picture by exposing the existing institutional and structural factors that underlie the southern socio-economic fabric. Thus, first of all we are interested in the economic structure in the south, characterized by a predominantly agricultural production, a rural population and unequal distribution of land. In that light we concern on questions such as the evolution of the 'agrarian problem' and the particular form it took in the 18<sup>th</sup> and 19<sup>th</sup> centuries. Second, we look at the relationship between industry and agriculture, especially during the process of the shift from town-/city-centered economy to a national-market one. Thirdly, we draw out the implications of the spatial and scalar aspects of economic organization across the urban-rural divide.

Furthermore, we are interested in the 'constraints' that actors have faced in light of the distribution of economic power among social and economic classes, as well as the political means through which they have been operationalized; particularly the impact of state action. We are interested in engaging with the hypotheses that try to define development at the level of individual behaviour. The explanation lies not within observed behaviour but the particular situations people find themselves in, and how those situations and constraints modify behaviour. Thus, we will attempt to draw a full map of the constraints and factors that make up the context within which economic action arises. In that regard, we will frequently be jumping in between aspects of individual decision-making and the contexts, structures and institutional factors that shape the incentives of and options available to individuals.

Overall we are concerned with constructing a view of economic action as embedded in social relations and shaped by both formal and informal institutions. We are especially interested in understanding the ways in which political (national) institutions and links across towns, regions as well as the more micro-scale personal, inter-industry or inter-firm networks are the essence of economic organization rather than atomized market exchange. We are also interested in highlighting the importance of collective action and the role of organizations and institutions in shaping economic behaviour and reducing uncertainty, redefining interests, and setting the 'rules of the game'.

#### **URBAN-RURAL DIVIDE, CAPITALISM AND MODERNITY:**

In Marxist tradition, capitalism is defined by the passage from a feudal mode of production and agriculture to a capitalist one, in a linear fashion. In such a perspective,

the detachment of the peasantry from the means of production and expropriation is essentially a necessary move. It follows that the proletarianization of the peasantry is not only natural, but also a sine-qua-non of progress or modernization. In short, modern capitalist development's penetration to the countryside brings with it the rationalization of agriculture, liberation of the economy and the peasant from their 'feudal shackles', and the proletarianization of the peasant. This process is defined as natural and automatic in which the expansion of industrialization provokes agriculture to adjust to the conditions of work (as part of the peasantry is expelled from the land and naturally/automatically joins the urban-industrial proletariat). There is also the implicit or explicit assumption that the passage in the countryside from traditional agriculture to a capitalist one naturally implies a transformation of *all* aspects of agricultural activity, inevitably increasing the productivity of both land and of labour<sup>6</sup>.

We see the same view also in the western modernization theory as canonized by Rostow (1960). The defining characteristic of the 'traditional society' in Rostow's stages of growth is its agricultural and peasant character. To date, the modernist and developmentalist perspective on agriculture and peasantry as the root of underdevelopment in the third world has persisted, for instance as in the metaphor of Sach's (2005) development ladder (McMichael, 2007). It remains that for 'development' to take place, the precondition is the commercialization of agriculture; then industrialization and economic growth automatically follow once you break the 'shackles' of agriculture. Other preconditions such as lack of capital, savings and various traps

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<sup>6</sup> However, as we will see, in the Italian case what characterized the underdevelopment of south Italy's agriculture were not its feudal characteristics, but precisely its capitalist character.

(poverty, population, innovation etc.) also lie within these internal reasons, which define traditionality as the lack of specialization and division of labour.

We see a similar treatment of the peasant classes especially through the case of 'modern democracies' in Barrington Moore's 'Social Origins of Dictatorship and Democracy' (1967). In the English, French and US revolutions that he examines, what characterizes the success of democratic bourgeois is either the elimination, marginalization or a prevention of the development of peasant classes or their political-economic interests. As he puts it: "Either the main thrust of their political efforts coincided with that toward capitalism and political democracy, or else it was negligible. And it was negligible either because capitalist advance destroyed peasant society or because its advance began in a new country, such as the United States, without a real peasantry" (Moore, 1967: xv).

What needs to be highlighted is that even within the duality of a modern industrial-capitalist sector versus traditional backward agricultural sector, the detachment of the peasantry from the land and its transition to an industrial-urban labour force is not a mere change of jobs. Even in the case of contemporary China which started its developmental efforts by the absorption of rural labour in their Town-Village Enterprises<sup>7</sup> (Oi, 1999), the dislocations in the countryside, and the impacts of internal migration have still caused immense social problems. In light of such dislocations that have occurred even under the auspices of limited expropriation and state mediation, we cannot simply ignore the rate of the transition itself. Polanyi's classical study in the Great Transformation (1944) is the epitome of the case that the transition from rural peasantry to an industrial population (i.e. proletarianization) and commodification of labour, even

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<sup>7</sup> Which is basically a rural, state owned economic enterprise.

in a prolonged period and without its spatial aspects such as urbanization and migration is much more than a categorical change for the masses involved.

Of course we are not arguing that specialization in agriculture is recommended, or that an agricultural economy can be developmental. As Engel's law dictates, the percentage of income spent on food or final-agricultural-products decreases as incomes rise even if the absolute expenditure is increasing. This dictates that even at fixed efficiency and no technological change (and no capital investment), the percentage of population engaging in agricultural production is bound to decrease in a developing/growing economy, even-if its absolute number is increasing. As Raul Prebisch and Hans Singer have demonstrated, primary commodities have a trend of declining terms of trade against manufactured goods. More importantly, even in the high capitalization and utilization of technology in agriculture, the overall rate of productivity increases in agriculture lags behind that of manufacture/industry. In other words, from a long-term economic perspective, *specialization* in agriculture is not viable for development.

What we are trying to critique is thus the conflation of efficiency with commodification or capitalistation, or the presumed dichotomy between capitalist and pre-capitalist agriculture in which commerciality and efficiency are associated with the former and traditionality and irresponsiveness with the latter. We argue that the particular forms of labour and employment (i.e. the form of contracts and wage-relations) do not determine the techniques employed in production; nor is the efficiency or the commercial-character of a farm necessarily the outcome of the productive relations on the farm. As Frank also notes:

“It is often argued that the commerce in agricultural products is necessarily secondary to their production – a matter of disposing of them after their production has been determined by other, that is productive and ‘internal’ considerations, which are in turn determined, or ‘limited’, by the ‘feudal’ or ‘pre-capitalist’ productive relations between owner and worker on the farm.” (Frank, 1969: 254).

In fact, the argument for this kind of distinction is historically and empirically unfounded, as will be demonstrated in the case of Italy below. The economic history of the Mediterranean from the 17<sup>th</sup> century onwards, and the majority of continental Europe from 18<sup>th</sup> century, is full of numerous regions with commercial agriculture under feudal contracts (both labour and land). Commercial agriculture was extensive, especially in regions that experienced hereditary feudal titles and were characterized by an export/trade oriented agriculture. In fact, there is no inherent reason why commercial agriculture under feudal productive relations should be incompatible with commercial capitalism or industrial capitalism for that matter if it inherits an already adequate and abundant supply of urban-industrial workforce side-by-side.

There are essentially two reasons for this. First is that the overall abundance of capital in the aggregate economy does not imply that agriculture or any other particular sector will receive more capital investment (that is the fallacy of composition). Second, the simple dual distinction between non-cash (e.g. bondage, serfdom etc) and wage-contract (e.g. worker) does not capture the reality that there is 'thousand and one' variations and combinations of agricultural working relations, intermixed in all areas' (Frank, 1969). Any number of forms of tenancy and hired labour may be found in the same region, the same farm, the same part of a single farm; and they exist almost entirely

at the pleasure of the farm owner or manager<sup>8</sup>. But more importantly the owner-worker relation not only concerns the worker's access to land but is also characterized by the land-owner's 'monopoly of credit, storage facilities, transportation, merchandising of goods required for production or consumption - in short, monopolization of everything' (Frank, 1969: 265).

Of course here one is inclined to go into the classical discussion of the transition from feudalism to capitalism, that took off with the Sweezy-Dobb debate and was followed by Wallerstein's 'The Modern World-System' and the work of Robert Brenner. However, even though occasionally we do draw from these works, our study is not centrally concerned with the transition but rather with the fate of the peasantry and the rural classes, and more importantly the transformations that occurred in the 18<sup>th</sup> and 19<sup>th</sup> centuries especially in the passage from a predominantly agricultural-rural society to an urban-industrial one; not specifically the feudal-capitalist transition. In fact, the side by side existence and the inter-mingled characteristic of both feudal and capitalist characters is a central characteristic of our case.

Yet since this study essentially borders on it we should state the implications of our study for that debate. Our work implicitly (and occasionally explicitly) offers empirical refutations to the Dobb-Brenner position and seems to conform the main arguments of the Sweezy, Wallerstein, Frank camp. That is capitalism did not simply spring up through the dissolution of feudalism and feudal agriculture in the countryside, nor was the rise of the city a result of this. In northern and especially southern Italy, we see a direct refutation of Brenner's argument that: "Only where labour has been separated

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<sup>8</sup> Precisely similar to the modern firm of today that employs workers, even for the same process, on various contracts, working conditions, and industrial relations (part-time, outsourced, undeclared contracts, open contracts etc.)

from possession of the means of production, and where labourers have been emancipated from any direct relation of domination (such as slavery or serfdom), are both capital and labour power 'free' to make possible their combination at the highest possible level of technology. Only where they are free, will such combination appear feasible and desirable. Only where they are free, will such combination be necessitated" (Brenner, 1977: 32). The Italian case and also our occasional comparisons with Germany reveal how agricultural production under so-called 'feudal' production relations was essentially capitalist and commercially-driven in character, achieving high productivity and capital intensive production without the dissolution of such relations until late-19<sup>th</sup> early-20<sup>th</sup> centuries.

The key problem with Brenner's position, however, is his very specific conception of capitalism that stems from seeing the rise of capitalism as a rural English fact. Brenner, "holds to a very mystical conception of capitalism. Capitalism is conceived to be an entity, an essential thing. When it arrives, it does so complete and entire, as though it were a god descending from Olympus to govern human affairs. So one does not really think of a "transition" to capitalism: there comes a kind of mystical moment when it arrives and takes over. The capitalism that (according to Brenner) appeared in rural England in the late 15<sup>th</sup> century is the same essential capitalism that governs England today ... Its essence is the same. " (Blaut, 1994: 363)<sup>9</sup>.

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<sup>9</sup> Brenner's analysis of 'agrarian class structure and economic development in pre-industrial Europe' (Past and present, no. 70, 1976), in fact is quite useful in itself; and we ourselves do draw some essential points from that analysis. However, the problem starts by extending the implications of the analysis of the English case as 'the' model of capitalist development, which then suffers from a lack of observing that the second serfdom in Europe was in fact a result of commercialization of agriculture whose main impetus stemmed from the industrialization and growth in England and France itself, as it took shape in light of the international political economy and the incentives it created for specialization in exporting food. That is, it suffers from treating every case as atomized individual set of events that do not impact or affect each other; which also justifies for such a view the omission of southern Europe in comparison. As we will see of-

The essentially euro-centric perspective of Brenner leads to a view of capitalism as a strictly North-western European fact. Once it springs, it takes hold without much regard for transition. Of course, Brenner is not alone in his construction of capitalism as the *complete* negation of feudalism (or 'traditional' structures) that is sweeping and complete in its penetration into social and economic structures<sup>10</sup>. Modernization arguments and developmentalist perspectives informed by a liberal notion of economics also share this common conception. It follows that capitalism incorporates and transforms the countryside in an irreversible fashion as it penetrates. In essence it is assumed that an unresponsive mode of agriculture under feudalism is replaced by one characterized by rationality under capitalism that responds to prices and demand conditions. Yet, of course, these cannot account for the frequent substitution of feudal and capitalist features back and forth over time.

The problem with Brenner and similar arguments of euro-centric (and supposedly historical) accounts of the birth of capitalism in the country-side fail predominantly from an exclusion of the Mediterranean, which is essentially the birth-place of commercial capitalism. For instance the differences between Italy and England in the pre-industrial period could be summarized as the particular strength and privileges the English nobles enjoyed in relation to the limited strength of Italian ones (until 18<sup>th</sup> century), the more urbanized character of Italy, as well as the absence of such stark differences between the countryside and the urban areas, the non-isolated character of the rural areas, the existence of rural industries (especially the *Verlagssystem*), its introduction to trade; and

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course, in the case of Moore, each path cannot be understood without their particular conditions and precedents.

<sup>10</sup> As well as the assumed dichotomy of agricultural activities/production from other forms of economic activity.

more importantly the easily observed inter-mingled characteristics of both feudalism and capitalism in the countryside. One can even argue that the prevalence of a mixed character not only defines the 14<sup>th</sup> -19<sup>th</sup> century period of capitalism but also its modern version. For instance, Schumpeter makes a compelling case that the viability and long-term survival of capitalism rests on the protective strata that is essentially non-bourgeois/feudal in character; the administrative apparatus which does not operate with a capitalist logic. As he notes "without protection by some non-bourgeois group, the bourgeoisie is politically helpless and unable not only to lead its nation but even to take care of its particular class interest. Which amounts to saying that it needs a master" (Schumpeter, 1942: 138).

Therefore, it is misleading to derive systemic conclusions from individual features of a structure that is inherently impure. As Frank aptly puts: "...conclusions are often derived by confusing the system with its various features. This might be avoided by reserving such terms as 'feudal' and 'capitalist' as they were classically used, to refer to what is really central, the economic and social *system* and its structure itself, rather than applying them also to all sorts of supposedly associated features" (Frank, 1969: 239; emphasis in original). It should not be assumed that there is a distinct and pure capitalism that automatically stifles feudal institutions with its arrival. More importantly, it is also not appropriate to associate capitalist-activities to be the only commercially determined and efficient ones, and feudalism as the set of inefficient or simply agricultural ones. Of course the fallacy derives from a categorical mapping of capitalism with efficiency and development and non-capitalist with backwardness without much regard for the substance of the system and the relationship that they hold to each other. This stems

predominantly from a lack of understanding the economy as a system at large that the particular sectors, aspects, regions, and activities of which should be observed in relation to each other rather than in isolation. That is, capitalism as a system has historically always been more than a uniform structure at all levels and times and it is more than a simple aggregation of its individual parts. In short, underdevelopment and development cannot be understood in isolation from each other as disparately separate facts.

“Really to understand underdeveloped agriculture, we must understand underdevelopment. And for this, we must investigate the development of underdevelopment. Yes, *development of underdevelopment* – because underdevelopment, as distinct perhaps from *undevelopment*, did not pre-date economic development; nor did it spring up of itself; nor did it spring up all of a sudden. It developed right along with economic development – and it is still doing so. It is an integral part of the *single* developmental process on this planet during the past five centuries or more.” (Frank, 1969: 242; emphasis in original)<sup>11</sup>

The corollary of the disparate development-underdevelopment perspective is also the fictitious and erroneous separation of agricultural activities from industrial, or other productive ones. Usually this stems from associating capitalism exclusively with factory manufacturing. As Braudel aptly argues, it would be misleading to envisage capitalism as something that developed in a series of stages or leaps from mercantile to industrial to financial capitalism; or that it became a true capitalism when it took over production. In fact by the 13<sup>th</sup> century Florence had already deployed the whole panoply of capitalism (commercial, industrial, banking) before 17<sup>th</sup> century Amsterdam or 18<sup>th</sup> century London (Braudel, 1979c; Arrighi, 1994). Even though the machine process made industry a high-profit sector in the 19<sup>th</sup> century, capitalism was by no means confined to this sector. Thus the merchant-capitalists of the pre-19<sup>th</sup> century never specialized, as neither do the 19<sup>th</sup>

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<sup>11</sup> As he also adds: "Unfortunately, attention has hitherto been paid almost exclusively to the economic development part of the process – maybe because our science, both its bourgeois and Marxist branches, developed in the metropolis along with economic development itself" (ibid).

and 20<sup>th</sup> century big land-owners of Italy or Brazil. In other words, the construction of feudal or latifunda agriculture as irrational ends in themselves misses the whole point that it is usually an ends to other economic activities such as 'speculation', or rent-creation.<sup>12</sup>

Of course, this is only one aspect of the interrelated forms of economic activity in the capitalist system. Yet, what we want to focus on in this study is the relationship between different sectors, the urban and rural areas, the city and the countryside etc, that is, the particular way in which different units of economic organization, and different activities are related and connected to each other. What interests us is the different ways in which these relationships evolve over time, and the spatial impacts and repercussions of such reorganization, transition, and transformations.

In passing, we note that while capital and capitalists predate 'capitalism', so does capitalism predate industrialism. More essentially, economic production and organization both in the town has never been characterized by a linear passage from non-capitalist to a purely capitalist one. It had always been characterized by constant seeping and remission of both industry and commercialization into the countryside. Economic organization, before the 20<sup>th</sup> century, had always existed in a mixed state especially in the countryside (even if less so in the urban centers), with a mixture of labour- and capital-intensive methods, traditional and capitalist techniques etc, with different degrees, as their relationship constantly changed.

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<sup>12</sup> Thus Frank argues that the higher rates of profit elsewhere in speculation sucks capital out of agriculture in the same manner that developed regions and countries suck capital (and human resources) out of capital-poor underdeveloped regions and countries into socially undesirable channels. "The cause of this is not 'feudalism' or 'pre-capitalism', but capitalism. And the problems of agricultural output and income, if left to run their free course, will become worse, not better." (Frank, 1969: 263)

Polanyi shows how even in the English case the commodification of labour in the countryside, and enclosures did not take place in isolation from other aspects of international and national political economy at work. Particularly important is how the national market grew, and extended out of towns to the countryside by the direct hand of the state. This study takes Wallerstein's position that capitalism as a 'world-system' is quite different from large systems of economic organization such as 'world empires'. We are not interested in a system-level analysis however, but rather in looking at the particular experiences of Italian regions in its most expansive and irreversible stage of consolidation that took place after industrial revolutions ushered in an era of rapid urban industrial growth.

Furthermore, as Moore demonstrates, the end result of industrialization, urbanization or the eventual formation of an urban working-class does not inform us about the nature of the transition, its social as well as economic and political costs. The nature and speed of this change are also crucial, as is its political outcome. That is, this transition has not taken place in the same way and with the same results everywhere in the world. In fact the particular spatial and temporal differences are what have characterized the distribution of the cities', regions' and countries' positions and fates within this world-system.

Furthermore, this study is about transition to a market economy (and market society, in the Polanyian sense) rather than capitalism in the orthodox Marxist sense. Thus we are interested in the institutional character and the evolution of the organization of economic activity, rather than the relations of production sense. Our line of inquiry is

the evolution of agrarian institutions in relation to the evolution of urban institutions, as they have taken place in light of the bases and institutions of collective action.

We have to realize that the transformation from societies based on agriculture to those based on modern industrial technologies cannot be (or at least until now could not have been) a complete one - as in a complete abandonment of agricultural-rural society in favour of an industrial-urban one. More importantly however, we have to realize that the very nature of this transformation, its speed and gradualism, but more importantly the degree to which it takes place are as important as the fact of transformation itself. In the Italian case specifically, the spatial aspect (its regional differences) have been as much if not more important than its temporal aspects. Even though, Lewis's model of agricultural population as an unlimited source of labour is partially true simply by the mere fact of shifting employment, the particular impetus for the creation of an urban industrial workforce historically has been a mixture of the pull of industrial employment, as well as the push of rural expropriation (which need not be due to capitalization of agriculture).

Thus, the theoretical question is not simply the transition from a predominantly agricultural to a predominantly industrial economy but also the evolving relationship between the city and the countryside (as well as the changes in the organization of economic activity, in the commodification of labour, and the 'disembeddedness' of economic relations). Before probing into this second aspect of our work, it would be appropriate to outline the elements relevant to the analysis of such transitions to 'modernity'.

### **MOORE'S THREE WAYS/ROUTES OF TRANSITION:**

Moore probes the moral significance of the alternative paths that agrarian states have traversed into the modern world. His seminal work, *'Social Origins of Dictatorship and Democracy'* is also the epitome of the argument that the transition from a pre-industrial to a modern one need not imply the same process in every case, nor assure the same social and political outcome. That is, the transition itself cannot be taken at its face-value to guarantee a positive outcome; however natural that transition may be or seem to be. Even though our study is not about the particular democratic or fascist outcome of the Italian experience, nonetheless, Moore's study does give us some clues as to what to look for in Italy's transition/transformation in the 19<sup>th</sup> century.

In *'Social Origins of Dictatorship and Democracy'*, Moore discerns three main historical routes from the preindustrial to the modern world. The first of these took place through 'bourgeois revolutions'. The second route is also capitalist, but eventually culminated during the twentieth century in fascism, what Moore calls 'the capitalist and reactionary form'. The third route is communism as exemplified in Russia and China. Even though such a classification is made, Moore's methodology does not converge on a categorical fitting of countries into this scheme. In fact the whole point of the study is to lay out why apparently different structures, institutions and paths resulted in the same outcomes on some occasions while they brought out entirely different ones in others.

Even though it would not be fitting to take any case as a compass, Moore does give us certain patterns to look for in assessing the impacts of particular events and trajectories. Essentially it tells us that the role the peasants and the upper rural classes

have played in the transformation have been (and in some could have been) decisive in the outcome and the particular trajectory followed.

More importantly however, it tells us to note that the particular previous routes taken by other countries also determine the options available to countries following afterwards or there-forth. That is, the three routes are successive historical stages that take shape in relation to each other. In a sense, resembling Veblen's notion of 'advantages of backwardness', the methods of modernization chosen in one country change the dimensions of the problem for the next countries who take the step; simply because they create new and different historical preconditions for such late-comers.

Thus, the fact that Italy's (or Germany's or Russia's) industrial-transformation took place later than England's cannot be ignored as this not only presented new pressures through the international system but also created commercial incentives for export oriented agricultural production and a model of industrial growth. The particular second-serfdom experiences and the late commercial impulses that created certain agricultural structures, and the crash of agricultural prices in the 1870 crisis, followed by the tariff-wars have to a great degree determined the options available to late-industrializers. More important however, is the expansion of a large scale market-economy, which found its vent through international capital, in short an expansion of what Polanyi calls the organization of whole societies and civilization on the basis of gain<sup>13</sup>. In other words, we cannot understand the experience of Italy or other subsequent

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<sup>13</sup> As Polanyi puts it eloquently: "All types of societies are limited by economic factors. Nineteenth-century civilization alone was economic in a different and distinctive sense, for it chose to base itself on a motive only rarely acknowledged as valid in the history of human societies, and certainly never before raised to the level of a justification of action and behavior in everyday life, namely, gain. The self-regulating market system was uniquely derived from this principle" (Polanyi (1944): 31).

countries, without understanding the international political economy that the experience of England and others helped to create.

Moore defines the central focus of his own analysis as: "seek[ing] to understand the role of the landed upper classes and the peasants in the bourgeois revolutions leading to capitalist democracy, the abortive bourgeois revolutions leading to fascism, and the peasant revolutions leading to communism" (1967: xvii). He holds that the ways in which the landed upper classes and the peasants reacted to the challenge of commercial agriculture were decisive factors in determining the political outcome. However, since Moore portrays the peasantry as a mass that does not have an impetus of its own and ends up suffering even in the communist revolutions, the decisive variables are: the relationships of the landed upper classes to the monarchy; their response to the requirements of production for the market; and the relationship of the landed upper classes with the town dwellers (mainly the upper stratum, the bourgeoisie).

In addition to this relationship between the urban and rural classes is the role of class differences that cut across the rural-urban cleavage; such as those between landlord and peasant in the country, master and journeyman, factory owner and industrial worker in the city. In that regard one particular observation is crucial here: "Where the interest of the upper strata in town and country converge against peasants and workers, the outcome is likely to be unfavourable to democracy. *However, a great deal depends on the historical circumstances within which this alignment arises*" (Moore, 1967: 423-4).

Moore's argument is that, at the particular stage of England's economic development in the 17<sup>th</sup> and 18<sup>th</sup> centuries, the relationship of the landed-classes (and urban classes) to the monarchy was determinant in the preclusion of the routes to

authoritarianism or royal absolutism. There was a unanimous front of upper classes for the dissolution of older agrarian and feudal institutions. Moore notes that it is important the fusion takes place in opposition to the royal bureaucracy. A second condition is that the commercial and industrial leaders become the dominant element in society. Under these conditions the landed upper landed classes are also able to develop bourgeois economic habits. "This takes place by not mere copying, but as a response to general conditions and their own life circumstances. All these things can happen, it seems, only at an early stage in economic development. That they will be repeated anywhere in the twentieth century also seems highly unlikely." (Moore, 1967: 425)

Why these conditions matter is that it makes it easier for the landed upper classes at a later stage to hold the posts of political command in what is basically a bourgeois society (as England was during the nineteenth century). This means the omission of any upper-class push for the formation of reactionary movements against the evolution/this-expansion later on. It also requires that the landed classes not maintain a firm economic footing in the country-side so that there is not a solid front of upper-class opposition and demands for reform through competition for popular support.

For Moore, the main characteristic of the fascist route was that capitalism eventually did take hold quite firmly in both agriculture and industry and turned them into industrial countries. Yet, it did so without a popular revolutionary upheaval. To cut the story short, fascism is essentially a product of both the intrusion of capitalism into the rural economy and of strains arising in the post-competitive phase of capitalist industry<sup>14</sup>.

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<sup>14</sup> Moore's central point about the antecedents and precedents of the later transition in Germany and Japan takes a very central role here. He argues that these routes were partially a systemic response by labour-repressive agricultural systems to the competition from technically advanced countries and the flood of American wheat exports after the end of American civil war.

It is for these reasons that, for Moore, Germany is where fascism developed most fully as it was here that capitalist industrial growth had gone the furthest within the framework of a conservative revolution from above; without the dissolution of the landed classes or the peasantry.

What matters then is not the existence of the commercial impulse alone into the agrarian sector, but also whether this response takes place so as to dissolve the peasant class/masses. In this analysis, the commercialization of the landed classes and the peasant question are two sides of the same coin. Reactionary fascist response finds a footing in the pursuit for popular support to the degree that there exists in the countryside a mass of peasants to derive that<sup>15</sup>.

The peasants become a reservoir of reaction especially when crises push them over the edge to which they are brought gradually by pre-crisis labour-repression and capitalist competition. 'Under these conditions individual grievances in a flash become apparent as collective ones' (Moore, 1967: 477). It is not surprising that overall Moore's verdict is: "indeed the English experience tempts one to say that getting rid of agriculture as a major social activity is one prerequisite for successful democracy. The political hegemony of the landed upper class had to be broken or transformed. The peasant had to be turned into a farmer producing for the market instead of for his own consumption and that of the overlord ... In the process landed classes either became a part of the capitalist tide or were swept aside in convulsions" (Moore, 1967; 429).

Though invaluable in its emphasis of the different paths taken to the modern world, what we take issue with in Moore's approach is the assumed dichotomy between the

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<sup>15</sup> Moore's argument is that particularly where the peasant society is preserved, there are attempts to use traditional relationships and attitudes as the basis of the landlords' position. Fascism's popular support thus derives from attempting to make reaction and conservatism 'popular and plebian'.

urban centers and the countryside. As we will see below, there is no inherent reason why the town and the country-side should be antagonistic to each other. The problem is not the incomplete dissolution of the countryside but the creation of an antagonistic relationship between town and country through the way in which the rural-urban transition is structured. The country-side's relationship to the urban centers becomes a problem when the countryside is disaggregated from the urban centers in a capitalist system.

### **DEBUNKING ACCEPTED WISDOM:**

Even though Moore's seminal work is not the only detailed and comparative analysis of the transition from agrarian to 'modern' societies, its message of looking behind historical or economic determinism is essential. Robert Brenner's series in *Past and Present* also provides important methodological tools for understanding some of the endogenous factors in the transition from agrarian societies<sup>16</sup>. Of particularly importance is his emphasis on how class relations structure the property rights and political institutions that facilitate or hinder the technical changes that are necessary for the emergence of agricultural capitalism. Such factors as farm size, the strength of the peasant community, and the nature of the political organization of the landlord class are, for Brenner, significant because they determine productivity and the likelihood of technical change. In his view, large farms, weak peasant institutions, and control of the state by the agricultural elite were characteristic more of England than of France and more likely to promote relative productivity (Levi, 1988: 63-4).

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<sup>16</sup> But also see the discussion and the footnotes above.

The problem here is the assumed sweeping of class-relations (also operationalized as political class power) that are resilient to any other social or economic trend. Particularly problematic is the assumed independence of production relations from exchange. The particular logic of course is that, class-relations are impervious to economic pressures and other incentives. The question of demand or incentives are not even secondary to production; essentially they are non-effective. Yet if Keynesians got anything right it is the unavoidable connection of demand and supply-side factors.

To put it in another way, though Brenner's critique of excessively economistic and universalistic approaches (particularly Malthusian ones) is incisive, his own modelling suffers from an inadequate conceptualization of the 'economy'. Though the critique of reductions of superstructures to infrastructures is quite to the point, a reduction of economic-action to crude relations-of-production results in "a failure to indentify the processes whereby the economy is subsumed into the politico-legal structures" (Islamoglu-Inan, 1994: 18). Concentrating on the surplus extraction relations, Brenner fails to take into account exchange and distribution relations, which also leads to inadequacies in his conceptualization of the political sphere. As Huri Islamoglu notes through the Ottoman case, even in agrarian societies: "exchange relations were inseparable from the relations of surplus appropriation and organization of productive activity that defined the political logic [of the Ottoman Empire in this case]" (Islamoglu-Inan, 1994: 21).

Even though they are worlds apart from modernization theory in their analyses of transition and transformation, Moore and Brenner are not that different in their moral judgments of 'pre-modern' social organization or non-industrial/pre-industrial societies.

One particular point that I take issue with their structural analysis is its apathy in the face of the human and social costs of this transition, particularly the affirmative stance toward the peasantry's momentous and complete dissolution without any regard for the societal outcome and impacts of the transition. This is partly rooted in the view of the peasantry as an outdated category in a capitalist society but also due to an ascribed set of behaviouralism that matches traditionality, stubbornness and irrationality with peasant character and hence backwardness or developmental-democratic problems supposedly associated with it.

Though, there might be a certain degree of truth in the autarchic and risk-averse characterization of the peasantry's *observed* behaviour, the problem lies in ascribing this to be an inherent class-character regardless of time, space, culture and history. Secondly, there is rarely any reference to the regional or comparative variation in this behaviour<sup>17</sup>. Stemming from the patronizing assumptions that traditionality precludes rational behaviour and that rationality and efficiency are concomitant with market involvement, it is very frequently assumed that the developmental problems of France, Italy etc lie in the peasants themselves. As self-sufficiency and security-oriented they did not respond rationally to incentives or new technology because their traditional thinking prevented the abandonment of customary practices. Yet as we make the case for in this study, the idiosyncrasies of peasant economic behaviour were more likely the result of risks, transaction costs, and institutional constraints than of any disabling mental structure. As we know, rationality does not depend on market involvement and the self-sufficient will respond to incentives. As the 19<sup>th</sup> century peasants of Italy responded to even the most

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<sup>17</sup> And if there ever is, it is usually ad-hoc and ex-post argument about the strength of the class relations (as in Brenner), after the fact. But the observational mode/stance about the behaviour and its nature pertains/remains.

basic economic incentives (Federico and Cohen, 2001) since need compelled them due to mutual exclusiveness of self-sufficiency and security; so did the peasants of the ancien regime France not retreat into the autarky they supposedly longed for, as they branched out into livestock raising, tithe farming, and moneylending (Hoffman, 1988: 243-4).

The problem observed in this case stems from two major fallacies: 1) the assumption that market involvement is always a matter of will, and rational actors choose to engage in it. This stems from the lack of historical knowledge which assumes the ever-existence or 'primacy of markets'. Related of course are the disregard for the importance of market access and the formation of national markets, which are in fact quite central to our case. In other words it is rooted in the lack of a proper understanding of the market process. 2) The second fallacy is the assumption that market involvement and rationality are co-dependent: either that market involvement brings efficiency and improvement, or that rationality and changes to more modern production relations brings about commercialization or production for the market.

To lay out these fallacies, there is no better example than the existence of the firm as the modern unit of economic action. Why the firm exists also offers important clues as to why a peasant might want to be involved in the market through the landlord. Even if we assume a commercially oriented individual, the reality of costs and uncertainties associated with market transactions and price mechanism might render it rationally not feasible to produce *directly* for the market.

In his classical article, Coase asks the question of why 'the firm' exists? Given the assumption that resources are allocated by means of the price mechanism, why is this allocation dependant on the entrepreneur-co-ordinator? That, is why does the firm exist in

a world of markets that are assumed to determine production through prices and hence deliver efficiency and resource allocation? In other words: "Why a firm emerges at all in a specialized exchange economy?" (Coase, 1937: 390)<sup>18</sup>. The main reason, as Coase notes for "why it is profitable to establish a firm would seem to be that there is a cost of using the price mechanism. The most obvious cost of "organising" production through the price mechanism is that of discovering what the relevant prices are. This cost may be reduced but it will not be eliminated by the emergence of specialists who will sell this information. The costs of negotiating and concluding a separate contract for each exchange transaction which takes place on a market must also be taken into account" (Coase, 1937: 390-91). Secondly since the operation of a market costs something, by forming an organisation and allowing some authority to direct the resources, certain marketing costs are saved (Coase, 1937: 392).

To sum up, firms exist because of the information and transactions costs associated with using the price mechanism and the uncertainty of production for the market (in a world of imperfect information). These realities that are essential for the firm are all the more crucial for an individual farmer/peasant. Here I think lies the essence of why a peasant willing to get involved in the market and produce directly for the market may nonetheless not be able to do so, since the variation in these costs constitutes a margin of risk that is relatively high for individual farmers or farmer-families (as compared to owners of large estates). More importantly, the role that uncertainty plays in

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<sup>18</sup> In its simplicity, instead of the price-mechanism undertaking the processes of co-ordination these market transactions are absorbed in the firm and in place of the complicated market structure, price movements and exchange transactions is substituted the firm as an organisation that regulates production.

the decision process of a peasant increases the smaller his land-holding is, and the closer he is to the margin of bare-existence or subsistence<sup>19</sup>.

Our thesis is that the behaviour of south Italian peasantry was greatly circumscribed by such high uncertainty in market-production, accompanied by 1) the destruction of institutions for collective action that could have otherwise create safe-guards against these risks and costs and 2) the destruction of urban-rural links in the shift from a town-centered economic organization to production for national markets, which substituted distant impersonalized and precarious production for low-cost local markets (transaction, information and transportation), thus increasing the risk factor that no individual small-scale farmer could bear individually no matter how productive he was.

In other words, peasant behaviour is not inherently risk averse. It is defined by economic conditions, property rights, distribution of land and the existence or absence of other institutional safe-guards. Guilds were essentially the chief mechanism for reducing transaction costs in the urban scene by way of administering prices and quantities beforehand and enabling much easier forecasting, therefore decreasing uncertainty and risk in urban economic life. Their chief function derived from the aim to administer quantities against the detriment of speculation and to ensure a stable supply and access for consumers.

If we view the institution of the commons from this perspective, it should be easier to see that what made them crucial was not their *directly*-economic but *social*-economic uses. If one was to account for their role in the reduction of risk and

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<sup>19</sup> As Moore himself also recognizes: "For peasants living close to the margin of physical existence, modernization is clearly too risky, especially if under the prevailing social institutions the profit is likely to go to someone else. Hence an abysmally low standard of living and set of expectations is the only adjustment that makes sense under such conditions." (Moore, 1967: 423)

uncertainty, the indirect social benefits created this way and the incentive it created for specialization would easily make up for the inefficiencies associated in its absence from directly-productive uses; i.e. a form of social insurance.

One can use the example of peasant expropriation in late 18<sup>th</sup> and early 19<sup>th</sup> centuries France in the inland and southern/Mediterranean parts, where landlord pushed for enclosures to claim the commons as well as making the peasant more dependent. This was not without its contrasting image in areas such as rural Paris or Lyon at the end of 18<sup>th</sup> century where it was the peasants themselves who pushed for enclosures (and landlords who opposed), since the peasants had direct access to an adequately large and stable Parisian market with low transportation and transaction costs due to the spatial proximity. In such a framework, they did not need the seigneur and got involved in the market directly, preserving their independence. They were also able to push for a division of the commons for better economic uses, whereas landlords used former legal structures to exploit the commons (Norberg, 1988).

To be sure, market involvement of the peasant is not a phenomenon of recent times. In any region of the world, it was just common sense for the peasant to take surplus product to the market and exchange for other things he needed. What we are analyzing, however, is the act of specialization in few (or simply one) products and market participation not as a residual afterthought, but as the basis of procuring their other needs through the market in return.

The problem thus does not start with a non-commercial land-lord and an inherently irrational peasant; but conversely a commercially oriented large land-owner and small peasants that cannot access markets in a market economy. Not only is their

well-being vulnerable to market fluctuations if they produce for a market which is now not local but national, but this particular commercial logic of agriculture without social-insurance for the peasant creates inequalities not rooted in traditionality but unequal development and unequal distribution of land.

Thus, through the commons and French example we have also delved into the terrain of political institutions and state structures and showed that why certain groups and individuals act the way they do is not inherently rooted in class-relations or production-relations, but rather determined by institutional structures and different transaction costs, and is thus entirely context-dependent.

To shed light on the complex nature of enclosures and agricultural transition, it is important to revisit England and France in the course of late 17<sup>th</sup> and 18<sup>th</sup> centuries. It is too frequently argued that the reason why England preceded France in its industrial revolution was the agricultural improvement it achieved before France, the root of which is claimed to lay in the enclosures and the increase in large-scale commercial agriculture versus France's peasant-driven production. As Hoffman (1988) notes, understanding the timing, nature and strength for the push for enclosures requires understanding the particular opportunities, strategies and transaction costs available to the individuals, classes and agents involved. In that regard, the nature of the push for enclosures had less to do with the strength of class-relations than the particular institutional arrangements. What enabled England to start enclosures earlier than France<sup>20</sup> had more to do with the triumph of parliamentary rule in England before France, and the delegation of enclosures

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<sup>20</sup> Though not much earlier. Wordie estimates that some 28 percent of England's cultivated acreage was enclosed from 1600 to 1760, as opposed to 2 percent in the whole sixteenth century (Goldstone, 1988: 307).

to parliament, whereas in France enclosures remained a prerogative of local government until the revolution and early 19<sup>th</sup> century.

In England, Parliament assumed jurisdiction over enclosures and village-wide rearrangements in the middle of the eighteenth century and began issuing numerous private acts enclosing entire villages and rearranging all their fields. Shifting the debate to Parliament greatly raised costs for opponents of the typical English enclosure, who appear to have been mostly smallholders not accustomed to lobbying at Westminster. But it suited the beneficiaries of enclosure and rearrangement perfectly. They were likely to be substantial yeomen and members of the gentry, who owned most of the land. Able at the county level to 'raise loud voices against ... public bills with an agricultural content,' men of this sort could easily promote a private bill, often by influencing friends on parliamentary committees. (Hoffman, 1988: 254)

In short, the issue is rooted in the denomination of economic enclosures as a matter of national politics which rendered the peasantry powerless. Thus while in England (and Denmark, Sweden) the landed-classes had the parliamentary apparatus that decreased the transaction costs they faced and increased the costs for the opponents as well as increasing their collective action problems, the devolution to local governments in France achieved the opposite.

We need also to understand the real impact of enclosures. That is, were they the real cause behind the increase in England's agricultural productivity relative to France's? Goldstone (1988) casts doubt on this. His argument is compelling that England's increase in productivity had more to do with the ecological advantage that enabled new regions to come into agricultural production with new techniques that actually replaced the former bread-basket regions as the more arable. It was predominantly these regions which now lost their productive edge in which enclosures and pasture took place for sheep-raising (i.e. enclosures was partly due to a response to the decrease in *relative* productivity of inner regions to newly opened arable-lands). In comparison, France's arable north and north-east regions preserved their competitive productivity even with England's new

arable lands. France's laggard status had to do with the fact that the south and inner regions of France were much less arable than England's new open-fields. Thus it was for these ecological reasons that France fell behind in *overall* productivity, not because of enclosures or class-relations since France's earlier arable-agricultural areas retained their absolute and relative productivity into the 19<sup>th</sup> century. This also meant that the comparative advantage of French north-east did not change and there was no incentive for shifting to other agricultural activities as was the case in English sheep-raising in inner/mid-lands.

In addition, the larger farms of the French northern plains generally employed the same agricultural techniques as the smaller holdings simply because of the absence of returns to scale that favoured smaller farms. It is therefore not true that in England and France differences in class power created differences in landownership, which resulted in differences in farm size and productivity. In fact, there were few differences in landownership. More interesting still are Robert Allen's findings that farm size had little to do with productivity. English open-field farms and smaller farms had roughly the same productivity as larger enclosed farms on the same soil and with the same land use. Large enclosed farms were only associated with large changes in productivity when they involved considerable changes in land use (Goldstone, 1988: 313)<sup>21</sup>. It should therefore not be surprising that French GDP per capita as calculated by Braudel remained above that of England's until the mid-19<sup>th</sup> century and the consolidation of industrial revolutions (Braudel, 1979c).

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<sup>21</sup> In sum, the period 1730-1840 in England saw the completion of the revolution in land use that had begun in the seventeenth century. Only when the railroad revolution after 1850 expanded markets and brought new fertilizers was it possible for France to adopt the kinds of landuse changes and new regional specializations that England had adopted a century earlier. (ibid)

What we have done here is to cast doubt upon the validity of some oft-assumed historical trends that have informed the analyses of modernization. In particular, we wanted to cast doubt upon the application of lenses and categories developed out of specific cases to other instances/cases and of the fallacies of ethnocentrism.

Of course it should be clear that we jumped from macro-structural (and predominantly political) factors and analyses to the smaller/micro-level analyses in the decision-making of the peasant and the elements of institutional structures in the strategies followed by (landed) classes and how seemingly autonomous political sphere was in fact inseparable from their economic roots (and vice versa). Though, we assign an important role to macro-structural factors in our analysis, they are in fact misleading if not complemented by a substantial analysis of how individual action is constituted on the ground. Without understanding how action is actually situated and constituted at different national, regional and individual levels, the roots as well as the effect of structural factors themselves cannot be laid out.

We do not by any means intend to argue that methodological individualism should replace structural analysis. On the contrary, we are not interested in recapitulating the religion of individual rationality as the driving force of history. We are, trying to shed light to the particular ways individuals and classes alike have come to make decisions and act. Excessive structuralism and individualism are alike in obscuring the substance of economic, political, and social behaviour that are too complex to be determined unilaterally by either rationality or class-relations/position.

This in a sense resembles the question posed by Granovetter when he notes that, while under-socialized conceptions of economic behaviour disallow any impact of social

structure and social relations on production, distribution, or consumption when attributing behaviour/action as resulting from the pursuit of self-interest by rational, more or less atomized individuals; the 'over-socialization'<sup>22</sup> on the other hand, can also take a similar form that (especially the macro)-structures such as class, occupation, or market sector automatically determine individual behaviour, which from a substantivist position is not that different from the assumption of universal-rationality. As Granovetter puts it aptly:

"...these oversocialized conceptions of how society influences individual behavior are rather mechanical: once we know the individual's social class or labor market sector, everything else in behavior is automatic, since they are so well socialized. Social influence here is an external force that, like the deists' God, sets things in motion and has no further effects - a force that insinuates itself into the minds and bodies of individuals (as in the movie *Invasion of the Body Snatchers*), altering their way of making decisions. Once we know in just what way an individual has been affected, ongoing social relations and structures are irrelevant. Social influences are all contained inside an individual's head, so, in actual decision situations, he or she can be atomized as any *Homo economicus*, though perhaps with different rules for decisions. (1985: 486)

Even though macro-structural factors play an important role in the analysis they are only one aspect of the question. The use of the national level of analysis aggregates and obscures otherwise important internal factors and dynamics. In fact, one of the motives that animates this study is the inadequacy of aggregated national-level analysis in explaining regional divergences. The natural corollary of a nation-centric understanding is the assumed naturalness and uniformity of a national market that penetrates everywhere.

This lens is of-course rooted in the assumption that there were markets before everything-else, because of man's 'natural tendency to truck, barter, and exchange' (Smith, 1776). It is true that markets have existed for a long period. International trade

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<sup>22</sup> To prevent any misunderstandings by the usage of this term as it was used by Granovetter, what I imply is the attributing of an overly determinant aspect to behaviour in which certain few macro-structural factors will simply determine almost any aspect of behaviour regardless of context.

has preceded the industrial revolution as well as the formation of national markets and territorial states. Yet, national markets are a relatively new phenomenon in human history. We take their existence for granted, but they were not automatically brought about with the formation of the nation-state. Too frequently it is assumed that national markets have existed because markets are the natural state of things anyway, and they antedate the formation of international-trade/markets, since exchange starts at the individual-level and then extends outward, to the village, town, city etc. Yet, national markets - for which the national state is a prerequisite but in no way a sufficient or automatic condition - are a construct of the market-society.

In the Italian case even the formation of a nation-state was a late process but the fact that the unification and the formation of an Italian national-market were the two-sides of the same coin is what animates this study. One of the central theses of this study, is that the particular re-organization of economic activity within the creation of a national market economy informed a great deal the economic problems and conditions in southern Italy and thus the divergence between the south and north.

We will try empirically to construct the way the shift to an economy organized around national markets differs, not only by way of scale, but also qualitatively and systematically from economies organized around cities (or cities connected to international markets). There are two questions here. First, what are the roots of the rise of national markets? What do they imply for the (re)-organization of economic activity and society? This requires an understanding of the spatial aspects of economic organization and more importantly the organization of agriculture or rural economic activity as compared to what it is in a city-centered organization and a national-economy

setting. We not only revisit the components of uncertainty and transaction costs associated in the peasant's decision-making and hence behaviour, but also introduce these and other factors into the decision-making process and strategies of the large land-owners.

### **VON THÜNEN AND A. WEBER: LOCATION OF ECONOMIC ACTIVITY:**

Before venturing into the impacts of the formation of national markets, it would be apposite to revisit some of the theoretical and methodological implications of the two classics of location theory: Thünen's 'The Isolated State' (1842), whose main concern is why and where which crops are grown in relation to their distance to the market, and Alfred Weber's 'Theory of Location of Industries' (1909), whose main question is why certain industries are located (as well as agglomerated) in certain locations, and why they move from one location to another (as well as disagglomeration).

In his model Thünen assumes an 'ideal-state' in which a central town supplies the rural areas with all manufactured products, and in return obtains all its provisions from the surrounding countryside. The question of interest is: under the assumption of absolute rationality, what patterns of cultivation will emerge and how will farming systems be affected by distance from the central town? The short answer is that the cost of transportation (greatly determined by bulkiness and compressibility) in proportion to the value/price of the produce sets the distance at which certain products will be produced. As a result what we observe is the emergence of sharply differentiated concentric rings forming around the town, each with its own particular staple product and entirely different farming systems.

The other question that Thünen tackles is why the same crop is produced by an intensive system in one place, and by an extensive system in another? The answer to Thünen's question of intensity is that given a certain level of soil fertility, at sites nearer to the market it will pay to choose a more intensive system of cultivation, in which a higher level of cost is associated with a later point of diminishing return (to marginal productivity of units of labour applied). Thus, areas near the town are areas of intensive cultivation, whereas those further away are rather extensively cultivated. The simple logic here is that of marginal diminishing returns, which gives the producer of the vicinity a wider margin between product price and transport costs, and thus he can employ more factors of production until the point where profitability reaches zero.

"In the 'isolated state' the optimum degree of farming intensity reaches its maximum in the immediate vicinity of the market, its minimum where communication with the markets disappears entirely and agriculture becomes a purely self-sufficing economy." (Hall, 1966: xxxi)). Yet one has to note that this varies with the nature of the crop. For instance products which won't respond much to intensive systems will remain extensive. While industrial and commercial crops that do and of those that have transport cost per unit of sale small in proportion can be extensively produced away from the town as well. "In the Isolated state, industrial crops, like grain for distilleries and flax, have high production costs, per unit weight of product, but they can bear a considerable number of cost *increments* without showing diminishing returns, i.e. they are intensively cultivated." (Hall, 1966: xxxii)

We should note that the techniques and the capital-/labour-intensity of agricultural production cannot be considered in isolation of the sets of agricultural products

specialized in. In fact the Italian case is an excellent example of the fact that the choice of agricultural products has more impact on the techniques and the degree of intensity applied than the other way around.

Of course, the more important question here is how this organization would change with regards to an increase in overall demand of agricultural products. This increased demand could be met in basically two ways: "Yields could be increased on the existing agricultural areas, by improvements; or more could be fetched from new land, which could be brought within the margin of cultivation by transport improvements. Both types of change came about in the nineteenth century, and they were to some extent contradictory. For a transport improvement will (assuming for the moment that demand remains constant) cause a reduction of *farm prices* [i.e. farm-land prices, not commodity prices] near the market and an increase away from the market; thus the incentive to intensify near the market will be reduced." (Hall, 1966: xlii-xliii)

These two seemingly contradictory changes had two important implications for the organization of agricultural production in the world and the international political economy of 19<sup>th</sup> century that proscribed post-unification Italy. It completely restructured the organization of agricultural production and grain supply links on a national scale rerouting them around national markets, and in certain cases even penetrated across continental boundaries. In the first instance it enabled the creation of Thünen rings around capital-cities as opposed to former local-towns greatly changing the size of viable economic units. Second it also enabled the rise of new Thünen towns within North America (and East Asia) that could be linked to the European Thünen-rings which, now organized nationally around the capital cities, were very much closely linked to each

other<sup>23</sup>. What these shifts implied for the organization and locational character of agricultural production within Italy is crucial for this thesis. The post-1870 reorganization of Europe-North-America link in particular will constitute a pivotal element of the international political economy within which we analyze our case.

Thünen's study, though still to-day a very valuable source of insight for the location of agricultural production, nonetheless deals with immobile soil. There is no choice of location other than the source of raw material. The only questions open to the farmer are first, shall he cultivate at all?; secondly, what shall he cultivate? "With industrial production however, the question is different: the type of production postulated, and the place of production is sought; the new choice arises because the factors of production tend to be mobile, so mobile indeed that one of the chief problems is to set one or more of them at rest for analytical purposes" (Hall, 1966: xliii-xliv).

Thus given this reality of mobility, and observing the gigantic movements of manufacturing industries, Alfred Weber asks: What causes a given industry to move from one location to another? What are the general economic laws determining these movements? The variable general factors he arrives at are of two kinds: those which are primary causes of the regional distribution of industry (basically regional factors), and those which are secondary causes of a *redistribution* of industry (agglomerating and degglomerating factors). By analyzing one given industrial process, Weber deductively finds two general regional factors of cost: transportation costs and labour costs. To cut the story short, Weber formulates that the determination of the location of industries is a

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<sup>23</sup> As Brinkman (in Hall, 1966) notes: in 1880, total US export of wheat reached 150.5 million bushels; and about 58 percent of the total grain imports into England came from the United States.

function of two basic ratios: material index<sup>24</sup> and labour coefficient<sup>25</sup>. Given the centrality that transportation and labour costs play in-proportion-to bulkiness of the product, Weber's distinction between the agglomerating and deglomeration tendencies associated with the relocation of related stages and inputs of production is of utmost relevance. In the briefest terms, the agglomerating factors are related to the nature of the particular industry, while the deglomeration factors are all traceable to the inevitable increases in the rent of land which accompany the agglomeration of industry.

One is here inclined to dive into the classical political economy's central question of rent from Ricardo even as it has found its way into Marshall's 'Principles' (1920); particularly the locational foundation that this implies for the theory of rent. We will however limit our emphasis to the now recently re-discovered aspects of spatial economic organization and international trade that emphasize more complex factors than mere costs of labour and capital or their relative endowment popularized with new economic geography of Paul Krugman et al. We are not referring just to the centrality of transportation costs here. Though neoclassical economists following in the tradition of A. Weber concentrated exclusively on the quantitative methods of applying the aforementioned ratios, the economies of scale and the 'linkages' aspect that the agglomeration-deglomeration axis deploys have always been an equally important lesson that could have been derived from Weber's own work. Yet this aspect is only recently being given the attention it deserves. In other words, Thünen and Weber's work establish the foundation for an argument against not only a simplistic two variable analysis of labour and capital costs for organizational analysis, but also why transportation, market size, economies of

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<sup>24</sup> the ratio between the weight of localized material and the weight of the product

<sup>25</sup> the ratio between cost of labour per ton of product (labour index) and the total weight of all goods (product, materials, fuel, etc.)

scale and locational variables (as well as rent) have more explanatory power than labour and capital prices or their relative endowments<sup>26</sup>. Even even in the simplest sense, they demonstrate how transportation costs can determine the entire structure of both agricultural and industrial production/organization and differences in such costs can lead to entirely different farming systems or industrial agglomerations. As we will substantiate in the case sections below, this aspect is a crucial element in the divergence of the economic systems in the south and north after the unification.

### **TOWN AND COUNTRYSIDE:**

For our purposes the more important question of the spatial organization of economic activity is that of the division of labour between the town and the countryside, as well as the nature of their reciprocal relationship. Von Thünen rings that we deployed for the location of agricultural production is actually also an apposite analogy for depiction of non-agricultural economic activity. However before we delve into the hierarchy of towns and villages within a city-centered economic organization, it is important to illuminate how the urban settlement and the countryside stand with regards to each other.

The first aspect is the question of whether the town is a creation of the countryside or vice versa. As Braudel (1979a) notes, the country-side and towns were a mutual creation. At least until late 19<sup>th</sup> and early 20<sup>th</sup> centuries, even in the most developed countries and cities, a full specialization in the form of a sharp dichotomy of the urban center and countryside was nowhere close to reality. The first reason for this has of course been that until very recently, every town had to have its foodstuffs within

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<sup>26</sup> This is also why Friedrich List, in a sense, represents a reaction against the classical overemphasis upon labour costs when he says that wherever there is agriculture there must also be industry.

easy reach. That is, as town appears at least simultaneously with settlement, the creation of the countryside to meet the needs of the town follows and vice versa. However, as important as the necessity of the countryside for subsistence of towns may be even large towns and huge cities like Florence, Venice, Naples, Peking, Istanbul, Delhi etc. continued to engage in rural activities up to the eighteenth century despite the fact that their access to international trade did not make them as much dependent on the countryside for their subsistence. Even if there had theoretically been such a sharp separation, still the city with its high rates of death always required the smaller towns and the rural hinterland for the recruitment of labour and artisans that its urban industries required<sup>27</sup>. Secondly, the bourgeois investment and ownership of land in the countryside is as old as the history of towns themselves; and this had less to do with acquiring nobility titles than investment in agricultural goods as good business (especially vineyards), and speculation or attaining vertical monopoly in certain tradeables or manufactures.<sup>28</sup>

Of course the same is valid for the country-side as well, as nothing could be more mistaken than to see rural economic activity as a purely agricultural phenomenon. If the town did not completely surrender the monopoly of crops or stock-raising to the countryside, conversely the countryside did not give up all its 'industrial' activities in favour of nearby towns either. In a sense, the towns urbanized the countryside, but the

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<sup>27</sup> And here one could also note the history of the extension of burgher rights to the countryside.

<sup>28</sup> As Braudel notes: The intrusion of capitalism, or rather of urban money (from both nobles and bourgeois) into the countryside had begun very early. There was not a town in Europe whose money did not spill out on to the neighbouring land. And the more important the town, the wider the radius of urban-owned property outside the walls, driving all before it. (1979b, 249)

countryside 'ruralized' the towns too. In fact town and countryside never separated like oil and water; they are at the same time separate yet drawn together<sup>29</sup>.

The first large-scale webs of industrial production, *Verlagssystem* (putting-out system) though organized by a merchant centered in the city/town was predominantly a rural-based organization. It appeared as early as the 13<sup>th</sup> century and was initially frequently met with opposition by the urban guilds. It faced little or no resistance in the countryside, and the merchants frequently took full advantage of this bonus. As Braudel notes (1979b), the merchant was not just the middlemen between raw-materials, artisan, purchaser of the final product, between home and foreign market, but also 'had one foot in the town and the other in the country'.

Thus, it would be wrong to assume that industry has been purely an urban act. In fact as Braudel demonstrates until mid-19<sup>th</sup> century, there was an oft-repeated, cyclical movement of industry into the country-side and back, repeatedly as profitability, speculative opportunities, prices, labour-wages or urban guild structures etc shifted. Thus 'pre-industry' (i.e. industrial-manufacturing) was not a sector with clearly-defined frontiers. Moreover, "before the eighteenth century, it was barely distinguishable from the omnipresent agricultural life which ran alongside it and sometimes submerged it. There was even a grass-roots peasant industry at the level of practical exchange, working strictly for the family or the village" (Braudel, 1979b: 304). Seasonal industrial work was especially common; during the winter-time, even in very isolated settlements, widespread 'industrial' activity replaced farm work.

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<sup>29</sup> Furthermore, the market was not the only factor. Towns often sent craftsmen into the countryside to escape the grip of the guilds within their wall - only to fetch them back when the situation demanded it. Peasants were always moving into the towns, drawn by the high wages. And noblemen built their houses or palaces there. Italy, ahead of the rest of Europe, was the first country to witness this *inurbamento* (Braudel, 1979b: 258).

The eighteenth century saw further proliferation of industrial activity. It now not only spread to areas outside Netherlands and Italy but also took large scale enterprises into inner and rural towns and villages. As Braudel puts it best: "Times had indeed changed. By the eighteenth century, industrial activity was widespread, virtually ubiquitous, and trading links had proliferated. There was not a town or city, no market town in particular, no village even, without its own looms, forges, brick or tile works, or sawmill. State policy (contrary to everything suggested by the word mercantilism) was industrialization, which sprang up on its own accord and was already breeding its social evils" (1979b: 309).

In short, the process of the formation of both the towns and their countrysides had an intertwined momentum, in a sense with 'reciprocity of perspectives' it was a "mutual creation, mutual domination, mutual exploitation according to the unchanging rules of co-existence" (Braudel, 1979a: 486). "Towns grew in harmony with villages and clearly outlined urban law often emerged from the communal privileges of village groups. The town was often simply the country revived and remodelled." (Braudel, 1979a: 510)

The relationship of the town and the countryside tended to be neither symmetrical nor equal, especially after the late 18<sup>th</sup> and 19<sup>th</sup> centuries and this has its roots in the specific expansion of the market pattern in this period. Thus, to the role of market and market pattern in the organization of the town and countryside we turn now.

As Braudel aptly puts it: "every town, wherever it may be, must primarily be a market. Without a market, a town is inconceivable. A market, on the contrary, can be situated outside a village, even on a site on the open road or at a crossroads, without giving rise to a town. But a town needs to be rooted in an nourished by the people and

land surrounding it." (1979a: 501). This in fact takes its extreme forms in some cases such as cities like Smyrna or Lisbon which could have at some point been called just one big bazaar or fair. Not to emphasize the form of the market too much, what we are interested here is how the market is the ways in which the town extends into far regions, drawing from them different products and people as well as connecting them into a world-economy.

A town is inseparable from certain realities and processes: "Where there is a town, there will be a division of labour, and where there is any marked division of labour, there will be a town. No town is without its market, and there can be no regional or national markets without towns" (Braudel, 1979a: 479-80). The essence of a town then, lies in the fact that it brings together and links numerous people of different trades and economic spectrum, the countryside, villages and various other settlements in an interlinked web of economic organization and market exchange.

Here also lies the reason why the pre-unification large Italian cities showed a relative tolerance towards the small and middling towns rather than consuming them: it was because they thrived on their productive capacities and specializations. "A great city meant a ring of secondary towns round about: one to weave and dye fabrics perhaps, one to organize haulage, a third to act as a sea port." (1979a: 504). Hence, what defined a world-city (such as Venice, Paris, Istanbul, Lisbon etc) was its hierarchical position at the top of a web of market links. The town, in other words, gains its importance through generalizing the market into a widespread phenomenon. "A town or city lies at the centre of a number of interlocking catchment areas: there is the circle from which it obtains supplies; the circle in which its currency, weights and measures are used; the circle from

which its craftsmen and new bourgeois come; the circle of credit (the widest one); the circle of its sales and the circle of its purchases; and the successive circles through which news reaching or leaving the town travels. Like the merchant's shop or warehouse, the town occupies an economic area assigned to it by its situation, its wealth and its long-term context. It is defined at all times by these surrounding circles" (Braudel, 1979b: 188). Of course these immaterial rings are in a sense analogous to Thünen's crops/produce rings and this is rooted in the hierarchical and city-centered structure of capitalism.

It is not surprising that in Braudel's three tiered structure of the world history, the terrain of the 'market economy', the middle layer of 'material life', is essentially the story of the 'city' and evolution of large urban centers.<sup>30</sup> Understanding the role that the town played in the organization of the economic activity of its inhabitants and the catchment area is essentially rooted in the function that market-places, bazaars, shops and fairs played in the organization of production and in bringing together parties/individuals. Braudel distinguishes that markets, shops and peddlers make up the lower levels of the market-economy, while fairs and bourses make up the upper one. To be sure, the rise of the city as they extended the degree and pattern of market exchange, and the replacement of use value by the norm of exchange value was rooted successively in the expansion and changing roles of each (regardless of whether one accounts for world economic expansions/stagnations or not). For instance the 15<sup>th</sup> century worked to the benefit of cities as the rising 'industrial' prices and stagnant agricultural prices in Europe in general, and Italy in particular, drew a higher number of people in the countryside to the border of market participation. In contrast, in the sixteenth century the driving force operated at the

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<sup>30</sup> The other layers are material-life and, the anti-market (that is capitalism).

level of the international fairs accompanied by a remission on the lower ground of market exchange. The seventeenth century brought about a massive expansion of shops across Europe, creating tight networks of redistribution (Braudel, 1977: 26). In the eighteenth century, all these tools were put in service of exchange, as the bourses expanded their activities (Braudel, 1977: 27). Of course, the other particular pattern that becomes itself visible with these shifts is the corollary shift of the geographical center of European economy (See Braudel 1977 & 1979b, but especially Arrighi, 1994).

Leaving these shifts and the 'longue duree' of capitalism aside as questions to be revisited later, the crucial break for our purposes is the 18<sup>th</sup> century. During this period, with the expansion of market exchange and shops at an unprecedented rate finally "came the development of what English historiography calls the private market, which, unlike the public market, was free of supervision or control by haughty officials." (Braudel, 1977: 28).

As Karl Bücher notes, until this pattern of 'public market' was repressed, the dominant system of direct exchange was carried out to the most minute details in all towns and was the dominant pattern of market and economic activity within and around the town. Each town with its surrounding country-side constituted an autonomous economic unit within which its whole course of economic life was on an independent footing. "The relation between town and country is as a matter of fact a compulsory relation such as that between the head and the limbs of the body, and it displays strong tendencies to assume the forms of legalized compulsion" (Bücher 1901: 126).

I believe it is also essential here to distinguish between what Braudel aptly presents as the distinction between *market economy* on the one hand and *capitalism* on

the other. To understand this, we have to recognize that market exchange takes various forms. That is, there is a hierarchy of different structures of exchange as it varies among individuals with different purchasing power, intentions in engaging in exchange, and prescribed by different rules and transparency. At the most basic level of this hierarchy is that of daily exchange among a very limited number of agents, or any trade on a broader scale as long as it is regular, predictable, routine, and open to both small and large merchants, that is, an exchange defined essentially by the material wants and needs of everyday existence; or to borrow a term from Polanyi (1957), that part of exchange which pertains to the substantive role of the economy.

"The market held in a small town provides a good example of these 'transparent' exchanges, which involve no surprises, in which each party knows in advance the rules and the outcome, and for which the always moderate profits can be roughly calculated beforehand. Such a market chiefly involves producers - peasant men and women and artisans - and clients, some from the market town itself and others from neighbouring villages" (Braudel, 1977: 50).

Once we begin to move up the hierarchy of exchanges, a different type of economy becomes predominant and forms a 'sphere of circulation' that is clearly different from that formed by daily or substantive exchange. "English historians have shown that as of the fifteenth century the traditional public market was accompanied by what they have called the private market (I would prefer to stress differences and call it the countermarket)" (Braudel, 1977: 51-2).

This type of exchange replaced the normal collective market and substituted for it individual transaction based in arbitrary financial arrangements that varied according to the respective situation of the individuals involved. "It is obvious that here we are dealing with unequal exchanges in which competition - the basic law of the so-called market economy - had little place and in which the dealer had two trump cards: he had broken

off relations between producer and the person who eventually received the merchandise (only the dealer knew market conditions at both ends of the chain and hence the profit to be expected); and he had ready cash, which served as his chief ally (Braudel, 1977: 52-3).

In short, the historical fact is that the commercial world was (and still today is) a world of hierarchies. At the lowest level are the basic wage jobs and moving up come intermediaries/brokers of various sorts and moneylenders, and finally reaching the merchants. As the ever-expansion of the market economy transformed commercial society as a whole around division of labour, specialization continued to elude at the level of the merchant-capitalists.

Specialization did not occur at the top of the pyramid, because especially until the nineteenth century the top-level merchant was never restricted to a single activity. This was basically due to the fact that the portion of economic activity organized by and through the market remained relatively low, and contrary to what is usually argued, the relative size of accumulated capital was bigger than what could be absorbed in one sector alone, not to mention that growth remained at relatively low figures until the industrial revolution completely changed it. Not surprisingly then, it was not until the 19<sup>th</sup> century that financial capitalism succeeded, after the period 1830-60, when the banks grabbed up everything, both industry and merchandise, and when the economy in general was strong enough to support it permanently.

In summary, what we argue is that there is more than one type of exchange. On the one end of the scale is down-to-earth exchange, which resembles competition as it is more or less an exchange of equals, or in the least has little element of economic (or purchasing-)power; and is hence also transparent. On the other end is the higher form of

exchange which is rather sophisticated and dictated by power differentials, creation of rents and ability to procure above normal rates of return for the economically dominant. As Braudel has said: "Neither the same mechanism nor the same agents govern these two types of activity, and the capitalist sphere is located in the higher form" (1977: 62)

This is analogous to the distinction Galbraith (1967) makes when he distinguishes between the industrial system and market system, or when Lenin distinguishes between monopoly capitalism and ordinary capitalism. Thus, it goes without saying that, capitalism is more comfortable when it is not engaging in the production or the sphere of every-day exchange, but when it is predominantly commercial or financial.<sup>31</sup> The other aspect of the issue then is understanding what the coming to domination of this second pattern of exchange means for the role of market-pattern in economic life. As Polanyi aptly argues (1944, 1957), markets had long existed in human history, however always embedded in society and social relations. During the course of the 19<sup>th</sup> century, however, it was disembedded from the social body, and in turn, the society itself made adjunct to this pattern. To this Braudel and Polanyi (also see Adaman et al, the discussions of the third sphere etc) add the third sector (especially in the pre-industrial model) - the lowest stratum of the non-economy, that of daily life that does not pass through the market exchange. It is "the soil into which capitalism thrusts its roots but which it can never really penetrate. This lowest layer remains an enormous one. Above it, comes the

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<sup>31</sup> Here I believe it is important to understand why for Braudel Capitalism is not simply a relations of production at the ground-level: "Capitalism, having been identified as the realm of investment and of a high rate of capital formation, must next be related to economic life, with which it was not entirely coterminous. There are thus two zones in which it can be located: its native soil so to speak, the sector in which it was completely at home; and another sector which it entered only obliquely, insinuating itself into this zone without ever completely dominating it. Until the industrial revolution of the nineteenth century, when capital moved into industrial production, now newly-promoted to the rank of large profit-maker, it was in the sphere of circulation, trade and marketing that capitalism was most at home; even if it sometimes made more than fleeting incursions on to other territory; and even if it was not concerned with the whole of circulation, since it only controlled, or sought to control, certain channels of trade. (Braudel: 1979b: 231-2)

favoured terrain of the market economy, with its many horizontal communications between the different markets: here a degree of automatic coordination usually links supply, demand and prices. Then alongside, or rather above this layer, comes the zone of the anti-market, where the great predators roam and the law of the jungle operates. This - today as in the past, before and after industrial revolution - is the real home of capitalism" (Braudel, 1979b: 229-30).

During the period of 1400-1800, the imperfect but expanding exchange economy was still unable to organize a major share of the total economy. The portion of consumption and production linked by it remained relatively minor compared to that absorbed by the self-sufficient family or village. Nonetheless this period was when the market economy did reach out at the expense of daily-material-life, which in turn brought in unprecedented opportunities for the expansion of the anti-market: capitalism. "Although the exchange form of economy was imperfect, the market economy made constant progress, connecting market towns and cities adequately enough to permit the organization of production *and the direction and control of consumption.*" (Braudel, 1977: 16-7, emphasis added).

This probably becomes all the more interesting if we consider the dual way in which the town organizes the local catchment area and the international arena with basically two different kinds of circulation. The first is along a network of capillaries in which the flow is continuous within a small radius; and in the other a rather intermittent, but active for instance in times of food crisis, capable of activating shipping between London and Amsterdam or water-transport along the Seine. "The two systems can be seen as complementary, contrasting, combined or alternating. The manner in which

international trade affected a town could sometimes exert more influence on it than its everyday connections with nearby places. Local history might be swallowed up in a broader history. (1979b: 189-90). The essential point here is to see the way in which the unregulated sphere of circulation (international arena in this case), operates on an entirely different logic than every-day market exchange: it thrives on uncertainty, imperfections and creation of above normal returns based on exclusion, rents or accumulation. I believe we should not only distinguish among these two types of exchange but also how exchange in general differs from a household economy or self-sufficiency (or a pattern of householding and reciprocity in Polanyian terms), and the historical role the town played in the shifts from one pattern to the other.

First is the shift from an autarchic production to a direct exchange as described above. As Karl Bücher described it more than a century ago: "By a process extending over centuries this independent household economy is transformed into the system of direct exchange; in the place of production solely for domestic use steps custom production. We have designated this stage town economy, because it reached its typical development in the towns of the Germanic and Latin countries during the Middle Ages" (Bücher, 1901: 114). What complements this is the way in which the towns and trade have mutually expanded each other: "Proportionately with this change, however, the region from which this market drew its supplies and to which it sold extended farther into the country." (Bücher, 1901: 119). The point Bücher makes is that even though not every town was of equal importance, the majority of them were (until being swallowed by bigger towns) the economic centres for their territory, leading an independent existence (similar to the household or the manor before them).

Bücher divides history of economic organization into three stages: first is the system of household or manorial organization in which production and consumption are not separated; second, is the system of direct exchange in which the towns play the central role; and third, is the system of national economies in which impersonal exchange between the producer of a good and its consumer happens through numerous hands. In Bücher, we see how the town is structured similarly to that of a manor, modelled as an extension of manorial organization on a larger scale; while the national market in turn is built in the model of the town. Yet in every stage the role of exchange changes, as it becomes less personalized and less direct among production and consumption as the scale enlarges. In the manor the producer is also the consumer (self-sufficiency), in the town the exchange is direct, whereas in the national economy it is extremely impersonal as every item of daily life and production passes through a large market and numerous hands before it reaches the consumer. That is the changing/shifting nature of the link between consumption and production is essentially determined by the scale on which economic activity is being organized.

What we want to highlight here is that this expansion of market economy, and particularly its pattern and its consequences for the organization of overall/productive economic activity was shaped-in-return by the logic in which the commanding heights of the anti-market operated: the elimination of competition, or the triumph of a center in place of a former relation of equals. In place of a multi-centered town-economy, came now the domination of a city which surrounded itself with subordinated towns as it rose. Then came the territorial state's expansion which surrounded its capital with subordinated central cities of other provinces. As the capillaries of the economy extended further, so

did the anti-market/capitalism have a larger domain upon which to operate, more options among which to choose, and a higher demand through which its commercial and purchasing power could be operationalized.

Higher scale brought with it into the picture a higher scale of operation on which fewer capitalists had the capital to operate, and consequently higher profits for those that could engage in it. The most sweeping (and also the most central for our study) is the organization on the scale of national markets, whose implications for even the most isolated rural settlements was sweeping. Whereas former towns and cities did not take it as their task to organize primary production (especially agricultural production), the operational logic of the territorial state and the exigencies of an all-pervasive national market centered precisely on this. Whereas the former town and city-centered organization's impact on the daily economy had less to do with its direct action on it than capitalizing on its growth, the national state was founded on the principle of organizing it forcefully, pulling material life into the market. The causal/determining relation had been reversed.

Essential to this process was the role of liberalism and mercantilism in wiping the slate clean to reconstruct everything centered on the market now operating at the national level. As Bücher also notes: "it has overthrown the antiquated forms upon which household and town economy were founded, and constructed nothing new. It has destroyed the special position and special privileges of individual territorial districts and individual social groups ... and cleared the way for new economic combinations of a truly national character..." (Bücher, 1901: 139)

One need not share the positive outlook for the result to appreciate the fact that for the 18<sup>th</sup> and 19<sup>th</sup> century civilization, liberalism basically created the conditions for the national economy by destroying former organizational structures. Of course economists do argue that the freedom of markets was the 'natural order' in which the state interferes, but as Polanyi clearly demonstrates, the expansion of the market pattern was precisely a state-driven process: in other words the 'liberal creed' operated through the state apparatus that destroyed whatever economic organization the society rested on in creating a national market (for everything); whereas the protective response of society in return was basically spontaneous. In other words, "Laissez-faire was planned; planning was not" (Polanyi, 1944: 147).

The Italian case is important as its rapid transition shows us the impact of the formation of national markets and the shift from city to national market centered economic activity, which in other cases was spread over centuries, taking off some-time after the territorial states were founded. Thus, the southern question is comprehensible only in light of 1) the geographic reorganization of the economy of the Italian peninsula in which the former 'tyrannical' cities of the provinces themselves were subordinated and the southern towns and villages were made even more subordinate than they were under the city-centered organization and around Naples. 2) The particular way in which the new national state directly restructured everyday material life, destroying any non-market autonomous pockets of economy. As it made every aspect of economic life revolve around the market, now the southern-peasants would face the tyranny of the market alongside the tyranny of the city/state.

## NATIONAL STATES AND MARKETS:

Yet, this re-organization and recentralization on a larger scale always came with substantive changes in the structure of productive organization. Thus the change from a town and then city-centered economic organization to a national scale one found its roots not in an endogenous expansion of the market economy, nor the abolition of internal customs<sup>32</sup>, but an entirely artificial process. This occurrence changed the course of European history, relegating to second rank economic complexes which had centered on a single city. As Braudel notes, the increase in the pace of circulation of both agricultural and non-agricultural production, was not a natural or regular overflow of market economy for the market economy long remained a regional process operating within the limits of substantive and complementary exchange. Thus the move from regional to national markets, by the welding together of numerous short-range, quasi-autonomous and highly diversified economies, had nothing spontaneous about it. It was "a form of coherence imposed both by political ambitions - not always realized in the event - and by the capitalist tensions created by trade - in particular by foreign and long-distance trade. As a rule, a measure of expansion in foreign trade preceded the laborious unification of the national market." (Braudel, 1979c: 277)

Thus creation of the national market was not a simple elimination of the city-centered economy, as the city was not an abolishment of the towns; and the town was not the elimination of the village or the manor or the family. It was not a process of elimination, but of subordination. As Karl Bücher demonstrates, in the same manner that

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<sup>32</sup> Against the argument of the internal customs barriers (tolls etc) Braudel notes that: "If the birth of the national market had been dependent upon this tidying-up operation, there would have been no national markets on the European mainland until the late eighteenth or early nineteenth century" (1979c: 290).

the town was an emulation and continuation of the manorial model at large, so too was the national-market an extension of the town-system.

As Braudel argues, the national market, like the world-economy, was both superstructure and envelope. As so was the provincial market, since the province was once a national economy of its own, or indeed a world-economy in miniature. Despite the difference in scale, it also consisted of dominant regions and cities, surrounded by peripheral districts and towns; as well as less developed zones and secluded pockets of self-sufficiency. In fact their impure character formed a *complementary* diversity in which the larger zones derived their cohesion from the range of possibilities provided by such alternate forms of organization<sup>33</sup>.

In fact one could argue that the province still remains the 'political unit of optimum size' in almost every European country of today; a reality the ignorance of which has contributed immensely to the development of Italy's southern question. Nonetheless, with the rise of the nation-state and the expansion of the economy and of foreign trade, the days of provincial dominion were over. "The long term destiny of the provinces was to merge into a national unit, whatever the resistance they offered or the repugnance they felt" (Braudel, 1979c: 287).

What distinguishes the nation and the city system is their structural organization. The city-state avoids carrying the responsibility of the so-called primary sector. Grain, oil, salt, meat or any other primary goods and raw materials were bought and traded without the city having to organize the production (hence our Thünen rings and Weber's industrial agglomerations). The city thus automatically avoided the 'agricultural

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<sup>33</sup> In fact, Braudel himself notes that all the theoretical analysis which he uses to analyze the world-economy could be applied word for word to the province.

economy', the stage that Friedrich List designates as the one to be gone through before any effective development can take place. The early territorial states long remained embedded in that agricultural economy. However, once it was accomplished, the tapping of a huge domestic market, and a population able to create demand, proved to be a late-comer's advantage in overtaking city-centered economies, the last dominant one of which was Netherlands' Amsterdam.

More importantly for our case, what this implies is that however the agricultural sector evolved under the auspices of a unified Italy, it had its causes and precedents within this direct restructuring of the agricultural production. And the unified Italian state, by transforming the self-sufficient or material part of the economy did it get tangled in the social outcomes and problems it produced and hence was directly responsible for their creation.

Now, there are two very crucial reasons for why the state not only chose but in fact needed to reorganize agricultural production through the market. The most important is the issue of demand for growth and industrial development, which we will take up below. The second is the large tax-base that the bureaucratic and fiscal apparatus of a state requires. Given that the majority of pre-19<sup>th</sup> century population lived off agriculture, in a closed or self-sufficient agricultural economy, the majority of economic activity would be consumed without ever entering circulation through the market. Thus, there was an inherent bias in the structure of the territorial state to move agricultural production beyond self-sufficiency; either by displacing the peasants and concentrating land in the hands of few and increase the amount of produce passing through the market by reducing self-consumption, or increasing agricultural productivity and the percentage of surplus.

However, the prevalence of a Malthusian outlook usually meant that it was the former: since any increase in surplus was expected to eventually simply translate into (rural) population the frequently followed policy was to keep concentrating it in fewer hands<sup>34</sup>. The second bias was in the creation of internal markets for basically everything and the reorganization of economic activity through the market.

The national market was thus not an exclusively economic reality. It emerged from a pre-existing political unit and the "correspondence between the nation's *political* structures and its *economic* structures was only gradually established in the seventeenth and eighteenth centuries" (Braudel, 1979c: 322). This is rooted in the fact that an economic area almost always extends far beyond the borders of political areas. "Nations' or national markets were consequently built up *inside* an economic system greater than themselves, or more precisely they were formed *in opposition* to that system" (ibid).

The reason for why Germany and Italy (actually northern Italy) united late was because of resistance by cities/towns and the autonomy they enjoyed in an interlocked city trading system. That is, it was the success of the city-centered organization, whose economic reach already extended well beyond its respective province. We are in a sense dealing with increasing returns to an existing institutional framework and path-dependency (North, 1990) in a state of incremental institutional change<sup>35</sup>. Thus given this, it is not surprising that the nation-states and national markets were nonetheless created and structured around the model of the city.

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<sup>34</sup> As was in the arguments of the 18th century Neapolitan Political Economists (see the case sections below).

<sup>35</sup> Then, it should not be surprising that the first regions of Europe which developed a town-centered structure of economic organization, Italy, Germany and Slavic regions (Bücher, 1901), were also among the last to be unified around a nation-state and were all successful late industrializers. And in the case of Germany and Russia, whose growth and industrial development also went on to surpass that of the rest of Europe.

Herein lay the centrality of the capital-city for the national markets: a national market simply implied the ascendance of a capital-city (and a central region) at the expense of numerous subordinated peripheral towns. As Braudel notes: “they [large capital cities] produced the modern states, an enormous task requiring an enormous effort. They mark a turning-point in world history. They produced the national markets, without which the modern state would be a pure fiction” (1979a: 528). For instance, the British market was not a creation of England’s acts of union with Scotland and Ireland nor the expansion of transport. It was the central role that London played as a beating heart that set the rhythm and channelled the flow of all merchandise and production.

#### **NATIONAL MARKETS AND INDUSTRIAL DEVELOPMENT:**

Now that this is settled, we come to the more important role and impact of the creation of national markets: the decisive role they played in industrialization or industrial revolution. As we have argued, this had predominantly to do with the way in which the national economy restructured demand. As Braudel notes: “the national market was one of the contexts within which there occurred, under the impact of both internal and external factors, the transformation essential to the take off of the industrial revolution - namely the growth of a diversified domestic demand, capable of stimulating production in a number of sectors and of opening pathways to progress” (1979c: 279).

In fact the distinction of agriculture as limited by supply and industry as limited by demand is an accurate description of the pre-19<sup>th</sup> century economies. As we hinted above, the demand-limited aspect of industry was rooted in agricultural production's irregular surpluses, the sales of which did not create a substantial or stable demand for

manufactured goods. Even though Say's law emerged in the context of early 19<sup>th</sup> century and formed the basis of classical political economy, it was not until the full brunt of industrial revolution that industrial production could expect that what it supplied would automatically find a reliable and *permanent* market. Before then, the money that the production process had distributed had been shared unequally between the suppliers of tools and raw materials, the transporters and the workers. The workers in this instance were taking the largest portion, the wage of which went predominantly to agricultural demand, which increased agricultural prices that were inelastic in supply. So, industry is predominantly a demand-driven activity, which before modern times was subject to unstable markets. It had to take a total transformation of society to become the predominant mode of economic activity. In a sense the industrial revolution was in the end also a revolution in demand.

Yet, even then with large-scale credit-creation<sup>36</sup> and previously-guaranteed monopolies for large-scale enterprises, Keynesian economics showed that especially in times of economic downturn demand still could not be taken for granted. Thus to summarize, industrial development and stable growth requires stable domestic demand, in an economic structure in which production and incomes find their way back into creating further demand. This implies the necessity of permanent and stable markets including a stable supply of material inputs that go into production; especially primary products. It is no surprise that industrialization from List to Gerschenkron and Hirschman was hence regarded as a total phenomenon. It was also in this light that Polanyi emphasized that the industrialization through the market process requires the fictitious commodities of Land, Labour, and Money. The importance of national markets thus lies

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<sup>36</sup> Which for Schumpeter is the defining characteristic of capitalism as distinct from a commercial society.

in the way in which it brings the production and organization of everything into the market-pattern. The machine process, Polanyi argues, requires large scale production such that high investment in specialized capital becomes profitable and secondly that the vent of all inputs and primary-goods be uninterrupted. That is, all factors must be on sale and available in the needed quantities to anyone prepared to pay for them. This is important not only from the point of view of the merchant who makes the investment but “the community as a whole which comes to depend upon continuous production for incomes, employment, and provisions (Polanyi, 1944: 43).<sup>37</sup>

Braudel’s emphasis on intersectorial harmony also revolves around a similar notion of sectoral interdependence. Thus what lies behind the concept of the national market is that it is:

...characterized by cohesion, free circulation of goods and a certain level of per capita income. In France, a country notoriously slow to achieve economic takeoff (since the cohesion of the economy was not reality until the railway network was complete) it might be argued that there was for a long period precisely the same kind of dichotomy which can be observed in Third World countries today: an ultra-modern, rich and advanced sector existing alongside a number of backward areas... (Braudel, 1979c: 541)

This is essentially the story of Italian unification in a nutshell: construction of a national economy without a truly national market. In this frame one could ask why the 15<sup>th</sup> and 16<sup>th</sup> century Milan failed to bring about what England of two centuries later did. Despite its remarkable spurt of manufacturing activity, technological innovations, agricultural productivity under large-scale estates and development of agricultural techniques (in fact

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<sup>37</sup> As he adds: "But the most startling peculiarity of the system lies in the fact that, once it is established, it must be allowed to function without outside interference. Profits are not any more guaranteed, and the merchant must make his profits on the market. Prices must be allowed to regulate themselves. Such a self-regulating system of markets is what we mean by a market economy. (Polanyi, 1944: 44)

the invention of high farming), it lacked both the domestic and international demand factor; an issue we take up in more detail below.

The difference for England was the substantial enlargement of the domestic market, that in turn brought about the extension of agricultural land<sup>38</sup> as well as the establishment of a high-yield agriculture. These changes enabled England to meet the sudden demographic explosion after the 1750s. However, the crucial factor was that in the poorer regions it was responsible for the rise of cottage industries with a proletariat more or less accustomed to craft working, in short a 'trained and malleable' workforce, ready to meet the demand from large-scale urban industry when this appeared in the late eighteenth century. The English country-side's integration into the island's national market thus not only enabled it to feed the population of the towns and industrial conurbations but also to absorb the surplus labour in the countryside for cottage industries and re-absorb those incomes generated in demand for other industrial goods. They were the essential component in a domestic market which provided the initial natural clientele for English industry in its early days. The country's expanding agriculture was the iron industry's leading customer (farm implements, tools, ploughs, sickles, scythes etc).

## **LINKAGES AND COMPLEMENTARITIES**

It is not surprising then that the new growth theory and new economic geography of the last couple years have rediscovered the importance of complementarities in development and structural change. Part of this has to do with the 'rediscovery of knowledge',

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<sup>38</sup> By the reclamation of land, by enclosures at the expense of commons and grazing, by crop specialization - but without any truly revolutionary measures to increase productivity or the fertility of the soil.

information, and related externalities, and partly the rediscovery of economies of scale and linkages in industrial development and location theory. Yet they are nonetheless *re*-discoveries, since these ideas were already explicitly central to Schumpeter and Hirschman's own work more than half a century ago, that modern economic theory has only recently caught up with in modelling.

Essentially the whole operational logic of Hirschman's backward linkages lies in the cumulative effect of demand generated for the coming-about of other related products and industries used as inputs. Of course, it can be argued that this could instead stimulate imports rather than domestic production. Yet regardless of how much of that demand will be supplied from abroad, its importance lies in the *stable and accessible* market that it will create for the smaller domestic producers, and no matter how marginal that increased demand is, this fact alone will be enough to pull those at the margin. As Hirschman notes: “important stimuli result nevertheless from the fact that the setting up of an industry brings with it the *availability of a new, expanding market for its inputs* whether or not these inputs are supplied initially from abroad.” (Hirschman, 1958: 99; emphasis in original).

Note that we are not talking about a lot of entries in the input-output table as is quite frequently mistaken for in the notion of linkages. What we are trying to highlight is that the deployment of an industry should not be seen as an isolated enterprise, but rather in terms of what its interactions with other sectors and the rest of the economy brings about, particularly with regards to those uncertain linkages in the form of external-economies and complementarities, by which we also mean their social costs and benefits (e.g. public works and infrastructure).

“Here the establishment of one industry is a contributing factor which by itself is quite unlikely to result in the creation of the others; but when we speak of external economies and complementarities, we think at least as much of these uncertain linkages as of the far more certain, but also far less significant, satellites with which any industry of a certain size surrounds itself.” (Hirschman, 1958: 103)

Consequently, one cannot think of this as isolated from the structure of agriculture itself. When earlier we highlighted the capillaries of towns extending into the countryside via Von-Thünen rings and of the mutual creation/division-of-labour among the urban-rural plane this was precisely what we were suggesting. We are not only talking about the creation of markets and stable demand for goods of immediate consumption, but also that of industrial-commercial crops. The nature and structure of the industrial development should be such that it creates a demand and a stable market for its related inputs in the countryside. This should be such that the accumulation generated in this process will in turn be cycled back into industrial demand thus creating a market for satellite industries or expanding the market for the initial industry itself, in a circular and accelerating fashion. Or the incomes generated in the countryside could become the stimulating factor in the formation of other industries: that is, create forward linkages. In other words, there is also the notion of forward linkages implicit here: the demand such specialized and/or commercial-industrial agriculture would create for machinery, tools, fertilizers etc, which would create a further/feed-back demand for industry itself.

Left to the functioning of the market itself, the demand generated may take much longer to pass the minimum threshold to make the creation of an assembly profitable. What such an aggregated economy does is by creating a circular cumulative relationship, bring about developments that would otherwise remain un-developed due to the lack of economies of scale. Hence the more that every other sector of economic organization and

population is developing together, the more likely it is that those certain thresholds be attained and new profitable industries assembled, setting off further cycles<sup>39</sup>. “The fact that the linkage effects of two industries viewed in combination are larger than the sum of the linkage effects of each industry in isolation helps to account for the cumulative character of development” (Hirschman, 1958: 104). Hence, the cumulative and accelerating effect of industrialization/development.

This further implies that, development or industrialization priorities should NOT be given to sectors that produce simply for final demand/consumption, or whose production is likely to end up as isolated pockets without much inter-industry transactions or interactions. Intermediate or 'basic' industries which not only create strong backward linkages but also tend to become parts of forward linkages in other high value-added sectors are thus usually more effective than final demand industries. Here also lies the reason for why development envisaged as specialization in agriculture or production for final demand or simple exports is bound to cut itself off early. Agriculture in general, and agriculture under isolated large-estates or subsistence agriculture, is characterized by scarcity of linkages unless aggregated with industrial production to create demands for seeds, fertilizers, insecticides and modern-machinery etc. Yet the more primitive and labour-intensive it is, the lesser the industrial linkages. Forward linkages are also weak in agriculture since a large portion of agricultural output as primary products is destined for direct consumption or export, while the value added by satellite industries (such as milling of wheat, rice, coffee etc) is rather small relative to the value of the product itself (Hirschman, 1958: 109).

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<sup>39</sup> Of course, here we are also assuming that the required savings and capital accumulation do come about. But even if not, this also increases the likelihood that it be.

Thus, even though the increased demand from rising agricultural incomes is initially a very crucial step for creating a stable domestic market, it cannot be the end-all of development; it eventually cuts itself off. Nonetheless, its importance in the initial stages of development is irrefutable, as it constitutes the start of an accelerating cycle of demand and linkages. Such was the case of cottage industries of England which laid the foundation for the second-stage burst that we come to know as the industrial revolution.<sup>40</sup> After the unification, the silk industries of the north Italy, which settled in the rural areas basically played the same role. In contrast, because of the isolated nature of its rural settlements and closed large estates that exploited an expropriated surplus labour-force, the south never experienced even this first cycle.

It is in this light that Gerschenkron argued that we should see industrial development as successive industrial revolutions of their own; relatively discontinuous, but sudden and eruptive as it repetitively takes place:

"The discontinuity was not accidental. As likely as not the period of stagnation (in the 'physiocratic' sense of a period of low growth) can be terminated and industrialization process begun only if the industrialization movement can proceed, as it were, along a broad front, starting simultaneously along many lines of economic activities. This is partly the result of the existence of complementarity and indivisibilities in economic processes. Railroads cannot be built unless coal mines are opened up at the same time; building half a railroad will not do if an inland center is to be connected with a port city. Fruits of industrial progress in certain lines are received as external economies by other branches of industry whose progress in turn accords benefits to the former."  
(Gerschenkron, 1962(1952): 10-11)

Industrialization, or development at large, should thus be seen as a series of continuous disequilibria rather than a jump taking place at the margins of a static state. Here lies the importance of backward linkage as a development mechanism and of the unsettling

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<sup>40</sup> "The minimum economic size of many intermediate and basic industries is such that in small markets a variety of user industries needs to be established before their combined demand justifies a substitution of imports of intermediate and basic goods by domestic production." (Hirschman, 1958: 113)

effects of industrialization. It is also why industrial development cannot be seen as a purely economic process either. It depends not only on the degree of relative backwardness but also the indigenously determined elements that have evolved historically. That is why Gerschenkron highlights the different paths taken for industrial development as well as the variety in the 'institutional vehicles of industrial development' that have underlied/carried these industrializations.<sup>41</sup> The particular historical trajectories and the existing domestic/indigenous conditions/elements inherited when jumping on industrialization greatly determined the instruments and institutional vehicles used.

#### **SOCIAL CHARACTER OF ECONOMIC ORGANIZATION:**

When we are characterizing the economy as a total phenomenon, we should not be looking just at these rather aggregated macro-level linkages as they are channelled through the market in an impersonalized/materialized manner. There is also the micro-level social links and networks within which economic activity and market exchange takes place (and here we do not mean Putnam's social capital). What we are referring to are the repeated patterns of exchange among not only individuals but firms and large enterprises whose relationship is not defined by simply on-the spot atomized exchange, but that of long-standing relationships of cooperation, mutual-trust, and transfer of knowledge. Our interest is in the repeated transactions and interaction of a firm with its suppliers, or the way in which a rural commodity producer repeatedly exchanges with

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<sup>41</sup> As he notes: "...in every instance of industrialization, imitation of the evolution in advanced countries appears in combination with different, indigenously determined elements. If it is not always easy for advanced countries to accept the former, it is even more difficult for them to acquiesce in the latter. This is particularly true of the institutional instruments used in carrying out industrial developments and even more so of ideologies which accompany it. What can be derived from a historical review is a strong sense for the significance of the native elements in the industrialization of backward countries" (Gerschenkron, 1962: 26).

urban shops or the wholesale merchant; or simply the oft-repeated spot-exchanges of acquainted traders on the bazaar/market-place.

Even in today's modern economy, what we observe is that "It is not only at top levels that firms are connected by networks of personal relations, but at all levels where transactions must take place. It is, for example, a commonplace in the literature on industrial purchasing that buying and selling relationships rarely approximate the spot-market model of classical theory." (Granovetter, 1985: 496).<sup>42</sup> The relationships even in a local market and Bazaar, which resemble the neoclassical market the most - with a high number of individuals, approximating competitive prices and uniform products - are the most obvious of this pattern. Usually the consumers and producers/suppliers within a bazaar retain a long-standing relationship, for the simple reason: the costs of information (Geertz, 1992) and uncertainty.

I would like to distinguish two kinds of networks here: in the first place, those among different branches of production or industry (i.e. among producers, suppliers, traders, wholesaler, retailer etc). Examples of this would be the larger consumer reorganizing its suppliers, like a tobacco company organizing its tobacco farmers and introducing them to better techniques, newer materials etc. The case of Chilean food industries, with high levels of transfer of information, knowledge, best practices and organizational structures between distributors and suppliers is an apposite modern

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<sup>42</sup> As Granovetter (1985: 484) notes: "In classical and neoclassical economics, therefore, the fact that actors may have social relations with one another has been treated, if at all, as a frictional drag that impedes competitive markets. In a much-quoted line, Adam Smith complained that 'people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices' ... Noteworthy here is not the rather lame policy prescription but the recognition that social atomization is prerequisite to perfect competition (Smith [1776] 1979, pp. 232-33)".

example (Perez-Aleman, 2000). Secondly and more importantly are the horizontal connections among those who occupy the same branch and whose relationship does not have an element of hierarchy; or more broadly among those who face similar economic problems: i.e. institutions of collective action and associations, such as graziers associations, labour leagues/unions.

Vertical long-standing relations and horizontal networks and associations need not be purely economic ones and are in fact rather socially or politically constructed. However, what we highlight is that in essence they exist to solve economic issues, that is, they are different than cartels or formation of oligopolies whose purpose is to create rents or exploit a situation of concentrated economic power. Rather, they are rooted in the role of repeated interactions, and the exigencies of collective action. Their importance derives from their function in overcoming problems of market coordination and the associated opportunistic behaviour, information asymmetries and tackling economic problems as well as uncertainty. Thus, aside from the fact that economic behaviour is socially constituted, even at the firm/industry level, the existence of these relations, links and networks are rooted in the reality of market imperfections and bounded rationality (Simon, 1982)<sup>43</sup>.

More importantly these links also function as the main vehicles for diffusion of information and technology transfer by the sheer fact of their existence as operationalized through spill-overs or mere 'osmosis'. When viewed in conjunction with linkages, they constitute the main channels through which learning, technology transfer, externalities, transfer of know-how and practices among firms and agents are realized. The hegemony

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<sup>43</sup> And even a game theoretic approach is bound to accept their validity as (or the outcome of) repeated games of interaction.

of the town on the organization of economic activity, and the diffusion of best practices to the country-side through the interaction of the rural population with the bazaar-people or the shop, factory to which they supply goods etc are all examples of this. What we are highlighting here is simply the institutional character of the economy and the consitutedness of economic action/behaviour. By their very nature, these form an important aspect of the spatial organization of economic activity since they are also directly structured by proximity and repetition.

One thing needs to be clear: we are not assuming that the vertical (or rather hierarchical) relationships in this framework necessarily serve the public good at large or are mutually beneficial for all parties (i.e. especially the smaller parties). Secondly, such horizontal associations and institutions do not inevitably spring up to solve problems. That is, we are not in any way taking a structural-functionalist position.

In fact the unequal relationship of the merchant-signeur and the commercially producing peasant is an exploitative relationship; or that of any monopsony against individualized/atomized producers. In essence the vertical relationships and networks can become exploitative and extremely distorted (and such is Braudel's notion of the anti-market.). Gereffi's global-commodity-chains study of modern day organization brings out a variety of cases that on some occasions demonstrate outright creation of rents and exploitation of position, but on others a dense transfer of technology, techniques and standards with a wide range on this plane depending on the nature of the industry or product in question. In sum, these vertical relationships that naturally arise from the (frictional/imperfect) nature of market exchange, and frequently function for the downward transfer of information, knowledge and technology as well as the reduction of

uncertainty in production, may very well become relations of domination, especially (but not necessarily) the more impersonalized they become<sup>44</sup>.

What we want to highlight is that the nature of the externalities inherent in the linkages argument greatly depends upon the nature of these personalized links and networks. What we have argued is that market exchange is characterized by the prevalence of power relations and is not an act of atomized, un-socialized actors<sup>45</sup>. Thus the nature of the market economy and capitalism at large requires an analysis of power-relations at the exchange level as the latter are not an off-shoot of relations of production, but rather rooted in the understanding of economic action as part of a broader notion of social behaviour. In short, economic behaviour cannot be understood in isolation from the dense networks of social-personal relations within which it is constituted. Thus, the organization of production and economic linkages at large are shaped by the nature of these personal and social links of repeated and long-standing relationships<sup>46</sup>.

It should not be difficult to see that the nature and consequently the effect of these vertical networks and relations are directly dependent on the existence of horizontal networks, associations, and institutions of collective action whose main task is to countervail such exploitative and asymmetrical tendencies as well as to reduce economic uncertainty. Our case is that institutional frameworks for overcoming problems of

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<sup>44</sup> Hence is the Marxists notion of relations of production and the way in which power relations become manifest.

<sup>45</sup> Hence our earlier discussion of the importance of purchasing power in market relations and the political and power-ridden character of market economy/exchange.

<sup>46</sup> Of course we need to open a bracket here and contrast how our understanding of horizontal and vertical relationships differ from the classification made by Putnam with similar terms. In the first instance, Putnam's understanding of links/associations are tertiary ones: that is instances such as bird-watching associations, which I find quite irrelevant to analyze anything. Even though a part of social action at large, they are nonetheless only very remotely related to economic action. Secondly, he argues that horizontal and vertical associations as rather disparate and frequently mutually exclusive aspects: but economic reality is, the existence of both is what characterizes economic interactions. That is Northern Italy in fact has had as much (and in fact more) vertical organizations than the south; the difference in our thesis is that the artificial destruction of horizontal associations brought about an asymmetrical situation in the south.

collective action and countervailing impacts of economic uncertainty also determine the nature and effectiveness of linkages, technology transfer, spillovers and externalities across industries.

The creation of these institutional frameworks is not just a question of independent variables. These institutional frameworks are rooted in what we could broadly call transaction costs, the power relations across groups, classes and industries; but most important of all, state structures, policies and state-action. Essentially they are rooted in state-society relations. Formation of such links and networks - partly in common with vertical relationships – is inherent in the nature of market exchange or participation, which is characterized by transaction costs, information asymmetries and uncertainty. More importantly they are rooted in the social character of economic behaviour.

As Polanyi demonstrates in the context of 19<sup>th</sup> century England, although economic activity was always embedded in social relations and values, the push for the formation of a 'market society' nonetheless attempted to secure their artificial separation by political means. The argument that these networks are the essence of economic action nonetheless does not mean such networks can be taken for granted or that their formation will come about.<sup>47</sup> It depends on whether the formal state structure and policies enhance their formation or hinder it. More importantly it is also determined by the venues open to those agents such as monopolies, monopsonies, the latifundae or large-estate owner, who would benefit from atomizing their dependents and attain greater bargaining power, at the

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<sup>47</sup> Similar to the fallacy of neoclassical-economics or rational choice approaches (including new institutionalism), which assumes the automatic realization of personal material maximization, or any related 'tendency' of efficiency increasing patterns (sometimes, but not always, through some invisible hand).

least by sheer difference of purchasing power and ability to dictate terms. The relationship between the worker and the agricultural employer is the most obvious case where this is observable. Yet, as we have argued it can easily exist among isolated independent tobacco producers (which can be both large-scale or medium-small scale producers) and a monopsony tobacco buyer, especially if the monopsony can isolate its suppliers. That is, it can exist between any parties interacting in a market economy.

The possession of means of production, of course greatly determines the concomitant behaviour and response of the individuals and workers subject to such power. In fact for strictly-orthodox Marxian analysis, this factor alone greatly characterizes capitalism as a specific mode of production with particular production relations. What we are arguing here is however that, market power and capitalism at large can exert substantial influence, discipline and power even when subjects/individuals possess means of production that they can put to alternative use. In our analysis of Italy we will be looking at both the differences in degree of the expropriation of the rural masses, and also of the relationships across different sectors and industries.

Nonetheless, to cut the story short, it should be obvious now that the availability of such venues, or rather the possibility of their exercise almost at any level is also dependent on state structure and the nature of the state-society relations. What we suggest is that the disaggregation of economic activity from its social context and the social relations within which it is embedded, means the atomization of individuals and hence the reduction of society to the market (as well as the full/fictitious commodification of land, labour and money).

Even though the degree to which this has or has not taken place is a question of another debate, what we do in this study is to analyze the differential impacts of *the push* for this dominance of exchange even if not the only mode of economic organization. In the process, society may take the measures to preserve itself, in the sense of Polanyi's double movement, and the role played by the state greatly affects the nature, shape and the outcome of these preserving measures.

As hinted above, the formation of such institutions of collective action is crucial especially in the case of dispossessed peasantry, or the expropriated surplus labour. First, how they can face the vulnerability of economic uncertainty depends greatly on whether they can act with those others who face the same situation. That is, it lies in the existence of a medium for the formation of collective solutions to collective problems. These problems of economic displacement and uncertainty may be national, but more frequently than not they are regional and sectoral.

Secondly, the existence of industrial networks greatly affects the rate and impact of sectoral displacement. Durable/long-standing networks imply that in the case of changes in relative prices (especially between domestic and international prices) relations with domestic-local suppliers will not be cut immediately, and relationships maintained unless the disadvantage pertains in the long run. Thirdly, the existence of linkages implies that there is a relatively permanent domestic market for the goods of an industry. Thus, even if international demand conditions change, tariffs or protectionist factors impact, people will not be cast at the whims of the market entirely, or will otherwise be absorbed elsewhere in another-sector/industry. In addition, linkages imply the emergence of complementarities, that is, economic diversity rather than concentration in a primary

sector. Even though this implies transfer of technology and related knowledge externalities, the overwhelming factor lies in the social relations and repeated exchanges among firms and individuals. Thus the existence of dense links and linkages undercuts the formation of disparate dual economies but also avoids the dislocation and displacement of the whole population and economy in economic shocks, and all the implications articulated by the dependency theory<sup>48</sup>.

I hope at this point, our notion of networks and social relations have been clearly distinguished from those conceptualized by Putnam et al. However, I believe we have left the most important aspect of the question to the last: the way in which these links and networks are shaped by the nature of state-society relations. Too frequently it is argued that society has the primacy and determines the formal institutional structure in a uni-directional and endogenous manner. However, as we have pointed above, we hold that the direction is not uni-lateral and as we will see below, the divergence between the north and south of Italy was rooted in the way in which the state influenced the formation of these social links and structures differently across the regions. In other words, the state's impact on social links is an empirical reality. As Bebbington notes the quality and effectiveness of these relationships "owed much to (although was not absolutely determined by) the institutional and bureaucratic rule environments in which they operated" (2008: 273). Enclosed within the discussion of ways in which state and society co-produced each other, are studies which suggest that many civic associations are as much the products of the state as they are autonomous. In other words, social capital can

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<sup>48</sup> In that regard, the linkages argument we developed above not only implies the existence of multifarious venues for increased demand but also the absorption of displaced or surplus labour. Especially crucial is the existence of stable/fixed demand and markets that would be resilient and preserve employment in times of international swings. In a sense even if we think of linkages as isolated from networks, an aggregated economy alone implies a resilient domestic market that can greatly absorb external shocks.

be politically constructed; and the creation of community-based organization arise in response to state policies (Bebbington, 2008).

This is not however an aspect of political economy independent of conflict. In fact, Charles Tilly's work is crucial in the way in which it examines the role of conflict and collective violence in the formation of European institutions. Particularly important among them is the role that the state plays in any political conflict or contention:

"By their actions, agents of the state frequently turned collective actions into collective violence; demonstrations turned into riots, for example, when government troops attacked the participants. In the seventeenth and eighteenth centuries, the French government provoked collective violence when it attempted to levy new taxes, redistribute the grain supply, or organize conscription. *Hence the state was not just the object of struggle, but itself one of the chief parties to it. Coupled with this is observation is the recognition that repression often works* - periods of strong repression and central control such as the early years of the Second Empire and the two world wars produced little or no collective violence in France." (Hunt, 1984: 264; emphasis added)

Another important aspect highlighted by Tilly is the shift in the character of collective action especially after the 19<sup>th</sup> century; which he characterizes as a change from reactive to proactive forms of organization (Tilly, 1978). This change is rooted in the centralization of both administration and fiscal privileges formerly under the auspices of communities or local towns. In other words, the expansion of capitalism and the nation-state forced ordinary people to establish their own large organizations if they wanted to contend in the new arenas. In essence the 'modernization' of collective action was affected by the patterns of urbanization: "Urbanization channelled protest into the cities; the centralization and nationalization of politics shifted violent conflict to the national arena; and proletarianization created a new contender with new claims to press and encouraged the formation of centralized, bureaucratically integrated political and trade organizations" (Hunt, 1984: 263-64). The lesson is thus clear: the corollary of national

markets which impersonalized economic relations and atomized the common folk, was the change in the nature and scale of collective action that followed a similar pattern/trajectory.

While the trajectory of the northern Italy could have been said to follow what Tilly (1975) describes as the impact of urbanization and industrialization on collective action, which takes on of a proactive form and shifts to the national rather than the local level, the south presents a diametrically opposite case. The state's strength and ability to concentrate confrontation in the south not only prevented such interests from being represented at the national level, but also thwarted the formation of other forms of collective action at the local level which were essential for dealing with problems of economic uncertainty. In Tilly's scheme, these could also have constituted the stepping stones to national organization. In other words, in the south, even the formation of conditions for reactive responses was thwarted.

The argument then is that in the Italian case, the differences between the state's impact on the formation of institutions for collective action constitutes a crucial explanatory variable. The importance of state institutions for the pursuit of common interests in the face of economic uncertainty - uncertainty due to expropriation and the lack of alternative forms of employment plays an indispensable role in the decision-making and behaviour of the rural population, as their livelihood is made vulnerable to the market. In other words, the question is not simply that of industrialization and the accompanying urbanization as a linear progression. The key, as indicated above, is in the way in which state affects organization and collective violence (which was in the Italian case also different across regions).

Since we have delved into the topic of national scale and political actions, it is important to revisit the nature of decision-making at the national scale and in light of the reality of state-action. What we want to emphasize here is how the national market first of all increases the size of effective economic unit by the simple fact of increasing the transaction, information and transportation costs that a small-scale producer is unlikely to be able to bear alone. Second, by the mere fact that collective-action needs to be resolved on a larger scale now means that market access is less certain and exchange is much less personalized. The prime reason for this is that the shift from a city-centered provincial organization to the national scale involves a complete restructuring of market links, networks, and linkages.

The difference between large countries such as Italy in which the rural areas faced immense transformations in a small period of time and small countries like Denmark and Switzerland (where the transformation was less abrupt) lay with the fact that in the latter, even the national-market formation did not change the scale of organization and production that much. The individual dairy-producer could afford to take part in the market process since the formation of a national market did not involve too radical a change to older networks; in other words, it did not bypass the cities and towns and reconstruct the whole organizational links over again.

This is where the state plays an important role as a medium for the solutions to such collective action problems. The function can be carried out either by promoting producers' associations or cooperatives, or by the state itself taking on the role of organizer by buying the peasants'/farmers' produce at a socially just price. When this function is left to private parties, however, there will be incentives to create dependencies

and the over-extraction of the small-scale producer by large land-owners as has been the case in Italy. This operates not just through the disposal of the produce (i.e. the problems of market access) but also through access to credit. It is essentially for these reasons that A. G. Frank characterizes the Brazilian peasant as entirely dependent on the big land-owners for every aspect of the production for the market.

Just to open a small bracket here, this implies that Gramsci's observation that peasantry is socially disaggregated does not necessarily mean that it is inherent to being a member of that class. Rather, it has to do with the lack of institutions for collective action - a situation that the post-unification state directly contributed to. As we have argued, the fact that a number of people are subject to the same dislocations does not imply that this will result in a successful collective reaction. As Ostrom puts it very eloquently:

“The differences between those who have and those who have not extricated themselves from commons dilemmas may also have to do with factors *outside* the domain of those affected. Some participants do not have the autonomy to change their own institutional structures and are prevented from making constructive changes by external authorities who are indifferent to the perversities of the commons dilemma, or may even stand to gain from it. Also, there is the possibility that external changes may sweep rapidly over a group, giving them insufficient time to adjust their internal structures to avoid the suboptimal outcomes. Some groups suffer from perverse incentive systems that are themselves the results of policies pursued by central authorities.” (Ostrom, 1990: 21).

To be specific, from the organization of the town and city-centered economic organization to national economies and industrialization, we have explicitly drawn attention to the importance of links, linkages and networks (especially geographical ones but also immaterial, personal ones), i.e. the social, geographical and scalar contexts within which economic activity is constituted. In line with Granovetter and Swedberg

(1992), we take the position that: 1) economic action is a form of social action; 2) economic action is socially situated; and 3) economic institutions are social constructions.

What we have attempted here is a bottom up construction of economic activity as it evolves from town-centered one into a national market economy as well as the individual decision constraints faced by the agents involved. Implicit in the process has been the shift in the 'agrarian question'<sup>49</sup> (McMichael, 2008 and Moore, 1967) as it took shape in the substantive notion of the economy to the formal meaning it now holds in the discipline of economics. Of course, this has been a part of the general shift in the notion of economic action, conceived as self-interested and 'rational' (Hirschman, 1977). As Hirschman explains (in *Passions and Interests*) this is a relatively recent phenomenon in human history. Whatever 'rationalization' implied, it would be wrong to assume that economic improvement, or general increases in efficiency could always be associated with improvement in economic conditions for the general population. As Polanyi argues, habitation and improvement are not always congruous. In the first place, rationality and improvement themselves are not always congruous. We argued why rationality might in the case of certain peasant situations imply exactly the opposite of what most modernists would argue (i.e. specialization or market participation). As we have demonstrated, market specialization as depicted by Adam Smith, pertains to a rather rare form of economic exchange in the world of capitalism. "If 'rational' refers to the common or public welfare, then it remains far from obvious that the better [for the producers] *variety* of crops on more traditional farms is a non-rational or irrational disadvantage." (Frank, 234, emphasis in original). Similarly, in the Italian case, the 'rational' large land-owners

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<sup>49</sup> From assuring the subsistence or habitation of maximum people to just maximum profits (which usually implied at the expense of the general welfare).

of the south had incentives to diversify and hence keep capital investment low to be able to change crops in accordance with international tariff structures. This is similar to Hirschman's (1968) arguments for the capitalists of Import Substitution Industrialization, who would rather hide behind tariffs and diversify to minimize risks and gain flexibility to exploit market opportunities, than invest in industrial upgrading.

In other words, there is nothing magical about individual rationality when it comes to creating socially productive outcomes. Hence we cannot take any so-called 'improvement' and increases at their face value without considering the social costs they incur. In the last analysis, whatever the chain of events that a change sets-off, the eventual outcome is not the only factor in the evaluation of that change. For instance, even if once can accept that Italian unification and a national market formation were necessary or inevitable, or that it was a 'positive' change, there's still the question of the way in which it took place, the speed at which it took place and the way in which losers and winners of the process were treated or compensated. There can be no complete assessment without understanding the particular context within which these changes took place and the 'repressed historical alternatives' (Moore, 1978). That is why we hold that "It is impossible to understand an institution adequately without an understanding of the historical process in which it was produced." (Berger and Luckman (1966: 54-55) in Granovetter and Swedberg, 1992: 17).

Similarly, while the origins of a situation give clear information regarding the causes of a problem, the opposite need not be true. That is, the causes of a problem, especially those associated with its persistence, need not give us the reasons for the origins of that problem in the first place, and what the conditions for its solution may be.

The historical method we employ here gives a clear-cut process in isolating the causes of a problem from its consequences. The biggest problems in the analysis of southern Italy stem from a static conception of the problem that take a single description, and observation in time as both the definition and cause of the problem.

Hopefully in the preceding pages we have provided a theoretical background to which the transformations and events of what we think were explanatory could be constructed. The issues and aspects highlighted here are thus not only our theoretical and methodological tools, but also half of the story/explanation as they are the mechanisms and processes through which the events and shifts that we will highlight below have come to operate. In other words the model constructed above provides the base to the story told in the next chapter. While above we covered the comparative aspects of the issue that could contribute to a better/general understanding of issues such as the city-countryside relationship, the imperatives of national market formation, spatial and scalar aspect of economic organization etc, the sections below are unique to the case. That is, while the issues covered above constitute the comparable aspects, the issues, events, and facts discerned in the next chapter are more idiosyncratic to the development of the southern question and to economic organization in the Mezzogiorno. They aim to highlight the origins and divergence of the south's political economy and to substantiate the impact of the unification with regards to the themes covered above rather than imply any more general lessons.

**CHAPTER - III:**  
**ITALY ACROSS TIME AND SPACE**

**MILAN AND NAPLES BEFORE UNIFICATION:**

This chapter is divided into three parts. In the first part we examine pre-19<sup>th</sup> century Milan-Lombardy, and Puglia-(Kingdom of Naples) while in the second and third we concentrate on the 19<sup>th</sup> century events and the unification itself. Through the puzzle of Milan's agricultural and urban development, and all the supposed preconditions of industrial revolution that did not lead to a revolution, we examine the question of a 'national market', and the north's need of south for its own development. Through Naples, we debunk the hypotheses of lack of capitalism and collective initiative in the South; and assess the impact of the history of the Kingdom of Naples as it took southern Italy into the 19<sup>th</sup> century.

The choice of these two cases is not arbitrary, but rather because they are quite representative even when considering the regional diversities of north and south. For our purposes, their pre-unification conditions and history is sufficient even from a simple Popperian falsification angle; but we hope to find more. The chief reason why we concern ourselves with this history of pre-19<sup>th</sup> century Italy is because history does not happen in a vacuum. The precedents and the legacy upon which the events of this period took place cannot be ignored. As the history of Italy does not start with unification, neither do the 19<sup>th</sup> and 20<sup>th</sup> century institutions (rural, urban and political economic alike) emerge out of thin air in the 19<sup>th</sup> century. They are rooted in events and histories that have originated before the act and the fact.

## MILAN AND LOMBARDY:

There is a frequent misrepresentation of not only South but of 19<sup>th</sup> century Italy as a whole as an agriculturally underdeveloped region. The reason for this is ethnocentrism not only across the north-south divide in Italy, but also in the standard comparison of Italy to the rest of Europe (especially England and France). In light of our discussions of French and English agriculture above, and of what will be highlighted in the case of Milan below, we hope to demonstrate that market-oriented agriculture was not an English invention but rather a Lombard creation. The time-frame we want to especially highlight is the period between 15<sup>th</sup> and 17<sup>th</sup> centuries.

As Zangheri (1969) and Braudel (1979c) note, during the 15<sup>th</sup> and 16<sup>th</sup> centuries, the expansion of agriculture in the Po-Valley reached a quite unparalleled level. This expansion is crucial because it came predominantly with increases in productivity rather than extension of new agricultural land as was typically the basis of growth elsewhere in Europe until the 18<sup>th</sup> century. The qualitative changes in agriculture in this period were to take their definitive form in the Netherlands' development of high farming about a century later and to be emulated in England only in the 18<sup>th</sup> century.<sup>50</sup> Of course the qualitative changes can be traced as back as the 11<sup>th</sup> and 12<sup>th</sup> centuries. By the 14<sup>th</sup> and 15<sup>th</sup> century, the use of metals in farming/agricultural tools, rare elsewhere, were quite common in Lombardy. Many sophisticated farming tools with manufactured iron contents such as *ferrarii*, were quite frequently noted in inventories and there are also records of regular payments in metals, and wage payments rather than payment in kind was much more frequent than elsewhere in Europe (Zangheri, 1969).

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<sup>50</sup> See the related discussions in the sections above.

What was taking place in the 15<sup>th</sup> century Lombardy, however, was more than just a marginal change in the usage of tools and methods of payment. It was a radical shift in the role, the function and the motive of agriculture: an agricultural revolution along capitalist lines, throughout the canals of the great Lombardy plains. In fact, in Lombardy, as early as 14<sup>th</sup> century the city communes took over the rights of signoria,<sup>51</sup> while in other regions of western Europe such rights remained in feudal hands. It is probable that the original interdependence of relations between city and countryside also accounts for the capacity of the Po Valley to resist the long crisis of the fourteenth century. Milanese capital was flowing into the Lombard countryside and reorganizing rural properties into large estates, alongside the development of irrigated meadows and livestock farming, the digging of canals for irrigation and transport, the introduction of rice as a new crop, and in many cases the disappearance of fallow land, with continuous rotation of cereals and forage crops.

Thus, the phenomenon of a transfusion of trading capital in agriculture allied to new farming practices, which occurred only around mid-seventeenth century in England, was already well known in northern and central Italy in the fourteenth century. To be sure, this was not a remission of capital from trade to agriculture in a regressive fashion. It was basically 'good-business' in response to increasing profits from agriculture. It was accompanied with a wave of technical and productive advances, and basically gave birth to a resilient agrarian capitalism, which found its ultimate form of 'high agriculture' not in England, but Netherlands. In the 19<sup>th</sup> century Cattaneo had already noted that the contemporary productivity of Lombard agriculture was not rooted in its natural conditions but the centuries long flow of capital and investment into the region's land,

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<sup>51</sup> Prerogatives which were based on possession of the soil.

and noted that these elements of high-farming had already been present from late middle ages:

"irrigation in itself is not, as many seem to think, more excellent or useful than drying, marning, fertilizing, or any other method of altering the basic fact of raw nature. The extremely high value of the soil in our plains is due to capital, that is, to labour, applied in the form of irrigated fields, or marcite. The extremely high value of our hilly regions and the shores of our lakes is due to capital, that is to labour, applied in the form of ronchi, olive groves and lemon groves. In the former case, the capital, that is labour, obtains water for the flat, dry surface; in the latter, it obtains earth for the rocky, rugged surface

But the basis of productivity is always labour; water and land are merely instruments. it is from this marriage-like union between land and capital, namely, human works, that the agricultural wealth of nations derives. Such wealth is the joint product of the natural amenity of the location and the abundance of capital. Without them - that is, without labour and cultivation - the natural fertility of the soil would be worthless, or would soon be exhausted" (Cattaneo, 2006 [1847, 1836]: 97)

Cattaneo is not alone as the British agriculturalist Arthur Young (1934) had also noted Lombardy's agricultural development in the 19<sup>th</sup> century. For our purposes, this agricultural expansion also was the basis for the great expansion of urban life in the same period. The flow of capital into the countryside in turn created surpluses that were at least partially reinvested back into the cities, as well as increasing the volume of trade that the agricultural produce itself created. There is no need to recapitulate the unique city-countryside relation in Italy covered in the sections above. Suffice it to say, the irony is that while urban life took a down-turn in the rest of Europe after the crisis of the 14<sup>th</sup> century, the opposite was taking place in northern Italy and also to a great degree in southern Italy.

We have to also note the scalar aspect of economic organization here since the invigoration of important cities such as Milan influenced the neighbouring countryside in various ways. The sale of agricultural produce, now concentrated in the cities, also

caused a decline in the village markets. Peasant obligations to provide artisan services in rural domestic industries vanished early because of the emergence in the cities of small-scale mercantile production which offered better quality goods at cheaper prices. The same process was also observable in the developed and productive agricultures of Siena, Florence, and Bologna which prospered on the surpluses created by their country-sides.<sup>52</sup> To cut the story short, what we argued (through Bücher and Braudel) with regard to increasing scales of economic organization, was already clearly visible in the shift from village and small-town centered organization to a city-centered organization.

Through such a process of invigoration, by the mid-15<sup>th</sup> and early 16<sup>th</sup> centuries Milan embarked upon a unique phase in Italian and European history. A demographic revolution, and the existence of a small territorial state was complemented by a climate of scientific and technical discovery: in an "age when hundreds of Italians, sharing the enthusiasm of Leonardo Da Vinci, were filling their notebooks with designs of extraordinary machines" (Braudel, 1979c: 550). Having been spared the crises of the fourteenth and fifteen centuries, the city witnessed a remarkable spurt of manufacturing activity and was caught up in a huge wave of commercial activity linking it to the fairs of Geneva, Paris, Dijon, Netherlands. In short, by the beginning of the 16<sup>th</sup> century, Milan and Lombardy as a whole seemed to have most of the prerequisites of an industrial spurt/revolution: an agricultural revolution organized in capitalist lines, a bustling commercial city, and a symbiotic relationship between the urban-rural areas, a

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<sup>52</sup> One can take the commercialization of agriculture especially Lombardy especially after the 13th century onwards as the analogy/shadow of what was to be repeated in the 18th-19th century national market formation: The sale of agricultural produce was now concentrated in the cities, thus causing a decline in the village markets.

demographic leap, and the existence of wage labour in agriculture, urban manufacture and services.

So the question is: why did this substantial transformation of both the industry and countryside of Milan fail to bring about to an industrial revolution, and eventually wither away? Technology was not a factor: until electricity, the majority of technology to be used in the next four centuries had already been discovered. As Eric Hobsbawm notes, the English Industrial revolution "hardly depended at all on scientific and technological advances which were not already available in the sixteenth century" (1960: 665).

This is partly rooted in the fact that by not being a port, Milan could not enjoy the full advantages of a burgeoning Mediterranean-centered international trade. It did not possess the command of external markets, enjoyed by Venice (and Genoa). More importantly, it did not possess a large enough domestic market. Despite its strong links to Tuscany, its economic hinterland did not extend far beyond Lombardy and it was thus limited to a provincial ring of towns and countryside. In other words, the lack of a 'national' state, an adequate home market, and a narrow reach of urban penetration, in the presence of backward regions even within Lombardy itself, were also not compensated by an international demand factor.

Even though this picture of a harmony of Milan with the Lombard countryside eroded in the crisis of the 17<sup>th</sup> century, when conditions changed for the better in the 18<sup>th</sup> century, the Lombard countryside was still characterized by large productive units run with wage labour, a crop system integrated with the raising of livestock, and an industry based on dairy farming (Zangheri, 1969). This process was also emulated by Piedmont, now extending the reach of Milanese catchment. Yet the center of capitalism had already

shifted outside of the Mediterranean and an industrial jump now needing to rely entirely on a home market would require a reach beyond simply the north-west or northern Italy alone. Therefore, it is not surprising then that northern Italy, for its first minor industrial spurt, would have to wait the Italian unification, and for its real 'revolution' the 1950s when a real economic integration of the north with south would begin.

The failure of Milan's 'industrial revolution' is perhaps proof that an industrial revolution, as a total phenomenon, cannot be built up entirely from within, simply by the harmonious development of the various sectors of the economy at a provincial level without any concern for the size, scale and geography across which it is distributed/generated. In other words it is not a simple endogenous process, conforming to a single pattern of evolutionary transition to modernity and development or industrialization regardless of size. The scalar and spatial aspects of the process are quite often more important than their internal paths.

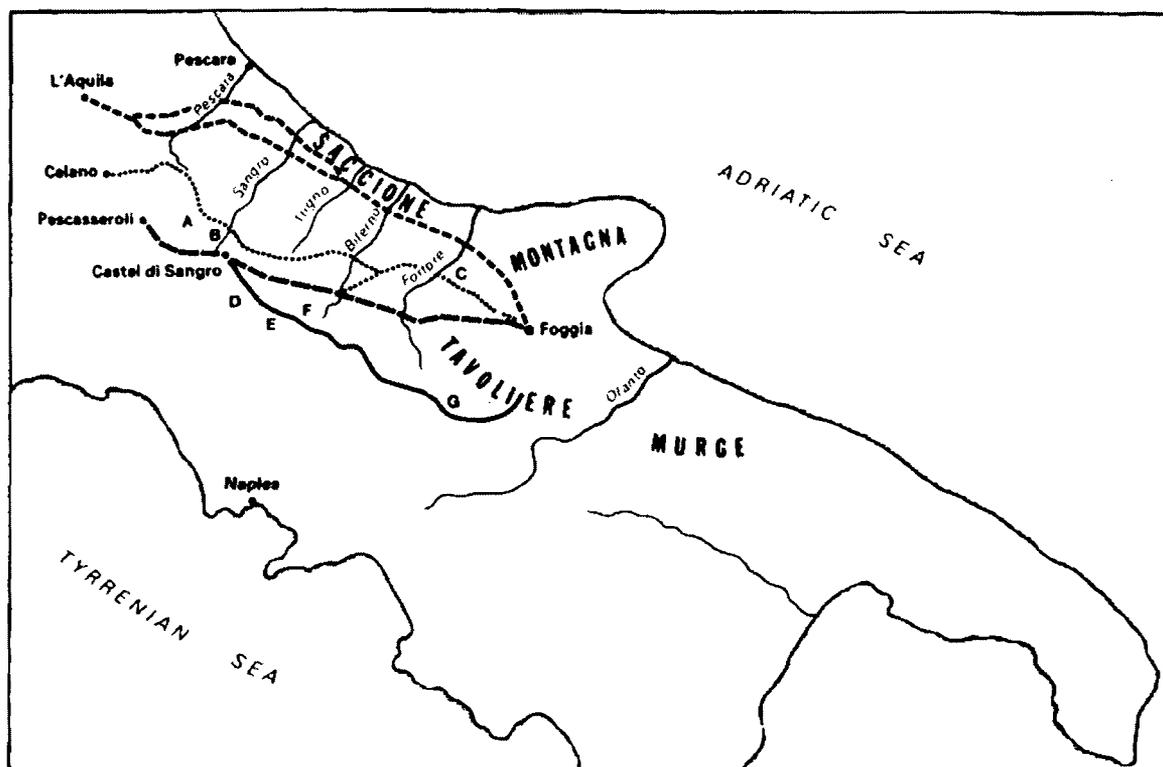
As Zangheri noted: "This point allows one to note, in passing, the weakness of the thesis current today that the north of Italy owed nothing to the south for its industrial development this century. Why in that case, one may ask, did the northern regions not begin that growth, since it may be assumed that they already possessed the internal requirements? Why did this growth only occur after unity, after the effects of unity were felt?" (1969: 38). After all if development and industrialization of the north were entirely endogenous and independent of the south why didn't these remarkable achievements of the 16th century, also repeated at the turn of the 19th century, didn't bring them about?

## **PASTORAL ECONOMY AND THE KINGDOM OF NAPLES: Transhumance as an Economic and Political Decision**

The reason for our overview of the pre-unification organization of pastoral economics in the Kingdom of Naples is that it is in a nutshell the exact opposite of what many scholars frequently assumed the south to be in an unchanging pattern. Below, we will first look at the conditions and structures that led to the emergence of an organized pastoral economy in the Kingdom of Naples, the political-economic conditions that enabled it to survive for over three centuries, and the implications for the evolution of rural economics and underdevelopment in the south. Specifically, we will be tracing this evolution through the example of the Apulian sheep grazers' association 'dogana di Foggia'. Even though the dogana of Foggia was not the only sheep customshouse (the Roman dogana in the Papal states for instance was also considerably large in its membership and revenues generated), the immense area that it encompassed, the large number of both small and large-scale grazers it organized and the huge revenues generated made it much more than a regular or marginal case.

Dogana di Foggia, the royal customhouse of Apulia centered in Foggia could be regarded as the equivalent of Castilian 'mesta'. It mainly organized sheep-grazing and the production of wool within a vast network of sheepwalks between the mountains of Abruzzi and the plains of Apulia (see Figure-1). Even though such transhumant associations on much smaller scale could be dated way back to ancient times, the dogana of Foggia was a huge organization that retained a position of royal institution especially between 1447-1806.

Figure-1: Apulian Sheepwalks



Source: Marino (1988)

Although it was essentially aimed at organizing transhumance, by the very nature of such pastoral economics, it functioned as much more than a customs-house. In the first place, Italian transhumant sheep systems crossed diverse territorial jurisdictions and could only be maintained with the auspices of a strong centralized state which was, for its part, strengthened by the revenues such institutions provided. Hence the dogana featured a unique state-society relation that was rooted in the necessity of cooperation that the state exercised through the doganas to maintain the checks and balances that pastoral and agricultural economies imposed on each other. The distinctive feature of this system of cooperation between shepherd and farmer was that both wool and grain production were destined for cash markets. Consequently, with the appearance of merchants and money came government regulation and taxation.

Thus, the nature of the dogana di Foggia was greatly shaped by the exchange between the state and the revenues created by the pastoral economy, as well as the social tensions that rose from the possible alternative allocation of some plains as agricultural land. In essence it was the commercial nature of sheep-raising in the Kingdom of Naples after the 15<sup>th</sup> century that was even at the smallest scale directed for non-subsistence production. Even individual grazers, gathered their sheep together and descended upon the plains for dietary exchange, winter shelter, and spring markets (Marino, 1988).

Transhumance, in southern Italy from late 15<sup>th</sup> century onwards was thus predominantly a capital-intensive system of livestock farming. The cash-cropping pastoralist relied on salaried shepherds working far from home, and was dependent on international demand for wool. His economic fortunes and profits were contingent upon the ability of government to provide political stability, protection from bandits, and 'free' markets. "Good government, not nature, ensured the success of such large-scale, capital investments." (Marino, 1988: 16). In other words, the rural economy and pastoral organization in the Apulian fields, as institutionalized by the dogana di Foggia, was as commercial and investment-intensive as any rural economy could be. More characteristic however, is the fact that ownership of land did not determine its use. The state intervened in the balance of the use of land in crops or sheep-raising.

Historically, the rise of the pastoral economy is partially rooted in the rural depopulation of the fifteenth century (in contrast to the rest of Europe). As a result pastoralism became more attractive over agriculture since it is less labour-intensive than agriculture. At the same time, the demand for wool also increased in this period, while

price of other agricultural goods decreased, hence creating an economic impetus for the expansion and institutionalization of transhumance (in central and southern Italy).

These economic incentives could not on their own bring about such a high degree of commercialization in the pastoral economy; especially not for the middle and small-scale grazers. This is because of the high risks and uncertainties associated with transhumant sheep-raising. No matter what the rate of profits are, the ability to embark on a commercially oriented sheep-raising requires definite access to pastures and markets. Especially, if the grazer cannot secure access to winter pastures (and enforce his contracts), the immensely high mortality rate would not only make the rate of profit irrelevant, but also sink whatever the amount of capital invested in the activity. In other words, the precariousness of a laissez-faire or free-market approach to pastoralism would be quite irresponsive to even the most basic economic incentives. Yet the unique state-society relations embedded in the dogana di Foggia, and the way in which the state organized the usage of land (especially, between agriculture and transhumance), ensured access to winter pastures and markets, thus minimizing uncertainty in the pastoral economy.

"The dogana of Foggia, the sheep-owners' organization, then was an indigenous invention to establish and enforce a set of norms to allow for continued economic cooperation among pastoral population" (Marino, 1988: 114). It ensured the access of all its members to pastures and land-use, reversing what would otherwise be an antagonistic state of order characterized by an extremely high amount of uncertainty (in which without guaranteed access to pastures, high mortality rates and a high possibility of complete destruction of capital would mean a high degree of underinvestment). In other

words, with collective capacity and organization at a state/provincial level, there emerged a huge commercialized economic organization that would have not been able to come about if left to its own devices. Utilization of lands at the margins of agricultural productivity required high state intervention. Furthermore, in this case, state intervention could not be seen to limit market activity and was, on the contrary, a creation of markets and economies that would otherwise end up as under-utilized land and resources.

By utilizing marginal land, it created the largest item of tax revenue for the Kingdom. At the end of the 16<sup>th</sup> century, revenues from the dogana of Foggia alone made up more than 10% of Kingdom of Naples' total income (Marino, 1988). The state accomplished this through collectively organizing grazers, institutionalizing cooperation in the doganal parliament '*generalita di locati*' ensuring access to both land and markets. This achieved two important results highlighted in our theoretical approach: reduction of uncertainties and facilitating collective action as well as creating horizontal means of organization to counteract vertical stratifications and exploitation. It is foremost a demonstration of the role that state plays in facilitating collective action. The centralizing medieval state incorporated these already existent sheep-owners' institutions as partners in a plan to profit from the marginal zone; providing an excellent example regarding the role of the state in the organization of a market exchange/economy.

The fact that pastoral economy was one of profit, and not of subsistence had further implications outside the internal organization of the dogana. It not only gave to the royal apparatus a ready income but also generated capital through domestic and international trade. Furthermore, the commercialized nature of the pastoral economy meant that its social structure also reflected the rise and fall of the market. That is, the

economic conjuncture also set the pattern of social organization; or at the least influenced it. By social organization, we not only mean the relationship of agriculture and pastoralism but also the relationship among aristocrats and commoners, as well as large and small-scale owners. To be sure, the state machinery in Foggia attempted neither to reinforce nor to subvert agricultural or private interests. By administering all concerns through the bureaucracy, it aimed to moderate conflict both between graziers and agriculturalists, commoners and aristocrats.

Even though the state's policy regarding the access of the rich and poor to the better land did uniformly favour the poor, it was restructured during prolonged periods of economic decline to put the rich and the poor on equal footing. In other words, even though in certain periods, to increase its revenues the state did favour the large-scale owners and thus accelerated concentration and ownership in favour of the rich, this was quite limited in range and degree. At the same time reorganizing usage rights to equalize opportunities for the middle and small-sized owners, was quite a common practice, especially in times of increasing precariousness. Even in such a commercially oriented economy, social organization and harmony had primacy.

The administrative body and parliament of the dogana di foggia, the 'generalita', in a sense provided the assurance of the egalitarian nature of this organization. As Marino puts it quite aptly: "A strident, antagonistic self-image is the common property of all pastoral societies. Yet in the reality of the dogana of Foggia, this mentality was illusory because the individual units engaged in transhumance, namely, the large and small sheepowners who practiced pastoral capitalism, had to work and live together if all were to survive. How such self-professed individuals organized themselves and how they

resolved tensions constituted the true rationale of the sheepowners located in the winter pastures of Puglia. Social organization and social stratification, both responsive to the economic constraints of pastoral livelihood, circumscribed pastoral freedom” (Marino, 1988: 83). It is thus not surprising that the 18<sup>th</sup> century doganal commentator Sefano Di Stefano, in his 'La ragion Pastorale' (1731) regards the dogana as a commune: with the generalita as the assembly and its citizens both rich and poor, being the locati (Marino, 1982). The 'genralita di locati' served as an egalitarian forum, overcoming the isolated, individualistic and otherwise acceleratingly non-egalitarian nature of pastoral exchange and competition over pastoral resources.

By 1751, composition of the graziers' parliament gives us a clear sense that the association was dominated by middle-sized holders at least to the middle of the 18<sup>th</sup> century. Of the identifiable 34 deputies, 27 were middling holders, while 5 were large and 2 were small-scale owners (Marino, 1988: 104). In terms of the distribution of wealth, locati with more than 2000 sheep comprised 2.4% of membership in the 17<sup>th</sup> and 18<sup>th</sup> centuries and the wealth they commanded was 24.5%. Middling owners made up about 2/3 of the membership and 1/2 of the wealth. Another important aspect for understanding the position of the commoners is the right to bear arms, which was one of the locati's oldest rights, granted by Alfonso in the 1447 founding charter. Such rights among commoners was highly unusual in any part of Europe's early modern society. In other words, the rural economic organization of the Apulian country-side resembles nothing of the feudal, stratified and exploitative nature of southern social organization that we are so familiar with in the euro-centric analysis of the many scholars.

## **THE DISSOLUTION:**

Even after the 17<sup>th</sup> century slump, or with the Kingdom's transfer from the Austrian Habsburgs to a new independent Bourbon dynasty in 1734, the Foggian customs retained its administrative efficiency and economic growth. The problem, however, began at the end of the 18<sup>th</sup> century with the Bourbon reforms which through the dogana started the monopolization of the Puglian countryside. The more decisive steps, however, came in 1806, after the Bourbon control over the Kingdom was replaced by French rule.

The first law of the French government was a 44 article reform of the 'Tavoliere di Puglia' which initiated the devolution of state-owned land to its renter occupants, and the annulment of the old location system of pasture leasing: i.e. all in the aim of dissolving of Neapolitan 'feudalism'. The process of transformation from state-owned and operated pastures to private plots was underway. Though the use of the pastures by graziers continued until late into the 20<sup>th</sup> century, the state's management over the pastures came to an end. Effectively, the only limit upon the further and extreme polarization of land-use (and now ownership) was removed; later on to be transferred to large owners and create an immense difference in ownership. The state, which formerly had an economic stake in such cooperation, was no longer to intervene in the balance between large-scale and small-scale owners.

We will take this aspect up in more detail below. It should suffice here to say that, the concentration of land in few hands, and the initiation of the unequal distribution of wealth and land was a late 18<sup>th</sup> and early 19<sup>th</sup> century phenomenon. In any case it was not a society or culture centered phenomenon but a state-led process, started by Bourbon and French 'reforms', in the name of abolishing feudalism and creating a 'modern economy'.

Yet what they attained was the abolition of institutions which had been the cornerstones in the policy of political stability by manipulating economic exchange and creating social solidarity.

Of course this dissolution cannot be seen in isolation of the 18<sup>th</sup> century Italian analysts and political economists such as Gaudiani, Di Stefano, De Dominicis who had questioned the existence of the customs-house as an outdated institution, safeguarding an inefficient mode of economic activity. Even though path dependency might very well have prolonged its life beyond feasibility, these critiques were not animated by an exposition of the alternative uses to which the pastoral lands could be put. Even in the 18<sup>th</sup> century, the percentage of agriculturally productive land put to use as pastures was quite low and pastoralism continued to rely on the marginal zone. Such criticisms had less to do with the overall role of pastoral economics than seeing this activity as part of an outmoded economy that had to give way to 'modern' agriculture, in a strictly single-path evolutionary pattern, as they would simply juxtapose Italy to the Low Countries and England of the time. The reality was, except for a small portion of winter pastures in Tavoliere, the majority of the land allotted to use in transhumance, as they consisted of marginal and mountainous areas, were not malleable to irrigation or high agriculture anyway.

Furthermore, it is ironic that, in the case of the doganas, it was not the economic conditions alone, but rather the fiscal problems of the Kingdom which brought about the changes of unequal access to land among the poor versus rich. The explanatory role in this case was on the state. As we will see below, latifundism in southern Italy was not a

phenomenon observed until early 19<sup>th</sup> century, and Capitanata did not become a center of latifundism in Apulia until 1860s after the unification.

### **NAPLES'S IMPACT AS A CAPITAL-CITY**

These changes and the position of Apulia cannot be understood in isolation of the changes and regional restructuring that other parts of Southern Italy faced in the same period. Particularly important is the reorganization of agriculture and the city-countryside relationship. Underlying both the shifts in pastoralism and agriculture are the pressures from population growth, and related Malthusian pressures. The 18<sup>th</sup> century critiques of the Italian political economists and the arguments for allocating pastoral land to agriculture and grain/staple production were essentially rooted in these Malthusian shifts and the political economy that took shape in its light. As one of the important centers in the 18<sup>th</sup> century European political economy, Naples shared in the European demographic changes at the end of the century, and as did its political economy.

At the beginning of the 19<sup>th</sup> century, Naples had a population over 400,000 and was the fourth largest city in Europe after London, Paris, and Istanbul (Braudel 1979a, Zamagni, 1993). As Braudel explains however, this expansion brought with it an immense increase in the number of poor and homeless people, as the 'ragged poor' estimated to be around 100,000 at the end of the 18<sup>th</sup> century! (Braudel, 1979a: 532). Despite such stark conditions for many poor citizens, the capital continued to grow and thrive by drawing on the resources of the whole Kingdom, and particularly Sicily's. As Marino notes, in the Kingdom of Naples: "Neither the city's ills nor possible remedies could be separated from a discussion of the countryside. Social and economic

stratification exacerbated the contradictions between city and country and between townsmen, farmer, and shepherd. The differences between urban and rural fortunes underlined the demeaning options open to individuals in the Kingdom: provincial taxation and starvation or urban pauperism and parasitism" (Marino, 1988: 177).

In other words, understanding the growth of the capital and the articulation of the provinces helps to explain the development of large-scale, cash-cropping 'industries' in the countryside – and the evolution of the pastoral economy, which was dissolved because sheep-farming was regarded as 'man-eating' since it supposedly displaced grain producing agriculture that could feed Naples. The countryside of provincial Capitanata, for example embodied the contradictions of Naples as its political needs subordinated the social and economic viability of pastoralism against agriculture.

Of course, even though Capitanata experienced this in late 18<sup>th</sup> and early 19<sup>th</sup> century, Calabria and Sicily were subject to it much earlier. In fact, Sicily became a bread-basket for Naples as early as late 16<sup>th</sup> century. When grain prices increased, the exports to Florence created considerable surpluses for the Sicilian grain producers. The problem was that, these surpluses went towards expansion of estates rather than their improvement and further retarded any technological improvement or investment in land. It is very similar to the dynamic of the second serfdom in Eastern Europe.

The state basically gave the landlords the means for integrating the peasantry into closed and self-contained economic units in which the peasant did not have direct access to the urban markets (which were thus withering away within Sicily). They were not autarchic, as the whole point of the structure was to meet the demands of a distant customer, Naples. This was simply the counterpart of a merchant capitalism and

commercial economy in certain parts of the Kingdom. Very similar to Braudel's depiction of the second serfdom (1979b: 265-72), the baronial agriculturalist of Sicily was not essentially capitalist, but was a collaborator in the service of a certain kind of merchant capitalism in Naples and to a certain degree, Florence and the Mediterranean market. Furthermore, in a framework quite resembling Bücher's scheme, the manorial economy dominated everything, including the towns which it had subjugated.

Thus, while the rural industries were on the rise in southern Italy at the turn of the 17<sup>th</sup> century (Braudel, 1974; Van der Wee and De Rosa et al, 1988), the Sicilian countryside was becoming monopolized with a commercial impetus in service of supplying Naples's grain. The rise of silk industries in various parts of the Mezzogiorno thus was possible because of the way in which the provision of the means of subsistence was devolved to Sicily and other countrysides within the south.<sup>53</sup>

Within this framework, the position of the Sicilian peasant and the Neapolitan country-side becomes more understandable. In fact, in it one also finds the future image of the south after the unification. On the one hand we have individual peasants who would have preferred to consume their own grain, or to exchange it on the marketplace for other goods, if the nobleman had not taken over all the means of production. On the other hand, by circumventing and preventing the emergence of a town-centered market economy, the landowner also kept for himself all the means of exchange as well. In essence, this was not a feudal system since far from being self-sufficient the noble aimed to increase the quantity of grain for marketing. At the same time it was not exactly a capitalist agriculture in the modern 19<sup>th</sup> century England sense. It was simply a monopoly

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<sup>53</sup> As braudel describes it: "...even in sun-baked cities with a reputation for idleness, like Naples, industries were springing up like fitful fires scattered over a wide plain of dry grass..." (Braduel, 1974: 16)

economy, complete from the monopoly of production to the monopoly of distribution; all in the service of an Italian and European/Mediterranean system itself thoroughly and indisputably capitalist (Braudel, 1979b).

#### **EARLY NINETEENTH CENTURY UNTIL UNIFICATION:**

Another important example, is that of Roman Campagna in the 18<sup>th</sup> and early 19<sup>th</sup> century. When Sismonde de Sismondi visited in 1819, he described it as an admirable example of an agricultural division of labour. What can be observed is a vast area, divided into large properties. Although mostly owned by nobles and religious establishments, it was almost entirely taken over and operated by a few large tenant-farmers who themselves also outsourced/sub-contracted to small tenants. These tenant farmers were called *appaltatori*<sup>54</sup> and in Campagna as simply *negozianti* (or *mercanti*) di campagna (Braudel, 1979b). Their importance derives from the fact that they were basically capitalist structures that worked a land which was supposedly feudal in ownership. It is analogous to the land-use in Foggia, or the structure of commercial agriculture in Sicily. Yet the reality was that, these capitalist tenants were, as Braudel puts it,

"keen toothed speculators, anxious to make as much money as possible, as quickly as possible, out of the land, and taking little trouble to protect its yields. But they were the shape of things to come: these were the origins of the large agricultural estates in nineteenth-century Italy. They were also, discretely, the inspiration for agrarian reforms, some beneficial, others harmful, at the end of the eighteenth century. Their concern was to rid themselves of the old conditions of tenure, the entailments and mainmortes, to be forearmed both against the nobility and the peasant, and against the state which kept rather too watchful an eye on marketing. When the 'French period' came and the properties of the

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<sup>54</sup> This process was also observed in Tuscany and Romagna as well.

former privileged families were thrown on to the market, the appoltatori were first in queue to buy them up." (Braudel, 1979b: 289).

It should be clear by now that, from Apulia to Sicily or Campania, we have an essentially commercial and capitalist agriculture and rural economy dating as far back as the 15<sup>th</sup> and 16<sup>th</sup> centuries. Even if one could argue that it was dominated by feudal ownership, that ownership did not change the fact that in all cases there was a commercially-oriented and capitalist use of the land, either by direct production of the noble owner (Sicily), the prevalence of tenant-farming (Roman-Campagna), or direct allocation for use by the state (Apulia).<sup>55</sup>

Nonetheless, we also note that late-18<sup>th</sup> and early-19<sup>th</sup> centuries were periods of significant change for Apulia, the Neapolitan countryside, Sicily and elsewhere in the south. Most important of these, of course, was the abolition of former checks on the concentration of land. Under both the Bourbon Kingdom of Naples and also the Kingdom of Two Sicilies, the fiefs took the form of capitalistic enterprises (especially under the control of parliamentary barons) as a direct result of the rulers' aim to develop market economies and a more commercially oriented agriculture. In essence a considerable number of the parliamentary barons, over time managed to become successful agricultural capitalists, working the land themselves.

This process created the tax system in the kingdom of Naples after the mid-1700s which was disproportionate: while the peasantry and the small proprietors as well as the urban middle class were inordinately taxed, the church and large-proprietors were almost exempt from taxation. The more important element of this structure was the gradual

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<sup>55</sup> This essentially resembles Coase's 'The Problem of Social Cost' (1960) which argued that if property rights were viewed as the right to exercise it for prescribed uses, who owned it would not matter.

destruction and abolition of the agrarian and rural associations that had characterized economic cooperation and social safeguards, especially for its smaller members.

The drive for the creation of a market economy coincided with a surge in demand for Mediterranean products that further increased incentives on commercial farming. The chief impact of the drive was the state's commitment to a liberal market-economy based on free-trade: "Increased demand for Mediterranean products placed new incentives on commercial farming in the eighteenth century that had far-reaching consequences for rural society. It brought both new opportunities of wealth for land-owners and unprecedented insecurity for the vast majority of the rural population" (Davis, 2000: 236).

This commitment is why the feudal fiefs not only took the form of capitalist enterprises but also that the customary limits on enclosure began to be removed at the end of the 18<sup>th</sup> century along with a number of religious estates. In other words, by the end of the 18<sup>th</sup> century, the state in the south had turned a considerable amount of the common lands, forests and religious estates into commercial/capitalistic fiefs. In contrast, in the north the common lands and limits on enclosures were retained, the small peasants were not expropriated; and the land-owning class did not retain such a commanding control over the distribution of land use. What brought about the start of more fundamental breaks between the rural north and the rural south however, was the Napoleonic period of (1800-14) in which the abolition of feudalism was the juridical basis of a new political and economic order. The private jurisdictions of ancien regime disappeared, to be replaced by a centralized, bureaucratic state. Yet, in northern Italy, the impact of the French revolution and the Napoleonic period was more in fostering the growth of

nationalism than in fundamentally recasting existing institutional arrangements as it did in the south.

This period brought about especially two important ruptures. First, there was a restructuring of property rights in rural land: “On the mainland south, French-inspired Neapolitan liberals abolished in 1806 remnants of feudal privileges of the nobility, transformed complex forms of property in land into private property – largely for themselves ... In Sicily, parliamentary barons went further. In 1812 they gave up all the former privileges of their rank, transformed fiefs into private property for themselves, and prevailed upon the Bourbon king to promulgate a new Sicilian constitution endowing Sicily with a system of parliamentary monarchy and taxation far more representative even than that of Britain.” (Sabetti, 2000: 223)

One of the most important changes was represented by the abolition of the *dogana di Foggia*. As we argued above, not only did this do away with the social insurance it provided for the small-scale producer, but also all the 'social capital' associated with wool production. More importantly, it laid the foundations for a great scramble of land in Apulia that would lead *Capitanata* to be known as the 'California of the South' and the 'Texas of Apulia' (Sabetti, 2000). Land became concentrated excessively in the hands of the few, and a mass of expropriated peasants filled the country-side.

In other words, it was not simply the rivalry between agriculture and pastoralism, nor ownership that determined land use in the period leading to the unification. Thus, attributing the underdevelopment of south to a supposed 'feudalism' is essentially not true. As Marino (1988) notes, large holders moved interchangeably from one form of production to another, according to their economic advantage and political interests.

Thus, as we noted in our theoretical chapter, Braudel's point that capitalism relied on the privilege of choice was precisely what defined Neapolitan capitalism. Marino further argues that large owners' decision-making was clearly in accordance with market conditions, interest rates, labour supply, purchase contracts, international demand, government policies such as tax rates, pasture assignment, and price fixing as determinant variables. It was as capitalist and commercialized as it could be. In her work on *Latifondo*, Marta Petrusiewicz has demonstrated how even such big estates, were not insulated from market production but rather run with a very commercial and capitalist rationality, integrated with the international markets.<sup>56</sup>

Thus when in the late 18<sup>th</sup> century the demand for agricultural and basic goods increased, the large holders simply moved their investment into land and agriculture. What had changed compared to earlier, was that the state (as distinct from a collection of capitalist noblemen) chose not to interfere in favour of social stability, but rather to support the shift to capitalist, large-scale and market-directed agriculture.<sup>57</sup> The French reforms then, simply speeded up the process, further removing any obstacles to the use and ownership of land, and concentration of land in fewer hands. In a span of less than a century, agricultural question in the south shifted from its substantive function to one of formal-commercial. With this emerged a new breed of unproductive large holders (because of their monopoly position)<sup>58</sup>.

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<sup>56</sup> Furthermore, the coexistence of subsistence and commercial agriculture side by side served as sort of a risk management strategy in the face of price fluctuations.

<sup>57</sup> This is probably should be implied in what is meant by state-centric explanations: it is not that other factors, such as societal (or societally endogenous factors), class relations etc stop functioning, but that the state action comes to be holding the primary explanatory variable.

<sup>58</sup> Also for an analysis of the ideology of southern Italian agrarian elites, see Dal Lago (2005). It must be noted that the commitment of both liberals and democrats alike to the advancement of a market economy is the single most enduring political drive of the 19th century in Italy.

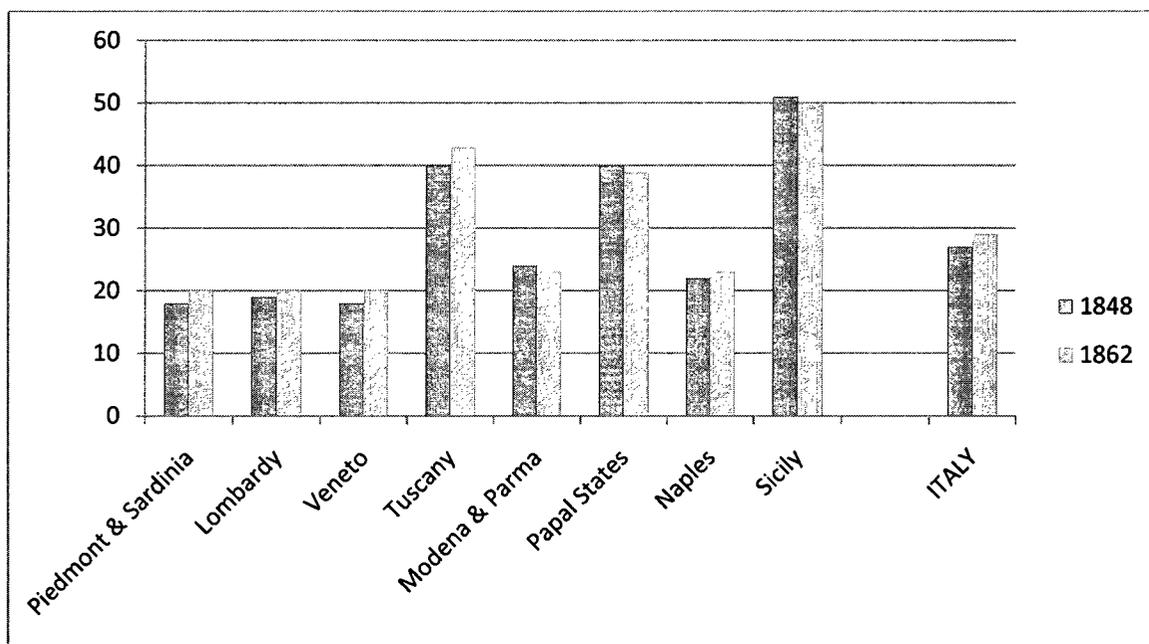
**LAND CONCENTRATION AND THE CITY-COUNTRYSIDE RELATIONSHIP:**

As highlighted in the theoretical chapter, the concentration of land in few hands creates the self-reinforcing process of the dissolution of towns and a polarization between the countryside and a handful of urban-centers. The large land-holders that produce for a large market - the national market, or the capital city, or the international market - do not need the towns and thus simply bypass them. Here we need not repeat the case of the German Junkers or the process of the earlier Sicilian agriculture summarized above. With the decline of the town markets, the small-scale, individualized farmers of the Mezzogiorno faced the high premiums of risk, uncertainty and transactions costs even if they were not expropriated. Thus they became dependant on these large-scale owners, and the large-scale owners, isolating the peasants, monopolized not only the means of production but more importantly the means of exchange.

Suffice it to say, the Bourbon and French reforms launched a very fast disaggregation of the cities and the countryside, setting off the processes described in the theoretical chapter. The Thünen rings around the smaller towns slowly disappeared and with them these smaller towns and the former town/city-centered rural economies. On the one hand, urbanization increased in a handful of large cities, especially Naples. On the other hand, the process that we described in the case of Sicily began: the countryside that was no longer structured around the town markets dissolved into isolated settlements, and in turn became organized around these large estates, laying the foundations for a latifondo agriculture. Furthermore, these naturally also initiated the dissolution of rural industries.

Stripped of the multiple use-rights and constraints inseparable from feudal tenure, land was transformed into private property and became the corner-stone of the new state: "Citizenship was defined by the ownership of land, which now became the principal source of direct taxation" (Davis, 2000: 237). These changes brought tensions and reactions from the countryside as rural communities attempted to defend customary rights that were threatened by the incursion of private property and market economies.

**Figure-2: Urbanization Across Regions (1848, 1862)**



Percentage of the Population in Cities of 15,000 or more for Major Regions of Italy, 1848 and 1862. Source: Tilly (1975) [note: the figures of urbanization for other regions in the south omitted here are also much higher than the north]

The abolition of feudal lands and the creation of private property was the typical pattern in the center and north as well during the Napoleonic period. Given the changes outlined above for the south at the end of the 18<sup>th</sup> century however, what differentiates the south from the center and north was that "throughout Sicily and the Mezzogiorno *the*

*destruction of the collective rights on which rural communities had depended down to the end of the eighteenth century"* (Davis, 2000). This destruction was the principal cause of social unrest and rural conflicts over the first half of the 19<sup>th</sup> century, whose targets were the local landowners that had profited most from these changes.

Thus, the first half of the 19<sup>th</sup> century constituted the first step towards the disaggregation of rural and urban economics in the south, by creation of a segregated society especially in the rural areas. Not only did the formation of a market economy and free-trade structure come with the destruction of formal economic organizations (of cooperation), it also created a structure of agriculture that produced end products directly for international markets without much of the capital being recycled for related industries to develop forward or backward linkages, a characteristic which would mark the divergence between the north and south over the second half of the 19<sup>th</sup> century.

This not only put the now-expropriated agricultural workers at the mercy of the European markets but it also left them without any alternative means of employment in a structure where the majority of the goods produced did not develop any other linkages. In the north, however, this was not the case as the textile industry, and after the 1890s, the engineering industries situated themselves with direct connections to the country-side.

The highly commercial character of both southern and northern agriculture is also confirmed by Giovanni Federico's figures, which estimate that self consumption accounted for only about 20-25 percent of total food consumption and that about 75-80% of the produce went to the market at the time of Italian unification. This commercialization is very similar to that of France or Switzerland at the time. Even in the US, at around 1910, self-consumption is estimated to be around 17%. The degree of

commercialization was also much higher in the south than the north. This, as we argued, was a result of the high proportion of urban population, and the position of rural population who had very limited possibilities, or no possibility at all, of consuming their own products as they consisted overwhelmingly of day labourers<sup>59</sup>. The resulting demand was satisfied by a supply coming from the sale of small farmers' products, as well as from rents paid in kind by the sharecroppers and from capitalistic farms.

The unification process was not neutral to the production of the disproportionate structure. For instance, as Sabetti (2000) notes, the creation of great estates under single proprietorship which made Capitanata the heart of latifundism in Apulia occurred up to the late 1860s. By the end of the 19<sup>th</sup> century, two classes of people could be found there: large land owners and a proletarian workforce. Up to 85% of those who cultivated the land were landless daily labourers.

The point here is that the phenomenon of southern latifundism, (which is too frequently regarded as the cause or essence of the southern problem), far from being a relic of medieval times, is in fact of more recent origin – the intended and unintended consequences of the political changes in the nineteenth century, and predominantly a product of the Risorgimento. In that sense, what the formation of the legal state did was also to give centralized means of legislative authority to the southern ruling class as well as the armed and policing force of the state. In 1876 Sonnino noted that, "the situation we found in 1860 persists today ... we have legalized the existing oppression and are assuring impunity of the oppressors. In modern societies, tyranny of the law is restrained by fears of remedies outside law. In Sicily, with our institutions patterned on liberal formalism rather than informed by a true spirit of liberty, we have furnished the oppressing classes

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<sup>59</sup> Also see below for divisions of agricultural labour-force.

the legal means to defend their oppression and to take over all public positions by the use and abuse of power that was and continues to be in their hands." (quoted in Sabetti, 2000: 224)

Between 1866-1875 the unified state passed a set of laws concerning the abolition of common lands (connected to state's fiscal needs). The main ones among them can be summarized as:

- The 1862 law: making provisions for the sale of State property;
- The 1876 law: which saw the abolition of church property
- The 1861-2 laws: that facilitated the division of local borough lands
- And various special laws concerning certain areas: the Tuscan 'Maremma', the 'Sila' in Calabria, the Apulian 'Tavoliere', as well as Sicily and Sardinia.

The most important aspect of these laws is that the 2.5 million of the 3 million hectares of land they covered were located in the south! This was equal to about 25% of total farmland of the whole south and it comprised a much higher percentages in certain regions, especially Apulia. The speed of these transfers is also important: about 70% of the sales/transfers took place between 1866-1875.

Without the creation of supportive structures to help the establishment of small farm-holds, the property often went simply to enlarge already existing properties especially in the south. Furthermore, because of the speed at which they were sold, it basically constituted a transfer of wealth because of high rates of depreciation in prices, and the transfer of capital away from productive activities to expansive accumulation of land. In this study we do not hold that primitive accumulation is the decisive factor of development. Yet these laws and the sales basically drained the capital away from productive activities, into the state coffers. Not only was a great opportunity for land redistribution and reform missed, but capital was transferred out of the south.

These transfers of lands created the situation summarized in the table below: an excessively high number of dispossessed and expropriated surplus labour in the countryside. In fact, these figures underestimate the severity of the situation because of the excessive amount of marginal land being cultivated in the south at this time for planting cereals, even though they were not fit for such crops. In other words, some of the owner-operators classified below were in fact day-labourers who were cultivating small tracts of marginal land to supplement their below-subsistence wages.

**Table-1: Composition of Agricultural Labour Force (1881-1911)**

	Owner-Operators (1881)	Tenant-farmers (1881)	Sharecroppers (1881)	Day-labourers and other wage (1881)	Day-labourers and other wage (1911)
Piedmont	32	2.5	2.5	63	41
Liguria	31	5	7	57	37.5
Lombardy	12.5	9	11.5	67	43
Veneto	14	11	8	67	42
Emilia R.	10	4	28.5	57.5	41
Tuscany	10.5	2.5	42	45	30
Marches	7.5	0.5	53	39	28.5
Umbria	11	0.5	22	66.5	39
Latium	13.5	2.5	6	78	71.5
Abruzzi-M.	21.5	5	7	66.5	49
Campania	10.5	8	4	77.5	62
Apulia	13	2.5	0.5	84	82.5
Basilicata	15	5.5	0.5	79	67.5
Calabria	7.5	3	2.5	87	75
Sicily	12	3	4	81	75.5
Sardinia	20	7	5	68	76
ITALY	15.5	5	12.5	67	51.5

Composition of Agricultural Labour-Force (1881), [Column-5=1911]

Source: Zamagni (1987), Zamagni (1993), Population Censuses

[Note the great increase in the divergence between the north and south by 1911 despite the immense rate of emigration from the south by that time. See below for the related discussion]

Especially important for our argument is the comparison of columns 4 and 5. In 1881, the percentage of wage-labourers in the total agricultural labour force was higher in the south than the north. More important were the changes between 1881 and 1911. While the numbers in the north and center change as much as 50%, the percentage of day labourers in the south remain quite high. While the high percentage decrease in the north is due to the absorption of rural surplus labour in industrial employment, the much smaller decrease in the south is almost entirely due to emigration. In fact due to lack of industrialization and the disaggregation of the countryside from the urban-centers, the absolute number of agricultural workforce in the south actually increased in this period. We also need to address the arguments of 'irrational' peasants that rather than producing for the market chose self-sufficiency and eluded specialization. These figures clearly demonstrate that the peasantry did not even command enough ownership of land to produce for themselves and thus had to sell their labour. Even the small-scale owners that worked marginal tracts of land had to work as day-labourers. In other words, the mutual-exclusiveness of security and self-sufficiency implied that the peasant had to specialize and respond to incentives. The ability to choose (that privilege of choice that Braudel attributes in defining the upper-strata of capitalism) remained a prerogative of large-scale owners/producers.

Another point needs to be made clear regarding agricultural productivity after the unification. The argument goes as to the low productivity of agricultural production in Italy as a whole when comparing it to other European countries at the time and that of the south when compared to the north. One measurement employed in such comparisons is crop yields but these greatly underestimate southern productivity because they do not

factor in that mixed cultivation is a prominent characteristic of southern (and in fact whole of Italy's) agriculture. In other words, in terms of total monetary income as opposed to physical yield, Italian and especially southern Italian agriculture was more intensive than even its English counterpart.

As Zamagni notes, value added per hectare was one-third or one-half higher in Italy than in England in the period 1909-14, and if we were to omit the Italian mountainous zone from our calculations, then this superiority would be much greater (1993: 57-8). In other words, income generated per acre was essentially much higher than assumed in the studies, and even more so in the South. The reason for this high yield, of course was the higher rate of labour applied to per unit of land. Particularly, the relative figures for value added per worker, which was in Italy 60-65 percent of the English level, are themselves a direct indication of an excessively large work-force present in the southern Italian countryside.

Throughout the 19<sup>th</sup> century the problem in southern Italy was thus not low productivity in primary agricultural land, but low per worker productivity. By simple economic theory, a relative abundance of labour implies that the methods employed will be labour-intensive. Yet this state of 'too many people on too little land' had a more important structural consequence when coupled with the isolated state of the southern country-side(s) and the dissolution of institutions of collective action. It gave the large estate owners complete bargaining power in dictating contracts, as every local land-owner basically not only had the monopoly of land but also commanded a monopsony position in hiring labour. Analogous to a monopoly producer, the large-estate owner in

such a position does not have to hire labour at a market-clearing rate, but sets the wage himself.

This has a further impact on the cost structure and production decision of the estate owner. The latter has a higher incentive to depress wages in order to preserve his profit rates, rather than to invest in capital and increase physical yields. The rationale is simple: if the owner can simply set a desired rate of profit by dictating costs, it makes more sense to invest capital in other activities. More importantly however, the labour-intensive methods give the producer the ability to easily shift between crops since there are no capital tied to the land, hence no sunk costs, and they retain flexibility to exploit market opportunities. Given the prevalence of tariff-wars and the explosion in retaliatory duties in the second half of the 19<sup>th</sup> century, this latter aspect played a crucial role in the decision-making of the large-estate owners. As Federico and Cohen note, "Tenancy arrangements in agriculture, once viewed as the cause of rural backwardness, are now seen as attempts to accommodate risk". (Cohen and Federico, 2001: 4)

The large-estate owner does not however, see these terms in isolation. In the first place, the urban-industrial wage, as the alternative mode of employment, sets a minimum base for how much the land-owner could squeeze the wages. Secondly, the inordinate degree of exploitation is not simply received with confirmation by the masses, since it almost always creates a tendency towards conflict and violence, as it did throughout the first fifty years of the unification in Southern Italy.

In other words, there is also the city-countryside relationship and the aspect of the institutions of collective action highlighted in our theoretical chapter. That is, it is important to explain how these aspects were shaped and how they interacted with the

distribution of land and political power. To begin with, the urban industrial development became increasingly concentrated in the north rather than south, and there was virtually no increase in industrial employment after the unification until 1950s (Cohen and Federico, 2001; Zamagni, 1987). Furthermore, whatever employment existed was situated in the very few cities, because of the disaggregation between country-side and the few big cities that we highlighted above. Thus, switching to industrial employment would require migration over long distances and came at a very high displacement factor and costs, almost equal to overseas migration. This is essentially the reason why there was almost no internal migration in Italy, but an immense amount of external-migration at the turn of the 20<sup>th</sup> century. Those who could afford to migrate basically chose to go overseas since it incurred a similar displacement cost as internal migration but paid better.

Secondly, any industrial work could not move to or set-up its activities in the southern countryside, partly because of the urban-rural disaggregation, but also because of the lack of investment in roads and railroads. The disparity in investment between the north and south was directly a creation of the unification.

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**Table-2: Road and Railroad Coverage (1848-1862)**

	Piedmont	Lombardy & Veneto	Tuscany	Papal States	Naples	Sicily	Sardinia
Railroads - 1848 (km)	8	112	160	0	85	0	0
Railroads - 1860 (km)	938	522	257	101	99	0	0
Roads per area - 1862 (km/km <sup>2</sup> )	1	1	0.75		0.10	0.05	0.10

Road and Railroad Coverage (1848-1862)

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As the table indicates, when the unification process started, ailroad coverage was extremely low in both the south and the north, which contributed to the lateness of the integration of the national market in Italy. Soon after the impact of unification started to be felt, while the figures for railways in the north began to increase, the figures for the South continued to remain dismally low until the inter-war period. Road coverage was a relic of the city-countryside disaggregation that started in early 19<sup>th</sup> century. Yet as Russell King calculates, the limited road coverage does not start to improve even until 1950s. The figures for road coverage in the south in 1951, in terms of km/km<sup>2</sup> was still at a low 0.35 compared to the average of 0.72 in the center and north combined (King, 1971: 15)<sup>60</sup>.

In fact Carlo Cattaneo, had noted at the time of the unification that the problems of Sicily's agriculture were essentially a transportation problem; and all that differentiated the Lombard agriculture from the Sicilian was investment in infrastructure. As he wrote "All communal roads must be built forthwith. These will immediately add value to all products and increase volumes. In Lombardy the communes must have spent forty million lire in fifty years. But Sicily cannot afford to wait fifty years!" (Cattaneo, 2006 [1860]: 99). Cattaneo implored that this be undertaken very urgently through direct state investment and granting of special loans [so that they are not dispersed elsewhere] as it

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<sup>60</sup> The railroad network at the time of the unification was at an abysmally low of 1,829km (most of which was connecting the northern cities/provinces). And even just before the First World War it was around 17,649km. (roads: 148,380km, 53,518km telegraph lines (9,860 at the time of unification), 9,837 post offices (2,220 at the time of unification)). Still, given Italy's size, these figures (and especially railroad figures) are abysmally low compared to other European countries as well.

"is most urgent of all - for it helps everything" (ibid). Yet, Sicily would have to wait for more than fifty years, as all these investments would be undertaken in the north first<sup>61</sup>.

### **DIVERGENCE IN INDUSTRIAL ORGANIZATION:**

There is another dimension to the impact of transportation and transportation costs in the formation of economic structures: The location and structure of industrial formation (that is agglomeration and disagglomeration aspects) and the linkages between industry and agriculture. One aspect of the issue is the lack of railways and exchange between the north and the south, another is the different modes of industrial clustering that the existence (or lack) of their respective internal networks created.

In the first place, given that transportation links between the north and south for carrying goods were almost non-existent until inter-war and post-war period, any industrial-development would have to rely on regional or local market demand. Thus, given the existence of a massive population of underemployed peasants in agriculture, the south would experience a lag compared to north. Since the market was small and infrastructure remained spartan despite the meagre improvements of the unified state, economies of agglomeration were almost non-existent in the south.

The result of this picture is clear: there was incentive for surplus capital and savings to flow to northern industry, where there was a better market for products (as opposed to an urban labour force, which in fact existed more in the south than the north), and where agglomeration effects/tendencies (that we highlighted with Weber) could be

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<sup>61</sup> Ironically, he was also among the first to argue that land distribution without these infrastructural investments and market access: i.e. in his words 'land without capital and work' would eventually result in the poor having to sell these lands (thus concentration of land in already large owners). As he put it: "Money cannot be made to bear interest without giving work to the poor; this is what really matters." (p: 100)

realized. It should be clear that industrialization as a localized phenomenon operates in an accelerating fashion, in which there are an increasing returns to the existing institutional arrangements, due to agglomeration effects, until the degglomeration costs become too massive. In the latter case the importance of transport costs (a-la Thünen and Weber) dictated that other northern towns would always be preferred to relocating in the south until transport costs in the south could be improved. In other words given the relative backwardness of railway construction in Italy *overall* until the inter-war period<sup>62</sup>, the accelerating character of industrialization, the increasing returns to existing arrangements, and the relative size of transportation costs in location choices would be the defining characteristics of the Italian industrialization<sup>63</sup>.

Given this picture, it should not be surprising that there emerged two entirely different patterns of industrial clustering in the north and south, depending on the ability of industrial firms to relocate elsewhere. First it should be noted that according to an estimate by Zamagni relating to the year 1911, 55% of industrial value added (in all Italy) was produced in the industrial triangle of the north-west (covering Liguria, Lombardy, and Piedmont), 29% in the North-East & Centre, and only 16% in the South (Zamagni, 1993: 82). In the south, whatever little industrial production that developed, was concentrated entirely in the large urban centers, and as large, oligopolistic enterprises without any links to the countryside, neither for a market nor for supply links. Furthermore, as Federico and Cohen (2001) note, this oligopolistic pattern featured a capital-intensive production and natural resource exploitation, thus creating little

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<sup>62</sup> See above.

<sup>63</sup> The whole point of our theoretical section was that even though, the localization aspects of industry are nowadays considered almost exclusively based on knowledge externalities and relative abundance of capital or labour, the 19th century, simply because of technology, was a period in which the transportation costs was much more sweeping; and thinking otherwise would be basic anachronism.

employment (especially none in the countryside) or backward linkages. The northern, or rather north-western pattern featured a decentralized industrialization: 'industria diffusa' (Cafagna, 1989). The unique feature of decentralized industrialization was the use of the factory system in a rural environment. It was pioneered in silk reeling in the 1830s and later spread to cotton, wool and consumer goods. Italy's now-famous industrial districts are basically the legacy of this characteristic.

In addition up to the first world war, silk industry grew in the north, with the value added in silk increasing from 20% in 1890 to 38% in 1913 (Fenoaltea, 1988). This took place with an export market until tariffs completely destroyed it as there was not enough internal demand. More importantly, what they did was with their supplementary character to family/farm-work (especially by women), the silk industry played the role that the cottage industries of the English industrial revolution did by furnishing a trained work-force which proved to be invaluable in many ways later on in the history of Italian industrialization (as well as a capital accumulation). From a social perspective, this earlier familiarity made it easier for the rural population to make the shift to become an industrial proletariat.

In light of the lack of an integration between the north and south, we cannot talk much of a national market for labour in Italy. The labour-market was thus typically very local, with demand and supply determined by the dominant industry in the area, by population density, and the characteristics of local agriculture. In such a framework, the ability of firms to relocate their production held a very crucial role. In contrast to the southern peasantry, the northern rural population could thus switch to industrial employment, and yet was not completely expropriated.

From an industrial relations perspective, expropriation is essential to the formation of trade unions and the formation of a 'true' industrial proletariat; but in early stages of industrial development it can be enabling. Until industry reaches a sophistication such that unemployment dislocations of a single closed enterprise can be absorbed in other firms or related industries, and that value added and profits are high enough to create wages sufficiently above subsistence, partial expropriation might help draw labour for industry, rather than retarding it. In other words, such a mixed structure, in the early northern cases, serves as a buffer for dealing with economic uncertainty. More importantly, it will absorb surplus labour in the country-side, or marginally unproductive and underemployed labour on family-farms<sup>64</sup>.

At the beginning of 20th century, industries in the North were able to recruit workers locally and this also underlies why with the industrial spurts, emigration becomes exclusively a southern phenomenon. Light industry, notably silk and cotton textiles, was scattered among the hundreds of villages and small towns that dotted the southern foothills of the Italian Alps. These industries employed almost exclusively young women and girls who continued to reside with their still rural families. The opportunity to work in industry reduced dependence on agriculture, and as Cohen and Federico (2001: 62) note probably led to increases in household incomes, and may have facilitated modest accumulation.

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<sup>64</sup> As far as expropriation goes, it is obvious that the degree to which it took place was much more in the South than it was in the north. Now, losing connections with the countryside. But the north's, the strong ties that existed between the working class and their peasant families of origin, ties that were not without their contradictions (i.e. it occasionally did work in the way of incomes flowing to the countryside for the purchase of/reinforcing of land ownership) and conflicts (absenteeism from work to take care of crops etc), but which, nevertheless, constituted a 'buffer-like structure, a drip-feed enabling the transition represented by industrialization to be a gradual and gentle one' (Zamagni, 1993: 83)

The more crucial aspect of the decentralized industrialization was the advantage it gave for agglomeration, economies of scale and creation of linkages. In the first place, it enabled the firms to relocate where they could benefit from such externalities and diffusion of knowledge. Since at the time Italy was not a technology producer, its industrialization depended greatly on transfers of technology. This was facilitated by the formation of such clusters that enabled the construction of personal relationships and the diffusion of best practices. Even transfer of technology through FDI depended on such facilitating mechanisms. The industry and economic fairs held in Milan and Turin at the turn of the 20<sup>th</sup> century were crucial to the process. The human character of technology transfer requires direct contact with the practice and cross-over employment. It essentially takes place at the margin, hence flexibility and adaptability is essential to the process.

Not surprisingly then, the famous auto industry of Italy took shape within such small-scale and mobile enterprises. Lancia, Alfa-Romeo, Bianchi, and FIAT all sprang up between 1899 and 1907. To give a sense of their scale: by 1907, 61 brands were producing a combined 18,000 automobiles a year, 9,000 of which by Fiat. The US however, was producing 500,000 cars annually at the time. It is important to recognize that Italian auto industry was rather the by-products of steel and boat/ship-construction industries driven by state investments. As Zamagni (1993) notes, Italy's venture into steel and steel-related industries was not seen viable and strongly opposed by the free-marketers at the time due to lack of coal and steam-power. Yet the state's precocious entry into these fields made viable the appearance of many small-scale firms through the creation of linkages. The electricity industry, the rubber and cable industries (especially

firms like Pirelli), the automobile industry were basically by-products of the scale economies and linkages created by the precocious entry into the steel-related industries, and the relocation mobility they commanded in taking advantage of the skilled/trained labour-force created by silk and cotton industries prior to 1900-1910.

The big question still remains as to why the growth figures of northern Italian industry remained very meagre<sup>65</sup> and the firms remained very local in their outlet markets until the 1950s. Afterall, they had done everything right in enabling the formation of new industries (linkages, roads), relocation, transfer of technology and knowledge, primary capital accumulation (transferred from the south) etc.

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**Table-3: Industrial Growth (1861-1913)**

	Gerschenkron	ISTAT	Fenoaltea
1861-1881		2.0	2.2
1881-1913	3.8	2.3	4.2
1881-1888	4.6	1.0	6.2
1888-1896	0.3	0.0	1.2
1896-1908	6.7	5.0	7.6
1908-1913	2.4	1.5	2.3

Industrial Growth figures, percentage yearly increase.  
Also see below for regional distribution and changes

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The problem lies in the lack of a sufficiently large domestic demand which was rooted in the 'missing development of sectoral interdependence' across the north and south. Even though the post-unification north - in contrast to the 16th century Milan - could now draw from the fiscal, natural and human resources of the south, it still was disaggregated in terms of economic links and market complementarities. The extremely depressed wages of the peasantry and the lack of capital investment in the south implied that the demand for northern industrial goods was minimal.

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<sup>65</sup> Especially in comparison to other late developers such as Germany and Russia.

More important in the south was that by 1890s-1900s, top 1% of the population owned about 40-50% of total wealth (and even much more so in the country-side). By basic arithmetic, the greater the degree of inequality, the smaller the market for manufactures since the majority of the upper income group's consumption consists of conspicuous consumption. Yet even more crucial factor is rooted in the disaggregated nature of the southern agriculture and northern (as well as southern) industry, complemented by the disaggregation of the city and countryside. This disaggregation meant two things: in the first place, northern industry would rely on their local markets for demand; and secondly, the diffusion of technology and new agro-industrial goods into agriculture would remain within a narrow circle. A very common indicator of this is the fact that in 1880s, 70% of all fertilizer consumption in Italy (which totalled 30,000 tons) was in the Po Plain, where almost all the main producers were also located (Zamagni, 1993: 64).

As Zangheri summarized it the best: "one needs to note the delay in this spurt and the incapacity of Italian industrialization to acquire a national spread. If there is anything 'national' in Italian industrialization, in fact, it is its particular propensity to utilize resources (both financial and human) from every region in order to accelerate progress in limited areas, concentrating both the effort and the results there. In the early 1960s, when Italian industry began a second and more powerful advance, this characteristic remained the same" (1969: 38)<sup>66</sup>.

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<sup>66</sup> As he continues: "What seems reasonably clear to me is the existence of a singular relationship between [southern] agriculture and economic development in Italy. This was a basically negative relationship, in the sense that agriculture, all considered, has never managed to sustain a regular and general growth: it has provided a land to be sacked rather than a source of resources to be purchased, the proceeds from which could have expanded the rural markets for industrial goods. The Mezzogiorno and some regions of central and northern Italy did not share in the growth when it occurred, nor did they draw benefit from it; indeed they suffered from it by the obligatory withdrawal of wealth and labour and were left in a worse state."

**Table-4: Share of Industrial Production (North and Center, 1871-1911)**

	Piedmont	Liguria	Lombardy	Veneto	Emilia-Romagna	Tuscany	Marches	Umbria
1871	11.52	3.30	17.85	9.89	7.39	8.13	2.96	1.51
1911	12.70	5.40	22.39	8.49	7.57	8.65	2.24	1.41
1871-1911	1.18	2.10	4.54	-1.40	0.18	0.52	-0.72	-0.10
Change in Share (1871-1911)	+10%	+64%	+25%	-14%	+2%	+6%	-24%	-7%
Change in Value added (1871-1911)	+220%	+374%	+264%	+149%	+197%	+209%	+120%	+172%

Share in total industrial production: North and Center

**Table-5: Share of Industrial Production (South, 1871-1911)**

	Lazio	Abruzzo and Molise	Campania	Puglia	Basilicata	Calabria	Sicily	Sardinia
1871	3.35	2.83	10.22	4.70	1.32	3.04	10.26	1.72
1911	3.44	1.91	8.81	4.35	0.66	2.19	8.00	1.74
1871-1911	0.09	-0.92	-1.41	-0.35	-0.66	-0.85	-2.26	0.02
Change in Share (1871-1911)	+3%	-33%	-14%	-7%	-50%	-28%	-22%	+1%
Change in Value added (1871-1911)	+198%	+96%	+150%	+168%	+44%	109%	+126%	+193%

Share in total industrial production: South

Sources: Bank of Italy, and Fenoaltea (2001)

## COLLECTIVE ACTION AND STATE VIOLENCE:

If this lack of a truly national market and the quasi-colonial nature of social restructuring by the post-unification state is one aspect of the north-south divide, the other is the state's impact on institutions of collective action and the way in which it contributed to a structure of inequality and unequal access (by way of selective deployment of violence). For our purposes we will concentrate on revolts and conflicts from 1848-9 onwards, i.e. during and after the unification process. The table below presents a numeric summary of the incidents and revolts incurring thousands of people. To be sure, there were considerable revolts and organized collective action both in the south and the north before this period. The point we want to highlight is the increase in their numbers especially after 1848 revolts and their explosion in the rural south at the immediate inception of the Unification.

The 1848-9 revolts in the south were rooted in the economic precariousness created by the dissolution of public charitable institutions such as guilds and lay confraternities that devolved the responsibility of welfare and social security on the parishes and the family.<sup>67</sup> Even though the chief scenes of the uprisings were the urban centers, in southern Italy the rural uprisings were more much dramatic than their urban counterparts. The nature of post-1860 (i.e. immediate post-unification revolts) and the

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<sup>67</sup> These revolts showed two things: first, despite the abolition of formal means of economic organizations etc "[b]elow the power of alternating monarchies, successive viceroys, and self-perpetuating oligarchies, there were, in the cities, towns, and villages of southern Italy, vestiges of communal self governance that, although half-destroyed, were still distinguishable over the entire history of the Kingdom of Naples or the Two Sicilies. These vestiges represented small-scale *civitates*, or civil societies - dense patterns of social assets involving collaboration, mutual assistance, civic obligation and trust." (Sabetti, 2000). Second, the mobilization of protest in all the major Italian cities that gave rise to the revolutions of 1848-49 indicated that (urban society was not immune to the impact of economic crisis, and) it was more dangerous for the rulers because popular unrest was compounded by the discontents of the urban middle classes amongst whom under-employment was severe. (Davis, 2000)

revolts of the next half-century were rather different. A quick glance at the table below will show the explosion in these revolts in the south after the unification (numbers in parantheses), particularly Naples and Sicily.

**Table-6: Violent Events and Revolts (1850-1860)**

	Urban	Rural	Activists	Bandits Soldiers	+	Total
Piedmont	12 (+1)	3	1	1		17 (+1)
Lombardy-veneto	5 (+2)	2	1	0		8 (+2)
Tuscany	3 (+1)	0	1	0		4 (+1)
Papal States	8 (+4)	2 (+1)	1	8		19 (+5)
Modena-Parma	5	1	1	0		7
Naples	4 (+15)	6 (+22)	1 (+24)	1		12 (+61)
Sicily	3 (+7)	0 (+28)	5	1		9 (+35)
Sardinia	3	1	0	0		4
Total	43 (+30)	15 (+51)	11 (+24)	11		80 (+105)

Period: 1850-1860. Figures outside parentheses are for the 1850-9 period. Figures in parentheses are for 1860 and immediate post-unification conflicts. Source: Tilly (1975).

The numerous violent conflicts that followed in the south throughout the 1860s consisted of resistance against the new government and tax collection, land-seizures by landless peasants (including attacks on land-lords), and bread and land revolts concentrating in especially Massa, Apulia, and Naples. These were rooted particularly in the disillusionment of the masses brought about by the continuation of the conditions that had led to a reaction against the old-regimes and had started the unification in the south behind Garibaldi. The other important aspect of these revolts was the violent way in which they were put down by the new state. In a sense, they demonstrated the state's commitment to concentrating confrontation in the rural south<sup>68</sup>.

<sup>68</sup> As Tilly notes, contrary to the liberals that led the unification (such as Cavour), these revolts and land-invasions were not 'unpolitical', and unguided ignorance.

Thus, in the wake of Garibaldi's expedition of 1860, the southern mainland was swept with a wave of civil war and rural unrest against the large land-owners, the final collective cry of protest coming thirty years later after the collapse of European farm prices of the mid 1880s. The peasant farmers of the Sicilian interior organized collectively in what were known as Fasci to force the landowners to renegotiate their inordinate leases and contracts. They organized large-scale strikes in Sicily, first in 1893-4; and then a second in 1898. The government's response was to mobilize a full-scale military occupation of the island in defence of the landowners. The strikes were brutally put down with hundreds of people killed and the Fasci dispersed.

The irony is that similar unrests took place also in a number of northern rural areas after 1880s especially Romagna, Tuscany and Lombardy. Those in Romagna were not as large-scale as the Sicilian revolts and did not attain the impact they aimed for. The key difference was that though also eventually dispersed, they were not met with a full-scale 'invasion' and their organizational bases were not destroyed. The *braccianti* (landless hand farms) of Romagna continued to organize leagues and cooperatives, so as to become a crucial basis of political mobilization into the 20<sup>th</sup> century. The revolts in Tuscany and Lombardy were also large-scale encompassing the whole provinces and were in fact driven by collective violence. Yet they did not meet a violent response as in Sicily. Not only that, but they resulted in the state's setting up the first farmers' associations in the Po Valley in 1889, which in 1892 joined up to form the Farmers' Union.<sup>69</sup> This dual treatment clearly demonstrates the Italian state's differential impact on the organization of collective action and the structure of economic organization differently across the two regions.

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<sup>69</sup> Furthermore the state commissioned peripatetic experts to work in conjunction with these associations.

Not surprisingly, after the 1890s the dejected and dispersed southern peasantry chose emigration rather than resistance.<sup>70</sup> In the wake of the defeats of Fasci, first waves of emigration from Sicily across the Atlantic began. Between 1890 and the first world war, eleven million Italians would emigrate, the overwhelming majority from the impoverished and crushed South. Since 'voice' had failed, the remaining alternative was 'exit' (Hirschman, 1970). If there is anything true in the south of an air of 'disbelief in change' or lack of initiative or cooperation or lack of organization, it is apparent that this had nothing to do with 'culture' (as Putnam and Banfield argued). If there is an iota of truth about the existence of such an aura of despair and miseria, it is that it was not rooted in ethos, but created out of a century and a half of violent repression and destruction of collective organization. Essentially, in this case violence and repression did work.

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**Table-7: Emigration (1861-1920)**

	Net emigration (millions)	Expatriation (millions)
1861-70	0.23	1.21
1871-80	0.33	1.18
1881-90	1.04	1.88
1891-1900	1.43	2.83
1900-10	1.02	6.03
1910-20	0.99	3.83

Emigration (1861-1920). Source: Sori (1979)

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People's consciousness of their ability to change things is not rooted in an elusive notion of 'ethos', but in their historical experiences which create the structures and impediments to social change. Nor is the people's ability to act for common goals rooted in the existence of bird-watching associations but rather whether venues and institutions for collective action themselves were created or destroyed by the state. A culture of

<sup>70</sup> And emigration after this period became almost exclusively a southern phenomenon.

*miseria* exists not as a super-structural modus-operandi, but because of decades of failed attempts at changing the social order and the strength of institutional factors that preserve it. Such an air of despair and pessimism exists because the matrix of history, conditions and institutions that create and preserve such an order of exploitation and hierarchy also leave their imprint on the culture and psyche of the people.

As we have noted, the lack of venues for collective action does not operate through culture, but in the way it circumscribes the options and venues available to individuals and groups. Destruction of such venues thus not only destroyed the basis of collective solutions to collective problems, but by individualizing and isolating groups and individuals from each other, destroyed the means through which individual peasants could have otherwise been able to face the precariousness and uncertainties associated with producing for a national market. Such individualization and isolation of peasants against large-scale owners made them entirely dependent on the land-owners not only for access to land but also markets thus magnifying the unequal distribution of means and access to exchange-markets.

If the destruction of institutions for economic cooperation in the rural south were started by the dissolution of the doganas at the beginning of the 19<sup>th</sup> century, it was completed by the unified state. In fact, while creating the ultimate market of free labour that neoclassical economics theorizes, it also created the anti-market in the Braudelian sense, giving the large-scale owners and producers the ability to dictate any terms and create monopoly-monopsony rents, while increasing the information-transaction costs, risk and uncertainty faced by any individual small-scale producer or peasant-farmer.

## CHAPTER - IV: CONCLUSIONS

In the preceding pages, we have engaged with the modernist and culturalist interpretations of the southern question. If we take modernization (or rather transition to 'modernity') at its face value as urbanization, commercialization of agriculture, large-scale farming, transition of rural population to proletariat, what we have seen was that at the time of the unification, the south had higher rates of urbanization, a larger expropriated labour-force and more commercially oriented large-scale agriculture than its northern counterpart. Yet it did not turn out to be the early industrializer. Development within capitalism is not a purely endogenous process.

More importantly, when it comes to the general question of modernity or urban-rural transition, there is no reason for why expropriation and commercialization in the country-side should be beneficial to development unless the population freed from agriculture is absorbed in urban industries with higher (marginal) productivity that pays better than small-scale farming. That is, if the town-country and industry-agriculture relationship is of a disaggregated nature, further commercialization or capitalization of agriculture in the countryside will not bring development but instead extreme exploitation and monopolization in the countryside. Since the surplus (or under-employed) labour is not absorbed in industry, it swells the rank of unemployed workers and depressing wages, makes it more profitable (and thus rational) for the land-owners to employ labour-intensive methods rather than invest in capital or technology. In other words, the ultimate result of higher commercialization into the country-side depends on agriculture's relationship to industry (i.e. the existence of linkages) and the rural-urban relationship. The problem in this case is thus not feudal relations, or culture that prevents modernization; but commercialization and capitalism itself. That is, the developmental

problems of agriculture or the country-side are not endogenous but rooted in the single process of the formation of a national economy that restructures the ties and links of north to the south, industry to agriculture, and the city to the country-side.

While treating concepts such as feudalism, capitalism and commercialization as pure and distinct elements is misleading, it would also be wrong to assume a linear progression of history through predetermined stages. In this regard the way in which a transition happens, that is, its temporal, spatial and scalar aspects are frequently more important than the transition or the transformation itself. Furthermore, economic behaviour, rather than being rooted exclusively in culture, is constituted by the institutional structures, the rules of the game, and the constraints under which individuals come to make decisions and act. 'Peculiarity' of behaviour in the case of vertical dependencies embodied in the hierarchical structure of economic organization did not have its origins in culture but the institutional arrangements and the extreme disparity in economic power that circumscribed individual action.

In this case, clientelism was not the cause of developmental problems rooted in culture or rurality but an embodiment of the reality that the individual peasant's lack of opportunity to organize with people in a similar situation was substituted by political exchange with the land-lord upon whom he had become dependent for access to exchange and markets as well as land. This was the logical thing to do for the peasant, given that he could not change the rules of the game nor organize collectively to face the uncertainties and precariousness associated with producing for a national market.

In evaluating the slow technical progress in the center and south, the usual assumption is to regard it as a feudal residue. What we hoped to show in the preceding

pages was that this was rooted in the commercial-capitalist character of southern agriculture coupled with the unequal distribution of land and the institutional means at the hand of the large-scale land-owners who could dictate the terms of labour contracts and hence had almost complete control over the costs.

The choice of agricultural techniques, use of technology, or choice of labour-intensive methods over capital-intensive ones was not dependent on ownership or determined by the existence of feudal relations as argued by Brenner. Instead it was determined by the options available to the commercially oriented agricultural capitalist of the 19<sup>th</sup> century whose advantage lay in labour-intensive techniques and the flexibility and diversification it provided. Technology cannot be expected to alleviate the social structural inequalities which derived from differences in farm size or land tenure practices. As Caroline White (1980: 88-92) demonstrates, the post-unification drainage of the Abruzzese Lago di Fucino enriched only its baronial patrons, not the region. There is no inherent reason why such external remedies should reorder society as they often allow the existing structures to become more ingrained. Change from above, therefore, is not change at all. It is at best the shifting of advantage from one group to another. Thus, the privatization and change of land-titles from 'feudal fiefs' to 'private property' changed nothing in terms of the use of land which (as we demonstrated) was already operated in a capitalist system/manner. Instead it exacerbated the unequal distribution of land and monopolized means of exchange.

We deployed clear evidence that in the south agricultural labour force was much more of a true proletariat work-force, consisting of day-labourers with high degrees of expropriation. More importantly, the extreme concentration of land in few hands (which

most historians regarded as the crucial character of feudal agriculture in the south) was not something inherited from middle-ages. Concentration of land in the south was primarily a 19<sup>th</sup> century phenomenon, created successively by two different states: both in the name of abolishing feudalism.

Modernization from above did not bring the abolishment of feudalism or exploitations; on the contrary it turned an already commercially oriented agriculture into a monopoly system/capitalism. In other words, there is little basis for trying to tie the underdevelopment of the south to its supposedly endogenous 'feudal' character. Such 'feudal' aspects of the south were created by capitalism and state action in the 19<sup>th</sup> century. Latifundism in the south<sup>71</sup> is not a relic of the middle-ages but a modern phenomenon that took its definitive shape after the 1860s in the unified period.

The capitalist nature of the pastoral economics in the Kingdom of Naples, organized around the dogana di Foggia can be contrasted with the 19<sup>th</sup> century transformations and external social restructuring that the south was subject to. It demonstrated the state's role in enabling the market participation of smaller producers (in a commercial economy), by decreasing uncertainty and risks through ensuring of access to land and markets. Secondly, it was a quintessential example of the role the state plays in the formation of social capital, informal networks, and in creating horizontal associations of collective action to counteract vertical exploitation. Essentially, it not only enabled the emergence of markets and the utilization of otherwise under-utilized marginal lands by dissociating land-use from ownership, but also the whole process created the exact opposite of the iconic description of the underdeveloped southern rural

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<sup>71</sup> Itself an essentially rational response to the risky character of commercial agriculture in the second half of the 19<sup>th</sup> century.

population as an essentially pessimistic and individualized society in a constant state of miseria.

It would be wrong to assume that this was the whole story of the pre-unification south. Kingdom of Naples, through its organization of agriculture in Sicily and Sardinia, had created its own south by the 17<sup>th</sup> century. Its subordination to Naples (the city, capital aspect), and the shift in the scale of agricultural organization to produce for the Neapolitan market was in a sense a foreboding of the south's fate as a whole when it would be subordinated to the north after the unification.

The distribution of land was only one aspect of the question. The other distinction and divergence which was created by the unification was the disaggregation between the city and countryside in the south, and their integration in the north. This was rooted in the scale of agricultural production in the south which now produced for the whole national market. The larger scale of production and the dissolution of town markets individualized small-scale producers and created tendencies for isolation as well as increasing the risk and uncertainty associated with specialization and production for the market.

As we saw in the case of dogana di Foggia, in such instances the state and institutions of collective action can enable smaller-scale peasants to cooperate in the face of market uncertainties and precariousness. Yet throughout the 19<sup>th</sup> century, all institutions of economic cooperation from the doganas to farmer associations, lay confraternities, southern farmer associations, cooperatives and fasci were destroyed by the unified state. Monopolizing means of exchange, this brought about further expropriation of the peasantry and their complete dependence on the large-scale owners. The state did the opposite in the north, allowing for the creation of institutions of collective action,

particularly in the countryside. One of the main vehicles for this was the state's selective confrontation of conflict which targeted the south rather than the north; and the policy of building farmer associations in the north while isolating the rural communities from each other by the destruction of institutional means.

In the North, the state also founded rural credit cooperatives, established in 1883, which provided small amounts of credit to members, mostly small or very small operators. Historians such as Romani (1961); and Zalin (1978) regard these credit networks as crucial for growth, despite the low amount of total credit they provided. Even in the Centre, sharecroppers had recourse, as part of their contracts, to short-term credit from landlords. Yet despite the much greater need in the south than elsewhere, almost no credit was supplied until the post-WW2 period (Galassi and Cohen, 1994). The shortage of credit thus also contributed greatly to the divergence between the north and south.

In short, the market for credit was largely a local one and was further complemented with the structure of Italian banking at the time as well. From the private banks of Credito Mobiliare and the Banca Generale of the post-1870 to the strongly state-led/structured COMIT, CREDIT and BIS of the 1890s and 1900s, banks did not concentrate on national branching, and lent overwhelmingly locally to northern industry. Thus the few branches that were opened in the south served for deposit-collection rather than lending out. In its gist this turned into a system of transferring capital (that is rents created in agriculture) from the south to the northern industry.

Aside from such indirect transfers and the proceeds from the sale of lands, the state also drained resources via the taxation system. The tax system, (at least until 1931) was structured in a way in which the overwhelming majority of tax collection was

centralized whereas the majority of expenditure such as schools and roads was the responsibility of local units/governments. In other words, the taxation system was centralized while the spending was not, with obvious implications for public spending. For instance the immediate post-unification policy was to make primary education compulsory (for two years), yet it delegated the financial burden entirely to the local councils. This meant it would be impossible to create equal educational opportunities for those residing in the poorer regions or the country-side.<sup>72</sup> Without going into too much detail, all the political-economic factors and social transformations covered in the preceding pages were further compounded with the monetary and fiscal policies of the state that transferred capital from the south to the north<sup>73</sup>.

It was not until 1904, in the immediate years before the war that any state intervention took place in the South. Some of these 'special' measures taken by the Giolitti government consisted of a 1904 law which aimed at restructuring the financial affairs of the province of Naples, and providing economic and fiscal support to those companies who wished to set up business in the Neapolitan area. The biggest element was to guarantee local businesses a fixed quota of government contracts and a supply of iron ore from Elba. The biggest impetus created by this was the ILVA a Geonese company building steel works at Bagnoli, near Naples. Reclamation, reforestation, road-building and fiscal incentives for the expansion of agricultural credit were also put in place by Zanardelli. Construction of the Apulian aqueduct got underway in 1904, as well

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<sup>72</sup> Compulsory education increased to 4 years in 1877, but the decentralized structure of education was not abandoned until 1911.

<sup>73</sup> Tariffs of course notwithstanding, especially the crisis of 1880s, in which capitalist farmers and landlords quickly abandoned their commitment to laissez-faire and scurried to the government for assistance. The response, not surprisingly, was positive with the initiation of land reclamations, land-tax reductions, and most importantly tariffs on wheat imports. In addition the points raised by Gramsci, we can say that the land-intensive nature of wheat-farming also displaced more workers and increased the number of unemployed surplus labour in the countryside.

as the state intervention to improve the working conditions of Sicilian and Sardinian miners. These initiatives were however, extremely short-lived. The advent of WW-I under-cut them, the post-war difficulties prevented from resuming them, and the fascist government basically ignored the south. It was not until the new Italian republic of the post-war period that any step could actually be taken.

Essentially, the divergent structure can be traced to the differences in the ways that the country-side and the urban centers related to each other. First, throughout the second half of 19<sup>th</sup> century while the southern agriculture was moved to a mixture of traditional and commercial agriculture directed towards export markets without any forward or backward linkages, the northern agriculture had a much more aggregated rural economy that was not only linked to various industrial and service sectors (i.e. forward linkages), but also created demand for a variety of services and industrial products (i.e. backward linkages). In the south, the relationship between Industry and agriculture was predominantly of a disaggregated nature. Even for the most advanced sectors of southern agriculture, dependence on highly unstable and unpredictable foreign markets created permanent uncertainty that inhibited long-term investment and more solid forms of growth. As a result, agriculture failed to generate significant new demand for industrial products and the conditions for the inter-dependence between agriculture and industry that developed in the North were not repeated.

This divergence was also partly rooted in the disparity of road infrastructure, and the lack of railroads in the south as big part of social overhead capital. As we highlighted above, the overwhelming importance of transportation costs in industrial structuring and space of economic organization had sweeping consequences. The mobility this provided

to the northern industry brought about the formation of various industrial districts and agglomerations which meant that firms could enjoy the benefits of economies of scale even with small scale firms/production, which not only enabled clustering and diffusion of technology, but also relocating production into the countryside. The lack of this in the south, circumscribed industry into only a few urban centers and whatever little industry that developed consisted of few oligopolistic large-scale enterprises with no linkages or rural employment effects.

Disaggregation had more important consequences for the southern country-side. The disaggregation of the countryside from smaller urban-centers, and the dissolution of town-markets and town-centered economies implied that the costs and uncertainty attached to small-scale commercial agriculture in the south would make the peasantry dependent on large-estate owners, and a gradual erosion of former economic links and social relationships which had enabled the individual producer to take part in the market. In other words the scale and space of economic organization was not only as important as the distribution of the means of exchange and production, but also operated in direct conjunction/relation with them.

The second dimension of the scale and space aspects of economic organization was the lack of an integrated north and south, in terms of a truly national market. The case of Milan's precocious development in both agriculture and industry in the 16<sup>th</sup> century that did not result in an industrial revolution, and the jumps and spurts that it did not experience hinted at the north's need for unification with the south. Even though the unification enabled the formation of certain links, notably establishing the south as a source of raw materials, agricultural products, and human resources, it still lacked an

integrated consumer market and the expansion of domestic demand. The lack of roads, railways and other infrastructural factors across the two regions was however less important than the fact that the majority of the southern rural population which worked for basic subsistence could not create demand for consumer goods and the labour-intensive character of large-scale agriculture did not create demand for industrial goods. It is for these reasons that the initial industrialization in Italy was very modest and a truly industrial jump would have to wait the post-WW2 period.

The last important element is understanding the impact of what Polanyi calls the 'development of liberal nationalism into national liberalism' (Polanyi, 1944: 207) at the end of the 19<sup>th</sup> century, that is, the impact of central banking and protectionism in Italy. Without going too much into the details of European protectionism after 1870s, we need to note that in light of the collapse of agricultural prices in mid 1880s, in 1887 the Italian government adopted one of the highest rates of protection in Europe for both industry and agriculture (Coppa, 1970). For Gramsci, this tariff structure produced the powerful new political alliance between the northern industrial sector and southern traditional agriculture. The principal victims were small peasant farms and the more advanced sectors of southern agriculture, whose products (especially olive oil and wine) were easy targets of retaliatory foreign tariffs. Not only did the retaliatory tariffs destroy the only set of agricultural goods that had any backward linkages but also the high duties on foreign wheat imports sheltered most landowners in the South, and removed incentives for increasing productivity. The Sicilian invasion and the destruction of the last vestiges of rural opposition (i.e. the Fasci) also coincide with these years. Both of these factors created the incentives and structure for the southern agriculture to produce traditional

agricultural goods for the north within a system that depended on the extreme exploitation and over-extraction of labour as the chief mechanism for preserving landowners' profits<sup>74</sup> (through a complete control in the dictating of labour contracts).

The new industries were concentrated in northern Italy in the 'industrial triangle' formed by Milan, Genoa, and Turin that extended outwards along the industrial pre-Alpine valleys of northern Piedmont, Lombardy, and the Veneto. These new developments contrasted with the bleak conditions in the South. Here the decade of Italy's industrial 'take-off' (1900-1910) coincided with the beginning of the mass transatlantic emigration, which revealed that the Italian economy was still far from unified: the southern emigrants were drawn not to Italy's industrial cities but to the rapidly expanding cities of the North American seaboard. Thus by the end of the 19th century, the state had taken the final steps for the creation of a dual economy in Italy: a labour-intensive, backward agriculture in the south that was also disaggregated from its urban counterpart, and an industrializing north chiefly through a fiscal system that channelled resources from the south to the north.

In summary, the creation of a market economy in Italy throughout the 19th century was not a uniform process. The particular paths they followed and the different structures that developed in the 19th century were the direct result of governmental action. As much as the creation of a market economy and the development of industry in the north were the direct creations of state action, so was the making of the south.

Clough & Livi, (1956) through their tax revenue analysis estimate that even in the decade 1871-1880 the southern GDP per capita was at around 75 percent of the center

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<sup>74</sup> But in the Po Valley the same tariffs had the opposite effect and encouraged the adoption of more capital intensive forms of farming; thanks to the existence of organizational structures such as the *braccianti* for preserving agricultural workers' wages and limiting expropriation.

and North. This ratio - though very conservative and underestimating the informal sectors (see the table below for more composite constructions) - considering the changes in the century leading to the unification (and the transfers of the 1850s-1860s), is nonetheless to a certain degree acceptable. However, by 1953, southern GDP per capita had come down to being only 41% of that of the rest of the nation.

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**Table-8: GDP Per Capita Across Regions (1871-1971)**

	North-West	North-East and Centre	South
1871	108	106	87
1891	113	106	86
1911	141	106	78
1938	152	92	66
1951	161	101	53
1971	132	105	69

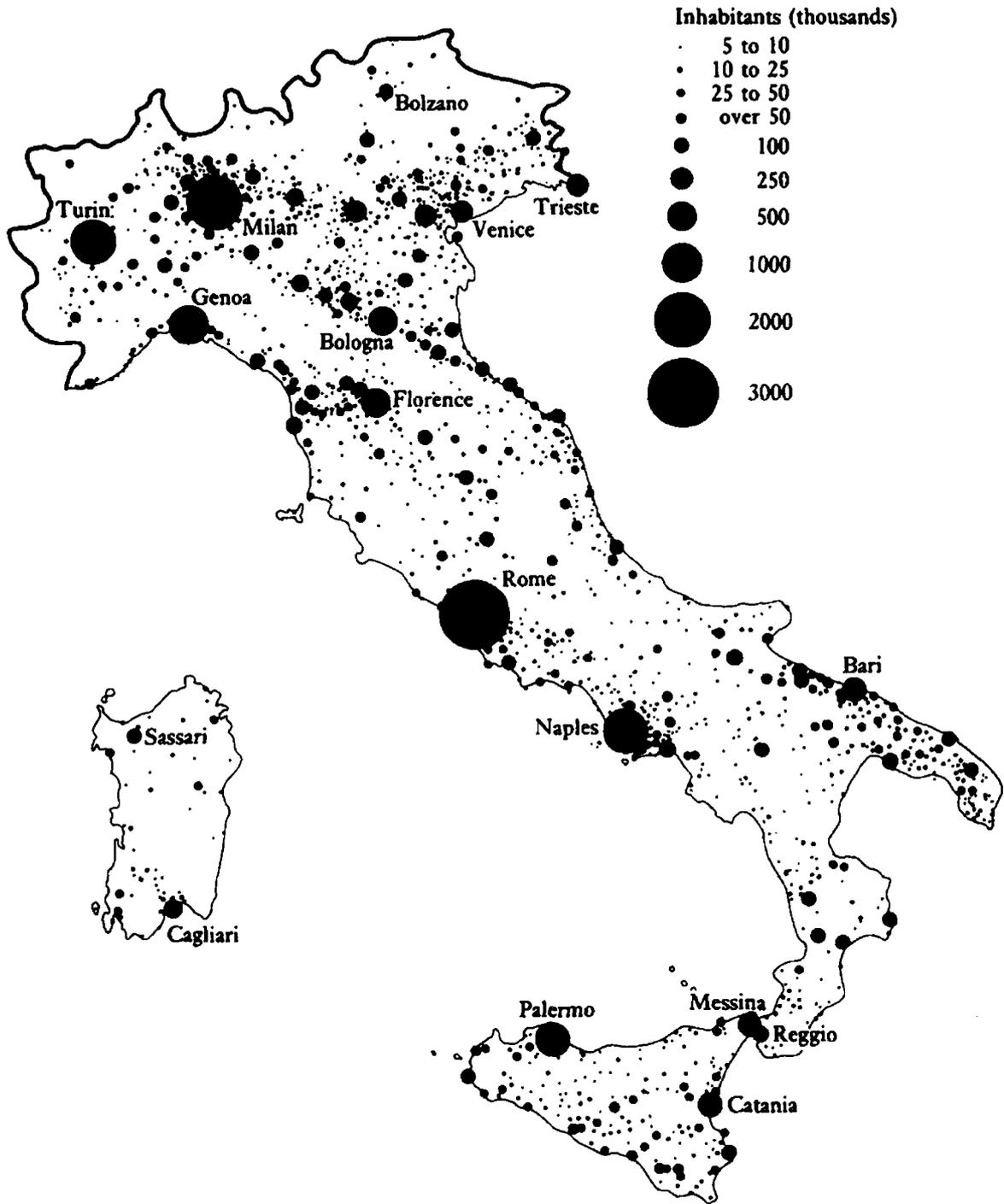
GDP per capita across regions (Italy = 100)

North-West: Piedmont, Liguria, Lombardy; North-East and Center: Veneto, Emilia, Tuscany, Marches, Umbria, Latium; South: Abruzzi, Campania, Apulia, Basilicata, Calabria, Sicily, and Sardinia.

Source: Federico and Cohen (2001), SVIMEZ, Esposto (1997).

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The chief point here is that even though the post 1900 or post-1920 period (including the fascist regime) could to a certain degree be argued to have followed a certain form of path-dependency, the 18<sup>th</sup> and 19<sup>th</sup> century of Italian history is anything but path-dependent. It is a period of immense socio-economic changes, political ruptures and artificial as well as natural processes of institution formation and destruction. There is probably no other period in Italian history marked by such a reconstruction and reshaping of the social fabric.



**Figure-3: Urban Settlements (1981)** - [Source: Zamagni, 1993]: Despite decades of demographic changes one can still observe the great difference in the distribution of urban settlements across the north and south and the difference in the existence of smaller towns even by 1981. While the north and especially Po-Valley feature the existence of numerous small scale towns distributed across the country-side; in the south huge cities such as Naples and Palermo stood isolated from long stretches of isolated rural settlements.

## Appendix - 2

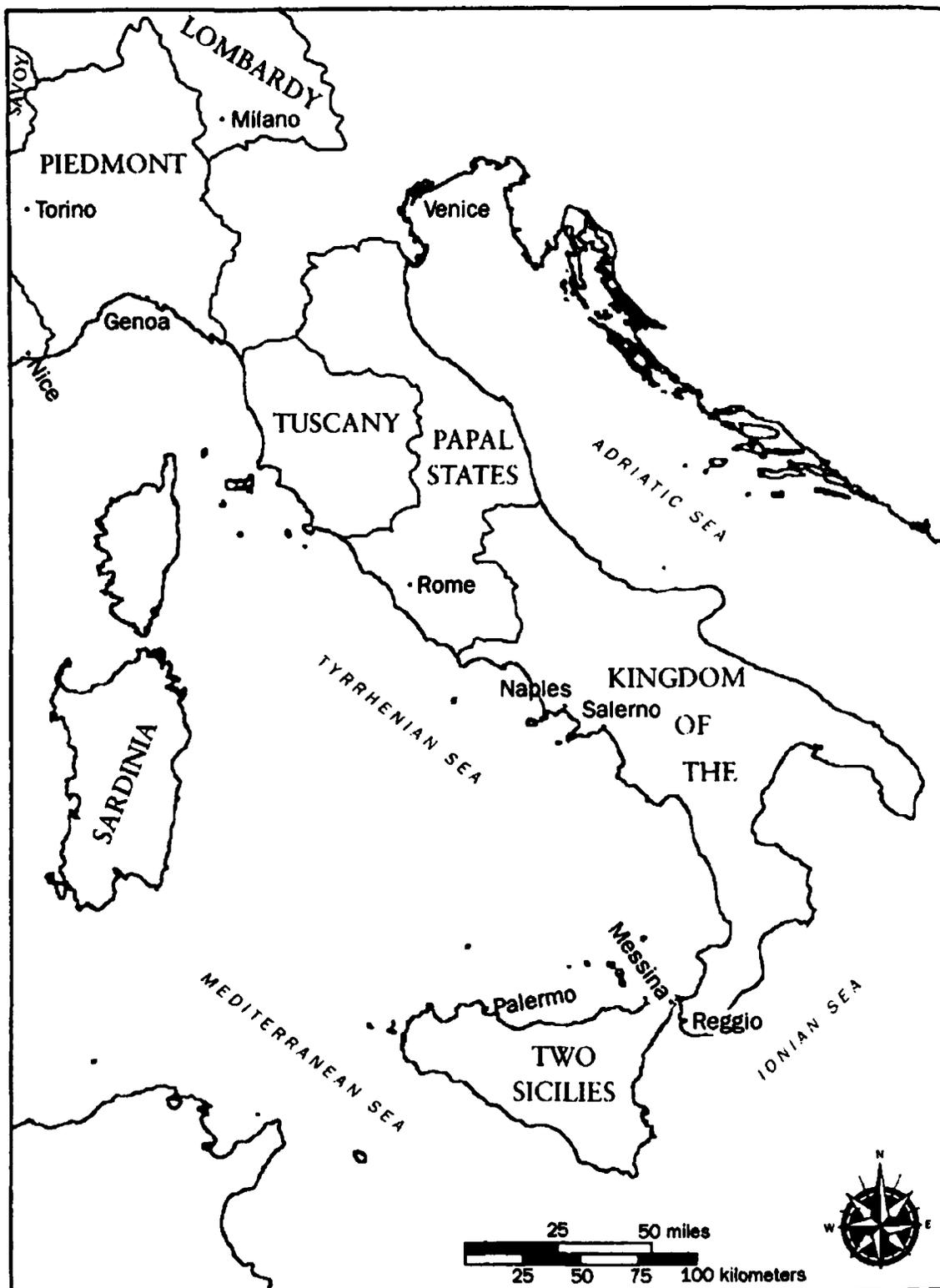
**Table - 9: Population in Major Cities (1861-1911)**

	Milan	Turin	Genoa	Rome	Naples	Palermo	Basilicata (total)
1861	267,618	173,305	242,447	194,500	484,026	199,911	509,000
1871	290,514	210,873	256,486	212,432	489,008	223,689	524,000
1881	354,041	250,655	289,234	273,952	535,206	244,898	539,000
1901	538,478	329,691	377,610	422,411	621,213	309,566	492,000
1911	701,401	415,667	465,496	518,917	751,290	339,465	486,000

Population changes in some major cities.

Source: ISTAT

## Appendix - 3



**Figure-4: Italy Just Prior to Unification, May 1860**

Source: Benjamin (2006)

## Appendix - 4

**Figure-5: Contemporary Regions of Italy**

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