

## **Transitions to Capitalisms – Past and Present**

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Theories of transitions to capitalism, the foundation of the social sciences because they are the basis of the writings of Marx, Weber, Durkheim, and Smith, are not quaint historical commentaries. They also form the core of important contemporary debates about the recent market transitions in post-socialist Europe, Central Asia, and China. What can be learned by comparing past and present theories of transitions to capitalism?

In the past, development and modernization scholars posited “stages of development” through which all countries passed. Thus, it was assumed that undeveloped countries would follow in the same paths as developed ones (e.g., Rostow 1961). Today of course, few social scientists believe that any single theory can explain a complex set of events like transitions to capitalism, which inevitably depends on temporal and regional factors. Furthermore, capitalism is not a single entity, but has different features in different contexts (Hall and Soskice 2001). Despite these differences, a remarkable convergence in the use of theories of transitions to capitalism is occurring, which unites past and present examples of this phenomenon. Is it also possible these historic and contemporary examples can adjudicate between such theories?

### **Theories of Transitions to Capitalism**

In the past, as well as the present, theories focus on five explanations: 1) physical explanations based on natural endowments such as geography or fertile land, 2) economic explanations based on efficiency and rationality, 3) organizational explanations based on the structure and logic of institutions, 4) social explanations based the power relations between social actors, and 5) cultural explanations based on actors' orientation towards economic action.<sup>1</sup> In this paper, I focus on the theories that have emerged to be the strongest overall theories of transitions to capitalism in both past and present, 2 and 4. In particular, I contrast economic theories of the transition, based on efficiency and rationality and three variants of social explanations, elite theory, class theory, and sectoral theory.

### *Economic Theories*

Economic theories are based on the premise that the individual-level incentives of capitalism correspond to its aggregate efficiency. Individuals act in their own self interest to maximize their utility; while capitalism is an economic system that overall is Pareto optimal. Thus, for economic theories, little is needed for capitalism to emerge: states must set minimal preconditions for markets by establishing and enforcing property rights. North and Thomas (1973:5–8) argued that the rise of capitalism in Western countries is explained by these states' enforcement of property rights. These rights facilitated economic growth by assuring that individuals who undertook risky or expensive innovations that eventually increased productivity benefited from them. Efficient property rights in England created the transition to capitalism there. Greif (2006:5, 24–

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<sup>1</sup> Cultural theories, while important, have been shown to be indeterminant explanations of the transition to capitalism. The effects of physical conditions, while important in setting preconditions, empirically work through social factors. Theories focusing on globalization or World Systems Theory is actually a variant of 4, differential power relations, which I will expand upon in future drafts.

27) argued that corporate institutions that ensured that ensured property rights and contract enforcement developed in Western Europe as early as the late medieval period and created economic growth there. Similarly, in the 1990s, the so-called “Washington consensus” advocated “shock therapy” for socialist countries to marketize their economies. Following the logic that secure property rights create efficient markets, these economic advisors—the most prominent of which was Sachs (Lipton and Sachs 1990)—argued that the rapid privatization of property in post-socialist states was the best way to create markets and a rapid transition to capitalism that would create economic growth and reduce poverty. Thus economists point to the relative quickness of Central European countries to implement privatization as an explanation of the faster transition to capitalism there. In contrast, in Russia and the other post-Soviet successor states, privatization was implemented more slowly and unevenly, and the transitions to capitalisms there have been slower.

Sociologists, on the other hand, object to these economic theories on several grounds. First, they argue that markets are social and cultural, as well as economic institutions. Thus, they are likely to point out that the establishment of private property alone—though of course it is precondition for capitalism—is unlikely to create capitalism. Because market institutions are complex, they unlikely to arise spontaneously just because private property rights have been established. Second, they argue that the social relationships between actors determine where the preconditions for capitalism occur, and therefore determine where and when capitalism arises. In general, such theories look at the power relations between sets of social actors and argue that actors

must have the power to act in their own interest to establish social institutions conducive to capitalism.

Three social relations are important: the relationship between different elites (e.g., state, capitalist elites, religious elites), the relationships between different classes (namely, the owners and producers), and the relationship between different sectors (e.g., between different types of economic activities, such as between producers and consumers or between producers of different types of goods). These three positions stem from Marx, who viewed the development of capitalism as driven by class conflict, from Weber, who viewed it as a result of the competition between elites (Szelényi 2008:171), and from Marxist and neoclassical economic theories that considered how the interaction between sectors created capitalist development (Emigh 2009).<sup>2</sup>

Elite theory posits that the relationship between elites determines where and when capitalism arises. First, elites must have the capacity vis-à-vis other elites to exploit direct producers, and second, they must create capitalist relations (Lachmann 2000). Thus in England, the gentry gained tactical advantage over the crown and clergy, which allowed them to create capitalist relationship in rural regions. Thus, capitalist elites won out over other elites, and they established capitalist relations. Similarly, Hung (2008a) argues that elites' failure to transform economic relations explained the lack of a transition to capitalism in eighteenth-century China. In England, of course, actors had little sense of how they were transforming social relationships since full scale capitalism did not exist. While this creates obvious differences between past and present because contemporary elites self-consciously use other countries as models, somewhat surprisingly, it does not alter the fundamental premise of elite theory that it is a unified elites that has the power to

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<sup>2</sup> Should the paper be focused around these theories of social relations instead?

transform economic relations. Thus, from the perspective of elite theory, in the present, the course of change in post-socialist Europe was also shaped by which elite group gained power after state socialism collapsed (King and Sznadjer 2006; Szelényi 2008). Where the old communist elite took power, they only marginally introduced capitalism, because it was their interest to preserve the remnants of their socialist powers. In contrast, reformers, such as the members of the intelligentsia and the technocracy, wanted capitalism per se, and they introduced capitalist relations more thoroughly (King and Sznadjer 2006; Szelényi 2008:171–173). Thus, post-socialist Poland and Hungary, where the intelligentsia and technocrats gained ascendancy, have marketized much more quickly and thoroughly than Russia, where the former communist elite continued to hold power. Thus, elite theory focuses on the power of a certain group of elites to establish capitalism. This argument is not necessarily inconsistent with economic theory. Elite theory would simply argue that elite power, not economic theory, determined where capitalist institutions were established. Thus, elite theory might simply note that where capitalist elites (and their corresponding intellectuals) are powerful, they are able to establish capitalist relations such private property, which economic theory advocates as a matter of policy.

Class theory instead looks the relationships between owners of property and producers of goods. For Brenner, the crucial component in the spread of agrarian capitalism (a precondition for the spread of industrial capitalism) was a relative balance of power between landlords and agricultural producers, so that both became market dependent. In contrast, if either was able to survive through non-market mechanisms and rent-seeking (the producers by self-provisioning, the landlords through some form of

direct confiscation of labor services or the product of labor services, or by personal control over the producers) then neither will depend on markets for survival. Thus, in England, though landlords were more powerful than tenants, they were not as powerful as in Eastern Europe where they were able to reimpose serfdom on their tenants. And, in England, rural inhabitants had some rights to rights to land, but they were not as powerful as in France, where peasants were able to prevent land consolidation and commercialization. Thus, the relative balance of power was key to the development of agrarian capitalism. Most current market transition theories focus on elites,<sup>3</sup> but also include class relations as secondarily important. Where they are included, they are often quite consistent with the overall thrust of Brenner's emphasis on the relative power of classes. Szelényi (2008:171–172) argued that class struggle was important during early market reforms under socialist regimes, starting in the 1970s and 1980s in China and Central and Eastern Europe, when concessions were made to peasants and workers. King and Sznajder (2006) note that in Poland, a strong working class and protests kept elites accountable for creating genuine reforms. Similarly, Hung (2008a) notes that the relatively large power of the lower classes in the lack of eighteenth-century China prevented the transition to capitalism there (he also points to sectoral relations as being important). Thus both King and Sznadjer and Hung's analysis are consistent with the idea that a relative balance of power between classes spurs capitalism. Thus, elite theory does not deny that class is important, but it argues that elite struggles first establish where and when class relations will then shape capitalist development (Lachmann 2000:11–13).

Among those who emphasize classes over elites, however, this emphasis is reversed.

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<sup>3</sup> Lane (2005, 2006) is an exception, but he conceptualizes class differently, using Weber and Erik Olin Wright. While he does not consider himself to be an elite theorist, he mostly looks at the balance between elite fractions, and I think he can be easily reconciled with an elite approach.

Thus, Drahokouopil (2008:361), who stresses class analysis, argues that political and economic structures condition the composition and strategic preferences of elites as well as the power relations among them. He argues that the class paradigm embeds elite positions on society and thus investigates the ways that political and economic structures shape incentives, opportunities, constraints, and economic relations of those in elite positions (Drahokouopil 2008:362).

Both elite and class theories, however, remain relatively close to economic theories in two ways. First, in elite and class theories, power relations allow certain actors to realize their own interests to create capitalist institutions. In successful transitions to capitalism, capitalists actors then become dependent upon these institutions, and no longer rely solely on the power relations that gave rise to them. Both theories rely to a considerable extent on the premise that capitalism is efficient, and will spread once capitalist relations have been established. Thus, although such theories of course recognize that markets will not spread without the initial establishment of market structures, they provide relatively little analysis of how such markets are actually created and how they operate once preconditions are established. In this respect, class theory provides a somewhat fuller answer than elite theory, as it more clearly links capitalists' actors dependence on the market conceptually to the growth of markets. Nevertheless, both theories rely to a large extent on the premise that markets will operate once capitalist preconditions are established. Second, elite and class theories pay little attention to the third crucial element of social relationships: how sectors, composed of different types of economic activities, interact. In fully capitalist economies, markets coordinate this interaction, but class and elite theories do not examine how these markets arise once

capitalist preconditions have been established. Thus, it is crucial to examine such sectoral relationships in detail.

Thus, the third set of social theories of transitions to capitalism is composed of sectoral theories, which consider the relationship between different types of economic activities. Like elite and class theory, sectoral theories have micro and macro dimensions. Interactions between individuals engaged in different economic activities can be examined; in addition, the interaction between groups of actors participating in these economic activities can be examined.

The central premise of sectoral theory stems from Smith and the division of labor. The social division of labor means that some individuals produce goods that they do not consume, and they need to consume goods that they do not produce. Thus, the production and consumption of goods must be socially organized so that individuals can obtain goods they need but do not produce, and dispose of goods they produce but do not need. Thus, with complex social divisions of labor, institutions must coordinate this social coordination of the division of labor. Without such sectoral coordination, no economy can survive, including one based on markets. In capitalist economies, markets coordinate much of this integration. As Polanyi noted, in capitalist economies, market exchange is the primary mechanism of economic integration. However, redistribution and reciprocity also exist and provide crucial support to market exchange. Thus, states and societies can coordinate sectoral interaction that then facilitates markets. The key to sectoral analysis then is to look at institutional arrangements that facilitate markets that coordinate the exchange of products produced by different individuals and groups. Thus, markets must be supported by through a network of dense social, cultural, and economic ties.

Formal sectoral theories started out as simple dual sector models, about the transfer of resources from the rural to the urban sector (e.g., Lewis 1954). The basic premise was that for industrialization to occur, the agriculture sector had to shrink in absolute size while the manufacturing sector expanded. Thus, there had to be some transfer of resources from the rural to the urban sector. At the same time, however, the manufacturing sector depended on the output from the agricultural sector, since individuals in the manufacturing sector did not produce their own food. Thus, investments had to be made in agriculture so that its productivity increased. A smaller agriculture labor force could then supply food for a larger manufacturing sector. Such a productive agricultural sector could also provide a domestic market for manufactured goods (review in Emigh 2009:46–52).

Initially, these theories were strongly prescriptive ones that advocated a straightforward path to capitalist—or in fact socialist—industrialization. And, of course, in practice, such theories often failed to explain empirical cases. Thus, sectoral have evolved far beyond such simplistic theories to explain how this overall dynamic of a shrinking but increasingly productive agriculture sector can be facilitated by extensive backward and forward linkages between sectors (review in Emigh 2009:46–52). Markets have to be “thick” to function well and to coordinate the exchange of the inputs and outputs from different types of economic activities. Thus, I argued for the analysis of how sectoral relationships shape the institutional nature of markets (Emigh 2009:57–63). Furthermore, sectoral analysis underlies a large body of other sociological literature, though it is not often consolidated and and presented explicitly in terms of sectors (e.g.,

Martin and Thelen, Hung 2008b). Here, I pull these strands together to use sector as a crucial set of social relationships that explain the transition to capitalism.

Sectoral theories provide four important insights about the transition to capitalism. First, I argue that sectoral theories share an important premise with class theories, that the balance of power between different social actors is important: when sectoral growth is relatively balanced, the transition to capitalism is promoted. Sectors must be market dependent (where markets are conceptualized as political, economic, and cultural entities). Second, dense linkages between sectors also promote capitalist development. Third, in generalizing from work on the agricultural sector, the dependence of manufacturing on agriculture, energy, and raw material extraction must be considered. Manufacturing can grow only to the extent that it is supplied with such inputs. This is clearest for the relationship between agriculture and manufacturing (the relative size of manufacturing grows while agricultural productivity increases). Agricultural productivity sets absolute limits on the size of the manufacturing sector. Similarly, inputs of raw materials and energy also set limits on manufacturing. Fourth, where sectoral growth is balanced, a domestic market for goods can appear.

Here, I consider these economic and social theories in a set of case studies, historical and current. It remains unlikely that any single theory explains all the cases, but I look for a theory or combination of theories that seems to best explain the cases.

### **Tuscany**

Tuscany has been one of the most paradoxical cases of the study of historical transitions to capitalism. It had a well developed protocapitalist economic in the late Middle Ages and early Renaissance, but then went through a long period of relative economic decline.

The best developed economic theory, based on North and Thomas (1973), suggests that the concentration of urban power can produce institutional arrangements that prevent the development of trade and markets. Epstein (1991:32–33, 2000*b*:121) provided the best example of this type of argument for Tuscany by arguing that powerful Florentines adopted market restrictions that prevented agricultural innovation and investment, limiting the domestic market, preventing specialization, and reinforcing peasant subsistence agriculture. Thus, Epstein suggested that the preconditions necessary for further development (relatively unrestricted markets, productive agriculture) were not present.

Epstein's argument goes quite far in explaining the Tuscan case. He presented a balanced view that emphasizes the strength of the urban economy and noted the lack of rural autonomy (Epstein 1991:40–42, 45, 2000*b*:119–121). It is not clear, however, that market restrictions were the culprit or that they had the hypothesized effect because they did not inhibit agricultural investment and innovations that increased agricultural productivity. Such improvements did not increase productivity merely by increasing the intensity of labor (Emigh 2009:168–195). Thus, Epstein's attempt to explain the case by arguing that the preconditions for such a transition did not exist is not entirely successful.

Class theory works poorly for Tuscany, because landlords were members of urban, not rural classes. So, analyzing capitalism's development in terms of rural class dynamics fails, and Tuscany remained largely outside of the debates about class structure and agrarian capitalism. However, Lachmann (2000) provides an elite theory interpretation of the Tuscan case. Combining elite theory with Weber's distinction between politically and economically oriented capitalism, he argued that the transition to

capitalism did not occur because once a single elite gained control of Florence, it failed to transform economic relations, drawing instead on its political power to maintain economic advantage (Lachmann 1990:409, 2000:89–92). Citing land as Florentines’ “favorite investment,” Lachmann (2000:86) argued that sharecropping was an unproductive, exploitative tenurial form. Like Epstein, Lachmann explained well many dimensions of the Tuscan case. He emphasized urban power and correctly noted urban elites’ important economic role. However, contrary to Lachmann’s argument, Florentines did control Tuscany through economic, market mechanisms. In fact, their investments were primarily driven by economic incentives (Emigh 1997*d*, 1999*b*). Furthermore, during the fifteenth century, sharecropping increased agricultural productivity and was a capitalist form of land tenure (Emigh 1999*b*, 2000*a*). Thus, Florentine elites’ investments did transform agricultural production during this period of time.

Instead, I argued for the use of sectoral theory to explain the Tuscan case (Emigh 2009). A detailed analysis of how urban and rural sectors interacted shows that urban penetration of rural land markets erased market institutions. In rural regions unaffected by the penetration of Florentine capital, economies were primarily based on subsistence production. However, there were well developed local markets that coordinated smallholders’ exchanges of land, labor, and commodities. Such markets were tightly linked to cultural practices of property devolution and linked to widespread numeracy. When Florentines entered rural markets, they took advantage of these local markets to buy land from smallholders. However, smallholders were unable to participate as equals in such markets because they were much less wealthy. Thus, as Florentine markets spread, the rural population became detached from markets, and the overall prevalence of

market transitions decreased. This analysis shows how the pattern of urban/rural sectoral interaction affected market institutions. This pattern decreased the extent of markets, and thus, along with it, the institutional support for capitalism. As a consequence, the spread of capitalism was delayed. Thus, Tuscany illustrates the three points of sectoral theory. Delayed transition to capitalism was affected by 1) the overall power imbalance between the sectors, 2) the lack of dense ties between the urban and rural sector, and 3) the failure of the agricultural sector to provide an adequate food supply in the long run. 4) In the long run, a domestic market did not appear because rural producers were detached from market structures.

Elite and sectoral theories are not necessarily contradictory. Sectoral theory would not deny that the actions of Florentine elites were important. Sectoral theory only notes that elite theory cannot explain why landlords did transform agricultural relations, but that such a transformation did not produce an early transition to capitalism. Sectoral theory provides the analytic tools to consider the pattern of rural and urban interaction more generally to show how urban and rural actors were important.

## **England**

Not surprisingly, since most theories were developed for England, they all fit reasonably well there. As noted above, economic, class, and elite theory all use England as the exemplar cases that illustrate the theory's veracity.

Similarly, sectoral theories were also developed in the context of the English case and work well there. The pattern of a shrinking but increasingly productive agricultural sector in tandem with a growing manufacturing sector was historically found in England. A classic, and still largely intact, view of English history is that a structural shift from

agriculture to industry occurred at least as early as the eighteenth century (Cole 1981:62–63; Crafts 1987:256–258; Harley and Crafts 2000:820–821, 839; Hoppit 1990:174–175, 177; Thompson 1994:8). Increased agricultural productivity made it possible for a smaller agricultural labor force to feed a larger urban and industrial labor force (Allen 1992:263–264; Brenner 1985*a*:51–52; Crafts 1981:3; Thompson 1994:8). Agricultural specialization occurred around London, which increased productivity and released labor for manufacturing (Fisher 1935:51, 54, 56, 1971:10, 14; Wrigley 1967:54–58, 1987:142–145, 181). Jones (1974:99–117) argued that English agricultural sector also created a domestic market for the industrial goods.<sup>4</sup>

Furthermore, there was a unique set of sectoral relationships in England. London merchants had close ties to the English nobility and gentry through kinship, trade, and finance (Fisher 1971:10; Lachmann 2000:118; Tilly 1989:580). Because of impartible inheritance in England, only the eldest son inherited landed property; other brothers often became businessmen (who frequently bought estates after financial successes). Thus, in England, there were ties between rural elites and merchants within families, creating sectoral ties. Brenner (1985*a*:58, 1993:713) argued that a seventeenth-century alliance between an agrarian capitalist aristocracy and an entrepreneurial merchant class set the stage for the development of a unified national state in England capable of protecting private property. The political developments of the seventeenth century thoroughly entrenched landlords' interests in the government, which subsequently favored farm producers over consumers (Jones 1981:74). The gentry consolidated their control over agricultural surplus, and merchants were transformed from marginal to dominant actors (Lachmann 2000:118, 235). These developments were important precursors to full-scale

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<sup>4</sup> Though there is some debate about whether this is true, see Emigh 2009:47–48).

industrial capitalism. Thus, the English case also shows how sectoral relationships influenced the transition to capitalism there: 1) there was a relative balance of power between the sectors, 2) there were dense ties between sectors, and 3) the agricultural sector provided a food supply to the manufacturing sector.<sup>5</sup> 4) Through poverty was of course widespread, growth was distributed widely enough so that a domestic market emerged (at least according to Allen).

Of course, such theories are not necessarily contradictory. Lachmann's elite theory is not contradictory with the economic argument that capitalist social institutions were established in England or that the balance of power between landlords and tenants was crucial once landlords consolidated their power vis-à-vis other elites. Nor is the pattern of elite and class interaction inconsistent with sectoral theory.

## **Russia**

Russia's transition to capitalism has been best explained by economic and elite theory. As noted above, economists point to the slowness of privatization there as the explanation of a slow transition to capitalism, especially in the early 1990s. Elite theorists point to the power of the former communist elites in postsocialist Russia that prevents sweeping change.

Elements of sectoral theories have been deployed for postsocialist Russia in an ad hoc way, but these theories have not been deployed systematically. I try to draw together the disparate elements of this explanation to present a more systematic explanation in terms of these theories. In terms of sectors, Russian development has been dominated by two problems: the underdevelopment of agriculture and the overdevelopment of the sector that exports raw materials. In the postsocialist transition,

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<sup>5</sup> I think the same is true of the energy sector—coal was important.

the oil and natural gas industries have become the most powerful sector. This has led to huge wealth for some individuals, but has not led to more general development because there are relatively few sectoral ties between the energy sector and other sectors. Russian development suffers from what is often called “the Dutch Disease,” an overreliance on a natural endowment of resources. Such an economy relies on profits (and even these are often essentially derived from rent seeking) from the export of raw materials, to the detriment of the development of manufacturing and service sector.<sup>6</sup> Thus, to date, the energy sector has produced a huge amount of wealth for some individuals, but few intersectoral linkages. Furthermore, the wealth that has been created is highly concentrated among these few individuals, so there is no widespread growth of a domestic market for manufactured goods.<sup>7</sup> Of course, it remains to be seen whether more general and balanced sectoral growth will occur or whether Russia will look more like other oil exporting countries that lack widespread development.

The second important sectoral dimension is the weakness of agriculture. In the Soviet Union, there was little investment in agriculture until the 1960s and 1970s and little rural infrastructure (Ioffe et al. 2006:23–27).<sup>8</sup> In the 1970s, increased agricultural investment improved outputs, but this trend was short lived. In the 1970s, GDP in agriculture increased by about 6% and output by about 3%. In the 1980s, GDP increased by about 3% annually and agricultural output by about 2% (Lerman et al. 2004:20–21). In the 1980s, there were large food shortages in the Soviet Union despite increase in investment (Lerman 2004:37–38). As a sector, agriculture was very important in the Soviet Union at the time of its collapse. Agriculture formed a relatively large component

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<sup>6</sup> From Lane 2005, but review of Kim?

<sup>7</sup> Evidence for this.

<sup>8</sup> Because the advocates of the “squeezing” agriculture argument won. Add this.

of its economy in comparison to countries with similar levels of development (although some of the reason for the large share of agriculture may stem from failure to measure the service sector separately; Lerman et al. 2004:17–18). However, during the transition, relatively little attention was paid to agriculture. After 1992, investment plummeted (Ioffe et al. 2006:28-30). The amount of investment in Russian agriculture is a small fraction of what would be spent in Western countries (Ioffe et al. 2006:28-30).

Agriculture was highly collectivized in the Soviet Union and private land ownership was illegal (Lerman et al. 2004:25, 62). During the market transition, land privatization went more slowly in Russia than in the countries of Central Europe (Lerman et al. 2004:69–73). Russian agriculture has performed relatively poorly during the market transition. In 2000, agricultural output for Russia was lower than in 1990 (Lerman et al. 2004:183). Between 1990 and 1998, in Russia, GDP, gross agricultural output, agricultural employment, and agricultural labor productivity declined (Lerman et al. 2004:183, 209, 210, 211, 212).

One problem was that Soviet agriculture had expanded too far onto unfertile land, with inadequate infrastructure to support remote locations. Much of this land is now being abandoned, which is probably a useful corrective in the long run (Ioffe et al. 2006:221–227). However, it has left dispersed pockets of agriculture that are not well connected to other regions. Because of the lack of rural infrastructure, only land close to cities is productive. While some agribusiness has developed, most farming is by households. Overall, Russian agriculture is weak, unproductive, and not well linked to other sectors of the economy (Ioffe et al. 2006:221–227). This is illustrated by another trend as well—the use of rural dachas for self provisioning by the middle classes during

times of economic uncertainty (Southworth 2006). Thus, this illustrates the relative lack of links between urban and rural markets.

Thus, sectoral theory would point to three explanations of the relative weakness of the Russian transition to capitalism: 1) sectoral growth has been very uneven and the export of raw materials (gas and oil) has been most important, so this sector is the most powerful; 2) there are few sectoral links between the dominant export sector of energy and other sectors, and 3) the agricultural sector is weak; it cannot provide agricultural products for its citizens, nor can this sector provide a domestic market for goods. 4) The growth in the domestic market has been limited to the very wealthy.

Of course, there are again overlaps between the three theories. Economic theory would point out that inadequate privatization in the agricultural and energy sectors has contributed to their respective over and underdevelopment. Elite theory would note that the energy sector has been largely dominated by postcommunist elites who have failed to transform it to fully capitalist enterprises.<sup>9</sup>

## **China**

China's transition to a market economy is an interesting case for economic theory. On the one hand, the Chinese state is hardly a neoliberal paradigm of setting basic preconditions for capitalist institutions and then letting markets work without interference. On the other hand, where the state has established private property rights, economic growth has been spectacular, confirming some of the basic tenets of such theories. As noted above, China's transition to capitalism seems to conform largely to class theory during the early transition, when a more favorable balance of power between peasants and workers and the state prevailed that gave concessions to rural agriculturalists and small producers.

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<sup>9</sup> Evidence for this is needed. Also, look for reasons that links to other sectors have not been pursued.

However, more recently, the balance of power has shifted towards elites. Szelényi (2008:167) argued that the Chinese path to a market transition started “from below.” Early reforms started in the countryside, dissolution of collectives and reestablishment of family enterprise, and the direct beneficiaries were the peasants. But now, recent changes suggest the development of capitalism “from above” because they are dependent upon the growth of state owned enterprises and influx of multinational capital (Szelényi 2008:171). Dickson (2007:828) also notes that there has been a trend towards an alliance between political and capitalist business elites (entrepreneurs who are also Communist Party members) and that these elites are becoming increasingly integrated. This creates institutional links between the state and business. This pattern can be interpreted two ways: On the one hand, it suggests that it is the balance of class power, not elite strength is crucial in determining the transition to capitalism there; on the other hand, elite theory might counter that a single elite, the communist leadership, has been firmly in control over the entire process of the transition, despite subtle shifts in their power.

As for Russia, elements of sectoral theories have been used to explain the Chinese trajectory, but unsystematically. The Chinese case also shares some similarities with the Russian case, but with important differences.

First, like Russia, the most important and powerful sector is the export one. It dominates the economy (Hung 2008b:149), which creates some weaknesses for the economy as a whole. During the recent recession, when demand for energy from Russia and imported good from China drops, the entire Chinese economy is strongly affected (Hung 2008b:149).<sup>10</sup> However, the Chinese export sector is composed mostly of different types of manufactured goods, not just a few raw materials as in Russia. The production of

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<sup>10</sup> Hung for China; analogous cite for Russia?

a multiplicity of manufactured goods creates many more intersectoral ties within the Chinese economy, for example, between energy producers and consumers and between sellers and buyers of parts. Though exchanges may remain somewhat limited (Lee 2007:876), geographical sectoral concentration high, and intersectoral mobility low (Hung 2008b:159), these trends are probably more pronounced in Russia.

The agricultural sector is also considerably stronger in China than in Russia. In the pre-reform era, rural collectives were engines of accumulation (Saith 2008:732, 736). They raised agricultural productivity, created rural infrastructure, integrated agriculture and rural industry through backwards and forwards linkages, and promoted rural development and education (Hung 2008b:154; Saith 2008:732, 736). While rural inhabitants were poorer than urban ones, they were still relatively well off (Saith 2008:732). Furthermore, market reforms started in the countryside in 1978. Communes were broken up, and the household responsibility system was introduced (Walker and Buck 2007:41). Between 1980 and 1982, decollectivization was implemented rapidly, and contractual forms of landholding were established (Saith 2008:735; Walter and Buck 2007:41). These reforms led to capitalism “from below” as Szelényi (2008:167) argued. Thus, overall, in China, in comparison to Russia, agriculture contributed much more to overall economic development. The sector was much better integrated with the rest of the economy, and was more productive. These sectoral differences explain much of China’s more advanced transition to capitalism in comparison to Russia’s less developed one.

However, widening inequality between the rural and urban sector and the lack of a domestic market for goods may become increasingly problematic for the Chinese economy as a whole. While urban regions were always wealthier than rural ones,

inequality was historically low in China. Now, inequality is now increasing rapidly to the advantage of urban regions (Hung 2008b:157; Saith 2008:749–750). Rural poverty is widespread, and rural residents' right to move is restricted (Walker and Buck 2007:44). The domestic market for goods remains small because of a very high savings rate (Yeung 2008) and low rural incomes (Li 2003). Rural inhabitants face high taxes and low prices (Li 2003). The lack of a domestic market exacerbates China's dependence on the export sector.

Sectoral theory then explains both the strengths and weaknesses of the Chinese economy. First, growth was much more sectorally balanced during the earlier stages of the transition to capitalism. Later growth is less so, exposing weaknesses that arise from the overdependence on the export economy. Second, during the early stages of reform, linkages formed between rural and urban regions spurred growth. Similarly, current weaknesses in the economy stem from the lack of linkages between sectors. Third, during the early part of the transition, agriculture supported the transition.<sup>11</sup> Finally, the limited domestic market may increasingly prove difficult for China's economy, which depends on exports to drive economic growth.

As in the other cases, class, elite, and sectoral theories are not necessarily contradictory. Szelényi tried to reconcile them by arguing that class relations have become less important over time as the communist elite gains strength. As Dickson (2007:828) noted, Communist elites may become more powerful over time by allying with capitalist elites, therefore consolidating their position. If class relations were important prior to elite relations, this would contradict a basis premise of elite theory that

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<sup>11</sup> Needs some figures for current agricultural production. Also, China's huge coal reserves provide energy, no? Some analysis of this.

the resolution of elite theories condition where class relations are important. On the other hand, there is little doubt that a single Communist elite has transformed China's economy. Sectoral theories though add much to this case because they explain both the strengths and weaknesses of the economy.

### **Conclusions**

In some ways, these theories are contradictory, but in other ways they are complementary. For example, Hung 2008a uses a combination of elite, class, and sectoral theory to explain the case of eighteenth-century China. Elite theories focus the power of a single elite to gain control of the economy, and then to transform capitalist relations.

While economists would not analyze transitions to capitalism in such terms, elite theory is not inconsistent with the idea that private property must be established before capitalism can develop. Class theory and economic theory differ mostly in the matter of timing and the extent of power relations: elite theory argues that elite struggles precede class ones; class theory argues the reverse. However, class and economic theory also differ in the analysis of power relations. Elite theory focuses on the power of a single elite to create capitalism. Class theory would argue in contrast that such an elite might be so powerful that it relies on this power instead of becoming market dependent. Sectoral theory explains a different dimension of transitions by explaining how market exchange comes to dominate economies. Sectoral theory points to patterns of social relationships between producers and consumers of different goods. Elite theories and economic theories in particular, as well as class theories (though to a lesser extent) are silent on the patterns of interactions that promote or hinder the creation of markets per se.

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