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ECONOMIC INEQUALITY AND INDUSTRIALIZATION ON THE CONTINENT:  
INTRODUCTORY COMMENTS

Rolf H. Dumke and Wilhelm Heinz Schröder<sup>+</sup>

I.

Like many other socio-economic debates concerning problems of the economic development of today's less developed countries (LDC's) which have spilled over into economic history (e.g. capital formation, diffusion of technology, education), the concentration of development research in the last ten years on a "new", if classic, economic question, that of distribution and economic growth of the LDC's, and the evolution of some general empirical conclusions from this research have now begun to stimulate research in economic history as well. An analysis of distributional issues, of who are the gainers and the losers, absolutely and relatively, and how much is gained or lost during economic development - the pay-off to economic growth, so to speak - is beginning again to leaven our field of inquiry. Of course, these are also very political questions.

The basic hypothesis which Chenery and others(1) have "tested" and have found to be descriptive of today's, generally cross-sectional, data of the quantile distribution of income (the share of national income obtained by the lowest 60 per cent of the population, e.g.) in poor countries at different levels of development or income per capita, and of the growth and distribution experience of LDC's over the last two decades is the Kuznets(2) thesis of a U-form trend in the equality of income distribution over time and development. A growth-equity conflict appears to be part of the early stage of industrialization of poor countries and, according to Kuznets, the resulting inequality is only slowly eroded by subsequent economic growth. Adelman and Morris (3) have presented a yet more alarming picture of the growth-equity conflict in LDC's today. They fear that the living standards - measured by a whole array of "social indicators" - of the working poor decline not only relative to the rest of society but also absolutely during the initial phase of industrialization of poor countries. Social and economic inequalities seem endemic to the process of development. Yet more, changes in the distribution of income may have significant effects on demographic rates and on the population morphology as well: on fertility (Rpetto(4)) and height (Steckel(5)).

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Rapid economic growth, multi-dimensional declines in living standards of lower social groups with a corresponding rise of the more advantaged, and increasing social and political tensions: this catalogue of concerns sounds like a new edition of the social question, the "Soziale Frage" or "Arbeiterfrage"(6), which so troubled Germany around the turn of the century, but now applied to the third world. Likewise, Kuznets' historical data base(7) for his speculations about the long-run impact of modern economic growth on the distribution of income consisted of some data fragments of the German tax statistics (of the Reich, Saxony and Prussia) for selected years since 1854. The questions posed today as well as some of the data types analyzed are thus not new. However, if this gives the impression that the discussion of the "Soziale Frage" - which was in essence the question of the impact of growth on income and wealth distributions, according to Wagner(8) - was concluded or conclusively answered, or that a consensus exists today about long-run historical trends in German income inequality, that impression would be incorrect. The history of economic inequality during industrialization remains to be written for Germany, and for the other continental European countries, as well. A model for this task could be the recent studies by Williamson and Lindert(9) and Williamson(10). These have demonstrated the existence of the Kuznets inequality pattern in both the United States and in Great Britain on the basis of wealth and income inequality measures, especially of skill differentials between the wages of skilled and unskilled workers.

Can this pattern be found in the historical experience of continental European countries as well? Are there significant differences to the US or UK experience? What kind of data and inequality indicators are available for the task? Is there a systematic relationship between trends in regional and national inequalities? What are the causes and consequences of economic inequality?

## II.

To address these questions and discuss these themes in depth on the basis of continental European, especially German, historical data, a 3rd QUANTUM-Workshop was held at Haus Rothenberge (near Münster) in June 1981.(11) Ongoing research on the distribution histories of Germany, Austria, the Netherlands and Denmark was presented for critique. In the following lines we will present the commentators and researchers in brief. Vigorous critical commentary was prepared by Sidney Pollard (Bielefeld), Rainer Gömmel (Regensburg), Paul Huber (Halifax), Anne J. McLachlin (Mainz/Berkeley), Wilhelm Heinz Schröder (Berlin), and Walter Kamphoefner (Münster/Pasadena), amongst other participants.

Franz Kraus (Mannheim/Florence, "Entwicklung der Einkommensungleichheit in Westeuropa und den Vereinigten Staaten") reported a secular decline in Denmark's income inequality since the middle of the 19th century as well as a summary of inequality trends for a number of European countries and the US since about the turn of the century. Rolf H. Dumke (Münster, "Long-Term Trends in Economic Inequality in Germany since 1850") presented evidence of the personal and functional distribution of income in Prussia/Germany since 1850, which showed a largely parallel development until the end of the 1930's. Changes in capital's share of income rather than skill differentials seemed to drive German inequality to a peace-time historic peak in the decade before WWI. Michael Wagner (Vienna, "Wage Structures in Manufacturing

Industry and in Public Administration: Austria 1868-1885") reported on the immobility of the Austrian wage structures in the late 19th century and surmised that the bureaucratic wage structure of municipal government provided the model. (His paper was published in the last issue of this journal.) Wolfgang Kuban (Münster, "Einkommensverhältnisse bei den deutschen Sparkassen, 1899-1919") presented data on German municipal civil service wage structures, in the municipal savings banks, 1899-1919, suggesting that non-salary emoluments provided for sufficient income - not wage or salary - flexibility during this time period. Diedrich Saalfeld (Göttingen, "Arbeitslöhne und Einkommensverhältnisse der Censiten in deutschen Städten, 1790-1914, ein Vergleich") pointed to the existence of income distribution material in German cities, especially in the first half of the 19th century. Gerd Hohorst (Bielefeld, "Regionale Differenzierung und sektorale Einkommensverteilung in Preußen bis zum Ersten Weltkrieg") discussed the question, which inequality indicator - functional, regional or occupational - is best used to analyze the decline of German fertility. Hermann Schäfer (Freiburg, "Arbeitsverdienst im Lebenszyklus deutscher Arbeiter") found interesting material on the life cycle of earnings of German workers at the turn of the century, suggesting that age played a role in personal income inequality. Hartmut Kaeble and Heinrich Volkmann (Berlin, "Einkommensverteilung und Streik im späten Kaiserreich") attempted to show that average wages of Prussian regions and measures of regional income distribution were affected by union strike activity in the late Kaiserreich. Robert Dickler (Bremen/Frankfurt, "Migration and the Inequality of Land Ownership in 19th Century Germany") argued that the unequal distribution of land in eastern Prussian regions resulted in a completely different kind of economic development, a specialization on grain and massive outmigrations, when compared to the historical experience of Denmark, a possible hypothetical alternative. These studies when completed and published (in part, in following issues of this journal) will enrich our knowledge of Continental distribution history.

### III.

Here three of the QUANTUM-Workshop papers and one exemplary critique are presented. The papers address different aspects of inequality history (national and inter-regional trends, skill differentials, service sector earnings) and utilize a number of inequality indicators (the Theil-coefficient of income and wealth distribution in the Netherlands, coefficients of variation for the average railway wages in German regions, the structure of pay for differently qualified German railway employees, and income ratios for white-collar workers in Germany). Since each paper presents inequality trends based on the exploitation of a variety of new data sources, these papers are new building blocks for the history of continental European inequality.

Jan M.M. deMeere (Amsterdam) utilizes Dutch real estate ownership, primary school tuition fees in Rotterdam, wealth and income tax data for Amsterdam and the Netherlands as a whole, amongst other data, to indicate that the Netherlands experienced a Kuznets inverse-U pattern of inequality during industrialization, 1850-1939. Thus the Dutch experience was similar to the USA, the UK and Germany, although deMeere argues that the Dutch industrialization was of a different type. Like Germany - but unlike the US experience of income levelling (Williamson/Lindert) - the Dutch experienced a sharp increase in inequality during the First World War due to war profits. It

seems to us that these differences in war time inequality histories between the Continental countries and the United States need to be explored in further research.

Carl-Ludwig Holtfrerich and Wilfried Forstmann (Frankfurt) analyze a hitherto largely unexploited body of data on the pay of German railway employees. It is of interest to note that Ernst Engel<sup>(12)</sup> had used this same material for his calculations of costs and returns to different labor qualifications, the first human capital study, ever. Holtfrerich and Forstmann have two goals, to investigate (a) regional income differentials and (b) pay structures and skill differential trends of railway workers during Germany's take-off phase. Paul Huber, an expert in German railway history and an econometrician, provides a lucid and vigorous cliometric critique. The arguments which survive it should be taken seriously. They are: (i) there was no change in regional wage differentials, (ii) a decline in quasi-rents for locomotive drivers and stokers had taken place by 1874. Since we know from other research (Grumbach<sup>(13)</sup>, Hoffmann<sup>(14)</sup>, Dumke<sup>(15)</sup>) that the German take-off phase in the two decades following 1850 was characterized by increasing income inequality and a rise in capital's share of income (see also Tilly<sup>(16)</sup>), the stability in the regional coefficients and the decrease in skill differentials is puzzling. Here again further research is called for and again we find a difference to the American history, where regional inequalities increased along with personal income inequalities (Williamson/Lindert).

Toni Pierenkemper's (Münster) paper provides a first solid group of time series of the salaries in white-collar occupations before WWI, thus highlighting a crucial economic dimension of this quintessential German social group (Angestellten). An analysis of the relative earnings of these groups indicates that technical employees lost relative to both clerical and sales personnel and that all of the Angestellten groups together lost - if only slightly - relative to average earnings in Germany. The income inequality within technical and clerical occupations also levelled during this time. Consequently no rise in general levels of income inequality can be attributed to the rise of this new class of service workers. Since they represented an important part of the service sector and since service sector incomes are generally thought to be very unequally distributed and can contribute significantly to overall levels of inequality - the case in the UK in the 19th century (Williamson) - there may be another international difference in inequality history - between the UK and Germany - which further research could fruitfully explore in depth.

#### FOOTNOTES

- 1 Hollis Chenery, M.S. Ahluwalia, N.G. Carter, "Growth and Poverty in Developing Countries", chapter 11, p. 456-496, in: H.B. Chenery et al., *Redistribution with Growth*, London: Oxford Univ. Press, 1979; H.B. Chenery, M. Syrquin, *Patterns of Development, 1950-1970*, London: Oxford U.P., 1975; F. Paukert, "Income Distribution at Different Levels of Development: A Survey of Evidence", *International Labour Review*, 108, 1973, pp. 97-125.
- 2 Simon Kuznets, "Economic Growth and Income Inequality", *American Economic Review*, 45, 1955, pp. 1-28.

- 3 Irma Adelman, Cynthia Taft Morris, *Economic Growth and Social Equity in Developing Countries*, Stanford: Stanford Univ. Press, 1973.
- 4 Robert Repetto, *Economic Inequality and Fertility in Developing Countries*, Baltimore: Johns Hopkins University Press, 1979.
- 5 Richard H. Steckel, "Height and per capita Income", Working Paper No. 880, National Bureau of Economic Research, April 1982.
- 6 See for example, Gustav Schmoller, *Die Soziale Frage*, München 1918; Heinrich Herkner, *Die Arbeiterfrage*, Berlin 1921.
- 7 S. Kuznets, "Quantitative Aspects of the Economic Growth of Nations: VIII. Distribution of Income by Size", *Economic Development and Cultural Change*, Jan. 1963, Table 16, pp. 60 ff.
- 8 Adolph Wagner, "Weitere statistische Untersuchungen über die Verteilung des Volkseinkommens in Preußen", *Zeitschrift des Königlich Preußischen Statistischen Bureaus*, 24, Berlin 1904, p. 262.
- 9 Jeffrey G. Williamson, Peter H. Lindert, *American Inequality. A Macroeconomic History*. New York: Academic Press, 1980.
- 10 Jeffrey G. Williamson, "Earnings Inequality in Nineteenth Century Britain", *Journal of Economic History*, 3/1980, pp. 457-475.
- 11 Support of the Workshop by the Volkswagen Foundation, the Universität Münster, and the Director of the Institute of Economic and Social History, Prof. Dr. Richard H. Tilly, is hereby gratefully acknowledged. A more detailed report of the workshop papers (in German) can be obtained from R.H. Dumke.
- 12 Ernst Engel, "Der Preis der Arbeit bei den deutschen Eisenbahnen in den Jahren 1850, 1859 und 1869", *Zeitschrift des Königlich Preußischen Statistischen Bureaus*, Jg. 4, 1874, pp. 93-128.
- 13 Franz Grumbach, "Statistische Untersuchung über die Entwicklung der Einkommensverteilung in Deutschland", unpubl. Ph.D. Thesis, University of Münster, 1957.
- 14 Walther G. Hoffmann, et al., *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin 1965.
- 15 Rolf H. Dumke, "Long-Term Trends in German Economic Inequality", Ms., Münster 1982.
- 16 Richard H. Tilly, "The Take-Off in Germany", in: E. Angermann (ed.), *Oceans Apart. Comparing Germany and the United States*, Stuttgart 1981.