

# Economic Development in Central and Southern Europe, 1830-1930

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## Abstract

After two centuries of growth and industrialization, there still exists in Europe a wide variety of levels of factor productivity and income per capita. The present time situation has similarities and differences in regard to that at the beginning of the nineteenth century. The major difference is that a significant number of countries which were at the middle of the ranking are today at the top of the list of levels of productivity and income. The most striking similarity between the present situation and that of two centuries ago is that the list of countries at the bottom of the league is largely unchanged. That group of laggards includes, then and now, the present states of Poland and Slovakia, as well as the Balkan countries (including Greece and Romania), Portugal and, to a lesser extent, Spain and Hungary. In this paper we will examine why these countries or nations have lagged behind during the century of industrialization from 1830 to 1930.

Models of European economic growth during the nineteenth century are largely tributary to the analysis of the causes of industrialization and increases in rates of growth of productivity and income per capita in the forerunners. Those analyses have changed in scope since the beginning of the discussion of growth models in Europe in the 1950s. The first models were based on the study of British industrial revolution during the period from about 1780 to 1830, and they aimed essentially the study of the impact of the technological revolutions in the coal, iron and textiles industries on the rest of the economy. Attention was also given to the performance of the agricultural sector and to the impact of the growth of productivity in agriculture and the 'release' of labour and capital from the sector on the levels of investment and demand of the manufacturing sector.

A second generation of studies searched for alternative models of growth which were in tune with the domestic capacities of each country and also their performance in the international markets. As historical reconstruction of data on growth was being released, it became evident that there was also growth in other parts of Europe since the beginning of the nineteenth century and in earlier periods. In some cases the rates of growth were quite similar to those of the United Kingdom during its industrial revolution, which were not exceptionally high. Yet growth in some regions or countries on the European continent was not necessarily driven by coal, iron or textiles. After all, successful growth depended on developments in a large array of sectors, and the mix of successful sectors varied substantially, depending on the structure of supply as well as demand of any given country.

Economic historians were thus left with a fair number of successful cases which made more complex the range of explanations for growth in nineteenth century Europe.

Growth occurred in countries like England or Belgium, well endowed with natural resources such as coal and iron, but also in predominantly agricultural economies, such as the Netherlands or Denmark. Growth could also occur in context of high population density and rates of population growth, such as Britain and the Netherlands, but also in countries with low rates of population growth such as France. It occurred in countries with large imperial legacies, namely Britain and France, but also in countries with no significant imperial power, as it was the case of Sweden and Germany. The wider perspective on growth stemming from this second generation of studies provided the ground for better interpretations of the causes of industrialization and sustained growth.

The new evidence shed light on the many different relationships between investment in physical and human capital, technology and institutional development and economic growth. Concomitantly, it also helps explaining the persistence of backwardness or slow growth in the parts of Europe that remained behind in certain time periods particularly relevant. The investigations into the causes of backwardness that followed were thus focused on understanding why the favourable conditions that developed in the forerunners did not emerge in the areas of Europe that remained backward. The research agenda to understanding backwardness was directed to study why rates of investment persisted at relatively low levels, why technology was not sufficiently developed or sufficiently adopted from experiences abroad, and why the institutional framework was also not sufficiently developed in order to allow for higher levels of growth and catching-up to the forerunners.

The absence of growth in backward countries was associated to the absence of the factors of growth that were detected in the industrializing countries, leading to a variety of possible causes of backwardness, such as, lack of entrepreneurial capacity, low levels of education of the working force, insufficient financial intermediation, poor performance of governments in conducting economic matters, poor overall institutional framework, and low levels of expectation regarding development prospects. These factors are certainly present in backward areas of Europe and growth in the developing parts of the continent is certainly related to the overcoming of such negatives factors, but this is not enough to conclude about the causes of backwardness because we need to go beyond establishing correlations and analyse causality links properly.

A few studies concerning the catching-up process within the more developed countries of nineteenth century Europe have defined other types of factors of backwardness related to natural conditions. Thus, countries with low levels of rainfall, poor soils, or far from the main routes of international trade, had necessarily poorer conditions for growth. These contributions have certainly shed light to the fact that we need to take more into account factors that are specific to the backward countries in order to understand the absence of catching up.

Despite backwardness, factor productivity and output per capita expanded in the poor European countries during some periods in the nineteenth century. In the periphery, growth started off by the 1830s in many cases recovering from previous decades of stagnation or depression caused by wars and political or military turmoil. But after 1870 growth gained momentum when the peripheral economies benefitted from the expansion in the international economy and the growth of foreign trade, international capital flows and international migrations. Backwardness does not necessarily mean stagnation. It only means growing from lower levels of productivity and income at

lower speed than the leaders. There are lessons to learn about the conditions for growth in the poor periphery of Europe by looking at economic growth in the region and that is what we aim to do in this paper. This is a less exploited path in understanding European backwardness in the Modern period. This essay is about economic backwardness in Europe. But it is also about economic transformation in backwardness in an ever more competitive international environment. It is not possible to understand the causes of development if we do not understand backwardness and the transformation of backwardness.