

Economic History of Central and Eastern Europe

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Course Motivation:

Economic conditions and our economic lives are constantly changing. Technological change, demographic transitions, economic and political crises are shaping the world from time to time. Countries in Central and Eastern Europe (CEE) in particular experienced several economic and political upheavals during the last 150 years. For example, countries in CEE experienced a delayed industrialization, the collapse of the Austrian-Hungarian Empire, weak political and economic institutions after World War I, ethnic cleansing after World War II, a centralized planning economy and the transition towards a market economy after 1990. All these transitions are partially still visible in economic and socio-economic figures today. A long-term perspective on the evolution of economic and socio-economic figures can also help to understand changes and obstacles today.

The course provides the big picture of economic development and links that to specific circumstances in CEE countries. The course thus introduces the general picture of economic history and long-run development by linking the situation in (Western) Europe and the USA to the circumstances in CEE. The course bases on a broader understanding of economic development. Despite classical economic measures like GDP, inflation or population growth, we will also discuss so-called soft economic variables such as norms, culture, trust and social capital. These soft economic variables are important drivers of economic growth and economic success as well.

Course Information:

This course provides an overview of economic history and the long-run development of socioeconomic figures and focuses on the situation in CEE in particular. The course consists of three main blocs. First, the course starts with the question why some regions in the world start to become so much richer than

the rest of the world. Explanations for the economic success of the United Kingdom and Western Europe are the early fertility transition that caused the so-called “Little Divergence” and the Industrial Revolution starting around 1780. We learn about the drivers of economic growth by comparing the situation in the United Kingdom to the situation in Continental and Eastern Europe. We also focus on the formation and evolution of social norms. The natural environment and historical legacies such as the long-gone Austrian-Hungarian Empire are shaping trust and norms until today.

Second, the course continues with the period between World War I and World War II. During the interwar period, the independence of many CEE countries, hyperinflations, the Great Depression and the rise of totalitarian regimes (Soviet Union, Nazi Germany) shaped the economic situation fundamentally. We discuss how these shocks affected countries in CEE differently; while Czechoslovakia was relatively stable during these years, re-unified Poland and Hungary faced hyperinflations, weak economies and a harmful economic linkage to France that caused severe economic downturns during the Great Depression.

Third, we will focus on the economic development after World War II. The division of Europe into an Eastern and Western bloc provides quasi-experimental settings to study economic growth and convergence. We discuss the long-run effects of regional economic growth due to the liberation and zoning of Europe after World War II and explore the longrun economic and political outcomes of ethnic cleansing in Poland and Czechoslovakia. We analyze the economic effects of trade and monetary integration within the Western Bloc (e.g., GATT/WTO, Bretton Woods/Euro) and compare it to the situation in COMECON countries in Eastern Europe. Lastly, we discuss the economic transition after 1990 by zooming into East Germany (the former GDR) and into the situation in CEE countries.

Grading Policy:

Grading is based on the following components:

(1)	Attendance and participation	10 %
(2)	1. Presentation of a research paper	20 %
(3)	2. Presentation of a research paper	20 %
(4)	Mid-term exam	25 %
(5)	Final exam	25 %

Mandatory Completion Policy

Note that all mandatory assignments and exams must be completed to the best of your ability in order for your final grade to be issued. Failure to complete a mandatory assignment or exam may result in a failing grade.

- (1) **Attendance and participation:** Students are expected to attend every class and they have to comply with the attendance policy of the UPCES program. One excused nonattendance is tolerated, more than one has significant consequences for the grade (i.e minus 2.5points out of 100). Students are responsible for catching up with the material they have missed.
- (2) **Presentation in class of two discussion paper:** Students will present two discussion papers in front of the class (approx. 15-20min) and lead a short discussion thereafter (approx. 10min). It is required that students will prepare some slides for the presentation. At least one presentation must be a single presentation. The second presentation can be shared with another student.
- (3) **Midterm exam:** The midterm exam will take place in week #7/#8 and will cover the content of all lectures, executive summaries and student presentations from week #2 to #7. The exam will be a written non-technical examination.
- (4) **Final exam:** The final exam will take place in week #13 and will cover the content of all lectures, executive summaries and student presentations from week #8/#9 to #12. The exam will be a written non-technical examination.

At the end of the term, cumulative percentage points will be converted into grades according to the following grading scheme:

Letter Grade	Percentage	Description
A+	97-100	Excellent Work
A	93-97	Outstanding Work
A-	90-92	
B+	87-89	Good work
B	83-86	
B-	80-82	
C+	77-79	Acceptable Work
C	73-76	
C-	70-72	
D+	67-69	Work that is significantly below average
D	63-66	
D-	60-62	
F	0-59	Work that does not meet the minimum standards for passing the course

AEP Academic Integrity Policy

Plagiarism and other forms of academic dishonesty are not tolerated. The use of Artificial Intelligence (AI) for the development of knowledge and learning is encouraged at many stages of the learning process. While we value technology for educational purposes, we also value originality and the retainment of knowledge, and thus using AI for assignments and examinations, even

if rephrased, is strictly prohibited and considered an academic integrity violation, unless the instructor explicitly allows for it in the context of evaluated work

AEP Non-Discrimination/Harassment Policy

The AEP program in Prague promotes a diverse learning environment where the dignity, worth, and differences of each individual are valued and respected. Discrimination and harassment, whether based on a person's race, gender, sexual orientation, color, religion, national origin, age, disability, or other legally protected characteristics, are repugnant and completely inconsistent with our objectives. Retaliation against individuals for raising good faith claims of harassment and/or discrimination is prohibited.

AEP Diversity Policy

AEP is committed to fostering an inclusive and welcoming community that values diversity in all its forms. We believe that one of the most meaningful lessons of studying abroad is learning to navigate and appreciate differences with curiosity and an open mind. While engaging across differences can sometimes be challenging or uncomfortable, these moments are essential for growth and learning. We recognize that every member of our community, even with the best intentions, may occasionally make missteps. Our commitment is to provide a supportive environment where respectful and honest dialogue helps us learn from these experiences, ensuring that every student has the opportunity to thrive and broaden their perspective.

Weekly Schedule

Week #1: CEE Introductory Lecture Series

- AEP Introductory Lecture Series

Week #2: Overview of the course and the Malthusian poverty trap

- Introduction: Course requirements and outline of the course
- Discussion paper overview and assignment
- Some notes on “How to read empirical regression tables”
- The big picture since the year AD 1: From stagnation to “sustainable” economic growth
- The Malthusian poverty trap and the economic backwardness in CEE

Week #3 and Week #4: The origin of sustainable economic growth

- Pre-industrial Europe and the sources of change: The “Little Divergence” of Europe
- The early horsemen of riches and the European Marriage Pattern: Why Western Europe differed from Eastern Europe and from the rest of the world
- The Protestant Revolution and Economic Growth
- The European Marriage Pattern: The situation in CEE and Western Europe

Discussion Papers:

- [04.1] Cox, G. W., and V. Figueroa (2021): “Political fragmentation, rural-to-urban migration and urban growth patterns in western Eurasia, 800–1800,” *European Review of Economic History*, 25(2), 203–222. (Level: Easy)
- [04.2] Dincecco, M., and M. G. Onorato (2016): “Military conflict and the rise of urban Europe,” *Journal of Economic Growth* 21, 259–282. (Level: Medium)

[04.3] Link, A. (2024): "The Fall of Constantinople and the Rise of the West," Working Paper, University of Nürnberg.

Week #5: The Industrial Revolution in the UK and its spread to Continental Europe

- Theories on the Industrial Revolution: "Enlightenment" versus relative factor prices
- The spread of the Industrial Revolution: The cases of Germany, France, and Russia
- The industrialization of CEE at a glance

Discussion Papers:

[05.1] Becker, S. O., Cinnirella, F., and L. Woessmann (2013): "Does women's education affect fertility? Evidence from pre-demographic transition Prussia," *European Review of Economic History* 17(1), 24–44. (Level: Medium)

[05.2] Derenoncourt, E. (2019): "Atlantic slavery's impact on European and British economic development," Working Paper, Princeton University. (Level: Easy)

Week #6: Cultural Economics and Historical Legacies in CEE

- Cultural economics: How social trust relates to economic prosperity – An example
- Stylized facts about cultural differences in the European Union
- The origin of cultural differences: Nature, economic conditions and institutions
- How regional historical legacies are still shaping culture in CEE today

Discussion Papers:

[06.1] Becker, S. O., Boeckh, K., Hainz, C., and L. Woessmann (2016): "The Empire Is Dead, Long Live the Empire! Long-Run Persistence of Trust and Corruption in the Bureaucracy," *Economic Journal* 126(590), 40–74. (Level: *Medium-Difficult*)

[06.2] Grosfeld, I., and E. Zhuravskaya (2015): "Cultural vs. Economic Legacies of Empires: Evidence from the Partition of Poland," *Journal of Comparative Economics* 43, 55–75. (Level: *Medium*)

[06.3] Ochsner, C., and F. Roesel (2024): "Activated History: The Case of the Turkish Sieges of Vienna," *American Economic Journal: Applied Economics* 16(3), 76–112. (Level: *Medium-Difficult*)

Week #7: Mid-term exam and CEE after WWI

- Mid-term exam (10min reading time, 50min writing time)
- CEE: Economic disintegration, coordination failure, and the role of new borders
- War debt, reparations, and four big hyperinflations in CEE and Germany
- The end of hyperinflations: Fundamentals versus expectations

Week #8: The Great Depression in the USA and Europe

- The Great Depression in the USA: From the roaring twenties to the economic downturn
- Recovery in the US: Fundamentals versus expectations

- Europe: Similar but different
- Golden fetters: The role of the Gold Standard for European recovery

Discussion Papers:

- [08.1] Ellison, M., Lee, S.S., and K.H. O'Rourke (2024): "The Ends of 27 Big Depressions," *American Economic Review* 114(1), pp. 134–168. (Level: *Medium-Difficult*)
- [08.2] Heinemeyer, H.-C., Schulze, M.-S., and N. Wolf (2011): "On the Economic Consequences of the Peace: Trade and Borders after Versailles," *Journal of Economic History* 71, 915–949. (Level: *Easy-Medium*)

Week #9: The economics of totalitarian regimes – Nazi Germany and the USSR

- Nazi Germany: "Keynesian" economic policy vs. other drivers of economic success; USSR: The great experiment
- Partial success and failure of planning economies
- The political economy of totalitarian regimes

Discussion Papers:

- [09.1] Doerr, S., Gissler, S., Peydró, J. L., and H.-J. Voth (2022): "Financial Crises and Political Radicalization: How Failing Banks Paved Hitler's Path to Power", *The Journal of Finance* 77(6), 3339–3372. (Level: *Medium-Difficult*)
- [09.2] Mohr, C. (2019): "Carrots and Sticks: Targeting the Opposition in an Autocratic Regime," Working Paper, LMU Munich. (Level: *Medium-Difficult*)
- [09.3] Magness, P. W., and M. Makovi (2023): "The Mainstreaming of Marx: Measuring the Effect of the Russian Revolution on Karl Marx's Influence," *Journal of Political Economy* 131 (6), 1507–1545. (Level: *Medium-Difficult*)

Week #10: Central and Eastern Europe after WWII and the effects of ethnic cleansing

- Liberation and occupation of Europe after WWII – Experimental settings for quantitative economic history
- Regional economics: The role of the Red Army after WWII and migration
- Ethnic cleansing: The Czech Sudetenland and the population transfer in Poland
- Political economy: Political extremism in Austria and the Czech Republic

Discussion Papers:

- [10.1] Grossmann, J., Jurajda, S., and F. Roesel (2020): "Forced Migration, Staying Minorities, and New Societies: Evidence from Postwar Czechoslovakia," *American Journal of Political Science* 68 (2), 335-856. (Level: *medium*)
- [10.2] Testa, P. A. (2021), "The economic legacy of expulsion: Lessons from postwar Czechoslovakia," *Economic Journal* 131(637), 2233–2271. (Level: *Medium- Difficult*)

Week #11: Bloc integration in the East and West – Trade blocs and monetary regimes

- Bloc integration in the West: From EG-6 to the European Union
- Bloc integration in the East: COMECON and the lack of price signals
- Monetary regimes in the West: From Bretton Woods to the Euro

Discussion Papers:

[11.1] Vonyó, T. (2017): “War and socialism: Why eastern Europe fell behind between 1950 and 1989,” *Economic History Review* 70(1), 248–274. (Level: *Easy-Medium*)

[11.2] Kukic, L. (2020): “Origins of regional divergence: economic growth in socialist Yugoslavia,” *Economic History Review*, 73(4), 1097–1127. (Level: *Medium*)

Week #12: Transition after 1990 – Economic convergence in CEE

- The shock of 1990 in its persistence: Regional economics in the Czech Republic, Kaliningrad (Russia) and East Germany
- Focus on East Germany (the former GDR): (Partial) convergence, relative stagnation and the cost of reunification
- Economic inequality in the former Eastern bloc: The cases of oligarch Russia and the Czech Republic

Discussion Papers:

[12.1] Fritsch, M., Sorgner, A., Wyrwich, M., and E. Zazdravnykh (2019): “Historical shocks and persistence of economic activity: Evidence on self-employment from a unique natural experiment,” *Regional Science* 53(6), 790–802. (Level: *Medium*)

[12.2] Guirkingner, C., Aldashev, A., Aldashev, G., and M. Fodor (2022): “Economic Persistence despite Adverse Policies: Evidence from Kyrgyzstan,” *The Economic Journal* 132(641), 258–272. (Level: *Medium-Difficult*)

Week #13: Final exam and feedback round

- Written non-technical final exam (60min)
- Feedback round

Readings:

Additional literature

(No mandatory reading; partially covered in class)

Important Books:

Acemoglu, D. and J. A. Robinson (2012): “Why Nations Fail: Origins of Power, Poverty and Prosperity”, Crown Publishers, New York.

- Allen, R. C. (2011); "Global Economic History: A Very Short Introduction", Oxford University Press, New York.
- Broadberry, S. and K. H. O'Rourke (eds.) (2010): "Cambridge Economic History of Modern Europe – 1870 to the Present, Volume 2", Cambridge University Press, Cambridge.
- Eichengreen, B. (1992): "Golden Fetters: The Gold Standard and the Great Depression, 1919-1939", Oxford University Press, New York.
- Eichengreen, B. (2007): "The European Economy since 1945: Coordinated Capitalism and Beyond", Princeton University Press, New Jersey.
- Morys, M (ed.) (2020): "The Economic History of Central, East and South-East Europe: 1800 to the Present", Routledge (London).

Additional Research Papers (partially discussed in the notes):

- Bahrami-Rad, D., Beauchamp, J., Heinrich, J., and J. Schulz (2019): "The Church, intensive kinship, and global psychological variation," *Science* 366(6466).
- Becker, S. O., Grosfeld, I., Grosjean, P., Voigtländer, N., and E. Zhuravskaya (2020): "Forced migration and human capital: Evidence from post-WWII population transfers," *American Economic Review* 110(5), 1430–1463.
- Bianchi, N., and M. Giorcelli (2023): "Reconstruction aid, public infrastructure, and economic development: The case of the Marshall Plan in Italy," *The Journal of Economic History* 83(2), 501-537.
- Cantoni, D., Dittmar, J. E., and N. Yuchtman (2018): "Religious Competition and Reallocation: The Political Economy of Secularization in the Protestant Reformation," *Quarterly Journal of Economics* 133(4), 2037–2096.
- Hausman, J. K., Rhode, P. W., and J. F. Wieland (2019): "Recovery from the Great depression: The farm channel in spring 1933," *American Economic Review*, 109(2), 427– 472.
- Hornung, E. (2015): "Railroads and growth in Prussia," *Journal of the European Economic Association* 13(4), 699–736.
- Novokmet, F., Piketty, T., and G. Zucman (2017): "From Soviets to Oligarchs: Inequality and Property in Russia 1905-2015," NBER Working Paper No. 23712.
- Ochsner, C. (2024), "Hostility, population sorting, and backwardness: Quasi-experimental evidence from the Red Army after WWII," CERGE-EI Working Paper Series No. 768.
- Ogilvie, S. (2014): "The Economics of Guilds," *Journal of Economic Perspectives* 28(4), 169–192.
- Sargent, T. J. (1982): "The Ends of Four Big Inflations," in: *Inflation: Causes and Effects*, University of Chicago Press, 41–98.
- Temin, P. (2002): "The Golden Age of European growth reconsidered," *European Review of Economic History* 6, 3–22.
- Voigtländer, N., and H.-J. Voth (2013): "Gifts of Mars: Warfare and Europe's Early Rise to Riches," *Journal of Economic Perspectives* 27(4), 165–186.