On the road to modern economic growth: the Holland economy, ca. 1510-1807

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Abstract

Much discussion has centered round the question whether Early Modern Holland indeed had factors characterizing it as the "First Modern Economy" as suggested by De Vries and Van der Woude (1998). Clearly, Holland was no longer a Malthusian society, economic growth and population growth going hand in hand, combined with relatively efficient institutions.

In this paper we use a newly available dataset with annual estimates of GDP, physical and human capital to test the interrelations among these variables and find out if Holland indeed departed from the Malthusian trap from the 16th century on. We find evidence of the importance of physical capital for economic growth, but only limited evidence for technology. This suggests that human capital did little to enhance growth directly. It did work through physical capital though: more capital leads to more human capital. This suggests a strong effect of factor substitution as found in the 18th century. We also found that higher human capital leads to a lower fertility as argued in much of the (unified growth) literature.

In sum, we found that the economy was not modern in its production structure: technological development, and relatedly, human capital were not causing economic development. However, the increased welfare from investments and trade led to increasing capitalization, factor substitution, which increased human capital levels as well. This in turn decreased fertility.