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Property rights and the first great divergence: Europe 1500–1800☆

Cem Karayalcin *

Department of Economics, Florida International University, FL 33199, USA

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ABSTRACT

Recent literature on developing countries has revived interest in structural change involving the reallocation of resources from agriculture to industry. Here, we focus on the first such historically important structural transformation in which some parts of Europe escaped from the Malthusian trap centuries earlier than the Industrial Revolution, while others stagnated. There is as yet no consensus as to the causes of this First Great Divergence. The paper advances the thesis that what lies at the root of different paths is the type of property rights inherited. As populations everywhere in Europe recovered from the catastrophes of the late medieval period, what mattered for the direction taken was the size of the landlord class and their landholdings. In Western Europe where peasant proprietors tilled small plots, increases in population levels led to lower real wages. Given the low incomes of landlords and peasants, demand for manufactured goods remained low. At the other extreme, in eastern Europe, second serfdom kept wages low, and rents high. Yet given the small size of the landowning class, these rents could not generate enough demand for high-end manufacturing processes either. Northwestern Europe, being in the middle in terms both of the size of the landholding classes and their properties, prospered as wages failed to decline even when population levels rapidly rose. Combined demand from landlords and workers kindled an expansion of the manufacturing sector.

1. Introduction

There has recently been a revival of interest in the development literature on structural change that reallocates resources from agriculture to industry.[1] In what follows, I focus on one of the earliest and historically most significant episodes of such a transformation that propelled relatively underdeveloped regions of northwestern Europe into economic prominence.

To see what is involved note that sixteenth century England was a marginal agrarian economy with an urbanization level below that of the Balkans.[2] The urban manufacturing core of Europe was located (with the exception of the precocious Low Countries) along the shores of the Mediterranean. By 1850, a "reversal of fortune" had given England the lead with an income per capita that far exceeded that of the previous leader Italy.[3]

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* Tel.: +1 305 348 3285
E-mail address: karayalc@fiu.edu.
[1] See, among others Gollin, Parente, and Rogerson (2002); Ngai and Pissarides (2007); Duarte and Restuccia (2010), Herrendorf, Valentinyi, and Rogerson (2013b), and Gollin and Rogerson (2014).
[2] Bairoch (1989), p. 179 puts the level of urbanization in Balkans and England in 1500 at 7–12% and 7–9% respectively.
[3] The relevant figures for GDP per capita in Maddison (2001) are as follows. In 1500 Italy led the world with $1100 (in 1990 international $), while Belgium, The Netherlands and England followed with $875, $754, and $714. By 1870, England had moved forward with $3191, as opposed to $2753, $2697, and $1499 of The Netherlands, Belgium, and Italy.

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The traditional answer to the question of how this reversal took place focused on the "Industrial Revolution" as the event that radically broke with the past of humanity, ushering in a new phase where, for the first time ever, "production started to grow much more rapidly than population." The recent analytical (as opposed to historical) literature dates the break to around 1800, prior to which it is supposed that a Malthusian mechanism operated to pull incomes down to some stable, constant level whenever they happened to exceed it.[4]

It is, therefore, paradoxical that in the last few years accumulated evidence has led a growing number of economic historians to question some of the basic tenets of the received wisdom concerning the timing, prehistory, and effects of the Industrial Revolution and the Malthusian transition. First, the currently accepted view is that the Industrial Revolution was much less of an abrupt transition, with earlier growth estimates of the British economy in the classic Industrial revolution era, 1760–1830, being reduced by more than half.[5] Given that in the mid-nineteenth century England had the highest income in the world, the lower growth estimates immediately raise the question: "If the industrial revolution was not substantial enough to explain England's lead in 1850, where did it come from?"[6] Second, an implication of lower growth rates is that the contrast with the earlier periods in terms of incomes is now revealed to be not as sharp as once thought, making pre-industrial Britain as well as a number of neighboring countries more prosperous. Evidence from a variety of sources, including probate and pauper inventories, point to a "consumer revolution" in Britain and The Netherlands, with significant increases in the quantity, variety and quality of consumer goods being registered well before the Industrial Revolution.[7] Third, research on the history of English real wages indicates that they did not display a trend from 1500 to 1850, despite a sevenfold rise in population.[8] These findings indicate that the economic expansions experienced by the English and Dutch economies in the crucial three-hundred-year period prior to the Industrial revolution were very important achievements, constituting a marked departure from the Malthusian past. For the first time in western history, these economies kept pace with the population for a remarkably extended period of time.

While these considerations do not diminish the importance of the classical Industrial Revolution as a watershed event, they call for a more nuanced approach to the economic and social transformations that took place in the period leading to it. That this period should be subject to closer scrutiny follows from the revised assessments of historians of economic growth, who argue that the Industrial Revolution can no longer be regarded "as the beginnings of growth altogether but as the time at which technology assumed an ever-increasing weight in the generation of growth" (Mokyr, 2005) and that the "accumulated evidence for an earlier increase in per capita income in northwestern Europe paired with a major refinement of material life casts serious doubt on the orthodoxy that the Industrial Revolution was the actual starting point for long-term economic growth" (de Vries, 2008, p.6).[9]

Once the roots of long-term growth are seen to be planted in an era earlier than has traditionally been accepted, the question that immediately arises is the one concerning the nature of this period and the determinants of the extensive growth registered.[10] To start with, note that even such extensive growth is restricted to a few regions in northwestern Europe: England and the Low Countries. The rest of both western and eastern Europe lagged behind. This is reflected most importantly in the wage and price series collected by Allen (2001) which shows that while England and the Low Countries enjoyed a slight lead in terms of real wages relative to the rest of Europe in the fifteenth century, incomes significantly diverged in the next three centuries. The divergence is mostly explained by the fall in continental real wages by half, while real wages remained roughly constant in northwestern Europe.[11] Thus, while England and The Netherlands escaped the infamous "seventeenth century crisis," the rest of the continent mostly succumbed to it.[12]

This escape from the crisis was accompanied by a "consumer revolution," that found its expression in "a steady rise, generation by generation, of the number, range, and quality of material possessions" (de Vries, 2008, p. 124). Detailed regional studies covering areas as diverse as the Dutch countryside (Kammermans (1999) cited in de Vries, 2008), the English county of Kent (Overton, Whittle, Dean, & Hann, 2004), London (Earle, 1989), and Edinburgh and Glasgow (Nenadic, 1994) and income groups from the rich to middling groups to paupers (McCants, 2008; Styles, 1994).

The increased demand was met by substantial increases in manufacturing output. In England per capita cloth output more than doubled between the later fifteenth century and the 1640s. Import substituting English glassworks drove continental window panes out by the 1590s, bottles by the 1620s and drinking glasses and mirrors in the next decade. Around 1650 forty water-powered paper mills were in operation barely five decades after the opening of the first viable one. Iron output quintupled

[4] See Galor and Weil (2000) and Lucas (2002).

[5] For the modest growth in per capita income and real wages in Britain between 1770 and 1850, see Crafts and Harley (1992); Crafts (1985); Feinstein (1998); Mokyr (2004), and Williamson (1984).

[6] This is the question posed by Allen (2001).

[7] See de Vries (1994) andde Vries (2008).

[8] See Feinstein (1998) and Clark (2005) for English wages and Allen (2001) for the history of prices and wages in a number of European cities. Brown and Hopkins (1956). find the same pattern in their study of provincial wages.

[9] See also Clark (2005) who writes "[t]hus the Industrial Revolution is not clearly an abrupt break around 1800 from a stagnant economy. It may just be the acceleration of a process of modern growth that began about 150 years earlier."

[10] It is "extensive" growth as per-capita incomes increased very moderately, if at all. "Intensive" i.e. long-run per-capita income growth is observed only after the Industrial Revolution proper.

[11] Everywhere real wages were subject to fluctuations, Thus, in the Low Countries, real wages declined slowly, but much more so than their counterparts on the continent. Real wages declined in England in the sixteenth century and then reversed course, rising slowly later on up to their previous levels.

[12] Additional evidence of divergence is obtained from international comparisons of body size and height. For the late eighteenth century, the evidence summarized by Floud (1992) indicates that the British and the Dutch were the tallest people in Europe, while the French, Italians, and Spanish were shorter. Austrians and Hungarians were also of smaller stature (Komlos, 1989).