Can Black Death explain the Industrial Revolution?

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Branko Milanovic, January 11, 2015

Every schoolchild knows that the Industrial revolution started in England. But the question no schoolchild knows the answer to is why did it start in England. One theory (Kenneth Pomerantz) sees it as a combination of serendipitous developments (invention of steam engine and presence of coal deposits), another (Daron Acemoglu and James Robinson) as the result of long-term institutional developments: limited franchise and protection of private property. David Landes thinks it was English culture. But to me the most persuasive explanation was offered in 2003 by Bob Allen's "Poverty and progress in early modern Europe": the Industrial revolution happened because capitalists had an incentive to substitute capital for labor since English labor was expensive. This led to the invention of labor-saving technology and technological revolution.

The argument is relevant for the students of ancient economies too: to the famous question posed by Michael Rostovtzeff in 1926, why did not Roman economy directly transit to the commercial capitalism of the Renaissance if all the prerequisites were there? why a ten-century detour?, the answer, made already by Marx, is: because of the prevalence of cheap slave labor.

(Allen's 2005 paper also rejects two favorite shibboleths: that property was more secure in England than in pre-revolutionary France and that taxes were higher in France. Actually, the reverse is true for both.)

But Allen's solution still needs to deal with an additional issue: why is it that labor in England was more expensive than elsewhere in Europe? In his 2001 paper, Allen has documented wage divergence between Northern and Southern European cities: while in the 14th century real wages were about the same in the North as in the South, by 1800s, real wage in London and Amsterdam was thrice as high as in Vienna and Valencia. What led to this?

At a recent conference organized by Santa Fe Institute and Sam Bowles, a young Italian researcher, Mattia Fochesato proposed an intriguing answer to that problem. The reason why European wages diverged between the North and the South was the difference in the response to the Black Death-driven increase in real wages. (Sevket Pamuk was, I think, the first to argue that the North-South wage divergence started with the Black Death.) In the South, where feudal institutions were stronger, land-owners responded to the increase in wages, caused by the decline in population, by renegotiating share-cropping contracts, restraining movement of labor, and doing everything they could to reduce wages through extra-market mechanisms. In the North where feudal institutions were weaker, the ability to check wage increase was less.

Feudal laws that limited the movement of labor was not always implemented. Fochesato constructs more or less annual series of population and real wages for Northern and Southern countries (England and Netherlands are the "North"; France, Italy and Spain are the "South") and shows that the response of real wages to a given increase in population (i.e., population recovery after the decimation due to the plague) was very different. In the North, population increase had negligible influence on wages; in the South, population increase reduced wages, eventually back to their pre-1350 levels.

There are of course still the questions that the paper in its present version (it is just a draft) does not answers satisfactorily: what exactly were the feudal institutions responsible for the "wage squeeze"?, how did they function?, was feudalism In the North *really* that much weaker? Also, there must have been some underlying economic reasons (like increase in productivity) that allowed population to increase in the North without producing negative effects on wages. Obviously, these are the questions that Fochesato's paper (or perhaps another paper) might try to address. But for now we have here a set of very interesting hypotheses that link the events of 1350s with those some four centuries later, and that were crucial for worldwide economic development.

Combining this hypothesis with Allen's nicely eschews the mono-causal explanations that are all too current. It is both institutions (as reflected in the response to the population decrease) and capitalist incentives (as reflected in the substitution of labor by machines) that led to economic development. Any single story is bound to provide only a partial explanation.