

MINITEST – TOPICS

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Wage/interest rate ratio in four countries, 1580-1830

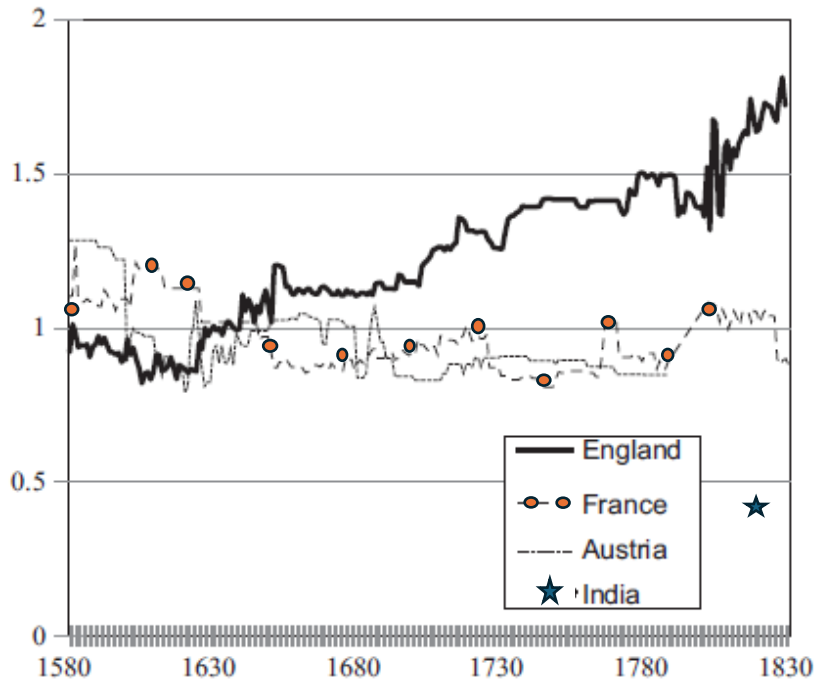


Fig. 4. Wage relative to price of capital.

Why is this evidence used for supporting Bob Allen's view of the emergence of the Industrial Revolution? Can the forces in Oded Galor's model account for the concrete circumstances of the evolution of this ratio?

TOPICS:

The evidence supports Allen's view on the emergence of the IR. The post-1630 increase in the wage/interest rate ratio indicates that the cost of labour grew relative to the cost of capital. As labour became more productive, it allowed for higher savings. In these conditions, it became increasingly profitable to research capital-intensive solutions in Great-Britain, but not in countries, like Austria or France, with comparable institutional frameworks and equivalent supply of science

This evidence can also support Oded Galor's model: as economic agents adopt increasingly 'Quality-type', both labour becomes more productive and capital is abundant. This will happen in countries with future-oriented mindset. While this might explain the clear English difference vis-à-vis India, it struggles to explain the cases of Austria and France, whose geography and institutions.