Topic # 9: Slow growth during the “revolution”.

(*-DL) Crafts and Harley (1992), “Output Growth and the British Industrial Revolution” Economic History Review, Pg. 703-30.

(*-DL) Williamson (1984), “Why was British Growth So Slow During the Industrial Revolution?”, Journal of Economic History, Pg. 687-712.

(*-DL) Clark (2001), “Debt, Deficits and Crowding Out: England, 1727-1840”, European Review of Economic History, Pg. 403-36.

- Question: If Britain experienced such an institutional and technological revolution after 1750, why was income per capita growth so slow over the next 80 years?

- Theory: Investment market operations.

- Evidence: Growth, interest rates, government budgets.

- Crafts and Harley view:
  - o Growth acceleration began in early 18th c.
  - o Growth was not discontinuous (no “revolution”)
  - o Growth was confined to few industrial sectors:
    cotton textiles / coal / iron and steel / trade

Problem: if technological and institutional change were so dramatic, why was growth so slow and confined to so few sectors?

High capital costs as a constraint on investment and innovation?

Crafts-Harley GDP/Capita and TFP Growth Rates

	1760-1801	1801-1831
% Δ Y	1.0	1.9
% Δ K	1.0	1.7
% Δ L	0.8	1.4
% Δ *y*	0.2	0.5
% Δ A	0.1	0.4
% Δ *y* (Feinstein)	0.3	1.3

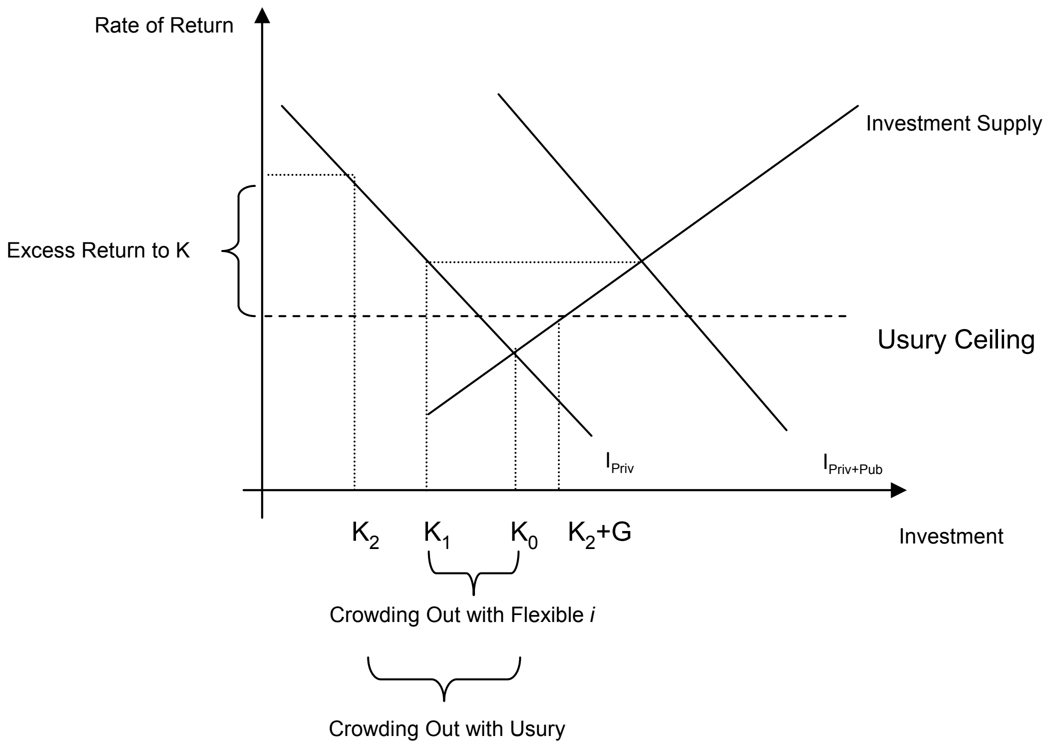
Growth Rate in British Industrial Growth (Filtered)
Crafts and Harley (1992), Table A3.1

- Late 18th and early 19 c. British military entanglements:

  The Seven Years War (1756-63)
  The French and Indian War (1755-63)
  The American Revolutionary War (1775-83)
  The Napoleonic Wars (1802-14)
  The Peninsular War (1808-14)
  The Battle of Waterloo (1815)
  The First Afghan War (1839-42)
  The Crimean War (1854-56)

- Economic effects of war:
  - Human K depletion (temporary and permanent)
  - Taxation (↓ private C and ↑ G)
  - Trade disruption (↓ manufactured good prices and ↑ raw material and food prices)
  - War debt absorbs domestic savings and ↑ interest rates

- Williamson (1984)
  - o Key parameter = investment supply elasticity
  - o Fiscal illusion $\Rightarrow$ government debt is owed to domestic savers, $\therefore$ net change in life time wealth = 0 (implies no change in private investment behaviour).
  - o GE model of British economy $\Rightarrow$ no war counterfactual $\uparrow$ private investment, K/L and accelerates growth



Britain's Investment Market During Napoleonic Wars

- Clark (2001)
  - Crowding out implies very high returns to existing private capital stock.
  - Housing rents and construction appear uncorrelated with debt or deficits.
  - Why no evidence of crowding out?
    - Not Ricardian equivalence
    - Not foreign K supplies
    - Not segmented K markets
    - Not elastic domestic saving (↓ consumption)