

Disaster Economics and Factor Markets

Clark, Gregory. 2005. The Condition of the Working Class in England, 1209-2004. *Journal of Political Economy* 113(6): 1307-1340.

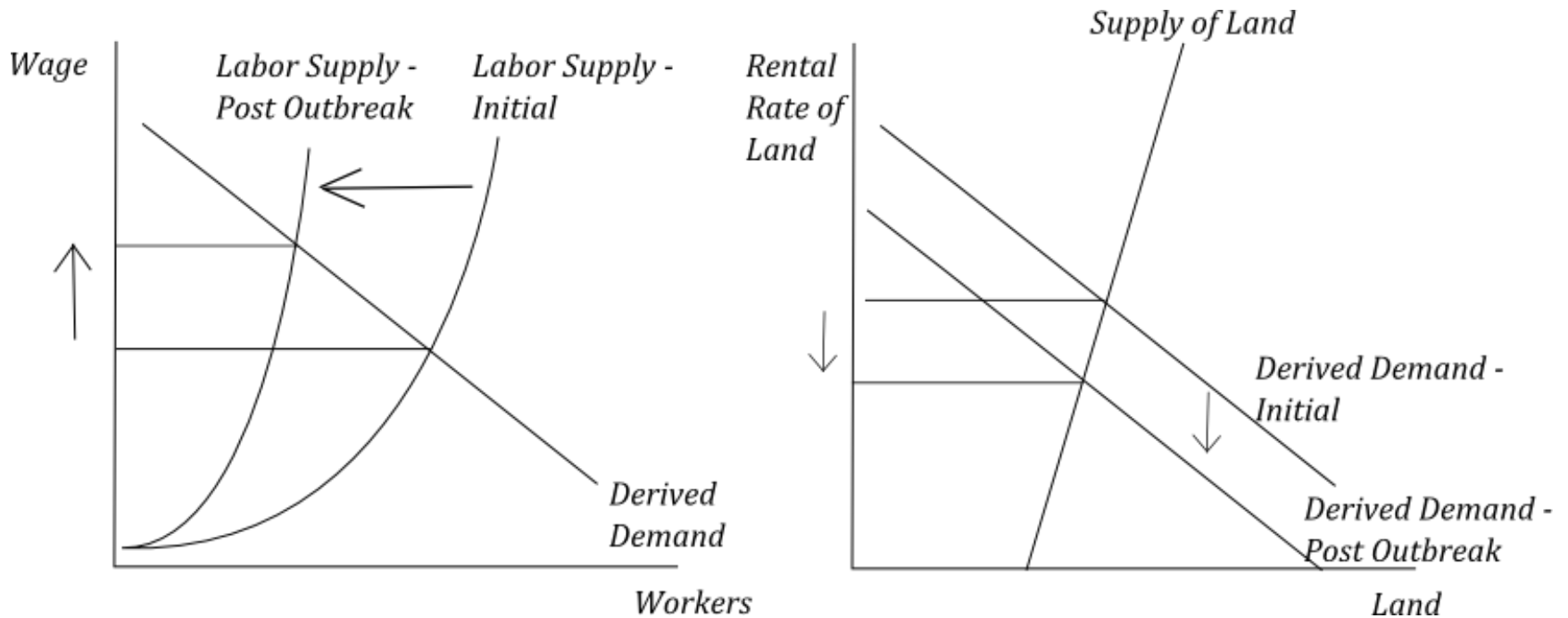
Clark, Gregory. 2001. Microbes and Markets: Was the Black Death an Economic Revolution? *Working Paper*

Piketty, Thomas. 2014. Capital in the Twenty-First Century. Belknap Press of Harvard University Press: Cambridge, MA.

Application #1: The Black Death

- Natural Experiments
- Prior to the 1700s, technology only changed very slowly
- This makes them a useful case study
- In the 1300s, a catastrophic outbreak of the Bubonic Plague killed up to 50% of the labor force

Predictions



Spread of Bubonic Plague



Evolution of Wages

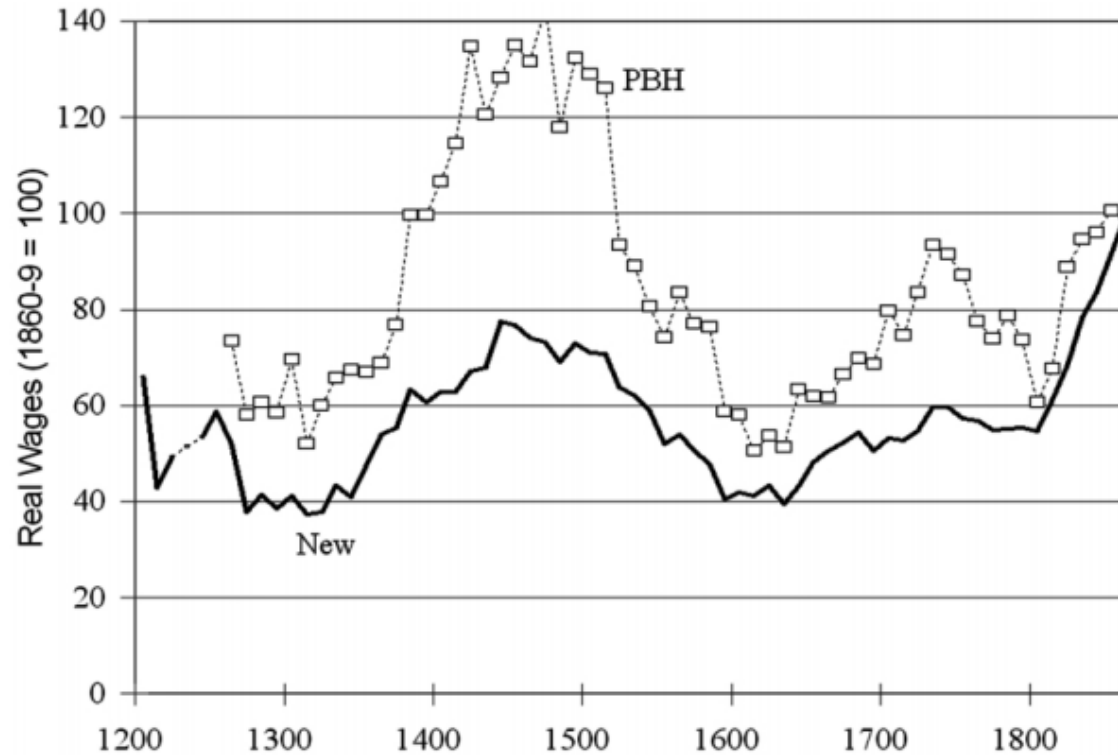


FIG. 4.—Real wages, 1200–1869, Phelps Brown and Hopkins vs. new series. In both series, 1860–69 has been set to 100. Sources: Phelps Brown and Hopkins (1981, 28–31), table A2.

Correlation with Population

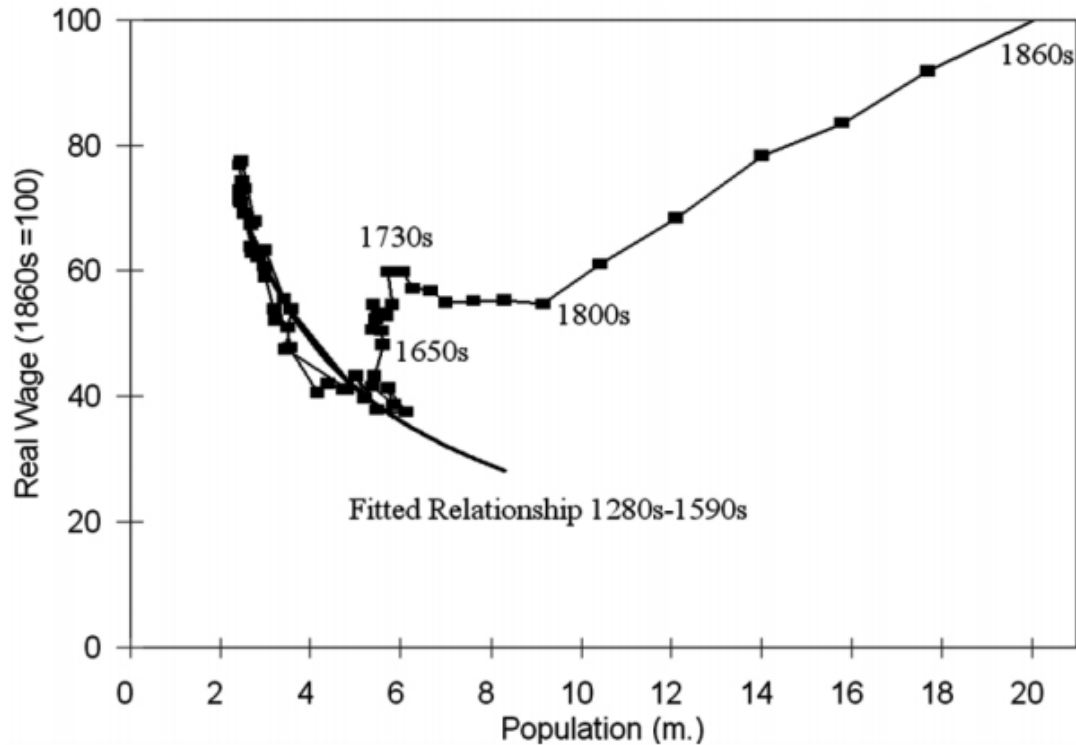
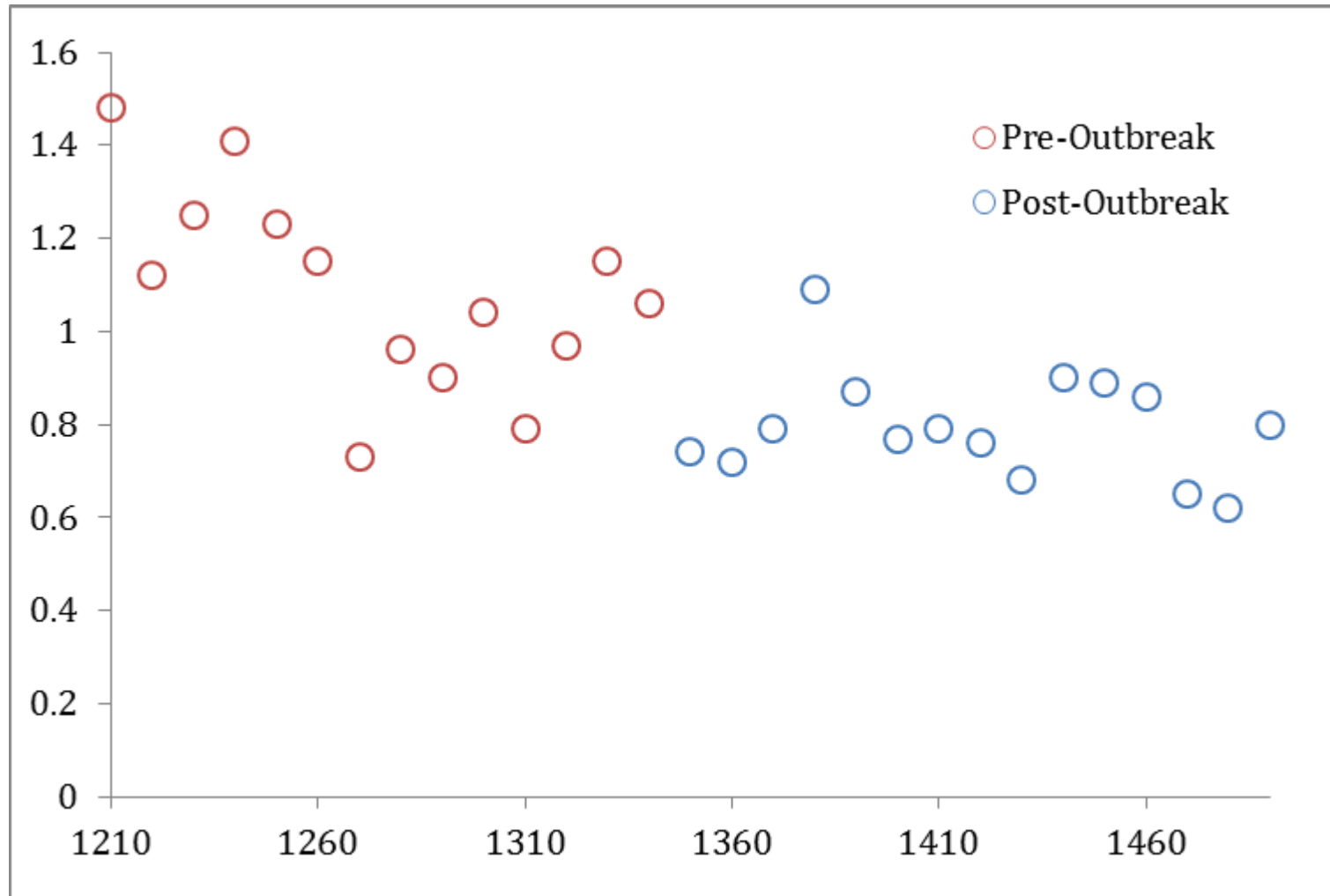


FIG. 5.—Real wages vs. population on the new series, 1280s–1860s. The line summarizing the trade-off between population and real wages for the preindustrial era is fitted using the data from 1260–69 to 1590–99. Sources: population, same as for fig. 3; real wage, table A2.

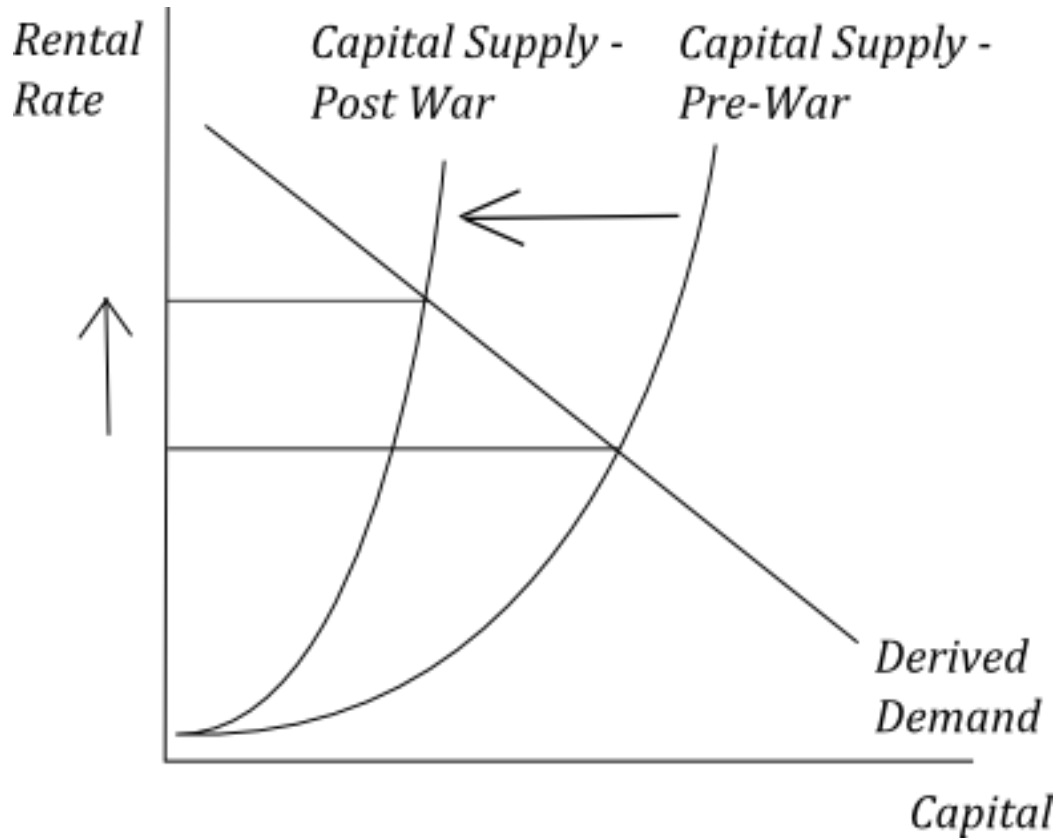
Impact on Land Rental Prices



Application #2: 20th Century World Wars

- 20th century wars saw devastation of the physical means of production in Europe
- Destruction was swift
- Variation across countries

Predictions



Britain



FIGURE 6.3. The pure rate of return on capital in Britain, 1770–2010
The pure rate of return to capital is roughly stable around 4–5 percent in the long run.

Sources and series: see piketty.pse.ens.fr/capital21c.

France

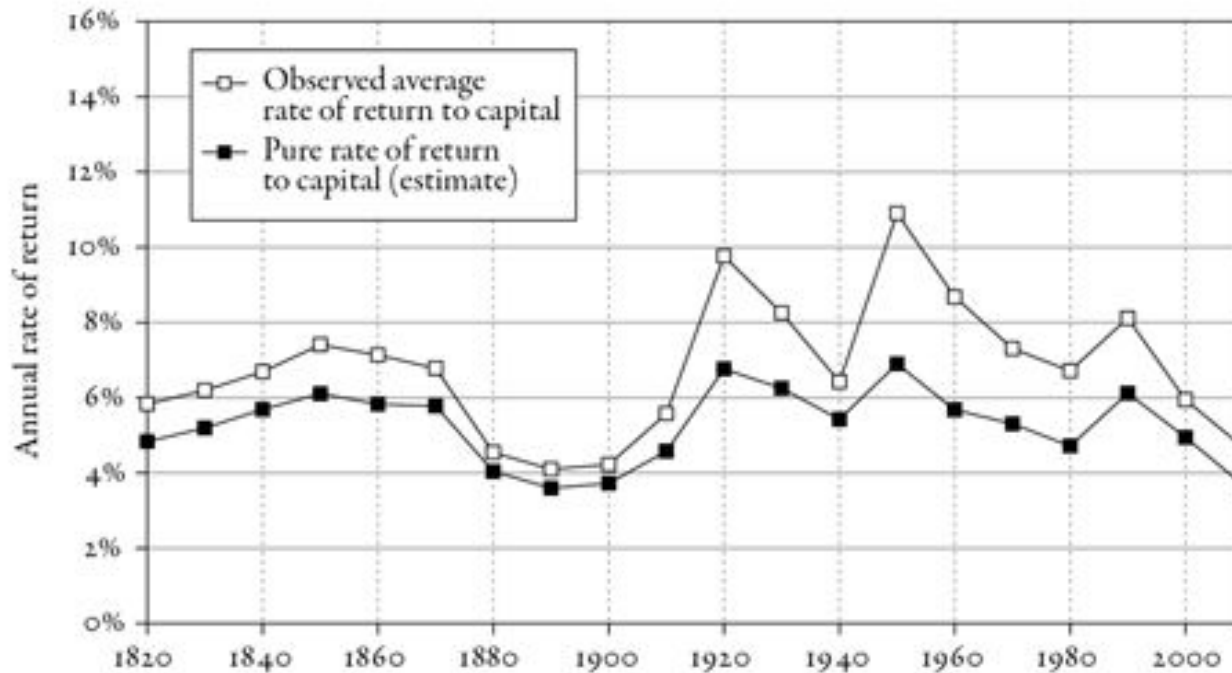


FIGURE 6.4. The pure rate of return on capital in France, 1820–2010
The observed average rate of return displays larger fluctuations than the pure rate of return during the twentieth century.
Sources and series: see piketty.pse.ens.fr/capital21c.

Conclusions

- Destroying a large share of a factor will increase its price
- The spillover effect onto other factors is more complicated