Trade, Demographic Transition, and the Great Divergence

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Abstract

This research argues that the rapid expansion of international trade in the second phase of the industrial revolution has played a significant role in the timing of demographic transitions across countries and has thereby been a major determinant of the distribution of world population and a prime cause of the Great Divergence in income per capita across countries in the last two centuries. The theory suggests that international trade affected the evolution of economies asymmetrically. The gains from trade were channeled towards population growth in non-industrial nations while in the industrial nations they were directed towards investment in education and growth in output per capita. International trade enhanced the specialization of industrial economies in the production of skilled intensive goods. The rise in the demand for skilled labor induced an investment in the quality of the population, expediting the demographic transition, stimulating technological progress and further enhancing the comparative advantage of these industrial economies in the production of skilled intensive goods. In non-industrial economies, in contrast, the specialization in the production of unskilled intensive goods that was brought about by international trade reduced the demand for skilled labor and provided limited incentives to invest in population quality. The gains from trade were utilized primarily for an increase in the size of the population. The demographic transition was therefore delayed, increasing further the abundance of unskilled labor in these economies and enhancing their comparative disadvantage in the production of skilled intensive goods. The research suggests, therefore, that international trade affected persistently the distribution of population, skills, and technologies in the world economy, and has been a significant force behind the `Great Divergence‘ in income per capita across countries.

Keywords: International Trade , Demographic Transition, Industrial Revolution, Growth, Human Capital

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