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Politics or markets? Exploring the determinants of the Swedish rural/urban wage gap, 1860-1940

Several decades ago development economists provided the intellectual underpinning for the belief that the rural/urban wage gap is a significant component in the early transition from agriculture to industry, with a particular emphasis on less developed economies. With that message in mind economic historians turned their attention to today's developed countries to document the historical evolution of their rural-urban wage gap and hopefully cast light on issues important for ongoing developing processes in today's less developed countries. Economic historians have used the historical wage-gap to address issues of markets integration, conditions in agriculture, migration and institutional rigidities. This paper examines the evolution of the Swedish rural/urban wage gap. It recognises though that nominal wage gaps cannot be translated into real wage gaps because rural dwellers have access to food and shelter at lighter expenses than do urban habitants. In a first step we therefore attempt to construct separate urban and rural cost-of-living indices to account for this distortion. The long-term evolution of the rural-urban wage gap displays a distinct pattern. It remained stable throughout the pre-World War I, dropped significantly in the aftermath of World War I, and fell to even lower levels during the interwar years. The paper seeks to establish the factors responsible for this pattern. The focal point of the paper is the dichotomy between market forces and institutions/politics. The terms of trade in agriculture and supply and demand for labour in industry are among the most important markets forces. We explore the pervasiveness of unionisation and collective agreement in industry and agriculture as important institutional factors. The consequences of the trade policy regimes in 1888 and the agricultural subsidisation the Social democrats and the Peasant party ushered in at the beginning of the 1930s are other institutional and political factors which may have influenced the evolution of the rural-urban wage gap.