Economics 213: Methods and Themes in Economic History

Introduction

In February 1960 Lance Davis and J.R.T. Hughes organized a conference at Purdue University to present papers dealing with the "new" economic history. Legend has it that Stanley Reiter, a mathematical economist, who was "musing" for a word that described the quantitative economic history work he was discussing with colleagues at the conference, joined the Muse of History, *Clio*, with the suffix *metrics* (from *econometrics*) to get the word *Cliometrics*. Later that same year, Douglass North and William Parker, both of whom were at the Purdue conference, became editors of the *Journal of Economic* History – the professional journal published by the Economic History Association. The Purdue Conference and the *JEH* editorship of North and Parker proved to be jumping off points for the creation of an entirely new field of scholarly inquiry. In 1993 the Nobel Prize in Economics was shared by North and Robert Fogel for their research as "pioneers in the branch of economic history that has been called the 'new economic history' or 'cliometrics.' The Nobel committee's award was a formal recognition that cliometrics had come of age as an academic field in the discipline of economics. In the Spring of 2011, the Cliometrics Society held its 50th anniversary Conference at Boulder Colorado.

This course will explore the research of cliometricians over those 50 years. We have only ten weeks, so this will be a rather hurried "tour" of the intellectual terrain of cliometrics. To simplify our task, I will assume that all of you have at least a working familiarity with the econometric techniques associated with empirical research in your particular field of economics. My teaching pedagogy is based in the principle that the best way to present the methods and themes in economic history is to examine some of the more significant works that emerged in the "cliometric revolution".

Class Organization

Class will meet every Tuesday and Thursday from 2:10 to 3:00. Class discussions will focus what I term *Basic Readings* that I expect people will have completed *before* the Tuesday class each week. Experience has taught me that I will probably do most of the talking at the initial class meeting for each topic to introduce materials we will be discussing. Subsequent meetings on that topic will include student input not only in the form of comments in class, but by "Posts" that each student places on iLearn *no later than Wednesday afternoon*. The posting can be a question for which you seek an answer, or a critique of some point you found in the readings or an issue that was raised in class. For those who prefer a more orderly world, I will post "prompts" to elicit further discussion on each topic. **Putting a post on iLearn each week is an essential part of the class activity!**

There will be no final exam in the course; however there is one other **written assignment** due at the end of the course. This paper assignment is not intended as a deep research project. It is what I like to call a "big think" essay that provides your thoughts about one of the main themes introduced in the course. [More on this later]

A Tentative list of Topics:

Topic 1: Structure and Change in Economic History

Unfortunately, a commitment to my family made before I agreed to teach this course, means that I will be out of the country and therefore not available for class during the first week of the quarter. In my absence I suggest that you read Douglass North's book *Structure and Change in Economic History*. In the opening chapter of that book North writes that:

> The objective of this book is to provide a new framework for analyzing the economic past. A new framework is needed because the analytical tools used by economic historians have failed to come to grips with the central issues in economic history: explaining the institutional structure which underlies and accounts for performance of an economic system, and explaining changes in that structure.

The book was published thirty years ago and much has subsequently been written on the subject of institutional change and economic history by North and many others. However, I have found over the years that sometimes the first outline proposing a research agenda – which outlines what you *hope* to eventually accomplish – offers the best blueprint for others seeking to examine the same issues. This book, which is addressed to a wider audience than professional economists, provides us with that sort of a framework within which to discuss the major issues that I want to take up over the course of the quarter

Topic 2: Clio and the Numbers Game

Unfortunately, modern economic theories require "modern" data collection schemes to match. Surprisingly little attention is paid by economists to the question of where that data comes from. Remember that variables such as GNP, employment (and *un*employment), consumption, productivity – to mention only a few – are *theoretical* constructs did not even exist before John Maynard Keynes rewrote economic theory to include macroeconomics in 1936. Even those variables – like prices – for which we have a plethora of data going back a long time, require varying degrees of sophistication to be turned into quantitative measures that can be plugged into our econometric models. Research during the early years of Cliometrics was dominated by the need to collect data. Pioneers such as Simon Kuznets (the father of U.S. National Income estimates), Raymond Goldsmith (measures of saving), Robert Gallman (19th Century GNP), Richard Easterlin (Regional Income Estimates), John Kendrick (Productivity) and Stanley Lebergott (Labor Force) paved the way for much of the research on 19th century growth of the United States well --before the advent of computers.

So I propose we take a moment to find out how some of the more widely-used data sets have been constructed. Because the United States has by far the most comprehensive economic data (thanks to a decennial census that dates back to 1790), and because UC Riverside was home to one of the most ambitious data collection projects ever launched, we will examine some of the issues encountered by those who contributed to the five-volume edition of *The Historical Statistics of the United States, Millennium Edition*. For those of you with a more global outlook, we can also glance at Angus Madison's monumental study of worldwide historical statistics, *The World Economy: A Millennium Perspective*, or Brian Mitchell's pioneering *European Historical Statistics*.

Topic 3: The Political Economy of Slavery, Emancipation and the American Civil War

In 1959 Alfred Conrad and John Meyer – two graduate students at Harvard – published an article in the *Journal of Political Economy* titled "The Economics of Slavery in the Ante Bellum South". By simply pointing out that slaves were economic assets who not only produced physical goods, but also produced children who belonged to the slave owners, Conrad and Meyer demonstrated that American Slavery was not only profitable; it was *very profitable*! Their findings, which were reinforced by subsequent researchers, fundamentally changed how historians viewed the causes of the American Civil War. As they eloquently stated in their conclusion:

> In sum, it seems doubtful that the South was forced by bad statesmanship into an unnecessary war to protect a system which must soon have disappeared because it was economically unsound. This is a romantic hypothesis which will not stand against the facts.

We will examine how Conrad and Meyer's conclusion changed the way that the history of the American South and the causes of the Civil War have been written. A generation of cliometricians grew up debating the issues surrounding Robert Fogel and Stanley Engerman's *Time on the Cross: The Economics of American Negro Slavery*. Ironically, it was the scholars trained as historians who accepted Fogel and Engerman's arguments, and the cliometricians who pointed out that while the gist of their thesis was correct, the details tended to raise more problems than they solved.

Studying the "economics" of slavery eventually led scholars examine the "economics" of the Civil War. Was the war inevitable? Was slavery the main cause? What was the Impact of Emancipation? Was Ron Paul correct when he recently claimed that Southerners would have freed their slaves without a war? Were Charles and Mary

Beard correct that the war was a "Second American Revolution" that paved the way for industrial revolution? The list goes on and on… .

Topic 4: The Industrial Revolution

Economic Historians of all persuasions have given so much attention to the causes of the Industrial Revolution that it is no longer obvious that there ever was a "revolution." And if there was one, no one is sure when or where it started. A general summary of the debates among "cliometricians" on the Industrial Revolution can be found in the introductory essay of Joel Mokyr's *The British Industrial Revolution.* The essays in the volume edited by Dierdre McCloskey and Roderick Floud further embellish the idea that there probably *was* an Industrial Revolution, though the devil is in the details when it comes to when or why occurred where it did. Peter Temin offers an interesting econometric take on how pervasive industrial growth was in his article on "Two Views of the Industrial Revolution."

Finally, Jan DeVries examines the *demand side* of industrialization by looking at what he calls the "Industrious Revolution." His objective was "not simply to add demand to supply, but also to relate the behavior of the household to that of the market." What makes DeVries' work of particular interest is that he argues rather persuasively that these dramatic changes in the "long eighteenth century" show that the dramatic changes in family consumption and work patterns which appear in the "long twentieth century" are not as unique as we like to think.

Topic 5: The Great Divergence

Just when the debates over the Industrial Revolution seemed to be dying down, Kenneth Pomeranz, an economic historian at UC Irvine, published a book modestly titled *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Pomeranz argues that the economic history of the Industrial revolution has been written from the perspective of European exceptionalism. This approach, he argues, ignores the extent to which

> forces outside the market and conjunctures beyond Europe deserve a central place in explaining why western Europe's otherwise largely unexceptional core achieved unique breakthroughs and wound up as the privileged center of the nineteenth century's new world economy, able to provide a soaring population with an unprecedented standard of living. … [R]ather than pretend we are seeking the differences among truly independent entities on the eve of industrialization; we must acknowledge the importance of preexisting connections in creating those differences.

Pomeranz' approach has opened up a new debate on the comparative development of China and Britain in the period from 1500 to the present. In their book *Before and Beyond: The Politics of Economic Change in China and Europe,* Jean-Laurent Rosenthal and R. Bin Wong offer a comparative analysis more in line with the neo-neoclassical view of political economy of institutional change. Robert Allen offers a new global approach to the uniqueness of Britain in his book *The British Industrial Revolution in Global Perspective.* All three of these books can be seen as adventures in the spirit of Doug North's call for approaches that include structural change as a part of their story.

Topic 6: *Panics, Manias and Crashes*

As markets expanded and people increasingly came to depend on market transactions to obtain the "necessities" of daily living, the stability of those markets became a matter of great concern. Unfortunately, as Charles Kindleberger notes in his *Manias, Panics and Crashes: A History of Financial Crises*, major collapses of financial markets seem to have become a "hardy perennial." Kindleberger identifies ten of the biggest financial "bubbles." beginning with the Dutch "Tulip Mania" of 1635, followed by the British South Sea Bubble and the French Mississippi Bubble of John Law in 1720. All of these crises follow a similar pattern: a mania followed by a widespread financial collapse that produces a protracted economic recession. Economists have had limited success explaining the "causes" of financial panics. Kindleberger leans towards the work of Hyman Minsky, who argues that if speculators are financing their investments by borrowing (which they almost surely are), then the market boom will eventually reach a point where speculators need the capital gains from rising stock prices simply to pay the debt they incurred purchasing those assets. At this point – which has become known as a "Minsky moment"– the stock market becomes unstable and the slightest jar can send it into a rapid downward spiral. Minsky's thesis, which was not well received three decades ago, is suddenly much more popular. My own favorite is the analysis of George Akerlof and Robert Schiller in their book *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. You will find everything they say very familiar – but they say it very differently.

This leads us to focus on the Granddaddy of all financial Collapses. On October 24, 1929 the New York Stock Exchange experienced first of many calamitous declines in stock prices that did not finally reach bottom until early 1933, when stocks traded on the NYSE were worth less than a fifth of their value three years earlier. There has never been an economic collapse to rival the Great Depression of the 1930s. Our readings for this week focus on how the experience of the 1930s changed the "paradigm" of economics. John Maynard Keynes published his *Theory of Money, Interest, and Prices* in 1936, when the world was struggling with the depths of the Great Depression. Within a generation of scholars his ideas had moved from heresy to orthodoxy, a development that is popularly referred to as the "Keynesian Revolution." Within another generation Keynesian Economics was being attacked because it was now the orthodoxy. To help sort this out, we will examine Peter Temin's *Lessons of the Great Depression*. Temin was one of the first writers to carefully examine how the *General Theory* influenced economic policies in a variety of countries; most notably in Great Britain, the United States and Germany during the great depression.

Topic 7: 1914 to 1945 – The *Age of Catastrophe*

Until very recently, most analyses of the Great Depression were centered on the events surrounding the stock market crash of October 1929 and the economic collapse that immediately followed. For our last topic I want to stretch that timeline back to the years before World War I and forward through World War II. The world of 1950 was fundamentally different than that which preceded the outbreak of hostilities in 1914. A growing body of economic historians is arguing that the economic dislocations produced by World War I were instrumental in bringing on the Depression, and numerous historians have pointed to the role of the peace settlements after the War and the Great Depression in explaining World War II. The role of war and economic change in the thirty years following the outbreak of World War I – a period that Eric Hobsbawm has aptly termed "The Age of Catastrophe" – can be considered a turning point in world history comparable to that of the discovery of the new world.

This period is the subject of my current research on a book that I have tentatively titled *Confidence, Fear, and a Propensity to Gamble: War and Economics in the Twentieth Century.* The focus of our reading will be a book by Charles Feinstein, Peter Temin, and Gianni Toniolo titled *The World Economy between the World Wars*, and an essay on my research that I wrote last fall for my History 207.

It remains to be seen whether we can fit all this into nine weeks. All I can promise at this point is that we will try!

Books and Reading Materials:

All of the required readings are from books that are on reserve in the Rivera Library. Articles and some of the assigned excerpts from books are posted as pdf files on iLearn. The details for the reading assignments are not yet complete; I will have a more complete bibliography in a revised syllabus by ready by March 15th.

I am always reluctant to tell students to "buy" "required" texts for a course. There are, however, several books that are assigned in their entirety. These books are available on Amazon.com – most of them offered as used books at substantial discount. I recommend that you consider purchasing them. Here are some comments might help you decide which books would be worth purchasing for use in this course. My choices include several books that I recommend because they are general works that could be useful for teaching as well as research. If I had a *required books list*, the following books would be on it:

These five books are should have the highest priority for your purchase list:

North, Douglass C. *Structure and Change in Economic History*. New York: W.W. Norton, 1981.
This book outlines what North regards as the research agenda for cliometrics in the 1980s. As I note below, you should have read it by our first class meeting on April 10th. The easiest way to do that is to buy it.

Kindleberger, Charles Poor, and Robert Z. Aliber. *Manias, Panics and Crashes: A History of Financial Crises*. 5th ed. Hoboken, N.J.: John Wiley & Sons, 2005.
I actually prefer the 1978 edition, but it is hard to find. You know all this stuff, but CPK puts it together in a very readable story that even the non-economists can understand. It serves as a nice framework for our discussion of Crashes and Panics [Topic 6].

Ransom, Roger L., and Richard Sutch. *One Kind of Freedom: The Economic Consequences of Emancipation*. Second ed. New York: Cambridge University Press, 2001.
Most of you can guess why this is on the list. *OKOF* helped put cliometrics on the map in the humanities. It is probably found on more reading lists in History than in Economics – which is a measure of its impact in the literature on the American South. The Ransom-Sutch Sample of Farms is an early example of collecting original source data and putting it on the computer. It will be useful in our discussions of Measurement [Topic 2] and the Impact of slavery and emancipation [Topic 3] .

Temin, Peter. *Lessons from the Great Depression*: The MIT Press, 1989.
Temin was one of the first cliometricians to cast the Great Depression in the context of the aftermath of World War I and the collapse of the Gold Standard. You might also find his *Did Monetary Forces Cause the Great Depression?* (1976) interesting. Temin's econometrics will form an important part of the Great Depression [Topic 6]

Feinstein, Charles, Peter Temin, and Gianni Toniolo. *The World Economy between the World Wars*. New York: Oxford University Press, 2008. This is an excellent summary of recent work on the Gold Standard; the Great Depression and the impact of World War II. It will form the basis for our discussion of the two world wars and the interwar period [Topic 7].

These three books deal with the Industrial Revolution and the "Great Divergence" [Topics 5 & 6]. You needn't buy all of them, however I will ask that you read and report on at least one of them in some detail.

Allen, Robert C. *The British Industrial Revolution in Global Perspective*. New York: Cambridge University Press, 2009.

Pomeranz, Kenneth. *The Great Divergence: China, Europe, and the Making of the Modern World Economy*. Princeton: Princeton University Press, 2000.

Rosenthal, Jean Laurent, and R. Bin Wong. *Before and Beyond Divergence: The Politics of Economic Change in China and Europe*. Cambridge MA: Harvard University Press, 2011.