ECON 2175: Economic History of Canada to 1913

Lecture 1: What is Economic History

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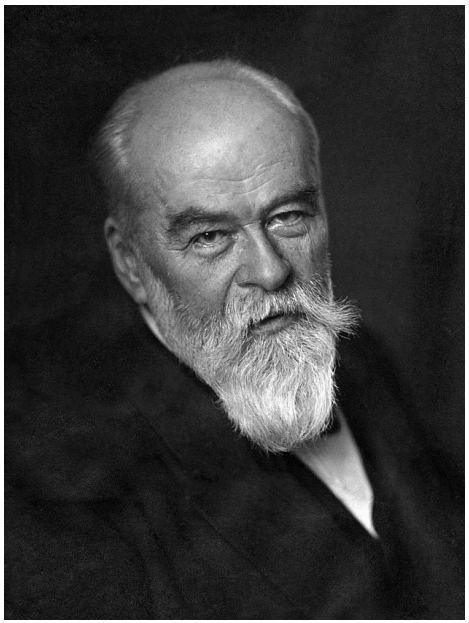
Outline

German Historical School

- Largely led by Gustav Schmoller
- Core argument: History has empirical regularities and from induction, we can find out what happens

Figure: Gustav von Schmoller



Austrian School of Economics

- Largely led by Carl Menger
- Core argument: Human behavior is purposeful and axiom about it can be derived from deduction and then applied to the real world to explain it

Figure: Carl Menger

Methodenstreit

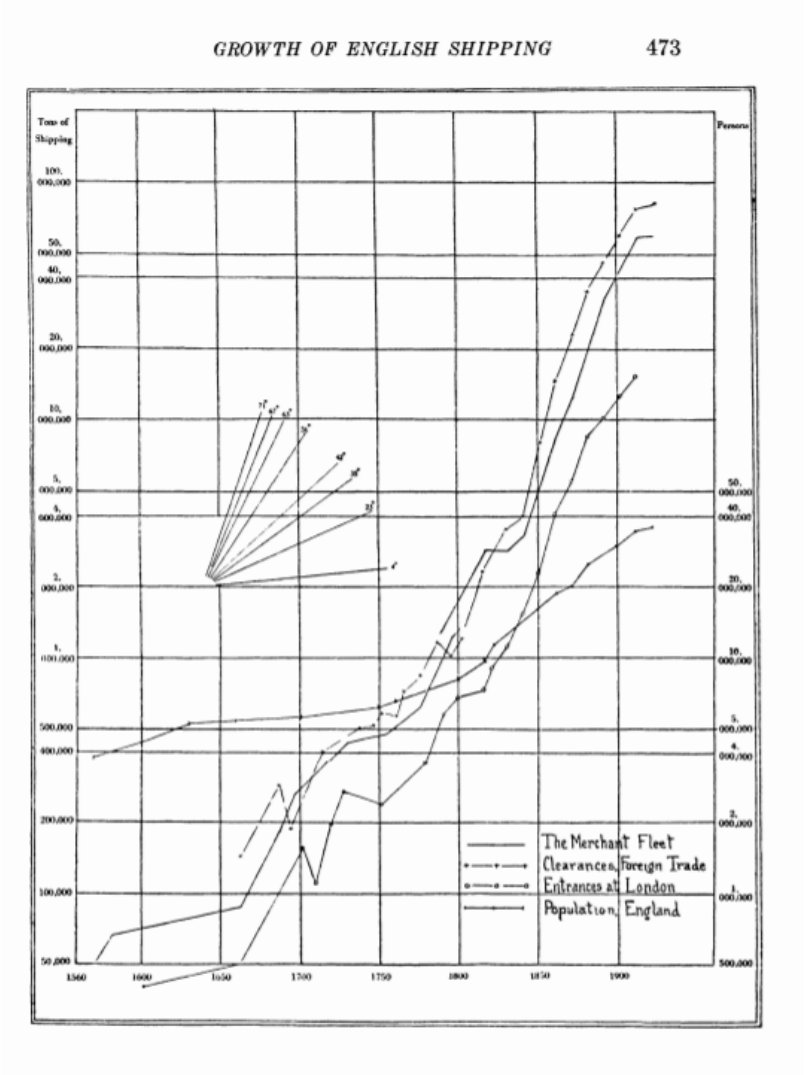
- Now, both schools of thought are largely forgotten but the Austrians still exist within the field of economics (although their numbers are marginal) (Vedder and Gallaway, 2000)
- However, the victorious school (the Austrians) basically set the stage for the development of economics (the marginal revolution) and of economic history.
- While the historical school was interested in history (duh), it was largely inductive - a method which has serious limitations for social sciences. The Austrians were deductive which allowed the possibility of testing competing theories.
- However, this "victory" occured when economics was still in its infancy. No econometrics back then. Little data to test things out and many aspect of theory were not yet developed.
- Thus, there was some stalling on economic history and it remained largely a sub-branch of history

Early formation

- The Great Depression caused a great impetus notably by encouraging the development of rich datasets (mostly on price indices as part of the International Committee on Price History and shipping productivity).
- The Great Depression also stimulated important theoretical decades - the great debates between scholars like Hayek, Robbins, Hutt on the one hand and Keynes, Sraffa, Hicks and Robinson on the other (a period known as the era of high-flying theory).
- Creation of the National Bureau of Economic Research where economic history minded scholars such as Simon Kuznets (the father of national accounts) allowed important data to be built as well as the theoretical apparatus behind them.
- However, economic history remained largely undefined as a subfield largely because of contests in methodology (i.e. how much mathematics and modelization should economist use).

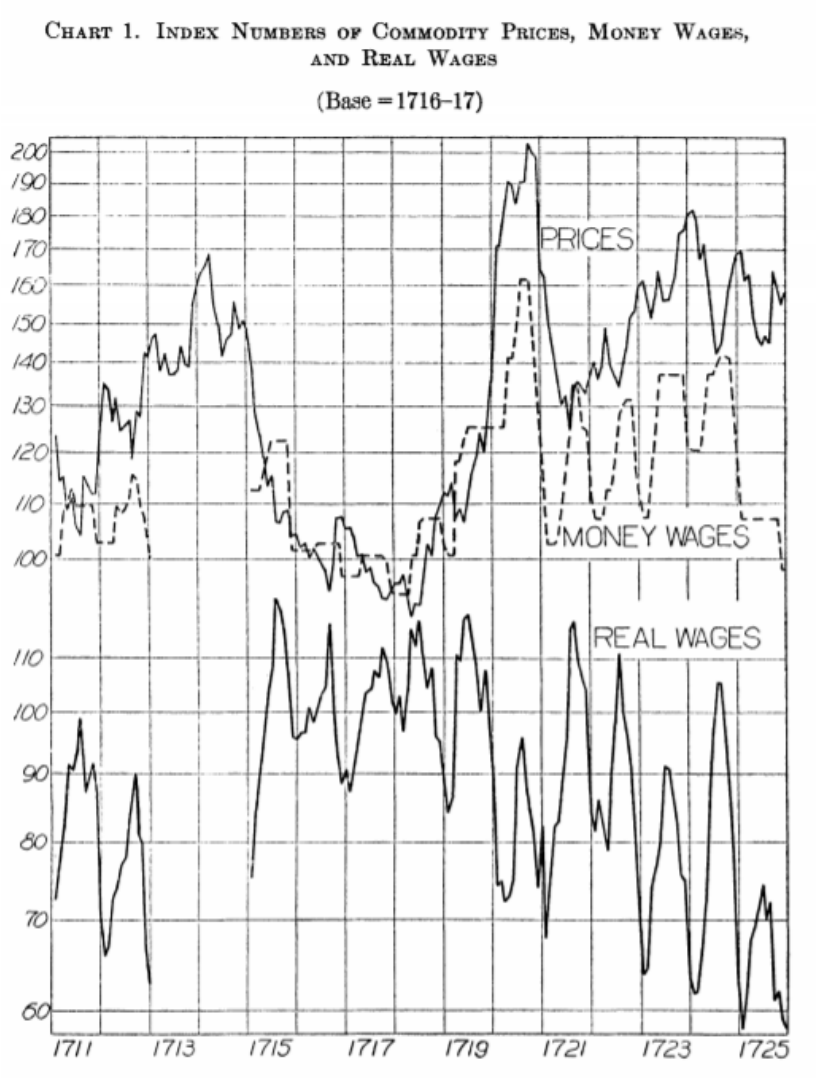
Early formation

Figure: Shipping Productivity in England as Measured by Usher (1928)



Early formation

Figure: Prices and Wages in Paris, 1711-1725 by Hamilton (1936)



The Purdue meeting

- The real starting point is in the late 1950s with a conference of the NBER where two Chicago economists (Conrad and Meyer) presented two important papers.
- The first specified what economists should do if they wanted to do economic history.
- The second is more important - it used the methods highlighted in the first to study slavery in the United.
- It boiled down to measuring the returns of slaves under a simple measurement identity that you have seen in intro micro:

$$\tau = \frac{\pi}{(1+\lambda)^n} \tag{1}$$

- Where τ is the price of a slave, π is the net product (annual net revenues), λ is the interest rate and n is the number of time periods of activity of a slave.

Slavery Debates

Figure: Returns from Owning Slaves by Conrad and Meyer (1958)

TABLE 10

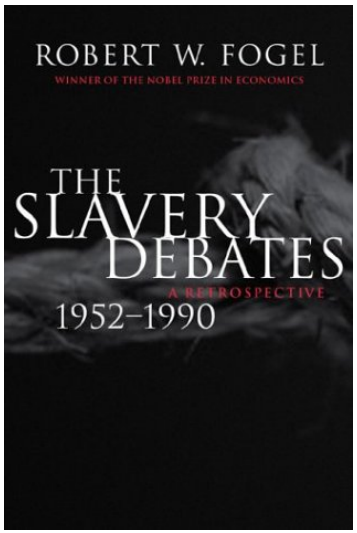
ANNUAL RETURNS ON A PRIME FIELD WENCH INVESTMENT (WORKING ON LAND WHICH YIELDED 3.75 BALES PER PRIME MALE FIELD HAND, ASSUMING A 7.5-CENT NET FARM PRICE FOR COTTON AND TEN "SALABLE" CHILDREN BORN TO EVERY WENCH)

Year from Purchase Date	Personal Field Returns	Child Field Returns	Child Sale Returns	Personal Upkeep	Child Upkeep	Net Returns
1	$56	.....	....	$20	....	$ 36
2	40	.....	....	20	$ 50	−30
3	56	.....	....	20	10	26
4	40	.....	....	20	60	−40
5	56	.....	....	20	20	16
6	40	.....	....	20	70	−50
7	56	.....	....	20	30	6
8	40	$ 3.75	....	20	80	−56.25
9	56	7.50	....	20	45	−1.50
10	40	15.00	....	20	95	−50.00
11	56	22.50	....	20	60	−1.50
12	40	37.50	....	20	110	−52.50
13	56	52.50	....	20	75	13.50
14	40	75.00	....	20	130	−35.00
15	56	97.50	....	20	95	47.50
16	40	127.50	....	20	150	−2.50
17	56	157.50	....	20	115	78.50
18	40	195.00	....	20	165	55.00
19	56	232.50	....	20	130	134.30
20	40	195.00	$875	20	170	920.00
21	56	232.50	....	20	130	138.50
22	56	195.00	875	20	120	986.00
23	56	232.50	....	20	120	148.50
24	56	195.00	875	20	110	996.00
25	56	232.50	....	20	110	158.00
26	56	195.00	875	20	100	1,006.00
27	56	232.50	....	20	100	168.00
28	56	187.50	875	20	90	1,008.50
29	56	225.00	....	20	90	171.00
30	56	180.00	875	20	80	1,011.00
31	...	210.00	....	...	80	130.00
32	...	157.50	875	...	60	972.50
33	...	180.00	....	...	60	120.00
34	...	120.00	875	...	40	955.00
35	...	135.00	....	...	40	95.00
36	...	67.50	875	...	20	922.50
37	...	75.00	....	...	20	55.00
38	...	.....	875	...	....	875.00

Slavery Debates

- Most historians prior to Conrad and Meyer assumed that slavery was not profitable. This threw the issue into contention.

Figure: Fogel's Fogel (2003) recapitulation of the Slavery Debates



- Many subsequent papers, prior to Fogel and Engerman, expanded on Conrad and Meyer (Yasuba, 1961; Moes, 1961; Sutch, 1965; Foust and Swan, 1970)

Rise to Prominence

- From there, the cliometric (clio=muse of history so that cliometric = measurement of history) revolution took off.
- Douglass North ventured into measuring growth in the United States alongside people like R. Easterlin while scholars in England (Phelps-Brown and Hopkins - which laid the foundation indirectly for the revolution of the Phillips Curve in macroeconomics) assembled wage rates from the 13th century to early 20th century to measure living standards. It opened the door to numerous questions and research: industrial revolution, oceanic trade, transport revolution, railways.
- Using insights from other emerging fields of study in economics (public choice theory, transaction costs, law and economics, networks analysis), this was extended to the study of institutions in determining outcomes.
- For this, Fogel and North would go on to win the Nobel in economics (1993).

Maturity of Cliometrics

Figure: Real Wages in England, 1270 to 1954 by Hopkins and Phelps-Brown (1956)

Counterfactuals

- The relevance of an event/process is determined by constructing counterfactuals.
- Example of an Assertion: Fidel Castro has had a significant on the health of the Cuban population
- Counterfactual needed: What would Cuban health outcomes have looked like without Castro?

Unbounded and Bounded

- Counterfactuals can easily become "Monday-morning quarterbacking" (MMQ)
- Examples of a MMQ: Winston Churchill wrote a famous alternative history where the Confederacy had won Gettysburg causing a dramatically different course for human events; the videogame *Red Alert* (1996) gave the story of Einstein going back in time to kill Hitler which caused the USSR to become more powerful and becoming a threat to Western Europe.
- These counterfactuals are unbounded ones. Bounded counterfactuals force the creator to tie himself to economic laws.

Examples of boundedness

- Irwin (2000) asks the following question: Could the United States iron industry have survived free trade after the Civil War?
- This is clearly a counterfactual question. Irwin creates a firm's production function and measures the effect on iron-making of having/not-having trade barriers protecting the industry.

Could the United States Iron Industry Have Survived Free Trade after the Civil War?

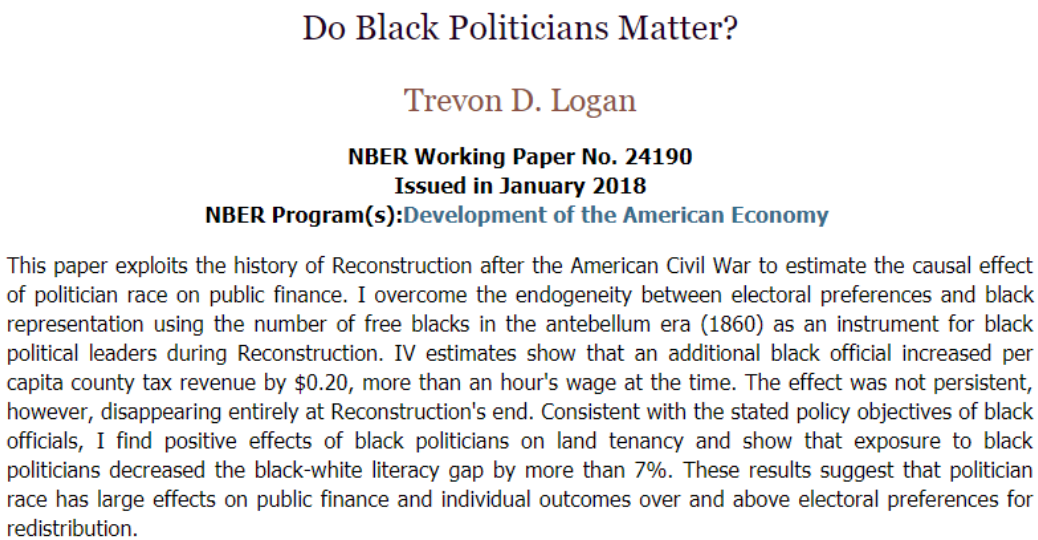
Douglas A. Irwin[1]

Department of Economics, Dartmouth College, and NBER

An unresolved question concerning post-Civil War U.S. industrialization is the degree to which import tariffs protected domestic manufacturers from foreign competition. This paper considers the impact of import tariffs on the domestic pig iron industry, the basic building block of the entire iron and steel industry. After reviewing the contentious political debate surrounding the pig iron duties and estimating the elasticity of substitution between domestic and imported pig iron, a standard trade model provides estimates of how tariff reductions would affect domestic prices, production, imports, and welfare. The results suggest that, had the tariff been eliminated in 1869, domestic output would have fallen by about 15% and the import market share would have risen from about 7% to nearly 30%. These relatively modest effects suggest that a substantial portion of the domestic industry could have survived a significant tariff reduction.

The toolshed of the economic historians

- Theories constitute tools of analysis to make sense of a situation
- These are then complemented by data analysis, data reconstruction, econometrics methods (especially in recent years with the rise of causal inference methods that are becoming easier to use due to software improvements), analytical narratives, and even laboratory experiments (i.e. experimental economics). See notably this example provided by Logan (2018):



Do Black Politicians Matter?

Trevon D. Logan

NBER Working Paper No. 24190
Issued in January 2018
NBER Program(s): Development of the American Economy

This paper exploits the history of Reconstruction after the American Civil War to estimate the causal effect of politician race on public finance. I overcome the endogeneity between electoral preferences and black representation using the number of free blacks in the antebellum era (1860) as an instrument for black political leaders during Reconstruction. IV estimates show that an additional black official increased per capita county tax revenue by $0.20, more than an hour's wage at the time. The effect was not persistent, however, disappearing entirely at Reconstruction's end. Consistent with the stated policy objectives of black officials, I find positive effects of black politicians on land tenancy and show that exposure to black politicians decreased the black-white literacy gap by more than 7%. These results suggest that politician race has large effects on public finance and individual outcomes over and above electoral preferences for redistribution.

Bounded by history

- While economics is largely an inductive science, it does require falsiability (like *any* science) meaning that it must be tested.
- Otherwise, economists can simply engage in axiomatic discussions of little relevance to the real world in order to debate the existence of unicorns and the gender of angels. All fine discussions I am sure, but hardly relevant to anybody except a handful of people.
- This is the trap of "blackboard economics" (as described by Ronald Coase).

Bounded by history: example

- In the 1950s, economists were attempting to define what constituted a "positive theory" (i.e. scientific) theory of state intervention which implied the need to identify instances of market failure (Samuelson, 1954; Bator, 1958)
- The utlimate market failure was the "lighthouse" because it was non-excludable and non-rivalrous.
- Thus, the lighthouse scientifically fell (according to the assumptions of the theoretical construct) under the purview of the state. It was impossible for the market to provide.
- The state had to provide the lighthouse out of general taxation rather than user fees.

Bounded by history: example

- This was criticized in the 1970s when Ronald Coase (1974) found out that large numbers of lighthouses were privately provided in England from 1500 to 1836.
- This forced a restatement of how market failures could be addressed. At the very least, it was thus impossible to defend the impossibility of private provision.
- There have since been restatements with some believing that it militates for a more limited case for state action (Van Zandt, 1993; Bertrand, 2005) and others arguing that efficient private provision was theoretically (Barnett and Block, 2007) and practically (Candela and Geloso, 2018) possible and that the limited extent of private provision resulted from institutional settings.
- The debates caused refinements to the theories of market failure. Nuances were introduced and certain assumptions were dropped or eased (as they were either irrelevant or peripheral to equilibrium outcomes).

Bounded by history: example

- This illustrates how the economists who do economic history are not only binding themselves to avoid crazy counterfactuals by using economic theory developed from induction.
- They are also binding themselves to avoid crazy abstractions (i.e. blackboard economics) that miss the real world and how the market process actually looks like!

Respect for data sources

- The data we use is affected by he/she who produces the data.
- When a state officials decide to do a census of agriculture, he considers only the information that is valuable to those who will use the census.
- E.g. unimproved land in 1700 may actually have been quite valuable to farmers because it provided them with small hunting produces that complement their diets. It also provided them with small portions of wooded uplands to cut down for firewood. However, for the administrator of the census who is asked to report on farming, that is probably irrelevant or hard to integrate in the census headings. (Scott, 1998)
- The data has inherent limitations that the economic historian must deal with because they matter to the strength of his counterfactuals and force him to question the statistical power of his results.

Respect for data sources

- There are also other problems: representativity, generalizability, selection biases, metrological issues (i.e. measurements), precision.
- This entails spending great resources in assessing how the data can be used and to what questions it is suited (e.g. using edicts regarding controlled prices is unlikely to form a good basis for asking questions about inflation and monetary issues, but they could be relevant to questions of political economy and non-monetary aspects of human welfare such as the time-cost of obtaining rationed-goods).

Next Week: Were People from the Past Irrational Morons?

- See assigned readings on OWL.

Barnett, W. and Block, W. (2007). Coase and van zandt on lighthouses. *Public Finance Review*, 35(6):710–733.

Bator, F. M. (1958). The anatomy of market failure. *The Quarterly Journal of Economics*, 72(3):351–379.

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Foust, J. D. and Swan, D. E. (1970). Productivity and Profitability of Antebellum Slave Labor: A Micro-Approach. *Agricultural History*, 44(1):39–62.

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Hopkins, S. and Phelps-Brown, E. (1956). Seven centuries of the prices of consumables, compared with builders' wage-rates. *Economica*, 23(92):296–314.

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Van Zandt, D. E. (1993). The lessons of the lighthouse:" government" or" private" provision of goods. *The Journal of Legal Studies*, 22(1):47–72.

Vedder, R. and Gallaway, L. (2000). The austrian market share in the marketplace for ideas, 1871–2025. *The Quarterly Journal of Austrian Economics*, 3(1):33.

Yasuba, Y. (1961). The profitability and viability of plantation slavery in the United States. *The Economic Studies Quarterly*, 12(1):60–67.