University of California - Davis
Economics 190 and 210C
Topics in 20th-Century Economic History

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SYLLABUS

The only assigned purchase is a two-volume set of readings on sale at ASUCD Classical Notes, 165 Memorial Union, called "The Packet." Volume 1 of the Packet applies to Sections I-III of the course, up through the midterm exam. Volume 2 of the Packet covers the assigned readings of Sections IV-VII and should be available at Classical notes by mid-April. Some of the readings are available online from UC Davis terminals. These are not in the Packet, and should be downloaded.

In what follows, only the readings marked "A" are assigned. Readings marked "R" are just recommended extra reading, not assigned, and are not available in The Packet.

I. The World's Great Depression, 1929-1941

A. America.

Why was U.S. macroeconomic policy faced with so severe a downturn in the first year after the Wall Street crash? With hindsight, what alternative policies can we say the Fed and the government should have followed? Why didn't they? Why did the depression last so long? What finally ended it?

A: (1) ***Econ190 read, Econ 210C can just skim:*** Jeremy Atack and Peter Passell, A New Economic View of American History, 2nd edition, 1994, Chs. 20-22 (pp. 554-647).
(2) Barry Eichengreen, "The Origins and Nature of the Great Slump Revisited," EcHR, May 1992, pp. 213-239.
(3) Christina Romer, "What Ended the Great Depression?" JEH, December 1992.
(4) J. Bradford DeLong, "Fiscal Policy in the Shadow of the Great Depression." In M. Bordo, C. Goldin, and E. White, The Defining Moment: The Great Depression and the American Economy in the Twentieth Century (1998), pp. 67-85.
(5) ***Econ 210C only:*** Alex Field offers an original interpretation of the role of monetary and financial forces in the onset of the slump in 1929-30: "Asset Exchanges and the Transactions Demand for Money," AER, March 1984, pp. 43-49. This article is not in the Packet, but available on JSTOR.

R: Milton Friedman and Anna Schwartz, A Monetary History of the United States, 1867-1960 (1963), esp. pp. 296-332, 391-419.
Peter Temin, Did Monetary Forces Cause the Great Depression? (1976), Chs. I-III, VI.
Overview of the 1920s: Robert A. Gordon, Economic Instability and Growth (1974), Ch. 2.
Frederick Mishkin, "The Household Balance Sheet and the Great Depression," JEH, December 1978, pp. 918-37, on wealth effects of asset-market collapse.
Gerald Epstein and Thomas Ferguson, "Monetary Policy, Loan Liquidation and Industrial Conflict: The

Federal Reserve and the Open Market Operations of 1932," JEH, December 1984. A provocative view of why Fed policy wobbled as it did in 1932. See also the exchange in the March 1991 JEH.

Ben Bernanke, "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," AER, June 1983, pp. 257-76.

Three chapters on the causes of financial crises and panics, with emphasis on the Great Depression era, all from the same book: Bernanke and James, "The Gold Standard, Deflation and Financial Crisis in the Great Depression: An International Comparison"; Mishkin, "Asymmetric Information and Financial Crises: A Historical Perspective"; and Calomiris and Gorton, "The Origins of Banking Panics: Models, Facts, and Bank Regulation". All in R. Glenn Hubbard (ed.), Financial Markets and Financial Crises (NBER, 1991).

Herbert Stein, The Fiscal Revolution in America (l969, revised 1996). An important interpretation of fiscal policy from Hoover to LBJ by Ben Stein's father, a top advisor to Presidents Nixon and Ford.

Christina Romer, "The Great Crash and the Onset of the Great Depression." QJE, 1990.

Anthony Patrick O'Brien, "A Behavioral Explanation for Nominal Wage Rigidity during the Great Depression." QJE November 1989, pp. 719-36.

Barry Eichengreen, Golden Fetters: The Gold Standard and the Great Depression, 1919-1939 (1992).

J. R. Vernon, "World War II Fiscal Policies and the End of the Great Depression," JEH, Dec. 1994.

Robert J. Shiller, Irrational Exuberance (2000), pp. 3-14, 60-68.

Roberto Rigobon and Brian Sack, "Measuring the Reaction of Monetary Policy to the Stock Market." NBER Working Paper 8350 (May 2001).

Frederic S. Mishkin and Eugene N. White, "U.S. Stock Market Crashes and their Aftermath: Implications for Monetary Policy." NBER Working Paper 8992 (June 2002).

Later lessons:

Pierre L. Siklos, _The Changing Face of Central Banking: Evolutionary Trends since World War II_. New York: Cambridge University Press, 2002.

and Christina Romer and Davis Romer, "The Evolution of Economic Understanding and Postwar Stabilization Policy." NBER working paper 9274 (October 2002), from www.nber.org/Publications/Working Papers.

B. The World

(1) Peter Temin, Lessons from the Great Depression (1989), pp. 41-88.

(2) Floud and McCloskey, The Economic History of Britain since 1700, 2nd edition (1992), vol. 2, chapter by Eichengreen.

(3) Richard Grossman, "The Shoe That Didn't Drop: Explaining Banking Stability during the Great Depression," JEH, September 1994. (Weaves this theme together for several countries, not just UK and US.)

II. Britain's Interwar Woes

Britain was already suffering serious unemployment throughout the 1920s, yet showed slightly better signs of recovery after 1931 than did the United States. Three issues dominate: How poor was the hand Britain was dealt by World War I and its aftermath, what policy mistakes were made, and what was the basis of her partial recovery in the 1930s? The most heated recent debate is over one particular policy: Benjamin and Kochin charge that the dole (unemployment compensation) caused a large share of Britain's high unemployment, setting off a classic case of a scholarly debate with direct policy relevance. On the more positive side, how did Britain (and other countries) manage to escape the banking failures that plagued the United States in the early 1930s?

A: (1) - (2) Floud and McCloskey, The Economic History of Britain since 1700, 2nd edition (1992), vol. 2, chapters by Thomas and Hatton.

R: Donald N. Winch, Economics and Policy (1969), Chs. 4-7, is a very readable telling of the orthodox Keynesian interwar story.
Mark Casson, Economics of Unemployment: An Historical Perspective (1983).
Barry Eichengreen and T. J. Hatton, Interwar Unemployment in International Perspective (1988).
On exchange rate policy: Donald Moggridge, British Monetary Policy (1972); W.B. Reddaway. "Was $4.86 Inevitable in 1925?" Lloyds Bank Review, April 1970, pp. 15-28 (he says no); Richard Sayers, "The Return to Gold, 1925," in L.S. Pressnell (ed.), Studies in the Industrial Revolution (1960) (the Tory defense of $4.86); A. Cairncross and B. Eichengreen, Sterling in Decline (1983); Susan Wolcott, "Keynes vs. Churchill: British Unemployment in the 1920s" JEH September 1993; J. R. Garrett, "Monetary Policy and Expectations: Market-Control Techniques and the Bank of England, 1925-1931," JEH Sept. 1995.
Mark Thomas, "Rearmament and Economic Recovery in the Late 1930s," EcHR, November 1983.
For Econ 210C students: For a semi-econometric study with big policy implications, skim through Daniel Benjamin and Levis Kochin, "Searching for an Explanation of Unemployment in Interwar Britain," JPE, June 1979, pp. 441-478. If you want to sample the ensuing debate, also skim through Benjamin-Kochin vs. their critics, in the April 1982 JPE, pp. 369-436. Benjamin-Kochin is available in JSTOR.

III. The Postwar Rise in Unemployment

Unemployment and inflation both got worse in all major industrial countries after the first oil shock hit in 1973. At first it seemed like a problem centering on oil and on inflationary policies, and on America. Two decades later it is clear that the trend toward higher unemployment transcends short-run crises and cycles. The whole menu of trade-off between unemployment and inflation had worsened in every major country, and productivity growth had slowed down.

Why the worsening trade-off? Why should unemployment have risen so much? Why did it rise more in most West European countries than in the United States? We must confront at least five views: (1) It was bad luck, triggered by oil price shocks and the same difficulty of adjusting to sectoral shifts that plagued interwar Britain. (2) Changes in taxes and the dole raised the subsidy to unemployment, as charged by Benjamin and Kochin for interwar Britain. (3) Unions and government defended real wages too well, especially in Europe, forcing higher costs and higher unemployment. (4) Stabler or more expansionary macro-policies should have been followed, and would not have worsened inflation for more than a couple of years. (5) The problem is peculiarly international, and must be solved with internationally coordinated macro-policies. Different authors make different choices.

A: (1) S.N. Broadberry, "Employment and Unemployment," in Floud and McCloskey, Economic History of Britain since 1700, 2nd ed (1992), volume 3.
(2) Stephen Nickell, "Unemployment and Labor Market Rigidities: Europe versus North America." J. of Econ. Perspectives, Summer 1997.
(3) Giuseppe Bertola, Francine Blau, and Lawrence Kahn, "Comparative Analysis of Labor Market Outcomes: Lessons for the US from International Long-run Evidence." NBER WP8526 (October 2001), at www.nber.org/publications/search W8526. (Not in Packet.)

(4) Ito, Takatoshi, The Japanese Economy (1992), Ch. 8, esp. Pages 209-26, 241-8.

R: Robert J. Flanagan, "Unemployment as a Hiring Problem," OECD Economic Studies, 11 (Autumn 1988), pp. 123-154; and his "Macroeconomic Performance and Collective Bargaining: An International Perspective." JELit 37, 3 (September 1999): 1150-1175.
Charles Bean, "European Unemployment: A Survey," JELit, June 1994.
Rebecca Blank and Richard Freeman, Social Protection and Economic Flexibility: Is There a Trade-Off? (1994).
Robert J. Gordon, "Back to the Future: European Unemployment Today Viewed from America in 1939," Brookings Papers in Economic Activity, 1988, 1, pp. 271-312.
Christoph Buechtemann (ed.), Employment Security and Labor Market Behavior: .... International Evidence (1993).
Scarpetta, Stefano. 1996. "Assessing the Role of Labour Market Policies and Institutional Settings on Unemployment: A Cross-Country Study." OECD Economic Studies 26, 1: 43-98.

*** **Midterm** ***

IV. The Macroeconomics of Japan's Lost Decade

In 1989-1990 Japan had a severe peak and trough in both the stock market and the real estate market, and the country has never really recovered since. What were the origins of the long slump that has become know as Japan's "lost decade" of the 1990s? What roles should be assigned to monetary policy, fiscal policy, defective financial institutions, and the Asian financial crisis? How do the macroeconomic lessons differ from those learned from the interwar period in America and Europe?

A: (1) Thomas Cargill, Michael Hutchison, and Takatoshi Ito, The Political Economy of Japanese Monetary Policy (1997), Chapter 5 on the bubble economy.
(2) Cargill, Hutchison, and Ito, Financial Policy and Central Banking in Japan (2000), Chapter 2 on the 1990s, and Chapter 5 on inflation targeting).
(3) ***Econ 210C only:*** Cargill, Hutchison, and Ito, The Political Economy of Japanese Monetary Policy (1997), Chapter 9 on inflation, time inconsistency, and central-bank independence.

R: Ito, Takatoshi, The Japanese Economy (1992), Ch. 14 for his earlier thinking about the bubble.
Ito, Takatoshi and Iwaisako, Tokuo, "Explaining Asset Bubbles in Japan." Monetary and Economic Studies. July 1996; 14(1): 143-93. Downloadable as NBER Working Paper 5358 (1995).
Tamim Bayoumi and Charles Collyns (eds.), Post-Bubble Blues: How Japan responded to Asset Price Collapse (IMF, 2000). A team study that combines wide-audience language with VAR analysis of the shocks to Japan's system.
Edward J. Lincoln, Arthritic Japan: The Slow Pace of Economic Reform (2001).
Craig Freedman (ed.), Why Did Japan Stumble? (1999).
Wing Thye Woo, Jeffrey D. Sachs, and Klaus Schwab, The Asian Financial Crisis: Lessons for a Resilient Asia (2000).
Charles Calomiris and Joseph Mason, "How to Restructure Failed Banking Systems: Lessons from the U.S. in the 1930's and Japan in the 1990's" NBER Working Paper W9264 (April 2003).

Pierre L. Siklos. The Changing Face of Central Banking: Evolutionary Trends since World War II. New York: Cambridge University Press, 2002.
Charles W. Calomiris and Joseph R. Mason, "How to Restructure Failed Banking systems: Lessons from the U.S. in the 1930s and Japan in the 1990s." NBER Working Paper 9624 (April 2003).

V. Trade Policy

A. The Tariff-Growth Paradox

A: (1) Michael Clemens and Jeffrey Williamson, "Why Did the Tariff-Growth Correlation Reverse after 1950?" NBER Working Paper 9181 (September 2002). www.nber.org/publications/search W9181.

R: Paul Bairoch, Economics and World History: Myths and Paradoxes. University of Chicago Press, 1993.
Kevin O'Rourke, "Tariffs and Growth in the Late 19th Century," Economic Journal 110 (2000): 456-483.
Clemens and Williamson, "A Tariff-growth Paradox? Protection's Impact the World Around, 1875-1997." NBER Working Paper 8459 (September 2001). www.nber.org/publications/search W8459.
Antoni Estevadeordal, Brian Frantz, and Alan M. Taylor. "The Rise and Fall of World Trade, 1870-1939." Quarterly Journal of Economics 118, 2 (May 2003): 359-407.

B. Does Globalization Make the World More Unequal?

Who won and who lost from free international trade over the last five centuries? Who won or lost between the 1970s and the 1990s? The conventional theory is that of Stolper and Samuelson: Freer trade helps the better-paid factors (skilled labor and capital) in the high-income "North" and also helps the unskilled in the low-income "South," while hurting the Northern poor and the Southern rich. Is that true?

A: Peter Lindert and Jeffrey Williamson, "Does Globalization Make the World More Unequal?" NBER Working Paper 8228 (April 2001). www.nber.org/publications/working papers/search W8228.

R: Adrian Wood, "How Trade Hurt Unskilled Workers," JEPers, Summer 1995, pp. 57-80.
Paul Krugman and Robert Z. Lawrence, "Trade, Jobs, and Wages," Scientific American, April 1994, pp. 44-49.
Robert Feenstra, "Integration of Trade and Disintegration of Production in the Global Economy." JEPers 12, 4 (Fall 1998), pp. 31-50.
Adrian Wood, North-South Trade, Employment, and Inequality (1994), pp. 1-26, 247-289, 407-470.
Robert Z. Lawrence and Matthew Slaughter, "International Trade and American Wages in the 1980s: Giant Sucking Sound or Small Hiccup?" Brookings Papers in Economic Analysis, 1993, 2, pp. 161-226.
Sachs, Jeffrey D. and Howard J. Schatz. "Trade and Jobs in U.S. Manufacturing." Brookings Papers in Economic Activity 1 (1994), pp. 1-84.
Freeman, Richard B. "Are Your Wages Set in Beijing?" Journal of Economic Perspectives 9 (Summer 1995), pp. 15-32.

Cline, William R. Trade and Income Distribution. Institute for International Economics, 1997.
Haskel, Johnathan and Matthew Slaughter. "Does the Sector Bias of Technical change Explain Changing Wage Inequality?" NBER Working Paper no. 6565 (1998).
Feenstra, Robert C. and Gordon H. Hanson. "The Impact of Outsourcing and High-Technology Capital on Wages: Estimates for the United States, 1979-1990." Quarterly Journal of Economics 114, 3 (August), pp. 907-940.
Basu, Kaushik. "Child Labor: Cause, Consequence, and Cure, with Remarks on International Labor Standards." Journal of Economic Literature 37, 3 (September 1999): 1083-1119.
Dollar, David and Aart Kraay. 2000. "Growth Is Good for the Poor." Manuscript, World Bank, March.
Gordon Hanson, "What Has Happened to Wages in Mexico since NAFTA?" NBER Working Paper no. 9563 (March 2003).

C. Industrial Policy and Competitiveness in Four Countries

Different national governments take different approaches to promoting certain sectors. Some try to back rising sectors destined to succeed in international competition, with subsidies and with permission to collude domestically. Some back falling sectors, subsidizing them and shielding them from competitive decline and bankruptcy. Some governments actually nationalize whole sectors, often re-privatizing them later. In the postwar era, Japan is thought to be an example of the first kind of industrial policy (backing winners) and Sweden is thought to be an example of the second. Britain represents the third kind of government, one that supposedly suffers a hangover from nationalization and gains from re-privatizing. The United States serves as a standard for comparison with the other three countries here.

Which of these beliefs is correct about the country in question? And are all three government-related options inferior to the Americans' more laissez-faire approach? Your assigned readings introduce you to some policies of Japan and Britain. Lecture and handouts will add details on Sweden, and evaluate all three countries' policies vis-à-vis the American small-government alternative. Here is an area rich in public-meets-IO dissertations, allowing one to rethink theories of government regulation of firms' competition and integration, by drawing on the diverse experiences of different countries. What are the lessons here, and how would they apply to other OECD countries or to Asian tigers?

A: (1) Peter Lindert, "U.S Foreign Trade and Trade Policy in the Twentieth Century." In S. Engerman and R. Gallman (eds.), The Cambridge Economic History of the United States, vol. 3 (2000).
(2) Richard Katz, Japan: The System that Soured (M.E. Sharpe, 1998), pp. 107-196, 47-54 (yes, in that order).
(3) Richard Beason and David Weinstein, "Growth, Economies of Scale, and Targeting in Japan (1955-1990)," Rev. of Econ&Stat 78, 2 (May 1996), pp. 286-295.
(4) Leslie Hannah, "The Economic Consequences of the State Ownership of Industry, 1945-1990." In Floud and McCloskey, The Economic History of Britain since 1700, 2nd edn. (1992), vol. 3, pp. 168-194.

R: A good overview of economists' thinking on the boundaries of the firm and the role of governmental industrial policies is the set of four articles on this topic in the Fall 1998 JEPers, especially Andrei Shleifer's article "State versus Private Ownership."

David Weinstein, "Evaluating Administrative Guidance and Cartels in Japan (1957-1988)," J. of Japanese and International Economies 9, 2 (June 1995), pp. 200-223.
David Weinstein and Yishay Yafeh, "Japan's Corporate Groups: Collusive or Competitive? An Empirical Investigation of Keiretsu Behavior." J. Indus. Economics 43, 4 (Dec. 1995), pp. 359-376.
The three final chapters, on Swedish industrial policy, in Richard Freeman, Robert Topel, and
Kozo Yamamura, "Caveat Emptor: The New Industrial Policy of Japan," in P. Krugman (ed.), Strategic Trade Policy and the New International Economics (1986).
Laura D'Andrea Tyson, Who's Bashing Whom? Trade Conflict in High-Technology Industries (IIE, 1992).
Takatoshi Ito, The Japanese Economy (1992), pp. 177-180, 191-208 on industrial organization and industrial policy.
For more on British nationalization and privatization, see Jim Tomlinson, Government and Enterprise since 1900 (1994).
F.M. Scherer, Industry Structure, Strategy, and Public Policy (1996), especially pp. 141-335 on steel, semiconductors, computers, and autos.

VI. Causes and Consequences of the Welfare State

What caused the welfare state to rise to such a high share of GDP by 1980? What limits its rise? How much does it drag down economic growth? Here the economists' political economy models must confront both ideas from other social sciences and the historical record. We focus on comparative studies of the postwar era, and have a particular look at Sweden's controversial experience.

A possible threat to the welfare state is the globalization of competition in trade and investment. Will the need to be competitive against other countries undercut social programs, causing a "race to the bottom" in which the least protective society prospers most and others try to imitate it? Dani Rodrik summarizes this part of the controversy over the welfare state.

We also give special attention to the rise of social security in the United States, an important case study in how pensions were transformed by demography, politics and history since the 1930s.

A: (1) Dani Rodrik, Has Globalization Gone too Far? (IIE, 1997), pp. 1-67. (Econ. 190 students can skip reading the statistical-regression tables.)
(2) Assar Lindbeck, "The Swedish Experiment." J. Econ. Lit., September 1997.
(3) Peter H. Lindert, "On the Well-Known Demise of the Swedish Welfare State," Ch. 11 in Growing Public: Social Spending and Economic Growth since the Eighteenth Century (2004).
(4) Peter H. Lindert, "Why the Welfare State Looks Like a Free Lunch." On the PL Home page.

R: Robert Moffitt, "Incentive Effects of the U.S. Welfare System: A Review." J. Econ. Literature, 30, 1 (March 1992), pp. 1-61.
J.A. Miron and D.N. Weil, "The Genesis and Evolution of Social Security," in M. Bordo, C. Goldin, and E. White, The Defining Moment (1998), pp. 297-322.
Nicholas Barr, "Economic Theory and the Welfare State: A Survey and Interpretation." J. Econ. Literature, 30, 2 (June 1992), pp. 741-803.
Mancur Olson, The Rise and Decline of Nations (1982).

Peter H. Lindert, "The Rise of Social Spending, 1880-1930" EEH, January 1994, and "What Limits Social Spending?" EEH, January 1996.
Alberto Alesina and Roberto Perotti, "The Welfare State and Competitiveness," AER, 87, 5 (December 1997), pp. 921-939.
Assar Lindbeck et al., Turning Sweden Around (1994).
Sherwin Rosen, "Public Employment and the Welfare State in Sweden," J. Econ. Literature, 34, 2 (June 1996), pp. 729-740.
Desmond Lechman et al., Challenges to the Swedish Welfare State. IMF Occasional Paper 130 (September 1995).
Richard Freeman, Robert Topel, and Birgitta Swedenborg (eds.), The Welfare State in Transition: Reforming the Swedish Model (1997).

VII. What Went Right and Wrong with American Education?

America has always been one of the world leaders in education, especially since the middle of the nineteenth century. Today we are still a leader in enrollment rates and in the share of GDP spent on education. Yet there are definite signs that the quality of the inputs and outputs of American schooling has slipped relative to other countries since the 1960s. Why is America a leader, and what might explain the quality decline?

A: (1) Goldin, Claudia, "The Human Capital Century and American Leadership: Virtues of the Past." Journal of Economic History 61, 2 (June 2001): 263-292.
(2) Darius Lakdawalla, "The Declining Quality of Teachers," NBER Working Paper No. W8263 (April 2001).
(3) John H. Bishop, "Signaling, Incentives, and School Organization in France, the Netherlands, Britain, and the United States." In Eric A. Hanushek and Dale W. Jorgenson (eds.), *Improving America's Schools: The Role of Incentives*. (1996), 111-145.

R: John H. Bishop, "Is the Test Score Decline Responsible for the Productivity Growth Decline?" AER 79, 1 (March 1989): 178-197.
Hanushek, Eric A. and S.G. Rivkin, "Understanding the Twentieth Century Growth in U.S. Education Spending." Journal of Human Resources 32, 1 (1997): 35-68.
Caroline Hoxby, "How Teachers' Unions Affect Education Production." Quarterly Journal of Economics 111, 3 (1996): 671-718.
Caroline Hoxby, "Does Competition among Public Schools Benefit Students and Taxpayers?" AER 90, 5 (December 2000): 1209-1238.
Margo, Robert A. Race and Schooling in the South, 1880-1950 (1990).
Peter H. Lindert, "Public Education in the Twentieth Century: What Happened to American Leadership?" Chapter 6 of Growing Public: Social Spending and Economic Growth since the Eighteenth Century (2004).