Methods and Themes in Economic History

Instructor: Mr. Ransom
Class Meetings: Tuesday/Thursday 5:10 – 6:30
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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 ‘climometrics.’” The Nobel committee’s award was a formal recognition that climometrics 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.

In this course we will explore the a small sample of research conducted by climetricians over the past 50 years. We have only ten weeks, so this will be a rather hurried “tour” of the intellectual terrain of climetrics. To simplify our task, I will take it for granted 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 “climetric revolution”, and ask why did the authors select these problems to study and how did they structure their research to answer the questions raised.

Class Organization

Class will meet every Tuesday and Thursday from 5:10 to 6:30. Class discussions will focus on 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; basing my comments primarily on the required readings on that topic, but also referring to readings I list as Also of Interest. These readings are not required; I offer them as suggestions for those wishing to pursue the topic in greater detail.

Subsequent class discussion will draw upon student input in the form of comments that must be “posted” 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 weekly “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 as the quarter progresses]

Books and Reading Materials:

All of the required readings are from books that are on reserve in the Rivera Library or pdf files posted on iLearn. I have made sure that all of the books are available for purchase through Amazon.com. Most of them are available in paperback editions and on Kindle, as well as used books at substantial discount. I am always reluctant to tell students to “buy” “required” texts for a course. There are, however, several books that will be assigned in their entirety. If I had a required books list, the following six books would be on it:

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. You should have read at least the first five chapters by our first class meeting on April 10th. [Topic1]


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 political, social and economic chaos following World War I and the collapse of the Gold Standard. Temin’s econometrics provide a useful model for the Great Depression [Topics 6 & 7].

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].

Four of the assigned 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.


Topics and Reading Assignments for Class Discussion

The “plan” is to cover seven broad topics of interest to cliometricians. The outline below indicates the order in which we will discuss them, however there remains some uncertainty regarding how long we discuss each topic over the course of nine weeks of class meetings.

The Basic Reading Assignments listed below are what I consider to be essential for the class discussion of each topic. Each week I will discuss the readings for the following week, including those I have listed readings as Also of Interest. All of the books listed as possible readings are on reserve. I have placed pdf files containing of readings marked with an asterisk (*) on iLearn. The name of the file is indicated in brackets. As I noted above, I assume the basic reading is done prior to each week’s class; how much of the Also of Interest you read is up to you. The List of References at the end of the syllabus provides citations to all of the reading materials covered in the syllabus.

Topic 1: Structure and Change in Economic History

In the opening chapter of his book Structure and Change in Economic History, Douglass 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.

This book was published thirty years ago and much has subsequently been written on the subject of institutional change and “institutional” economic history by North and others. However, I have found over the years that sometimes the first attempt at proposing a research agenda – which lays out what the author hopes to eventually accomplish – provides the best blueprint for others seeking to examine the same issues. This book, which was addressed to a wider audience than professional economists, provides us with just sort of a framework within which to discuss the major issues that I want to take up over the course of the quarter.

In addition to the general themes raised by North in his book, I want to deal with three issues that will concern us throughout the course. The first of these – which I am sure you are all familiar with – is the challenge that the “free” rider problem poses for market societies. Though everyone acknowledges the presence of “free riders” and “public goods” they seem unable to come up with a viable theory on how to deal with them. The second issue involves the role of “path dependence” in promoting – or discouraging – innovation and change in every society. The final issue, which is the focus of my own research (and teaching) over the past two decades, concerns the manner in which wars and violence have dominated the history – and particularly the economic history – over the past two centuries.

One of the things I have always admired about North has his willingness to think “big”. As William Parker once noted, “Doug North never deigned to answer any of his critics because he was always leaping to his next great mistake.” We will make war and economics the last “mistake” of our cliometric journey.

Basic Reading:
- Douglass North. Structure and Change [Especially chapters 1-5]

Also of Interest:
- Douglas Puffert. *[Path Dependence]
- Roger Ransom, “Confidence, Fear, and a Propensity to Gamble” *[Ransom CFG Essay]

Topic 2: Clio and the Numbers Game: Money, Prices, and GNP

Quantitative history requires data to plug into our statistical models. Surprisingly little attention is paid by economists to the issue of where that data comes from. Unfortunately, modern economic theories require “modern” data collection schemes to match. Remember that our notions of variables such as GNP, employment (and unemployment), consumption, and productivity – to mention only a few – did not even exist before John Maynard Keynes expanded 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 indices that can be readily plugged into our econometric models. Not surprisingly, research during the early years of Cliometrics was dominated by data collection. Pioneers such as Simon Kuznets (the father of U.S. National Income estimates), Raymond Goldsmith (savings estimates),
Robert Gallman (GNP estimates), Richard Easterlin (regional income estimates), John Kendrick (productivity) and Stanley Lebergott (Labor force statistics) paved the way for most of the research on 19th century growth of the United States well before the advent of computers. An excellent collection of essays on historical data sets in the early years of cliometrics is the volume issued in 1960 by the NBER, *Trends in the American Economy in the Nineteenth Century*.

I propose that we take a look at how some of the more widely-used data sets have been constructed. We will begin with a quick look at some essays describing data from one of the most ambitious data collection projects ever launched: the five-volume edition of *The Historical Statistics of the United States, Millennium Edition*. The United States has by far the most comprehensive economic data (thanks to a decennial census that dates back to 1790). Using excerpts from the HSUS we will examine some of the issues encountered by those who contributed to this massive endeavor.

My one piece of advice to improve your econometric skills is to look at Nate Silver’s book, *The Signal and the Noise: Why So Many Predictions Fail – But Some Don’t*.

**Basic Reading:**

*Historical Statistics of the United States* (5 Volumes), Selections by:

- [HSUS Origins] [HSUS Prices] [HSUS GNP] [HSUS Labor]

**Also of Interest:**

- David and Peter Solar. *[David Solar Prices]
- Nancy Folbre and Barnet Wagman. *[Folbre Wagman]
- Nate Silver. *The Signal and the Noise*

**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 output (most notably cotton), 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 American economic growth before Civil War. Far from being a drag on economic growth, the slave South was in fact the engine of growth that propelled the United States into an industrial nation. And, as Conrad and Meyer noted in the conclusion to their article, the implications of their findings went far beyond the boundaries of economic history. “in sum,” they wrote:

... 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 view of the “economics of slavery” changed the way that the history of the American South and the causes of the Civil War have been written after 1960. 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. The “economics of slavery” eventually merged into a broader set of issues surrounding the economics of the Civil War. Was the war inevitable? Was slavery the main cause of the war? Were Charles and Mary Beard correct that the war was a “Second American Revolution” that paved the way for industrial revolution?

Finally, we will examine the legacy of slavery and emancipation discussed in *One Kind of Freedom*. One of the greatest ironies of the American Civil War is that the prosperous market economy of the American South that efficiently produced cotton before 1860 found itself unable to maintain that prosperity when emancipation freed the African Americans after the war. The inability to come with a solution to the problem of chattel slavery produced a war that has been called by many the “first modern war.” The Civil War provides an introduction to the way in which economics and war have become intertwined in the modern era.
\textbf{Basic Reading:} \bigskip
Conrad and Meyer. *{Conrad Meyer Slavery}\bigskip
Roger Ransom. "The Economics of the Civil War” *{Ransom – EhNet Civil War}\bigskip
Ransom and Sutch. \textit{One Kind of Freedom} \bigskip
\textbf{Also of Interest:} \bigskip
Ransom and Richard Sutch. *{Ransom Sutch Visions}\bigskip
Robert Fogel and Stanley Engerman. *{Fogel & Engerman Slavery}\bigskip
Fogel and Engerman. \textit{Time on the Cross}\bigskip
Ransom. \textit{Conflict and Compromise}. Chapter 3 *{Ransom C&C Ch 3}\bigskip
Ransom. *{Ransom War Cliometrics}\bigskip

\textbf{Topic 4: The Industrial Revolution} \bigskip
Economic Historians of all persuasions have given so much attention to the causes and effects of the Industrial Revolution that it is no longer obvious that there even 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 IR can be found in the introductory essay of Joel Mokyr’s \textit{The British Industrial Revolution}. The essays edited by McCloskey and Floud further embellish the idea that there probably was an Industrial Revolution and explore various aspects of the phenomenon. Peter Temin offers an interesting econometric take on another long-standing debate regarding how widespread the changes associated with industrialization was in his article on “Two Views of the Industrial Revolution.” \bigskip

Most of this literature emphasizes the supply side of the Industrial Revolution. For a look at the demand side of industrialization read Jan DeVries’ essay about the “Industrious Revolution.” DeVries’ 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. \bigskip

More recent research has focused on the global aspects of the industrial revolution. As a segway into our next topic, we will take a look at Bob Allen’s global approach to the uniqueness of Britain in his book \textit{The British Industrial Revolution in Global Perspective}. Allen has a very interesting take on what he calls “macro inventions” as prime movers in the industrial growth of Great Britain. \bigskip

\textbf{Basic Reading:} \bigskip
Joel Mokyr, ed. \textit{The Industrial Revolution}, “Editor’s Introduction”\bigskip
North. \textit{Structure and Change} (Chapters 6-15)\bigskip
Jan DeVries. *{DeVries Industrious}\bigskip
Robert Allen. \textit{The British Industrial Revolution in Global Perspective} *{Allen Intro}\bigskip
\textbf{Also of Interest:} \bigskip
Peter Temin. *{Temin Two Views}\bigskip
Diedre McCloskey & Roderick Floud eds. \textit{Economic History of Britain}. *{McCloskey Survey 10}, *{Craft IR 3}\bigskip

\textbf{Topic 5: The Great Divergence} \bigskip
Just when the debates over the Industrial Revolution seemed to be dying down, Kenneth Pomeranz, a historian at UC Irvine, published a book modestly titled \textit{The Great Divergence: China, Europe, and the Making of the Modern World Economy}. He argues that the economic history of the Industrial revolution has been written from the perspective of European exceptionalism. Pomerantz claims that this approach ignores the extent to which: \bigskip

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. Jean-Laurent Rosenthal and R. Bin Wong offer a narrative analysis more in line with a neo-neoclassical view of political economy of institutional change in their book, Before and Beyond Divergence: The Politics of Economic Change in China and Europe. Prasannan Parthasarathi, Why Europe Grew Rich and Asia Did Not: Global Divergence, 1600-1850 offers a third view of the Great Divergence with attention to India and the British Empire. Together with Allen’s treatment of the British industrial revolution, these four 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.

Since my last foray through this course, an additional book by Prasannan Parthasarathi came to my attention dealing with the Great Divergence and India. Prasannan Parthasarathi

Basic Reading:
Kenneth Pomeranz. The Great Divergence *[Pomeranz Intro]
Jean Larucent Rosenthal and R. Bin Wong. Before and Beyond Divergence *[Rosenthal & Wong]
Prasannan Parthasarathi, Why Europe Grew Rich and Asia Did Not

Also of Interest:
Mokyr, ed. The Industrial Revolution. Selections by:
David Landes, “Fable of the Dead Horse”
C. Knick Harley, “Reassessing the Industrial Revolution”

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 identified 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. Kindleberger does a good job of identifying “phases” in each of these cycles.

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 on 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.

All of this leads us to 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.

Basic Reading:
Charles Kindleberger. Manias, Panics and Crashes

Also of Interest:
William Hunter et al, eds. Asset Price Bubbles Selections by:
Robert Bruner. The Panic of 1907
J. Kenneth Galbraith. *The Great Crash, 1929*
Kindleberger & Jean Pierre Laffargue, *[Kindleberger & Laffargue – Intro]*

**Topic 7: 1914 to 1945 – An 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 in the United States and the worldwide 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 events of the Great Depression were an integral part of the changes that emerged from the two world wars. A growing body of 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.

Our readings for this week will 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 read 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. His work has been expanded into a more general framework in the book by Temin, Charles Feinstein, and Gianni Toniolo titled *The World Economy between the World Wars*.

The world that emerged from the turmoil of 1914 through -1945 was fundamentally different than that which preceded the outbreak of hostilities in 1914. 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 works by Findlay and O’Rourke and Douglass North that I mentioned at the beginning of this syllabus can provide a background to put all this in historical perspective.

**Basic Reading:**
- Temin. Lessons from the Great Depression
- Barry Eichengreen and Peter Temin. *[Eichengreen Temin – Gold Depression]*
- Charles Feinstein et.al. *The World Economy Between the World Wars*
- Ransom, “Confidence, Fear, and a Propensity to Gable” *[Ransom CFG Essay]*

**Also of Interest:**
- Eichengreen, *Golden Fetters*. Introduction *[Eichengreen Fetters]*
- Findlay and O’Rourke, *Power and Plenty*
- North et. al. *Violence and Social Orders*
List of References

Note: Selections from those items marked with an asterisk (*) are available online as a pdf file.


*———. "Confidence, Fear, and a propensity to Gamble." Unpublished Manuscript


Temin, Peter. Did Monetary Forces Cause the Great Depression?: W.W. Norton, 1976.

