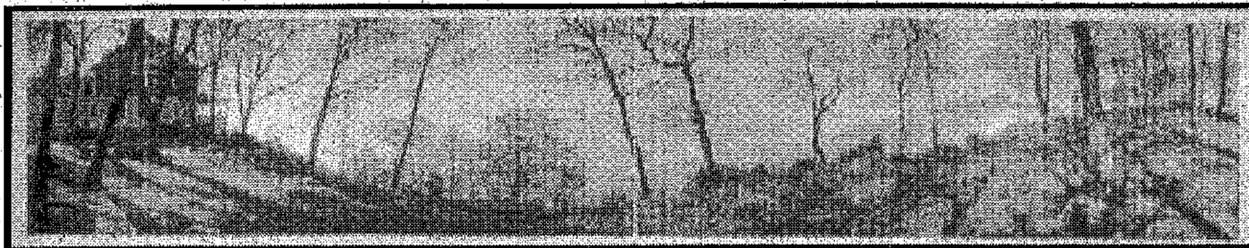
The Newsletter of

# The Cliometric Society

Summer 2003 Vol. 18 No. 2



Eagle's Nest, N.C. c1910

## Report on the 42nd Annual Cliometrics Society Conference

By Marina Adshade, Queen's University, Chris Hoag, Cal Tech, and James Walker, LSE

(Raleigh) Not since Sherman's march to the sea had the South seen an invasion the likes of the gathering of Clioms for their 40th annual conference, held in beautiful Raleigh, North Carolina, May 23-25, 2003. Lee Craig (North Carolina State), Price Fishback (Arizona), Paul Rhode (North Carolina), and Mike Haupert (Wisconsin-La Crosse) arranged the program. The weather was threatening, but the presentations were lively and the discussion invigorating, befitting of a Clio invasion.

The conference commenced on Friday afternoon with a presentation by **Benjamin Chabot** and **Christopher Kurz** (both Michigan), who test the accepted hypothesis that an irrational bias against domestic investment led to the unprecedented growth in international investment by British investors for the period 1866-1885. They argue that previous studies in this area have ignored the benefits derived from diversifying when the covariance between the return on foreign assets and an investor's consumption is low. Using a large cross section of asset returns for London and the US and by conducting mean-variance spanning tests, Chabot and Kurtz reject the hypothesis that London investors acted irrationally when purchasing foreign assets. They estimate the diversification benefits of holding domestic assets with a low correlation to their domestic counterparts to be 5-8% of permanent consumption.

Gerald Friedman (Massachusetts) began the discussion by asking if Britain might have been better off had it banned capital exports. Alan Olmstead (UC-Davis) stated that the diversification argument only makes sense if individual investors diversified as opposed to national diversification. The authors cited advertisements of the period targeting the small investor looking to diversify as support for their assumption of individual diversification. Gary Richardson (UC-Irvine) wondered if British investors were behaving rationally, given the economic theories of the time, and wanted to know if there was perhaps an externality in that the British exported both money and technology. Haggay Etkes (Tel Aviv) suggested looking at investment handbooks

(Continued on page 13)

### What's Inside

# Executive Director's Notes

Greetings Gentle Members:

Our first item of business deals with some personnel matters. Although we would love to keep them onboard forever, the terms of Tim Guinnane (Yale) and Susan Wolcott (Mississippi) have expired, and they have retired from the Society's Board of Trustees. They will be missed. Many of you may not know it, but no one in Cliodom can light up an administrative meeting like Tim. The time he set Eugene White's shoe on fire at the annual trustees' meeting still has me rolling. And then there's Susan. What can I say? Such a wallflower; if only she would come out and say what's on her mind. But don't fret; the Clio talent pool is deep, and this year the Society's members chose Paul Rhode (North Carolina) and Phil Hoffman (Cal Tech) to join the Board. In addition, at the end of the year, the ex officio terms of Rick Steckel (Ohio State) and Steve Broadberry (Warwick) will expire. The Board of Trustees has appointed John Murray (Toledo) and Giovanni Federico (European University Institute) to replace Rick and Steve respectively. I am particularly grateful to Rick and Steve, because they were among the first appointees of my tenure as executive director, and they have served loyally ever since.

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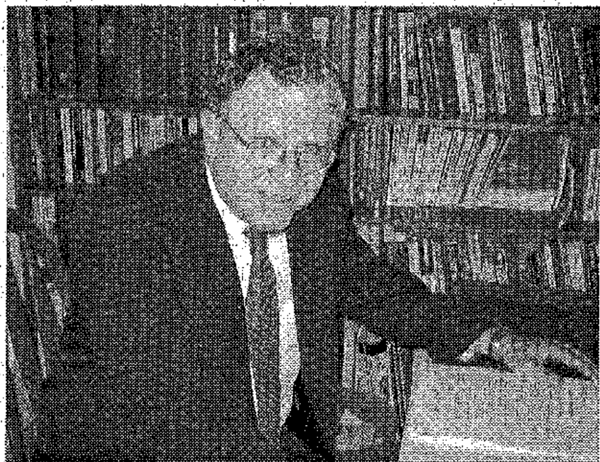
As for other business, as most of you know, the Mullah and his Obsequious Helper have moved on. Not everyone will miss them. Nor will everyone miss the Obsequious Helper's annual report on the Cliometrics Conference or his annual awarding of the conference's Quote Award, which goes to the scholar who shared with the conference participants the most universally profound observation. The past couple of years, we've had a stand-in for the Obsequious Helper. This year, the Tarheel Tattler will present the report and the Quote Award (please see page 29). If the Tattler is to be believed, it was a special year. But I've said enough; I don't want to spoil it for you.

Finally, on page 36 of this issue of the *Newsletter*, you will find the Call for Papers for the Fifth World Congress of Cliometrics, which will be held in Venice, Italy, July 8-11, 2004. Speaking for the organization and program committee, I hope you will consider submitting a paper and attending the Congress.

Lee A. Craig
Executive Director

# An Interview with Hugh Rockoff



*Hugh Rockoff is Professor of Economics at Rutgers University. He has served on the board of editors for the **Journal of Economic History** and **Explorations in Economic History**. He is also author, with Gary Walton, of **History of the American Economy**, a popular textbook among many teachers of undergraduate US economic history courses. I first became aware of Hugh's work, not unexpectedly, in Eugene White's US economic history seminar at Rutgers University in 1988, when we read and discussed Hugh's much cited, 1974 **JMCB** article on free banking. I came to know Hugh the academic while participating in the regular Monday afternoon Money, History, and Finance seminar at Rutgers and while pestering him as I struggled with my thesis. Although Eugene was my principal advisor and taskmaster, Hugh was always generous with his time, insights, and advice. I was happy to have the opportunity to interview Hugh for this issue of the **Newsletter** so that others could share in his unique perspectives on the past, present, and future of economic and financial history. This interview was conducted by Howard Bodenhorn (Lafayette College) via e-mail in March and April 2003.*

**You attended Earlham College in Richmond, Indiana as an undergraduate. Is that where you developed an interest in economics and/or history?**

Yes, I was an economics major. Gil Klose and Bob Puth, both of whom taught in the economics department at Earlham, were the major influences. They have a strong interest in economic history and were superb teachers. Doug Steeples, who was in the history department, also has a strong interest in economic history. And then several Chicago professors visited campus. George Stigler gave a college lecture, Milton Friedman came down for a day to lecture on his trip to the Soviet Union and to argue with students about capitalism, and Bob Fogel came down for a day to talk about the railroads. In fact, I was the student designated to drive Bob back to the airport after his talk. He made his flight with only a few minutes to spare, so I suppose I would have applied elsewhere if he had missed his plane. But that near disaster aside, I decided by my senior year that I would study economic history at Chicago. Of course, Professor Lyndon B. Johnson, who was running a study abroad program in Vietnam, also had a lot to do with my decision to go to graduate school at that time.

**From Earlham College you went to graduate school at the University of Chicago, receiving your Ph.D. in 1972. That put you right in the middle of one of the most prolific, influential, and storied economics programs of the 20th century. Did you understand at the time what was happening there?**

Yes and no. It was an incredibly stimulating environment. And, it was obvious that people like George Stigler, Milton Friedman, Robert Fogel, Harry Johnson, and Robert Mundell were extraordinary intellects. But I didn't know how much the world would move in their direction. For example, I thought that flexible exchange rates were just some far out idea that Milton discussed to illustrate the potential advantages of markets. I didn't know that a year or two after finishing graduate school the world would move to floating rates. I should add that, in some ways, being around such powerful intellects could be discouraging. After all, each of these scholars had an enormous research agenda: overturn the prevailing paradigm in their field. It wasn't obvious what an average graduate student was supposed to do.

**It must have been a heady place for a young economic historian. Robert Fogel and Don McCloskey were your thesis advisors, and Claudia Goldin and Mike Bordo, among others, were classmates. We all know that the cliometric revolution was well underway by then. How did it influence the teaching of economic history at Chicago?**

The assumption in economic history, as well as in other fields at Chicago, was that you had to attack whatever question you were interested in on a broad front. First, you had to learn what earlier scholars had to say about the question. In those days, by the way, this might mean going back to 19th-century writers and even to Adam Smith. Then you brought the best modern tools to bear – theory, econometrics, and so on. Cliometrics just meant attacking problems in economic history in the same way you would attack problems in any other area of economics.

**McCloskey's 1992 reflections on the Chicago economic history seminar border on hagiography. Were they really that good? Who participated, and what was the format?**

Bob and Deirdre were the mainstays, and a number of other members of the faculty would come depending on the topic. Zvi Grilliches, for example, would come occasionally and analyze the econometric problems in a paper. Theodore Schultz might come if the paper was on agriculture. Arcadius Kahan also came regularly. And, as you mentioned, there were a number of sharp graduate students, such as Claudia and Mike, who attended regularly. I don't remember any special format. Someone would start presenting their paper, and then the questions would start. The economic history seminar, by the way, was mild mannered compared to most of the others at Chicago. Bob and Deirdre wouldn't hesitate to criticize anything they thought was wrong, but they were also very warm and encouraging, especially with younger scholars. I also remember a very egalitarian environment. Only the ideas mattered, not who was presenting them.

**You are probably best known for your work on banking history, so let's begin there. Your published dissertation and the long journal article that summarizes it reinvigorated the study of lightly regulated banking systems. Between the publication of Bray Hammond's book and your article, relatively little was written on free banking. Afterwards, there was a veritable explosion. Do you want to take credit for the renewed interest, or was it an idea whose time had come?**

Of course, it was the times that were a changing. Markets were in vogue once more. Economists were willing to question the value of economic regulation. A pamphlet that Hayek wrote also drew a lot of attention to free banking, but I like to think that my work also helped to open up this area of study. People could see that they might contribute to an important policy debate by looking at economic history.

**What was your principal contribution to the debate? Has your thinking on the subject changed?**

The conventional view was that a lightly regulated banking system had produced all sorts of terrible problems during the period between the demise of the Second Bank of the United States and the Civil War. I suppose my principle finding was that in most cases free banking worked well and that all of the bad banking that happened under the free banking laws wasn't that costly to the economy as a whole. In writing about the free banking era, I followed what I imagined was a Fogelian strategy: concede every plausible case of bad banking under free banking and then show that even so it wasn't all that bad; make sure you have an upper bound. What surprised me was that most of my critics have been on my political right, trying to show that free banking worked even better than Rockoff said. On the whole, I think the subsequent literature has reinforced my basic picture of free banking as a successful banking system.

**In your response to Rolnick and Weber, you argued that a real understanding of free banking had to go beyond the mechanics of note issue and the incentive effects of sometimes perverse regulations and consider more informal institutional factors. What sorts of institutional preconditions are necessary for free banking to succeed?**

One of the things that was worrying me at the time that I wrote those papers was that there seemed to be what we would now call a transition problem. Most of the problems occurred in the frontier states, where there was a lack of financial sophistication, not just among the people setting up and using the banks, but also among the people writing the banking laws. I am an advocate of allowing banks a great deal of freedom, but I do believe that we need to think more about the possible transition problems, especially when recommending this sort of reform to developing countries.

**I have three final questions on free banking before we move on. Are there productive avenues for further research into free banking? Second, do you think free banking has any practical implications? And third, could some variant work in a developing country?**

I have come to realize that there is always more to do. You remember that when you were talking about working on this period I was worried, because I knew that Gary Gorton and Charles Calomiris had started working on banking during the same period. I was afraid they would squeeze all of the remaining juice out of the orange. But even though Gary and Charles did a lot of good work, you were able to say more about the free banking era as well, as has Jane Knodell and others. So, on the basis of that experience, I would have to say that someone will come along and find a new source of data or a new angle from which to view the period. But having said that, I think that we do have a tendency in economic history to look at standard questions and not move on to something new. Almost every period has interesting problems that are worth studying. Right now we may be entering a period of deflation. If so, then the last third of the 19$^{th}$ century may have a lot to tell us. How did banks and their borrowers cope with chronic deflation? The answer would be worth knowing.

**Your work on banking hasn't been confined solely to the US or to the early 19th century. You have been a coauthor on two articles comparing Canadian and US banking. What lessons can we learn from this comparison?**

Our work reinforced a conclusion that others have arrived at as well: a lot of America's banking and financial problems flowed from the inability of banks to branch across state lines. In the United States, rural banks were on their own, as were banks in the big cities, whereas in Canada they were all branches of a national system. A downturn in agricultural prices or a panic in the eastern financial centers, therefore, was far more serious for the American banks and their depositors. If only an "s" had been added to the word "office" in reference to the bank's office in the National Banking Act, the United States would not have had a fragmented banking system, the downturn of 1929 would not have produced a series of banking panics, we would not have had the Great Depression, World War II could have been avoided, etc., etc.

**Do you think more comparative work would enhance our understanding of the operation of financial markets?**

Yes, but comparative financial history is hard to do, because it requires a lot of detailed institutional knowledge. With e-mail, it is a lot easier to work with colleagues at a distance, so I am hopeful that the new communication technologies will produce more comparative financial history.

**What was your inspiration for looking at *The Wizard of Oz* as monetary allegory? Were you reading it to your children and a little light bulb lit up?**

No, I had been interested in the Populists and Bryan since college, probably because of Doug Steeples's course, and I had wanted to write a paper defending Bryan's monetary ideas. Bryan made some logical mistakes, but the idea of expanding the money supply during a period of falling prices and high unemployment wasn't crazy. The Utopian/ Populist interpretation of *The Wizard of Oz* was mentioned in historical literature, so I included it in my paper. The truth is that almost no one was interested in Bryan and his monetary ideas, but lots of people were interested in *The Wizard of Oz*. So as I talked about the paper with colleagues and went from draft to draft, the Wizard took over.

**I hate to admit this, but your book on wage and price controls sat on my shelf for several years, and I only pulled it out to prepare for this interview. Having now read it, I regret not having done so before. It is a fascinating book. Anyway, there is a general sense among economists that the costs of price controls (misallocation, evasion, and enforcement costs) nearly always exceed the benefits. What light did your work shed on this issue?**

Economists are often in the minority on issues like this. There is frequently a lot of sentiment for more intervention among the general public and among some economists as well. And the debate usually turns on what history has to say. So it is important to go back and see just what the lessons of history really are. How did controls really work in practice? Did the things that economists worry about really happen? One issue that my work on controls highlights is the short run versus the long run. Initially, the costs of controls are likely to be relatively small simply because distortions are small at first and accumulate over time. And, there may be short run gains from imposing controls if there is a "price panic" going on and controls help to calm things down. People often felt a sense of relief when controls were first imposed, because they felt someone was in charge and was going to protect their real income. So, it is important to keep the time frame in mind and not debate controls as if terrible things will necessarily follow immediately. A second point is the importance of monetary policy. If you have imposed controls, then an expansionary monetary policy will begin to show up in shortages; black markets; the elimination of low-price, low-quality merchandise; and so on. Looking at the history of controls and comparing different episodes heightens awareness of the role of monetary policy in a controlled economy.

**Are there a set of general conditions that need to be met for the benefits to exceed the costs?**

I think of the positive case for controls in an inflationary emergency as similar to the case for intervention by a lender of last resort in a banking panic. Hopefully, with good macroeconomic policies we will never get to the point where economists are taking seriously the idea of imposing controls.

**It was during the Korean War that the politics of price controls nearly undermined the system by getting relative prices severely out of alignment. Wouldn't this arise in nearly every instance?**

I think so. Moving the entire price structure into the political arena is bound to create severe price misalignments.

**Early in your book, you address usury laws, about which you have recently written. They are a form of price control and seem to be more about equity than efficiency. They have been around for a long time. For the most part, do they do more harm or good?**

I have been looking mainly at the liberalization of the usury laws in the 19th century, so I shouldn't start discussing current policy on that basis. But I think what history has shown is that usury laws that interfere with a substantial number of commercial transactions are clearly going to have a bad effect. On the other hand, providing protection for the small number of people who lack the financial sophistication to know what they are getting into is another story. There is a widespread view that usury laws never had any adverse consequences, even when they were quite strictly worded, because they were easily evaded. But I have become increasingly skeptical of that view as I have become more familiar with usury laws. Usury laws are so ubiquitous that it is hard to imagine a democratic society going for a long time without them. I suspect that economists' time is better spent thinking about how to protect the unwary without having regulations that interfere with the capital markets as a whole, rather than in denouncing all forms of usury regulation.

**Your work on the WW II era seems consistent with the newfound interest in the "greatest generation." To date, you have written papers on the growth of the federal government, the postwar peace dividend, and the market for Spanish wolfram among others. What sort of big picture emerges from your work on the 1940s?**

One of the main things that I have learned is that the principles of economics apply even in wartime. People still maximize; incentives still matter. Somewhere Schumpeter says something like, "economics would be a poor science indeed if its principles did not apply during wars." I think he is right. My immersion in the American experience with wartime economies tends to convince me that we economists are on to something.

**The 20th century is now history, and economic historians are increasingly turning their attention to the study of it. Contemporary economists, certainly from the 1950s on, generated millions of pages of commentary and published hundreds of thousands of regressions in trying to understand it. Given that, what can economic historians bring that will be original?**

When you go back to the 19th century or earlier, I think we economic historians made our contribution through the economics, which means using theory and econometrics to test ideas in the historical literature. For the postwar period, it may be our historical and expository skills that are more important. When you look at the colonial period or the 19th century, the themes and periodization are well established, but for the postwar period, they are much less clear. Gary Walton and I have faced this problem in writing our textbook; the hardest part to write is the postwar era. There is a lot of work out there by economists, but the hard part is choosing what is important and placing it in an understandable historical context.

**I believe that you were one of the original members of the Development of the American Economic (DAE) group at the National Bureau of Economic Research. What benefits, personal and professional, have you received from your affiliation with and participation in the group?**

For me, the main function of the DAE group has been the chance it has given me to present my work to an extremely able and challenging group of scholars. It may sound somewhat fanciful, but I think there is a tradition at the Bureau that goes all the way back to Wesley C. Mitchell and that comes through in the DAE meetings: focus on important questions and the data that can be used to address them.

**You are at one of the few major US research universities with three world class economic historians in a single department. First, how did you ever slip that one past the rest of the economists? Second, how well are the three of you treated by your colleagues? And third, do you find much of a demand for economic history among the undergraduate and graduate students at Rutgers?**

Rutgers has been receptive to economic history for a long time. Broadus Mitchell was here for many years, and when I came to Rutgers, there were a number of people on the faculty with strong interests in economic history. Robert Alexander, for example, who has written prolifically about Latin American history and politics, was a mainstay for years. Not only did they want one economic historian, but they were open to the suggestion that we add more. Today, we are well-treated by our colleagues. The graduate students, by the way, are required to take a course in economic history. The undergraduates at Rutgers love economic history, and the graduate students are interested but worry that they are not utilizing their time efficiently. But, of course, Rutgers isn't typical. In general, there is a problem in getting economics departments to hire economic historians. I think that economists, especially in money-macro, see economic history as something useful. They might want to write a paper on the gold standard, or the Depression, or whatever. The problem is that most economists assume that economic history is easy, so they don't see why students need a course in it or why they need a colleague who is an expert. If they want to work on some old data, they can just download some from the Internet. The ironic thing about cliometrics is that, to some extent, it contributed to this view and undermined the case for viewing economic history as a unique area with its own set of ideas that needed to be communicated to students. Since cliometricians used the standard toolbox, it wasn't obvious that they had something unique to teach. They had some interesting empirical findings but not a set of ideas. Somehow we have to persuade our colleagues in economics not only that economic history is worth doing but also that people need to be trained in how to do it. Our task is easier than that of our colleagues in the history of economic thought, where they have the job to begin with of convincing their colleagues that it is relevant. But to reiterate, I have never had this problem at Rutgers, so I am not an expert on how to persuade colleagues to invest in economic history.

**As I look at your vita, I notice that you have published more than two dozen book reviews. How do you approach a book review? What benefit do you receive from writing a review?**

As scholars, I think we have an obligation to review books. It's an important avenue for communicating new research. But the truth is, I review books mostly because I enjoy reading economic history. In fact, I also enjoy reading long esoteric footnotes. So writing reviews is really an excuse to take my time reading books. I wouldn't particularly recommend book reviewing as a way of getting ahead in our field.

**You have served on the board of editors for both the *Journal of Economic History* and *Exploration in Economic History*, which means that you have refereed more than your fair share of papers. Is there anything that you've learned from your years of experience that you would like to pass along to those without a lot of refereeing experience?**

Your question reminds me that I have a number of papers to read for journals.

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# Call for Papers

## Economic History Society Annual Conference
### London, Britiain
### April 2-4, 2004

The 2004 annual conference of the Economic History Society will be hosted by Royal Holloway, University of London, April 2-4, 2004, at its Egham Campus.

The conference program committee welcomes proposals in all aspects of economic and social history, covering a wide range of periods and countries, and particularly welcomes papers of an interdisciplinary nature. The committee invites proposals for individual papers, as well as for entire sessions. The latter should include proposals and synopses for each paper in the session, although the committee reserves the right to determine which papers will be presented in the session if it is accepted. If a session is not accepted, the committee may incorporate one or more of the proposed papers into other panels.

**The deadline for paper proposals is September 16, 2003.** For each proposed paper, please send (preferably by e-mail) a brief c.v. and a short abstract of 400-500 words to:

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For information on obtaining possible funding, contact Maureen Galbraith.

*Personal Reflections*

# Thoughts and Worries about Economic History

By David Landes

Reprinted from *Living Economic and Social History*, Pat Hudson (ed.)
Glasgow: Economic History Society, 2001.

Economic History has changed, for better and worse. To be sure, no scholarly discipline should stand still. But some of the changes are worrisome.

When I began as a graduate student in history, almost 60 years ago, I chose to do economic history because it seemed to me that this was the most important, the most informative aspect of history. The dullards could do political or diplomatic history - battles, elections, anecdotes. Smart people would want to know about the material aspects of human development; getting and spending; wealth and power; why some are rich and some poor. I was not a Marxist; service in the army had cured me of any illusions about the virtues of command from above. But I was a believer in the pre-eminence of things.

So I took courses in history, economics, and economic history, the last of which, at Harvard, was taught by Abbot Payson Usher in the economics department. And thanks to a newly inaugurated programme and centre for research in entrepreneurial history (Arthur H. Cole director) I lived and worked with a range of social scientists, among them Talcott Parsons, economist by training, sociologist by practice, who introduced me to Max Weber and other authorities on the human and cultural aspects of economic behaviour. This informal education was reinforced by years spent as junior fellow of the Society of Fellows: financial support, no degree obligations, freedom, freedom! Plus weekly dinners with some of the brightest people around. The biggest visitors to Cambridge came to these Monday evening gatherings and chatted with the eager fellows afterward. Sometimes one learned invaluable things about new directions of research; sometimes one listened to trivia. Isaiah Berlin came, gathered a throng of worshipful listeners, regaled them with tales of cheeses and good dining on the byroads of France. I gave up on that one. Berlin more than made it up to me later on.

It was as a junior fellow that I began work on my dissertation (one could obtain a doctorate at the end of one's term). My thought was to do something on French entrepreneurship, which in those early days I thought of as a contradiction in terms. I took a year to travel about France to look for documentation. Not easy, because French firms saw curious strangers as possible agents of the fisc; and since they were all looking for ways to fool the rise, they could hardly afford to have nosy outsiders poking about. Here I was helped by my foreign status. As an American, I was unlikely to be looking for breaches of French tax law.

So I found a few firms ready to be helpful. The biggest proved to be the records of one of the great merchant banking houses, De Neuflize, Schlumberger et Cie of Paris, offices right across from the Bourse. When I look back now on this stroke of luck, I realise that part of my good fortune was due to indifference: the people then running the bank had no direct personal identification with their predecessors. In any event, they agreed to let me look around; nay more, to let me take home and work on the dossiers that interested me.

Unheard of. More luck. (The more I think of it, the most important asset in successful research is luck.) I was bringing a stack of papers back to the bank officer assigned to help me. We met every two weeks in the vaults of the Bank of France. It was one of the dossiers I hadn't even looked at. It was labelled 'Ottoman Affairs'. What interest did I have in Ottoman affairs? But at the last minute I felt guilty. Did I have to return the papers without even looking at them. So I opened the folder and found the most extraordinary correspondence between the bank in Paris and a correspondent in Alexandria, Egypt – detailed, personal, intimate, candid, immensely revealing. And there was my dissertation, later published as *Bankers and Pashas*.

Meanwhile economic history was changing around me. These were the birth years of the so-called new economic history - history by and for economists, full of numbers and calculations, guided by economic theory macro and micro. Inevitably, the matter of economic history changed with the technique: analyses of economic growth, estimates of the so-called residual, and productivity, and other subjects that make for important but less than exciting reading. Except for a handful of stars who bridged the old and new worlds, most of the new work consisted of exercises in quantitative zeal and ingenuity.

The effect on the discipline may well be imagined. Where once membership at the meetings and contributions to programmes divided more or less equally between economists and historians, the historians now tended to withdraw, along with their students; people who once would have trained in economic history now chose social or anthropological subjects. In the United States things reached the point where economist-historians attended general historical meetings and, guided by topics offered, tried to recruit participants for forthcoming economic history meetings. A noble effort but it is hard to participate, even by invitation, if one does not understand the techniques and vocabulary of the other side. Like having a 30 course Japanese meal: best not to ask what one is eating.

Inevitably, this rift translated into major revisions. Where once students of North Atlantic history explained the revolt of the American colonies against Britain in terms of resentment -of the taxes, levies, and restrictions of the mother country – now statistical measures proved that these burdens were relatively light, almost trivial. Not enough to justify or account for a revolution. Or were they? Numbers, it would appear, are not the same to one person as to another, nor the same in one context as another.

In the same way, one of the great themes of economic history, the Industrial Revolution, became a battleground. Where an earlier generation of scholars had inherited and accepted this terminology, which went back to the mid-nineteenth century, and had buttressed the thesis by simple time series of outputs over time, the 'new economic historians' chose to show their quantitative potency by the construction of aggregate models, masterpieces of ingenious extrapolation, interpolation, and imaginative invention. The effect, inevitably, was to round off the corners and tame the breaks and leaps. Finished was the idea of rupture, or revolution, of a new direction; rather, now we had a gradual rise going back hundreds of years.

Ingenious calculation, but bad history. Fortunately, some of the 'new economic historians' are still wedded to the principle that history should make sense as history. Thus the new book by Chris Freeman and Francisco Louca, *As Time Goes By: From the Industrial Revolutions to the Information Revolution* (Oxford, 2000). And some of the old-timers are still writing, viz my own 'Fable of the Dead Horse; or, the Industrial Revolution Revisited', in Joel Mokyr, ed. *The British Industrial Revolution: An Economic Perspective* (Westview, 1993), and Francois Crouzet's *History of the European Economy, 1000-2000* (University of Virginia, 2000). There lies hope. In the meantime, the cliometricians must take care. They feel superior to historians, but where do they stand within economics? Many applied economists feel that they are better equipped to analyse numerical data than their economic historian colleagues. And the state authorities and university hierarchies are showing their sense of the contribution, realised and potential, of economic history by liquidating the autonomous departments. Chairs go to economics or history, but no longer to economic history as such. I am told that the largest department of economic history is no longer to be found in Britain, once the home of the subject, but rather in Uppsala. Good for Sweden, but not for Britain. And not a good omen for the subject and its future.

David S. Landes (b. 29. 4. 1924) was educated at City College, New York, and Harvard University. He is currently Coolidge Professor of History and Professor of Economics, Emeritus at Harvard University. He has written widely on industrialisation, technological change and clocks, including the prize-winning *The Wealth and Poverty of Nations. Why some are so rich and some so poor* (New York, 1998).



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## Clio Conference *(Continued from page 1)*

of the day for evidence. He also asked if there was a different attitude among British investors towards investment in other countries, such as Argentina. Brooks Kaiser (Gettysburg) was curious if data are available on the volume traded as a percentage of shares outstanding. Fishback noted that we don't see portfolios, only prices. Given those prices, can we determine the optimal response of the investor? Marco Sunder (Munich) inquired whether they had considered updating the portfolio over time, given that we would expect to see declining returns to diversification as the market became integrated.

Next up, **Ryan Johnson** (Brigham Young) asked if the constraints placed on wages in the interwar period impacted the distribution of transitory and permanent employment between black and white workers. He finds that by elevating the productivity adjusted real wage, wage policies allocated a disproportionate share of the employment downturn towards black workers. The author develops a theoretical model with discriminatory preferences and shows that high wage policies are required for the profit-maximizing employer to disproportionately fire black workers in a downturn. Using race and sex-specific employment data from Pennsylvania (1916-1950), Johnson tests the model and concludes that a wage increase of 10% led to an increase in the share of black

*Attending a Cliometrics Conference for the first time (l. to r.) Seated: Ran Abramitzky, Haggay Etkes, Namsuk Kim, Kris Mitchener*
*2nd Row: Marina Adshade, Sharon Harrison, Thomas Geraghty, James Stewart, Ching-Yi Chung, Daniel Bernhofen, Christopher Kurz*
*3rd Row: Heather Wynder, James Walker, David Jacks, Marco Sunder, Fred Smith, Christopher Hoag*
*Back: Andrew Hanssen, Nathan Nunn, Robert Fleck, Mark Spoerer*

transitory employment by 29% and decreased their share of permanent employment by about 14%.

Howard Bodenhorn (Lafayette) wondered about the political economy during the period and if the New Deal discriminated against black workers in order to garner the votes of white union leaders. Jari Eloranta (Warwick) asked if this theory could be linked to the emergence of the employment gap over the period 1910-1931. Kris Mitchener (Santa Clara) wanted to know how representative Pennsylvania was, since it had a high proportion of black workers and the high unionization rate. Fishback noted that given the large migration of black workers off the farm and from the South, this result might have stemmed from a case of "last in first out" and suggested that Johnson consider the supply side effects. Clyde Reed (Simon Fraser) asked if the effect could have stemmed from an endogenous response to human capital formation. He also wondered if the low unionization rates of black workers meant they might have been fired disproportionately in order to strengthen the unions. Marina Adshade (Queens University) contended that skill levels, in terms of basic literacy rates, were growing rapidly over the 35 years of the sample and that it might not be correct to treat unskilled workers as a homogenous group over that period. Etkes questioned the assumptions that the wage policy was equally effective on the wages of black and white workers, and all of these workers received elevated wages. Andrew Hanssen (Montana State) wondered why this gap did not disappear once the wage controls were abandoned and noted that if prices were controlling this market, then it should have returned to the former equilibrium. Ann Carlos (Colorado) said that the author needed to give more consideration to the discrimination factor.

**Robert Fleck** (Montana State) and **Andrew Hanssen** presented "The Origins of Democracy: A Model with Applications to Ancient Greece." The authors develop a theoretical explanation for the development of democracy among a cross section of classical Greek city-states. Their model focuses on agricultural investment, and they argue that democracy is a function of the observability of investment in agriculture.

Fleck and Hanssen state that the olive production of Athens requires unobservable investment and long run returns, whereas grain production in Sparta requires more easily observable investment and short term returns. As a result, democracy evolved in Athens, not Sparta, in order to encourage the long term investment needed for the production of olives.

Several Clioms investigated the modeling strategy. James Stewart (Reed) observed that democracy was one solution to the repeated game and that reputation effects might offer another solution. Richardson agreed, stating that other equilibria could exist. Ran Abramitzky (Northwestern) was curious why agents were forbidden from contracting on ex post realizations of output. Nathan Nunn (Toronto) felt that the unobservability of the cost of investment was critical to the results. Haupert challenged fitting Athenian olive production to the model, while Tom Weiss (Kansas) contended that olive production was short enough to allow observablility, at least according to the esoteric journal, *Wine Spectator*. A fierce debate on the classical agricultural practice of olive cultivation followed. Kaiser pointed out that oligarchic coups in Athens correlated with the destruction of olive groves, and Etkes observed that Rome's transition to empire could be a counter example to the model.

Continuing the classical theme, **Brooks Kaiser** presented "Private Provision of Public Goods: The Athenian Trierarchy as a Game of Mechanism Design." The author models the Athenian method of assigning the responsibility for constructing naval warships, a trierarchy, as a noncooperative game. The Athenian council selected the wealthiest citizens, who could then evade trierarch duty through trading wealth with other citizens. She tests the model with ancient Greek data.

Discussion centered on the efficiency of the mechanism. John Neufeld (UNC-Greensboro) and Weiss argued that the paper was about distribution, not efficiency, as the number of ships built was given. Fleck emphasized the information revelation properties of the mechanism. Olmstead asked why the mechanism was superior to state taxation of all Athenians, while Douglas Allen (Simon Fraser) noted that modern navies use direct taxation to raise revenue. Richardson pointed out that Athens enjoyed unprecedented naval success under the mechanism. Many Clioms wondered whether paying for a warship provided benefits, such as a share of battle spoils or political prestige. Kaiser replied that the model allows building a warship to have a positive value. Fishback was interested in the dynamic properties of the mechanism, proposing that construction costs created wealth fluctuations large enough so that citizens rotated trierarchy duty. Louis Cain (Loyola and Northwestern) asked about data on wealth fluctuations, but apparently the rich stayed rich even after outfitting a warship.

Early Saturday morning, **Douglas Allen** and **Clyde Reed** presented their paper on dueling and social capital. Alan and Reed posit that dueling in the 19th century provided a screening method for patrons to select civil and military servants who would behave honorably in their posts and not threaten their patron's position. The majority of critiques of the paper rested on the limited empirical support for the screening mechanism modeled and the scant systematic information on dueling, as well as whether or not there were less risky methods of signaling social capital, with Cain suggesting that marriage might be a better prospect then risking one's life. On the other hand, James Walker (LSE) thought that excessive dueling could reduce the social capital of the dueler in the eyes of a patron and also reduce the probability of obtaining less risky social capital enhancers, such as marriage. Finally, Weiss suggested that dueling could be a means to show courage in extreme conditions rather then as a signal of an agent's degree of honor.

**Sharon Harrison** (Barnard), in her paper written with **Mark Weder** (Humboldt), proposes that sunspots, in the form of nonfundamental confidence, explain the economic decline between 1929 and 1933, the slow recovery from 1934 to 1936, and the second decline in 1937-1938. The authors use the residuals from a VAR, with an interest rate spread as a proxy for confidence and other fundamental variables, as their measure of sunspot shock. According to their data, these shocks predict a large and persistent fall in output.

Many participants asked about the method Harrison used to specify the nonfundamental shock. Chabot wanted to see the authors test this method in a period in which there are good measures of consumer confidence and comparing the outcome. Hansen liked the paper and asked if the residuals were truly random given the changing policy variables at the time, especially in relation to the New Deal. Bodenhorn pointed out that Harrison might find data collected by shipping companies from their clients as a measure of producer confidence a useful measure. Reed challenged Harrison on the exclusion of producer and monetary shocks from the model. Harrison defended this decision based on the success of the model. Heather Wynder (Cornell) asked if it is possible to apply the model to the current economy, and Harrison said that a nice application would be to apply the analysis to the .com boom and to ask how expectations mattered in the 1990s. Friedman felt that the measure they are using is more a measure of financial market expectations than consumer expectations. The discussion closed with several comments regarding the assumption of increasing returns to scale.

**Daniel Bernhofen** and **John Brown** (both Clark) followed with their paper on estimating the comparative advantage gains from trade in Japan. Using the opening of Japan from a state of near autarchy, the authors test "how much real income would have had to increase in Japan during its final autarchy years of 1852-1854 to afford the consumption bundle the economy could have obtained if it were engaged in trade during that period." The major gain of employing historical data in examining the static gains from trade is that the authors are able to make a direct assessment of the theory of comparative advantage.

Etkes was concerned about standard aggregation assumptions inherent in the theoretical model. Neufeld and Fishback were interested in the incorporation of technology and longer run (dynamic) gains, which lay outside the narrowly determined model setting. Carlos argued that trade distortions between third world countries would affect the magnitude of the results and that the authors were observing a lower bound gains from trade. Kaiser questioned whether the commodity bundle would have changed when Japan integrated into the world economy, and Hanssen later echoed this point by inquiring as to whether a substitution towards different products created a "new" goods bias. Ken Snowden (UNC-Greensboro) suggested an alternative counterfactual under which the costs of keeping the economy closed, in terms of policing the boarder for smugglers, be employed. More generally, he asserted that political economy consideration warranted investigation.

**Isabel Schnabel** continued with "The Great Banks' Depression – Deposit, Withdrawals in the German Crisis of 1931." She tests three potential hypotheses for this crisis: the currency crisis hypothesis, the branching hypothesis, and the "too-big-to-fail" hypothesis. The first states that foreign withdrawals during the currency crisis caused banks to fail. The second says that banks with many branches are more stable than isolated banks. And the third proposes that large banks were less likely to fail, because they were more likely to be saved by public authorities. Using monthly balance sheets from German banks, Schnabel finds that the data support only the "too-big-to-fail" hypothesis.

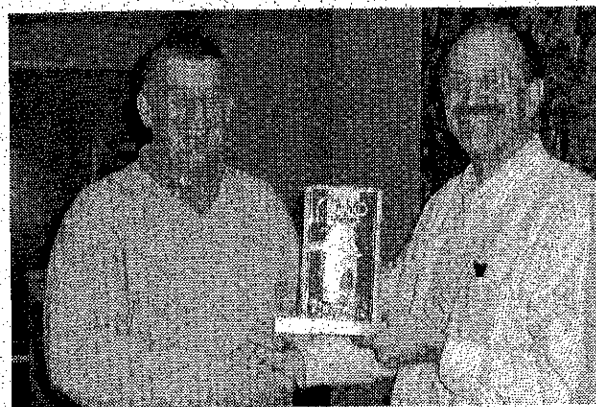
*Marina Adshade and Lou Cain during a rare moment of leisure*

The question period began with a discussion on the level of information the public might have had to judge a bank's solvency. Haupert indicated that lags in information make it less useful as a measure of the reliability of the bank. Bodenhorn remarked that the uninformed watch the informed and behave accordingly. Schnabel supported her assumptions based on the longer than average run periods. Weiss asserted that if the big banks knew that they would not be allowed to fail and if big businesses also had that information, it would affect their deposit behavior. Several discussants made comments regarding the benefits to branching as opposed to the benefits of competition, with Bodenhorn stating that the benefits to branching during a currency crisis are less likely unless banks have international branches. Mitchner asked if any information is available on the regulatory procedure for mergers. Several participants questioned the use of the gold cover. Brown asked if it is an appropriate measure given the nonconvertibility of the mark and suggested that might put too much weight on other factors.

Winding down the Saturday session, **Gary Richardson** and **Ching-Yi Chung** (both UC-Irvine) presented "Deposit Insurance in Developing Economies: Lessons from the Archives of the Board of Governors and the 1920s State Deposit Insurance Experiments." They study the effect of deposit insurance on the probability of bank failure using a cross section of state bank deposit insurance schemes in the US during the 1920s. They also examine records on the type of bank failure, whether due to banks runs or financial mismanagement. Initial discussion focused on econometric issues. Schnabel questioned the adequacy of the econometric model for endogenously adopting deposit insurance. Mitchener argued that including the national bank suspension rate could bias coefficients downward. Further, he distinguished between voluntary and involuntary deposit insurance. Jac Heckelman (Wake Forest) maintained that including state-level variables in estimation of the grouped logit equation was incorrect. Richardson agreed and revealed that he borrowed the econometric method from a paper on marijuana use. Snowden directed the discussion toward political economy. John Wallis (Maryland) observed that the line of states implementing insurance did so in order to attract agrarian investment. Bodenhorn conjectured that perhaps the causality of bank failures was not deposit insurance so much as inexperienced bankers who expanded into the plains states.

Guests at the traditional Saturday night banquet were treated to a whole roast pig, along with copious helpings of several traditional southern delicacies, and the after dinner program featured the usual assortment of awards and honors, mostly on the lighter side. One serious award capped the evening – the traditional awarding of the Clio Can in recognition of outstanding career service and scholarship. Price Fishback passed the award on to John Wallis in a heartfelt presentation to much rejoicing.

Under the auspices of the Clio Can, **John Wallis** and **Namsuk Kim** (Maryland) began the Sunday morning hangover session with their paper, "Financial Markets and the Depression of 1837 to 1843." The authors investigate upheaval in several United States financial markets of the late 1830s and early 1840s. Discussants asked about the relationship between financial markets and real output. Fishback wondered why financial markets were important when agriculture formed such a large part of the economy. Pam Nickless (UNC-Asheville) questioned the relationship between a decline in the stock market and a decline in output, and William White (RTI International) and Reed echoed these concerns, asking for more detail about the real effects. Bodenhorn suggested that farmers' mortgages relied on financial markets. Friedman wondered if the financial crises initiated long-term policy changes, while others were interested in the result of integration among geographically separated financial markets. Chabot was curious about the persistence of large price differentials between the two markets. Jari Eloantra (Warwick) advised using an error correction mechanism. Bodenhorn asserted that missing data prevents the use of sophisticated time series techniques and noted that commercial paper markets often



*Price Fishback (r.) hands the Can over to John Wallis (l.)*

reflected large differences. Mark Spoerer (Hohenheim) asked whether or not information flowed between markets in both directions.

Next up, **James Stewart** talked about his paper on migration to the agricultural frontier during 1860-1880. He uses a linked household data set to investigate the changes in wealth to migrants in the frontier region of the US. He finds that families who migrated to the frontier saw substantially greater gains in wealth. Several comments related to the data. Allen questioned whether the gains in wealth uncovered by the author could simply have reflected the ability of migrants to purchase cheap housing under the 1862 Homestead Act. Hansen pointed out that the success of white-collar workers could have reflected their obtaining alternative income via duel employment. Snowden noted that the self-reported wealth of those living on the frontier was predominantly related to the value of their land and that difficulty accessing land values implies that measurement error in the data is a problem. Adshade suggested that the markets might not be integrated and that migrants on the frontier faced different costs in terms of shipping their goods to markets. Fishback thought that linking the individual data to information on the farms (size, crop, etc.) would enrich the analysis. The other major thread of discussion concerned information flows. Carlos said that those closest to the frontier could have been able to glean information from native Indian inhabitants. Etkes noted that literacy might be an important factor in establishing information conduits. And Spoerer felt that new migrants could have gained a first-mover advantage by acquiring the most fertile land.

**Gerald Friedman** ended the program with "Has the Forward March of Labor Halted? Union Growth and Decline in Comparative and Historical Perspective." He provides a cross-country analysis of the trend in union membership over the past 20 years and discovers a decline in union growth from the 1980s to the present. The wide scope of Friedman's work revived a tiring audience. He was perhaps the harshest critic of his own research. He modestly confessed his knowledge of the labor market unions outside the US was incomplete. Reed argued that the bargaining mechanism that the paper emphasised was only one of many possible theoretical alternatives that could have had similar observable outcomes. In particular, the rise of the state as a legislator of health and safety issues and the desire of workers to contract individually to obtain higher employment packages were plausible alternative explanations to union decline. Tom Geraghty (North Carolina) thought factors internal to the union, such as the spending of union membership fees, might also have had a role. In addition, there was discussion that there might be a sample selection bias in the "rich" countries analyzed, with countries like the Republic of Korea maintaining union growth rates. Cain said that a cost-benefit analysis of the underlying reasons for joining unions would be helpful. Eloantra was skeptical about the quality of the data, especially as it pertained to Finland. Bodenhorn did not consider that the data illustrated that countries were similar in the shift in union participation as the author suggested. Schnabel maintained that the inclusion of a trend and a squared trend variable explained precisely the shift that the author was interested in explaining. Craig claimed that a "tipping effect" from the deterministic upward trend in union membership prior to the 1980s had reversed and should be considered.

Cliometricians will forego their traditional May gathering next year in lieu of celebrating the Fifth World Congress of Cliometrics. The setting for this quadrennial conference will be Venice and takes place July 8-11, 2004. A call for papers can be found on the last page of this issue. For those who cannot wait that long, watch your ASSA program for the time and place of the sessions sponsored by Clio and the EHA. While not a full-blown Clio gathering, it should tide everyone over until next summer.

*(l. to r.) Marina Adshade, William Phillips, Daniel Bernhofen, and Kris Mitchener prepare to make their points.*

# Charles P. Kindleberger, 1910-2003

Charles P. Kindleberger was born in New York City in 1910. He received his B.A. at the University of Pennsylvania in 1932 and his Ph.D. at Columbia University in 1937. He came to economic history after distinguished careers in public service (including the Federal Reserve and the Office of Strategic Services during WWII) and teaching international trade at MIT. He made his entry into the field with *Economic Growth in France and Britain, 1851-1950*. Kindleberger surveyed the extensive literature on these two countries and concluded that there was no single convincing explanation for the differences between them. He ended the book with the following famous words, "Economic history, like all history, is absorbing, beguiling, great fun. But, for scientific problems, can it be taken seriously?" This ironic comment set the tone for Kindleberger's future work in economic history. His books and papers are distinguished by his command of the previous literature. His reasoning is informed by an intelligent, if skeptical, use of economic theory. His prose is sprightly. And his conclusions are clear, forcefully presented, and always worth debating.

Kindleberger's impact on economic history comes primarily from two books published in the 1970s. The first, *The World in Depression, 1929-1939*, provided a comprehensive narrative of the Great Depression from an international perspective. Instead of seeing the Depression as a succession of national stories, Kindleberger argued persuasively that it was the result of a failure of the international economic system. The economic structure built around the gold standard had allowed the prewar industrial economies to weather various economic shocks in the late 19th and early 20th centuries, but it proved unable to contain or offset the shocks arising in the period after WWI. Why not? Kindleberger argued that the interwar economy lacked a hegemon, a dominant leader. The hegemonic power in the prewar period was England, more specifically the Bank of England, which acted to contain crises wherever they started. But England was exhausted by her effort to defeat Germany in the Great War, and the Bank of England was in no shape to continue this role. Although the United States was the obvious candidate to pick up the baton, Americans were isolationist after their wartime efforts, and the US declined to act. In short – no longer London, not yet New York. Without a hegemon, the shocks to the world economy in the late 1920s were allowed to drag the world into the Great Depression.

Kindleberger generalized this argument in *Manias, Panics, and Crashes: A History of Financial Crise*. He surveyed financial crises in the past two centuries that were important enough to have macroeconomic effects. He described the various irrationalities that preceded crises, as suggested in his title, and synthesized a vast literature in a small and engaging book. He concluded that stability was promoted when a world lender of last resort existed and followed the recommendations of Walter Bagehot a century earlier to lend freely at punitive rates during a crisis. This is what a hegemonic power should have done in the 1930s in Kindleberger's view; it is what the International Monetary Fund should do today.

Kindleberger was a wonderful scholar, teacher, and friend. He remained active professionally, responding to letters on his ancient manual typewriter up to just before his death. Even in his nineties, Kindleberger could and would give rapid and sharp comments on any paper you sent him. He lived a long, full life, and he will be missed very much.

*This obituary is adapted from Peter Temin's article on Kindleberger in **The Oxford Encyclopdia of Economic History**, edited by Joel Mokyr. c2003 by Oxford University Press, Inc.*

# The Economic and Business Historical Society Meeting

By John Paul Rossi, Pennsylvania State University-Erie

(Memphis) The 28th Annual Meeting of the Economic and Business Historical Society was held in Memphis, Tennessee, April 24-26, 2003, with John Paul Rossi (Penn State-Erie) as program chair. Paper presenters came from throughout the United States, as well as Finland, Germany, the United Kingdom, and Turkey.

Location economics was the theme of the inaugural session, "The Economics of Place." In "Bankers' Preferences and the Location of Federal Reserve," **Michael McAvoy** (SUNY Oneonta) holds that the selection of Federal Reserve Bank locations by the Reserve Bank Organization Committee was based on economic reasons and not politics and partisan interference as others argue. **Stephanie Crofton** (High Point University) provides a provocative analysis of labor market factors in "The Explanation behind the Tradition: Why Most American Women's Colleges are Located in the East." According to Crofton, single-gender institutions developed primarily in the East, while the more egalitarian West created coeducational institutions of higher learning. The reason for this was the result of women's rational response to an eastern labor market and legal system that devalued and restricted women's work.

During the next session, "Technology, Debt, and Business Cycles," participants examined problems of technological innovation, the business cycle, and the cost of credit. **Craig Heinicke** (Baldwin-Wallace College) presented "Technology Choice: Cotton Picking Machines or Mechanical Cotton Strippers in Texas," written with **Wayne Grove** (Le Moyne College). They explore the patterns of mechanization by Texas cotton farmers in the post-1945 era. A number of variables from farm size to pest infestations determined the type of machinery the farmers adopted. In "An Evolutionary Analysis of the American Business Cycle of 1991-2001," **Adil Mouhammed** (Illinois-Springfield) employs Veblen's theory of the business cycle to examine the ups and downs of the US economy. **Mizra Shahjahan** (Arkansas-Pine Bluff) considers the role of New York banks in increasing the overall cost of credit in the US in "Tracing the Cause of Burdensome Debt: The Prime Rate of New York Banks."

Presenters in the following session, "Innovators, Investors, and Everyday Business," surveyed entrepreneurship, innovation, and investment in 19th-century America. **Robert Rogers** (Ashland University) revisits rags-to-riches social mobility in "The Social Background of Nineteenth Century Innovators in the American Iron and Steel Industry." Rogers finds that a significant number of the industry's important innovators came from humble backgrounds, unlike most 19th-century iron and steel company executives. **Jill Dupree** (Holy Cross) takes up the financing of the American transportation revolution in "Sylvanus Holbrook and the Blackstone Canal: The Real Returns to Canal Investment." Low rates of return on transportation investments should have dissuaded investors in the early 1800s, but Dupree claims that investors in the Blackstone Canal received considerable economic benefits from improved water flow for their water-powered textile plants and from increased property values. In "Manufacturers Surely Cannot be Expected to Continue Business: The Dwight Manufacturing Company and Capital Mobility in the 1890s U.S. Textile Industry," **Beth Anne English** (William and Mary) studies the dynamic between return on capital, variation in state regulatory regimes, and plant relocation. The Dwight Manufacturing Company responded to competition from southern textile mills; increased Massachusetts hours, age, and education laws; and unionized labor by shifting production to a new factory in Alabama, which was a low tax, low wage, deregulated, and child labor friendly state.

In the session, "Gender and Work," **Kelly Kilcrease** (Franklin Pierce College) applies ERG (existence, relatedness, growth) management theory to discuss the work motivation of women laborers. This focus on individual physiological, safety, social, and self-actualization needs produced a richer understanding of why women worked. **Polly Myers** (Western Washington) sketches the tensions created by the introduction of women into Boeing's labor force in "Gendering Recruitment: The Case of Boeing during World War II." The firm's managers made efforts to assure men that their work would not be feminized by the change and emphasized the maintenance of male control over the company.

"The Business of Science and Technology" provided an intriguing exploration of the relationship between the creation and application of new knowledge in industry and national development. **Roberto Mazzoleni** (Hofstra) describes Brazilian efforts to stimulate industrial development through the application of European iron and steel technologies, state subsidies, and the import of foreign experts. Local conditions (location, transportation, low tariffs, and slave labor) thwarted this attempt to jump-start the Brazilian iron and steel production in the 19th century. In "John MacDonald Had a Firm: Creative Genius, Business Survival, and the Incubation of Vancouver's Technology Community, 1968-1993," **Jocelyn Wills** (CUNY Brooklyn) looks at the role of Canadian entrepreneur John MacDonald and his company, MacDonald, Dettwiler and Associates (MDA), in the creation of Vancouver's high technology industry. A University of British Columbia academic turned businessman, MacDonald founded a first class engineering firm to commercialize space-based satellite imagining technology. The creative minds MacDonald attracted to MDA developed an array of spin-off technologies, but they found it necessary to leave the firm (often in frustration) to form their own companies to market them.

**James Jordon-Wagner** (Eastern Illinois ) kicked off the session on "Exchange Rates and Commodity Prices" by describing European efforts to stabilize currency exchange rates after the collapse of the Bretton Woods system. He focuses on the cooperative arrangement by European government financial authorities to set and maintain exchange rates for the group's currencies and the dollar. Although plagued with frequent defections, the cooperative formed the basis of the subsequent European Monetary System. **Malcolm Russell** (Andrews University) investigates the question of whether or not the 1970s increase in oil prices constituted a supply or demand shock in "Oil Price Increases as Demand Shocks: A Reconsideration."

A number of provocative issues in state-capital relations were explored during the next session, entitled "Government and Business: Relations and Restraints I." **Daniel Giedeman** (Grand Valley State) considers the impact of American bank regulation on the ability of Morgan-related companies to obtain financing in "J. P. Morgan, Industrial Finance Constraints and the Clayton Anti-Trust Act (1911-1922)." Tests on a data set of 70 industrial firms show that Morgan-affiliated firms faced the same financing constraints as other firms until the passage of the Clayton Act, which had a greater negative impact on Morgan companies. **Jari Eloranta** (University of Jyvaskyla) examines the efforts of individual firms and trade associations in the armaments industry to reduce risks and increase profits through political action. Finnish weapons producers were the most successful rent-seekers and colluders during the period, while Swedish and British firms were only moderately successful. In "Evolutionary Causes and Consequences of Monopoly Power in the Cable Industry," **Larry Malone** (Hartwick College) canvasses the interaction of market demand government regulation in the industry's development. Although the resulting regime led to a rapid deployment of cable television services, it also produced monopoly power and pricing in the industry. Subsequently, rent-seeking by the cable industry has restricted demand for and growth of broadband Internet services.

"Sails and Silks: International Business Ventures," a session on international trade, opened with "Global Trade in The Days of Sail" by **Phyllis Whitman Hunter** (UNC-Greensboro). She reconsiders the role of social and familial networks in early 19th-century, US-based merchant companies. These trading concerns were owned and operated by a small group of socially connected, elite families who used their business and personal connections to recruit personnel, construct their international trading networks, and promote and protect the fortunes of family members. In his well-illustrated "Silk Stockings, Nylons, and Pearl Harbor: A Japanese Commercial Catastrophe on the Eve of War," **Edward Miller** (independent historian) provides a provocative account of the interconnections between Japan's economic development and the role of its silk trade with the US; technological innovation in textiles, women's fashions, and hosiery; and the coming of Pearl Harbor. The Depression and then the emergence of nylon stockings slashed demand for silk, which had been Japan's leading export to the US. Japanese trade deficits with the dollar area grew accordingly, dollar reserves shrank, and these economic problems contributed to the Japanese decision to attempt to create a "co-prosperity sphere" in Asia through conquest.

The session, "American Political Economy: Canals, Trucks, and Unions," began with **Mary Swilling** (Mississippi) examining the US decision to give up control of the Panama Canal. While critics charged that Panama did not have the economic and technical capacity or the social and political stability necessary to run the Canal, the decision was a success and the Panamanians have transformed the Canal Zone into an important center for international trade. In "Economics, Grievances, Protective-Employee Unionization, and the 1978 Memphis Police and Fire Strikes," **Steve Palmer** (Mississippi) explores urban labor relations. Memphis' police officers and firefighters unionized largely in response to a city administration which had little respect for these highly trained workers. Their 1978 strike was driven by their desire to wring recognition of this from the city's political leaders. **Toby Bates** (Mississippi) spoke on "An Opportunity Seized: J & B Services, Inc. and the Deregulation of the Motor Carrier Systems in the 1970s and 1980s."

The Friday morning sessions began with the panel, "World War I and After: British Industrial Reform and the U.S. Post-War Economy." Due to illness, only one paper was presented: "Why Did the British Industrial Reformers of World War I Fail?" by **James Stitt** (High Point University). He looks at the effort to extend the relative harmony of wartime British labor-business relations to the postwar period through the use of tripartite (labor, business, government) Joint Industry Councils. Although the JICs were able to stabilize some industries from 1919 to 1939, they were not used in the most important sectors of the British economy. This failure was due largely to the poor leadership of the JIC movement. In the spirited discussion that followed, Stitt explained the reasons for the successful JICs: the structure of the industries involved, their relative political position and capital, JIC program outcomes, and the positive attitude of the participants, which consisted of trade associations, management, labor organizations, and the government.

**Gordon Daniels** (Mississippi Valley State) opened the second Friday session with "First Impressions Count: President John Kennedy Meets British Guianese Premier Cheddi Jagan." Daniels and his coauthor, **Robert Waters** (Attorney at Law, Johnson, Eklund, Nicholson, and Peterson), examine US relations with British Guiana during the Cold War. Their historic meeting convinced Kennedy that Jagan was either a communist or pro-Soviet, and he set into motion covert and diplomatic actions that resulted in Jagan's fall from power. **D. Gene Pace** (Kentucky) continued with "Economic Status and Environmental Justice in the Emerald City: Urban Sustainability and the Marginalized in Seattle." He employs Lewis Mumford's model of urban development in an analysis of Seattle's attempts to create a sustainable city. Seattle's reformers have failed to address the economic and environmental problems confronting the city's poorest residents, thereby leaving the prospect of achieving sustainability in doubt.

A session on "The Business of Art" was launched by **Veronique Chagnon-Burke** (Christie's Graduate Program in Art History). She traces the emergence of the modern city through the development of art as a commodity in "Window Displays: Looking at Contemporary Art in Mid-Nineteenth Century Paris." The creation of a permanent exhibition of contemporary paintings in window displays by a Parisian art dealer provided a marketplace challenge to the Paris Salon, the government-established exhibition space for art. This commercial window display of paintings connected art to the development of opportunities for visual consumption that marked urban modernization. **John Angeline** (Parsons School of Design) followed with "The Rhetoric of Persuasion: Art, Advertising, and Influencing the Public." He explores the relationship between modern art and business and advertising. Business advertising is heavily image dependent, and advertising firms borrowed modern avant-garde strategies of image recognition and persuasion.

The session on the New Deal began with a presentation by **Jason Taylor** (Virginia) on research conducted with **Fred Bateman** (Georgia). They survey the role that various New Deal agencies played during World War II through a review of the agencies' expenditure patterns and their spending on war supply contracts and war-related industrial facilities. These data show that the agencies continued to follow the New Deal economic agenda during the war and suggest that there was not a dramatic break between the peace and wartime objectives of the Roosevelt administration. In "Rexford G. Tugwell, the New Deal Brains Truster and Adviser," **Michael Namorato** (Mississippi) presents work written with **David Whitten** (Auburn). They conclude that Tugwell was prescient in the 1930s, foreseeing problems then that are still with us today. **Edmund Wehrle** (Eastern Illinois) sketches the post-New Deal attempt to attain economic democracy through full employment and economic growth in "The Foundation for the Infinitely Greater Prosperity which is within Our Capacity for Tomorrow: Leon Keyserling, the AFL-CIO, and the Fate of Full Employment Economics, 1953-1975." Keyserling and the AFL-CIO leadership established a think tank to pursue Keyserling's vision of using substantial government expenditures to drive economic growth and employment. In the 1950s, Keyserling, the think tank, and labor leaders embraced defense spending as the key to attaining this vision, a perspective which the Vietnam War and the 1970s stagflation discredited.

**Karyn Lyn Moyer** (Hartwick College) ushered in the session on the Civil War with "Perceptions of the Past: The Merging of Economic Analysis, Cultural Identity and Literature." She uses trade theory and postmodern textual analysis to explain the causes of the Civil War. One of the socioeconomic consequences of two different labor systems was conflicting and incompatible northern and southern identities, something that was clearly illustrated in the literature of the South. **Harvey Gresham Hudspeth** (Mississippi Valley State) looks at some of the economic consequences of the Civil War in "A 'Fair Setoff' for Silver Spoons: The History of the Confederate Sequestration Act in West Tennessee, 1861-1862." The law punished northern sympathizers in the Confederacy through the seizure of their property and also funded the South's war effort.

"Life and Labor in Early Modern Italy and Revolutionary America" offered a fascinating look into unfree labor. In "The Cost of a Man's Life in Sixteenth Century Naples," **Antonio Calabria** (Texas-San Antonio) provides a precis of his effort to reconstruct the socioeconomic world of galley slaves and entrepreneurs who owned galleys. The vehicle for this project is the Neapolitan Council of Finance's efforts to reimburse a galley owner for the less productive galley slaves that it had granted him in compensation for slaves lost in a naval battle. **Michael Kennedy** (Michigan-Flint) investigates the changing treatment of North American colonial servants and their response to it in "The Pressures of Performance: Worker Controls and the Increase of Runaways during the American Revolution." Discipline grew increasingly harsh over the course of the 1700s as the demand for labor rose, supply decreased, and masters sought more productivity. This was particularly true after 1754 when masters began to inflict severe physical punishment to discipline servants, who responded by running away in greater numbers.

"Entrepreneurs, Civics, Politics, and Urban Development" began with **Thomas Winpenny** (Elizabethtown University). He describes the role played by the railroad engineer in urban development in "The Engineer as Promoter: Richard Boyse Osborne, the Camden and Atlantic City Railroad, and the Creation of Atlantic City." Osborne, an experienced, Irish-born railroad engineer, was central in turning the vision of a resort on Absecon Island, New Jersey, into reality in the 1850s. **Joseph Ford** (Iona College) presented "American Presidents as Failures in Business: Case Studies in Entrepreneurship," written with **Arthur Hughes** (St. Francis College) and **Charles O'Donnell** (Iona College). They provide case studies of effective presidents who were business failures.

In the session on American welfare capitalism, **Charles Fears** (CUNY Brooklyn

College) addressed the development of industrial relations and the rationalization of the manufacturing process. The Cheney Brothers, a New England silk textile manufacturer, developed a system of welfare capitalism (a company town with school system, bathhouses, sports facilities, meeting hall, and employee housing) in conjunction with its efforts to develop a more efficient system of manufacturing. These changes helped Cheney Brothers maximize production and avoid labor disputes, worker turnover, and unionization until the 1920s when a decline in earnings forced the firm to abandon its welfare programs. In "Selling Stocks under the Shadow of 1929: The NYSE, 'Own Your Share,' and the Cold War," **Janice Traflet** (Columbia) explores the post-WWII public relations campaign of the NYSE to convince Americans to purchase equities. The successful campaign sought to repair damage to the "brand" caused by the 1929 stock market collapse through the use of values heightened by the Cold War, such as free enterprise and democratic capitalism.

The Friday sessions concluded with "The Political Economy of Development: The U. S., Turkey, and South Korea." **Allen Bures** (Radford University) presented "The American System of Henry Clay and Patterns of the U.S. Economic Development in the 1840s," written with **Constantine Miniar-Beloroutchev** (North Carolina). They review the role of political economy in the transformation of the US economy in the 19th century. The Jacksonian defeat of Clay and the Whig Party's attempts to employ the US government to direct American development through regulation and subsidies resulted in fast, unbalanced economic growth that left the North dominant and the South behind and largely unintegrated with the economy's other regions. In "Introduction of Political Economy into the Ottoman State," **Yasar Bulbul** (Kocaeli University) outlines the Ottoman Empire's 19th-century attempts to stimulate economic development through the introduction and diffusion of western economic ideas. The Empire brought in French and British economists; founded state-sponsored economic newspapers; translated western works of political economy; created schools of business, commerce, and economics; and introduced economics into the secondary school curriculum. Despite these efforts, they failed to spread the study of economics. **Tuba Aydin Agartan** (SUNY Binghamton) discusses the role of the bourgeoisie in economic development and democratization in "State-Capital Relations in the Context of Late-Development: A Comparative Analysis of Turkey and South Korea." Because of the close relationship between South Korea's government and big business (a chaebol system) and that country's successful economic development, its captains of industry were uninterested in democratization. In contrast, Turkey had limited collaboration between big business and the state and had a politically weak business class, which was critical of the government and supported the country's liberalization and democratization.

On Friday afternoon, EBHS members attended a talk by **Gene Huang,** chief economist for the FedEx Corporation. He outlined the history of the firm, using it to illustrate the entrepreneurial and new economy nature of the company. The talk was followed by a tour of FedEx's Central Headquarters and their Operations Center. The visit included a discussion of the Center's operations, its role in the implementation of FedEx's corporate strategy, and the problems they confronted in shipping goods when the airports shut down after 9/11.

The Saturday sessions began with "Government and Business: Relations and Restraints II." **Erik Benson** (Ouachita Baptist University) applies the corporatist model to state-capital relations in "The 'Chosen Instrument?' Reconsidering the Early Relationship between Pan American Airways and the U.S. Government." Pan Am received the exclusive support (airmail contract subsidies and diplomatic assistance) of the United States when it built its western hemisphere air transportation system in the 1920s and 1930s. The relationship, however, was one-sided and dominated by the airline, as Pan Am used US support to pursue its own interests, occasionally at the expense of government objectives. The meeting continued with "Sunsetting the ICC: Is It Really Dead?" by **Richard Stone** (Shippensburg University). He and his coauthor, **Michael Landry** (Northeastern), examine deregulation of the US transportation system (air transportation excepted) and the elimination of the Interstate Commerce Commission (1970s-1990s). Although the ICC had made significant steps toward deregulating transportation in the 1970s, its critics successfully demanded that it be dismantled because it limited the growth in its industries, helped squelch competition in the industry it was regulating, lacked a coherent policy, and had slow, costly procedures. Despite meeting many of these objections, the agency was closed in 1995. **Jerome DeRidder** (Salisbury University) surveys American accounting industry regulation to explain its collapse at the end of the 1990s in "What on Earth Happened to the Accounting Profession? A History of Accounting Regulatory Practices." The industry, in pursuit of narrow economic self-interest, undermined the regime of self-regulation and limited government oversight, which led to accounting scandals and much tougher US government supervision.

"Work, Life, and Consumption: The U.S. and the U.K." opened with **Brian Strow** and **Claudia Strow** (both Western Kentucky), who employ Steven Allen's model on absenteeism in their analysis of the factors that cause employees to miss work. A number of variables (daily wages, numbers of dependents, marital status, place of birth, and home ownership, among others) are used to explain which workers are likely to absent themselves from the workplace. Next, **Chris Reid** (University of Portsmouth) presented "Working Class Credit in the U.K., 1925-1960," written with **Sean O'Connell** (University of Ulster). They survey the role of check trading in expanding worker borrowing power in their study of the Provident Clothing and Supply Company. Check traders extended small loans, which were to be paid off in weekly installments, to workers in the form of checks that were exchanged at local retailers for goods. The system, which was one important source of worker credit, expanded rapidly at the end of the 1800s but began to decline in the 1950s.

The Paris Exposition Universelle of 1867 was the focus of the next session. In "Labor and Technology at the Paris Exposition Universelle of 1867," **Gregory Zieren** (Austin Peay) discusses representations of technology and labor at the fourth World's Fair and the first one to address the labor question. Classical liberalism was at its height in 1867, and the belief in the inevitable and beneficent spread of technology and the division of labor dominated the Fair. But the protectionist and welfare capitalist ideas that were soon to trump liberal political economy were also represented and even won awards. One example was the Krupp Iron and Steel's worker welfare program. **Pamela Edwards** (Murray State) appraises a Lawrence, Massachusetts textile company's representation of its labor relations program in "Statement of the Pacific Mills Presented to the Special Jury of the Paris Exposition of 1867: An Analysis from the Laborers' Perspective." Company records and other sources show that the prize-winning industrial relations program Pacific Mills presented at the World's Fair did not exist.

**Joseph Ford** began the next session on "Regulatory Regimes in Health Care, Advertising, and Taxation" by outlining the campaign by nurse anesthesiologists to provide anesthesia without physician supervision in "The Practice of Anesthesia by Nurses in the United States: Legal and Economic Perspectives," written with **Vincent Maher** (both Iona College). A 2001 Health and Human Services Department decision granted nurses this right. In "Hospital Advertising in the Beginning: Marketplace Dynamics and the Lifting of the Ban," **Lauren Strach** (Andrews University) develops a conceptual framework to analyze the unique qualities of this part of the health industry and the challenges that confront its advertisers. **Arthur Karlin** (Arkansas-Pine Bluff) traces the administrative history of taxation of insurance policy compensation in "Life Insurance Taxation: Employer-Owned Equity Split Dollar Life Insurance."

Opening the session, "Problems of Political Economy: Britain, Ireland, and Germany," **John Grady Powell** (Furman) explores the debate over what to do about Ireland's inadequate rail system during the period 1844-1872. A proposal by Irish nationalists to improve the colony's rail system through government takeover was defeated by laissez-fair proponents in the United Kingdom's Parliament. In "1957: Ludwig Erhard's Annus Terribilis," **Alfred Mierzejewski** (North Texas) discusses finance minister Erhard's contributions to the post-1945 West German economic miracle. Erhard's reforms, however, were mixed. While his program to build a free market economy in West Germany in the late 1940s was implemented and stimulated rapid economic growth, his Chancellor, Konrad Adenauer, dramatically increased the state's role in the economy over Erhard's objections in the late 1950s.

The conference closed with "Investment Issues: Ireland, Britain, Germany." **Gerhard Kling** (University of Tubingen) applies the merger paradox (in mergers the acquiring firm's stock loses value while the target firm's stock gains value) to his study of German mergers in 1908 in "The Impact of Merger Announcements on Stock Prices: The Application of Event Study Analysis to a Historical Issue." Event-study analysis of stock values in a 30-day window around the merger announcement shows that early 20th-century, German corporate takeovers did not suffer from the merger paradox. **John Turner** and **Charles Hickson** (both Queen's University-Belfast) test the Bagehot hypothesis that the poor would come to own the shares of unlimited liability joint stock company banks thereby undermining the security of the firm's deposits. Bagehot assumed that because the wealth of shareholders of unlimited liability banks would be subject to seizure in the case of failure, only the poor would be interested in owning stocks in such an enterprise. In reality, Irish banks of this class were owned and controlled by wealthy investors. In "Accounting, Engineering, or Advertising? The Language of the Company Prospectus in Victorian Britain," **Wade Shilts** (Luther College) explores the relationship between law, economic action, and the delay that typically occurs between the two in the Victorian use of general incorporation statutes passed in 1844 and 1856. Company prospectuses between 1800 and 1898 show that the British were slow to make use of the legislation because of the high cost of understanding and communicating the intent of the laws and the amount of time it took to develop a socially accepted (by the share-owning class) interpretation of "incorporation with limited liability."

Kenneth Weiher (Texas-San Antonio) is Program Chair for the 29th Annual Meeting of the EBHS in Anaheim, California, April 22-24, 2004. Those wishing more information, or to submit a paper or panel proposals, can reach him at: kweiher@utsa.edu. He can also be reached at the University of Texas-San Antonio, Department of Economics, 6900 North Loop, 1604 West, San Antonio, TX, 78249-0633; Telephone (210)458-5315; FAX (210)458-5837.

*An early political economy text*

## Observations on the 42nd Cliometrics Conference

By The Tarheel Tattler

Once again, as we do every year, it's time to review the highlights of the discussions accompanying the papers at the 42nd annual Cliometrics Conference and to present the award for the most universally profound comment among the noteworthy. To give new readers a feel for the type of wisdom that the annual Clio Quote Award honors, a past winner of the award (who could tell you everything you never wanted to know about the history of fence laws and who was in attendance at this year's conference) won three year's ago with a revelation couched in advice: "Sometimes I like to do it backwards; sometimes it's better that way." In case you thought such insights were simply reported in the *Newsletter* and then tossed away, consider that famous quote's importance to a certain Frau from across the pond, who was perhaps even more forthcoming at this year's meeting when, in response to a suggestion, she confessed, "I want to do it; I need to do it; but I'm not sure how to do it." It was the consensus of the participants that, like our past winner, she should do it backwards. After all, sometimes it is better that way.

Of course, one of the great things about the Clio Conference is that it brings together scholars from diverse intellectual backgrounds, and ideally, the interaction results in the advancement of knowledge. Although this aspiration is well known, seldom does it appear as starkly as it did this year, when, by way of explaining a discontinuity in one of her time series, a macroeconomist from the Big Apple informed the group that, "Somebody said a president was elected that year." Now that's the kind of hard-hitting, interdisciplinary synergy the good folks at NSF like to support. As for the Big Apple macroeconomist herself, a Canadian from the great northwest concluded, "Somebody did it with productivity and didn't get anything; somebody else did it with money and didn't get anything; ***you*** did it with expectations and got everything." Personally, I've never done it with money or expectations, but if that's not enough to make you want to be a macroeconomist, then nothing is.

At Clio it is not unusual for a theme to run through several of the more powerful comments. Effort, or the lack thereof, seemed to be one theme this year. As a very productive scholar, visiting from the law and economics realm, plaintively asked, "So you're asking us to do real research?" "No, never," we Člioms replied in unision. Just keep doing what you've been doing – whatever that is. Related to this point, one young scholar, who left the desert of Arizona for the paradise that is Utah, proudly confessed, "I'm more interested in asking questions than answering them." I feel safe in saying that it was the consensus of the more senior participants that this is not necessarily an optimal strategy for ambitious young scholars. As if to emphasize his renegade nature, that same young scholar claimed in response to one suggestion, "I can stand here and wave my arms, or I could actually do the work." The way he said this suggested to most observers that the work would have to wait.

Arm waving was much in vogue this year. A Dutch trade theorist said, "I can stand here and wave my arms, or you can swim in murky waters." These are the choices? Hmmm, history doesn't look so bad. Along the same lines, a scholar who can stroll by Little Round Top on her way to the office announced, "I can wave my arms, and ..." And, she proceeded to wave her arms, thereby confirming, if nothing else, that physical comedy is not a lost art.

Lest you hardcore Metricians out there in Cliodom think that biography is a thing of the past, Henry Ford made a strong comeback this year. One Tarheel scholar, who apparently has been to Detroit but not Greece, claimed that, "Henry Ford was like Sparta come to Athens." An economist from the Big Sky State also chimed in on Henry Ford, claiming that, "Henry Ford comes along, and women get the vote." Somewhere I thought I could hear Elmus Wicker saying "crude empiricism," but I saw a couple of scholars nodding sagaciously at the observation. Perhaps they were just dozing.

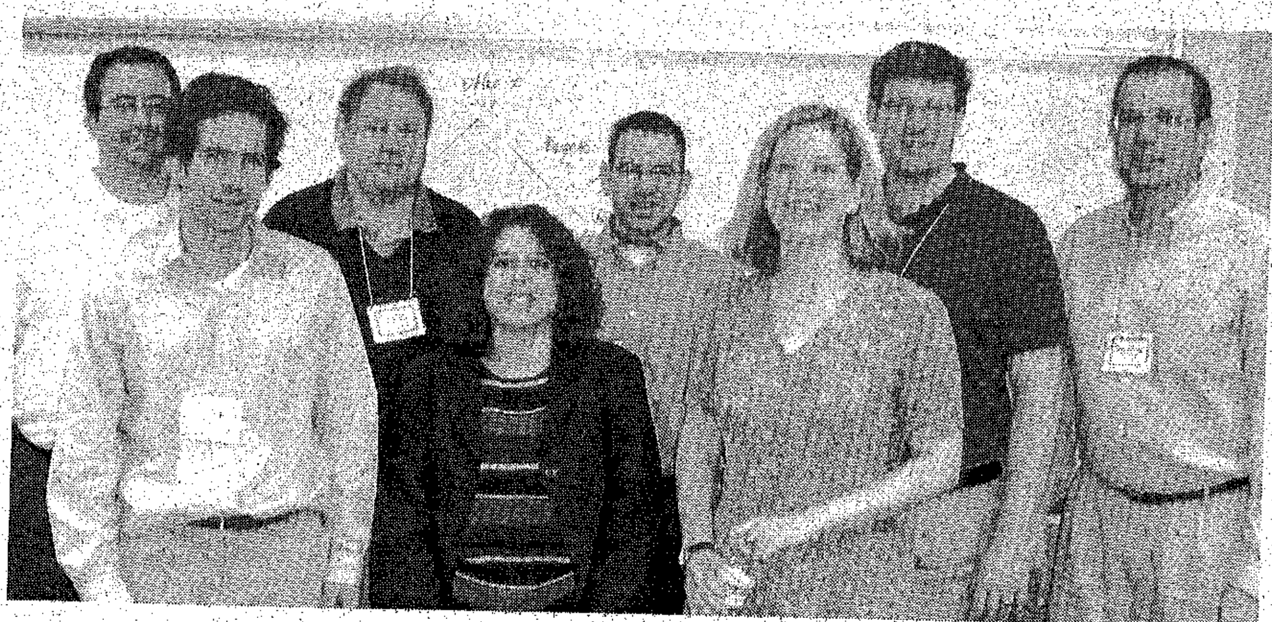
Some Clioms have claimed that over the past few years, the Clio proceedings have become more, shall we say, sedate and less provocative. Whether that's a good thing or a bad thing, or whether it's even true, I leave to others. But I do note that this year's meeting was not without its confrontational moments. At one point, the most senior Cliom in attendance practically shouted, "The people on that side of the room are a bunch of pansy schoolteachers who invest in England." After which another senior Cliom, who should have known better since she has resided in the Tarheel state for more decades than she might want to confess, asked, "Are we in England?" No, we weren't in England, but we are a bunch of pansy schoolteachers.

Of course, what would Clio be without our friends from the realm of what they like to call "theory"? One aspiring Cliom/theorist from that great windy institution by the lake deduced that, "If you can use punishment, then you don't need democracy." I think the Marquis de Sade said it first, but it still sounded insightful. Then there was the observation, which was so memorable that it later generated an argument about who uttered it, "If you duel and you're killed, then you're out of society." It goes without saying that it's true only in some white male, linear, hegemonic notion of society.

I know it's hard to believe, but none of these profundities even made it to the finals. As is so often the case, the wonderful world of econometrics offered its share of comments, contributing the two runners-up. Our host institution, North Carolina State, happens to be the home of the great time-series statistician, Dave Dickey of Dickey/Fuller fame. There's no doubt that Dave would have been impressed with the way they do time series work in Big Sky country. As our Montanan explained with respect to the interaction of two key variables, "They came at the exact same time, over a couple of centuries." And then there was the one from the most recent holder of the Clio Can. Showing off his metrician prowess, he admonished a presenter with, "For this to work well, it has to be correlated with what you're talking about." Any number of participants could be seen pondering where their careers might be if only they understood these arcane topics so well.

And, now to our winner. The macroeconomist from the Big Apple, who may have set a new standard for the number of contributions, wins the 2003 Clio Quote Award with, "You can interpret sunspots merely as spots on the sun." Not only does this quote meet the standard of universal profoundness, it must be noted that it came during her presentation of a paper on the importance of ... you guessed it, sunspots! Apparently, the key to this research is the knowledge of when they are and when they are not just spots on the sun.

Well, that's all the news that's fit to print from the Tarheel State. You've been a great audience. Drive carefully, and I'll see you in Venice.



*A strong contingent of Northwestern faculty, students, and alums made their presence known.*
*Front row (l. to r.) James Stewart, Sharon Harrison, and Brooks Kaiser*
*Back row (l. to r.) Thomas Geraghty, Lou Cain, Ran Abramitzky, Ben Chabot, and William White*

## BOOK PREVIEW

# Growing Public: Social Spending and Economic Growth since the Eighteenth Century

By Peter H. Lindert

*Note: The following preview is from **Growing Public: Social Spending and Economic Growth since the Eighteenth Century** v.1 & 2 (Forthcoming, Cambridge University Press, 2004).*

Over the next 100 years, there will be waves of intense debate over using taxes for social programs. Defenders will package such programs as high-return investments that benefit most of society and tax only those people whose share of income and wealth could stand to come down. Opponents will decry the two-sided stifling of initiatives that invites both the taxed and the subsidized to be less productive. Both sides will invest in studies showing that they are right.

This future debate seems to follow naturally from the flow of history, the logic of self-interest, and the inevitable help-versus-incentives quandary. The two opposing sets of arguments have been rediscovered and repeated for centuries, mainly in debates over social transfers to the poor. Any reading of the social history of early modern Europe turns up all the arguments we hear today. Long before the Fabians, there was a Left argument that the poor, elderly, and uneducated were people who needed help through no fault of their own. And long before Malthus, there was a conservative argument that any combination of taxes and transfers is doubly costly. It erodes incentives to work, to take risks, and to accumulate, both for those being taxed and for those receiving benefits based on their low incomes.

New facts cannot end the debate, because the dialectic of conflicting self-interests is sure to keep it going. Yet new facts can at least speed up society's rejection of bad arguments. *Growing Public* hopes to do that. As the table of contents suggests, these two volumes are aimed at different audiences. Volume One, "The Story," is for a general audience, while Volume Two, "Further Evidence," is for quantitative social scientists, presenting a minimal theory, extensive quantitative tests, and appendices. Both focus on some of the biggest historical questions about tax-based social spending.

At the end of the 18th century, no country had even 3% of its national product devoted to redistributive social programs. Yet by the end of the 20th century, social spending had expanded to claim over one third of national product in many countries. The patterns of growth varied greatly, with the rise much greater in some countries than in others. After about 1980, however, social spending as a share of national product stopped growing in leading countries, although it did not decline. How much has the rise of social spending cost us in terms of lost economic growth, and why hasn't its rising cost brought social spending to its sunset? Finally, will today's developing countries and transition economies go through the same history?

The scope of this story widens as it progresses. Because social spending was so limited before the 20th century, our view at first is narrow. Geographically, we begin in Western Europe and North America in the

18th and 19th centuries. In the dawn of social spending, there were only two kinds of redistributive, tax-based social spending: poor relief and public schools. Chapters 3-6 grapple with the puzzle that England and Holland led in poor relief, while first the German states and then North America led in the support for public schooling. By the period 1880-1930, social programs had spread enough that we can broaden our focus to 21 countries. For this period, there are several government budget categories to survey: a few kinds of taxes and several social-spending categories, including unemployment compensation, public health, housing subsidies, poor relief, and public schooling. Chapter 7 draws on statistical patterns, as well as on institutional and budgetary history to explain the differential rise of social spending. This study reveals democracy, aging, income, and religion as the most influential variables in the determination of social spending in different countries.

The real boom in social spending came in the latter half of the 20th century. Chapter 7 finds that a few forces again suffice to explain most of the differences in the social-spending boom, with some countries developing true welfare states while others continued to have minimal government social programs. Chapters 8 and 9 show that social budget crises are looming for a few highly industrialized countries, but not for the rest of the world. Social-spending patterns in developing countries have much in common with the earlier history of the core set of industrialized countries belonging to the Organization for Economic Cooperation and Development (OECD). Asia is not as different as we thought, either from the OECD core or from Latin America, once the same explanatory variables are introduced. What had passed for a wholly different approach to pensions and other social programs turns out to be explainable in terms of democracy, income levels, and the aging of the population. The transition economies of Eastern Europe and the former Soviet Union also fit the same broad patterns, although they have been dealt a particularly difficult hand by the collapse of previous regimes that had promised more growth, and even more social security, than they delivered.

Chapters 10 through 12 tackle the most controversial part of the topic: What about those rising costs of the welfare state? The answer proves surprisingly elusive. Volume 2 confirms that there is no clear net economic cost to the welfare state, either at first glance at the raw numbers or in deeper statistical analyses. To avoid accepting a statistical mirage, Chapters 10-12 take a deeper look at the underlying institutional mechanisms. It turns out that there are good reasons why radically different approaches to the welfare state have little or no net difference in their economic costs. The reasons are many, in terms of an institutional list, but they boil down to a unified logic: electoral democracy, for all its messiness and clumsiness, keeps the costs of the welfare state under control. This interpretation is also consistent with the disturbing rise of European unemployment from the 1970s through the 1990s.

The history of social spending can be synthesized to a core set of arguments. First among them is the issue of the dramatic rise in social spending over the last two centuries. There was so little social spending of any kind before this time primarily because political voice was so restricted. The central role of political voice is shown in an exceptional, early case. Both Britain's relatively high poor relief in 1782-1834 and its cutbacks in 1834 and 1870 fit the changing self-interest of those with voice. Similarly, noting the interests of those with political voice helps to explain the education puzzles covered in chapter 1: Why did Germany and laissez-faire North America lead the way in tax-based public schooling, and why did Britain lag behind in the 19th century? Also, how did America remain a leader in educational attainment, yet end up ranked in the middle in terms of student test scores? Again, the concentration of political voice was the enemy of education.

The great advance of social spending since 1880 is explained partly by the same political voice motif and partly by population aging and income growth. Religion played a reversing role in explaining which countries raised social transfers faster than other countries. Roman Catholicism was a negative influence on taxes and transfers before World War II but not after.
Another force becomes visible in the postwar experience: the social affinities felt by middle-income voters, proxied by ethnic homogeneity or by their perceived chances of moving to the bottom or top ranks. Welfare states developed in countries where the middle and bottom ranks more often traded places and were ethnically homogenous.

The same forces that explain the growth of social spending up to the 1990s carry implications for the future of social spending both in the affluent OECD countries and in the transition and Third World countries. In Western Europe, the political power of the elderly and the generosity of their public pensions have already matured and will fade. The social transfers that aging societies have supported will not decline as shares of GDP, but the generosity of pensions per elderly person will. Support for the elderly will also be under pressure in formerly communist countries. Among prospering countries in the Third World, however, pensions will probably become more generous as income grows.

The net national costs of social transfers, and of the taxes that finance them, are essentially zero. They require less of GDP than much of the Anglo-American literature has claimed. Accordingly, differences in these costs play almost no role in either the rise or the deceleration in the share of GDP that is social spending. No Darwinian mechanism has punished the bigger spenders. Differences in the generosity of social insurance did play a role in the OECD differences in unemployment over time and space, but only a partial role. Furthermore, the loss in output was less severe, because those who remain out of work tended to be less productive workers anyway. Therefore, any loss of output tends to be smaller than the percentage of jobs lost.

Two general principles seem to explain why the welfare state does no net damage to GDP per capita and why welfare states will not collapse. One is that high budget democracies show more care in choosing the design of taxes and transfers so as to avoid compromising growth. The other is that broad "universalism" in taxes and entitlements fosters growth better than the low-budget countries' preference for strict means testing and complicated tax compromises.

These two volumes seek to illuminate the future of social spending programs by focusing on their past. This process reveals a fascinating history of social spending programs across nations, helps to explain the contemporary debate over the costs and benefits of such programs, and suggests that definitive answers are not likely to end the debate.

> There can be no real individual freedom in the presence of economic insecurity.
> -Chester Bowles

# A Letter from the Editor

Early August 2003

As I sit here wistfully recalling a summer that has sped by all too quickly (once again), the thought of anniversaries crossed my mind. Earlier this summer, I enjoyed watching four score of Model Ts parade through La Crosse as part of the 100th anniversary of the Model T. La Crosse was one of many stopping points on the cross-country journey from California to Detroit that was part of the centennial celebration. Economic historians are familiar with the Ford legacy. I do not know if any of our number own a Model T, but several have researched them – or at least the method by which they were constructed.

The Model T parade stuck to the backroads. Of practical import, it was to avoid the crush of traffic on the interstate, where most of the cars were not capable of maintaining the minimum speed limit of 40 mph anyway. The decision to stick with the backroads was also to emulate a cross-country jaunt from long ago, following routes that existed at the turn of the century. To the best of my knowledge, they did not try to recreate the experience of traveling on heavily rutted dirt roads.

Earlier this summer, I had the chance to travel down a bit of automotive history when I traversed part of the old Yellowstone Trail, an early highway route that ran from Plymouth, Mass. to Puget Sound. The Yellowstone Trail was the first northern route across the United States, running 400 miles through Wisconsin on its way from Chicago to Minneapolis. Parts of the original highway are marked with historical designations, while other parts are recognizable because the landmarks that identified the trail in 1915 are still evident today. In particular, is the Yellowstone Garage in Stanley, WI. The Yellowstone Garage has been servicing automobiles on this spot along the Yellowstone Trail for 90 years. Of greater interest to me than the actual highway itself is the way in which it was financed. The highway was not a federal project or an amalgam of state-funded roads, but rather, it was financed at the county level and coordinated by a volunteer organization known as the Yellowstone Trail Association.

There are many small shops along the route through Wisconsin. In one antique shop just off the old highway, I found a copy of an old baseball yearbook that proudly proclaimed the Chicago Cubs as World Champions. This year marks the 95th anniversary of that championship, the most recent for my beloved Cubs. Some anniversaries are harder to celebrate than others.

One anniversary that I look forward to celebrating this fall is the 10th anniversary of the Nobel Prize in economics being awarded to cliometricians Robert Fogel and Douglass North. I have not yet finalized any plans for an appropriate way to acknowledge this anniversary in the *Newsletter*, so if you have any ideas, be sure to let me know. Until then, enjoy what remains of your summer, and best of luck in the upcoming semester.

Salutations dear members,

The Editor
Michael J. Haupert

# Call for Papers

## Fifth World Congress of Cliometrics

### Venice, Italy
### July 8-11, 2004

The Fifth World Congress of Cliometrics will be held July 8-11, 2004, at Venice International University, Venice, Italy. Members of sponsoring organizations are invited to submit proposals to present a paper at the Congress. Interested members can obtain details at www.eh.net/Clio/WCC5/, and proposals may be submitted after September 1 there. The deadline for the submission of proposals is November 15, 2003.

The Program Committee will put together an international program from the proposals sent by applicants to the Conference. The sponsoring organizations include the Cliometric Society, the European Historical Economics Society, the Economic History Society of Australia and New Zealand, and the Canadian Network for Economic History. The organizing and program committees consist of Lee Craig, Price Fishback, Albrecht Ritschl, and Gianni Toniolo.

Following tradition, papers will be published in the Congress Book; thus authors of accepted papers must agree to submit their paper by April 1, 2004. Participants will receive their copies of the Congress Book in advance. Also, sessions will be held in the traditional Cliometrics Conference format: instead of formal presentations, authors will provide a brief introduction to their work, followed by an extended period of discussion involving all session participants. Thus, participants will be expected to read the papers prior to the Congress.

The schedule is as follows:

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|---|---|
| Proposals may be submitted: | September 1, 2003 |
| Proposals due: | November 15, 2003 |
| Authors notified of acceptance of paper: | December 20, 2003 |
| Paper summaries due: | April 1, 2004 |

Registration for members of sponsoring organizations who wish to attend but not present a paper will be conducted online at www.eh.net/Clio/WCC5/ after September 1.

*Some travel monies will be available for Ph.D. students. The organizing committee will allocate those monies. Interested Ph.D. students should submit via the website a proposal for the Conference along with a letter of recommendation from their advisor.*

The Newsletter of

# *The Cliometric Society*

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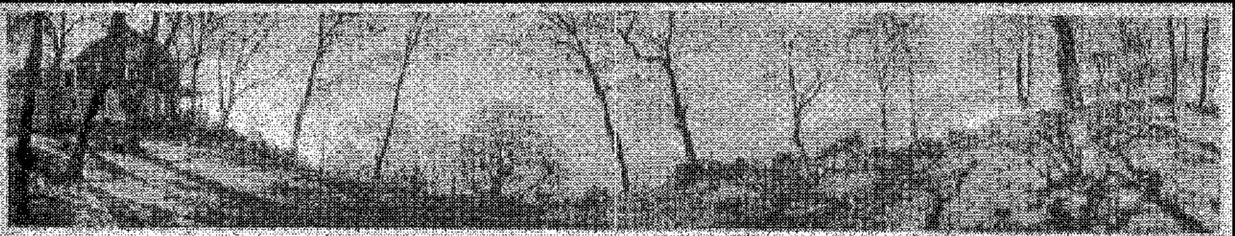

Eagle's Nest, N.C. c1910

## Report on the 42nd Annual Cliometrics Society Conference

By Marina Adshade, Queen's University, Chris Hoag, Cal Tech, and James Walker, LSE

(Raleigh) Not since Sherman's march to the sea had the South seen an invasion the likes of the gathering of Clioms for their 40th annual conference, held in beautiful Raleigh, North Carolina, May 23-25, 2003. Lee Craig (North Carolina State), Price Fishback (Arizona), Paul Rhode (North Carolina), and Mike Haupert (Wisconsin-La Crosse) arranged the program. The weather was threatening, but the presentations were lively and the discussion invigorating, befitting of a Clio invasion.

The conference commenced on Friday afternoon with a presentation by **Benjamin Chabot** and **Christopher Kurz** (both Michigan), who test the accepted hypothesis that an irrational bias against domestic investment led to the unprecedented growth in international investment by British investors for the period 1866-1885. They argue that previous studies in this area have ignored the benefits derived from diversifying when the covariance between the return on foreign assets and an investor's consumption is low. Using a large cross section of asset returns for London and the US and by conducting mean-variance spanning tests, Chabot and Kurtz reject the hypothesis that London investors acted irrationally when purchasing foreign assets. They estimate the diversification benefits of holding domestic assets with a low correlation to their domestic counterparts to be 5-8% of permanent consumption.

Gerald Friedman (Massachusetts) began the discussion by asking if Britain might have been better off had it banned capital exports. Alan Olmstead (UC-Davis) stated that the diversification argument only makes sense if individual investors diversified as opposed to national diversification. The authors cited advertisements of the period targeting the small investor looking to diversify as support for their assumption of individual diversification. Gary Richardson (UC-Irvine) wondered if British investors were behaving rationally, given the economic theories of the time, and wanted to know if there was perhaps an externality in that the British exported both money and technology. Haggay Etkes (Tel Aviv) suggested looking at investment handbooks

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