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Article

Development of the American economy

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Program Report

Development of the American Economy

Claudia Goldin*

The NBER's Program on the Development of the American Economy (DAE) investigates long-run economic development and growth, with specific attention to the United States. The DAE's broad mandate means that its members work on subjects studied in all the other NBER programs combined, for example public finance, health, aging, trade, and productivity. The research of DAE members spans the full three centuries of American economic history and, for those studying comparative economic history, the temporal bounds are even wider.

Given DAE's breadth of subject matter and time periods, this report must highlight only a few areas that have engaged DAE members during the past two years. Some involve government and the economy, whereas others are related to health, nutrition, and mortality. The report ends with research on the history of the NBER and information about the NBER's historical archives.

Government and the Economy

The Impact of New Deal Spending

Was New Deal spending consistent with Roosevelt's promise of the "3 R's: Relief, Recovery, and Reform"? The answer, according to Price V. Fishback, Shawn Kantor, William C. Horace, and associates, is that some projects were highly successful whereas others were not.¹

Their reevaluation of the economic impact of the New Deal points to the importance of examining separate programs rather than aggregate spending. Expenditures on large-scale public works, including dams, roads, and major sanitation projects, were strong stimuli for local economies. An additional dollar of spending per capita on such projects raised per capita income by roughly two dollars and, not surprisingly, stimulated in-migration. Relief spending produced somewhat smaller income multipliers, contributed to increased home-ownership rates, and helped reduce infant mortality rates.² Not surprisingly, relief spending bore little relation to in-migration because of the residency requirements established by local relief administrators. Spending on crop reduction

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through the Agricultural Adjustment Act (AAA) benefited large landowners at the expense of farm workers, had no positive effect on retail sales, and was associated with extensive out-migration.

What of the geographic distribution of New Deal funds? Were funds doled out to states and districts that would assure and solidify the Democratic majority in Congress? In a program-by-program analysis at the county level, Fishback, Kantor, and John Wallis find that although relief programs were consistent with the Roosevelt administration's high-minded motives, other programs disproportionately distributed money to high-income districts.³ In all cases though, the authors find that, at the margin, funds were used for presidential politicking. Roosevelt's re-election success in 1936 was based on developing specific programs for a wide range of constituents and delivering on stated goals, while also spending more at the margin for political advantage.

State Constitutions

In May 1776, a decade before the national government took up its constitutional form, the Continental Congress asked the states to write their constitutions. Throughout the nation's history, state constitutions have been written, rewritten, and amended. To date there have been 150 state constitutions, with more than 10,000 amendments. At the center of Wallis's project on state constitutions is the construction of an accurate, comprehensive record of these documents from 1776 to the present.

State constitutions provide an unrivaled source of historical information on state governments and state economies since the inception of the nation. The first state constitutions, for example, said nothing about how private corporations would be created. But by the 1830s it was clear that the creation of corporations on a case-by-case basis was time consuming and encouraged the creation of special privileges. Beginning in the 1840s, the relevant limits and possibilities of the corporate form were determined by the states and the framework for corporate regulation was laid out in state constitutions.

With a state constitution database one could track how corporation policy, state taxation and finance limitations, suffrage, banking regulations, resource use, and education policy, for example, differed across states and changed over time. Wallis began such a project and it is now more than halfway complete. A project web site ("States Constitutions Project" under

www.nber.org/data) enables researchers to access complete versions of state constitutions, to search and download constitutional text by article and section, and to search complete constitutional texts and amendments by keyword. Constitutional histories are now available for 12 states (that number that should rise to over 20 this summer) and full texts can be accessed for all nineteenth century constitutions. At the conclusion of the project, Wallis plans to provide a full index of all articles and sections of every state constitution.

Corruption and Reform

Edward L. Glaeser (a member of the NBER's Labor Studies Program) and I have launched a new DAE initiative on the roots of reform in America. The initiative is motivated by current concern with corruption in transition and developing economies. Corruption was rampant in late nineteenth century America and in 1900 most Americans were inured to political graft. Yet by 1940 Americans had cleaned up the most flagrant abuses of political power, even if some still remain. The question is how this turnaround was accomplished. A pre-conference on "Corruption and Reform" was held July 14, 2002 and was attended by economists, historians, and political scientists who discussed presentations by Glaeser on the regulatory state, William Novak (University of Chicago Law School) on progressivism, and DAE Program member Lee Alston on corruption in history and economic development.⁴

Health, Mortality, and Nutrition over the Long Run

DAE researchers have been piecing together the reasons for the long-run decline in mortality in the United States and their results have implications for future changes in life expectancy.

According to Haines, an urban existence in nineteenth and early twentieth century America was far less

healthy than one in the countryside.⁵ The increased urbanization that accompanied economic growth therefore meant a lower mean life expectancy in the nation as a whole. But by 1940 the tide had turned, largely because of urban public works and greater scientific knowledge about disease. With the elimination of the urban mortality penalty, city growth could proceed without the more serious tradeoffs of the past. In the nineteenth century, even within the healthier rural communities, "wealthier meant healthier," according to research by Joseph Ferrie.⁶ The ensuing urbanization of America, therefore, served to worsen already existing mortality differences by socioeconomic status.

Dora L. Costa's research has focused on adult mortality risks stemming from various conditions experienced early in an individual's life, including urban residence, infectious disease, abdominal fat, weight especially at birth, and stature.⁷ According to Costa, urban residence at young ages increased the mortality risks experienced by former Union Army soldiers later in their lives. Similarly, greater amounts of abdominal fat and various infectious diseases suffered in young adulthood increased the risk of mortality as adults. American men have increased in stature and bulk since the early twentieth century, but have less abdominal fat now than in the past (hard to believe, but true). These changes, reports Costa, can explain about three-fifths of the decline in white male mortality between 1915 and 1988. Costa's analysis predicts major further declines in older age mortality as those who experienced less infectious disease early in their lives and who are taller and heavier (but without excessive abdominal fat) reach their senior years.

Richard H. Steckel's research has extended our knowledge of health and nutrition back to the early Middle Ages.⁸ Using data from both skeletal remains and military records, Steckel finds that from around the fourteenth to the eighteenth centuries the average height of Europeans decreased by about 7.6 centimeters or approximate-

ly twice the reduction accompanying industrialization. Many factors were responsible for this deterioration, including increased trade and European colonization, both of which spread disease. But the increase in heights after the eighteenth century was also the result of trade that increased food sources in Europe. Globalization, in the past and present, has had mixed consequences.

NBER History and the NBER Historical Archives

The NBER was founded in 1920 as a "private, non-profit research organization ... devoted to objective quantitative analysis of the American economy." The idea for the NBER arose out of progressive era debates in the New York State legislature. Those in favor of the minimum wage were pitted against those who were opposed to the legislation. During the hearings of the New York State Factory Investigating Committee in 1915 it became clear to Malcolm C. Rorty, who opposed minimum wage legislation, and Nahum I. Stone, who supported it, that neither had the requisite and objective data with which to formulate policy. Rorty and Stone joined forces and raised funds to support a new organization. The organization was christened the National Bureau of Economic Research and Wesley C. Mitchell of Columbia University became its first Director of Research.

The early history of the NBER has been recounted in an engaging and informative essay by Solomon Fabricant.⁹ Portions of NBER history are included in autobiographies, such as those by Milton and Rose Friedman and Lucy Sprague Mitchell, and in various NBER volumes.¹⁰ Robert Fogel's recent essay on Simon Kuznets extends this history and concerns the life's work of one of the most important researchers in the history of the NBER.¹¹

Kuznets made numerous contributions to economics, many of which were developed when he worked at the NBER in New York City. His work on

national income accounting was, perhaps, his most important project. It was also timely. As the nation fell into its deepest depression after 1929, no one was certain how much national income had declined. The federal government lacked the machinery to produce national income statistics and, moreover, Kuznets had recently developed much of the analytical framework. In 1932, after the U.S. Senate mandated that the Department of Commerce construct estimates of national income, the federal government "borrowed" Kuznets from the NBER for two years to help formulate its system of national accounts. A decade later, at the start of U.S. involvement in World War II, Kuznets was instrumental in helping the federal government set war production targets. Kuznets was, according to Fogel, "a pivotal figure in the transformation of economics from a speculative and ideologically-riven discipline into an empirically based social science." Fogel's essay discusses the income accounting project as well as Kuznets's work on economic growth, population, and distribution, some of which he produced during his tenure at the NBER.

Robert Gallman was a graduate student of Kuznets at the University of Pennsylvania in the early 1950s and it was then that Gallman began his lifelong work on the U.S. capital stock and national income. Gallman's work on the capital stock and national income extended Kuznets's series back to 1839 and made important refinements to the existing data. Much of his work on these subjects is included in various NBER conference volumes, but he never lived to publish a book containing his latest estimates and interpretations of them.¹² Robert Gallman died at age 72 in November 1998. The DAE lost a warm, compassionate friend and the NBER lost a great researcher whose work was central to the NBER's founding mission. Gallman left an unfinished manuscript, numerous notes, and an important "underground" annual series of national income statistics. Paul W. Rhode has agreed to assemble these materials in a book-length volume, and

the first installment is a paper setting forth the "underground" series, "Gallman's Annual Output Series for the United States, 1834-1909."¹³ We are indebted to Paul Rhode for ensuring that we can all learn from the wisdom of a perfectionist's labors.

Much of the NBER's history is yet to be written. To aid future researchers and to preserve the history of the NBER, I have begun an oral (videotaped) history of researchers who worked at the NBER at some time from the 1940s to the 1960s. The videotapes, NBER Annual Reports, financial reports, the occasional papers, and all NBER books and conference volumes are stored at the Cambridge offices of the NBER in its historical archives and await researchers who want to recount the glorious history of the NBER.

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² P. V. Fishback, M. Haines, and S. Kantor, "Welfare of Children during the Great Depression," NBER Working Paper No. 8902, April 2002.

³ P. V. Fishback, S. Kantor, and J. J. Wallis, "Can the New Deal's Three R's Be Rehabilitated? A Program-by-Program, County-by-County Analysis," NBER Working Paper No. 8903, April 2002.

⁴ E. L. Glaeser and A. Shleifer, "The Rise of the Regulatory State," NBER Working Paper No. 8650, May 2001.

⁵ M. Haines, "The Urban Mortality Transition in the U.S., 1800-1940," NBER Historical Working Paper No. 134, July 2001.

⁶ J. P. Ferrie, "The Poor and the Dead: Socioeconomic Status and Mortality in the U.S., 1850-1860," NBER Historical Working Paper No. 135, August 2001.

⁷ D. L. Costa, "Understanding Mid-Life and Older Age Mortality Declines: Evidence from Union Army Veterans," NBER Working Paper No. 8000, November 2000; and "The Measure of Man and Older Age Mortality:

Evidence from the Gould Sample," NBER Working Paper No. 8843, March 2002.

⁸ R. H. Steckel, "Health and Nutrition in the Preindustrial Era: Insights from a Millennium of Average Heights in Northern Europe," NBER Working Paper No. 8542, October 2001.

⁹ S. Fabricant, "Toward a Firmer Basis of Economic Policy: The Founding of the National Bureau of Economic Research," 1984, at:

www.nber.org/nberhistory/sfabricant.pdf.

¹⁰ M. Friedman and R. D. Friedman, *Two Lucky People: Memoirs*, Chicago: University of Chicago Press, 1998; and L. S. Mitchell, *Two Lives: The Story of Wesley Clair Mitchell and Myself*, New York: Simon and Schuster, 1953.

¹¹ R. W. Fogel, "Simon S. Kuznets: April 30, 1901 - July 9, 1985," NBER Working Paper No. 7787, July 2000.

¹² R. E. Gallman, "Commodity Output, 1839-1899," in *Trends in the American Economy in the Nineteenth Century*, W. N. Parker, ed., *Studies in Income and Wealth*, Vol. 24, Princeton: Princeton University Press, 1960, pp. 13-67; and "Gross National Product in the United States, 1834-1909," in *Output, Employment, and Productivity in the United States after 1800*, D. S. Brady, ed., *Studies in Income and Wealth*, Vol. 30, New York: Columbia University Press, 1966, pp. 3-76; R. E. Gallman and T. Weiss, "The Service Industries in the Nineteenth Century," in *Production and Productivity in the Service Industries*, V. R. Fuchs, ed., *Studies in Income and Wealth*, Vol. 34, New York: Columbia University Press, 1969, pp. 287-381; R. E. Gallman, "The United States Capital Stock in the Nineteenth Century," in *Long-Term Factors in American Economic Growth*, S. L. Engerman and R. E. Gallman, eds., *Studies in Income and Wealth*, Vol. 51, Chicago: University of Chicago Press, 1986, pp. 165-213; Robert E. Gallman, "American Economic Growth before the Civil War: The Testimony of the Capital Stock Estimates," in *American Economic Growth and Standards of Living before the Civil War*, R. E. Gallman and J. J. Wallis, eds., Chicago: University of Chicago Press, 1992, pp. 79-115.

¹³ P. W. Rhode, "Gallman's Annual Output Series for the United States, 1834-1909," NBER Working Paper No. 8860, April 2002.