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Program Report

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The Development of the American Economy

Claudia Goldin*

The research interests of Development of the American Economy (DAE) program members are expansive. Temporally, their work has spanned virtually all of recorded history; geographically, it has traversed much of the globe; by economic sub-field, it can be included in each of the other NBER programs. That said, most DAE members explore the economic history of the last two centuries. Much of their work places the United States at the center, although interest in comparative economic history has grown considerably.

What is the field of economic history? Are economic historians “economists who use data from more distant periods”? Economic history is a distinctive discipline that views issues from a long-term perspective. History is a seamless cloth that can be unfolded to the present and that is regularly rewritten as the issues of the present change. In summarizing the research of DAE members, I will emphasize how the work addresses current issues and concerns. The summary includes many, but could not include all, of the Working Papers and books published in the past year or two by the more than 50 Research Associates and Faculty Research Fellows of the DAE.

The research topics of DAE members can be grouped under four broad headings: Political Economy; Labor and Population; Productivity; and Financial History and Macroeconomic Fluctuations. DAE members publish books in the *Long-term Factors in Economic Development* series, as well as NBER Working Papers and conference volumes.

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Political Economy

The area of political economy has been one of the most vibrant in the DAE Program. Corruption in the political sphere is a subject of great current interest. Was government in the United States once considerably corrupt, just as developing and transition economies are today, and did it subsequently become less corrupt as it underwent various reforms? Edward L. Glaeser and I, together with various DAE members and others, assembled a conference in July 2004 to explore these questions. The resulting volume, *Corruption and Reform: Lessons from America's Economic History* (University of Chicago Press, 2006), makes several contributions in measuring the rise and fall of corruption in the United States, examining the factors that fostered reform (for example, rules rather than discretion in New Deal, strong and independent press), and exploring interrelationships between governmental corruption and private fraud. The weight of the evidence suggests that governments at all levels in the United States were far more corrupt in the past and that a series of reforms and public awareness turned the tide.

In a series of influential papers, Stanley L. Engerman and Kenneth L. Sokoloff have explored the enduring role of initial conditions, such as colonial land-to-labor ratios and economic inequality, on later economic development. Greater inequality, which often accompanied slavery, stifled investments in education and thus lowered economic growth. The locus of government — why states, and not the federal government, were once the main spending units — has concerned John J. Wallis in several of his papers. In previous work, Wallis emphasized the fiscal angle and devised a theory of the lowest cost revenue raiser. But in a recent paper with Barry Weingast, he answers the question from a political standpoint. When government is small, the nation is geographically large, and projects are lumpy, Congress cannot agree on spending; thus the funding of projects takes place at a lower level, for example the states in the early nineteenth century. Other work in political economy includes an examination of

the reasons for the adoption of state fair housing laws prior to federal legislation in 1968 by William J. Collins, and Gary D. Libecap's reassessment of the celebrated purchase of water rights by Los Angeles in the early twentieth century (shades of "Chinatown").¹

Labor and Population

Several researchers in the DAE Program have explored long-term trends in women's economic status. The papers include my work on the career and family decisions made by college graduate women across the past century and, in a separate paper, the reasons why women were able to break through barriers in the post-1970s era and enter the most prestigious professions in large numbers. Collins and co-author Martha Bailey reexamine the significant narrowing of differences in earnings of women by race in the 1940s and find that factors observable to the researcher are less important than changes in the returns to those factors.

Dora Costa and co-author Matthew Kahn have cleverly mined the Union Army records to understand various issues of current importance to a nation at war, such as the consequences of desertion for the individual, the role of diversity in creating a cohesive fighting unit, and the treatment of prisoners of war.²

A significant body of work has been produced by DAE members on aspects of health, morbidity, and mortality. Werner Troesken's recent contribution, *Water, Race, and Disease*, examines the paradoxical increase in life expectation among African-Americans in the early twentieth century U.S. South at the same time that their civil rights were being eviscerated. Troesken reconciles these two divergent trends by noting that the close residential proximity of the two groups meant that clean water and sewerage separation were health issues for all in the South. In

related work, Troesken and Joseph Ferrie show that clean water was responsible for the lion's share of the mortality decline in U.S. cities in the nineteenth and early twentieth centuries.³

In other health related research, Robert Fogel has used historical trends to predict that fully one-half of the cohorts born in the 1980s will live to be centenarians. Not only will lifetimes continue to increase, but because the onset of disabilities has risen, longer lifetimes will also be higher quality ones. Although revisionist economic history has given the 1930s New Deal little credit for ending the Great Depression, and some have even credited the policies with prolonging the downturn, the good news is that New Deal policies were beneficial to the nation's health, particularly infants, according to a study by Price Fishback, Michael Haines, and Shawn Kantor. According to work by Melissa Thomasson and co-author, the shift from home to hospital births in the early twentieth century first increased maternal mortality, and only after the introduction of sulfa drugs in 1937 were hospital births beneficial to mothers. Richard Steckel, taking a longer view of the topic of health and using information from skeletal remains, finds that Western Hemisphere populations migrated into less healthy environments during pre-Columbian times, but the reasons for the moves are not yet understood.⁴

Nineteenth century America, it is generally believed, was a meritocracy whereas much of Europe was an aristocracy. Americans were not prisoners of their family background. Rather, a person could do better (or worse) than his parents (in addition to doing far better absolutely than in Europe). Joseph P. Ferrie and co-author Jason Long confront these widely held notions about intergenerational mobility and compare economic mobility in England with that

in the United States from the 1800s to the present. They find that there was greater intergenerational mobility in America until about 1900, but about the same level from 1950 to the present. Geographical mobility, however, was and still is considerably higher in the United States, even after adjusting for geographic differences in the two nations. Lee Alston and Ferrie examine social mobility among agricultural workers in the early twentieth century and find that the agricultural ladder was not as slippery and grim as generally depicted.⁵

Hundreds of riots struck major American cities in the 1960s resulting in death, injury, and often the complete razing of the poorest sections. Parts of these cities recovered rapidly but most remained urban deserts for long periods. Robert A. Margo and Collins assess the short- and long-run impacts of the riots and find that the employment opportunities for African-Americans, and thus their incomes, suffered badly even after several decades and that property values remained depressed.⁶

Productivity

Productivity as the engine of economic growth and the institutions that foster inventiveness are the subjects of B. Zorina Khan's recent volume, *The Democratization of Invention*. In it she explores the evolution of intellectual property rights and the ways in which U.S. policies and institutions, such as the patent and copyright systems, fostered the expansion of markets and the creation of national wealth. In related work, Khan and Sokoloff explore the backgrounds of great inventors to understand how the U.S. patent system fostered seemingly obscure individuals to invent.⁷

The United States did not exceed the United Kingdom in per capita income until the late nineteenth century, according to most economic history

accounts. But its labor force was considerably more agricultural than was Britain's throughout the nineteenth century. These two facts raise the distinct yet ironic possibility that America was more productive in the fastest growing sector — manufacturing — than was the world's first industrial economy. That conjecture is explored by Douglas A. Irwin and co-author Stephen N. Broadberry who find that Britain led the United States in labor productivity in services, the two were about equal in agriculture, but America led in industrial labor productivity from 1840. The catch-up of the United States to Britain in per capita GNP came about mainly because of a shift out of low-productivity agriculture but also because service productivity increased relatively in the United States.⁸

If a nation at war can mobilize rapidly, then productivity and national income are less negatively affected during and immediately after the conflict. Hugh Rockoff investigates the degree to which the United States mobilized during World War I and finds, contrary to the conventional wisdom on this brief engagement, that mobilization was rapid and effective.⁹

Financial History and Macroeconomic Fluctuations

A large and growing group of researchers in the DAE have been exploring U.S. financial history and the impact of U.S. foreign policy and military action on world financial markets. One fascinating example is the demonstration by Kris J. Mitchener and Marc D. Weidenmier that the Roosevelt Corollary to the Monroe Doctrine—that the United States had the right to intervene in Central America and the Caribbean—plus gunboat diplomacy stabilized debt markets and increased trade. In a related paper the authors measure the degree to which “super-

sanctions,” such as the use of military action in the face of default, decreased ex ante measures of default.¹⁰

Does trade foster democracy? That is the question Christopher M. Meissner and co-author pose and answer in the affirmative, for the post-1895 period, using a gravity model of trade to identify the causal impact of openness on democratization. Michael Bordo and Meissner show that for 30 countries from 1880 to 1913, foreign currency debt increased debt crises and banking crises. Richard E. Sylla, John J. Wallis, and co-author explore the causes of the state defaults of the early 1840s when eight states and the Territory of Florida reneged on their bonds. Contrary to popular wisdom, the authors dismiss an explanation that blames the defaults on the recession of 1837 and advance one that emphasizes losses in land revenue and fiscal irresponsibility for the delay in raising property taxes.¹¹

In work that continues one of the mainstays of NBER research, Joseph H. Davis has constructed a new (and better) pre-World War I chronology of U.S. business cycles that alters more than 40 percent of the peak and troughs. How did Joe Davis improve upon the pioneering works of Wesley Mitchell, Geoffrey Moore, Willard Thorp, and Victor Zarnowitz, among others at the NBER and elsewhere? He did it by unearthing new long-run, consistent industrial series for a lengthy list of goods. His remarkable achievement, on which the business cycle dating paper rests, can be found in the November 2004 issue of the *Quarterly Journal of Economics*.¹²

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² C. Goldin, “From the Valley to the Summit: The Quiet Revolution that Transformed Women's Work,” NBER Working Paper No. 10335, March 2004; C. Goldin, “The Long Road to the Fast Track: Career and Family,” NBER Working Paper No. 10331, March 2004; M. J. Bailey and W.J. Collins, “The Wage Gains of African American Women in the 1940s,” NBER Working Paper No. 10621, July 2004; D. Costa and M. Kahn, “Forging a New Identity: The Costs and Benefits of Diversity in Civil War Combat Units for Black Slaves and Freeman,” NBER Working Paper No. 11013, December 2004; D. Costa and M. Kahn, “Shame and Ostracism: Union Army Deserters Leave Home,” NBER Working Paper No. 10425, April 2004.

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