

Unfreedom (February 26, 2020b)

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Spring 2019
Evans 648
W 1:10-3:00 pm

<<https://bcourses.berkeley.edu/courses/1487686/>>

<<https://github.com;braddelong/public-files/blob/master/econ-210a-lecture-6b.pptx>>

Assignment: Unfreedom

What relevance and use does a work like Karl Marx and Friedrich Engels (1848), "Manifesto of the Communist Party" have to twenty-first century economists today?

Readings:

- Karl Marx and Friedrich Engels (1848): *Manifesto of the Communist Party* <<http://www.marxists.org/archive/marx/works/1848/communist-manifesto/>>
- Stanley Engerman and Kenneth Sokoloff (1994): *Factor Endowments, Institutions and Differential Paths of Development among New World Economies* <<http://papers.nber.org/papers/h0066>>
- **Put off to March 4:** Nathan Nunn (2008): *The Long-Term Effects of Africa's Slave Trades* <<http://www.jstor.org/stable/pdfplus/25098896.pdf>>

Reading Marx and Engels

Karl Marx and Friedrich Engels (1848): Manifesto of the Communist Party

<<http://www.marxists.org/archive/marx/works/1848/communist-manifesto/>>:

- The *bourgeoisie* has played a most revolutionary role in history...
- Previous upper classes consumed and wasted...
- This upper class invests and pushes forward technological development
 - Because increasing returns mean that if you don't keep up, you go bankrupt—and join the proletariat



Contrast with Adam Smith

Adam Smith:

- Property, contract, “easy taxes”, & the division of labor get us as close to utopia as is humanly attainable...
 - “a general plenty diffuses itself through all the different ranks of the society. Observe the accommodation of the most common artificer or day-labourer in a civilised and thriving country, and you will perceive that the number of people of whose industry a part... has been employed in procuring him this accommodation, exceeds all computation..."
- But many requirements in addition...

Contrast with Adam Smith II

But many requirements in addition:

- Freedom—no slavery, no serfdom
- Overcoming the “love to domineer”
- State capacity—trade away your retainers for conveniences and luxuries
- Government providing national defense
- Government providing infrastructure
- Government providing public education
- Enforcing the government’s property-rights order against roving bandits, local notables, and the government’s own functionaries is no joke...

Contrast with Adam Smith III

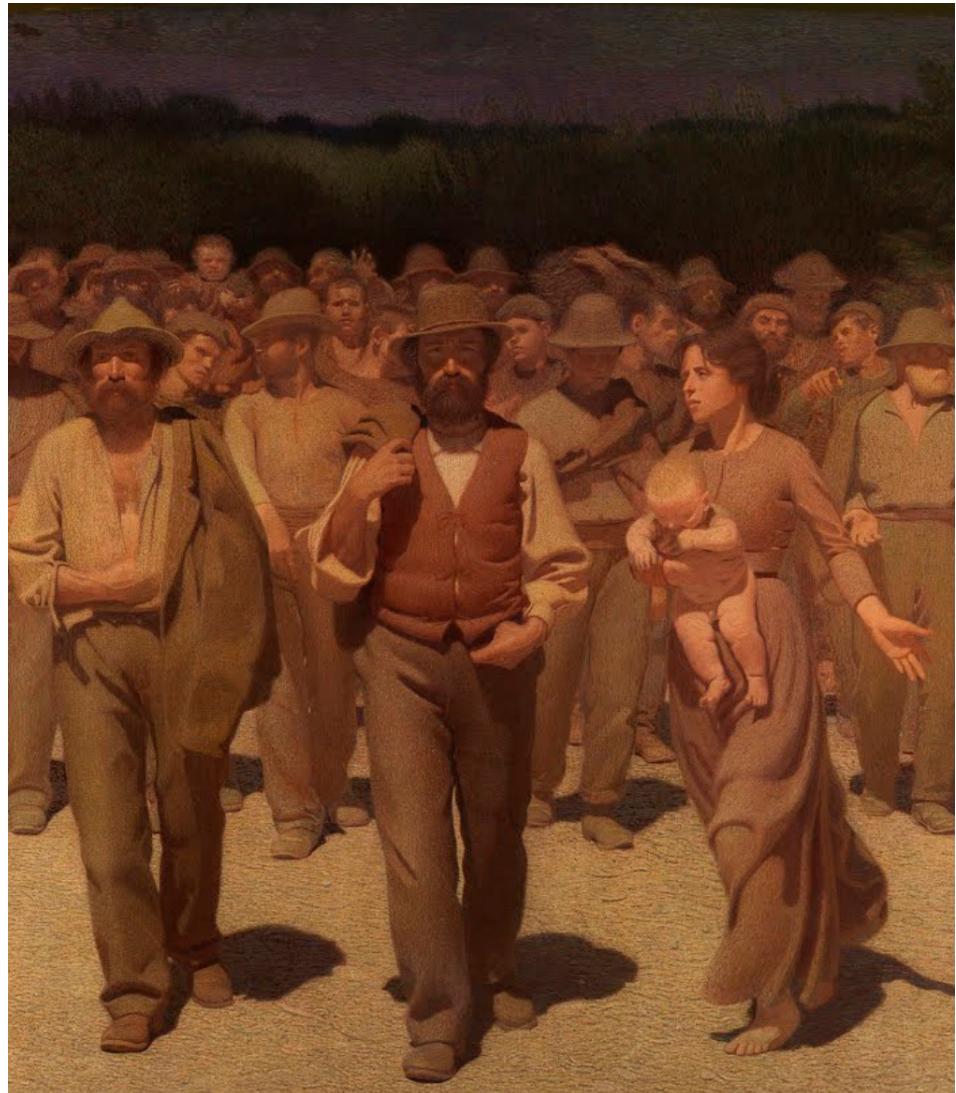
Holes in the argument:

- It's the “system of natural liberty”, but it doesn't develop *naturally* save in western Europe (and perhaps in China, or rather in Smith's image of China...)
- Hunter, shepherd, agrarian, commercial societies—the move to the last requires a long period of political-social development
- The division of labor is determined by the extent of the market; but Smith's example is of a command-and-control division of labor: a pin factory
- Smith has no clue as to what is coming with non-human power—although he does see something like the assembly line
- The Malthusian demon lurks in the back of Smith's argument (even an 0.44%/yr Industrial Revolution ideas-stock growth rate soaked up by population growth of 0.88%/yr: you don't get to the demographic transition).

Reading Marx and Engels

The market economy cannot produce an acceptable distribution of wealth:

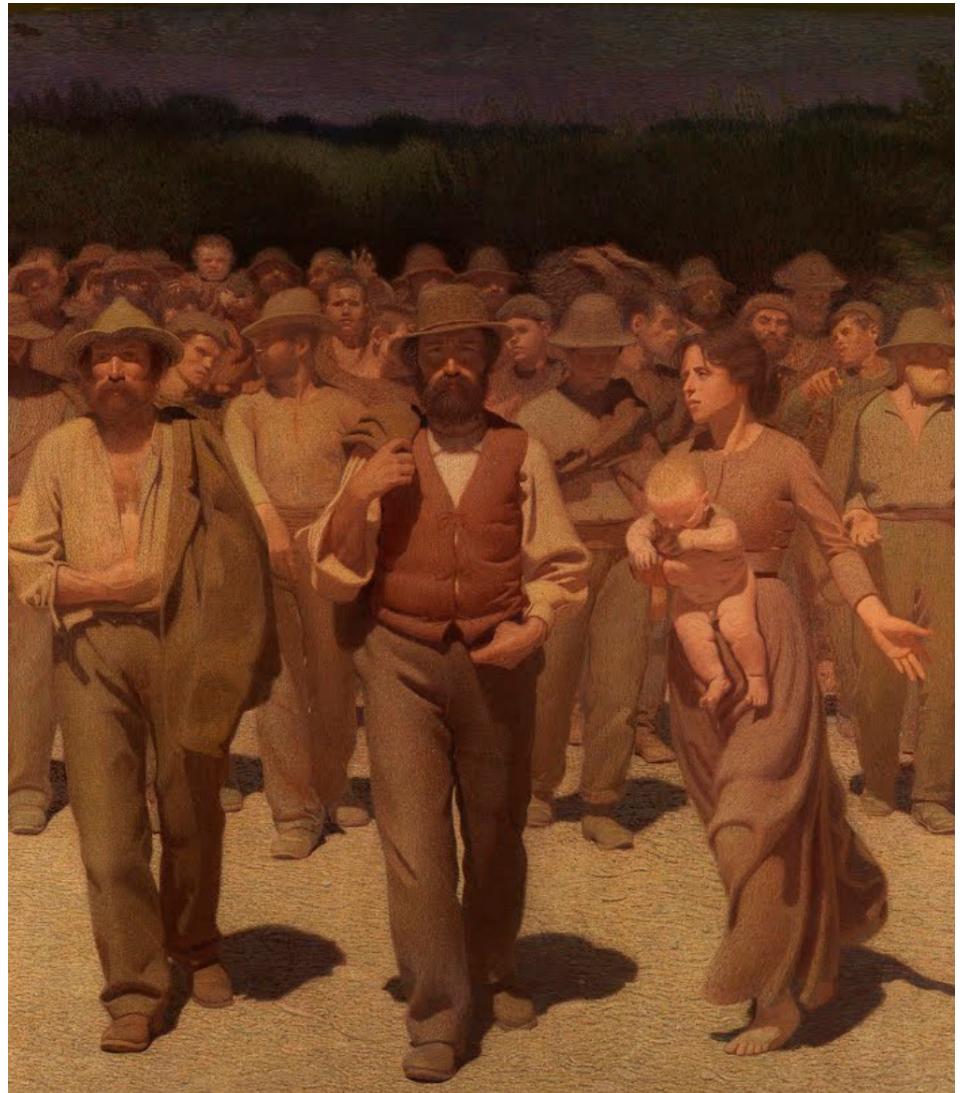
- Why not? Marx disappears into the swamp of the labor theory of value
- Marx confuses the physical capital-output ratio with the value capital-output ratio
- Marx assumes a floor to the rate of profit
- So accumulating capital pushes wages down to subsistence
- Then with further accumulation wages need to fall further, but can't
- So profit expectations are disappointed—a capital strike follows
- So financial crisis, depression, destruction of capital, &c.
- & then the process starts over again at a higher intensity
- & eventually the Revolutionary Moment comes...



Reading Marx and Engels

Then with further accumulation wages need to fall further, but can't:

- So profit expectations are disappointed—a capital strike follows
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Full Communism!

& eventually the
Revolutionary
Moment comes...:

- FULL COMMUNISM!
- A free and democratic society
of associated producers
- (Contrast with Germany 1919)



Reading Engerman and Sokoloff

Stanley Engerman and Kenneth Sokoloff (1994): Factor Endowments, Institutions and Differential Paths of Development among New World Economies <<http://papers.nber.org/papers/h0066>>:

- Engerman and Sokoloff: A historical take on the “reversal of fortune” and “institutions” literatures...
- Variables that “win” regressions:
- Not in sub-Saharan Africa
- Distance from the equator
- Source of your colonial settler population or your colonial administrators (“legal origins”)
- Investment—especially equipment investment
- Look for instruments?
- Adding instruments—even invalid instruments—raises the r² of the first stage...
- If you have “a lot” of instruments, you will get OLS...
- Staiger and Stock: need 10-20 observations per instrument...
- Tell stories?
- Correlations, causal experiments, case studies...

Patterns of Net Migration To, And
Wealthholding In, Categories of British Colonies

	New England	Middle Atlantic	Southern	West Indies				
Net Migration (000) to	#	row %	#	row %	#	row %	#	row %
Whites, 1630-1680	28	11.0	4	1.6	81	31.9	141	55.5
Whites, 1680-1730	-4	-1.8	45	19.9	111	49.1	74	32.7
Whites, 1730-1780	-27	-10.7	101	40.1	136	54.0	42	16.7
Overall Whites, 1630-1780	-3	-0.4	150	20.5	328	44.8	257	35.1
Blacks, 1650-1680	0	-	0	-	5	3.7	130	96.3
Blacks, 1680-1730	2	0.47	5	0.9	64	12.0	461	86.7
Blacks, 1730-1780	-6	-0.9	-1	-0.2	150	23.4	497	77.7
Overall Blacks, 1650-1780	-4	-0.3	4	0.3	219	16.8	1088	83.2
Total, 1630-1680	28	7.2	4	1.0	86	22.1	271	69.7
Total, 1680-1730	-2	-0.3	50	6.6	175	23.1	535	70.6
Total, 1730-1780	-33	-3.7	100	11.2	286	32.1	539	60.4
Overall Total, 1630-1780	-7	-0.3	154	7.6	547	26.8	1345	66.0

Wealthholding, c. 1774

Total Wealth Per Capita (f)	36.6	41.9	54.7	84.1
Nonhuman Wealth Per Capita (f)	36.4	40.2	36.4	43.0
Total Wealth Per Free Capita (f)	38.2	45.8	92.7	1200.0
Nonhuman Wealth Per Free Capita (f)	38.0	44.1	61.6	754.3

Engerman and Sokoloff: “Reversal of Fortune” and “Institutions” Literatures

- Variables that “win” regressions:
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 - Investment—especially equipment investment
- Look for instruments?
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- Tell stories?

New World Populations

The Distribution and Composition of Population

In New World Economies

Panel A

<u>Composition of Population</u>	White (%)	Black (%)	Indian (%)	Share In New World Population
<u>Spanish America</u>				
1570	1.3%	2.5%	96.3%	83.5%
1650	6.3	9.3	84.4	84.3
1825	18.0	22.5	59.5	55.2
1935	35.5	13.3	50.4	30.3
<u>Brazil</u>				
1570	2.4	3.5	94.1	7.6
1650	7.4	13.7	78.9	7.7
1825	23.4	55.6	21.0	11.6
1935	41.0	35.5	23.0	17.1
<u>U.S. and Canada</u>				
1570	0.2	0.2	99.6	8.9
1650	12.0	2.2	85.8	8.1
1825	79.6	16.7	3.7	33.2
1935	89.4	8.9	1.4	52.6

New World Growth

GDP per capita in 1985 U.S. \$

	<u>1700</u>	<u>1800</u>	<u>1850</u>	<u>1913</u>	<u>1989</u>
Argentina	-	-	\$874	\$2,377	\$3,880
Barbados	\$736	-	-	-	5,353
Brazil	-	\$738	901	700	4,241
Chile	-	-	484	1,685	5,355
Mexico	450	450	317	1,104	3,521
Peru	-	-	526	985	3,142
Canada	-	-	850	3,560	17,576
United States	490	807	1,394	4,854	18,317

Engerman and Sokoloff: Very Long Run Consequences of Being Ruled by Slave- or Serf-Masters

- Different labor systems as the result of the luck of history and “factor endowments”
- How do you establish an unfree labor system?
- How do you maintain an unfree labor system?
- What does having an unfree labor system do to elite incentives?
- Does the elite control the economy? If so, does it control it in its long-run interest?

TABLE 4
The Record of Gross Domestic Product
Per Capita in Selected New World Economies:
1700-1989

	GDP per capita in 1985 U.S. \$				
	1700	1800	1850	1913	1989
Argentina	-	-	\$874	\$2,377	\$3,880
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Assignment Next Time:

Women and Children

Essay Topic:

- The most important economic change of the past two centuries has been the shift from a "Malthusian" world—in which the typical woman and her children live near subsistence, with the absence of infant formula and easy artificial family planning mechanisms plus the desire to have surviving descendants in a world where average lifespan is less than 30 leads the typical woman to have on average perhaps nine pregnancies to achieve 6.5 live births, 4 children who survive infancy, and 3 to reach near-adulthood; thus spending 20 years "eating for two"—to our current world. Discuss.

Readings:

- **Abigail Smith Adams** (1776): *Letter to John Adams 31 March - 5 April 1776* <<https://www.masshist.org/digitaladams/archive/doc?id=L17760331aa>>
- **Martha Bailey** (2013): *Fifty Years of Family Planning: New Evidence on the Long-Run Effects of Increasing Access to Contraception* <<http://www.nber.org/papers/w19493>>
- **Claudia Goldin** (1991): *The Role of World War II in the Rise of Women's Employment* <<http://www.journals.uchicago.edu/doi/abs/10.1086/649603>>
- **Heather Antecol, Kelly Bedard, and Jenna Stearns** (2018): *Equal but Inequitable: Who Benefits from Gender-Neutral Tenure Clock Stopping Policies* <<https://pubs.aeaweb.org/doi/pdf/10.1257/aer.20160613>>

& Nunn...

Catch Our Breath...

- Ask a couple of questions?
- Make a couple of comments?
- Any more readings to recommend?



Notes...



Reading Nunn

Nathan Nunn (2008): The Long-Term Effects of Africa's Slave Trades <<http://www.jstor.org/stable/pdfplus/25098896.pdf>>:

- “The inclusion of the capital investment data diminishes the importance of learning. Without capital data, a ceteris paribus doubling of cumulative output is estimated to increase monthly output by 41 percent; the inclusion of capital reduces this estimate to about 22 percent...”
- “Quality...productivity mismeasurement... induces mismeasurement equivalent to only about 5 percent of observed productivity growth...”

Emergency Shipbuilding Program

- Liberty ship, an all-welded cargo ship with a displacement of 7,000 tons
- 16 U.S. shipyards delivered a total of 2,699 ships
 - A substantial portion of ship construction undertaken “off the ways”
 - 600,000 feet of welded joints
 - Welding labor accounted for about one-third of direct labor
 - Lots of new welders...
- A cadre, and—some—managers with experience. Otherwise...

Global and “Western” Numbers

Longest-Run Global Economic Growth (2019)

Date	ideas Level H	Total Real World Income Y (billions)	Average Real Income per Capita y (per year)	Total Human Population L (millions)	Rate of Population and Labor Force Growth n	Rate of Efficiency-of-Labor Growth g	Rate of Ideas-Stock Growth h
-68000	1.0	\$0	\$1,200	0.1			
-8000	5.0	\$3	\$1,200	2.5	0.005%	0.000%	0.003%
-6000	6.3	\$6	\$900	7	0.051%	-0.014%	0.011%
-3000	9.2	\$14	\$900	15	0.025%	0.000%	0.013%
-1000	16.8	\$45	\$900	50	0.060%	0.000%	0.030%
0	30.9	\$153	\$900	170	0.122%	0.000%	0.061%
800	41.1	\$270	\$900	300	0.071%	0.000%	0.035%
1500	53.0	\$450	\$900	500	0.073%	0.000%	0.036%
1770	79.4	\$825	\$1,100	750	0.150%	0.074%	0.149%
1870	123.5	\$1,690	\$1,300	1300	0.550%	0.167%	0.442%
2020	2720.5	\$90,000	\$11,842	7600	1.177%	1.473%	2.061%

- The Commercial Revolution acceleration appears *everywhere*
 - Due to globalization
 - And especially to the “Columbian Exchange”

“Western” Numbers

Global Growth: The Industrializing West (2019)

Date	ideas Level H	Total Real Income Y (billions)	Average Real Income per Capita y (per year)	Total “West” Population L (millions)		Rate of Population and Labor Force Growth n	Rate of Efficiency-of-Labor Growth g	Increasing Resources ρ	Rate of Ideas-Stock Growth h
-68000	1.0	\$0.01	\$1,200	0.005					
-8000	4.5	\$0.12	\$1,200	0.1		0.005%	0.000%	0.000%	0.002%
-6000	4.7	\$0.18	\$900	0.2		0.035%	-0.014%	0.000%	0.003%
-3000	7.5	\$0.45	\$900	0.5		0.031%	0.000%	0.000%	0.015%
-1000	15.0	\$1.80	\$900	2		0.069%	0.000%	0.000%	0.035%
0	23.7	\$4.50	\$900	5		0.092%	0.000%	0.000%	0.046%
800	30.0	\$7.20	\$900	8		0.059%	0.000%	0.000%	0.029%
1500	58.9	\$25.00	\$1,000	25		0.163%	0.015%	0.000%	0.096%
1770	101.0	\$105.00	\$1,400	75		0.407%	0.125%	0.257%	0.200%
1870	252.0	\$490.00	\$2,800	175		0.847%	0.693%	0.405%	0.914%
2020	8439.5	\$40,000.00	\$50,000	800		1.013%	1.922%	0.175%	2.341%

- Is ‘the west’ special between 800 and 1500?
 - Or is it just recovery from a Dark Age depression?