

Unfreedom (February 26, 2020b)

J. Bradford DeLong

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

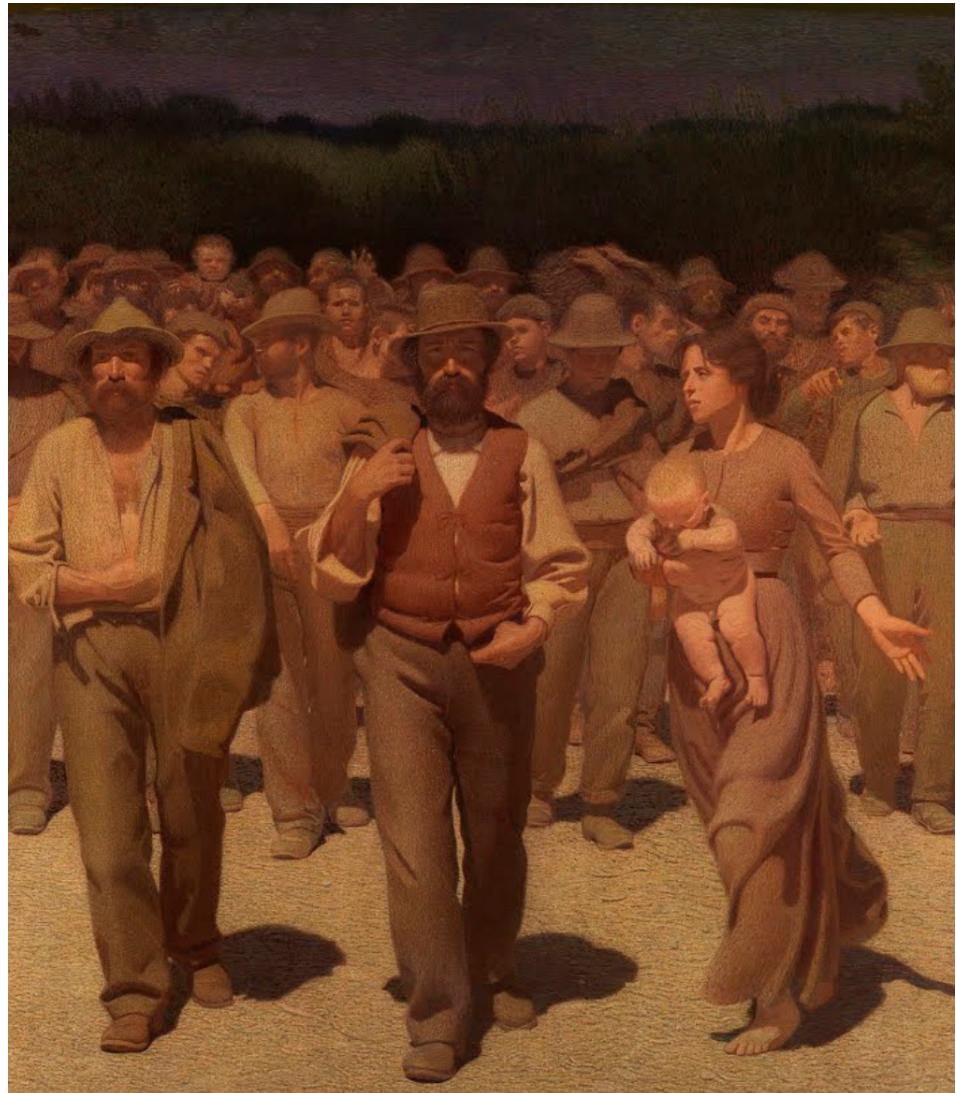
Holes in the argument:

- 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:

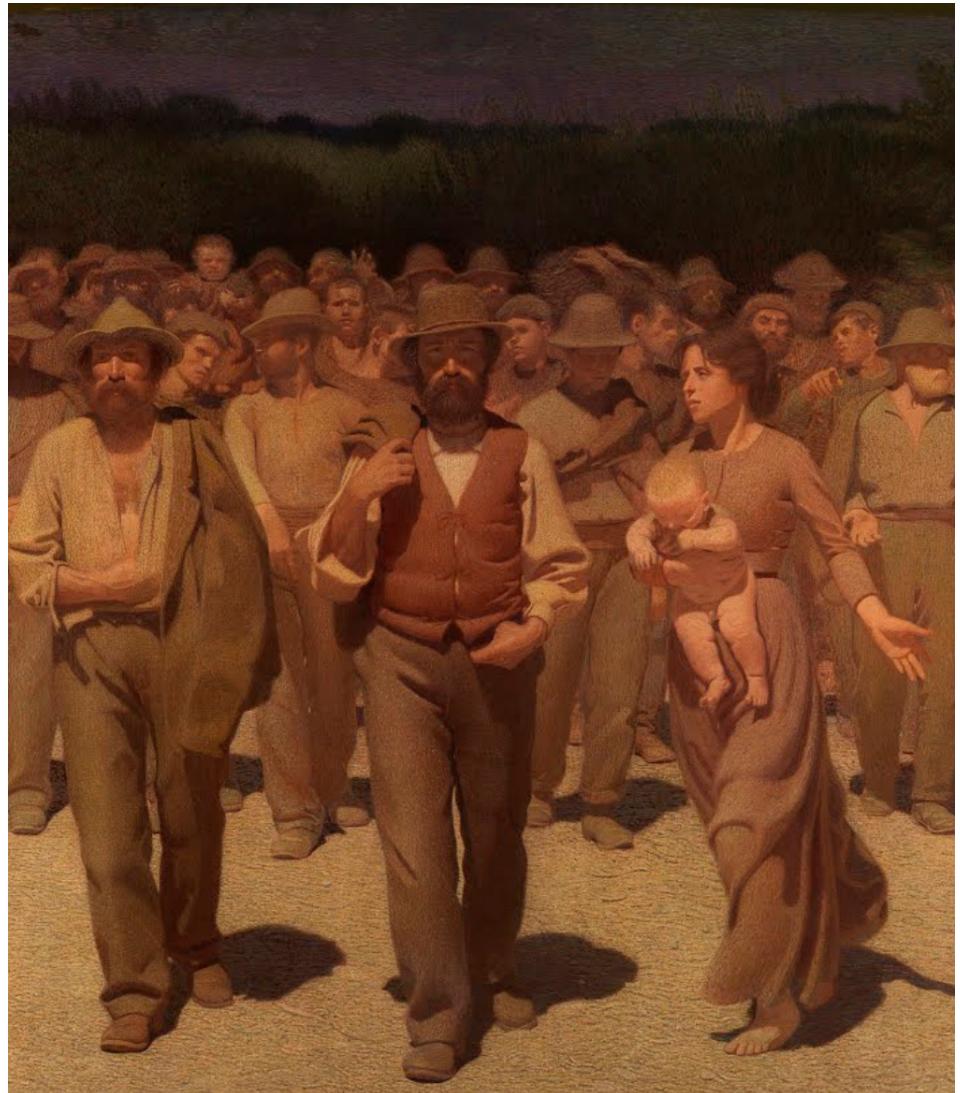
- Why not? Marx disappears into the swamp of the labor theory of value
- Marx confuses the physical capital-output ratio with the value capital-output ratio
- Marx assumes a floor to the rate of profit
- So accumulating capital pushes wages down to subsistence
- Then with further accumulation wages need 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
- So financial crisis, depression, destruction of capital, &c.
- & then the process starts over again at a higher intensity



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:
 - 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 r^2 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?

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

| | <u>GDP per capita in 1985 U.S. \$</u> | | | | |
|---------------|---------------------------------------|-------------|-------------|-------------|-------------|
| | <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 |

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...

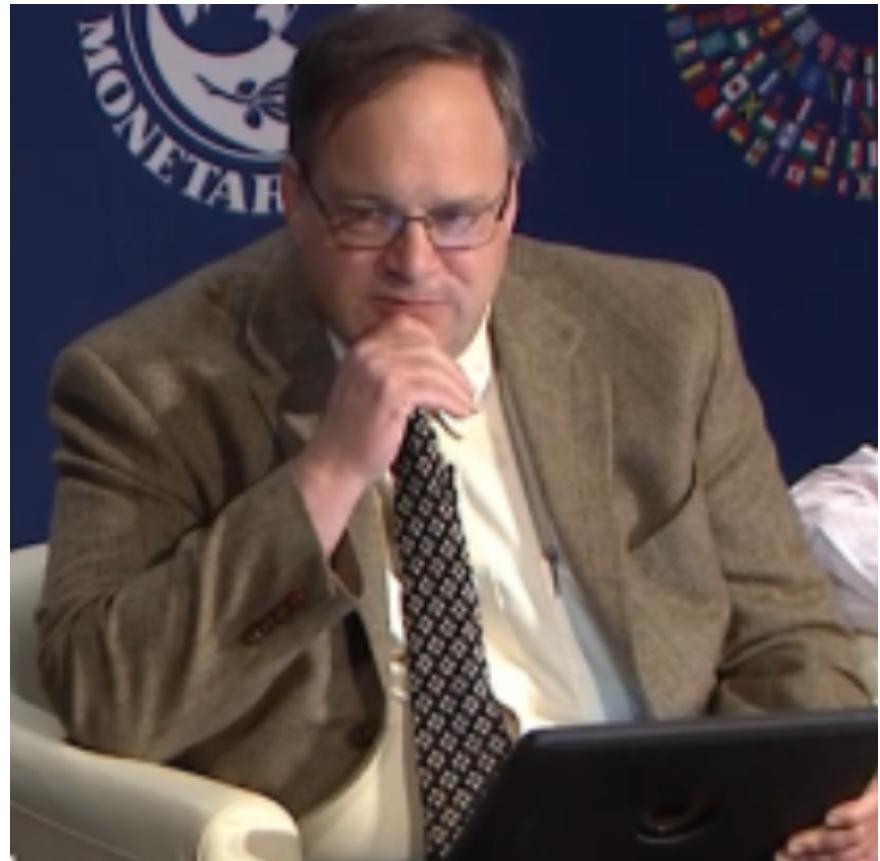
Question

Should there be more readings for next week?

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

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?