

01a. Introduction to US Economic History

Econ 373: US Economic History

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About me

- I am an economist and economic historian
 - My research focuses on **regional development** and **structural change**
- I work at the **Smith Institute for Political Economy & Philosophy**
 - Our goal is to foster a better understanding of the causes and consequences of **prosperity in the world today**
 - We emphasize both social scientific and humanistic approaches to studying the processes underlying **modern economic growth**

Economic History @ Chapman

- This course (Econ 373) and *European Economic History* (Econ 374) taught by Professor Jared Rubin are the “core” courses
- Professor Rubin also teaches *The Path to the Modern Economy* (Econ 455)
- In addition, several courses in the *Humanomics* minor through the Smith Institute cover material directly or indirectly related to economic history
- This course provides an introduction to the methods of economic history and the *development of the American economy* over the last 250 years

Plan for this lecture

- Syllabus
- Economic history
- Big questions
- Methods: theory + empirics + sources
- Case study: industrial production before WWI
- Next lecture: growth and equality

Syllabus

Description

The United States has experienced sustained economic growth over most of its history. In the more recent past, debates over the pace of economic growth and the distribution of prosperity have led economists, policymakers, and pundits to strain for explanations. This course will look to the past to understand the sources of economic development in the United States over time, the integration of different groups and regions into the economy, and reasons for optimism or pessimism about the future prospects for growth. This course will cover the history of the United States from the colonial times to the present. Topics will include the American Revolution, slavery and the Civil War, Globalization and the Age of Mass Migration, the Great Depression and World War II, and social mobility. *Prerequisites:* Econ 200.

Course Goals

Throughout this course you will:

- Use economics to understand US history. Put current policy debates in historical context.
- Evaluate causal arguments and formulate historical narratives.
- Analyze real world (historical) data.

This course will provide you with the theoretical and empirical tools to understand the development of the American economy over time, the determinants of economic growth, and the challenges facing the US economy.

Course Materials

The website for the course is <https://jaworskit.github.io/teaching>. I will post all materials and provide links to required readings on the course website. Click on the tab for this course (“Econ 373: US Economic History”) to see the materials.

Required readings are marked with a “*” on the course outline below and will be made available on the course website. Additional readings that provide useful background information are also listed below. You must complete required readings before the week in which they are assigned. Class discussion will draw on your knowledge of the readings and you are required to participate throughout the semester (i.e., I will call on students to answer questions and contribute to discussion).

Finally, I recommend *A New Economic View of American History from Colonial Times to 1940* by Jeremy Atack and Peter Passell to learn more about US economic history as well as *How the World Became Rich* by Mark Koyama and Jared Rubin for a global view (including the United States) on the origins of economic growth.

Grading

Attendance + Class Participation: Attendance is required. Students should come to class prepared, having completed the required reading for that day (marked with a “*” on the Course Outline), and ready to participate. Missing more than five classes will result in a full letter grade reduction of your final grade (e.g., an “A” becomes a “B”).

Daily Questions (10%): On each day with a required reading, students are required to come with a question about or related to the reading.

Exams (70% total = 30% 1st exam + 40% 2nd exam): There will be two in-class exams on **October 12** and **November 30**. The first exam will cover material from week 1 to week 6; the second exam will cover all material through week 12. There will be no make-up exams. If you miss the first exam, the second exam will carry the additional weight if and only if you present a valid excuse (e.g., doctor’s note) prior to the exam date. If you miss the second exam, the final paper will carry the additional weight if and only if you present a valid excuse prior to the exam date.

Research Paper (**20%** total = **5%** proposal + **15%** paper): For the final paper, you will propose a hypothesis and an empirical approach to test your hypothesis. The aim is to examine patterns or trends in the data, present your findings clearly, and discuss the implications for understanding the US economy during the relevant period. A handout will be provided with more information, including potential data resources. You are required to turn in a proposal in class on **November 10**. Late proposals will not be accepted. The due date for the final paper is **December 15 at 5pm**. Any papers turned in after this time will be accepted but receive a penalty of 10 points per 24-hour period.

Numerical scores will be translated to letter grades using the following scale:

Score	Letter	Score	Letter	Score	Letter
≥ 93	A	80 – 82.99	B-	67 – 69.99	D+
90 – 92.99	A-	77 – 79.99	C+	63 – 66.99	D
87 – 89.99	B+	73 – 76.99	C	60 – 62.99	D-
83 – 86.99	B	70 – 72.99	C-	< 60	F

Office Hours and Email

I encourage you to attend office hours or to setup a time to meet outside of office hours if the day/time listed above do not work for you. You should come to office hours prepared with questions or ready to discuss the course material. Office hours are the appropriate forum for addressing questions about course material or policies. Use email to setup a time to meet outside of office hours, if necessary.

Cell Phones, Laptops, Etc

Laptops, cell phones, and other devices are only to be used for course-related task (e.g., taking notes, looking at course readings). If you are using laptops, cell phones, and other devices for any other purpose you will be asked to leave the class.

Academic Integrity, Policy for Students with Disabilities, Equity and Diversity Statement

Course topics

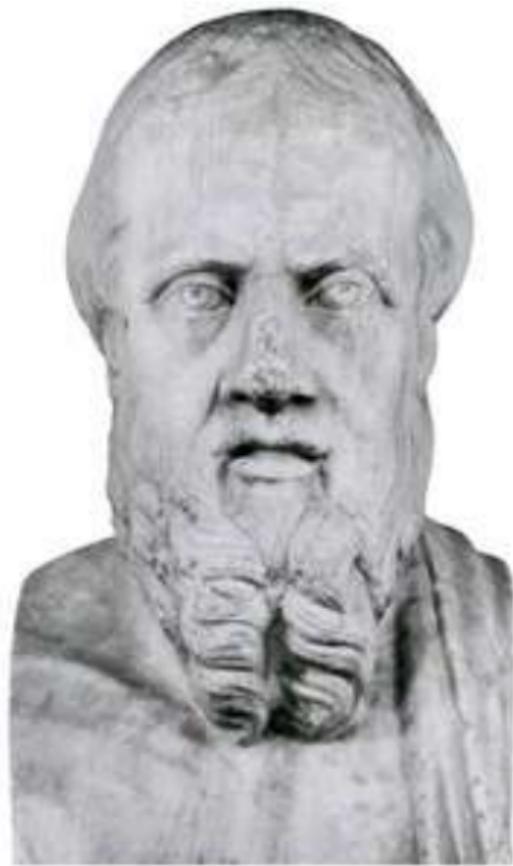
- US Economic Growth in LR
- Colonial Economy
- Revolution & American Institutions
- Slavery and Civil War
- Agricultural Development
- Market Revolution
- Globalization: Immigration & Trade
- Industrialization & Entrepreneurship
- Financial Crises & Great Depression
- WWII & Rise of Big Government
- Education & Human Capital
- Future of Economic Opportunity

Economic History

Definition: *history*

I, Herodotus of Halicarnassus, am here setting forth my history, that time may not draw the color from what man has brought into being, nor those great and wonderful deeds manifested by both the Greeks and the barbarians, fail of their report, and together, with all of this, the reason why they fought one another.

—*The Histories* (circa 440 BC)



Definition: *economic history*

What is economic history?

- Not the history of economic thought
- Not just the history of economies
- Not just economics with old data
- Application of economic theory and statistics to understand the past
- This is just history

Big Questions

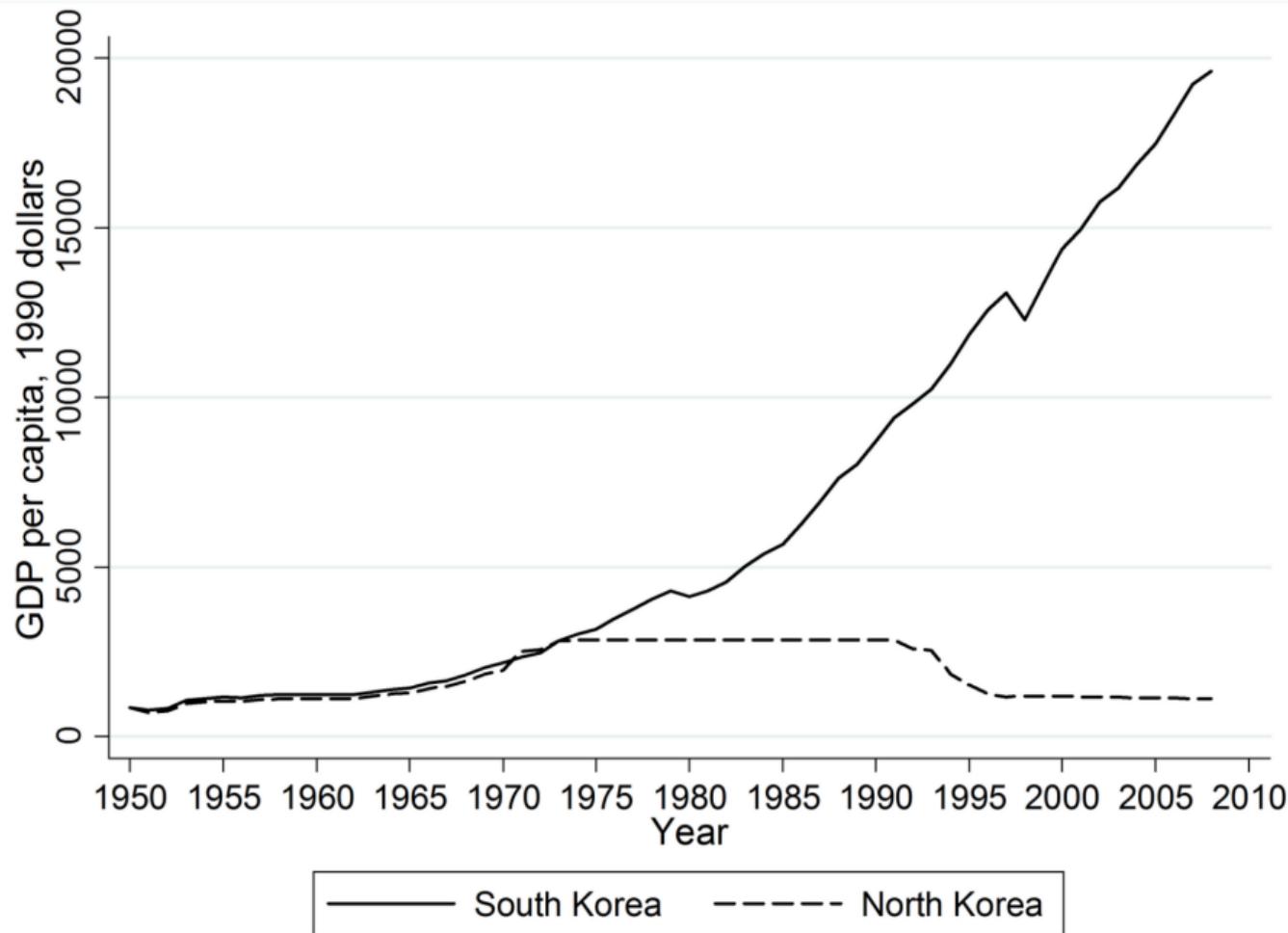
Why are some countries rich and other countries poor?

- This question is the subject of Adam Smith's *Wealth of Nations* (*WON*)
[\(What were his answers?\)](#)

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labour.

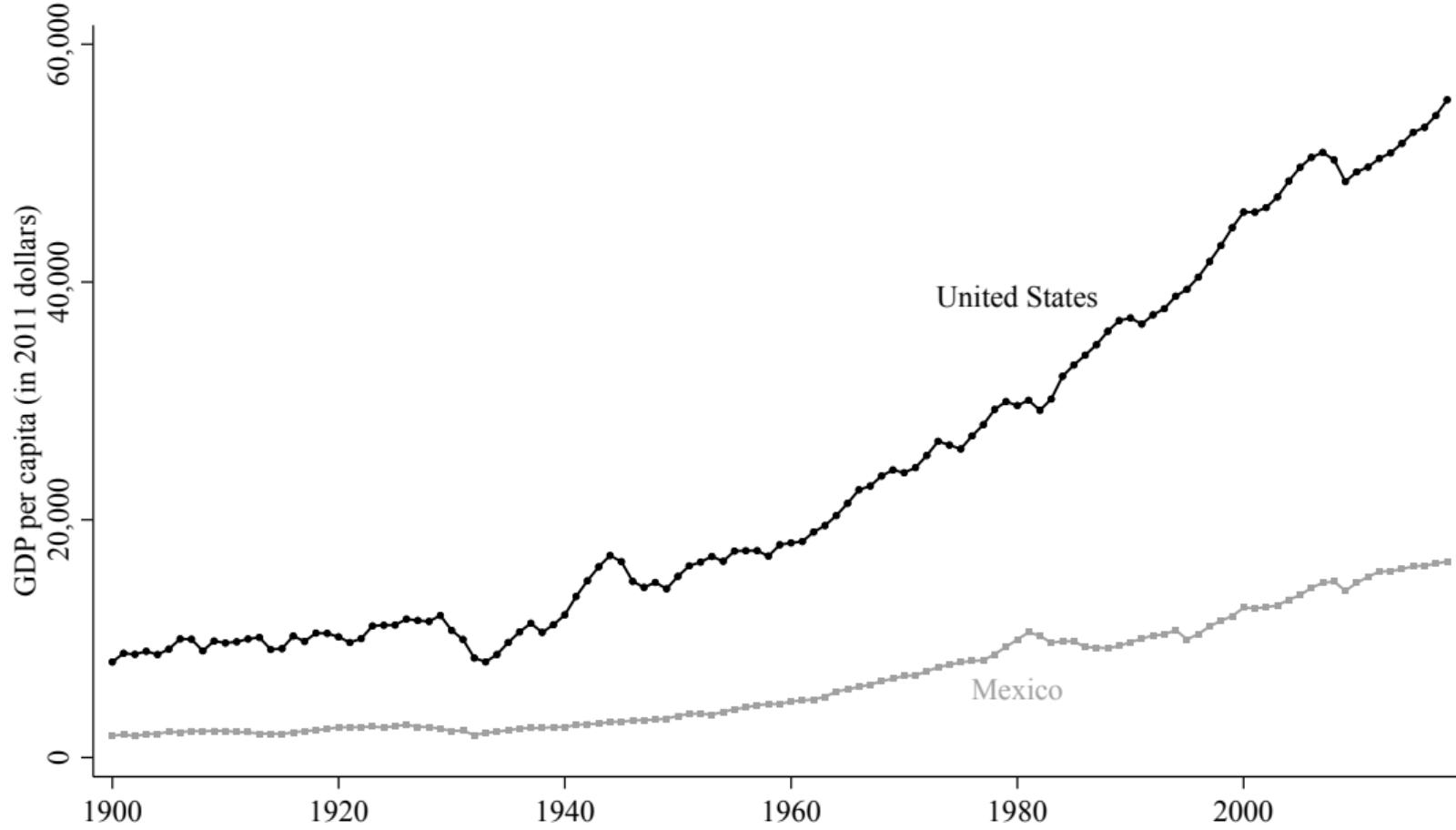
- This is the most important question in social science today!
[\(Why?\)](#)

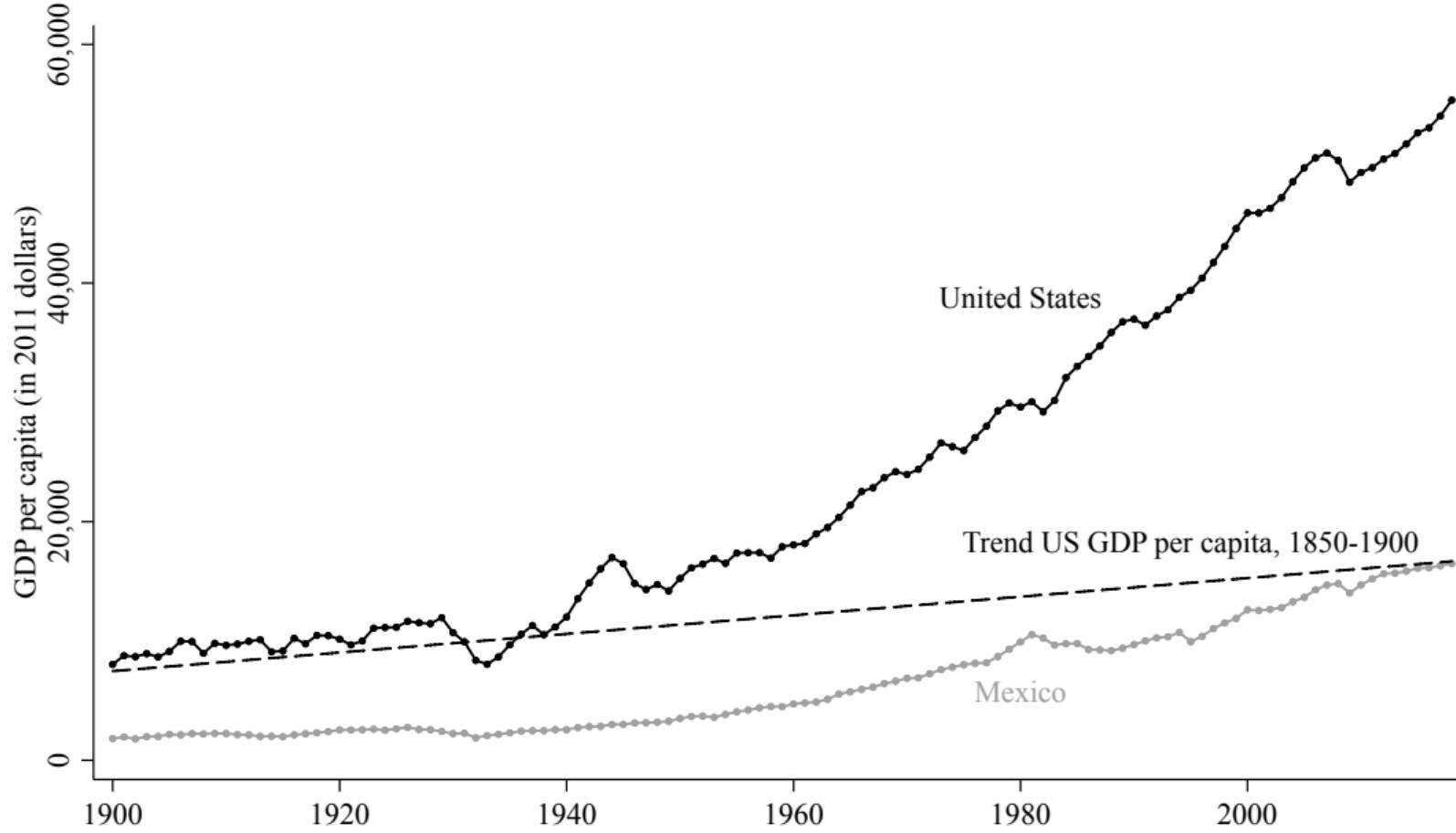






United States





How can we answer big questions?

- The approach in Smith's *WON* was roughly to describe an **environment**, articulate **institutions** that transformed behavior and resources, and draw connections to subsequent economic **performance**
- Smith (1982) provides a useful representation of a “microeconomic system”



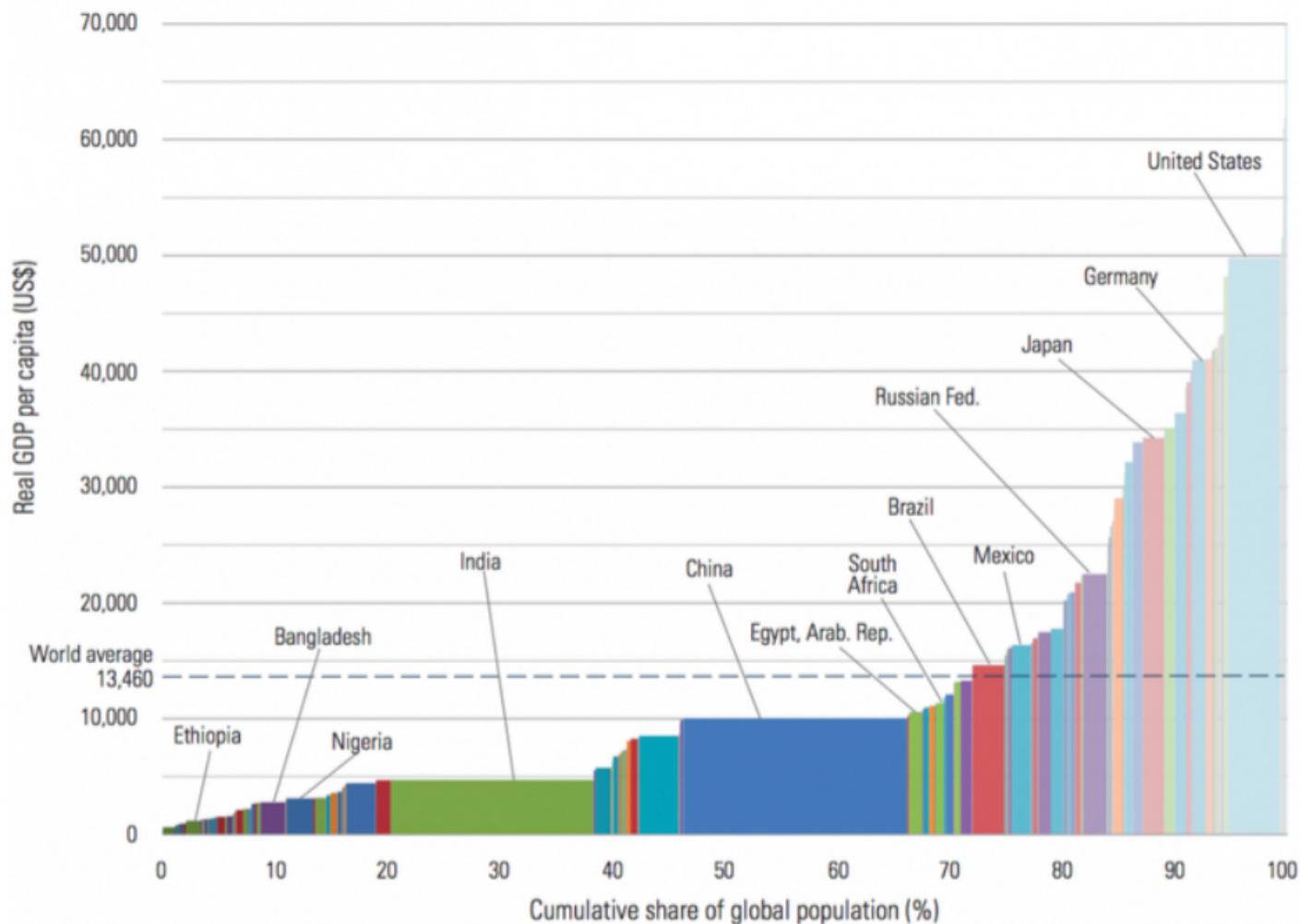
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- Smith (1982) provides a useful representation of a “microeconomic system”
 - ★ A big question is about how a change in the environment or institutions affects performance



What are the most important, big questions in US economic history?

- Why is the United States so rich... and big?
(e.g., population, geography)



What are the most important, big questions in US economic history?

- Why is the United States so rich... and big?
(e.g., population, geography)
- What is the role of institutions?
(e.g., colonialism, Constitution, slavery, “big government”)
- Is openness good for economic growth? Does it hinder political cohesion?
(e.g., market revolution, trade, immigration)
- How did the United States transition between types of economic activity?
(e.g., agriculture, industry, finance, education)



Emanuel Leutze, "Westward the Course of Empire Takes Its Way," 1862.

Methods: Theory + Empirics + Sources

Theory

- Self-motivated individuals (or optimizing agents)
- Variation in institutions and environment (resources, beliefs, culture, etc)
- Equilibrium represents interaction of behavior and constraints
- Individual and aggregate outcomes according to some criteria
- Dynamics lead to feedback to individuals, institutions, and environment

Empirics

- Historical Observation
(e.g., what did colonists say about British policies before the Revolution?)
- Measurement
(e.g., how trade-oriented was the US economy before World War I?)
- Causal Analysis
(e.g., did New Deal policies cause the Great Depression to last longer?)
- Theory + Empirics
(Robert Fogel, "The Specification Problem in Economic History")

Sources (with links)

- Maddison Historical Statistics
- Historical Statistics of the United States
- Integrated Public Use Microdata Series (IPUMS)
- Inter-university Consortium for Political and Social Research (ICPSR)

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- Look on HathiTrust or in the Chapman Library!

Case Study: A New Series for Industrial Production Before World War I

Industrial production before WWI

- Davis' paper addresses a fundamental issue in the history of any economy
- For the US specifically...

Annual estimates of U. S. economic activity going back that far are even less reliable. Currently, macroeconomists have access to two annual output series for the pre-Civil War period: Robert Gallman's unpublished annual estimates for the 1834–1859 period compiled in the 1960s, and Berry's [1988] real GNP series from 1789.

Industrial production before WWI

- Davis introduces some principles for assembling data...

Specifically, the paper assembles an annual measure analogous in methodology and interpretation to the Federal Reserve Board's monthly industrial production index. In doing so, I have collected annual physical-volume data on 43 manufacturing and mining industries. The paper's quantity-based sample is quite comprehensive in the sense that its components indirectly represent close to 90 percent of the value added produced by the U. S. industrial sector during the nineteenth century.

- In particular, [longevity](#), [consistency](#), and [completeness](#)

Industrial production before WWI

- He then suggests a few ways that new data could improve our understanding of American economic history...

For one, is the conventional wisdom surrounding the pace of secular development of early American industry accurate? When did American industrial productivity take off and catch up to its European counterparts? Were business contractions in early America as severe as portrayed by contemporary observers? Did business-cycle volatility differ fundamentally before and after the Civil War? Are the early business cycle dates set down long ago by the National Bureau of Economic Research (NBER) realistic?

Define the problem!

- Annual industrial production, 1790-1915
- Physical output (real), not value of output (nominal)
- Factory output and household output
- Covering 43 industries

Index construction

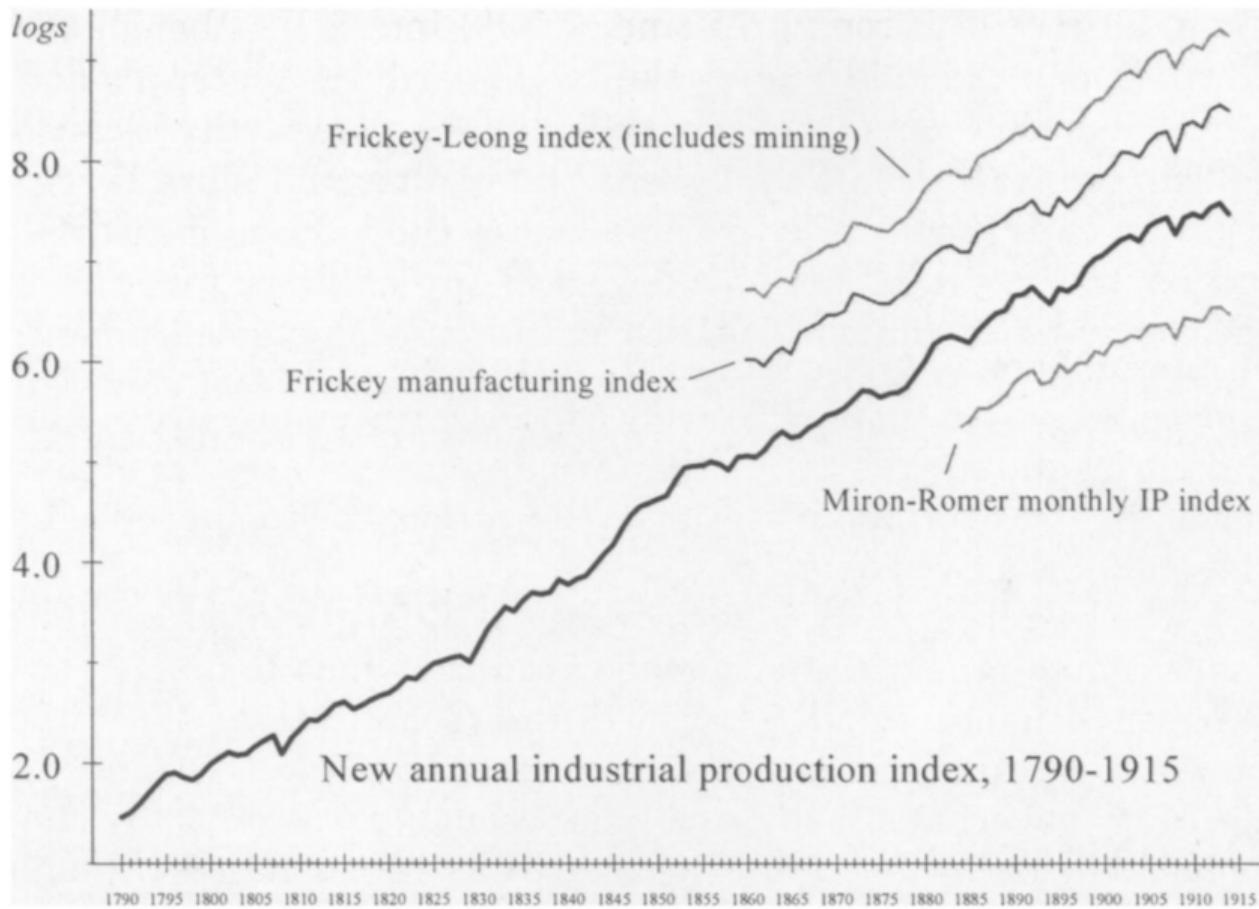
$$\text{industrial production}_t = \frac{\sum_{i=1}^N ip_{it} \cdot v_{i0}}{\sum_{i=1}^N v_{i0}}$$

where $v_{i0} = p_{i0} \cdot q_{i0}$ and $ip_{it} = \left(\frac{q_{it}}{q_{i0}} \right)$

i = industry, t = year, and $t = 0$ is the base year (1849-50)

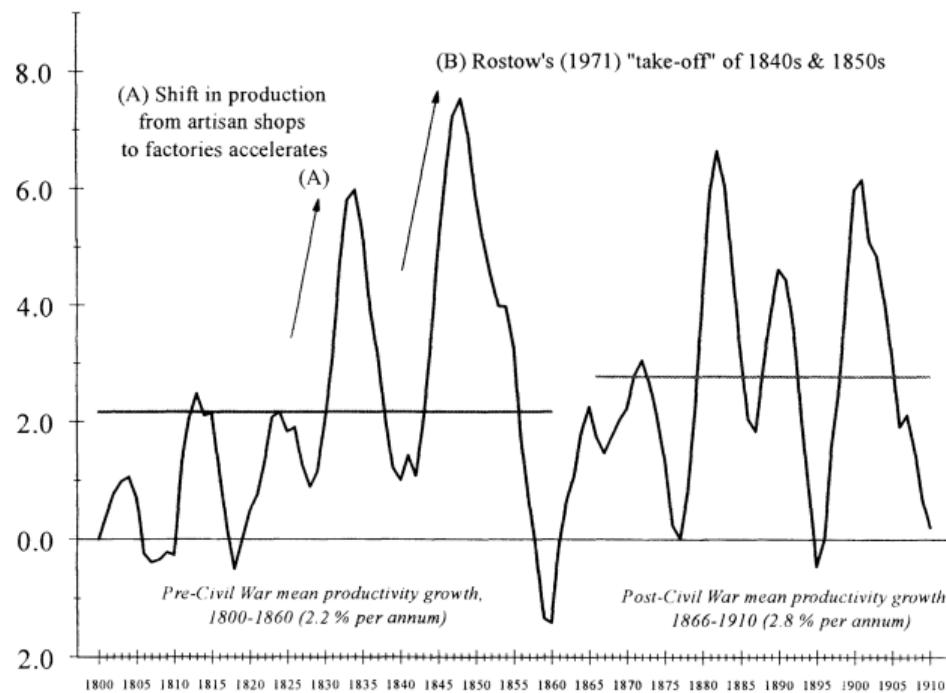
ip_{it} is physical output of industry i in year t relative to the base year

v_{i0} is value-added in the base year (1849-50)



Source: Figure II in Davis (2004, p. 1192)

Critical junctures in American industrial development



Source: Figure III in Davis (2004, p. 1197)

Volatility of industrial production

Index comparison	Antebellum period	Postbellum period	Equal means hypothesis		Equal variance hypothesis	
			T-test	p-value	Brown-Forsythe median W	p-value
<i>Panel A. Logarithmic growth rates, benchmark sample</i>						
1791–1860 vs. 1866–1915 <i>(excludes War of 1812)</i>	s.d. mean	6.64 5.18	7.39 4.66	0.40 0.69	0.53	0.59
<i>Panel B. Alternative sample periods</i>						
1791–1860 vs. 1866–1915 <i>(includes War of 1812)</i>	s.d. mean	6.50 5.15	7.39 4.66	0.38 0.70	0.41	0.52
1800–1849 vs. 1850–1899 <i>(19th century only)</i>	s.d. mean	6.71 5.40	6.59 4.88	0.39 0.70	0.19	0.66
<i>Panel C. Alternative index construction</i>						
Attrition-free index (2 variants)						
Years with all series	s.d. mean	7.35 5.87	6.70 5.82	0.03 0.98	0.11	0.90
Series with all years	s.d. mean	7.06 5.08	7.05 4.99	0.06 0.95	0.08	0.78
Calomiris-Hanes (A) <i>(Replication)</i>	s.d. mean	14.94 6.25	10.97 6.52	(0.08) 0.94	2.62	0.11*
Calomiris-Hanes (B) <i>(Extension)</i>	s.d. mean	10.90 6.19	10.95 6.19	0.00 1.00	1.05	0.35

Source: Table VI in Davis (2004, p. 1199)

Recession severity

Antebellum recessions			Postbellum recessions		
Peak	Trough	Cumulative index loss	Peak	Trough	Cumulative index loss
1807	1808	22.12	1892	1897	29.97
1796	1798	13.77	1907	1908	17.38
1815	1816	11.05	1913	1914	11.79
1856	1858	10.50	1873	1875	10.83
1828	1829	6.14	1883	1885	10.13
1839	1840	4.84	1903	1904	4.85
1833	1834	4.57	1910	1911	3.77
1802	1803	4.51			
1836	1837	1.43*			
1822	1823	1.22*			
1811	1812	0.41*			

Subsample output losses: Summary statistics and significance tests			
All Antebellum recessions		All Postbellum recessions	
Mean output loss	7.32	Mean output loss	12.67
Mean loss (<i>no * losses</i>)	9.69	Mean output loss	12.67
Wilcoxon rank-sum equality-of-mean statistic		59.0	
<i>p</i> -value		0.56	

Source: Table VII in Davis (2004, p. 1203)

A new(?) long run view of the US economy

- Lots of aggregate continuity
- The course website has a link to download the data

