Following the great U

Donald N. McCloskey

The use of economic method to solve economic problems is applied economics; the use of historical method to solve problems about economies in the past is traditional economic history. The possible hybrids are two. If historical method is used to illuminate modern economies and modern economies the result is the German historical school of the nineteenth century, or the national income school of the twentieth. Historical method finds out what happened by using narratvé. It tells stories; for instance, the story that the new industries of automobiles, chemicals, and electrical engineering contributed to economic growth between 1914 and 1937 chiefly because their weight in the economy had grown, not because they accelerated in growth. (British Economic Growth, p 285). Though to some eyes less pretentious than narrative's all in words (such as the tale of Britain's alleged legacy in antiquated equipment from its early start), the text is a statistical and verbal narrative, in which sequence of events that makes the story and persuades the reader.

By contrast, economic method finds out what happened by using analogies, metaphors, and similes. The making of national product, 1856–1973, said to be just like a mathematical operation in which output is a function of inputs of labour, capital, land and their improvements; the working of the market for saving and investment is said to be just like curves representing the demand for new projects and the supply of funds to undertake them. Historians, then, are not epic poets, economists the lyric poets of the past. When economic lyricism is used to sing of past economies the result may be called historical economics, known to its many friends as “cliometrics”. Historical economics is economics in the service of history.

The book is simple in outline, following the simple metaphor of the production function. It measures output; it measures input; then it compares the two. Someone involved must have reckoned that all this would overstretch the attention span of the reader, for the book is tiresomely full of summaries, outlines, and restatements. Economizing on type by pimping the page with the acronyms YTP, SPOF, and PACE is tiresome, too. The book is seldom a positive pleasure to read. Still, in its writing as in most other matters it surpasses the standards of the fields in which it labours.

The basis for it is Feinstein's remarkable reconstruction some years ago of investment and product in the United Kingdom back to the 1850s. The present book can be viewed as a long essay on Feinstein, supplemented by special inquiries where the national accounts do not provide answers directly. The chief answer, and the nearest approach to a unifying theme, is that the record of growth, accumulation, and productivity followed a great U, declining from 1856, touching bottom around the Second World War, and ascending to 1973. The explanations for the U-shape may be summarized in economic patois as nervous neo-classicism and uneasy Keynesianism. When market forces are necessary for the calculations, they are invoked; when they would embarrass the calculators, they are nervously disavowed (see, for instance p 104n).

The Keynesian machinery of multiplier, accelerator, and the marginal efficiency of investment finds steady employment; mongantism is interviewed, perfunctorily, but is not engaged. Yet the raw Keynesian argument is disciplined by doubts that there is always a free lunch to be had from more demand or that there is never a simpler explanation in foreign prices for inflations at home.

The output of the domestic economy, the authors calculate, followed the U. Earnings from the non-domestic economy (trade and investment abroad) do not alter the pattern, except for a slump across the Second World War. Only after the war was the input of labour affected by the fall in population growth that had begun during the First World War. Hours of work fell in sharp steps at 1872, 1919, and 1947, allegedly because the bargaining power of labour peaked. Fewer hours meant more intense or better hours; the authors reckon that all the lost output from fewer hours was made up by better hours before 1914, though none after the Second World War. It is

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Chapters Eleven to Thirteen investigate the details of investment by sector. The results, though tangentially relevant to the main task, are interesting: investment in the public sector was after the Second World War, but merely because of nationalization, not the expansion of government in anciently public activities; improvements in the way the capital market worked are said to have greatly increased saving; the wind from abroad that flattened investment in manufacturing between the wars blew some good in permitting savings to flow into building the stock of housing. The final substantive chapter, the least satisfactory, treats "International Aspects", appealing to an ill-argued "Verdoorn effect" (economics of scale) to hitch trade to nearly everything, including productivity. And the final chapter is another of the summaries.

What is weak about the book is what is weak about and admirable examples of the genre, such as W. Arthur Lewis's *Growth and Fluctuations* 1870-1913. For one thing, because the main author wishes to stick largely to economists (Denison, Kaldor, Phelps-Brown and Verdoorn are the leading entries in the index), the conversation with historical scholars is slight. Many questions much discussed by historians, therefore, are treated as *terra incognita* through which the intrepid economist/historian must make his way self-taught. One instance among many is the revival of the doubtful notion that there was a bias away from investment at home before 1914. Counter to much work in the past years (only one item of which is cited, and not answered), the authors conclude that there was indeed a bias, and move swiftly to the unargued conclusion that "The bias, if present, then ranks as one of the causes making for slow growth in total factor productivity 1873-1914 period". The failure to keep abreast of a rapidly developing literature here and elsewhere gives the book at times a musty odour.

Another and related weakness is stopping the arguments just short of their conclusions. The rhetoric of the senior common room gives much weight to irrelevant excellence: excellence at Latin composition is taken as a warrant for leaving half-supported one's opinion on the prevalence of investment markets in Rome; excellence at proving existence theorems in mathematical economics is taken as a warrant for leaving unargued form one's opinion on cartelization. In the present work the excellence in finding proximate cause of economic growth is taken as a warrant for leaping to unargued conclusions about ultimate cause is the abrupt descent to speculation on the matter of entrepreneurial failure, 1873-1914, at the very point the literature becomes most rich. Slothful descendants of the founders, it is said, came to hold the reins of enterprise

(pace Charlotte Erickson, not cited); technical education, it is said, was poor (pace Roderick Floud, cited); and so forth. Another example is the astonishing and unsupported attribution of economies of industry scale to agriculture, 1836-1913, in aid of explaining the nation's acceleration in productivity. Still another is the casual way in which an "intermediate position" between "extremes" is taken up in characterizing how the economy worked in aggregate, whether supply created its own demand or demand its own supply. The point is not that such moderation is wrong in all things, but that to adopt it unargued is no less unreasonable than to adopt one of the "extremes" unargued. There are too many other instances of lack of argument to leave one entirely happy with the conclusions.

A revealing instance is the strange treatment of Ireland. The under man in Ireland during the late nineteenth century was half what it was in Britain. Therefore, say our (British) authors, the rising weight of Britons in the labour force of the United Kingdom was a "quality shift" upwards. The shift is large enough by itself, they argue, to leave other productivity growth, 1873-1914, a nil on balance (they do not answer how exactly the climax of the age of steam and steel, not to mention of Lever soap and Lyons tea, could have left productivity undisturbed for forty years). The argument might be called the Kuznets/Lewis (or Nobel Prize in Economics) Fallacy, in honour of its most eminent users. It has grave difficulties, of which the authors are aware; the grave difficulties are not overcome. They are that a gap in wages (the authors do not compare wages) may indeed represent real quality differences (they do not measure quality) rather than deprecations (they do not investigate living costs or working conditions); but in that case it may well have been expensive to achieve such quality (they do not measure costs of training/desertion from Ireland), and if it was not then workers were out of equilibrium to the extent of ignoring a potential doubling of their incomes (they do not look into the evidence for disequilibrium). Briefly put, their calculation supposes that Paddy, poor fool, could have reformed himself by boarding the ferry for Liverpool, but stayed home. Arithmetic here triumphs over reason and evidence.

This said, however, the book is a wonder. Even a very big (and expensive) book cannot be expected to finish every argument it begins, least of all a subject so recently brought into argumentative focus as Britain's growth after industrialization. Much remains to be done, as one can always say, but what is done here exhibits how to do it. One does it by meeting a dual standard of excellence in economics and in history. The result will confound anyone who doubts that Britain's epic can be sung in sweetest song of structure and merry metaphors of margins.