New model history

By Donald McCloskey

JEFFREY G. WILLIAMSON:
Late Nineteenth-Century American Development

Economists, on the whole, are historical morons. A political scientist, say, who based his thinking about the political present on a folk version of the economy past should be excused. Not so, from his colleagues, embarrassed silence. By contrast, an economist who bases his thinking about the economic present on a folk version of the economic past elicits invitations to conferences and requests for offprints. Foreign trade, world crop prices, the development of agriculture, and the composition of the national income; that cheap land accounted for little of the immigration into the United States: the terms of international trade rather than internal developments governed American industrialization; and that the railways in the United States were not a splash in the history of American growth. The book is profoundly original and bold in conception.

If, however, the cliometricians are to rebuild the historical foundations of economics, they must take more care that is the title of the first chapter. The book reads like a hurried first draft. The literary offences range from the many that one against grace to those against clarity; from the persistent muddles at the head of each chapter, solicitation and self-advertisement, to repetition, review, and excessiveness. A better book would have been half as long. One wonders what editors do with manuscripts in that long darkness between submission and print.

The flaws in the book, however, are not confined to a lack of readability. Professor Williamson has constructed his model with anemic uketicism in the style of economics. Economists will find Professor Williamson's style of thinking engaging. He has constructed a model with seventy-two equations, more or less, and used it to history the story of the American economy from the Civil War to the First World War at many points. His new history, for example, interprets the cotton war in American growth at the end of the nineteenth century not as a retardation of technological change but as a shock to a steady state after the disequilibrium of the Civil War. It finds the development of the national capital market to have had little impact on income per worker. It shows that the frontier, open or closed, had trivial effects on the size but substantial on the composition of national income; that cheap land accounted for little of the immigration into the United States; and that the terms of international trade rather than internal developments governed American industrialization.

He must rely on how well the model as a whole, using his choices of elasticities in production functions, does not continue to use the full model. In the few cases where they do, the argument is subject to his point that transport, although it is important for American growth, raising income in 1890 20 per cent above what it would have been as against 5 per cent.

Each of the peculiarities of the model presents in the finding: Professor Williamson's definition of "America" is precisely the America most affected by railways; allowing for the use of agricultural goods in manufacturing would reduce the divergence in their prices; and a transport sector that required inputs would become more expensive than the inputs did. To take one example, Professor Williamson believes, although he does not prove, that the cotton war reduced agricultural productivity, in particular its specification that the growth rate of capital is in the product of the savings rate and the output-capital ratio minus the rate of depreciation: the static rise of output from the railways of, say 5 per cent raises the output-capital ratio whereas in the rest of the economy it yields faster growth. Railways, however, had in 1890 a capital-output ratio of around 10, and their capital constituted over a tenth of the nation's. If railways in his model used capital they themselves would gobble up the additional addition income. But they do not, and his truncated version of the United States enjoys a free lunch.

Readers who are not themselves cliometricians will perhaps be able to ignore these dangling threads of logic and evidence. If they are tolerant they will find the book charming in its energy and breadth. But they should be wary of its conclusions, and should know that the new economic historians—Professor Williamson included—can do better work.