Markets in history

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Economic studies of the past

Edited by

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Preface

This volume originated in a conference session held in New Orleans in December 1986 under the joint sponsorship of the American Economic Association and the Econometric Society. The title of the session was "In Search of Historical Economies: Market Behavior in Past Times." Its purpose was to acquaint economists with the results of recent research in some important areas of economic history. Favorable reactions to that session led to the decision to present its papers in published form. This book consists of those papers, with two additional studies and a shorter contribution by Theodore Schultz, who acted as a discussant at the session.

This volume is in no way intended as a survey of research in economic history, or even as a comprehensive survey of recent research in the field. Rather it is a collection of studies of selected topics in economic history. Yet the contributors believe that these studies share a number of features that are characteristic of research in economic history and that there may consequently be gains from presenting them as a collection.

Each of the studies in this volume summarizes a major research project that has treated a problem central to economics as well as to economic history. The authors were invited to present a critical discussion of the state of research on the subject, including a summary of their own contribution, and to suggest the likely direction of future research on the topic. Although each essay contains some new results that have not been previously published, these essays are not intended to substitute for more detailed presentation of research in scholarly journals and monographs. It was intended, rather, that the essays in this volume could be read by a general audience of economists who might not normally read specialized publications in economic history, and that these readers could not only learn what is currently known about the subjects covered but also derive some sense of the procedures and evidence from which these conclusions were drawn.

Donald McCloskey's paper takes up a question that has long puzzled historians: why most English farmers from medieval times through the eighteenth century held their land in a series of small plots scattered around their villages rather than in a single, consolidated holding. He demonstrates that the answer lies in the economics of risk, and shows that by scattering their plots the farmers were in effect buying insurance. The cost of the insurance was the reduction in expected output that resulted from the inefficiency of working a dozen or more small plots instead of one large field. Its benefit, obtained through spatial diversification of landholdings, was a substantial reduction in the probability that the farmer's output would fall below a level that would sustain him and his family. The widespread use of scattered plots was therefore an early example of households accepting a reduction in expected income in return for a reduction in the variance of that income over time, a result that has been extensively analyzed by economists interested in the theory of portfolio choice. McCloskey further argues that the disappearance of scattering was also an understandable economic response to a series of technological innovations and market improvements that reduced both the riskiness of farming and the cost of alternative forms of insurance. McCloskey's work demonstrates clearly that it was not any irrational attitudes or inexplicable desires of farmers that hampered economic growth in the Middle Ages, but rather the constraints imposed by technology on an agricultural economy whose population was not far above subsistence levels of consumption.

My own paper examines two transatlantic trades in bound labor – for indentured servants and slaves – that were key determinants of labor supply to the economy of colonial America. Recent quantitative investigations have revealed that both of these trades operated with an efficiency that had not previously been appreciated. British indentured servants willing to travel to the West Indies received higher implicit wages than those migrants alike in other respects who traveled to the North American mainland. This premium was a compensating differential for the willingness to serve in the West Indies, where the mortality regime was more severe, the work more rigorous, and the economic prospects for former servants less attractive than on the mainland. The servants' bargains furthermore demonstrate the existence of upward-sloping age–earnings profiles, with steeper profiles for skilled than for unskilled workers, just as economists have found for labor markets in more recent periods. The infamous transatlantic slave trade has long been characterized by abolitionists and historians as not only immoral but economically inefficient. Recent studies have done nothing to lessen the force of the moral indictment, but they have revealed reasoned actions by slave traders aimed at economic efficiency. These studies show, for example, that the selection of slaves in Africa by age and gender responded to both current conditions in American slave markets and changing costs of transatlantic shipping. The research on these transatlantic trades has considerable implications for our understanding of the economic accomplishments of colonial America, for it indicates that the colonial economy benefited from access to highly competitive markets for both European and African labor.

Lance Davis, Robert Gallman, and Teresa Hutchins investigate the determinants of changes in the productivity of whaling voyages over the course of the nineteenth century, using detailed accounts of the individual ventures that sailed from New Bedford, Massachusetts, between 1820 and 1896. They find that technological variables, including changes in the size and design of whaling vessels, had a substantial impact over time on the success of voyages, and that these changes were introduced and employed efficiently by the agents who sent out the voyages, in response to changing conditions in their economic environment. Interestingly, however, Davis, Gallman, and Hutchins find that the most important forces leading to productivity changes in whaling were unrelated to technology. A deterioration over time in the quality of crews, brought about by increasing competition for labor from other industries and perhaps also by the unattractiveness of the increasing length of whaling voyages, was a major factor reducing productivity. Another important influence on productivity was a series of shifts over time in the geographic locus of whaling voyages, from the Atlantic Ocean early in the century, to increasing concentration on the Indian and Pacific oceans in the century's middle decades, and to some activity in the western Arctic after the mid-century. Overall, the authors find the nineteenth-century whaling trade to have been a highly competitive industry operated by economic agents who responded quickly and effectively both to changes in the demand for their products and to changes in the conditions that affected their ability to catch whales.

Clayne Pope's essay explores the changing distribution of income and wealth in Utah during the second half of the nineteenth century. First settled during the 1840s, Utah had very egalitarian distributions of income and wealth in 1850, but the distributions of both variables appear to have become increasingly unequal during the following five decades. To determine why frontier Utah did not long remain a land of equality, Pope uses an extraordinarily rich micro-level data set, constructed by linking manuscript federal census returns to church records and genealogies, to analyze the correlates of income and wealth over this period. He finds that although high rates of occupational and geographic mobility acted as forces tending to lessen the inequality of the income and wealth distributions in early Utah, a number of other factors became established as forces contributing to inequality, and the latter gained in power over time. Among these were increasing investments in human capital (occupational training as well as formal education), a rising importance of foreign-born immigrants who outperformed native-born Americans economically, and increasing economic rewards for migrants' early arrival in Utah as population growth disproportionately increased the locational rents of the land chosen by early settlers as well as raising the value of the experience these settlers had gained in the local economy. Pope also finds that even on this newly settled frontier, where the economic influences of family connections might have been expected to be minimal, family background remained a powerful force underlying the trend toward greater inequality of economic rewards. Pope concludes that although Utah's experience of the nineteenth century supports the view of many historians of the frontier as a place of considerable economic opportunity, it contravenes the belief that newly settled regions long continued to be places of economic equality.

Lance Davis and Robert Huttenback's essay treats a series of basic questions about the political economy of late-nineteenth-century British imperialism. One of these, long debated by politicians as well as historians and economists, concerns the profitability of investments in the empire. Davis and Huttenback find that the returns of British firms that operated in the empire tended to be higher than those of British firms active either within England or in foreign countries between 1860 and 1880, but that from the early 1880s through 1912 this advantage disappeared. They suggest that the higher profitability of imperial investments prior to 1880 may have been the rewards to monopolies gained by early entrants into imperial markets, and that the subsequent decline might have been the result of the elimination of these monopolies as new entrants into these markets competed for the demonstrated profit opportunities. Davis and Huttenback then go on to examine the nature of the rent seeking that occurred within the empire. Tracing the channels through which political decisions are influenced to benefit private economic and financial interests is always difficult, for those involved normally wish to obscure their roles from public view. The obstacles to drawing connections between public expenditures and private gains within the British empire prove no exception to this rule, and Davis and Huttenback liken their situation to that of a prosecutor in a murder case who lacks the evidence conclusively to connect a suspect with the crime. Their indirect evidence is suggestive, however, and they conclude with a cautious but provocative finding, that both British and local businessmen might have benefited significantly from the government expenditures that were made within British colonies during the late nineteenth century.

Richard Butler, James Heckman, and Brook Payner consider a topic that is central to our understanding of the effectiveness of government action in reducing racial discrimination in labor markets. They critically examine a series of hypotheses that have been advanced to explain the dramatic increase that occurred in the employment of blacks in South Carolina's textile industry during the 1960s. Some scholars have attributed the economic progress of southern blacks during the 1960s to government intervention in labor markets following the passage of the Civil Rights Act of 1964. Others have denied the primary importance of the government's action, and suggested a number of alternative explanations. Some have argued instead that black gains in manufacturing were the result of increases in the productivity of black workers that stemmed from improvements in education; some have attributed the increase in black industrial employment to a decline in southern agriculture that increased the supply of black labor to manufacturing enterprises; and some have argued that the growth of black industrial employment during the 1960s resulted from a general increase in the demand for labor in southern markets. Based on the analysis of detailed evidence on employment and wages in southern labor markets, Butler, Heckman, and Payner conclude that the gains of southern blacks in manufacturing during the 1960s were due neither to the decline of agriculture nor to improvements in the quality and quantity of southern black education. They furthermore argue that the hypothesis of a general increase in the demand for labor cannot fully account for the southern black employment gains of the 1960s, and conclude that these gains were in large measure the result of the insistence of the federal government on equal employment opportunities for blacks.

Although the essays presented here obviously do not cover all the major areas of research in economic history, they do represent a number of the concerns that have been central to the field during the past several decades, and their conclusions hold lessons for economists at a number of levels. These go beyond their many detailed examinations of the behavior of groups of individuals in particular market settings, and even beyond their more general conclusions – often implicit – about the power of economic approaches to the analysis of human behavior in the wide and diverse range of periods and places covered by the studies. For all of the essays in this volume serve to illustrate what has been one of the greatest strengths of much recent research in economic history, the blending of the economist's insistence on logical consistency with the historian's careful attention to reconstructing the past by using many different kinds of evidence, qualitative as well as quantitative.

Because economic historians are often engaged in attempts to explain phenomena involving market settings and institutions that are obviously very different from those that exist today, they are acutely conscious of the need to use any evidence they can find in order to construct the most complete models possible of the market they wish to study. Their response to the obstacles posed by these distances in time and structure often results in substantial gains, for the use of a variety of evidence frequently leads to improved specifications of economic relationships, and consequently to better interpretations of those relations than might be the case if the investigator relied on any single kind of evidence. Ironically, therefore, historical studies of markets often result in more thorough and balanced conclusions than studies of contemporary markets, precisely because economic historians realize they must always be aware of the need for extra efforts aimed at proper specification, estimation, and interpretation of market outcomes, with constant attention to the need for checks of consistency and robustness. As Theodore Schultz stresses in his contribution to this volume, historical investigations into the behavior of otherwise neglected variables can also serve to challenge economic theory, and may consequently lead to extensions of existing theoretical economics.

The essays in this volume serve to illustrate the diversity of sources drawn on by economic historians and the richness of the resulting models of the markets involved. To establish patterns of land ownership and crop yields in medieval England, Donald McCloskey uses such sources as the records of manorial courts and the business accounts of church lands, as well as descriptions of agriculture written by contemporary observers. My research on the transatlantic labor trades of the American colonial period relies on quantifiable evidence drawn from the English legal records of indentured-servant contracts and the business accounts of slave traders, as well as contemporary discussions of these trades in both private letters and published debates. Lance Davis, Robert Gallman, and Teresa Hutchins combine the evidence from a number of manuscript sources based on ships' logs and port records to obtain detailed descriptions of the whaling voyages that sailed from New Bedford in the nineteenth century. Clayne Pope uses a data set constructed by linking the manuscript federal census records of individual households to Mormon church tithing accounts and genealogies to create economic profiles of the lives of thousands of residents of nineteenth-century Utah. Lance Davis and Robert Huttenback use the records of revenues and expenditures of scores of national and colonial governments to trace the aggregate economic redistribution produced by nineteenth-century British imperialism, and then use the business records of hundreds of firms, and the portfolios of thousands of investors, to observe the disaggregated effects of that redistribution. Richard Butler, James Heckman, and Brook Payner show the ambiguities of interpreting aggregate time-series evidence on employment and wages, and demonstrate the value of supplementing these data with evidence disaggregated by location and type of activity in identifying the causes of increased black employment in southern manufacturing during the 1960s.

The study of economic history experienced a renaissance in the late 1950s and early 1960s as the reunification of economic theory with history produced a burst of interest from economists concerned with problems of economic growth and development. This earlier surge has been fueled in the past two decades by several new factors. An increasing concern with micro-level investigations has been aided by the dramatic technological advances in computing that have radically reduced the cost of data retrieval and analysis, making possible detailed reconstruction of many aspects of the behavior of large historical populations that would have been prohibitively expensive twenty years ago. At the same time economic history has undergone an expansion of its research interests into areas like political economy and demography that parallels the expansion that has occurred within the discipline of economics in general. As a result economic history today remains an exciting field, with a greater variety of research topics and a greater richness of approach to many of these than has ever been true in the past. The authors represented in this volume include some of the leading current contributors to research in economic history, but they are very far from constituting a complete gathering of that group. We hope that many readers of this volume will find its essays a lively and interesting introduction to some of the important work that is currently being carried out in economic history, but no more than an introduction, for if successful this volume will stimulate its readers to continue on to examine many of the other valuable economic studies of the past that could equally have been included here.

I am grateful to the contributors to this book for their cooperation and for the care they took in preparing their papers. Their enthusiasm for the project and their professionalism in carrying it out helped make both our original conference session and the preparation of this volume interesting and enjoyable experiences. Stanley Engerman pro-

vided his usual wise counsel. And Frank Smith and Colin Day both offered encouragement for the project from its inception and generously afforded the benefits of their extraordinary editorial expertise.

David W. Galenson