

Economics @ Lady Margaret Hall

American Economic History

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Hilary 2004

Please find attached reading lists for this term's tutorials on American Economic History. Readings that are especially recommended are marked with an asterisk, all other references appear in alphabetical order.

The recommended textbooks are Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America* (Thomson Learning) and Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning). I have arranged for LMH library to obtain a copy of both of these.

In addition I have also included a reading from Mankiw's *Macroeconomics* for each week, which you should read first as a refresher on the theoretical background to each historical topic.

We will alternate between tutorials and classes. For the tutorial I expect you to write an essay (to be handed in at the tute itself) and for the classes I expect you to prepare answers to the questions given.

Tutorials will take place in my LMH office: flat 2, 1 Fyfield Road. If you walk along Norham Gardens towards LMH, 1 Fyfield Road is just on the corner about 40 yards before the LMH porters' lodge. It is a large house with two front doors. Come to the left hand front door and ring the top left bell.

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Week Two: Class

Post-bellum economic growth in the USA

Reading:

The USA overtook Great Britain as the world's leading industrial power at the turn of the 20th century. Many authors have discussed why this happened (see Romer, 1986). The fairly rapid growth of the USA during the Golden Age of 1948 to 1973 was followed by a prolonged slowdown in the 1970s and 1980s. Maddison (1987 or 1991) provides the classic growth-accounting based studies of the Golden Age and subsequent slowdown. Bruno and Sachs (1985) is a standard account of the impact of stagflation on the OECD. See also my OECD lectures on this topic:

<http://www.nuff.ox.ac.uk/Users/Cameron/lmh/lectures/oecd.html>

Questions for discussion:

1. Why and how did the USA become the world's leading economy?
2. How did the growth experience of the USA compare with that of Europe during the 'Golden Age'?
3. How would you account for the productivity slowdown in the USA after the early seventies?

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapters 7 & 8.
- * Romer, P. (1996) 'Why, Indeed in America?' *American Economic Review* (May): 202-206.
- * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapter 14.
- * Maddison, A. (1991) *Dynamic Forces in Capitalist Development* (OUP: Oxford).
or
Maddison, A. (1987) 'Growth and slowdown in advanced capitalist economics: techniques of quantitative assessment', *Journal of Economic Literature*.
- * Diamond, J. (1998) *Guns, Germs and Steel* (Vintage).
- Baumol, W., Nelson, R. and Wolff, E. (1994) *Convergence of Productivity* (OUP: Oxford) especially chapters 2 (Maddison) and 4 (Abramovitz).
- Cameron, G. and Wallace, C. (2002) 'Macroeconomic Performance in the Bretton Woods Era, And After', *Oxford Review of Economic Policy*, Winter, 18, 4, 479-494.
- Crafts, N. and Mills, T. (2000) 'After the Golden Age: A Perspective on Growth Rates that Speeded Up, Slowed Down, and Still Differ', *The Manchester School*, 2000, 68-91.
- Dowrick, S. and Nguyen, D. (1989) 'OECD comparative economic growth 1950-85: catch-up and convergence', *American Economic Review*.
- Nelson, R. and G. Wright (1992), 'The Rise and Fall of American Technological Leadership' *Journal of Economic Literature* (December), pp. 1931-64
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapters 17 and 29.

Week Three: Tutorial

The greenback in the age of the Gold Standard, Bretton Woods and after

Reading:

The path of the dollar through the 20th century was turbulent, with periods of relative calm under the Gold Standard and the Bretton Woods agreement. In fact, exchange rate and balance of payments issues have occupied a large proportion of policymakers' time and many attempts have been made to stabilize foreign exchange markets. Krugman and Obstfeld (2003) discuss the history of the various regimes. Skidelsky (2000) provides an excellent historical background. Krugman (1979 and 1989) gives a good theoretical overview of the case for stable exchange rates.

Essay:

'Why did the Gold Standard system break down? Did the Bretton Woods system fail for the same reasons?'

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 5.
 - * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapter 14.
 - * Krugman, P. and Obstfeld, M. (2003) *International Economics: Theory and Policy* (Addison Wesley: New York) 6th edition, chapters 18-21.
 - * Rockoff, H. 'The Wizard of Oz as a Monetary Allegory' *Journal of Political Economy*, (1990) 98:4, pp. 739-761. See also: <http://paws.wcu.edu/mulligan/www/oz.html>
- Bordo, M. and Eichengreen, B. eds. (1993) *A Retrospective on the Bretton Woods System* (Chicago University Press: Chicago).
- Krugman, Paul (1979) 'A model of balance of payments crises', *Journal of Money, Credit and Banking*, 11, 3, 311-325, reprinted in Krugman, Paul (1998) *Currencies and Crises* (MIT Press: Cambridge, MA).
- Krugman, Paul (1989) 'The case for stabilizing exchange rates', *Oxford Review of Economic Policy*, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 5.
- Obstfeld, M. (1995) 'International Currency Experience: New Lessons and Lessons Relearned', *Brookings Papers on Economic Activity*.
- Skidelsky, R. (2000) *John Maynard Keynes: Fighting for Britain, 1937-1946* (Macmillan: London) especially chapters 6-10.
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapters 19 and 20 and 28.

Week Four: Class

The Great Depression & The New Deal

Reading:

The roaring twenties were boom years for the American economy, but by 1931 the Great Depression had led to soaring unemployment and social malaise. At the time, many blamed the excesses of capitalism and called for increased state intervention. Nowadays though, most economists agree that the source of the Great Depression was on the demand side caused by tight monetary policy and a weak banking system. There is also a great deal of controversy about the effects of the New Deal.

Questions for discussion:

1. Why did the US do so well in the 1920s, when Europe did so badly?
2. Was the Great Depression inevitable, following the stockmarket crash?
3. Would a prompt and appropriate policy response have attenuated the Great Depression?
4. What was the policy response of the US government?
5. Was the New Deal a straw man and did rearmament finally save the day?
6. To what extent did the New Deal increase the scale and scope of state intervention in the USA?

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 14.
- * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapters 12 & 13.
- * Friedman, M. and Schwartz, A. (1963) *A Monetary History of the United States*, Princeton.
- * Bernanke, B. (1995), "The Macroeconomics of the Great Depression: A Comparative Approach," *Journal of Money, Credit and Banking* 27:1 (February), pp. 1-28. <http://papers.nber.org/papers/W4814>.
- Romer, C. (1990) "The Great Crash and the Onset of the Great Depression," *Quarterly Journal of Economics* 105:3 (August), pp. 597-624.
- DeLong, B. (1996) "Keynesianism, Pennsylvania-Avenue Style," *Journal of Economic Perspectives* 10:3 (Summer), pp. 41-53.
- Keynes, J. M. (1936) *The General Theory of Employment, Interest and Money*, Macmillan, London, chapters 1-3, 18-19.
- Skidelsky, R. (1992) *John Maynard Keynes: The Economist as Saviour 1920-1937*, Macmillan, London.
- Stevenson, A., Muscatelli, V. and Gregory, M. (1988) *Macroeconomic Theory and Stabilisation Policy*, Philip Allan, New York, chapters 1-4.
- Temin, P. (1993), "Transmission of the Great Depression," *Journal of Economic Perspectives* 7:2 (Spring), pp. 87-102.
- Margo, R. (1993), "Employment and Unemployment in the 1930s," *Journal of Economic Perspectives* 7 (Spring).
- Vernon, J. (1994), "World War II Fiscal Policies and the End of the Great Depression," *Journal of Economic History*.
- White, E. (1990) "The Stock Market Boom and the Crash of 1929" *Journal of Economic Perspectives* 4:2 (Spring), pp. 67-83.
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapters 23 and 24.

See also: http://www.j-bradford-delong.net/Teaching_Folder/Econ_210c_spring_2002/Notes/Notes20020313.html

Week Five: Tutorial

Unemployment in post-War America

Reading:

After the first oil shock, unemployment rose dramatically across the OECD and has stayed high subsequently. Europe has suffered particularly badly compared with the USA, but even in countries that have succeeded in reducing unemployment there remains a relatively high level of non-employment among working age men (Netherlands, UK). The standard interpretation of the rise in unemployment is that it is due to the accumulation of labour market rigidities (see Siebert, 1997, with Nickell, 1997, giving a more nuanced account). Oswald et al. (1998) discuss some interesting implications of oil shocks.

Essay:

‘Why did unemployment rise after 1973 in the USA, but to a lesser extent than in Europe?’

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 6.
- * Nickell, S. (1997). ‘Unemployment and Labor market rigidities: Europe versus North America’, *Journal of Economic Perspectives*, vol. 11, No. 3.
- * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapter 14.
- * Nunziata, L. (2002) ‘Unemployment, Labour Market Institutions and Shocks’, Nuffield Working Paper 2002-W16:
<http://www.nuff.ox.ac.uk/economics/papers/2002/w16/p4unemploymentWP.pdf>
- Bruno, M. and Sachs, J. (1985) *Economics of Worldwide Stagflation* (Basil Blackwell: Oxford), chapter 11.
- OECD (1994) *The Jobs Study: Facts Analysis Strategies* (OECD: Paris)
- Oswald, A., Carruth, A. and Hooker, M. (1998) ‘Input Prices and Unemployment Equilibria: Theory and Evidence for the United States’, *Review of Economics and Statistics* pp. 621-628:
<http://www.warwick.ac.uk/fac/soc/Economics/oswald/CHO.pdf>
- Solow, R. ‘What is Labour-Market Flexibility? What is it Good For?’, *Proceedings of the British Academy*, Volume 97, pp. 189–211.
- Soskice, D. (1990) ‘Wage determination: the changing role of institutions in advanced industrialized countries’, *Oxford Review of Economic Policy*, vol. 6, no. 4, reprinted in Jenkinson, T. (1996) *Readings in Macroeconomics* (OUP: Oxford) chapter 10.
- Turner, D., Boone, L., Giorno, C., Meacci, M., Rae, D., Richardson, P. (2001) ‘Estimating the Structural Rate of Unemployment for the OECD Countries’, *OECD Economic Studies*, 33, II.
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapter 30.

Week Six: Class

The Great Inflation and its aftermath

Reading:

Inflation, which had been fairly subdued in the 1950s and 1960s, also became a major preoccupation of the US government in the 1970s, with the breakdown of the Phillips Curve. Oswald et al. (1998) and Bruno and Sachs (1985) discuss the issues thoroughly and Bernanke et al. (1999) detail the emergence of independent central banking as a response to the inflation of the 1970s and 1980s.

Questions for discussion:

1. To what extent was the inflation of the 1970s and the disinflation of the 1980s explained by trends in oil prices?
2. What are the other possible explanations?
3. To what extent did the experience of inflation differ across the OECD in the 1970s and 1980s?
4. How was monetarism implemented?
5. Was monetarism successful?
6. Why do central banks now appear to prefer inflation targeting to monetary targeting?

References as for week five, plus:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 4.
 - * DeLong, B. (1997): "America's Peacetime Inflation," in C. Romer and D. Romer (eds.), *Reducing Inflation: Motivation and Strategy*, Chicago/London 1997.
http://www.j-bradford-delong.net/pdf_files/Peacetime_Inflation.pdf.
 - * Lawrence J. Christiano and Christopher Gust (1999): "The Great Inflation of the 1970s."
<http://www.faculty.econ.northwestern.edu/faculty/christiano/research/1970s/figure.pdf>.
 - * Bernanke, B., Laubach, T., Mishkin, F. and Posen, A. (1999) *Inflation Targeting* (Princeton University Press: Princeton), chapter 12.
- Bruno, M. and Sachs, J. (1985) *Economics of Worldwide Stagflation* (Basil Blackwell: Oxford), chapters 8-10.
- Oswald, A., Carruth, A. and Hooker, M. (1998) 'Input Prices and Unemployment Equilibria: Theory and Evidence for the United States', *Review of Economics and Statistics* pp. 621-628:
<http://www.warwick.ac.uk/fac/soc/Economics/oswald/CHO.pdf>

Week Seven: Tutorial

Are your wages set in Beijing: the rise of inequality since the 1970s

Reading:

There are three major explanations of the rise in inequality across the OECD and especially the USA since the 1970s: trade, technology, and institutions. Atkinson (1999) provides a good account of the main trends, while Freeman (1995) and Wood (1995) provide contrasting explanations. DiNardo and Pischke (1997) provide a skeptical view of technology, while many of the other papers cited below are supportive.

Essay:

‘Why has inequality risen in the USA since the 1970s’

References:

- * Atkinson, A. (1999) ‘The Distribution of Income in the UK and OECD Countries in the Twentieth Century’, *Oxford Review of Economic Policy*, 15.
 - * Freeman, R. (1995) ‘Are your wages set in Beijing?’, *Journal of Economic Perspectives*, Summer, pp. 15-32.
 - * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapter 16.
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapter 30.
- Wood, A. (1995) ‘How Trade Hurt Unskilled Workers’, *Journal of Economic Perspectives*, Summer, pp. 57-80.
- Burtless, G. (1995) ‘International Trade and the Rise of Earnings Inequality’, *Journal of Economic Literature*, 33 (2), p 800-816.
- Cameron, G. (1998) ‘Economic Growth in the Information Age: From Physical Capital to Weightless Economy’, *Journal of International Affairs*, vol. 51, no. 2. pp. 447-471:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/jia.pdf>
- Di Nardo, J. and Pischke, J-S (1997) ‘The Returns to Computer Use Revisited: Have Pencils Changed the Wage Structure Too?’, *Quarterly Journal of Economics*, 112, 291-303:
<http://papers.nber.org/papers/w5606>.
- Freeman R. and Katz, L. (1995) ‘Rising Wage Inequality: The United States vs. Other Countries’, in R.Freeman (ed) *Working Under Different Rules* (Russell Sage Foundation: New York).
- Krugman, P. and Obstfeld, M. (2003) *International Economics: Theory and Policy* (Addison Wesley: New York) 6th edition, pp. 80-81 and pp. 229-233.

Week Eight: Class

The Internationalization of Markets

Reading:

Despite what you might think, the world economy has been globalized for a long time, both in terms of trade and capital flows. The US plays a key role in both the international trading system and the international financial system.

Questions for discussion:

1. To what extent did the Bretton Woods institutions and the GATT lead to more stable and more free trade in the post-War period?
2. Is free trade in capital the same as free trade in goods?
3. Is free trade the same as fair trade?
4. Has US trade policy since 1990 been successful?

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 5.
 - * Krugman, P. and Obstfeld, M. (2003) *International Economics: Theory and Policy* (Addison Wesley, 6th edition), chapters 8-10.
 - * Bhagwati, J. (2000) *The Wind of the Hundred Days: How Washington Mismanaged Globalization* (MIT Press), chapters 7-10.
 - * Krugman, P. 'Growing World Trade: Causes and Consequences' *Brookings Papers on Economic Activity*, 1995 (1), 25th Anniversary Issue, pp. 327–362.
 - * Heilbroner, R. and Singer, A. (1998) *The Economic Transformation of America*, Thomson Learning, especially chapter 14.
- Dollar, D. and Kraay, A. (2002) 'Growth is Good for the Poor', *Journal of Economic Growth*, http://econ.worldbank.org/files/22015_Growth_is_Good_for_Poor.pdf
- Oxfam (2002) *Rigged Rules and Double Standards: trade, globalisation and the fight against poverty* <http://www.maketrade-fair.com/stylesheet.asp?file=26032002105549&cat=2&subcat=6&select=13>
- Krugman, P. (1994) *Peddling Prosperity* (Norton).
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapter 20.

Week Nine: Tutorial

The New Economy in perspective

Reading:

For a brief period in the late 1990s, the US economy enjoyed a period of startling growth. Many commentators suggested that this was a 'New Economy'. We can now look back at the period and assess it. There has been excellent empirical work on US growth over the period (see Gordon, 2000, Baily, 2002, and Ohliner and Sichel, 2000). There are also some great articles in the Autumn 2002 issue of the *Oxford Review of Economic Policy*.

Essay:

'Is there anything new in the New Economy?'

References:

- * Mankiw, N. G. (2003) *Macroeconomics*, 5th edition (Worth Publishers), chapter 17.
- * Baily, M. (2002) 'The New Economy: Post-Mortem or Second Wind?', *Journal of Economic Perspectives*, 16, 2, pp. 3-22.
- * Gordon, R. (2000) 'Does the 'New Economy' Measure up to the Great Inventions of the Past?', *Journal of Economic Perspectives*, vol.4, no.14, pp. 49-74:
<http://faculty-web.at.northwestern.edu/economics/gordon/GreatInvention.pdf>
- * Katz, L. and Krueger, A. (1999) 'The High pressure US Labour Market', *Brookings Papers on Economic Activity*, no 1.
- Ohliner, S. and Sichel, D. (2000) 'The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?', *Journal of Economic Perspectives*, vol.4, no.14, pp. 3-22:
<http://www.sfrb.org/economics/conferences/000303/papers/resurgence.pdf>
- Cameron, G. (1998) 'Economic Growth in the Information Age: From Physical Capital to Weightless Economy', *Journal of International Affairs*, vol. 51, no. 2, pp. 447-471:
<http://hicks.nuff.ox.ac.uk/users/cameron/papers/jia.pdf>
- Gordon, R. (1998) 'Foundations of the Goldilocks Economy: Supply Shocks and the Time-Varying NAIRU', *Brookings Papers on Economic Activity*, pp. 297-346.
- Jorgenson, D. (2001) 'Information Technology and the US Economy', *American Economic Review*, March 2001, pp. 1-32.
- Krugman, P. (1995) 'Growing World Trade: Causes and Consequences', *Brookings Papers on Economic Activity*.
- Oswald, A. (1999) 'Low Real Oil Prices not a New Paradigm':
<http://www2.warwick.ac.uk/fac/soc/economics/staff/faculty/oswald/ftpiece1.pdf>
- Nelson, R. and Wright, G. (1992). 'The rise and fall of American technological leadership', *Journal of Economic Literature* 30, 1931-64
- Sichel, D. (1997) *The computer revolution : an economic perspective* (The Brookings Institution: Washington, DC).
- Oulton, N. (2001) 'ICT and productivity growth in the United Kingdom', *Oxford Review of Economic Policy*, 18, 3, Autumn, 363-379: <http://www.bankofengland.co.uk/workingpapers/wp140.pdf>
- Quah, D. (1999) 'The Weightless Economy in Economic Development', CAP Discussion Paper 417:
<http://econ.lse.ac.uk/~dquah/p/dp0417.pdf>
- Walton, G. and Rockoff, H. (2002) *History of the American Economy*, 9th edition (South-Western, Thomson Learning), especially chapter 31.