



**Bureau
d'économie
théorique
et appliquée
(BETA)**
UMR 7522

Documents de travail

**« The Dissertations of Michela Giorcelli, Trevor
Jackson, and Craig Palsson:
2017 Alexander Gerschenkron Prize Competition »**

Auteurs

Claude Diebolt

Document de Travail n° 2017 – 26

Octobre 2017

**Bureau d'Économie
Théorique et Appliquée**
BETA - UMR 7522 du CNRS

BETA Université de Strasbourg
Faculté des sciences économiques
et de gestion
61 avenue de la Forêt Noire
67085 Strasbourg Cedex
Tél. : +33 (0)3 68 85 20 69
Fax : +33 (0)3 68 85 20 70
Secrétariat : Géraldine Del Fabbro
g.delfabbro@unistra.fr

BETA Université de Lorraine
Faculté de droit, sciences
économiques
et de gestion
13 place Carnot C.O. 70026
54035 Nancy Cedex
Tél. : +33(0)3 72 74 20 70
Fax : +33 (0)3 72 74 20 71
Secrétariat : Sylviane Untereiner
sylviane.untereiner@univ-lorraine.fr

<http://www.beta-umr7522.fr>



**The Dissertations of Michela Giorcelli, Trevor Jackson, and Craig Palsson:
2017 Alexander Gerschenkron Prize Competition**

Claude DIEBOLT
CNRS and University of Strasbourg
cdiebolt@unistra.fr

Abstract: Twenty PhDs in economics, economic history and history competed for the Alexander Gerschenkron Prize this year. Their research covered Africa, China, European and Latin American countries, India and Japan. Choosing three among these dissertations was a difficult and worrisome task. The three panelists of the 2017 edition are Michela Giorcelli, Trevor Jackson, and Craig Palsson.

JEL Codes: A12, N00, N1, N2, N3, N4.

Keywords: Cliometrics - Economic History - Economics – History.

"If the proper choice of a model depends on the institutional context – and it should – then economic history performs the nice function of widening the range of observation available to the theorist. Economic theory can only gain from being taught something about the range of possibilities in human societies. Few things should be more interesting to a civilized economic theorist than the opportunity to observe the interplay between social institutions and economic behaviour over time and place." (Solow, 1985, p. 329).

Twenty PhDs in economics, economic history and history competed for the Alexander Gerschenkron Prize this year. Their research covered Africa, China, European and Latin American countries, India and Japan.

Choosing three among these dissertations was a difficult and worrisome task. Did I make a mistake and underrate some of the non-finalists? As my reading progressed, every new dissertation created an increasingly cornelian dilemma, and caused an internal struggle in me. Life is about choices!

The three panelists of the 2017 edition are Michela Giorcelli, Trevor Jackson, and Craig Palsson.

In their dissertations the finalists have done a great job in assessing the role of economic history and cliometrics for the development of our knowledge in economics and history. Their message is clear: economic history can proceed only if the nature of causal explanation, i.e. what causes what and why it matters, has been resolved. In other words, the study of methods or the methods themselves employed by the three finalists become central: procedures, working concepts, rules, postulates, analytical techniques, etc. The crux of the philosophical problem: can any force be experienced

directly or not? If it can, are extrapolations ever justified? Or, are extrapolations the result of personal beliefs concerning the nature of direct experience and the extrapolations justified by that experience? The result will determine which of two very different perspectives will be the best. Is causation only correlation and causal analysis the search for the maximum of consistence of correlations? Or is causation observed correlations, explained in terms of forces or mechanisms at work assuring that similar causes must be followed by similar effects?

A major challenge facing the scholars on this panel was how to organize reality into homogeneous sets or entities. This is possible only by abstraction, i.e. by ignoring as relevant some of the characteristics of a specific event. Even if all of the associated problems can be solved, even if reality can be organized into sets generally viewed as being homogeneous, the remaining difficulty would be to find, for a given type of effect, a list of causes known to be complete. Causal generalizations are incomplete. The reason is simple. All previous experimental situations may have included an unknown but relevant cause, and there is no way to prove that this was not the case. In other words, causal explanation consists of subsuming specific facts under generalization. Finally, it appears that the construction of causal explanations is conditional to the knowledge, experience, and beliefs of the individual attempting such an exercise. Biases unavoidably govern causal explanations... *Wertfreiheit* doesn't exist! One therefore finds such words as axiom, postulate, premise, assumption, and hypothesis to designate the starting point of most research. Whatever terminology is preferred, it is the beginning of statements accepted as true without in any way establishing their validity. (Diebolt, 2016)

This being said, my problem is as much psychological as methodological, i.e. to understand the mental rules being employed by the three panelists to come to a satisfactory causal explanation. This brings me immediately to a semantic puzzle, especially in terms of theories and models. The possible meaning of theory ranges all the way from an unproven assumption to a coherent set of hypothetical, conceptual, and pragmatic principles forming the general frame of reference for a field of inquiry. In history and in human and social sciences in general, theory is frequently used to designate almost all general statements. Causal analysis in history is not causal analysis in economics. The historian is concerned with the unique, not the average; with understanding, not prediction; with clarification, not control. When economists try to be more precise, they often incorporate an empirical bias and use the two words theory and model as synonyms. Samuelson's definition is here very illustrative: theory is *as a*

set of axioms, postulates or hypotheses to stipulate something about observable reality (1963, p. 233). But, do we need to refer to observable reality? More contemporary research in economics shows that theory can also be defined as a set of laws that are deductively inter-related and arranged logically into an axiomatic system. Of course, in so doing, this abstract way of thinking necessarily generates uncertainty in the formulation of the conclusion, as all the forces are not necessarily captured in the premises. Another viewpoint is to consider theory and model as slightly different. That is, models are a simpler and more accurate determinable state of affairs, facilitating deduction of further consequences, which can be reapplied to real systems. Theory, on the other hand, is, *ceteris paribus*, a more precise specification of causal explanations or laws (factual or counterfactual) enunciated in models.

Let's turn to the three finalists, each of whom exhibits a clever and unique take on how to address these issues.

Michela GIORCELLI

On 5 June 1947 the American Secretary of State, George C. Marshall, announced an economic reconstruction program for Europe. The Marshall Plan became a legend! Michela Giorcelli's impressive dissertation on "**Economic Recovery and the Determinants of Productivity and Innovation Evidence from Post-WWII Italy,**" explores the process of economic development in Italy that, between the late 1940s and the early 1970s, moved the country from a war-ravaged agricultural economy to the seventh most industrialized power in the world. Giorcelli provides a concise, but extremely useful summary of the major economic historical events that occurred in Italy between the end of WWII and the early 1970s. She investigates the extent to which the Marshall Plan affected the Italian economic recovery from WWII and its subsequent industrial production expansion. Giorcelli uses newly collected data on the types of aid (in-kind subsidies, free grants, and loans to firms) Italy received and its allocation across Italian regions and sectors, which she combined with the regional monthly industrial production index (IPI) and the industrial production growth rates. She first documents that the Marshall Plan's money was used to recover and strengthen the already existing production system. For instance, free grants were used to rebuild infrastructures and were given to the most damaged areas, while loans were almost uniquely granted to large companies in the most industrialized regions. Second, she quantifies the separate effects of grants and loans on Italian industrial production. Using a pre-post estimator, she estimates that, after receiving the US grants, the IPI increased by 30 percent and

reached the pre-war level by 1950, before Italian firms received any loans. To estimate the effects of loans on industrial production growth rates, Giorcelli exploited the fact that Italy lost the war and, therefore, only industries not related to war were subsidized by the US. In a difference-in-differences analysis, she shows that subsidized industries had a 2.4% higher monthly growth rate than non-subsidized industries. In her dissertation she addresses also the long-run effects of management and technology transfer on firm performance. During the 1950s, as part of the Marshall Plan, the US administration sponsored management-training trips for European managers to visit US firms and granted technologically-advanced machines to European businesses. She used newly-assembled panel data on the population of Italian firms eligible to participate in this program, tracked over a twenty-year period. The effects of the program were estimated by exploiting an unexpected cut in the US budget: she compares firms that eventually participated in the program with those that were initially eligible to participate, but were excluded after the budget cut. She finds that Italian firms that sent their managers to the US were more likely to survive, and had higher sales, employment, and productivity. These positive effects continued to grow for at least fifteen years after the program. Companies that received the technologically-advanced machines also improved their performance, but the impact did not continue to increase over time. Finally, Giorcelli finds evidence of complementarity between management and technology. In the final chapter of her dissertation, she uses a change in enrollment requirements in Italian STEM (science, technology, engineering, maths) majors to study the effects of university STEM education on the probability of becoming an inventor. Administrative data on education, occupations, and innovation activities of students who received a STEM degree, thanks to the change in enrollment policy, suggest that the propensity to innovate decreased among students with high pre-collegiate achievement, but increased among lower-achieving students. She shows how these findings relate to heterogeneous sorting into more and less innovative occupations. In addition to affecting occupational choices, a university STEM education changed the type of innovation produced. In so doing, Giorcelli's work made me think of the seminal paper by Murphy, Schleifer and Vishny (1991).

Trevor JACKSON

Trevor Jackson's dissertation on "**Markets of Exception: An Economic History of Impunity in Britain and France, 1720-1830**" contributes to the *renaissance* of the "history of capitalism." He addresses one of the most noted and maligned features of its

subject: the connection between capitalism and inequality. To address this gap, Jackson develops the concept of “economic impunity.” According to Jackson, impunity is a function of three variables acting within the sphere of the economy. The first variable is prosecutorial discretion, whether contingent and corrupt, or institutionalized in the limits of jurisprudence. The second is technical knowledge, as financial instruments became increasingly esoteric and economic theory became increasingly formalized across the eighteenth century. The third is international mobility, of both capital and its owners, since European capital markets integrated sooner and more thoroughly than markets for land, labor, or commodities. Jackson uses documents from twenty-three archives in four countries to analyze the disparity between the increasing complexity of international financial instruments and the simultaneously limited scope of securities regulation in Britain and France to argue that the Financial Revolution witnessed the first expansion of economic impunity from the sovereign to the technical managers of capital, culminating in the world’s first international financial crisis in 1720. His dissertation also shows how eighteenth century economic thought tried to solve the conceptual and political problems generated by this crisis. He uses the financial records of the speculator Étienne Clavière to illustrate the normal workings of eighteenth century finance and how that system came apart during the French Revolution, turning impunity into a nationalized and politicized attribute. Later, he investigates the revolutionary interregnum through a pair of case studies in Dublin and Strasbourg. Finally, Jackson shows how international private banks like Barings, Rothschilds, and Laffitte reconstituted the European financial system after 1815, culminating with their efforts to contain the first crisis of the nineteenth century gold standard in 1825. This dissertation accomplishes three things. First, it injects a tractable approach to inequality into the new “history of capitalism” that goes beyond national income accounting or cultural representations by using the concept of impunity to illustrate how institutional exceptions allow for the frequent, but disavowed, episodes of dispossession that accompanied the rise of modern finance. Second, it illuminates path dependence (David, 2007), i.e. why a constitutive element of the modern, self-authorizing economic sphere is that great moral and material harm can take place within it despite nobody being legally at fault or politically held accountable. Finally, it allows for a method of historicizing financial crises.

Craig PALSSON

Craig Palsson’s dissertation on **“Institutions and Economic Development: Lessons from Haiti’s Economic History”** ambitiously proposes a better understanding of

how institutions affect development, why poor countries do not adopt better institutions, and the barriers to committing to good institutions. His dissertation looks at these issues by focusing on property rights in historical and contemporary Haiti, linking the past with the present. Palsson uses a puzzle in Haiti's economic history to show that the framework which attributes underdevelopment in former colonies to either persistently bad institutions, or initial factor endowments that predisposed the colony to inequality, is incomplete. His dissertation was, in my view, connected with Tocqueville's (1856) arguments for France, *ceteris paribus*. In his book *L'Ancien régime et la Révolution* (The Old Regime and the Revolution), Tocqueville tried to explain why at the end of the 18th century capitalist agriculture and trade did not develop at the same speed in France as it did in England. The main reason was that in *Ancien Régime* France the very level of administrative centralisation meant that the State had more prestige than in England and that State positions were more numerous and more sought after. Hence, when a landowner had the choice between staying on his property and striving to improve its output or acquiring a royal office in town, he usually chose the latter.

In the early 20th century, large numbers of Haitian workers migrated abroad to work on plantations, even though plenty of fertile land sat idle at home. To assess his argumentation, Palsson uses data on 5,700 plots adopted over 22 years under a government rental program. His model of the optimal allocation of labor and land implied that the checkerboard pattern reduces land adoption and attenuates the extent to which new plantations develop after a migration cost shock. Data from settlement patterns in Haiti and a massacre in the Dominican Republic confirmed these predictions. Haiti's experience shows that the conditions created by colonial governments did not necessarily constrain future institutional development. Haiti's post-independence institutional innovations undermined the conditions for development. In extension, Palsson shows that the efficiency gains of property rights reforms are the result of policies where political economy drove the reform. If political economy factors drive property rights reforms, then reform beneficiaries should provide more support for the candidate who implemented the reform. He tests this prediction using a cattle registration program in Haiti. In 2014, the Haitian government registered all cows in the country and provided owners with titles. He finds that in the 2015 election, districts with more cows relative to goats provided more support to the incumbent party. Because the ratio of cows to goats is exogenously affected by terrain, he uses the region's slope as an instrument for the ratio of cows to goats and confirms the causal effect. Palsson's

dissertation also suggests a close relationship between economic development and the rule of law. As opposed to those authors who belong to the tradition of endogenous growth –who consider that social institutions are irrelevant, or at best secondary, in analysing development processes – Craig Palsson, through his experimental laboratory, offers an interesting alternative when he suggest that the institutional framework and the resulting organisations play an essential role in explaining the economic performance of Haiti. Regularised interaction schemes are devised to take into account a complexity that standard economics cannot reveal. In more formal terms, institutions are all the rules of the games, or in other words "[...] *the humanly devised constraints that structure political, economic and social interaction.*" (North, 1991, p. 97).

To conclude, let me congratulate the three finalists and all the 20 new PhDs for their great intellectual contributions to the development of economic history in the world.

References

- David P., "Path Dependence: A Foundational Concept for Historical Social Science", *Cliometrica*, 1, 2007, pp. 91-114.
- Diebolt C., "Cliometrica after 10 Year: Definition and Principles of Cliometric Research", *Cliometrica*, 10, 2016, pp. 1-4.
- Murphy K., Schleifer A. and Vishny R., "The Allocation of Talent: Implications for Growth", *Quarterly Journal of Economics*, 106, 1991, pp. 503-530.
- North D., "Institutions", *Journal of Economic Perspectives*, 5, 1991, pp. 97-112.
- Samuelson P., "Problems of Methodology: Discussion", *American Economic Review*, 53, 1963, pp. 231-236.
- Solow R.M., "Economic History and Economics", *American Economic Review*, 75, 1985, pp. 328-331.
- Tocqueville A., *L'Ancien régime et la Révolution*, Gallimard, Paris, (first printed in 1856), 1952.