

What can economic history tell us about the world today?

Welcome to Warwick Econ Sounds, a podcast series from the Department of Economics at Warwick University. In these podcasts, we're looking at how economists help us solve global problems, what economists actually do, and some of the ways in which Warwick's economists are addressing key economic and social issues with their research.

In this podcast, we're looking at economic history. How does studying economic history help us tackle current economic and social challenges? What does studying the past help us understand about our current society and the challenges we're facing? Why is it important for economists to have an understanding of economic history even if they're working in a different discipline?

To explore these questions, we'll be speaking with Dr Claudia Rei, Associate Professor of Economics at Warwick. Dr Rei's research interests include economic history, applied macroeconomics, and the political economy.

Dr Rei, thank you for joining us today. Can you tell us a little bit about why studying economic history is important?

Well, economic history looks at past events through an economics lens, so the idea is to try and understand economic incentives behind historical events in the past so that we identify their consequences and we can potentially avoid repeating mistakes that we've done in the past or eventually follow policies that bring better outcomes in the future.

I can give you two examples. So the first from Melissa Dell at Harvard. Her and her co-authors find that precolonial states affect long run economic development in Vietnam today. So historically in the North, there was a state that was the former Dai Viet State, and in this state, the villages were important administrative units before the arrival of the French in the mid-19th century, and today these places have higher levels of household consumption and also schooling when compared to the southern part of Vietnam where the former Khmer Empire existed and where villages had no intermediation really between the local individuals and the government.

So the second example is from another recent paper by Felipe Valencia at UBC. He finds that the historical presence of Jesuit missions in Latin America in the 17th and 18th centuries is associated with higher levels of literacy and income today. This relationship is not there in places with Franciscan or Dominican missions, since those religious orders had relatively lower emphasis on education. So both these examples really show that history matters, and these two papers further explore the mechanisms of historical persistence.

So something from even 300 years ago is still having an impact on how society is arranged today?

Absolutely. And, you know, if individuals are more literate, or if they have higher incomes, they're going to produce more value. These places are going to be more developed

today then places that have lower literacy and low incomes, and that's the idea. You know, stuff that happened 300 years ago, 400 years ago, maybe more, could really have an impact today.

How does understanding the impact of something that happened 200 years ago, how does that help us tackle current policy problems?

Yeah, so I'm going to talk about the work of somebody else now because I think it's a really nice example here. So the work of Leah Boustan at Princeton. She has a vast work on migration and she, you know, in a recent paper, in a recent working paper, Leah and her co-authors are really studying the impacts of the closure of the US border in 1920. So this just meant that a lot of countries were imposed quotas, and so a very limited amount of people that could enter into the United States is vastly reduced in migration into the United States at the time, and that was the objective of that policy. So these quotas wanted to deter immigrants from the highest sending countries of the time, and at the time - in the early 20th century - these were coming from southern Europe and Eastern Europe. So the objective of this policy was to protect American jobs. So this is what the politicians wanted to do. What the authors do is to compare local labour markets in the United States more or less exposed to the quota, given the initial stock of immigrants that they had at the time, and what they find is that despite the loss of immigrant labour supply - so less immigrants are entering the United States - the earning of existing US born workers in these markets actually goes down even in the absence of this inflow of migrants. So what happens is that the European migrants were completely replaced by skilled US-born workers that were able to move within their country and also by unrestricted migrants from Mexico and Canada in urban areas. So this shows that, you know, a policy that is taken with an objective in mind may not necessarily yield that objective.

Another working paper also by Leah Boustan and other co-authors looks at the social mobility of immigrants in the United States for more than a century, so the idea there is slightly different - it's trying to understand whether migrants at the turn of the 20th century were any different from the recent migrants that we have today, relative, for instance, with their speed of integration into the American society. We see a lot of anti-immigrant sentiment today and this is by no means something that is new today - it existed already in the past. So what they do is actually an amazing work in terms of data, data collection and linking. So they link millions of father and son pairs across the US censuses and find that the children of immigrants from nearly every single sending country have higher rates of upward mobility than the children of US-born citizens, so this immigrant advantage is actually similar historically and today, even if the countries that send most immigrants to the US today are very different from the countries that sent most immigrants to the United States in the 19th century. So these two examples - and I think it's the work of Leah - really shows how the work of economists and economic historians in particular can inform policy decisions presently. So whether politicians listen to the recommendations of economists or not when they're devising their policies is another matter. But, you know, these are the types of insights that economists can provide.

You mentioned there the linkages of millions of pieces census data - is this an area

that's only become possible more recently, with the advances in computing power and even access to that kind of historical data?

Yes, yes, absolutely. So linking individuals across the census had already happened before, but it's very painstaking because, you know, you can only look at, say, people with unusual names, so the John Smiths you're going to lose them because there's 30 of them in a given county, right, of a given year. So that already happened before. But now, with new software tools and access to just larger and larger amounts of data, you no longer need to go to the archives and you know, go through the dust of all the papers, pages and all. So this is now possible and actually Leah herself and co-authors have a website, which is the data linking - the census linking - project online, and this facilitates the research not just for them, but they are providing a huge public good for the profession.

And thinking about your own work at the moment, are you working on anything with that will impact policy?

Sort of, sort of, I would like to think so. So the project that I'm working on at the moment with Eric Chaney at Oxford relates in a broad sense to the importance of past events - so what I was talking about before - in long run economic growth. So in particular we may, you know, today we may observe differences across different regions of the same country that cannot really be explained by something that we observe today. So for instance, we know that southern Europe today is relatively poorer than northern Europe, and that is accounted for by a large number of factors. So for instance, I can think of two different start times of the Industrial Revolution, for instance, or the legacy of authoritarian regimes in southern Europe and not in northern Europe in the 20th century, just to name two. There's plenty more.

Now if we go back to the late 19 century and we look at literacy levels in Europe, we see that northern Europe is far more literate than the South on average, right? Recent work by our colleague Sascha Becker actually shows that, you know, by 1870, about 70% of people living in Prussian farms - so that's rural Germany at the time - were able to read and write, whereas in Italy or Spain, only a third of the people were able to read and write, so these differences are really stark already from an early stage. However, what we find is very interesting. If we zoom in on Iberia, so Portugal and Spain, we see something that is really, really puzzling. Although most of the Peninsula is very illiterate by 1890 as we expect, right in the centre-north region of Castile, literacy rates are as high as those of northern Europe. In some municipalities, they are as high as 90%. And that's really unusual. So this is striking pattern because Castile is not the region of Spain that industrialises first - that happens actually in Catalonia, a place that has lower literacy than Castile at this time. So what Eric and I think is that this is a legacy from medieval municipalities in this region that were very different from municipalities elsewhere in the Iberian Peninsula. So we're currently reading historical documents on the origins of these local governments. And you know what we find is that the more autonomous these governments were early on, the more likely they would be to choose high levels of public goods, for instance, education, for a longer period of time.

Now this is where the history really helps us, because in the context of the Reconquista, which is, as you know, the expansion of Christian kingdoms to the south of the Iberian Peninsula and the expulsion of the Arab presence, so these Christian monarchs were expanding their domains to the South and considered lands to members of the clergy and the nobility that helped them in the conquest of their territory. So they gave autonomy to these local communities that were populating this vast land - basically empty lands. As the Reconquista and the other rival disputes across the kingdoms in the in the Peninsula ended, Kings began centralising more and more power, and so there was less of a need to make concessions. So they just reverted all the decisions to themselves. So in places that ended the Reconquista relatively early – and I'm talking about Navarre in 1036, Aragon in 1235 or even Portugal in 1249 – the municipalities soon became tributaries of the King with very little autonomous power. In Castile, this process starts only after the fall of Granada in 1492, so there's about 200 years or more of different institutional exposure and so the municipalities, they retained autonomy for much longer periods of time, which could potentially be the reason behind these large differences in literacy levels in the 19th century. So this is still very preliminary work, but it sort of shows that these institutional legacies from 700, 900 hundred years ago can still matter for future outcomes that are not so distant in our past.

Is it oversimplified to say that a more literate population is more likely to become economically developed?

Literacy is certainly a skill that is going to allow the literate individual to have access to jobs that the illiterate cannot develop, and therefore they are going to earn higher wages, have higher income, have higher consumption, and these are all signs of more developed society, let's say. Or a higher level of economic development.

That's a really interesting example to me because the Reconquista was something I hadn't heard about until I got to University to study medieval history, and I think it's it leads us onto the question of the approach at Warwick, where you're teaching global economic history - you're not just looking at the history of the UK, but actually setting economic history in that worldwide context. Can you tell me a bit about why Warwick has decided that there should be a core module about economic history for our undergraduates?

Yes, I teach EC104 with James Fenske, and this module is for year one students to have a broad view of world economic history complementing the technical modules that they have when they arrive at Warwick - microeconomics, macroeconomics, maths and stats. So we have two main objectives in this module. The first is to give our students an economic perspective of historical events beyond the part of the world where they grew up and probably what they thought about in high school, right? So we have students from the UK that know a lot about UK economic history. But we also have a lot of students from Malaysia, from China, from India, that may not be as exposed to European history, and we want to give them a full exposure to the history of the world in many different regions. And second we also want to expose students to economics research so that they learn how the tools of economics that they learn in the more technical modules are applied to the analysis of problems that we don't understand. So this way students learn about the

work that economists do beyond teaching - because that's what they see in the classroom - or beyond the financial sector, because a lot of people think that the economists are just the ones that work in banks and in finance, which is, you know, it's a visible face of the profession, but it's certainly much, much wider than that.

In terms of the topics that we cover in term one - so I cover term one and initially we devote some attention to episodes of economic growth in the pre-industrial period. So in the Islamic world in the first Millennium and also in the Song and late Ming dynasties in China, as well as the role of trade and empire in Europe of course. Then we focus on the Industrial Revolution and its consequences which were immense not just in Britain but also across the World, and also look at the rise of the United States. And that's where I stop in term one. In term two James covers the period starting at the turn of the 20th century, discussing, you know - coming to the present - discussing issues such as globalisation, colonisation, the inter-war period, the decolonisation process in post-war and also the economic reforms of the late 20th century. He focuses also in marking events of the 20th century, such as the great recession 2008, Brexit, the rise of China, or the legacy of apartheid. So it's a very, you know, it's a wide module.

And a big time span to cover.

Precisely, and in regions too. We cover not just Europe, Asia, the Americas – both north and south, Africa. We are quite thorough in terms of the regions that we cover.

And what's the goal of teaching that module? What do you want the students to really understand from all of that content? So we really want to - you know there's stuff that every economist should know – we really want our students to, of course, learn a lot about the history that they don't know, but have a sense of having your feet on the ground and seeing that this is the world that you are living in. And this is not - what you observe today is not - the result of pressing a button yesterday, right? Some of these things are phenomena that are very, very long run and we want to understand why as economists, why are they important. Every economist should know what was the Industrial Revolution and its consequences. What was the demographic transition and its consequences? How is life under dictatorship and how are policies impacted by that? Are living standards impacted by the political system that you live in, if you're unlucky to live in a political system where you don't have a say. OK, and so all of this - you know, with different examples at different points in time in different countries - we find we are able to highlight and show as economists that, you know, why history happened as it happened. And understanding why that was the case will make them hopefully better economists. That's our objective at Warwick.

So there's that saying isn't there - if you don't understand history you're doomed to repeat it. Is that something that would be true in economic terms or not?

I mean, I think all of these phrases - we've heard it many times, but for a reason, right? Because they are actually meaning something and indeed ignoring past policies or past mistakes or making policy decisions today that are misinformed is going to have consequences. It had consequences in the past. I gave you several examples of those

and certainly if we can do something to improve those, we hopefully will make better decisions. They're still not going to be perfect because it's a changing world and we still need to make decisions in this changing world, especially in the current times that we're all living through at home mostly and working at home. But that doesn't mean that we cannot do better informed decisions and if economics or economic history in particular can help, why not?

You have been listening to Warwick Econ Sounds, a podcast series from the Department of Economics at Warwick University. For more information about Dr Rei's research or to find out more about the World Economy, History and Theory teaching module, please follow the links on our website.