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Introduction: Looking Forward into History

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This is a book that examines the past as a way of preparing for our future. It brings together a number of leading historians who show that commonly accepted wisdom about our economic past is often wrong, and therefore misleading. They persuade us that we will master the future—especially our economic future—only when we understand the lessons of our past. The quickest route to economic wisdom in our time, it turns out, is a detour through the nineteenth and early twentieth centuries.

Second Thoughts gives two dozen cases in point. Robert Higgs says: Forget what you think you know about the military-industrial complex; war is hell on the economy, too, and always has been. Julian and Rita Simon say: Fellow immigrants, stop worrying about the new immigrants; we have been through this before, and it worked out all right. Elyce Rotella says: Do not be misled by the sweet sound of "protective" legislation for women; the women's movement split in the 1920s over the issue, and may split again in the 1990s.

There is much to learn about the past of the American economy, its successes and its failures, the wise and the witless attempts to make things better. The Teapot Dome Scandal, argues Gary Libecap, originated as a wise attempt to solve the problem of drilling for oil in a common pool. "Free land" distributed by the Federal government in the nineteenth century, argues Terry Anderson, tempted people to waste money chasing after a homestead.

Stories tell in economics as much as they do in literature. If we do not want today's financial scandals, like those of the 1930s, to lead to regulatory sclerosis, then the story by Susan Phillips and J. Richard Zecher about the birth of the Securities Exchange Commission (SEC) should go on the reading list. If we do not want today's big personal injury suits to lead to worse medical care and a more hazardous workplace, then we would do well to read Price Fishback's story about workmen's compensation in coal mines eighty years ago.

The chief danger is that since the dramatic scientific progress of the early twentieth century, but especially since the 1960s, American policymakers have neglected the lessons of history. They do not need stories or metaphors; they have masters degrees in *Science,* these youngish individuals who disburse housing projects with a dash of sociology and foreign interventions with a dash of game theory. In the 1960s economists were a bit too sure of their 500-equation models and their ability to fine tune any economy around. Give us the computers, said the experts of Camelot, and we will finish the job.

The pride has led to tragedy, just as it did for Oedipus. It has led to the downfall of the powerful, on Pennsylvania Avenue in the 1960s and on Wall Street in the 1980s. A St. Louis housing project conceived by social scientists finally had to be blown up for landfill, a monstrous refutation of the doctrine that people after all are easy to predict and manipulate and social problems therefore easy to solve. Socialism has been the biggest failure in social engineering. The big American failure was Vietnam. A domestic political failure was Nixon and his colleagues. A financial one was Milken and his.

Economists finally have gotten the message. They have learned that they cannot predict in detail. For example, in 1969 an impatient regulator of the telecommunications industry decided to let MCI try an experiment between Chicago and St. Louis, thinking he could in this way stimulate Ma Bell to work harder. The unpredictable result, Peter Temin shows, was the breakup of AT&T. The expert economist in 1930 or in 1990 advises the government to manipulate confidence instead of changing reality. The unpredictable result, John Walling shows, was the Great Depression of the early 1930s and a weak recovery in the early 1990s. Presidents Hoover and Roosevelt agree that technical intervention in agricultural markets—price supports, set asides, prohibitions on foreclosure—will save the American farmer from the disasters of the 1920s and 1930s. The unpredictable result, Lee Alston shows, was a bloated farm program taxing the poor to subsidize the rich. People, and especially politicians, cannot predict. If economists cannot predict in detail, then they cannot steer the economy with confidence.

Yet the future arrives tomorrow, and it would be unwise to meet tomorrow unprepared. What then is to be done? What is to be done is to get back to the humanism of history without sacrificing the real gains of economic science. What we can do if we cannot gain exact predictions is at least to gain approximate wisdom. The wise person owns an umbrella and carries it when the sky looks dark, even though he or she knows that weather prediction is poor at best. In a world desperate for insight into the future, the least we can try for is historical wisdom.

The craft of historical economics, a relatively new scientific field, is here applied to policy. The writers are all economists trained in the social en-

gineering of the field. They are also historians. Economics has not always been a cumulative science, but since its official beginning in 1957 this historical economics, like labor economics or urban economics, has accumulated knowledge. A bibliography of what was accomplished down to 1980 contains 4,500 items; the findings since then have probably doubled. Historical economics has discovered Surprising Facts productive of wisdom. History is the best path to wise policy, though not much traveled.

Some of the wisdom is background. Behind talk of the former Third World lies a claim that imperialism is what made the West rich. Third World politicians still get votes from the claim. Jeffrey Williamson, then Lance Davis and Robert Huttenbach, show here that it is false. The Third World, says Williamson, has prospered since World War II, contrary to its impoverished image. Economic growth is never easy, and was no easier for Europe a century ago. Imperialism was no bar. On the other side the imperialism, gratifying though it was to the vanity of white and male Europeans, was no way to wealth. The largest empire the world has known, say Davis and Huttenbach, was a burden on the British people. India did not enrich Britain. Likewise the most ambitious foreign policy the world has ever known has not enriched the American people. NATO has been bad for business. The British, the French, the Americans, and recently our friends the Russians have learned in the end that an empire is a pain in the pocketbook.

So too, as it turns out, is Big Science. Behind talk of American educational failure lies a belief that the solution should somehow involve Big Science and America's preponderance in Nobel Prizes. Big Scientists have had their way since World War II, accelerated by the unexpected Soviet launching of *Sputnik,* with the result that America now has the best science in the world and the worst schools. Nathan Rosenberg shows that the Big Science claim is wrong, that science has commonly followed the economy rather than leading it. Good basic science, notwithstanding the claims of British astronomers and American biologists, does not make for a good life in the country paying for it. The science gets copied and developed by foreigners.

Such historical wisdom is coming back into favor with economists. Economic science today needs it. The new, lethal, and wisdom-producing criticism of the economist's predictions is that economics is a part of itself. An economics offering concrete predictions is trying to predict itself, like someone trying to lever oneself up with a crowbar. That is the technical reason historical economics is good for policy: economics cannot supply the social engineering it promises, so it had better learn the stories. The practical reasons are already implicit in American proverbs, collection points of wisdom.

One American proverb is, What you hit is more important than what you aim at. Free land for homesteaders, argues Terry Anderson, was a noble experiment, but its very freeness caused the land to be badly used. Lawmakers and journalists talk about policy "designed to do such and such, but seldom ask whether the "design" in fact works. The SEC, in the news today for its attacks on the rich and smart, was designed in the 1930s, as Phillips and Zecher argue, to help the poor, but ended up helping old wealth instead. The golden rule strikes again: those that have the gold, rule. Policies to "save jobs," as Elizabeth Hoffman finds in American history, do not always save jobs. One can see this in Poland, with valueless jobs in steel mills that belong in another country, and fewer jobs therefore in other parts of the Polish economy. One can also see it in America's nineteenth century. Hugh Rockoff describes the experience with price controls, the oldest of economic policies designed to do the impossible. Most rulers, from Hammurabi to Nixon, have given it a try.

History often repeats itself, but not always. We may be able to avoid the shooting war that grew out of economic competition between Britain and Germany in the late nineteenth century if we realize how similar is today's panic about Japanese competition. The Reagan Revolution was bound to fail. Paul Uselding points to a long history of confidence that government can know what the technological future will bring, and a long history of failure. Benjamin Baack and Edward Ray note the modern sound of the deal cut a century ago: give us the defense contracts, said the Northeast, and we will drop our opposition to the Federal income tax. Richard Sylla compares the deregulation of banking in the 1830s with that of the 1980s. What went wrong in the 1980s, unlike the 1830s, was that we deregulated by half measures. We got the Savings and Loan (S&L) Scandal as a result.

Of course, we need good myths, like those of the Founding Fathers and the Englishman's freedoms, but the bad myths get in the way of prudence. Certain historical myths are still abuilding, such as the one that Robert Margo exposes that the Civil Rights laws explain whatever success African-Americans have had; in fact, the people helped themselves, to education. Other myths have developed a history of their own, such as the myth Barry Eichengreen exposes that the period of the classic gold standard, 1879–1914, was golden all round. When Franklin Roosevelt finally decided to go off the gold standard his director of the budget said, "Well, this is the end of Western Civilization." It was not. Jonathan Hughes here exposes the myth of rugged individualism. Americans are individualists, all right, but since the Puritans they have exhibited a gift for collectivism as well, "precocity in the use of institutions of democratic coercion. . . . Big government was what we wanted and what we got." Americans have always believed that the government was a pork barrel.

Beyond the proverbs these rereadings of the American past illustrate the refined common sense called *economics*. A wiser because more historical economics is not antieconomic. On the contrary, Mark Thomas reviews the history of the trade deficit from Plymouth Rock to the Hard Rock Cafe, pointing out that the trade deficit is the same thing as the investment surplus: We either export goods or we export IOUs. The United States was built on an investment surplus, such as we now have, despite

fears that foreigners are "buying up the country." Gary Walton tells the story of Robert Fulton's attempt to extract the whole profit from steamboating on the Mississippi. Fulton failed, and the opening of the trade to talent regulated by 1860 in rates one tenth what they had been in 1810. Ingenuity responds to supply and demand. The same economics is exhibited in Uselding's triad of stories. The government provided "patronage," like a Renaissance prince, but the technology responded best when the patronees were decentralized, numerous, and competing.

The essays commissioned here are an introduction to economic thinking, as painless as real thinking can be. Teapot Dome and Fulton's Steam engine, wildcat banking and Hoover's reputation, equal rights for women, and wartime wage and price controls can all be rethought wisely in the economists way.

That wisdom comes with age makes it hard for entire countries to be wise. A country run by thirty-year olds is likely to have a short memory and unreasonable optimism about the possibilities of prediction—witness again the postwar Communist regime, or America in the 1960s. A country is as old as its memory. It was a learned joke of Renaissance scholars to point out that "the ancients" were actually the juveniles, because they lived in the first age of the world. Someone complained to T. S. Eliot about studying the past: "We know so much more than the ancients." Replied he: "Yes; and it is the ancients that we know."