

Three Essays on Applied International Macroeconomics:

Causes of Growth and Stagnation in the 19th Century U.S.

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My dissertation is composed of three essays on US macroeconomic development in the 19th century. Its focus lies in the role of international trade and finance in governing the pace and nature of domestic growth. I argue that an examination of the changing relationship between the US domestic economy and the rest of the world suggests that the balance of payments plays a larger role in economic growth than is normally recognized. In addition, I argue the domestic institutions governing trade and finance may be as fundamental to growth as other institutions more commonly recognized like property rights, political representation and education.

The first essay of my dissertation lays the theoretical groundwork for the subsequent papers. Recent literature in the economics of growth has suggested that the main determinant of growth difference lies in institutions and the political process. Thus “proximate” causes of growth like factor accumulation, are determined by more “fundamental” causes like the structure of property rights. I argue however, that the growth experience of the United States in its key developmental years suggests a set of institutions not commonly recognized in modern growth theory. In particular, the developmental orientation of the state emerges as fundamental. The US, however, is often regarded as a “non-developmental” state. My first essays disagree emphasizing the role of the state in providing a degree of coordination for investment plans, providing an industrial vision and protection of industry, engaging in infrastructure investment, and mediating distributive conflict. Perhaps most importantly, the federal government’s role in shaping and establishing financial

markets and a common money of account allowed the US to escape external constraints on growth related to the capital account.

My second paper deals with long run development in the balance of payments over the 19th century. International financial arrangements were asymmetrical, with the peripheral economies characterized by financial dependency. For many smaller open economies, a large propensity to import and a high reliance on foreign capital can lead to balance of payments crises that check growth. This paper thus provides estimates of the long and short run import demand function. A model of import demand is estimated, and structural break tests suggest a shift in the demand for imports after the Civil War. This implies that over time, maintaining balance on current account became less relevant as a potential constraint on growth. As a result, external events like terms of trade shocks and changes in British monetary policy seem to have less of an impact on growth in the latter part of the century. I explain this decline in the income elasticity of imports as the result of active import substitution policies, the government financing and demand for technological improvement, infrastructure improvement, and financial market developments. In addition, financial dependency was reduced, as agents in the US are increasingly able to borrow abroad in dollars.

The final paper of the dissertation examines the economic crisis between the years 1837 and the early 1840s. The crisis is seen as a balance of payments crisis following a common pattern among small open economies. A model is outlined that argues that monetary policy in England responds to its external balance. As the pace of industrialization in England quickens, the export prices of the antebellum US rise. In response, the English increase interest rates, causing a collapse in US terms of trade and rising costs of external debt service. The result is a recession and a wave of state defaults. In this way, the pace of industrialization in England determines export prices and debt sustainability in the US. The US experience is then compared to Argentina during the 1890s Baring Crisis and Latin America during the wave of defaults in the 1980s. A final note discusses the implications for the Eurozone which finds itself with some similar problems of endogenous fiscal crises.