Americans may have been victorious in the Revolution but they paid a high price: The war pitched the U.S. economy into what historically may have been its steepest decline.

the Great Depression . . . and certainly longer."

The colonists were already better off than the British in many ways before the Revolution, and Lindert and Williamson's analysis shows that they were even wealthier than previously thought. The society the British seeded had turned out to be strikingly egalitarian, and, apart from the top two percent of income earners, colonists earned more than their British counterparts. The South was especially flush, with per capita income double that of New England, even when slaves were counted as part of the population.

During the Revolutionary War, combat and the British occupation of key cities destroyed industries and infrastructure, while inflation wreaked havoc on the weak financial system. Overseas trade was disrupted, and Americans were shut out of lucrative British markets. Well-educated Loyalists decamped for the mother country or for Canada, taking their skills with them.

White-collar workers made up 13 percent of the American labor force before the Revolution, but only eight percent in 1800. The South suffered a particularly harsh reversal of fortune. The war reduced the upper South's exports of rice, tobacco, and other commodities by 39 percent and the lower South's by 50 percent.

All told, American incomes dropped by 22 to 28 percent between 1774 and 1800, Lindert and Williamson estimate. When the decline ended is not entirely clear; some economists believe that incomes began to grow again in the 1790s. If that is the case, say Lindert and Williamson, the period immediately following the Revolution may have seen a fall even more rapid than their calculations show, constituting "America's greatest income slump ever."

The North rebounded from the catastrophe quickly, posting 2.1 percent annual growth in per capita income between 1800 and 1840, largely on the strength of its industrial output. The South took much longer to recover; by 1840, the region's personal income per capita still had not reached prewar levels. The country's overall growth rate of 1.26 percent during that period put it solidly in the camp of modern economies, defined as those growing by at least one percent annually. "Without the 1774–90 economic disaster," Lindert and Williamson write, "it appears that America might well have recorded a modern economic growth performance even earlier, [becoming] perhaps the first [country] on the planet to do so."

ECONOMICS, LABOR & BUSINESS

Back to Basics for Economics

THE SOURCE: "Economics in Crisis" by J. Bradford DeLong, in ***The Economists' Voice***, May 2011.

THE FINANCIAL CRISIS LAID waste to many things—the housing market, the banking system, individual 401(k)s. A less noticed but still significant casualty was the confidence of many of the nation's leading economists, among them J. Bradford DeLong of the University of California, Berkeley.

PHOTOGRAPH COURTESY OF THE LIBRARY OF CONGRES

A confounded economist asks: How did he and his colleagues fail to predict the gravity of the Great Recession?

How, he asks, could he and his fellow economists have failed to anticipate the gravity of the most significant American economic downturn since the Great Depression?

DeLong, who was deputy assistant secretary of the U.S. Treasury for economic policy from 1993 to 1995, is still "astonished" by the scale of the panic that "relatively small" losses in subprime mortgages caused. But he's even more astonished by the failure of university economics departments to learn from their mistakes. While economists strove to perfect theoretical models of how markets function, they neglected the human, historical, and political forces that shape economies. Consequently, they missed many of the factors that turned the crisis into a disaster, from the theory-defying failure of banks to protect themselves against excessive risks to consumers' potential to react to adversity in irrational ways.

A few contemporary economists, including Robert Shiller of Yale and Barry Eichengreen of Berkeley, had relevant insights to offer before the crisis. But it's striking that many of the most illuminating thinkers—such as Charles Kindleberger, author of *Manias, Panics, and Crashes* (1978), and Walter Bagehot, the editor of *The Economist* in the mid-19th century—are "dead men."

DeLong argues that economics departments need more people who study subjects such as cognitive biases and microstructure, the nuts and bolts of how particular markets function. "We need fewer equilibrium business-cycle theorists and more old-fashioned Keynesians and monetarists. We need more monetary historians and historians of economic thought and fewer model builders," he says. If the field of economics fails to change, it risks becoming "a rump discipline that merely teaches the theory of logical choice," he adds, while political scientists, business professors, and others take on the job of explaining how the economy actually works.

ECONOMICS, LABOR & BUSINESS

Career, Interrupted

THE SOURCE: "Why the Gender Gap Won't Go Away. Ever." by Kay S. Hymowitz, in ***City Journal***, Summer 2011.

Almost 50 years after the publication of Betty Friedan's *The Feminine Mystique,* studies show that women still earn between 75 and 81 cents for every dollar men earn. It's wrong simply to attribute this discrepancy to the straw man of gender discrimination, argues Kay S. Hymowitz, a fellow at the Manhattan Institute, a New York City think tank. Lots of other factors are at play, such as women's preference for the kinds of careers that naturally bring in less cash.

Preferences aside, Hymowitz believes that the architecture of studies assessing the wage gap

EXCERPT

A Kind Word for Theory

There is a proper division of labor between those who develop theories and those who meet day to day challenges. It is progress, not regress, that today we have physicists who conceive theories and do experiments and civil engineers who build bridges. This work was done by the same people centuries ago. In the same way, it represents progress through the division of labor that it is no longer true that academics are the people best informed about the evolution of next quarter's GDP, as was the case even in the 1960s. While there are exceptions, much of the progress in modern medicine comes from scientific research done by people who do not on a regular basis see patients. Watson and Crick would have been slowed down, not helped, if they had spent time with MDs.

—**LAWRENCE H. SUMMERS**, economist and former director of the National Economic Council, at **Reuters.com** (July 26, 2011)