

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

“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, that is, 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, that is 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, that is 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. Paul 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 U.S. 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 United States. In a difference-in-differences analysis, she shows that subsidized industries had a 2.4 percent 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 U.S. administration sponsored management-training trips for European managers to visit U.S. 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 U.S. 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 United States were more likely to survive, and had higher sales, employment, and productivity. These positive effects continued to grow for at least 15 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, math) 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 Kevin Murphy, Andrei Schleifer, and Robert 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