

EDITOR'S CORNER

We wish to express our deep appreciation for the dedicated cooperation and indispensable help of the following members of the Advisory Board of the *Business History Review*, whose terms expired at the end of 1980. They are Fred Bateman, Jr., Indiana University; François Crouzet, The Sorbonne; Stanley Engerman, University of Rochester; Ellis W. Hawley, University of Iowa; Jürgen Kocka, University of Bielefeld; Gary J. Previts, Case Western University; and S. B. Saul, University of York.

Joining the *Review* for three-year terms as members of the Advisory Board are Louis P. Cain, Loyola University of Chicago; François Caron, The Sorbonne; Donald Coleman, Pembroke College, Cambridge; H. Thomas Johnson, Western Washington University; John P. McKay, University of Illinois at Urbana-Champaign; Stephen Salsbury, University of Sydney; and Richard H. Tilly, Westfälische-Wilhelms Universität. Leslie Hannah, Business History Unit, London School of Economics and Political Science; M. Roe Smith, Massachusetts Institute of Technology; and Harold C. Livesay, SUNY at Binghamton have consented to serve an additional short term of two years to help us balance the terms of service of members. We are grateful to all of these prominent members of the profession for consenting to add these duties to their already full schedules.

This is also the best opportunity we have to acknowledge with hearty thanks the help of a number of scholars who are not members of the Board but who consented to read and comment upon papers requiring their special knowledge and who, in the nature of their office, must remain anonymous. Although such referees are invariably among the busiest members of the profession, they gave of their time gladly in the knowledge that their own rise was almost certainly helped by the comparable generosity of those who have gone before.

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The James J. Hill Reference Library, St. Paul, Minnesota, announces its search for a Curator of the James J. Hill Papers, which are tentatively scheduled to be opened to all serious researchers on December 31, 1981. The curator will prepare for the opening of the Hill Papers and plan and execute a range of programs to encourage their use by scholars and others. The curator will also develop archival and historical programs relating to the papers and the economic and social development of the upper midwest. Possession of the Ph.D. or M.L.S. degree by August 1981 is preferred, as are relevant professional archival and historical experience, skills, and/or publications. Salary is dependent on qualifications. Send letter of application, curriculum vita and three letters of reference by May 1, 1981 to Dr. Virgil F. Massman, Executive Director, James J. Hill Reference Library, Fourth and Market Streets, St. Paul MN 55102

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The National Archives and the Organization of American Historians are continuing to sponsor the Charles Thomson prize in American History, for an article on any aspect in American History. The prize is a cash award of \$500 and publication in *Prologue: The Journal of the National Archives*. Essays should be based, in part, on research in the National Archives and/or Presidential Libraries, and not more than 7500 words in length. The deadline for submission to the editor of *Prologue* is August 1, 1981. The OAH Thomson Prize Committee will judge all entries and the winner will be notified by the editor of *Prologue*.

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The Economic and Business Historical Society and the Economic and Business History Associates will hold their joint meeting in Portland, Oregon, April 23–25, 1981, at the Imperial Hotel. The Associates will hold their fourth symposium on “Entrepreneurial and Managerial Appraisal Techniques for Railroad Historians,” with emphasis on entrepreneurship and moral and social responsibility. The Society is arranging for papers on almost any aspect of economic or business history. For details of arrangements, write to Professor Neal Higgins, School of Business Administration, University of Portland, 5000 North Willamette Blvd., Portland OR 97203.

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The Center for Private Enterprise and Entrepreneurship of the Hankamer School of Business, Baylor University, Waco, Texas, has issued a call for papers for a conference on research and education in entrepreneurship, June 19–20, 1981. Write to Professor Donald L. Sexton, Hankamer School of Business, Baylor University, Waco, Texas 76703.

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The Eastern Academy of Management has issued a call for papers, workshops, and symposia for its 18th Annual Meeting in Binghamton, New York, May 14–16, 1981. Proposals and papers should be addressed to Professor Mariann Jelinek, Vice-President, Program, The Parsonage, P.O. Box 30, Cornish Flat, NH 03746. For information regarding meeting arrangements, write to Professor George Westacott, SUNY-Binghamton, Binghamton, NY 13901.

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To the Editor:

The following is a brief response to the article “The Profitability of Antebellum Manufacturing: Some New Estimates” by Richard Vedder and Lowell Gallaway published in the Spring 1980 issue. An elaboration of the points summarized below may be obtained by writing to Fred Bateman at Indiana University or to Tom Weiss at the University of Kansas.

We are grateful to Professors Vedder and Gallaway for their examination of our estimates of industrial profitability and suggestions for ways to

improve them. It was with hopes of receiving useful comments that in 1975 we published preliminary estimates of antebellum profitability, and in 1976 produced more complete and revised figures.¹ On the basis of suggestions received, we have developed yet another set of estimates, which are presented in our forthcoming book on Southern industrialization. Most of the Vedder-Gallaway comments have been anticipated in that work, or were considered by us at earlier stages of our research and discussed in the articles already published. The differences between our views on antebellum manufacturing and its profitability can be placed in four categories.

First, Professors Vedder and Gallaway present a distinctly modernistic view of antebellum manufacturing. By projecting contemporary realities onto an earlier era, they become puzzled by the presence and persistence of a wide spread between sectoral rates of return. Set in the appropriate context of a less mobile world—the predominantly agrarian economy of the antebellum American West or South—we think it quite plausible that a relatively new economic activity such as manufacturing would be commercially underexploited. Such an environment, compounded by the presence of rapid population, economic and geographic expansion, was surely conducive to sectoral imbalances, especially in a relatively young nation where the inhabitants placed great importance on becoming farmers. At various periods in American history, farmers have claimed that their profits were insufficient to sustain them economically, while those of their industrial counterparts were bordering on the exorbitant. Our estimates suggest that these perceptions were accurate in 1850 and 1860.

Second, there are differences in the methods used to calculate the rate of return. As a starting point to evaluate our methods and estimates, Vedder and Gallaway offered their replication of our procedures using published census data. Unfortunately, they did not reproduce our approach faithfully. Had the replication been performed accurately, they would have derived a return of 17 per cent for 1860, not the 11.5 figure they did produce. For 1850, the correct figure is 14 per cent, not their estimate of 9.6 per cent.

The chief reason for this discrepancy is that they estimate the underreported capital stock as a multiple of the reported capital stock, not on the basis of output, as was done in our work which they were trying to replicate. Conceptually, the choice is clear. The missing capital items were predominantly “live assets,” items such as inventories, cash and accounts receivable, the value of which is surely a function of output (i.e., sales) not the physical capital stock. A second reason for their obtaining lower estimates of the rate of return is that they calculated miscellaneous expenditures on the basis of this incorrectly derived capital stock figure. A third, and minor, influence is their arithmetical error made in calculating depreciation expenses.

Even if their calculations had been accurate, the result would misrepresent our efforts. We took a highly disaggregated approach to estimating the missing items, taking into account regional and industrial differences in capital structure and operating procedures. Their aggregate approach fails to do justice to the changing composition of output and loci of production that occurred between 1850–60 and 1890.

¹Fred Bateman, James Foust, and Thomas Weiss, “Profitability and Southern Manufacturing: Estimates for 1860,” *Explorations in Economic History*, 12 (July 1975), and Bateman and Weiss, “Manufacturing in the Antebellum South,” *Research in Economic History*, 1 (1976).

We could have calculated the rate of return in this disaggregated way using the published census data, but chose otherwise because of our conviction that the sample based estimates are preferable due to their superior accuracy. Admittedly our methods are not foolproof, but we think our sample's margin of error is smaller than that for the published census. We have made many detailed comparisons between the manuscript census schedules and the published volumes. For five states we reconstructed the entire census by taking a 100 per cent sample and comparing the results with the published summaries. One noteworthy pattern to the errors is the published census's tendency toward underreporting of output relative to raw materials, which consequently understates the magnitude of value added for these five states by 10 per cent. If an error of this magnitude holds for the entire United States, then the rate of return derived using the published census statistics would be underestimated by approximately five percentage points. Unfortunately, there is no way of knowing how satisfactorily to correct the published census data. Our judgment is that the sample figures provide a superior source of information, one yielding a better description of the parent population than can the published census summaries.

A third point Professors Vedder and Gallaway raise relates to our aggregation of rates of return without weighting properly for size of firm and the regional importance of manufacturing. We reported only unweighted figures in our earlier works, because our primary concern focused on one region, the South, where weighting by size of firm, or size of state, appeared to have little effect. Furthermore, we were interested in regional differences rather than the national rate of return so regional weights were of little use to us. In our book we are still concerned with the South and with regional differences, but do report the effects of using capital and output weights. We found that the effects of weighting are not unidirectional, some regional rates rising and others declining. The ordinal relationship among regional averages is unaffected whether one chooses a weighted or unweighted calculation, and in no instance does the calculated rate for any region drop below 18 per cent.

The fourth category of differences rests on their revision of several variables used in calculating profit, specifically the wage bill, the capital stock, and miscellaneous costs. Their suggestions regarding the wage bill essentially repeat arguments that we had already made. In our 1975 article we considered the effects of possible census underreporting of salaries and wages, and explained why the sort of broad adjustment Vedder and Gallaway use is inappropriate.

Vedder and Gallaway felt that their initial capital stock estimates were too low and so revised them upward. Their initial estimate yields a capital/output ratio of 1.08 for 1860, which is 50 per cent higher than that ratio for 1890. Their revised figure is more than twice as high as the 1890 ratio. It is generally agreed that the capital/output ratio in manufacturing rose during the nineteenth century, so their second upward revision to the 1850 and 1860 capital stock seems unwarranted. Our estimates of the capital stock yield an 1860 capital/output ratio which is nearly 30 per cent above the 1890 figure placing it well above any 1860 estimate based on the trend in the ratio. Thus, we think that our procedure for estimating the unreported capital in

1860 yields values which, being higher than the true figures, bias the calculated rate of profit downward.

The remaining variable for which they offer suggestions for improved estimation is the miscellaneous cost item. The figures they suggest are based on selective bits of information gleaned largely from the *McLane Report*. Unfortunately, the information contained in that source is incomplete and inconsistently reported. Moreover, we know that the ratio of miscellaneous expenses to output rose after 1890. Given the weaknesses of the evidence for earlier years, there seems no reason to argue that the 1860 ratio exceeded the 1890 one. If anything, the 1860 ratio was probably lower. We assumed it was equal to the 1890 figure, again introducing a downward bias to our calculated rates of return.

In summary, we appreciate the suggestion by Professors Vedder and Gallaway for improving the estimates of antebellum manufacturing profitability, but we think their revisions are too arbitrary and generally go in the wrong direction.

Fred Bateman, Indiana University
Thomas Weiss, University of Kansas

To the Editor,

In replying to a critic H.L. Mencken once said, "You may be right." That remark holds with respect to the Bateman and Weiss (hereafter B-W) criticism of our paper on profitability of antebellum manufacturing. However, their latest remarks do little to lessen our feeling that they have likely overstated the profitability of manufacturing in their various studies.

Whether our view on the antebellum era is "distinctly modernistic" is probably not relevant, and it most certainly is not correct. Our findings in this journal were derived by empirical investigation, not by our economic theology (theometrics?), but to the extent that our theological background is of interest, it is ultimately grounded in the not very modernistic classical economic theory of the nineteenth century. John Stuart Mill, for example, writing two years before the 1850 Census used by B-W, stated, "The greater the profit that can be made from capital, the stronger is the motive to its accumulation." More recent empirical investigations of factor markets in the nineteenth century indicate that resources were flowing to areas where the remuneration was comparatively great. There is abundant evidence that at least some markets were working according to classical and neoclassical theorizing during this period.

To be sure, relatively high transactions and information costs may well have led resources to move in something less than a perfect fashion. Still, we do not find it all that peculiar to be skeptical of the conclusion that southern manufacturers making 25 per cent return on their capital were taking their manufacturing profits and placing them into slave and agricultural investments yielding 10 per cent, as B-W (in a manner consistent with U.B. Phillips) imply. Our findings are consistent with that of most students of the antebellum South writing since Conrad and Meyer; clearly we are more in the "mainstream" of contemporary thinking about capital mobility in the antebellum South than B-W.

Being in the majority, however, does not make us right, and that brings us to the second B-W point: we did not faithfully replicate B-W and in any

case our data source was, relatively speaking, crummy. They are correct on the first point, and replicating B-W we obtain a 16 per cent return for 1860 instead of 11.5 per cent indicated. Before scoring one point for B-W, however, we must note that the estimate of the capital stock obtained using B-W procedures correctly replicated is actually greater than the one we used in our preferred or refined estimates. Making some other adjustments but using B-W's capital estimates, we obtain a rate of return of a bit under 10 per cent. What are the other adjustments? We prefer to relate miscellaneous costs to output, not capital, and we believe the wage and salary bill needs to be upward adjusted for unreported wages. Our reading of later censuses makes it appear to us these adjustments are desirable; B-W disagree, and therein lies the basis for our different estimates.

This brings us to the data. It is crummy, not only our's but B-W's as well. We are both making calculations based on imputed values of key variables, where the imputations are based on certain relationships existing in 1890. If nothing else, our little debate shows that making reasonable adjustments in the estimation procedure can make major differences in the calculated rate of return. Perhaps B-W are right in suggesting that individual firm data are better than aggregate data, but the real question is, "how reliable are the Census data?" Based on the sensitivity of the results to changes in the assumptions about missing data, we think that most cautious scholars would be skeptical of *any* claims about profitability (ours as well as B-W's.) You can disaggregate, massage and computerize the numbers until you are blue in the face, but the old maxim of computer centers everywhere still holds: "garbage in, garbage out."

To answer in detail some B-W criticisms in the last part of their comments would take up too much space and dilute the importance of the points already made. We are not convinced that the weighting and sampling problems mentioned have been accounted for, or that labor costs of slave labor have been properly taken into account. Moreover, we believe that B-W have failed to analyze one possible source of the allegedly high profits in manufacturing, namely monopsony in the labor markets. Perhaps local monopsonists were paying workers less than the value of their marginal product, resulting in large profits. Our own cursory examination using B-W labor elasticity estimates from their production functions suggest labor markets were working very much in accord with neoclassical theorizing, with the marginal product of labor and the average wage both approximating \$300. This is an area of inquiry that deserves further exploration, but on the basis of this cursory finding we would observe that it seems strange that labor markets are working so much in accord with neoclassical theorizing while capital markets are behaving in a manner seemingly inconsistent with such theorizing.

To conclude, until the B-W findings are systematically confirmed by evidence gathered by alternative sources (e.g., company records), we will remain skeptical of the findings and of the historical interpretation that follows from them. At the same time, however, B-W have performed a useful service in pointing the direction to a potentially fruitful and important area for future research.

Richard Vedder, Ohio University
Lowell Gallaway, Ohio University