

Philip T. Hoffman: Research

Why is it that some countries have grown rich, while others remain mired in abject poverty? What institutions--legal, political, social, and economic--affect economic growth, hindering it or spurring it along? And how do we explain long run historical change in politics, society, and the economy?

As an economic historian, these are the questions that I try to answer. Because I am a historian, I seek the answers by analyzing long run change in a small number of countries, chiefly in Western Europe. While some social scientists might prefer comparing large number of countries today, the historical record for Western Europe yields evidence that is far richer than the data available for many poorer countries today, and it allows me to pose questions about long run change that would simply be impossible in the modern world. What, for example, are the long run economic effects of a political and legal revolution--say one or two generations after the political and social upheaval? Similarly, what are the long run consequences of civil war? To answer such questions for countries like Afghanistan or Liberia would require waiting 50 years, but the European past is full of such revolutions and civil wars, and they transform history into a laboratory in which one can tease out answers to questions using tools from the social sciences and historical detective work.

In doing my research, I have focused on countries such as France that happen to have the best historical data for studying long run change, but I have always incorporated comparisons with the rest of Europe. My current research extends the comparisons to other parts of the world.

My recent research falls into three areas. The first (conducted jointly with Gilles Postel-Vinay and Jean-Laurent Rosenthal) examines the long run evolution of financial institutions in Western Europe. The initial focus here has been on France, with comparative glances at other European countries. Using ingenious sampling techniques, we have uncovered a previously unknown set of financial intermediaries--notaries--who raised huge amounts of capital for medium and long term loans in eighteenth century Paris. The notaries' achievements cast doubt on the argument that an economy can only mobilize capital for long term projects if it possesses a stock exchange, representative institutions, and universal banks. Furthermore, since the notaries were crippled by the disastrous effects of the French Revolution, this research suggests that politics once plays a key role in economic growth. So far the results of this research have appeared in articles and in Priceless Markets: The Political Economy of Credit in Paris, 1660-1870 (University of Chicago Press, 2000). We have also expanding upon our research in a broad, comparative book, Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets (Harvard, 2007) that explores the paradoxical effect that financial crises have on capital markets and economic growth. Examining crises from the sixteenth century to the present in Europe, Asia, Australia, and North and South America, the book explains why some crises bring economic ruin in their wake, while others reshape capital markets and thereby unleash long-run growth.

Along Postel-Vinay and Rosenthal, I am also data from French financial markets to shed light on institutions that support financial transactions. One of these institutions, a number of social scientists maintain, is trust--the sort of trust that one might have in a particular financier, or in an entrepreneur who seemed like a good bet to pay back his loan. Trust, these social scientists

argue, can facilitate financial transactions, and while it may not replace court sanctions or threats to repossess collateral, it is an essential if financial markets are to function well. We are using our data to study what this trust is, what sort of institutions support it, and how it can be rebuilt if it is destroyed by a devastating shock (in our case, hyperinflation during the French Revolution). We have found that although trust is important, it is not an ultimate cause of financial growth. It in fact can easily be created in societies that are not pathological, and if it is difficult to generate trust, then the real problem are the pathologies that block trust—such as a Mafia, or ethnic strife.

My second area of research is to convince historians to borrow tools from the social sciences, particularly economics and rational choice political science. That was one of the aims of my 1996 book Growth in a Traditional Society, and it has also been a goal of the research that I have done on financial institutions. One the articles I have written with Postel-Vinay and Rosenthal ("Information and Economic History: How the Credit Market in Old-Regime Paris Forces Us to Rethink the Transition to Capitalism," American Historical Review 104 (February, 1999): 64-99) makes the case for borrowing from economics and political science in the widest circulating historical journal in the United States. And in "Opening Our Eyes: History and the Social Sciences," The Journal of the Historical Society 6(2006): 93-118, I try to persuade historians that they have ignored a number of important developments in the social sciences and neurosciences that could give them a deeper understanding of their subject matter.

Finally, I have a long run interest in explaining why the West managed to conquer the rest of the world. In part, this is an economic question, since part of the West's success in taking control of other parts of the world simply reflected its greater wealth. But it is not simply a matter of economics, for many of the conquests took place before the nineteenth century, when the West was not that much richer. The issues involved here include questions of military technology, international relations, and states' willingness to spend on arms, ships, and naval exploration. But the research also touches upon the nature of western political institutions and even upon biology. I have worked upon some of these matters in publications with Kathryn Norberg and with Jean-Laurent Rosenthal on the evolution of fiscal and political institutions in the West. I am also gathering data for this project as part of an international team that is studying the long run evolution of prices and living standards in Asia, Europe, the Middle East, and the Americas over the past millennium. Some initial results from this international study are discussed in the article I coauthored with David Jacks, Patricia Levin, and Peter Lindert, "Prices and Real Inequality in Europe since 1500," Journal of Economic History 62(2002): 322-55. I plan to push the subject of western conquest further in a long run book project. Some early results are available in working papers at <http://gpih.ucdavis.edu/Papers.htm>