

Comparative Advantage and Local Manufacturing in the South and Midwest in 1860: A Rejoinder

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Professor Niemi attacks my paper at several points. I hope that the comments in this rejoinder will serve to clarify the issues raised in my paper. The basic philosophy behind my approach is that "manufacturing" is a concept that is too aggregated to use. When discussing why one area possesses more manufacturing than another, one must realize that different firms locate in the same area for different reasons, which were explained in the paper. In general, we should do a separate analysis for each reason, that is for each "type" of manufacturing. In the paper, I was not looking at all manufacturing, but only at one specific type, that which locates in an area to serve local demand. The fact that a higher level of demand for this type of manufacturing existed in the Midwest is one reason why the Midwest possessed more overall manufacturing than the South. This reason is not the only one; for an overall explanation, one would also need to investigate the other reasons detailed in the paper. Doing so would likely provide a better answer to the relative lack of manufacturing in the South than traditional approaches that treat all manufacturing the same.

Of equal importance, Niemi claims that the theory concerning local manufacturing uses a circular argument. This criticism is rather strange, given that the theory is a simple economic one. I simply estimate a demand function for local manufacturing; the explanatory variables considered are the standard ones. The only slight difference is that the dependent variable is entirely a part of the major independent variable; however, any demand function suffers from this complaint. The demand for potatoes is a function of income; one could say that the more income, the more potatoes, but since producing potatoes generates more income, the more income, and so on. In a partial

equilibrium analysis, this "problem" is ignored because potatoes (or local manufacturing) comprise only a very small part of the total income generated. I will agree that the fact that local manufacturing and income are positively correlated is not surprising; however, as with many relationships, it is of interest to investigate them empirically. Doing so here allowed me to conclude that there was "no independent effect on the level of local manufacturing...due to whether the region was located in the South or not," a finding of some interest.

Finally, Niemi criticizes the application of the model. I will comment only briefly. First, whether flour and meal and sawed lumber are included or not has only a slight effect on the results. Essentially identical results were obtained in my dissertation using a group of local manufacturing that did not include these industries. Second, Niemi claims that my results are "sensitive to the mixing of the Midwest and South." But this, after all, is the point. Higher-income regions should have had higher amounts of local manufacturing, and the Midwest had more of both than the South. I will agree that this result is not surprising; however, it does provide a partial explanation for why the Midwest had more total manufacturing than the South.

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