"The Hidden Agenda": A Reply to Professor Weiss

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There are three levels of issues implicit in Professor Weiss's remarks. First, there are some relatively minor technical questions that, he accurately suspects, are dealt with extensively in our published and unpublished work cited in our original paper, including considerations of homotheticity, appropriateness of functional forms, more intricate model specification, and the like. Even his question of whether our statistical test for exploitation is two-sided (we presume he means two-tailed) is answered by reference to more detailed information. The test is one-tailed. However, in the 1920 case, rounding the parameters to two decimal places makes the test appear otherwise. At three decimal places, the actual test statistic is .087/.053, which leads to an acceptance of the null hypothesis.

Beyond these matters, though, is a second class of questions that are more fundamental and betray a misunderstanding by Weiss of the basic theoretical apparatus that underlies our analysis. For example, he seems to imply that the higher rates of return to capital in 1840 are suggestive of exploitation of some other factor (presumably labor). However, whether this is the case can only be determined by resort to analysis of the type that is contained in the first portion of our paper. In combination, the two sets of findings suggest that the marginal product of capital was higher in 1840 percisely because capital was relatively scarcer. It is quite possible for the rate of growth in the capital stock to produce a decline in capital's marginal product that more than offsets any increase associated with technical progress. Our findings indicate that this is exactly what happened.

A second case of Weiss misinterpreting the theoretical apparatus relates to our explanation for cyclical fluctuations.

He notes, "The key to cyclical variations is apparently that money illusion causes a short-term discrepancy between wages and marginal products." Not so! Wages and marginal products move together. The impact of money illusion is on the labor supply side, not on demand. If money illusion operates as Weiss interprets it, in the extreme case of no adjustment to restore wages and marginal products to equality after a wage change, there would be no employment effects.

Technical matters aside, there is something much more important in Weiss's remarks, the "hidden agenda" that underlies them. Weiss seems to dislike the notion of a neoclassical world. When confronted with the evidence that neoclassical economic theory offers an explanation for a wide range of historical phenomena, he cavalierly remarks, "Who needs it?" (referring to the world, not the theory). Fine. That is his normative decision to make. Apparently, he feels that by so doing he is countering a normative assertion on our part, that the world of the past two centuries was an "equitable and efficient" one. No where do we make that claim, although, in all fairness, it would be dissembling on our part to say that we do not think that our findings are suggestive in this respect. However, we have adhered to the standard academic conventions and been discreet in this regard. Nevertheless, Weiss proceeds as if we did put forth such a proposition and, having built his straw man, resorts to the sly wink and knowing shrug of the shoulders as he sardonically intones with respect to our basic finding (that the evidence is consistent with neoclassical theory) that, "as we all know, economies cannot work any better than that." If this is true and if we all know it, perhaps we should have advanced the thesis of historical equity and efficiency with more vigor.

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