Inspector Who? How Deregulation Sparked New York's Export Boom

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Research Question

- **Is mandatory public inspection necessary to sustain export markets with asymmetric information?**
- New York's 1840s reforms provide a **natural experiment** for testing this claim

What Was Trade Like at the Time (1830-1860)

- **Staple goods**: flour, meat, lumber, potash
- **Quality was hard to observe** inside barrels and crates
- **Foreign buyers** relied on signals: inspection marks, brands, and merchant reputation

From Quality Control to Rent Seeking

- By the 1840s, critics saw compulsory inspection as:
    - Fee-Funded Monopoly
    - Political Patronage
    - Fees, delays, corruption, and misgrading.
- Deregulation was seen as a radical solution to growing dissatisfaction regarding export inspection

The Politics Behind the Reforms

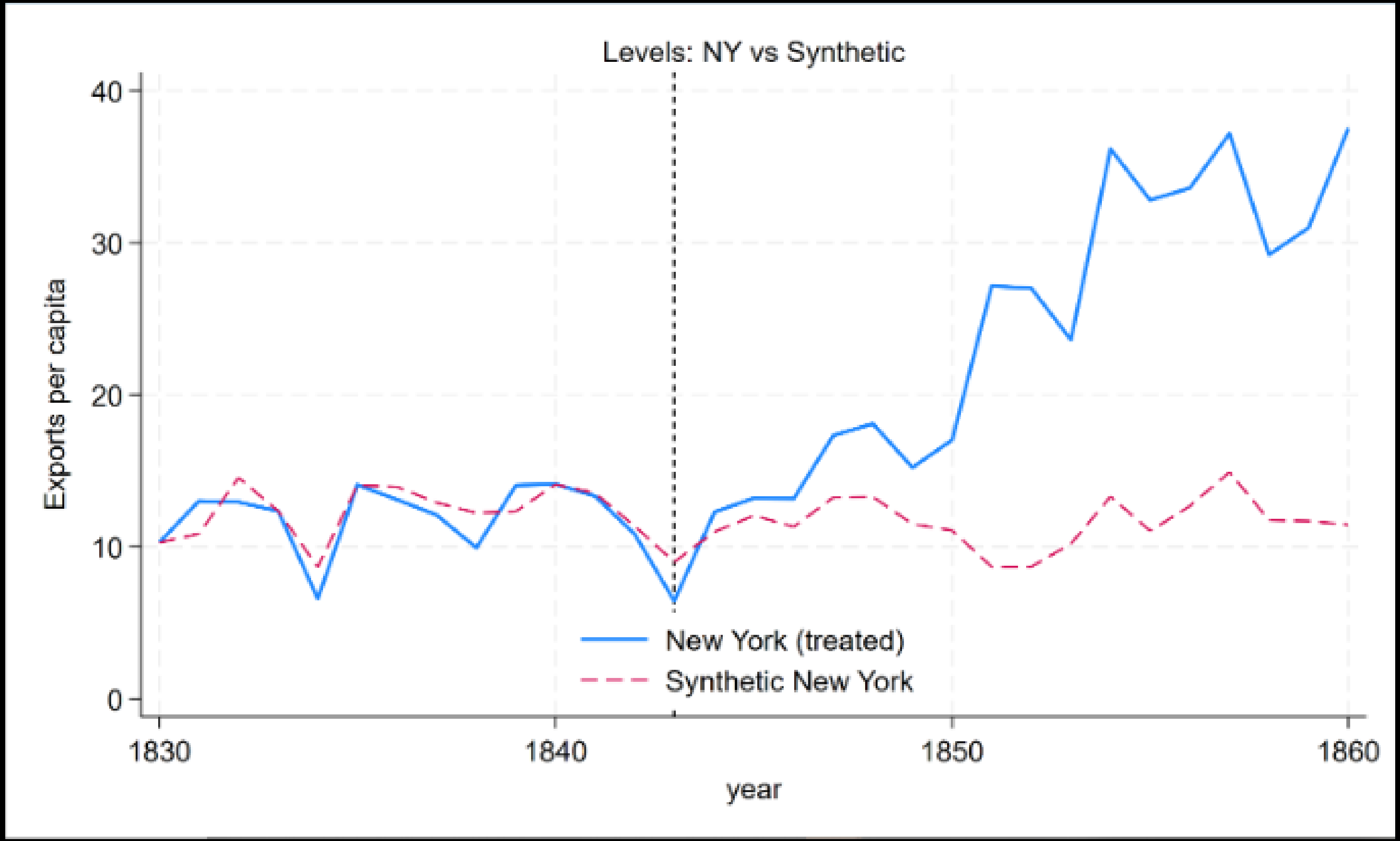
- The **Panic of 1837** and canal debt intensified skepticism toward state intervention
- Jacksonian reformers attacked **special privileges**, monopolies, and fee offices
- Inspection offices fit the target: public monopoly, fees, appointments, and delays
- New York's 1843 and 1846 reforms were **radical** compared to other states
- **Reform was part of a broader attack on patronage and state-created privilege.**

Two-Stage Deregulation

- **1843 statute:** inspection and weighing became voluntary
- **1846 Constitution:** public inspection and weighing offices were abolished
- **Baseline:** 1843 treatment year
- **Robustness check:** 1846 treatment year

Preview of Main Result

- **Exports did not collapse after deregulation**
- by the late 1850s, New York exported roughly **3 times** as much per capita than the synthetic



Competing Predictions

Conventional story (Akerlof-style):
State inspection is key signal → **deregulation ⇒ exports ↓**

This paper (Barzel + public choice):
State inspection is a high-cost cartel → **deregulation ⇒ exports ↑**

Development Relevance

Many developing nations are similarly dependent on the export of bulk staple goods

Establishing a mandatory export inspection system is a commonly recommended policy given to developing economies

Such suggestion, may be worse than simply allowing the private sector to handle inspection

Data: State Exports per Capita, 1830–1860

- **Unit:** State–year panel, 1830–1860 (fiscal years July–June)
- **Outcome:** nominal exports per capita
  - **Definition**: total domestic exports ÷ state population
- **Exports:** 1830–1850 from Fisher (1854); 1851–1860 from *Commerce and Navigation of the United States*
- **Population:** Decennial federal censuses with linear interpolation between censuses

Empirical Strategy: Synthetic Control

Treated unit: New York

Donor pool: 18 states with continuous export + population data and no similar deregulation

Pre-period: 1830–1842 (treatment in **1843**)

Predictors: exports per capita in **1830, 1835, 1840** (pre-treatment levels)

We choose non-negative weights so **synthetic NY matches NY on these pre-1843 levels**; post-1843 differences are the estimated treatment effect.

Constructing a Synthetic New York

- Synthetic NY = weighted avg. of donor states chosen to match **1830, 1835, 1840 exports per capita**.
- Massauchetts (0.56) + Maryland (0.17) get most of the weight; others ≈ 0.01–0.02.
- This combination reproduces NY's pre-1843 export path very closely.

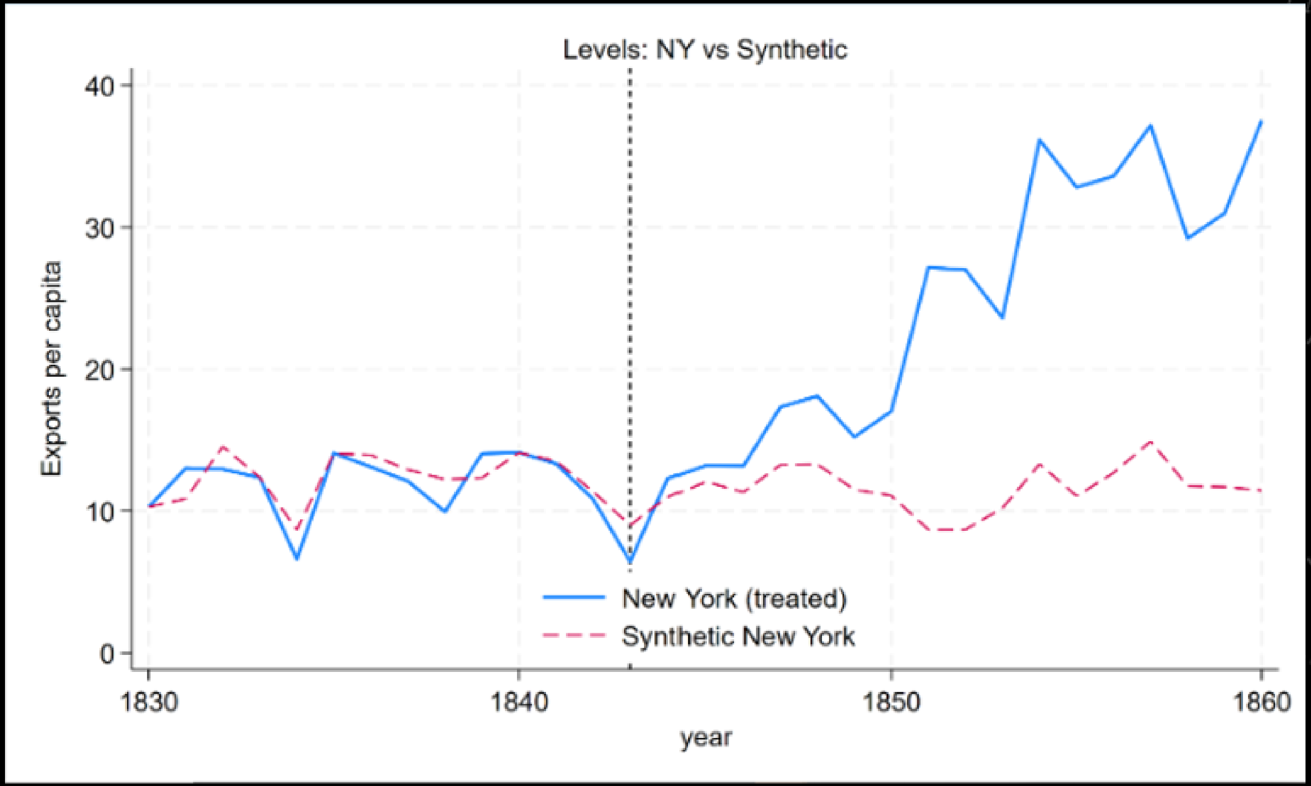
Unit Weights:

Co_No	Unit_Weight
Alabama	.016
Connecticut	.016
Delaware	.016
Florida	.019
Georgia	.018
Louisiana	.021
Maine	.016
Maryland	.173
Massachusetts	.56
Michigan	.016
New Hampshire	.016
New Jersey	.016
North Carolina	.016
Pennsylvania	.015
Rhode Island	.015
South Carolina	.016
Vermont	.017
Virginia	.017

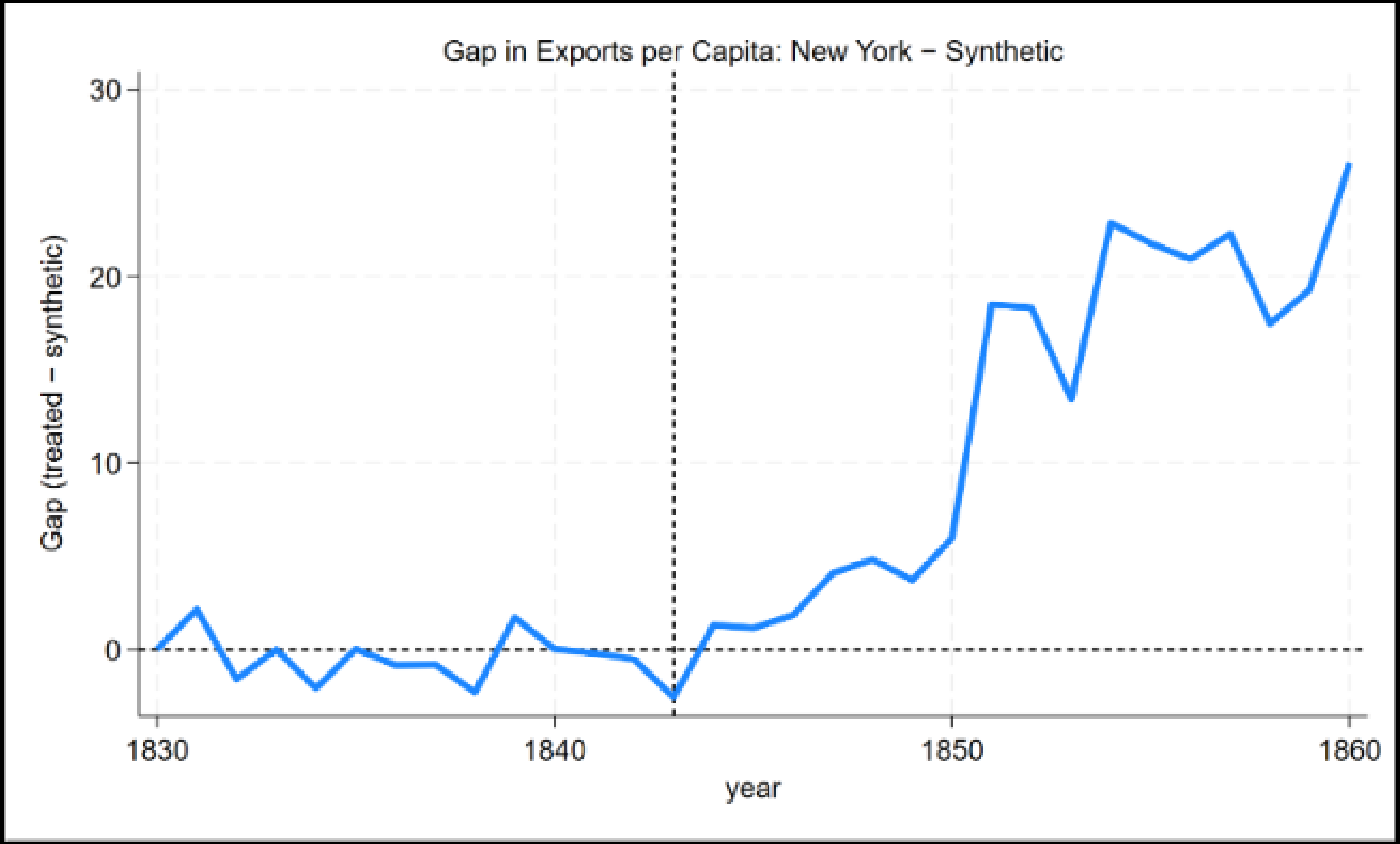
Deregulation Boosted New York’s Exports

- **Pre-1843:** Synthetic New York closely tracks actual exports per capita.
- **Post-1843:** New York diverges sharply and stays above its synthetic control.
- **By the late 1850s, NY’s exports per capita are ≈3× those of Synthetic New York.**

NY vs Synthetic NY exports per capita, 1830–1860.



Treatment Effect Gap Plot

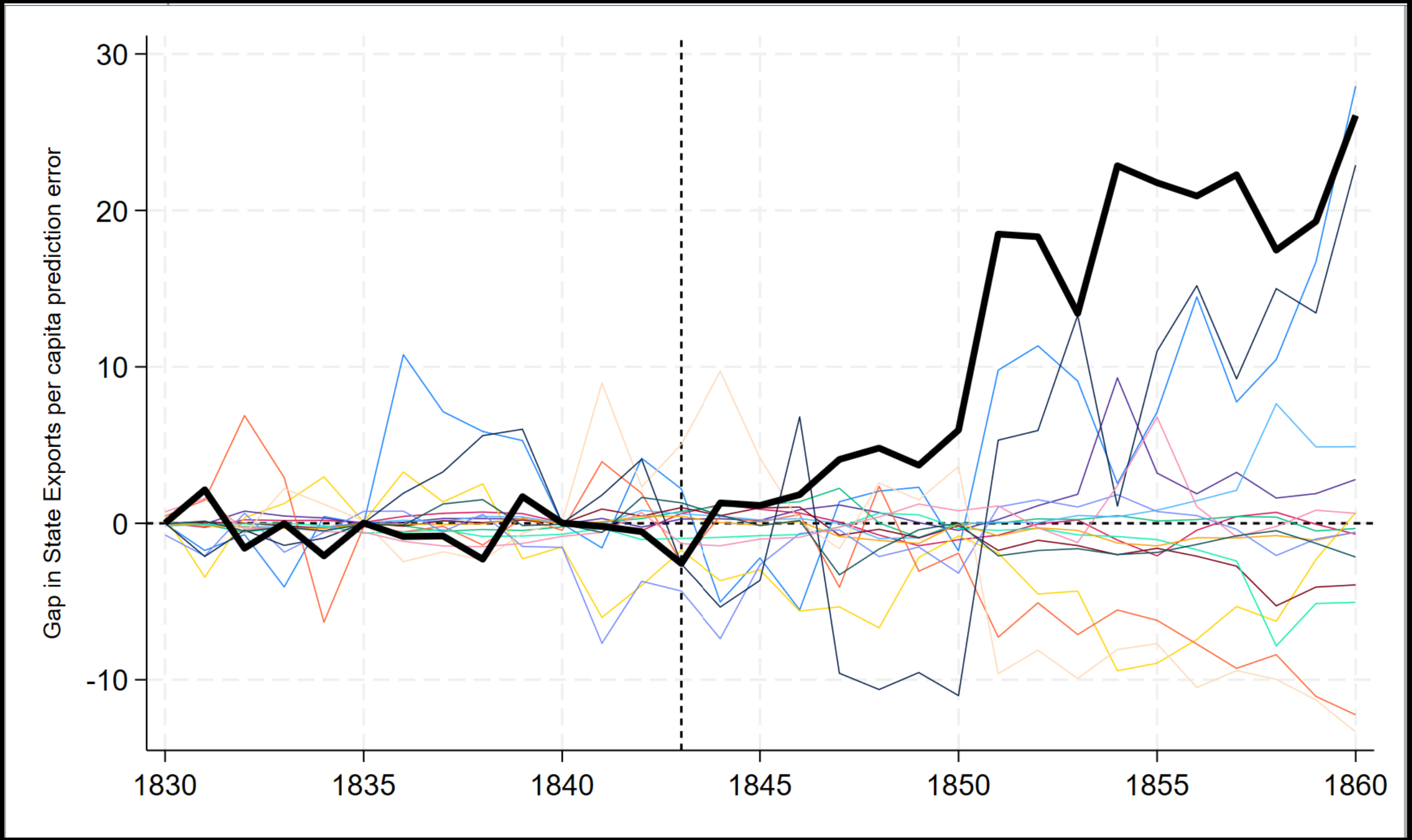


Placebo States: New York Is an Outlier

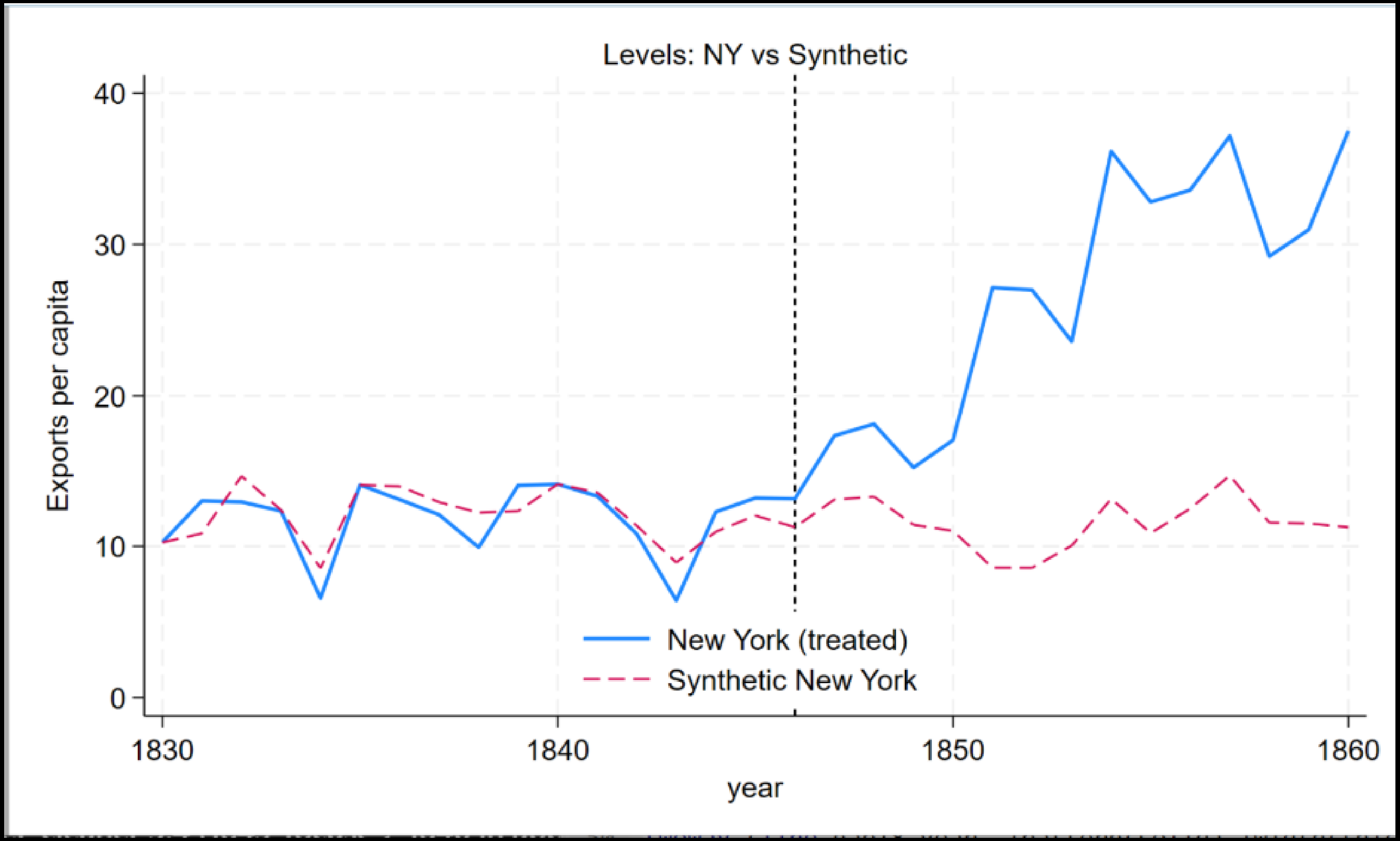
•Each thin line = a **"pseudo-treated" state** with its own synthetic control;
the thick black line = **New York**.

•**Pre-1843:** all gaps hover near zero → synthetic controls fit well.

•**Post-1843:** only New York shows a **large, sustained positive gap**; other states remain close to zero or fluctuate around it



Robustness Check 1846 timing



Interpretation

- **Evidence suggests that the New York inspection system had become**
  - High-cost
  - Rent-seeking
  - Poorly aligned with buyer needs
- **Private mechanisms filled the gap:**
  - Brands
  - Merchant networks
  - Private certifiers
  - Contracts and reputation
- **The Need for Measurement didn't disappear → it was supplied by the private sector at lower transaction cost**

Next Steps

- Deepen the use of primary sources regarding the 1840s reforms and complaints about the export inspection system
- Continue to analyze the export inspection systems of other states for comparison with New York
- Add additional robustness checks by using alternative donor pools (eliminate Mass.)

Conclusion

- **Deregulation did not destroy trust in New York's export markets**
- The Result is statistically significant, causal, and robust under several specifications
- Developing nations should focus on enforcing contracts and letting private certifiers compete rather than establishing a government inspection monopoly

Questions