

The Future of Economic History

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Economic History and the Historians

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A good economist “must be mathematician, historian, statesman, philosopher—in some degree. He [sic] must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought...He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.”

John Maynard Keynes, 1924, Obituary Essay in Memory of Alfred P. Marshall

Of all the social sciences, economics is perhaps the most likely to be characterized as a-historical. Core economic relationships -- say between demand, supply and price; or fundamental motivations -- such as the preeminence of possessive individualism -- are posited as remarkably stable phenomena across time and place. The neo-classical model can be applied to seemingly any situation, and *homo economicus* increasingly makes his home everywhere, even in a past that had no notion of him. History, on the other hand, is the social science least amenable to generalizable rules of causation; indeed, some would argue that it is not a social science at all. Individual men, and women, *might* do anything, and the contingency of their choices *might* just matter profoundly. History in this guise is above all the province of the well-told narrative, one that revels in gritty particulars that defy easy model building. What reasonable prospect is there then for a long or happy marriage of these two? What hope is there that a common topical interest -- the economic behavior and outcomes of temporally distant societies -- can truly overcome such fundamental differences of disciplinary temperament and orientation?

I argue that neither discipline is well served by local practices that conform to these caricatures. Properly functioning markets may indeed churn along in roughly similar ways across space and time, but surely market failures, just like Tolstoy's unhappy families, each need to be situated in the accidents of their particular evolution. An economics without contingency and context is no more useful as social science than are seven billion individual histories bereft of a framework in which to situate and evaluate them. But economic history, done well, could model a path forward for the social sciences more broadly. It would not discount the agency of individual actors, or the social and political constraints which frame so many economic decisions; yet neither would it overlook what large data sets and analytical models contribute to the description and even anticipation of the decision patterns of groups. The future of economic history is as promising as our commitment to hold the two disciplinary inclinations in fruitful and balanced tension will allow.

The economist as historian

In fact a number of prominent economists have been making this argument for a rather long time. In 1983, Robert Solow argued that, "It would be a useful principle that economists should actually believe the empirical assertions they make." He then went on to suggest that: "the true functions of analytical economics are best described informally: to organize our necessarily incomplete perceptions about the economy, to see connections that the untutored eye would miss, to tell plausible--sometimes even convincing--causal stories with the help of a few central principles, and to make rough quantitative judgments about the consequences of economic policy and other exogenous events. In this scheme of things, the end product of economic analysis is likely to be a collection of models contingent on society's circumstances -- on the historical context, you might say--and not a single monolithic model for all seasons."¹

John Maynard Keynes in an even more capacious vein, asserted in 1924 that: A good economist "must be mathematician, historian, statesman, philosopher—in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of

¹ Robert Solow, "Economics: Is Something Missing?" in William Parker, *Economic History and the Modern Economist*, Blackwell, 1983, p. 23.

the general, and touch abstract and concrete in the same flight of thought.”² More recently, our colleague Brad DeLong has made a similar point about the nature of an economics education in his blog post titled: [thoughts-on-robert-skidelskys-rant-against-the-current-economics-curriculum](https://www.ineteconomics.org/perspectives/blog/thoughts-on-skidelskys-rant-against-the-current-economics-curriculum). DeLong writes:

“We have no business offering a narrow economics B.A. at all. At the undergraduate social-science level, the right way of organizing a major curriculum is to offer some flavor of history and moral philosophy: enough history that students are not ignorant, enough sociology and anthropology that students are not morons, and enough politics and philosophy that students are not fools. (And, I would say, a double dose of economics to ensure that majors understand what is key about our civilization and do not get the incidence of everything wrong.)”³

In course of this presentation I will mostly concern myself with the economist’s role as historian, but a bit of the philosopher will slip in too. I have to leave Keynes’ “statesmen’s role” to others better qualified.

So if an economist should be in part an historian it behooves us to know what it is that history brings to the table. What is it that historians are especially good at doing? And what might they contribute to “good economics”? I would suggest five things in particular:

- 1) The study of history is good at disrupting inevitabilities – it reminds us that things might have been different than they actually were. There were other paths not taken and not all of them were necessarily unviable just because they were not selected.
- 2) Furthermore, history allows us to revisit those otherwise lost alternatives – some of which we might usefully want to consider again.
- 3) History gives us a useful perspective on our present, and hopefully as a result less hubris about the otherwise easily imagined virtues of the present. As the English historian Herbert Butterfield said in a powerful essay written at the end of the 1940s as he looked back on the carnage of Europe after two world wars and a devastating depression: “the river of time is

² As cited above.

³ <https://www.ineteconomics.org/perspectives/blog/thoughts-on-skidelskys-rant-against-the-current-economics-curriculum>

littered with the ruins of systems” that we cannot now imagine anyone would have wanted to see persist. Yet the people who made those systems did want them to persist. “They did not imagine us,” he said, any more than we can truly imagine those who will follow us. They may not care about our systems either.⁴

4) The study of history (hopefully) widens our horizons of empathy – it helps us find ways to imagine the world of others. A beloved mentor of mine in graduate school, Carlo Cipolla, always began his classes by telling the students: ‘The past is a foreign country – they do things differently there’ from the opening line of L.P. Hartley’s 1953 novel, *The Go Between*. It is clever, but also entirely true.

5) Finally, history can protect us from misguided nostalgia.

The dangers of nostalgia

Let me begin with this last point as it is the easiest to tackle, and also often the most pressing. Nostalgia can be insidious, and remarkably dangerous, because it allows us to think that we can enjoy one remembered good thing without any of the other baggage that actually went along with it.

Getting vaccinated is unpleasant. Dying of measles is worse. In the decade before the 1963 vaccine for measles was rolled out an average of 475 Americans died from measles every year, most of them children. This (absolute) number had dropped to a low of 1 in 1981, despite a steadily increasing population who might have hypothetically contributed cases. Sadly, the number of measles cases has been steadily climbing upwards again because we seem not to remember the disease our parents faced nearly so well as we remember the shot our kids had to get yesterday. (All this, before you even get to the absurdly well publicized rejection of otherwise widely agreed upon scientific evidence...)

Or to take a rather different kind of case, when we engage in policy debate about the costs and benefits of industrial regulation designed to mitigate, say, air pollution, the costs are relatively straightforward to estimate as they are borne in the present. But an appreciation of the benefits often requires us to have a deep historical imagination. For example, the dangers of toxic particulates for bicyclists in Beijing are real enough for us, but how many remember that

⁴ Herbert Butterfield, *Christianity and History*, 1949, p. 75.

the iconic London Fog of yore was just as toxic. Or even closer to home, how many of us can remember when smog alert days in Southern California closed schools with an even greater frequency than do snow days in Boston? Work being done by some economic historians on American cities is suggestive in this regard. As demonstrated in research by Clay, Lewis & Severnini, early 20th century Chicago had higher particulate concentrations than the industrial cities of China today.⁵

Indeed, broadly American cities in the early part of the 20th century suffered from, what is now for us, unimaginable levels of air pollution, largely on account of the burning of bituminous coal for heat. Furthermore, Barreca, Clay, and Tarr have estimated that the impact of this pollution on mortality was substantial. Reductions in the use of bituminous coal for heating between 1945 and 1960 decreased winter overall mortality by 1.25 percent and winter infant mortality by 3.27 percent, saving nearly 2000 lives per winter month, of which 310 were infants.⁶ And for a variety of reasons that they explain in detail in their 2014 paper, those estimates are likely to be a lower bound, because they primarily capture the short-run relationship between coal and mortality, but cannot capture effects that accumulate over extended periods of exposure.

Or to take yet another example of dangerous nostalgia that comes readily to mind, there has been a flurry of enthusiasm lately for the ‘good old days’ of the 1950s when a family could live securely on just one income (almost always it seems in these nostalgic accounts a man’s income). There are of course many things one could say about this view, not least that pollution I just had occasion to mention. But let me float one more. The average size of a new home built in America in 1950 was 983 sq. ft. In 2010 that number was 2,392 sq ft, an increase of a factor of 2.5. Families were also larger then than now, so the per capita space allocation has actually risen by a factor of 3.2. I’m not sure if we all need that much personal space or not, but I’m quite confident that we have gotten used to it. Ever notice how tiny old furniture looks in comparison to what is now on offer in the showroom? And an old TV, while decidedly fatter than the new ones, had a screen so small it is a wonder that anyone in the good old days could

⁵ Clay, Lewis & Severnini, “Canary in a Coal Mine,” Working Paper, March 2016, Figure A.1. https://www.webdepot.umontreal.ca/Usagers/lewisj/MonDepotPublic/clay_lewis_severnini_pollution.pdf

⁶ Barreca, Clay, and Tarr, “Coal, Smoke, and Death: Bituminous Coal and American Home Heating,” NBER Working Paper, February 2014. <http://www.nber.org/papers/w19881>

see them at all. Are the people who long to live on one (almost certainly male) income also prepared to lower their standard of living to the requisite level. Do they remember what that level was? Is it even possible to remember such a thing without the data of economic historians at hand, not to mention a sufficiently practiced imagination to correctly situate that data? So enough for nostalgia – I maintain that the serious, and quantitative, study of history is our only real defense against it.

The problem of inequality

Let me then turn to another critical question of our own day that benefits greatly from historical inquiry, and hints at the economic historians moral calling as well. This is in fact, if journalist attention can be believed, *the* question of the moment. Inequality: what causes it and what should we do about it, if anything?

Branko Milanovic has this to say about why studies of interpersonal inequality are what he calls not “too popular:”

“It is a rather simple even if often wisely ignored reason. Inequality studies are not particularly appreciated by the rich.” To study poverty is admirable, even virtuous. But to study inequality is “altogether different: Every mention of it raises the issue of the appropriateness or legitimacy of my income.”⁷

Nonetheless, many people do want to know about the causes and effects of inequality, and economic historians have been especially attuned to that demand.

Some inequality data one might find widely available in a quick internet search:

- 62 wealthiest people own as much as the 3.6 billion poorest (2015)
- In US: 1% own 40% wealth & 25% income
- CEO: avg worker (2011) = 354:1
- CEO: avg worker (1960) = 20:1
- Median American estimates the ratio at 30, and thinks the ideal would be about 7

⁷ Branko Milanovic, *The Haves and the Have-Nots*, 2011, p. 84.

What causes this kind of inequality, and is it really getting worse as so much of the readily accessible evidence would suggest? There are a number of possible explanations that one might easily find on offer by both scholars and public intellectuals. They include in no particular order:

- Individuals vary hugely in their productivity;
- Individuals vary hugely in their luck;
- Power is distributed unequally → tax rules and services distributed unequally;
- Skill biased technical change → inequality in market compensation → differential wealth accumulations;
- $R > G$ – Piketty (or perhaps $R * S > G$
“a powerful force of divergence”

The problem for the economic historian is how to test the relative impact of each of these factors. For example, the penultimate cause I have listed here -- skill biased technological change – generated a good deal of steam after the tech revolution of the 1990s and early aughts. But now it seems that it is not likely to be the whole, or even the main story given the fact that the OECD countries themselves, all sharing broadly a common technological frontier, have experienced such differing distributions in their income growth over the last 35 years. (See Figure 1)⁸

We must also ask: does inequality matter, and if so, on what grounds?

- On grounds of morality?
- On grounds of fairness?
- On grounds of efficiency?
- On grounds of stimulating economic growth?
- On grounds of health?

The ancients said inequality mattered greatly, and said so on moral grounds – for example, the law of the Hebrew peoples insisted that no one could be dispossessed for longer

⁸ Martin Rathfelder: <https://www.sochealth.co.uk/2014/04/30/income-distribution-poverty/share-of-income-growth-going-to-income-groups-from-1975-to-2007/>

than the span of one lifetime, which they accounted to be 50 years. At the jubilee everyone who had been enslaved for failure to pay was returned to their families regardless of their remaining debts.

---Relevant passage from Leviticus 25:

- ¹⁰ And ye shall hallow the fiftieth year, and proclaim liberty throughout all the land unto all the inhabitants thereof: it shall be a jubilee unto you; and ye shall return every man unto his possession, and ye shall return every man unto his family.
- ¹¹ A jubilee shall that fiftieth year be unto you: ye shall not sow, neither reap that which groweth of itself in it, nor gather the grapes in it of thy vine undressed.
- ¹² For it is the jubilee; it shall be holy unto you: ye shall eat the increase thereof out of the field.
- ¹³ In the year of this jubilee ye shall return every man unto his possession.
- ¹⁴ And if thou sell ought unto thy neighbor, or buyest ought of thy neighbor's hand, ye shall not oppress one another.

Similarly, measures of our collective health likewise suggest that inequality matters – roughly those countries with the highest inequality do most poorly on a combined index measure of social and health-related problems as shown in the work of Kate Pickett and Richard Wilkinson, reproduced here as Figure 2.

The impact of inequality on sociability

Another window into the complexities of social and economic inequality is via the study of consumption behavior, both because it speaks to how well people can meet their so-called ‘basic needs’ but also because it reveals so clearly their preferences (under constraints of course). But because our perspective on current consumer practices is often so deeply colored by our own value-laden prejudices about what constitutes ‘appropriate’ and ‘inappropriate’ purchases, it is helpful to turn to an earlier period with different social norms for evidence of how people negotiated the potential social disabilities imposed by inequality.

Let me frame this section by invoking Adam Smith, who had at least as much to say about morals as he did about markets. He understood the problematic link between inequality and dignity with extraordinary clarity. His definition of what he calls ‘Necessities’ is found in a relatively little-cited passage from *The Wealth of Nations*:

‘By necessities I understand, not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.’

Wealth of Nations, Book V, Ch.II, Pt. II, Art. IV

How very different are these claims from those made last year by Rep. Jason Chaffetz of Utah on the supposed equivalence of the cost of an iPhone and securing health care coverage in America. Even if his accounting had been correct, which it most assuredly was not, he failed entirely to appreciate the fact that in this day and age one cannot be a full citizen, or even a social being, without a cell phone. It is necessary for getting a job, holding down a job, finding your children, connecting with social, political, and even religious organizations, conducting your banking, your interactions with the State, and so much more. One must be either an eccentric, or devastatingly poor or ill, to live without a cell phone. Yet, the condescending judgment made explicit by Rep. Chaffetz’s remarks reveal precisely the blindspot that I expressed concern about at the outset. So to another century and another place – Amsterdam in the 18th century, center of a global trade network, and the leading edge of the so-called ‘new’ consumer practices.

My own research on a collection of nearly one thousand after-death household inventories drawn up by the Regents of the Amsterdam Municipal Orphanage (the *Burgerweeshuis* or BWH) between 1740 and 1782 has been especially productive for thinking about the linkage between cultural identity formation and new kinds of consumption. To be eligible for admittance into the Municipal Orphanage a child had to have lost both of their natural parents, both of whom also had to have been citizens of the city for a period of at least seven years. Citizenship could be inherited, but also purchased. Thus, the BWH archives contain inventories on a remarkably diverse collection of households, displaying much more heterogeneity than the typical range of households captured by Notarial records. Decedents whose estates were surveyed by the orphanage included married as well as widowed men and women – the married ones having remarried with a second or higher spouse after the death of

their first. There are also single men and women who had been formerly orphans themselves and by virtue of dying without heirs of their own, the BWH could claim their estate. Many of the households surveyed by the BWH were also exceedingly poor, a group that rarely finds its way into the documentary records of inheritance or probate. Finally, the data sample also includes both native-born Amsterdammers and those who were successful migrants to the city such that they could afford to pay the fairly steep fee for citizenship status.

It is this diversity of sample population, especially into the ranks of the extremely poor, that makes the surprisingly wide diffusion of Asiatic textiles (or Asian-inspired European imitations), as well as housewares associated with the consumption of colonial groceries of such interest to historians of consumption. Nearly 60% of the households (533 out of 912 complete inventories) owned at least one item for the making or serving of tea or coffee. 54% (492 households) owned delftware and a remarkable 38% (341 households) owned real porcelain, even if some of it was described as old, chipped, or otherwise in poor condition. Asiatic textiles seem not to have as yet penetrated the BWH population as fully as had exotic table wares, but nonetheless 23% of households owned something identified as made of cotton and more or less the same percentage owned items made of silk (213 households for cotton and 207 for silk). Even highly prized Indian chintz was present in 134 of the homes of BWH affiliates (that is 14.6% of the BWH population). Of course, a sizable quantity of the clothing listed in these inventories was also in poor condition and thus not described in any detail at all. While it seems likely that identification would be more forthcoming from the bookkeeper tasked with making the inventory if the materials used were of exotic origin, it seems nonetheless safe to presume that on account of underreporting these percentages represent absolutely lower bounds for the presence of cotton and silk in the homes of poor to middling eighteenth century Amsterdammers.⁹

The factors that allow (or even encourage) some individuals to purchase new goods, acquire new tastes, and take on new habits, are much debated. It seems obvious (even if somewhat circular in its reasoning) to suggest that it was rapidly increasing wealth that allowed early modern Europeans to take on new consumer behaviors with such enthusiasm. (At the same time it has been the documentation of the ownership of these goods that has been instrumental in

⁹ For details of the data cited here see, McCants, "Becoming Consumers: Asiatic Goods in Migrant and Native-born Middling Households in 18th Century Amsterdam," in Maxine Berg, ed., *Goods from the East: Trading Eurasia 1600-1830*, Palgrave Macmillan: 2015: 197-215.

supporting the claim that Europeans were growing richer.) This logical problem notwithstanding, social and cultural historians have argued more recently that it is not enough just to be able to afford new consumer practices regardless of how that economic capacity might be identified. It is also necessary for there to be both flows of information and community norms of behavior to facilitate the diffusion of new commodities across the landscape, whether that is understood in physical, sociological or economic terms. Moreover, when the very poor, as in my orphanage population sample, are engaged in the (albeit constrained) consumption and display of 'luxurious' imported textiles and the table goods associated with the consumption of 'luxurious' colonial groceries, they are not just 'wasting' their limited resources as Rep. Chaffetz might have argued. They are rather demonstrating what it takes to render oneself 'decent' in Amsterdam in the middle of the 18th c. The wide prevalence of porcelain described as 'old,' 'broken,' or 'chipped' in the inventories of the poorest household is suggestive of the tenuous hold that many of them actually had on the claims of decency. But hold on they did.

The moral 'obligations' of economics

Let me end then with a last question that it seems especially appropriate for an historian (an economic historian in particular) to ask. What are the moral obligations of economics? (Note, I have not said 'of economists' as one might have suspected. My question is not about individual morality, but rather about the potential moral obligations of a disciplinary practice.)

To think about this question I have found it particularly useful to draw on the work of Michael Polanyi, best known for his mid 20th century pioneering work in the philosophy of science after a spectacular early career as a physical chemist in the 1920's and early 30's. Along the road, however, from chemistry to philosophy (and not by accident in tandem with the Great Depression and the onset of the second world war) Polanyi made a detour through economics, giving numerous lectures, and writing a now-entirely obscure book titled *Full Employment and*

Free Trade (CUP, 1948). He even wrote and produced a documentary film designed to educate the public on how the economy works (or doesn't).¹⁰

In his so-called “economics education” lecture delivered in Manchester, England in 1937 he made the following observation about those he called “the utilitarians,” who he said, had “made the following great mistakes:

- 1) They failed to see that the just reward of the factors of production did not lead to a just reward of the people disposing of these factors. Their philosophy never produced an idea as to how the just reward of the various people should be assessed.
- 2) The utilitarians overestimated the idea of the free market. They thought it to be applicable to all human relationships and, therefore, opposed all legislation regulating labour conditions and objected to free services by the community, as for example, free education. They failed to produce an idea as to the limits to which human affairs should be regulated by buying and selling.
- 3) The utilitarian economic theory gave no reasonable account of the trade cycle. It left the unemployed in the depression without even an intellectual consolation and objected to any action to improve their lot.
- 4) The general weakness of utilitarianism, which includes the above particular failures, is this: that its philosophy makes self-seeking the supreme principle in economic life and assumes that people are happy if seeing their blind acquisitiveness is transformed into a maximum efficiency.”

Remarkably, with the distinct exception of point number 3 to which I shall return below, these mistakes are in essence all moral failings, not economic ones, at least not by the standards of economics as it has come to be practiced today. The failings, as Polanyi understood them, are the result of misplaced values, not faulty logic, or a misguided trust in the workings of the invisible hand in the marketplace. They are about justice, and the reasonable limits to the arenas in which self-seeking behavior is appropriate, not a condemnation of self-seeking in general.

¹⁰ The film, titled *Unemployment and Money: the Principles Involved*, 1940, can now be seen here following the restoration work of Eduardo Beira, and with the assistance of the Michael Polanyi Society: https://www.youtube.com/watch?v=wFm_ORFfp9U

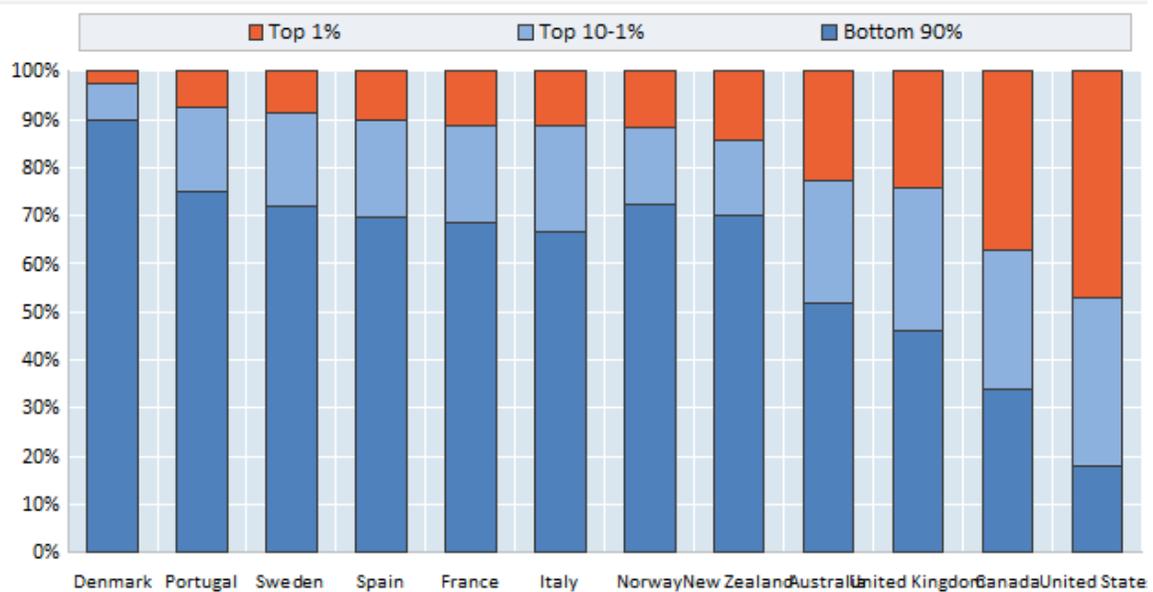
What do I take from my reading of Polanyi (and Smith and Sen and Solow and DeLong and Keynes)?

Without an economics that is engaged with the lessons of history, and takes seriously a dialog about ethics we risk, either 1) wishing ourselves back to a past that did not exist, at least not in the way that we remember it; or 2) becoming very clever in our formulas and hypotheses, but nonetheless confused about the ends to which all of our effort should be put.

In short, it seems to me that if we want an economics that is conducive to beneficial social change (or in my case an economic history with a viable future) it will depend fundamentally on our commitment to hold two disciplinary inclinations in fruitful and balanced tension. We will need the models and insights of the generalist, but also the guidance that a close attention to 'salient particularity' gives. Economists and historians should talk to each other regularly. It has been my great good fortune to be a participant in that conversation. I hope it continues, and that the public finds reason to listen in.

Figure 1

Share of income growth going to income groups from 1975 to 2007



Source: Martin Rathfelder: <https://www.sohealth.co.uk/2014/04/30/income-distribution-poverty/share-of-income-growth-going-to-income-groups-from-1975-to-2007/>

Figure 2

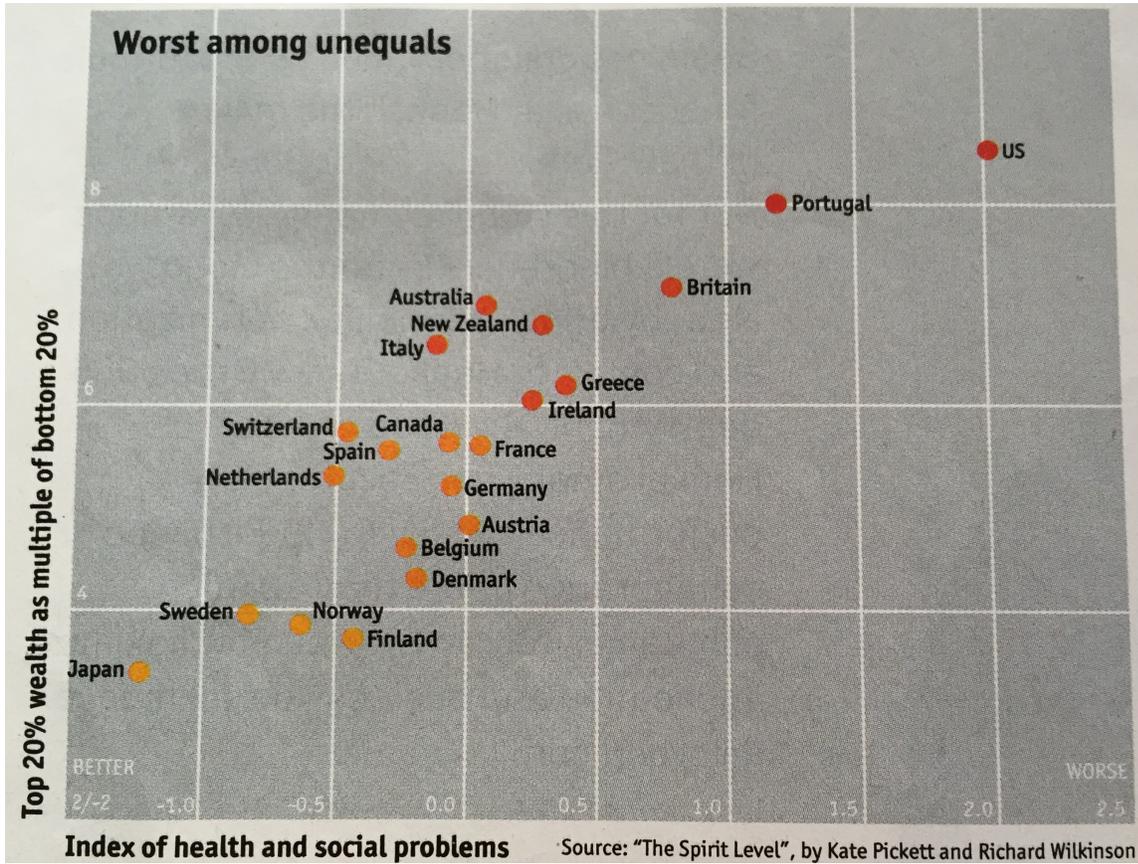


Table 1

Amsterdam Orphanage Families, 1742-1782
Possession of 'Asiatic' Goods by asset categories

Household total assets	% with tea/coffee	% with porcelain	% with cotton	% with silk	% with chintz
Assets < 15 N=250	8.0	4.8	2.8	0.0	0.4
15 – 200 N=446	70.9	42.2	27.7	20.2	11.0
Assets > 200 N=216	90.8	65.6	39.9	53.2	38.1