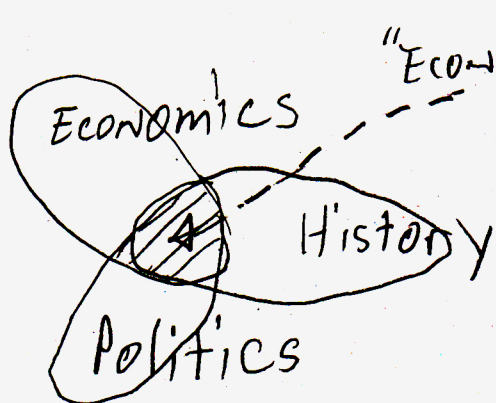


Lecture notes for Economic History

①

What is economic history?



"Economic History" is intersection of economics, history and politics, and also includes some history of philosophy and history of economic thought.

What is difference between economics and history?

History attempts to describe what happened.

Economics attempts to explain what happened and why.

Economics also makes assumptions about human behavior in order to make predictions.

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Types of history writing

"Top-Down" history, or, political history, tells story of history through political events and political leaders, mostly with political entity (kingdom, nation-state, city-state, etc.) as object of analysis.

"Bottom-Up" history is alternative history writing and uses as object of analysis everyday people and events. Also known as cultural history or working class history or popular history.

Types of economic analysis

"methodological dualism" is where human relations are seen to be different than relationships in the physical world.

This means that economic laws are explained using deductive reasoning and logic, and that the analyst/writer appeals to discursive method and rhetoric to convince reader of validity of arguments.

"Scientific method" is where analyst/writer proposes a testable hypothesis which is tested (history as laboratory of the social sciences) and either falsified or not falsified.

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An underlying economic hypothesis.

For an economy to experience both stability and economic growth over the long-term there must be (a necessary condition):

- 1) a sound monetary policy
- 2) a sound fiscal policy
- 3) a sound rule of law

This might be seen as "economic determinism", where economic conditions determine the path of history. This can be counter-juxtaposed with "cultural determinism", where a people's culture determines its history.

Theories of history.

Karl Marx' "historical materialism"

Marx believed, counter to other philosophers at the time (mid 19th century) that it was economic, or material, conditions and not ideas, which determined man's consciousness. Man was "determined" by his material conditions. These material conditions were determined by the "social relations of production", or, who owned what in society. Marx believed in turn that the state of technology is what determined the "social relations of production".

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Theories of history (cont.)

Marx (cont.)

For Marx then the technology at a given time determines the social relations at a given time (at time "t").

$$T_t \rightarrow S_t$$

T: technology
S: social relations

A new technology alters the social relations and a new phase of history begins (the new phase is time "t+1")

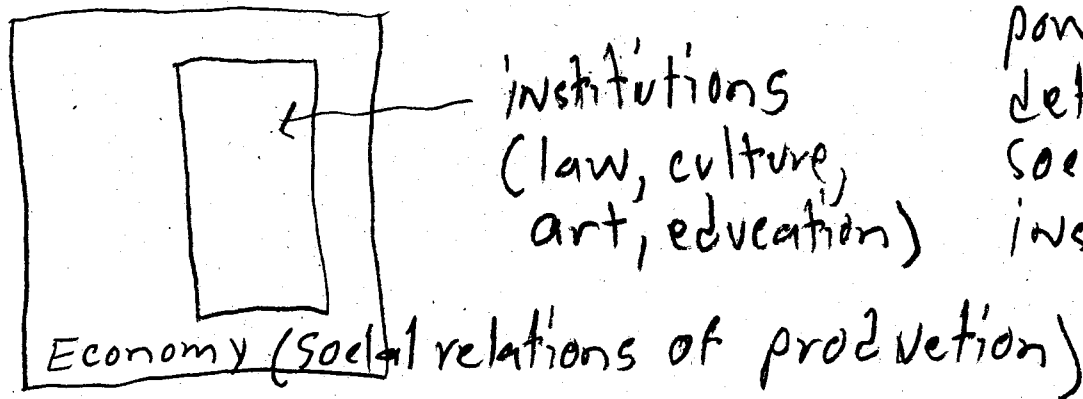
$$T_{t+1} \rightarrow S_{t+1}$$

An example of this is the fencing-in of farm land in Britain as described by John Locke (1690) and the rise of the "landed class!"

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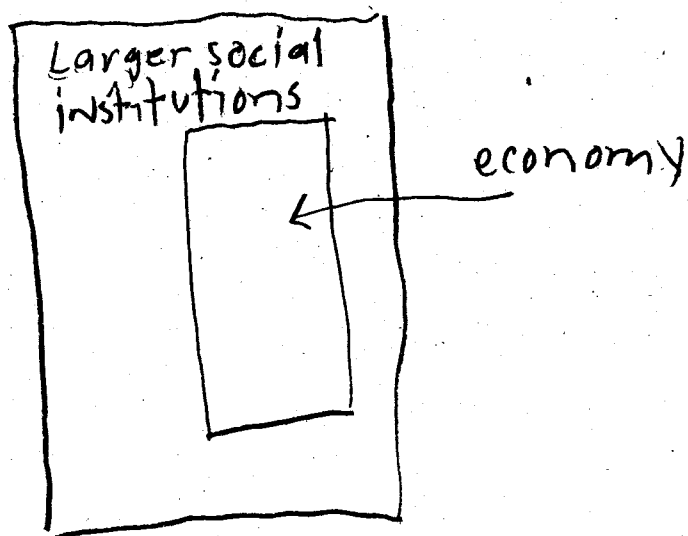
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Karl Marx' theory of history "heuristic"



For Marx the power structure determines society's institutions

Marx can be counter-juxtaposed with Friedrich von Hayek's theory of societal development



where the economy is just one part of a larger society.

Theories of history (cont.)

Marx (cont.)

Also part of Marx "historical materialism" is that under 'capitalist' stage of human history (as most typified by factory labor) all value in society is produced by labor. Labor is paid wages, which allows society to reproduce itself, then unpaid labor (labor in excess of paid labor) creates a surplus. This can be seen in a heuristic:

$$\text{reproduction} + \text{surplus} = \text{economy.}$$

The surplus is what is distributed to the capitalists and landowners.

$$\text{reproduction} + \left[\begin{array}{l} \bullet \text{ interest to finance capital} \\ \bullet \text{ rent on land} \\ \bullet \text{ profit, to industrial capital} \end{array} \right] = \text{economy}$$

[wages]

Note that this method of analysis assumes a class struggle and exploitation of the "working class". When wages go up the surplus goes down and vice-versa.

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Theories of history (cont.)

William Sewall proposes that society is made of individuals acting with their own agency (the will and ability to act) but that human action is constrained by social "structure". It is only when a significant event (usually political and usually an "exogenous shock") occurs that a society's structure, and thus society itself, is changed.

$$\left[\sum_{n=1}^N X_n + [] = \text{society} \right]_t$$

$$\left[\begin{array}{l} \text{all the actions} \\ \text{of all the} \\ \text{people in} \\ \text{society} \\ \text{(N people)} \end{array} + \begin{array}{l} \text{the} \\ \text{social} \\ \text{structure} \\ \text{of} \\ \text{society} \end{array} = \text{society} \right] \text{ at time "t"}$$

$$[]_t + \text{event} = []_{t+1}$$

$$\text{structure at time "t"} + \text{significant event} = \text{a new social structure at time "t+1"}$$

Theories of history (cont.)

Sewell (2005) (cont.)

With a new structure at time "t+1" this then creates a new society at time "t+1".

$$\left[\sum_{n=1}^N X_n + [] = \text{society} \right]_{t+1} \quad \Rightarrow$$

An example of this "logic of history" would be the unsustainable economic reparations placed on Germany after World War I which may have caused hyperinflation (the significant event), which then lead to the rise of a totalitarianist government (the change in social structure).

Theories of history (cont.)

The Dialectic

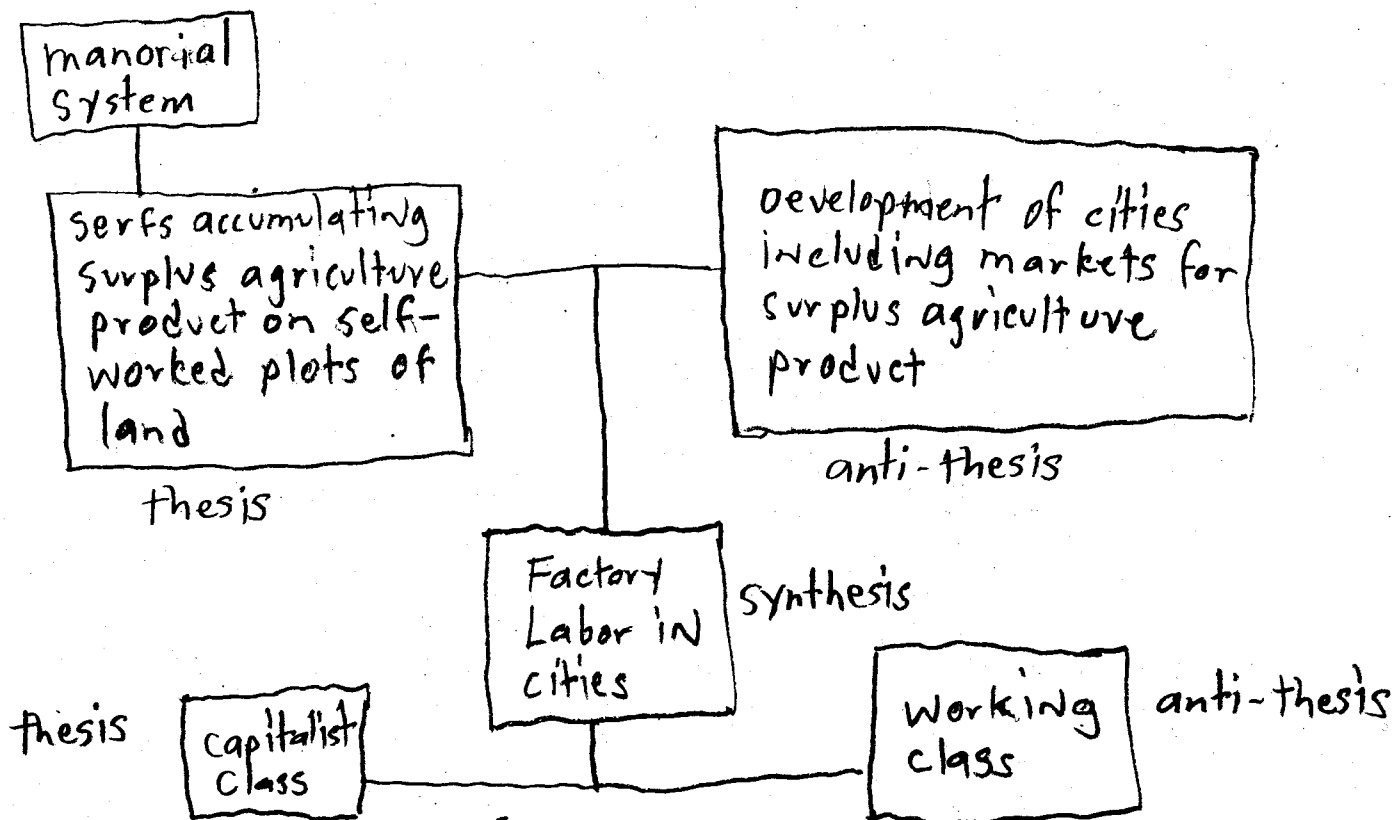
The dialectic proposes that at any given time in history there are two contradictory and unsustainable forces (the "thesis" and the "anti-thesis") which require historical movement to resolve the unsustainable contradiction. This resolution is called the "synthesis". But this synthesis is itself just illusory as a new thesis and anti-thesis is constructed, which requires again historical movement.

A recent example might be the need for nation-state finance created central banking and central regulation of banks (thesis), this created the "too big to fail" central bank doctrine (anti-thesis), which then lead to "bailouts" (synthesis).

Theories of History (cont.)

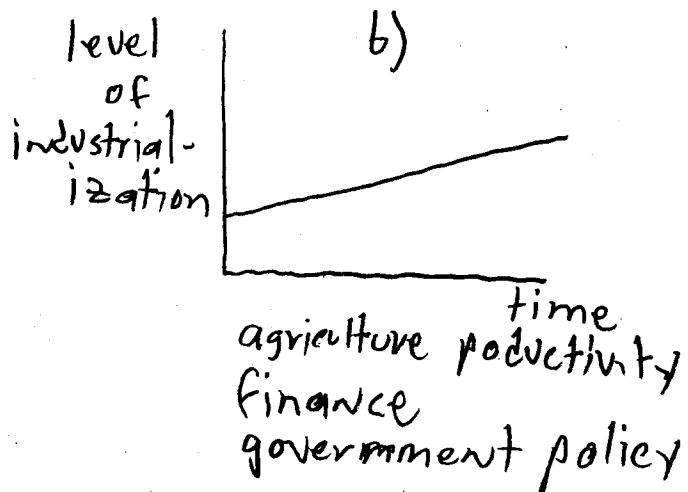
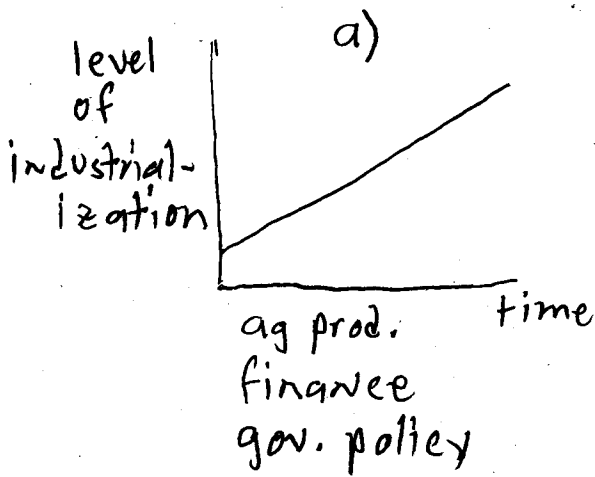
The Dialectic (cont.)

Another example of the dialectic would be the unsustainability of Feudalism and the manorial economic system. As serfs started to move to cities after accumulating wealth through improved agricultural techniques during the medieval economy, this created factory labor and capitalism. Marx thought that this too was unsustainable.



On causality.

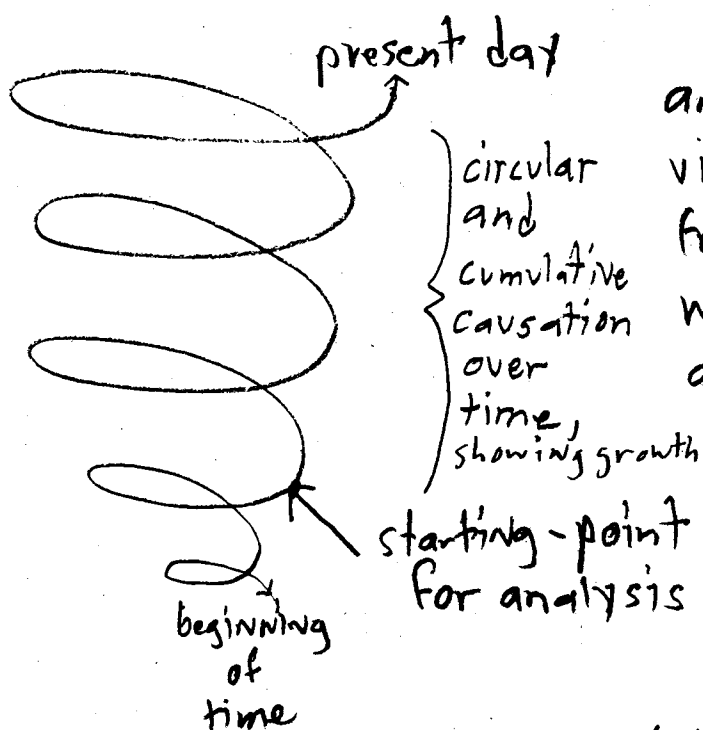
There is debate in economics as to whether causality (cause and effect) is "one-way" or "two-way". In the Cameron + Neal textbook (esp. chapter 8) the authors state that the timing of industrialization was "determined" by a country's agricultural productivity, financial systems and government policy towards trade and free-enterprise. Viewed in the cartesian plane:



In the above case, graph a) for example, the three determinants (independent variables) of agriculture productivity, finance and government policy, are better than in case b). For determining (causing) quicker industrialization (the dependent variable). This is "one-way" causation.

On causality (cont.).

Thorstein Veblen coined the term "cumulative causation" to show that events and movements are "path-dependent" (depend on what happened before in time). He was a methodological dualist who believed that cumulative habits played an important part in human behavior and that "one-way" causal relationships were an overly-simplified way to view cause and effect. This notion has now been expanded to "circular and cumulative causation" and can be shown with the following heuristic.



Using this method of analysis we can, for example, view a country's starting point for industrialization as to when a majority of the people adopted 3-crop rotation. This then lead to an agriculture surplus, which lead to the creation of markets, money and finance, rules for trade, etc. Cause and effect is 2-way and cumulative.

On the "logistic" curve and epochal innovation.
(See Cameron and Neal book Introduction).

It should be noted that there is a difference between the way Cameron and Neal use the logistic heuristic compared to the way it was used by who they credit with its origination, Simon Kuznets. C+N use the logistic to describe what happens to population when an epochal innovation is used /discovered/ marketed, whereas Kuznets said that an epochal innovation is something which created a new epoch of economic growth, not one of population growth.

This is a difference in economic reasoning. We should ask ourselves whether it is population growth which encourages economic growth (which seems to be the view of C+N), or, whether it is economic growth which encourages population growth (per Kuznets).

on the "logistic" curve (cont.)

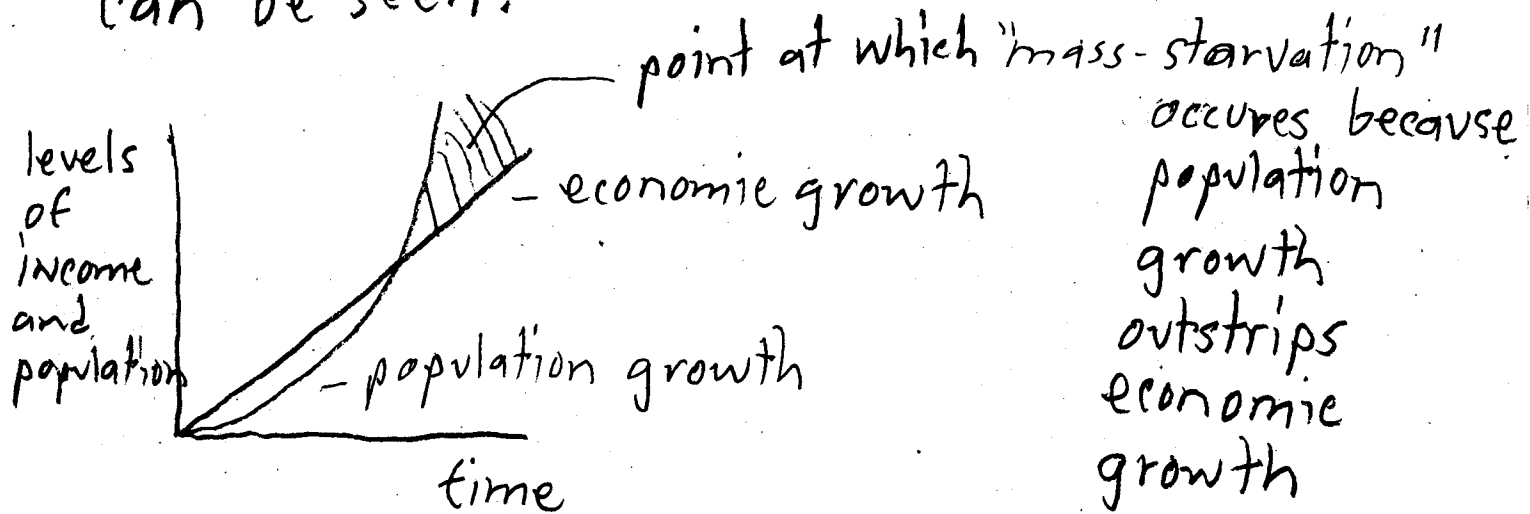
If we say that population growth is determined by economic growth, this might be construed as "Malthusian" logic which says that human beings are determined by their economic surroundings, and that it is not good social policy to allow human beings to reproduce at too rapid a rate because it could cause mass starvation. Thomas Malthus, writing in the late 18th century before the phenomenal increases in economic growth caused by the industrial revolution said that economic growth occurred linearly over time whereas the population tended to grow geometrically over time.

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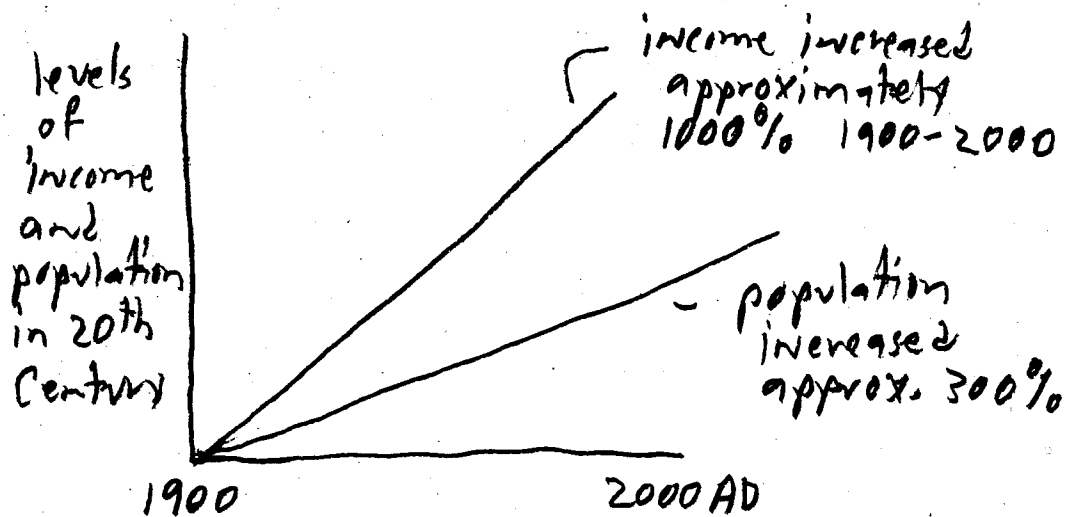
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On the "logistic" curve (cont.).

In the cartesian plane malthus' logic can be seen:



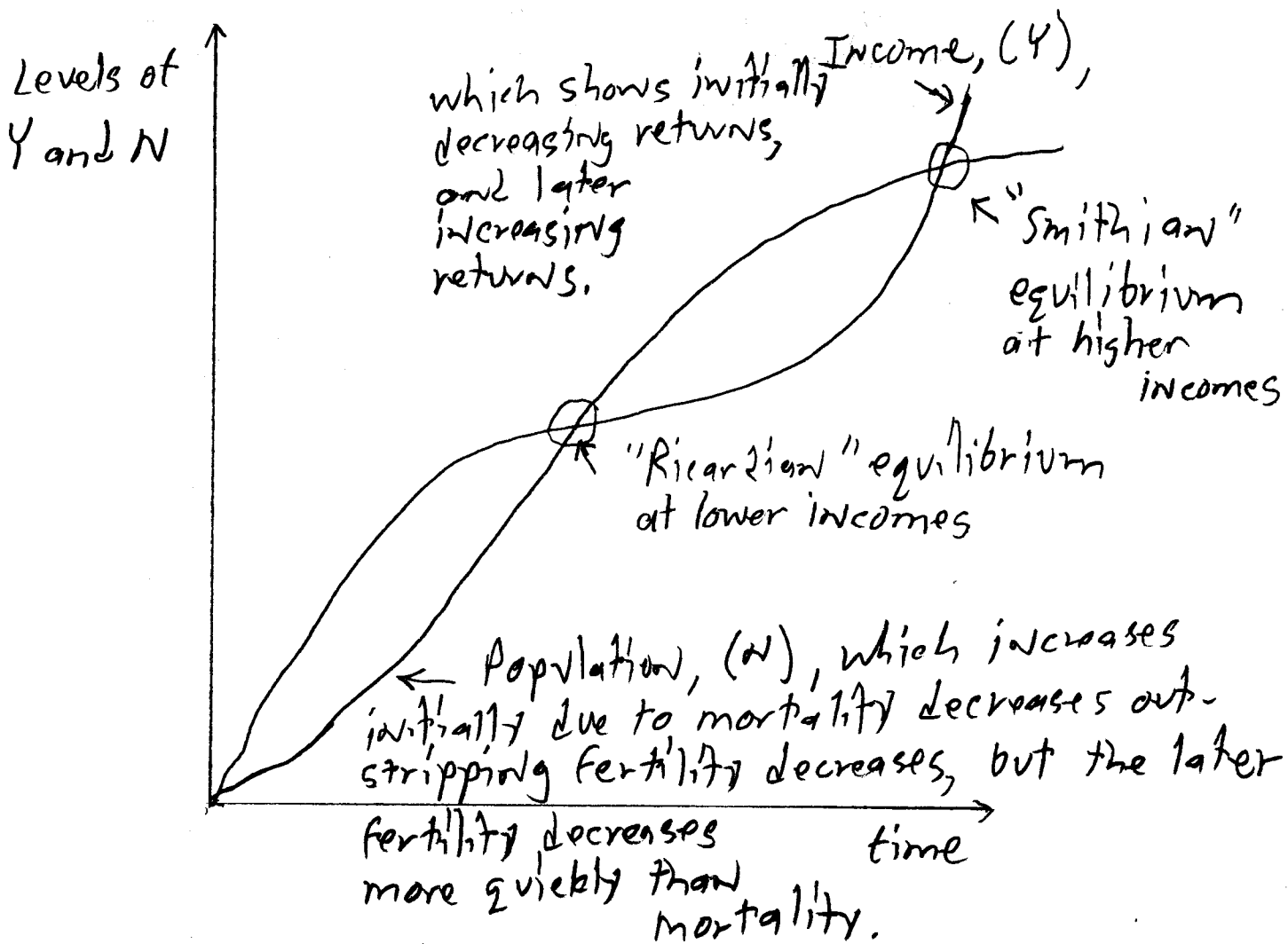
However, we know from the 20th century that economic growth far surpasses population growth worldwide. Thus starvation locally is a question of the distribution (trade) of resources and not due to the lack of economic growth.



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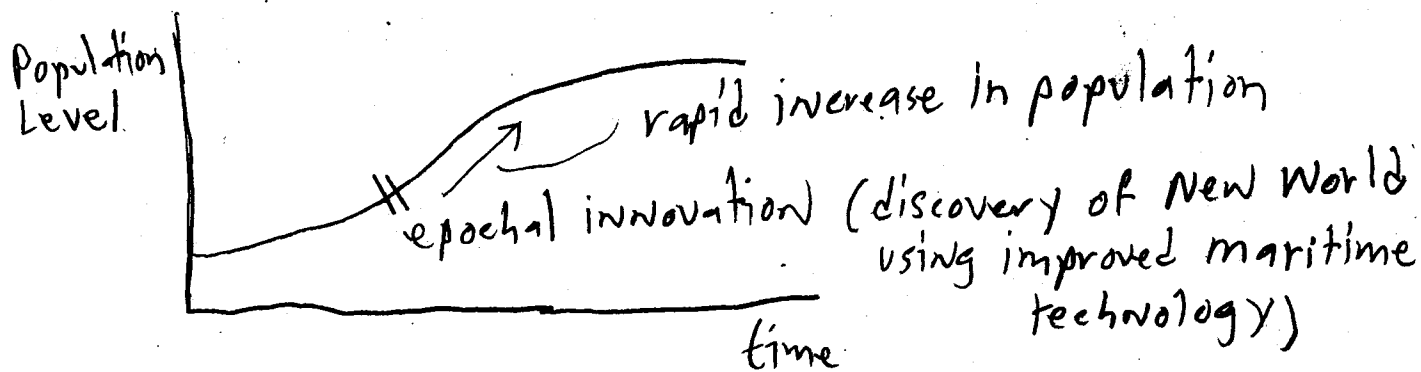
(17a)

We can also view the differing views of the relationships between population and economic growth in the theories of Ricardo (1817), who saw diminishing returns to productive factors, and increasing wealth lowering mortality rates quicker than fertility rates, and Smith (1776) who saw increasing returns (through growth in the extent of the market) and a drop in fertility rates more rapid than that of mortality.

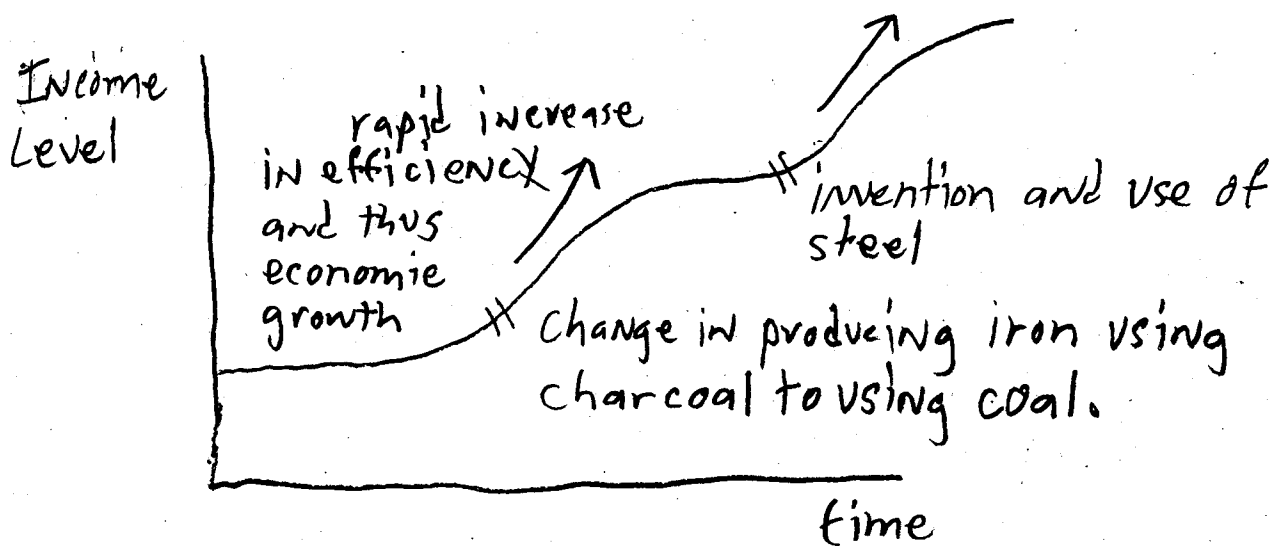


On the "logistic" curve (cont.)

C+N use the concept of "epochal innovation" to describe something which increases population growth in history (for example the "age of exploration" lead to the Western Community colonizing much of Africa and the Americas).



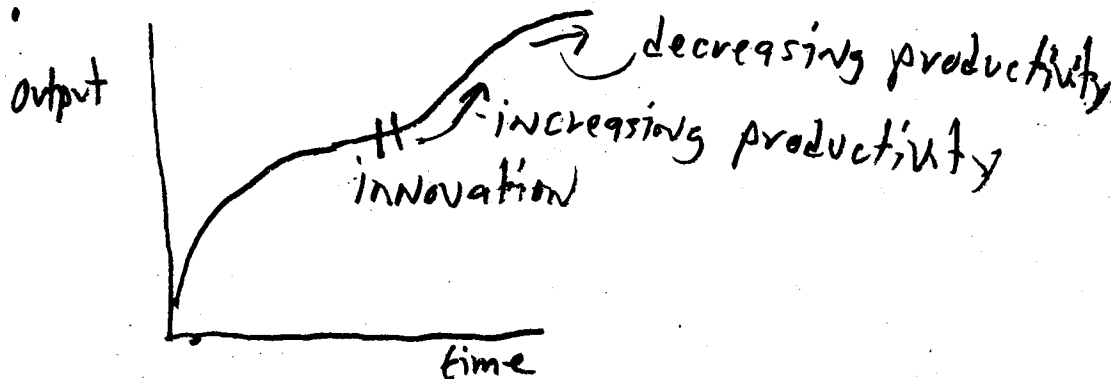
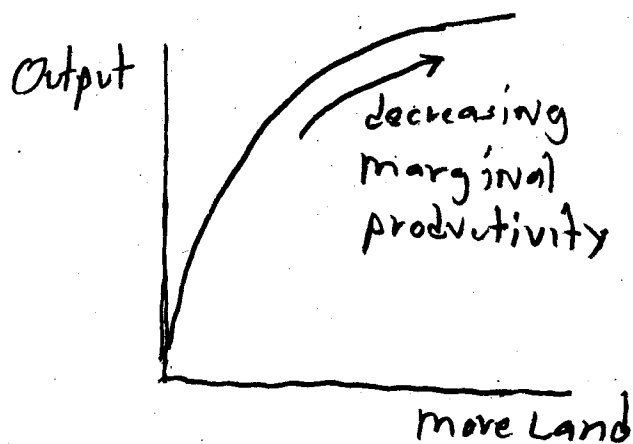
Kuznets uses epochal innovation to describe economic growth.



On the "logistic" curve (cont.)

The concept behind the logistic curve is one of the diminishing productivity of factors of production, which was first used by David Ricardo (1817) to describe what happens when you place into service more and more land, with each new plot of land being less fertile than the last. (It was for this reason too the classical economists believed that most economic growth came from geographic expansion rather than improved technical efficiency).

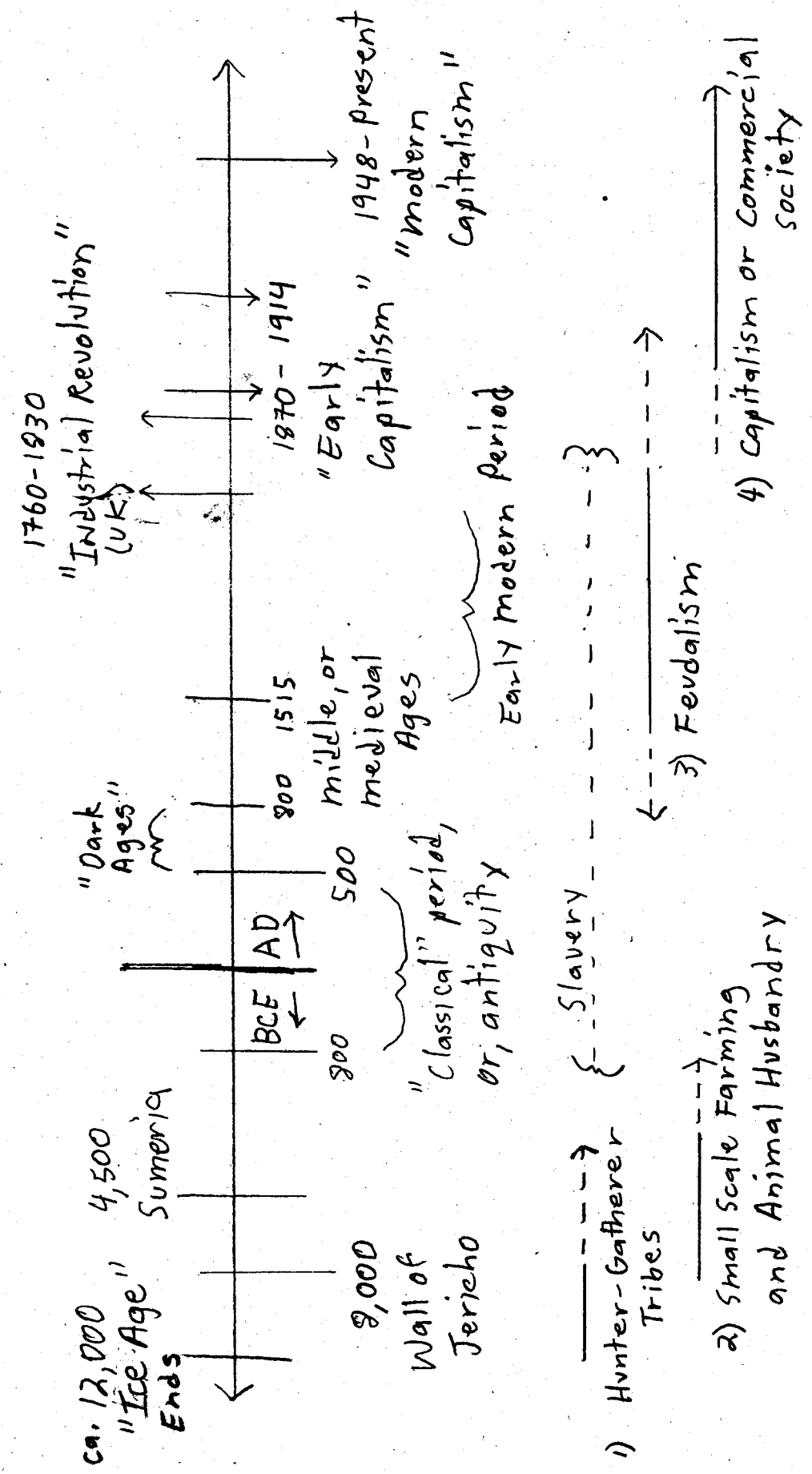
According to Kuznets then it takes a major innovation to counteract the decreasing productivity.



Lecture Notes for Economic History

Timeline of "Classical" stages of human development.

Adam Smith and Karl Marx shared these "ideal types" of stages of development, though what Smith called "commercial society", Marx called "Capitalism". (Also known as the four (4) Stages of History.)



Stages of History (cont.)

A note on time-preference theory and an application to Stages of History.

"Time-preference" as applied to capital structure in a society is from the Austrian School of Economics (Mises, Hayek, Garrison). "Time-preference" describes how much a society prefers current consumption over future consumption. A society which is more "developed" (and has more sound monetary, fiscal and rule of law policies) will have a more elongated capital structure, meaning that their capital structure will be deeper and more oriented to the long-term. In general, immediate consumption will be de-emphasized for longer-term investment.

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Stages of History (cont.)

Time-preference (cont.)

If we look at this as analogous to Marx' theory of reproduction and surplus (reproduction + surplus = economy) we see that as human's have developed from Hunter-Gatherers to today's capitalism, the surplus has increased because wealth has increased.

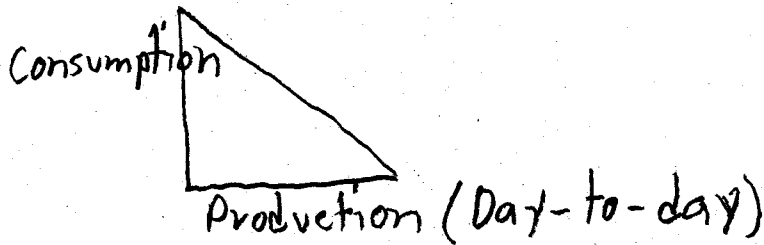
The Austrian School capital theory uses the heuristic of a triangle to show how increased surplus manifests itself in longer periods (stages) of production. The more developed, stable and sound a society is the more a society is able to invest for the long term.

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Stadial Theory of History (cont.), Time-preference (cont.)

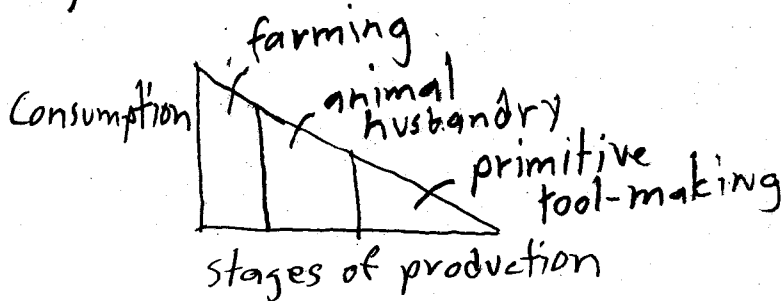
1) Hunter-Gatherer Tribes

In the earliest societies people lived day-to-day. They did not save for the future, their time-preference was immediate. Consumption was equal to (re-)production.



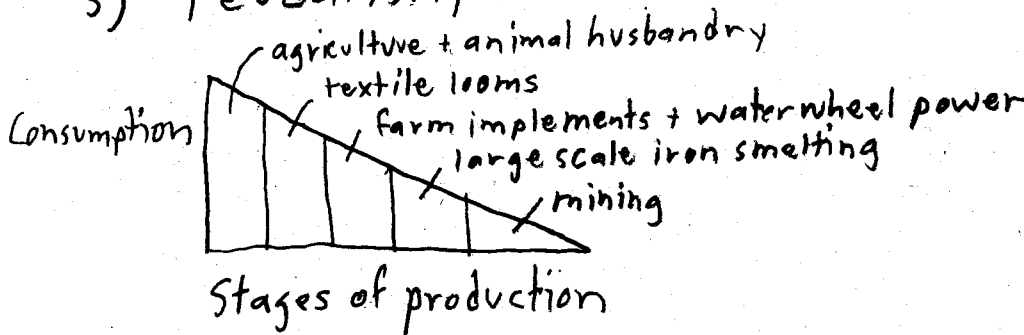
2) Small Scale Farming and Animal Husbandry

In the next stage, time-preference was lengthened. Tool-making took longer to do than animal husbandry which took longer than farming. A capital structure, with division of labor, was developing.



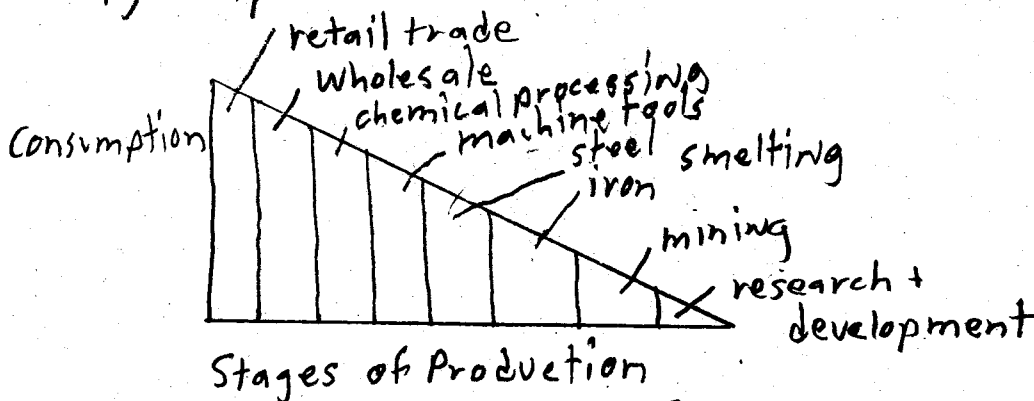
3) Feudalism

The manorial economic system + growth of cities in the medieval economy had an elongating capital structure as the extent of market increased as did primitive capital accumulation.



4) Capitalism

Under capitalism countries that underwent industrialization have deep and highly inter-connected capital structures due to world-wide market integration.



A note on trade and the extent of the market.

Adam Smith (1776) wrote that the "wealth of nations" was increased through free-trade, specialization of labor and an increase in the extent of the market.

This can be seen as "cumulative and circular causation".

As the geographic region in which trade occurred increased, as well as the types of goods which were produced for the competitive market increased, this led to more specialization of labor, more efficiency in production, and thusly more wealth.

more wealth (marx' surplus) then led to elongated time preferences, more investment in longer term, more efficient means of production, and again more trade through "comparative advantage" (Ricardo 1817) between

nations.

Note that it was only competitive market investment and specialization of labor which was sustainable in the long-term. The Romans invested heavily in water systems and roads compared to the Greeks (leading to a doubling of the population), but because much of the labor was slave labor and much of the geographic extension was Empire, this investment was not economically sound. (see Cameron and Neal, Figure 2-7, p.43).

Lecture Notes for Economic History

Timeline for Chapter 2 "Ancient Times"

