

## ECONOMICS 301Y1: COURSE INTRODUCTION:

### WHY STUDY ECONOMIC HISTORY?

(1) **To see that the subject matter of economics is essentially dynamic, occurring over time: defined by time and space.**

(2) **To see that economics is a unique process in historic time, conditioned by the interrelationship of specific sets of factors, both economic and non economic.**

- In economic theory, we necessarily understand the operation of an economic factor or variable by isolating it: by invoking the magic Latin formula *ceteris paribus*: ‘all other things being equal’.
- But that is not the case in economic and historical reality: variables are not so isolated; other things are not held constant, unchanging, thus equal.
- Economic history therefore allows us to see how economic change occurs through the changing relationship of economic and non-economic variables; that economic factors are naturally part of their social, political, and cultural framework of that time and place.

(3) **To appreciate the difference between and the logical relationship between two kinds of reasoning in economics:** deductive reasoning, as employed in mathematics and thus in economic theory (which has a mathematical basis to it), and inductive reasoning, as utilized in history (and in other social sciences).

- a) *Deductive*: reasoning from the basis of accepted or axiomatic mathematical principles; explaining economic changes by applying such principles.

b) *Inductive*: reasoning by bringing together a set of related facts, and understanding the nature and resolution of a problem by examining their cause and effect relationships, or complementary relationships. Creating a net that will catch the most historical fish.

4) **To test, with concrete empirical evidence, both the validity and applicability of economic theory:** of specific principles, axioms, and theoretical tools of micro- and macro-economic theory in specific, particular circumstances.

- As just suggested, students are generally taught that such axioms or principles are valid so long as everything else remains fixed and unchanged -- *ceteris paribus* -- all other things being equals.
- But that golden rule is too often forgotten; and economists too often fail to recognize or remember that in the real world, past and present, economic variables are always changing.
- A study of economic history should force you to recognize this truth; and force you to find the empirical evidence that will test the validity of the theory; and if necessary force you to investigate to find out why the theory cannot be so easily apply as originally anticipated.

#### **MY INTERESTS IN ECONOMICS AND ECONOMIC HISTORY:**

1. **The causes and the consequences of both economic growth and economic decline:**
  - a) **Why do some regions, countries or nations grow and prosper while others decline, or stagnate, or become impoverished?** Why is that those that decline rarely rise again?
  - b) **Why isn't the whole world developed:** why isn't economic growth the universal norm?

- c) **What circumstances and forces determine a growth or decline in productivity:**  
and thus specifically in the factor productivity of land, labour, and capital?
2. **What impact does economic change, or economic forces in general, have upon society at large:** in terms of the social, cultural, political consequences
  3. **Conversely, what impact do social, political, cultural (and religious) institutions have upon the economy, in particular upon the forces for economic growth and/or decline?**
  4. **In particular, what role does government or state institutions and government policies have upon the economy in the ways just outlined;** and to what extent do conflicts between agents and forces within the economy force governments to choose between or among them in making policy decisions, for better or for worse.

**NOW THESE ARE ALL QUESTIONS THAT ECONOMISTS MAY WELL ASK OF THE PRESENT, AND QUESTIONS THAT HISTORIANS ASK OF THE PAST:**

As Joseph Schumpeter (perhaps most famous Harvard professor of Economics) said: 'Economic history issues into and includes present day facts'.

Quotation from Joseph Schumpeter, *History of Economic Analysis* (Oxford, 1954).

History, statistics, and theory 'make up what we shall call Economic Analysis. Of these three fundamental fields, economic history -- which issues into and includes present day facts -- is by far the most important. I wish to state right now that if, starting my work in economics afresh, I were told that I could study only one of the three but have my choice, it would economic history that I would choose. And this on three grounds.

(1) First the subject matter of economics is essentially a unique process in historic time. Nobody can hope to understand the economic phenomena of any epoch, including the present, who has not an adequate command of historical *facts* and an adequate amount of historical sense or of what may be described as historical experience.

(2) Second, the historical report cannot be purely economic but must inevitably reflect also 'institutional' facts that are not purely economic: therefore it affords the best method for understanding how economic and non-economic facts are related to one another and how the various social sciences would be related to one another.

(3) Third, it is, I believe, the fact that most of the fundamental errors currently committed in economic analysis are due to a lack of historical experience more often than to any other shortcoming of the economist's equipment.