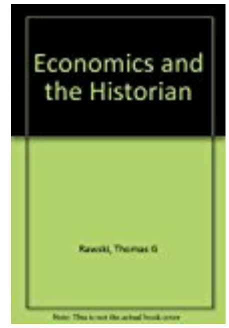
H-Net Reviews
in the Humanities & Social Sciences

Thomas G. Rawski, ed.. *Economics and the Historian.* Berkeley: University of California Press, 1996. xiv + 297 pp. $50.00, cloth, ISBN 978-0-520-07268-8.



Reviewed by Lynne Kiesling

Published on EH.Net (August, 1996)

Economic historians fill a peculiar, and sometimes uncomfortable, intellectual gap in the social sciences. In an ever-fracturing and increasingly compartmentalized scholarly environment, the economic historian may not find a welcoming, collegial home with either historians or economists; the notion of a truly interdisciplinary analysis is more rhetoric than reality for many scholars.

This volume of essays seeks to bridge the gap in the direction of historians. Arguing that economic analysis contributes a useful set of tools to historical scholarship, the eight economic historians writing these essays attempt to negate the stereotype of economic analysis as false quantification and so much mathematical esoterica. These chapters are well written, tightly argued, and should be of value both to the historian looking to learn more about the economic approach to history and to the economist looking for a clear presentation of the general methodological foundations of "historical economics."

In his introductory chapter Thomas Rawski starts by observing how pervasive economic factors are, and were, in everyday situations, and that economists and historians ignoring each other is a two-way street:

"Even if man does not live by bread alone, economics lurks beneath the surface of any historical inquiry. The economist who hesitates to peek outside the confines of his models can overlook cultural influences on markets. Likewise the historian of labor, of agriculture, of trade policy, of elite politics, of the church, of international conflict, of the arts, of migration, ideas, industrialization, universities, technology, demography, or crime ignores the economic approach at the risk of losing important lines of explanation" (p. 1).

After noting the apparent enthusiasm of economists for the benefits of history, Rawski goes on to discuss briefly the ideas underlying basic economic models; by doing so he lays a foundation of understanding in the reader for the more sophisticated analyses presented in the subsequent chapters.

Rawski also wrote the second chapter, in which he discusses the analysis of economic trends. Historical analysis is especially suited to studying long-term changes in factors such as "economic welfare, distribution of income and wealth, degree of commercialization, patterns of cropping, organization of economic activity, [and] significance and functioning of various economic institutions" (p. 15). Getting to the heart of a common misperception that historians often hold concerning economic modeling, Rawski clearly points out that examining long-term changes in such factors is meaningless without putting the trend in its relevant economic context. Rawski then refers to the most common way to explore aggregate trends across time and across countries, national income accounts, and briefly explores the three areas of economic activity that national income accounts miss: household production, underground activity, and unrecorded costs. However, when we look at broad trends we are looking for general tendencies across time, and national income accounts give us an imperfect, but rather consistent, indication of these tendencies or trends. After a useful explanation of how national income accounts are derived, on both the expenditure and the output sides, Rawski also examines economic cycles and trends within them.

Jon Cohen then provides an interesting discussion of the role of institutions in economic analysis, a currently fruitful area of research in some fields of economics. Cohen defines institutions as "efficient ways of organizing human activity where markets alone will not suffice" (p. 60), such as the firm or the family. In the most basic, most restricted economic model of human behavior, all resources in the economy find their highest value use through the market, without any need for relationships beyond those stemming from market activity. Clearly, this simplistic model abstracts too far from the real relationships of life, all of which do have some economic component (even friendship does--when we spend time with friends and do things for and with them, we forego opportunities to do other things that might also be of value to us). Cohen focuses on the family, the farm, and the firm as institutions that work in conjunction with the market, in a more realistic model of human behavior. In the course of discussing why such institutions exist and what benefits they provide, Cohen highlights the property rights literature building on Coase's work analyzing the existence of the firm.

Exploring labor economics and labor history, Susan Carter and Stephen Cullenberg creatively construct a dialogue between "Clio" and "Hades," two professors of history and economics, respectively, on the relative merits of their methodologies. They first discuss social norms and market forces as determinants of female labor-force participation, subsequently covering the individual choice between work and leisure as the basis for most economic models of labor. Carter and Cullenberg reinforce what I perceive as the essential elements of this book: economic models are tools, nothing more, but they are useful tools because they may highlight relationships that might otherwise not have been obvious; these tools, as well as the tools of historical analysis, need to be used in context.

The fourth chapter, written by Donald McCloskey, focuses on the basic model of neoclassical economics and its emphasis on choice. Because economists emphasize resource scarcity, they look at human behavior in the context of individuals making choices facing a set of alternatives. McCloskey argues that (neoclassical, but I would argue all) economists "would urge the historian not to jump hastily to a diagnosis that peasants follow their plows by custom alone or that traders trust each other on grounds of solidarity alone.... Neoclassical economics, in other words, completes sociology and anthropology, because it studies a motivation unattractive to those fields: choice under constraint" (p. 123). Choice transcends markets and permeates nonmarket institutions, as Cohen's chapter suggested. McCloskey's articulation of the choice basis of economics also enables him to address a common misperception of economics--economics is not about money alone. Choices made and profits garnered need not be pecuniary. This focus on choice complements other historical approaches emphasizing, for example, culture.

Richard Sutch's chapter provides a concise survey of macroeconomics, peppered with historical examples that highlight some benefits of aggregate economic analysis. He concludes that thinking in terms of a macroeconomic approach could be useful to the historian, even if he or she is not using aggregate economic data. Sutch clears up another problem area for non-economists--what exactly are inflation and unemployment, and how can we tell if they are present in our historical situation? Sutch also addresses the potential pitfalls of aggregation, fruitfully discussing the benefits of, for example, micro studies of real wages in 1830s Britain by region and by occupation, but reminding the reader not to commit the fallacy of composition. Just because handloom weavers in Lancashire suffered large declines in their incomes does not mean that all British workers fared poorly during the 1830s. Sutch also uses the tools of macroeconomic analysis to understand wartime destruction and postwar economic activity after the Civil War and World War II.

Next Hugh Rockoff tackles the thorny topic of money, banking and inflation. He structures his discussion as the tale of the development of money in a hypothetical economy, using examples from history to illustrate issues that arise as an economy becomes more commercial. He starts in medieval times with a gold-based money, moving on to explain how new discoveries of gold caused inflation. His subsequent explanation of the quantity theory of money and Hume's price-specie flow mechanism is valuable to non-monetary economists as well as to historians interested in monetary history. Rockoff then discusses the rise of banking, usually starting with individuals "depositing" gold coins with their local goldsmith for safekeeping. As goldsmiths discovered that not everyone wanted all of their money back at the same time, they found that they could make money by lending out some of the deposits they held: thus the birth of fractional reserve banking. This development also meant that the goldsmith had an incentive to pay the depositor interest on his deposit, thereby creating a dimension on which goldsmiths compete for business. Rockoff also explores banking panics, fiat money and central banking, which require more sophisticated economic models and some attention to institutional detail.

The final chapter, by Peter Lindert, highlights the role of international economics in understanding the evolution of trade relationships through history. In the context of discussing international relations, Lindert emphasizes one of the basic tenets of economics--trade creates value, and both parties benefit. But that value is not distributed equally among the trading partners, and Lindert addresses the implications of that fact in terms of the development of trade restrictions (tariffs and quotas) and the evolution of trading relationships. In the final section of his chapter Lindert provides a discussion of the determination of exchange rates that I found extremely valuable, and much clearer than any other I've seen on the subject.

Every chapter in this collection provides valuable insights on the use of economic logic and modeling in explaining historical phenomena. I sensed no condescension from the authors toward the methodology of the historians among their readers; I sensed only respect and appreciation for good economic methodology, and an interest in sharing that enthusiasm with historian colleagues.

If there is additional discussion of this review, you may access it through the network, at
http://eh.net/

Citation: Lynne Kiesling. Review of Rawski, Thomas G., ed. *Economics and the Historian.* EH.Net, H-Net Reviews. August, 1996.

URL: https://www.h-net.org/reviews/showrev.php?id=557