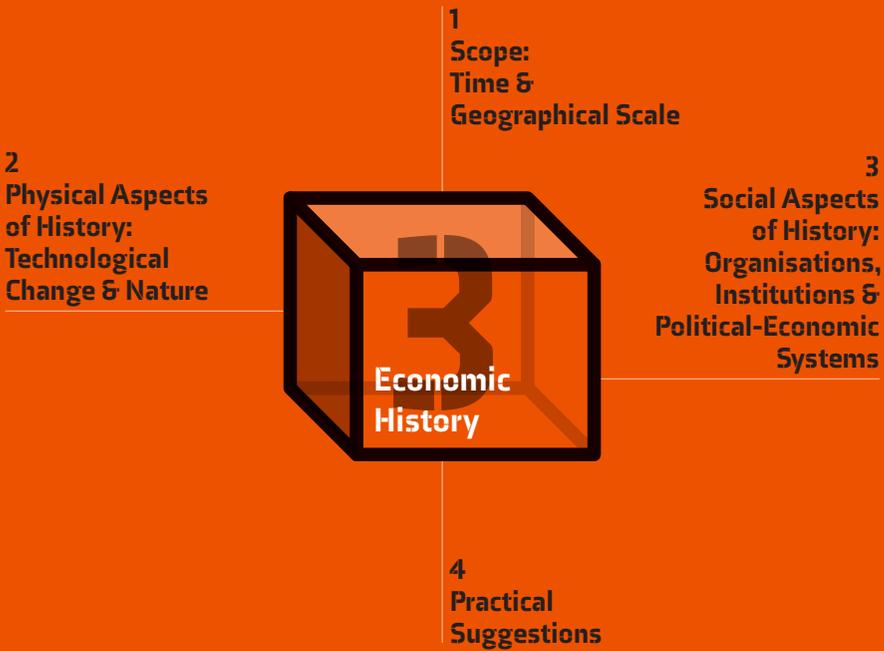




Building Block 3

Economic History

The history of how the economy evolved over time, from the physical aspects of technology and nature to the social aspects of organisations, institutions and political-economic systems.



What

Economic history is about the evolution of real-world economies, rather than the history of economic thought (see for this *Building Block 4: History of Economic Thought & Methods*). This building block focuses on what happened, how, and what effects it had. It helps students gain a basic understanding of the histories of different real-world economies and to learn from the past.

Why

The evolution of economies throughout history is a fascinating and motivating field, full of drama and action. It is also highly valuable for anyone trying to understand the current economy: history can provide great insight into how economic processes work and how today has come about. Finally, a good understanding of what has happened in the past can also help us understand what may happen in the future.

Economists have claimed, repeatedly, to have solved the economic problems of the past, such as booms and busts. Recent history, however, shows us that this is far from the truth. Many of the key issues of our time – financial instability, trade wars, economic inequality – are far from new. So, let us learn from the past to help us better understand how we can tackle the problems of today.

Contrast with current programmes

Currently, the history of the economy is often not taught in programmes. Some even argue that past events and structures are relevant only to historians, while economists should focus on the present. Consequently, economists lack historical knowledge. We propose teaching future generations of economists the basics of how economies have evolved and avoiding the (over)use of abstract models and econometric techniques.

“Nobody can hope to understand the economic phenomena of any, including the present, epoch who has not an adequate command of the historical facts and an adequate amount of historical sense.”

Joseph Schumpeter (1954, pp. 12-13)

On August 13, 2007, as Goldman Sachs was making unprecedented losses, David Alan Viniar said “We were seeing things that were 25 standard deviation moves, several days in a row” (Conti-Brown, 2009). As the chief financial officer and executive vice president of Goldman Sachs at the time, Viniar used this statistical jargon to describe the ongoing events. His statement reflects, however, a severe lack of historical knowledge, leaving him unable to comprehend the economic phenomena he was part of.

His statement was based on an econometric model which Goldman Sachs used to analyse developments on financial markets. The model’s estimate that the events of that week were “25 *standard deviation moves, several days in a row*”, suggested they were supposed to happen only once every 1.3×10^{136} years (Conti-Brown, 2009). To put this into perspective, the universe is estimated to be some 13 billion years old, 1.3×10^{10} . Viniar’s workhorse model told him that what he was witnessing day after day was not supposed to happen in many lives of this universe.

A basic historical awareness of the fact that financial crises are periodically recurring would have helped this chief financial officer to comprehend the events he was witnessing. In general, a basic grasp of history is crucial to developing a sense of what is possible. Hence, we propose including economic history into economics programmes.

In this building block, we suggest a few dimensions to consider when designing courses on the history of economies. Different programmes will require different things in this regard, and the interests and personal expertise of the lecturer also make a big difference. Here, we hope to help lay out several options and to highlight the potential benefits and drawbacks of various choices. In *Tool 4: Example Curricula*, we provide illustrations of how one could use some of these options to create separate courses, or combine them with other building blocks to create new courses.

1 Scope: Time & Geographical Scale

When teaching history, it is important to first delineate a clear geographical and temporal scope. Geographically, the global, regional and national scales can provide useful delineations. Temporally, one might look either at the entirety of human history, at the last few centuries or at very recent developments. These various scopes can of course also be combined or taught in sequence. This is, after all, just a framework for course design.

Naturally, the larger the scale, the less room there is for detail. So, while students would benefit much from developing a basic understanding of world history, we would not advise spending equal time on each period of history. Instead, we suggest alternating between discussing very big topics in broad terms and treating smaller episodes in more detail. It is a balancing act, between having an historical overview of economies and understanding the complexity and nuance of changes in economies.

A brief note on teaching very recent developments. It is a misconception that history is only about long-gone days. History means concrete events and phenomena in the past, whether they occurred a long time ago or recently. Recent history, too, can be very useful for economists, as it helps them understand the situations they find themselves in today.

An important example of this for the current generation of economics students would be the history of the financial and economic crisis of the last decade. While most of us have kept track of major events in our lives, very few have a good understanding of precisely what happened in that crisis. Therefore, it could be useful to discuss in detail the events and developments of the last decade, using for example 'Crashed' by Adam Tooze.

Such recent histories are very important because they provide sophisticated and rich analyses of what happened, as opposed to the often simplistic and partial accounts that are prevalent in many debates around even the most recent events. As future economic experts, this can teach students how crucial it is to have a factual overview and contextualisation of phenomena in order to be able to grasp them. Furthermore, recent histories can show students how multidimensional economic events are and how useful a multidisciplinary approach is, as it also takes political, social and cultural factors into consideration.

We are aware that the advice above is quite general while this building block is, by nature, rather location- and time-specific. Exactly which aspects of history are most relevant also depends on the focus of each

programme. We hope that the framework offered here can still prove useful in terms of selecting an appropriate scope and relevant historical episodes.

2 Physical Aspects of History: Technological Change & Nature

Having chosen a temporal and geographical scope, we suggest course designers split up the material into two aspects of history, and deal with them both explicitly: the physical and the social. The physical aspect refers to how human beings interact with their natural environment and the technologies they use. The social aspect, on the other hand, refers to how people together organise their economic lives through work, organisations, economic mechanisms, institutions and political-economic systems. The two are clearly related to each other and could very well be combined into a single storyline. Nevertheless, we think it is important to focus on both sides, as each captures different elements of history.

In terms of the physical aspect of the history of economies, there are three angles that seem particularly relevant: dominant forms of production, technological innovation, and relationship with nature.

Firstly, the dominant forms of production. Technologies have fundamentally changed economies, and with them, human life multiple times in history. The main story, in this regard, is that human societies moved from hunter-gathering, to horticulture, to agriculture and finally into industrial production. Many places, however, retained fishing, herding and maritime societies, which also played important roles in the world history of the economy. It is therefore important to teach students about how these different economies functioned. A useful book on this is *Human societies* by Nolan and Lenski.

Secondly, technological innovation. Given that technological change has often been a driving force of economic change, it is worthwhile to give students an idea of how technologies have developed over time. Which waves of innovation have characterised the last centuries and how did they alter economic processes? How did these innovations come about and how did the knowledge of them spread? To discuss these matters, a helpful and accessible book is *A Short History of Technology* by Thomas Kingston Derry and Trevor Illtyd Williams.

Finally, nature. Throughout most of human history, human societies and, in particular, their economies were largely shaped by their natural surroundings. Today, this relationship has become a two-way street, as

human beings are having an enormous impact on natural ecosystems and Earth's geology. It is crucial that students develop an understanding of how this happened. One could discuss questions such as: How have energy consumption and land use changed over time? Which countries and organisations have contributed most to these developments? How has the use of different energy sources changed throughout history, including recent development related to renewable energy? What policy measures have been taken over the last decades to tackle environmental and ecological problems? Who has historically paid the biggest economic and social price for humans' extractive use of nature? Useful books to discuss these issues are *Energy and Civilization: A History* by Vaclav Smil and *Climate Change: A Very Short Introduction* by Mark Maslin.

3 Social Aspects of History: Organisations, Institutions & Political-Economic Systems

Having considered the physical aspects of economic history, it is important to also teach the social aspects. Here we suggest looking at the differing ways in which humans have socially organised economic processes: through different organisational forms, institutions and political-economic systems. For an overview of these, see building blocks 5 and 6: respectively *Economic Organisations & Mechanisms* and *Political-Economic Systems*.

Knowing how societies moved from one political-economic system to another is imperative. Yet, it is also valuable to develop an understanding of how political-economic systems themselves changed. So, for example, one could discuss how capitalism was deeply intertwined with colonialism, slavery, patriarchy, and imperialism – but later on became associated with the welfare state and representative democracy. These are all complicated issues that deserve attention in courses on the history of the economy. For this one can use different teaching materials, from academic readings to documentaries such the DW documentary *Slavery routes – a short history of human trafficking*.

Recent history is again of particular importance here. How have political-economic systems changed over the last decades? How have the social structures and power relations of the economy changed with developments such as globalisation, neoliberalism, financialization, and digitisation? To give an example, one could look at the history of markets as Bas van Bavel (2016) did in *The Invisible Hand?: How Market Economies have Emerged and Declined Since AD 500*. Van Bavel documents how markets became more dominant in various societies at points in history, but

also how markets over time lost their importance in determining how economies were run. In this book, he analysed how different economic mechanisms interacted with each other and how power relations in societies changed.

4 Practical Suggestions

More concretely, how can this subject best be fitted into a curriculum? One way is to devote entire courses to the subject, but it can also be incorporated into existing courses along with other subjects.

An economic history course could, for example, mainly focus on the physical and social history of the global economy, while connecting it to the history of the national economy of the country where the course is taught. In a specialised graduate programme, it makes sense to focus specifically on the topic of the programme. For instance, in a graduate degree on financial economics the scope might be narrower, zooming in on financial history, rather than treating the history of the economy more broadly.

Besides teaching it as a stand-alone course, some historical background can add value to other courses. For example, a course on labour economics would be enriched by starting with an overview of labour history before delving into specific theories. Such an introduction into a course gives students a clear idea of the real-world phenomena they will be studying in that course. That is, history is not simply used to illustrate theory, but to provide students with a basic understanding of the actual phenomena that the theories try to wrestle with.

Introducing a topic through its historical background will also increase students' motivation, especially when recent history is discussed. Virtually every course, whether it focuses upon economic development, firms, public policy or markets, could benefit from devoting some space to the history of the topic.

Teaching Materials

- *Capitalism: A Short History* by Jürgen Kocka, from 2016. A concise and yet broad-ranging account of how capitalism developed from early merchants, colonialism and slavery to the recent wave of globalisation and financialisation, accompanied by discussions of capitalism's key thinkers, such as Smith, Marx, Weber, and Schumpeter.
- *Economics: The User's Guide* by Ha-Joon Chang, from 2014, chapters 2 & 3. Two short and well written chapters on how the economy has changed over the last centuries and how capitalism evolved.

- *Global Economic History: A Very Short Introduction* by Robert C. Allen, from 2011. A brief but insightful introduction into the economic history of the world with chapters on industrialisation, the rise of the West, great empires, the Americas and Africa.
- *An Economist's Guide to Economic History* by Matthias Blum and Christopher L. Colvin, from 2018. A useful collection of short essays on the economic histories of many different regions, periods, methods and topics, from globalisation and labour markets to the environment and children.
- *A History of the Global Economy: 1500 to the Present* by Joerg Baten, from 2016. A broad collection of essays on the histories of the different regions in the world, with chapters on the economic consequences of independence in Latin America, US business history and the workings and impact of colonial empires in Africa and Asia.
- Besides these global histories, it can be particularly useful to look up materials on national economic history. For the Netherlands, for example, this book would be useful: *The Economic History of The Netherlands 1914-1995: A Small Open Economy in the 'Long' Twentieth Century* by Jan L. van Zanden, from 1997.

Visit the website for a wider range of teaching materials, to provide feedback, and to exchange ideas and ask support from colleagues worldwide.
economy.st/bb3

