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THE METHODOLOGY OF ECONOMIC HISTORY

By

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WORKING PAPER NO. 246

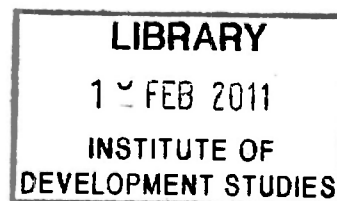
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October, 1975



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RN 322273

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ABSTRACT

This discussion of the methodology of economic history sets out to justify the presentation of rigorous economic models to test historical hypotheses. It argues for the legitimacy of attempting both directional and magnitudinal estimates of significant economic variables despite data shortcomings. It gives, finally, a systematic set of questions which need answering if the economic historian is to give true economic insights rather than impose his frame on the pattern of events no matter what contradictions he suppresses in the process.

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Societies are made up of units which make decisions to allocate their resources towards goals of power, prestige or profit etc.

The nature of the goals change through time, the form of decision unit changes also as does the mode of attaining any given goal. Economic history is not a mere chronicle of quantitative data from the past put into the categories of modern economic analysis nor is it an interpretation of the past in the inevitable stages of the dialectic.

Since scarcity and choice are the common experience of all societies the job of the analyst of historical data is to try and identify the goals that were sought in the choices that were made. Normally the data do not appear in the form to answer the questions we wish to ask so we are compelled to think in terms of more theoretical constructs in which variables upon which we do have observations appear and we can make estimates as to how they will change in relation to other events. Changes in magnitude and direction ideally could be predicted in a total information situation. In the partial data situations that normally exist the best we can hope for is to give a sense of directional change in response to variations in the environment in which the decisions were made.

As a first step we need to give substance to our hypothesis that a particular society sought some goal - bearing in mind possible conflicting contemporary goals such as public defence (a macro Target) and short run private consumption (a micro motive). We would not therefore expect a necessary unanimity in the past any more than we observe it among present day profit oriented businessmen.

The second step is to consider how could desired goals be attained. For example; were output maximisation the desired goal we know that output depends on the input of the services of the factors of production, land, labour, capital; the technology employed; the availability of raw materials etc. We are then in a position to identify the availability of which inputs acted as a constraint to expanding output. In a more general form what is here suggested is that the limitations on a society's (or unit's) ability to attain its desired goals are specified.

Some goals are attainable and then the remaining resources are available to satisfy other wants or to be put to other uses of, may be of a more speculative nature. In a sense this consideration covers three analytical points; first- diminishing marginal utility, second the consumption /savings/investment sequence and third - the concept of the surplus.

Diminishing marginal utility is merely stating that successive units of some good consumed in some period of time yield smaller increases to total consumer satisfaction. It follows therefore that consuming units may cease to employ more resources for further provisions to satisfy some major desire when some other goal becomes more attractive that would appear attainable, at least in part, with the remaining resources. A simple example is money is spent on entertainment after hunger is satisfied although further food is still desirable, but not as attractive as the entertainment that could be got for the same price.

The consumption/savings/investment sequence introduces attitudes to risk as well as the community's time horizon. Again from the economic stand point it is important to be clear about the goals that are sought. In some cases, for example, distribution of output among clan members serves as a substitute for cumulating a hoard of goods against future needs since one expects to be repaid. The step from savings for the future or insurance against the unforeseen to investment, where resources are diverted from satisfying present wants into producing for the future, is easy to take but very significant in historical analysis of economic phenomena. Investment decisions reflect not only risk and time horizon attitudes but a multitude of structural characteristics of the epoch - what technologies were available, what techniques for mobilising unconsumed resources existed and what means there were of disposal of expected outputs. The last point is particularly important since investment in most cases means a greater future output.

The concept of surplus, which is the major machine of change in the Marxist economic models, is one which, while having an intellectual fascination has an elusive empirical content. In theory factors have to be given (paid) what they are worth, if they are given more than they are worth he who employs (uses) them will make a loss if they are given less then the employer makes a surplus. A surplus would therefore seem impossible but it happens that there is an ambiguity in the term 'value' which is reckoned coterminus with 'worth'. The value of a thing is reckoned as the sum of the values of all things that went into producing it. These inputs have their values determined in the same way and so on down the line. It is only when we come

to the value of a man's effort that a problem arises. A man is able, in a day, to produce more than is required to sustain him (and his replacement). Due to there being a reserve army of unemployed, workers need only be paid this subsistence minimum and the employer receives the surplus value--when he disposes of the man's output. This surplus is then available for investment and increasing the potential surplus of the employer (the capitalist.) The problems with this approach are manifold.

The subsistence minimum is not a rigorously determined amount since a multitude of characteristics enter the establishment of minimum requirements, (family size, season, leisure attitudes etc.) There is also no need to believe in the inevitability of universal exploitation since the goals of economic activity may be best attained by distribution for example. Furthermore the unemployed reserve army which is a necessary part of the Marxist logic is a product of a particular definition of employment and wage structure arising from Marxian class formation. In a society of different family and property attitudes the "unemployed" would not be necessarily pressing on the payment to labour so as to force it to a minimum.

In the nature of goals that are sought it is almost universal experience that most people fall short of repletion. No one attains total power or eternally secure prestige or all the possible profit. There are hierarchies. In our examination of historical data once we have satisfied ourselves that we (a) know the society's "objective function" (b) that we know the "production functions" that produce the desired goal we can (c) find who controls the limiting resources (inputs) and how do they come to be distributed in a particular way and (d) what modes for redistribution exist. This, in general, gives rise to some analysis explaining the returns to resources and the exchange value of outputs.

Where exchange is a common phenomenon of an economy, goals are usually attained by obtaining the fruit of others' efforts in exchange for some medium of exchange that has been obtained through ones own efforts in production. A group of related questions should therefore be asked of the historical record. How is the medium of exchange produced and controlled? (This would include questions of banking and credit.) How are exchange rates or prices determined? (of pivotal importance is the question of price distortions and how were they sustained.) It is only when we know about the returns for factors that questions on the control of factors and properly distribution become important.

In economic history we seek the dynamic forces that have influenced

change determining its direction and magnitude as well as seeking insights into the frictions of an economic frame work which influence the future economic development of an economy.

COUNTER FACTUAL HISTORY

Historical texts are replete with statements that certain events were important e.g. the construction of the railways in the opening of the East Africa. The economic historian asks: how important? and seeks what alternatives were available. The economic historian is constantly calling in question bald statements of narrative history; the "obvious" is not accepted unless logically consistent with other behaviour e.g. the 'brutality' of the captains of slave ships is in conflict with their known commercial interests.

In Africa we encounter statements about precolonial economies, colonial exploitation and a variety of anthropological or sociological 'non-economic' behavioural characteristics. If these statements are to stand we should be able to test them.

The evidence if it is quantitative is often biased (Abolitionist accounts of slave ships naturally reported those most likely to shock the contemporary conscience). On other occasions the surviving data is not truly random and so suspect as a basis for over - generalisation. (The clay tablets that were baked in Knossos or the merchant of Prato's receipts and trade papers are extraordinary survivals which, while providing fascinating peepholes in history, are not necessarily typical). There is a further, not uncommon problem, of rough judgements being used to give a spurious accuracy to an allegation. ("The coast price was double that at inland markets", "The king had ten thousand warriors".)

Having said that the historical record is patchy in what it provides we can go even further in criticism by considering even the relatively full data situations of certain industries or eras (slavery being the most spectacular example). Once one comes to analyse large bodies of data - the true matter of cliometrics - all the problems of estimator bias of econometrics come to the fore. What confidence can be placed in the magnitude of some estimated value; say the average price of ivory from surviving records in the 19th century was 14 shillings a ton is it possible that the real average was 28 shillings or 7? If these estimates are to be input to other estimates we are clearly in an uncomfortable world of probabilities.

Yet despite these criticisms, and others, which can be levelled against quantitative economic history we do gain helpful insights from being able to say "interest on bonds was around 8 percent" rather than "the interest on bonds was high". Moreover if we put ourselves in the shoes of the observer

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who 'saw' the king's 10,000 warriors we can do a lot better than comment that "the king had a large body of soldiers", according to the observer's probable experience we might be able to say "the king had over 500 soldiers" or "the king's foot soldiers were probably as numerous as those of France" etc.

A further defence of estimating despite the shortcomings of the data is that simple averages are the best estimates in normally distributed populations of events. This hinges on the so called law of large numbers which states that the mean value of a sample from a population will tend towards the true population mean as the number of observations increase. This gives rise to an important historical consequence: We have to be sure that our observations are from the same population before we can call on the law of large numbers to justify averaging. If events are unique then it is particularly important that we can show in theory and practice why seemingly similar data should not be pooled, for example two price observations may be recorded for communities with different preference or wealth.

CONCLUSION

This discussion of the methodology of economic history has set out to justify the presentation of rigorous economic models to test historical hypotheses. It has argued for the legitimacy of attempting both directional and magnitudinal estimates of significant economic variables despite data shortcomings. It has, finally given a systematic set of questions which need answering if the economic historian is to give true economic insights rather than impose his frame on the pattern of events no matter what contradictions he suppresses in the process.