SOAS
Department of Economics.
Working Paper Series No: 93
'New and Improved: Economics' Contribution to Business History.'
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New and Improved: Economics' Contribution to Business History[1]

1 Introduction

The relationship between economics and history has always been uneasy not least since the marginalist revolution of the 1870s laid down the foundations for contemporary mainstream economics. The tension between the two disciplines is not difficult to understand. Quite apart from differences in style and research methods which divide all disciplines, the dull concern of the dismal science with patterns of supply and demand seem too far removed from historical themes and how societies evolve and change over extended periods. Nor do standard assumptions within economics endear it to historians, with resources, technology and preferences taken as exogenous. An uncomfortable accommodation between the disciplines had been reached with the emergence of the new economic history. The success of cliometrics has been significant but limited by its failure to remove beyond what are generally perceived to be severe limitations of neoclassical economics, especially in studying historical themes. Over the past two decades, however, economic theory has itself begun to address some of these deficiencies, albeit on its own terms. By stressing market imperfections, especially those derived from informational imperfections by way of theoretical novelty, mainstream economics has purported not only to eschew dependence on models of perfect competition, but also to be able to broach non-market and non-economic factors such as institutions and collective and customary behaviour. Not surprisingly, this has led to a renewed assault upon history by economics and its representatives within economic history.

This paper is concerned to assess these recent developments. Section 2 presents a representative account from some of the relevant literature drawn from business history. Section 3 provides a critique by emphasising the consequences of the reductionism involved, its arising both from the methodological individualism of neoclassical economics and its use of market imperfections as the prism through which to assess economic and social change. Section 4 locates the incursions of economics into economic history in the wider context of its more general encroachment upon other social sciences. The concluding remarks welcome the incorporation of an economic content into other disciplines but cautions against unwitting, let alone uncritical, acceptance of a colonising economics.

2 Product Report

In a sequence of edited conference volumes, organised from the National Bureau of Economic Research, a renewed attempt has been made to bring economists and business historians together despite the confessed failures that have accompanied the enterprise in the past through the earlier incursions of the new economic history or cliometrics , Temin (ed) (1991), Lamoreaux and Raff (eds) (1995), and Lamoreaux et al (eds) (1999).[2] The later endeavour has the virtue of making explicit the following features.

First, it rejects the previous basis on which economics has sought to collaborate with business history, and economic history, more generally. What is termed "traditional" neoclassical economics, and continuing interpretations of it, are perceived to have relied unduly upon unacceptable and simplistic assumptions associated with the model of perfect competition. Thus, for Lamoreaux et al (1997, p. 62):

> Traditional neoclassical theory assumed that economic actors were rational beings who made optimizing decisions on the basis of perfect information and foreknowledge. This highly stylized view of human behavior was a useful simplification that enabled economists to deal with certain kinds of otherwise intractable problems, especially concerning markets, in an effective way.

As a result, despite the presumed ability to deal with markets effectively, the firm is reduced to a "black box - as an equation-solving entity that determined prices and output by setting marginal revenue equal to marginal cost", p. 62. By contrast, whilst the theory has some purchase over the behaviour of differentiated consumers, it is not able to address the complex and varied ways in which firms exist and function as organisations, Lamoreaux et al (1999, p. 6):

> Firms as such figured in the analysis only in such detail as was necessary to make the models of markets work. This treatment was no different from that which the theory accorded to other economic actors, but because firms typically are complex organizations composed of people who often have conflicting interests and goals, the effect was particularly unworldly. Neoclassical theory endowed firms with perfect knowledge … and with the ability to act both instantaneously and effectively. Whereas consumers were portrayed as maximizing utility, a concept that at least paid lip service to the idea that human beings may have different preferences, firms were depicted as maximizing the more objective concept of profit.

In short, whilst the traditional can handle consumers and markets, it is ill-equipped to deal with firms and organisations. For Temin (1991, p. 7), "traditional economic theory … is of only limited use to business historians", not least because of its inability to deal with firms, wants, strategies and organisation.[3]

Second, the new economics adopted to resolve these conundrums continues to be drawn from the neoclassical tradition, relying upon theoretical developments within the discipline over the past two decades in which emphasis is placed upon market imperfections in the form of informational imperfections and asymmetries. As a result, attention can be given to the different effects of such market imperfections as well as the non-market forms of responding to them, not least in opening up the black box of intra-firm organisation and behaviour. As Temin (1991, p. 2) puts it in the opening introduction to the first volume, in highlighting their novelty:

> The first theme is analytic … information is the key element to the functioning of an enterprise.

By the third volume, the introduction is making even grander claims, Lamoreaux et al (1999, p. 14/5):

> More than any other factor, the ability to collect and use information effectively determines whether firms, industry, groups, and even nations will succeed or fail.

Information, then, is the decisive variable in analysing economic performance.

Third, closely related to the elevation of information to such prominence, is the notion that apparently diverse applications have a common analytical core. For Lamoreaux et al (1999, p. 15), commenting on diverse case studies:

> All of the authors take the imperfect state of information as their starting point, and all aim to illuminate the ways in which this condition effects the playing out of economic life. This common preoccupation then leads to a deeper source of coherence - the structural unity behind all these various topics. The information problems that firms face in their internal operations are not so different from those faced by firms and other economic actors when they interact with one another. Further, the solutions adopted in response to these information problems typically have many features in common, even though they often result in the creation of capabilities that are specific to the organization.

Thus, different issues can be handled analytically in the same way and still provide, to be taken up again below, for organisational and historical specificity.

Fourth, as already implicit, the subject matter of the volumes has evolved through an expanding universe. Beginning modestly with intra-firm issues, in which the outside environment is taken as given, it has moved to inter-firm relations and, ultimately towards the economy as a whole. It is simply a matter of shifting out the boundaries of the scope of analysis to deal with common intra- and inter-organisational informational problems, Lamoreaux et al (1999, p. 10):[4]

> Although … previous volumes dealt with learning processes, the present volume moves this theme to center stage by asking explicitly how firms, industries, and even nations can learn to overcome uncertainty … The essays in this volume thus mark a transition from focussing on problems that are common to a whole class of firms or industries to explaining why firms, groups, and nations can differ in important and persistent ways.

In addition to dealing with learning and uncertainty within and between such organisations, the theory is able to address their own divisions as in where one firm ends and another begins. Temin (1991, p. 3) observes:

> The vertical relations within business enterprises have many important common characteristics … the problems and the solutions are similar at the level of employee compensation, the direction of business units, and the finance of enterprises as a whole. In fact, the solutions to these information problems are important determinants of where the boundaries of business enterprises lie.

The universal applicability of the information-theoretic approach renders it extensive in scope.

Fifth, aware of its reliance upon formal mathematical models with claims of universal applicability, the new approach is sensitive to the charge from historians of neglect of what it terms "time and context". However, the new theory presents itself as free from or, less vulnerable, to such charges because it deploys game theory in which history matters and for which outcomes and future strategies depend upon paths taken from or around multiple equilibria in the past. In short, Lamoreaux and Raff (1995, p. 5):

> The historian critics should take heart from the way the economists' literature developed … The first game theorists had sought unique equilibrium solutions to their problems. These would inevitably be independent of history. But, as research advanced, it became clear that the games frequently possessed multiple equilibria. Because only one outcome could actually happen, theorists needed to think about selection principles. Players' expectations came to be recognized as quite important, as did the history of relations between the players. Time and context mattered after all.

So, despite formal models, history figures in the form of "time and context".

Sixth, such potential variability in outcomes carries a potential cost because the wide range of different models, and the multiple equilibria potentially attached to each, suggest difficulties in coming to firm conclusions, Lamoreaux et al (1999, p. 9):[5]

> But the richness of this literature is also its Achilles' heel, because it gives the appearance that anything can happen in the absence of good - that is, cheap - information. Of course, this impression is false - there are many constraints operating to limit the choices that actors make. At the simplest level, the desire to pay one's bills or make a profit can limit the number of actions that seem wise; similarly, competitive forces can constrain the alternatives that are reasonable to take.

Despite the indeterminacies that are characteristic of the new economic theory, there is no reason for rejecting it as causally empty because it builds in constraints on potential outcomes.

Seventh, the uncertainties in the new economic theory delineate a distinctive role for the historian; it is to filter out unrealistic models and to uncover the historically feasible relationship between information and choice, Lamoreaux et al (1999, p. 9):

> Historians can offer economists intellectual discipline simply by focusing their efforts on what they are well-trained to do: elucidating what economic actors actually know at any given point in time, how they use their knowledge to make informed choices, and how they learn from their past decisions.

There is some awareness that this might appear to place business historians in a servile status relative to economists, Lamoreaux et al (1997, p. 77):

> We do not see business historians as research assistants for economists who engage in a higher level of thinking.

Rather, it is intended that they should internalise the new economic theory in order to discover the commonalities across what would otherwise be diverse case studies, Lamoreaux et al (1997, p. 77), continuing from above and closing this article:

> Although we hope that a byproduct of this dialogue will be better modelling by economists, our main concern is that the work of individual business historians redound to the credit of the field of business history as a whole. The real benefit of recent theoretical developments in economics is that they enable business historians to recognize the essential unity that underlies a great number of the problems with which they are concerned. As a result, studies on one topic can resonate with studies on others, strengthening them all and, in turn, the field as a whole.

Business history essentially becomes the application of an appropriately identified model to the problems of informational imperfections.

Eighth, there is no need for business historians to become fully trained in the esoteric mathematical modelling attached to the new economics, Lamoreaux et al (1999, p. 9):

> There is no requirement that historians adopt formal theoretical approaches in their work or even that they weave their narratives around abstract economic models.

Business historians need be motivated less by "formal economic theory, in a direct or self-conscious way", and more by "questions growing out of this literature", Lamoreaux and Raff (1995, p. 5). The technical high ground attached to mainstream economics can be incorporated by business historians by embracing the results of their new theory into their thinking and research.

Finally, the new approach adopts a particular stance towards the evolution of the relations and tensions between business history and economics.[6] It is tempting to understand this in parallel with, or as a parody of, the new approach itself. As Temin (1995, p. 316) puts it:

> Research, expressed in the formal, mathematical terms beloved of economic theorists, is not very accessible to business historians. This clash of cultures gives rise to a problem of information flows in our disciplines that mirrors the problems we analyze.

Drawing primarily on the experience of the United States, initial divisions within business history at the turn of the century are perceived to focus on theory versus description, with the latter seeking generalisation out of accumulation of case studies rather than investigation of "the discipline of the market that … could provide insight into larger economic processes", Lamoreaux et al (1999, p. 3). Such divisions became institutionalised with the theoretically inclined resorting, at times informally, to Parsonian sociology. Economic theory ultimately was introduced giving rise to cliometrics but with a greater emphasis upon markets than entrepreneurship. Its influence grew "to dominate the Economic History Association" leading to the formation of the Business History Conference, "to provide historians fleeing the cliometric revolution with a new organizational base", Lamoreaux et al (1999, p. 5).

Such institutional and intellectual fragmentation of economic history is in part explained by the weaknesses of the "traditional" neoclassical economics, most notably its excessive reliance upon perfect markets and its inability to explain long-run development.[7] Even its initial proponents became disillusioned whilst the intellectual chasm between cliometrics and business history widened further.[8] Lamoreaux (1998, p. 69) cites the shifting position of Douglass North. He makes clear that his initial belief in the ability of property relations to shift in response to resource costs had foundered on the problem of "ideology". Economic rationality is insufficient to explain how it is formed, and hence the institutions on which property rights and their application depend, North (1981, p. 11/2):[9]

> The dilemma of explaining change can be put succinctly. Neoclassical economic theory can explain how people acting in their own self-interest behave; it can explain why people do not

> bother to vote; it can explain why, as a result of the free rider problem, people will not participate in group actions where the individual gains are negligible. It cannot, however, explain effectively the reverse side of the coin … How do we account for altruistic behavior … Neoclassical theory is equally deficient in explaining stability. Why do people obey the rules of society when they could evade them to their benefit? … Something more than an individualistic calculus of cost/benefit is needed in order to account for change and stability … Individuals may also obey customs, rules, and laws because of an equally deep-seated conviction that they are legitimate. Change and stability in history require a theory of ideology to account for these deviations from the individualistic rational calculus of neoclassical theory.

Now, however, as outlined above, the new neoclassical economics has broken with the imperfections of the old, and the logical possibility, and desirability, of reuniting economics and business history within economic history are considered to have been established. Presumably, if only such theory had been available at an earlier stage, the path-dependent divorce between the different intellectual worlds would not now have be so formidable.

3 <u>Testing the Product</u>

The preceding account has presented the new approach to business history on its own terms. To do so fairly and without misrepresentation, it has drawn heavily upon extensive quotation, as does the critical assessment that follows, in order to avoid the danger of addressing a constructed straw product. Initially, consider the new approach in the broader intellectual context attached to the recent developments within economics upon which it is exclusively based. As argued elsewhere,[10] economics is currently seeking to colonise the other social sciences much more aggressively than previously. The basis for doing so has been considerably strengthened by the new information-theoretic economics[11] which has inspired the new approach to business history. As the latter recognises, theoretical developments within microeconomics around market imperfections in general and informational imperfections and asymmetries in particular have meant a break with models of perfect competition, even if by way of deviation. They have also allowed for non-market forms of organisation to be addressed. But none of this is new to "traditional" neoclassical economics since both market imperfections and the impact of transactions cost, say, on the organisation of firms or other institutions have long been recognised.

What is more fundamentally innovative within the new microeconomics is its ability to examine social structure, institutions and customs, albeit on the continuing basis of the peculiar form taken by methodological individualism in which utility maximisation is the ultimate rationale for both economic (and market) and non-economic (and non-market) behaviour. Employers, for example, have an incentive to structure labour markets on the basis of their more or less perfect knowledge of the distribution of skills but their imperfect knowledge of their incidence as individual attributes - so that workers of different capacities are treated as if the same and, potentially, vice-versa.[12] More generally, such considerations are not specific to labour markets; in principle, they apply to each market where there are informational imperfections and asymmetries. Depending on what form these take, a variety of outcomes are possible. Markets may clear (supply equals demand) but be inefficient, they may not clear at all (supply and demand unequal even in equilibrium), or there may be missing markets (failure of supply and demand altogether). In addition, non-market forms of interaction and apparent abandonment of (direct) pursuit of self interest can be an appropriate response to informational imperfections.

In short, despite continuing reliance upon optimising individuals, the new neoclassical economics is marked by two points of departure from the old. As observed, it purports to incorporate the social, whether as institution or custom for example, as something that can be explained rather than, as previously, needing to take it as given - usually as a constraint on optimisation as in technology, preferences or endowments. By the same token, the boundary between what is exogenous and what is endogenous is shifted in favour of the latter, within both market and non-market spheres. Not surprisingly, such analytical advances have opened up the other social sciences to economics as never before. This is indicated by a whole range of "new" areas - the new institutional economics, the new political economy, the new growth theory, the new trade theory, the new household economics, the new financial economics, the new development economics, the new labour economics, and so on. These often, like cliometrics, have their origins in the traditional neoclassical economics, and the simple extension of economic rationality to non-economic applications, but they have all been reinforced and propelled outward by the analytical achievements of the new information-theoretic microfoundations.

In this light, it is worth examining the new approach to business history in the broader intellectual climate outlined above, as part of the more general process of colonisation of other social sciences by economics in the wake of its internal analytical advances. For it is part of something more than a settling of accounts between economists and historians even if, in taking its place on the wider canvas, it does exhibit its own characteristics. Consider a number of general features of the colonisation and their relevance to the new approach.

First and foremost, an inescapable aspect of the new microfoundations, shared in common with the traditional neoclassical economics, is its reductionism. This has a number of critical components which are distinct but interrelated. At the analytical level, the social is reduced to the aggregated behaviour of optimising individuals and does not exist independently of such atomised behaviour. Paradoxically, the new economics prides itself on such methodological individualism and congratulates itself for extending the scope of analysis by incorporating informational imperfections as an explanatory tool and the non-economic and social as an explanatory outcome. This involves a tension insofar as influence on social theory is concerned. For, whilst the social is addressed where previously it was taken as given, an attraction, the basis on which it is done is ultimately individualistic and denies the independent existence of the social, a drawback for other approaches within social science that rejects rational choice theory. It means an absence of independently given social relations, structures and tendencies, as well as their analytical accompaniments such as consideration of power and conflict. Significantly, it is extremely rare for the new approach to business history to advertise its dependence upon methodological individualism, the unshifting ingredient in its (continuing) reliance upon a shifting neoclassical economics. It is far more concerned to emphasise outcomes in terms of explaining social organisation within and between firms. Yet, the reductionism of the approach is made clear at times, Lamoreaux et al (1999, p. 9/10):[13]

> For business historians to provide theorists with this kind of intellectual discipline, they have to communicate their findings in a way that economists can appreciate … All that is necessary is that they share with economists a few fundamental assumptions about how human beings behave. Too often, historians have reacted to the limitations of the neoclassical approach by attacking the notion of economic rationality itself - by challenging the idea that at its heart economic behavior is fundamentally a matter of weighing the expected outcomes of altemative decisions in a systematic fashion. But this is throwing out the baby with the bath water. One does not have to assume that economic actors are all-knowing to believe that they make the most advantageous choices they can on the basis of the limited information they possess. Thanks to recent developments, economists are now employing a more commonsensical notion of rationality - one that business historians should be able to embrace without doing violence to any of their deeply held beliefs about the importance of context, ideas, or culture. As a result, historians can offer economists intellectual discipline simply by focusing their efforts on what they are well-trained to do: elucidating what economic actors know at any given point in time, how they use their knowledge to make informed choices, and how they learn from their past decisions.

At risk of pedestrian pursuit of metaphor, it is the social in the form of the bath itself that has been discarded even if retaining and refining its prior contents - optimising babies, only awash in a douche of imperfect information.

Further, just as the new economics is ahistorical in building up timelessly from the idea of optimising individuals, so it is asocial in two other respects. On the one hand, as is apparent from the assertion of the last two sentences of the last quotation, the notions of context, idea and culture are simply being reduced to the distribution and use of "information", which is itself understood unproblematically.[14] This is to set aside entirely the lessons to be learnt from the postmodernist, and preceding, understandings of knowledge as socially constructed. Despite hints to the contrary, constructing the economy and society on the basis of informational imperfections and asymmetries is the denial not the reflection of, or parallel to, the postmodernist turn in history and social science more generally. Information is not given and either known or unknown, it is the consequence of its contextually contested, chaotic, contradictory and constructed interpretation and use. Discarding perfect competition and information or, more exactly, seeing them as a special case, does not match incorporating the cultural which is notably perceived to be attached to the linguistic as opposed to social and economic theory. For Lamoreaux (1998, p. 75/6):[15]

> In recent years this gulf ["between economic history and history proper"] has grown even wider as a result of shift in intellectual fashions in favour of cultural, as opposed to social and economic, history … This shift has effectively redefined historical studies …. to turn to literary theory rather than the social sciences for inspiration and guidance. Ironically, the discipline of economics has also been transformed by a series of theoretical developments that parallels in intriguing ways the emergence of critical theory in the humanities. Abandoning the convenient but unrealistic assumptions of traditional neoclassical theory - in particular the assumption that all economic actors make decisions on the basis of perfect information is scarce, imperfect, and costly, where people build institutions in order to cope with problems of imperfect information, where human beings' "bounded rationality" affects their economic decision making, and where economic processes can have multiple outcomes depending on participants' perceptions of each other's actions.

It is significant how a dichotomy is being drawn between proper economic history and its cultural or literary turn, as if there were nothing in between and no alternatives either to the extremes of neoclassical economics or to postmodernism.[16] Consequently, (business) culture is reduced to informational imperfections and how they are handled. As Lipartito (1995, p. 34) neatly puts it in his assessment of the role of culture (or lack of it) in business history:

> Some economic models today treat firms as temporal, intentional actors, acknowledging that they acquire new knowledge and correct past mistakes. But all this learning is rather more like that of the smart machine than the human mind.

Nor is this corrected by disaggregating the firm, firms or the nation into smart machines and nor is this learning attached to social and economic relations, structures and conflicts other than as a collection of individual interpersonal connections.

The new approach, like its economic theory, is also asocial by being ahistorical.[17] As this charge is liable to be denied in view of the inclusion of "time and context", it needs to be carefully laid out and justified. Fundamentally, the theory depends upon universal categories that have no social or historical specificity - utility, production, technology, factor inputs, etc. This is reinforced by adding notions such as organisation and information. Ultimately, terms like capital and the firm, and the analytical results attached to them, whilst rooted in capitalist society, are derived transhistorically from such universal categories. Further, the models remain deterministic if not determined. One feature is that there are numbers of models from which to choose, with multiple equilibria attached to them. Consequently, history in the form of time and context only arises in order to make model choice and determine initial conditions or to allow for path-dependence. Significantly, all such terms originate with the physical sciences and not with social theory or the humanities.

Two further features illustrate the reductionism of the new approach. One is its own path-dependence. As observed above, it has moved from intra- to inter-firm to national concerns, raising the same informational concerns to a higher or, more exactly, broader stage. It is not difficult to see why. For the theory needs to take as given the conditions within which optimising individuals determine their imperfectly informed decisions. Consequently, it is a simple matter to endogenise such exogenously given constraints by extending the new approach to them. It is an extension that not only creeps from firm to nation (and globe?) but also from economic to non-economic and through history. Where do you stop without relying on unexplained exogeneity? Ultimately, something must be taken as given, and it will tend to be the naturalised categories of capital, prices, wages, etc as well as the individuals as "smart machines" that deploy them. Or will it be the inherited customs and institutions, "the time and context", from which history proceeds anew?[18]

These conundrums surrounding the definition of boundaries between exogenous and endogenous, however, can only be satisfactorily lifted by adopting an alternative methodology, not least one which takes a starting point at the opposite extreme to methodological individualism and its associated reductionism in which socially and historically specific are critically unravelled. In short, reflecting the final and most overt reductionism, is capitalism let alone the whole of human history nothing more than the response to informational imperfections? To his credit, Douglass North's recognition of these issues leads him to diverge from neoclassical theory in an attempt to examine how the institutional and the customary evolve historically. The result is an eclecticism and arbitrariness that, nonetheless, continues to be marked by its starting point in the neoclassical understanding of the workings of perfect markets.[19]

But the point, and others, can also be illustrated by considering one of the favoured applications of the new approach, that of finance. It is associated with a new financial economics which seeks to address the differences between financial systems in terms set by the information-theoretic microfoundations.[20] Essentially, borrowers (firms, say) have more information about themselves than lenders (banks). Such informational asymmetry leads both to market imperfections - interest rates too high, borrowers who cannot get loans at the going rate of interest, and missing financial markets - and potentially induces non-market responses in the form of bank representation on companies. In addition, banking practices or customs may rationally come to differ, with long-term commitment on both sides so that banks gain the advantage of loyal customers who do not desert when tempted by an interest rate cut; and firms accrue financial support over critical times for restructuring.

Of course, the foregoing is an idealised description of the so-called main bank system, supposedly characteristic of Japan and Germany, as opposed to the market-based system associated with the UK and the US where firms have to sink and swim over the long term and primarily depend upon short-term, stock market or self-finance which leads them inefficiently vulnerable to closure over the business cycle. In practice, such idealised features of the two sharply delineated financial systems are not borne out empirically. But a rather different point needs to be emphasised. This is that the differences between financial systems, a feature that has long been recognised prior to the emergence of the new microfoundations as in debate over the role of the City, is subject to reduction to the intrinsic contracting problems of imperfectly informed borrowers and lenders for which, greater monitoring through bank representation on corporate boards is a solution. By contrast, and rightly, earlier literature has focused on the extrinsic properties, or external economic and political environment, in which such contracting takes place, especially the role of the state, for example, in industrial and monetary policy, and the role of (fractions of) classes in exercising influence over the state. Otherwise the success of the Japanese financial system in generating and applying finance for investment is reduced to the empirically questionable notion that bankers are primarily concerned to be au fait with the strategies of their customers rather than their short-term solvency.

So much for reductionism. In a nutshell, and reduced itself to its core, it derives from methodological individualism combined with an understanding of both the economic (market) and non-economic (non-market) worlds as the consequence of consistent interpersonal interactions in response to market (informational) imperfection. Formally, the economic models involved are universal in application so that time and context (history and society) do not enter ab initio. This provides for a blank sheet on which they can be filled out by empirical study, whose inclusion is motivated by the notion of path-dependence (as the way of choosing between model equilibria).

4 The Broader Environment

The reductionism to methodological individualism and market imperfections, and reliance upon increasingly formal mathematical models, has often imparted a particular form of influence of the new economics on the other social sciences. For, as already observed, the models involved excise social and historical content in anything other than name. Consequently, they can be reintroduced not only in the form of the empirical resolution of path-dependence but also on the basis of the continuing traditions and concerns of the colonised disciplines and topics. Further, such incursions tend to be informal, adopting the language rather than the models of economics, as in reference to human capital in any number of applications and rent-seeking and collective action when discussing institutions. Of course, it is also possible for formal economic models to be directly applied theoretically and empirically to other disciplines or non-economic topics without such informalities.

In the latter case, economics merely draws upon other disciplines for definition of an issue and on which to exercise its models. If so, as will be seen, the colonisation of the other social sciences by economics is particularly open to being parasitic, arrogant, ignorant and contemptuous. In general, economic history is less susceptible to such charges because of its longstanding traditions of scholarship in which reference to other literature and sources of evidence are, in principle, fully exploited. In this light, consider each of the charges in turn.

The parasitism of colonisation arises out of the lack of social and historical content that characterises the underlying theory. Its origins within economics means that it has been applied first to market imperfections in isolation in order to explain why markets may be inefficient, fail to clear, or be absent. It is then extended to non-market forms and to any other problem in the social sciences - with the exception of anything involving the social construction of meaning for which it is powerless. But, by its nature, the theory does not construct problems, it only offers solutions to problems that already exist, together with the corresponding concepts with which they have been posed. Within economics, the problems are why is that markets might not work perfectly and why is the market not the only form of social organisation. These are well-established problems within economics with a range of answers, varying from different versions of Keynesianism to different schools of political economy which share in common a rejection of methodological individualism. Otherwise, in the other social sciences, any number of theoretical issues and concepts can be appropriated and reinterpreted within the new information-theoretic approach. Whilst it is explicit from the previous discussion that the new approach is parasitic on historians for model selection and path dependence, more fundamental is its dependence on historians for the issues that it poses and the concept it uses and transforms to address them. Of course, all analytical advances are liable to confront, draw upon, and even revolutionise traditional scholarship. As a result of its reductionism, however, the new approach can only do this in the form of reinterpretation on the basis of its own understanding of informational imperfections.[21]

In much of the general colonisation of the social scientists, such parasitism is also associated with arrogance in two respects. For, having exploited the other social sciences for their problems and concepts, the results of such previous scholarship are reproduced as if innovative by virtue of having been based upon informational imperfections. At times, this borders on the farcical with naïve economists claiming to have shown, for example, that institutions matter and that labour markets differ from other markets as if this were not already well-known from a variety of other perspectives. Sabel (1991, p. 248/9) makes the point in a different way:

> One of the great opportunities, as I see it, of the new economic information broadly understood is precisely to understand the way the views and strategies of the economic actors as structured by the economy's manifold connection to political and social life shape economic outcomes - and, I cannot help adding, *vice-versa*. Stopping short of that will mean merely reproducing old results and statements in new language.

However, Sabel's reservation concerning what will be the simultaneity between the economic and non-economic is not a problem for the new approach, although it might appear to be so simply by virtue of the fact that its analytical evolution reflects a path dependence with the economic (and perfect competition) as its starting point. In addition, though, as the second form of arrogance, it is precisely the failure of previous analyses to have proceeded from informational imperfections which leads them to be perceived as both deficient and lacking theoretical rigour which, in the hands of economic theorists, always means mathematical modelling irrespective of conceptual coherence and validity.

How does the new approach to business history relate to such arrogance? It is far more subtle than is often found in other examples of colonisation and, for that reason, may be an undeserving label. But economic historians, like heterodox economists, must be as familiar with the notions of "rigour" and "science" and their ready and facile application to anything other than mathematical modelling and statistical methods. Nonetheless, although not going so far, there is a strong sense of analytical superiority amongst the new business historians. For Lamoreaux (1998, p. 75), for example, it is effectively claimed that economics is difficult but history is easy, with historians unable or unwilling to keep up with advances in scholarship:[22]

> Not only have the two groups of academics deprived themselves of the benefits of cross-fertilization of ideas, but because practitioners on either side of the divide have failed to keep abreast of developments on the other, they have not upheld the profession's minimal standards of scholarly competence. Because keeping up with the economic history literature required more effort for historians than the reverse did for cliometricians, the negative consequences have been particularly apparent on the historical side … [who] continue to evince an often painful naiveté about economic concepts, equating, for example, market behavior with the narrow pursuit of profits and suggesting that the mere existence of markets can somehow force a supply response from unwilling participants.

On the other hand, the new approach boasts scholars of a different calibre, p. 76:

> All these economic historians are well read in the historical literature, and many of them have done extensive archival research. Their studies are of high quality and should be of great interest to historians working in related areas. Whether, however, it is possible to communicate this relevance over the wall that currently divides economic history from the rest of the profession is a matter of serious concern.

In short, apart from exhibiting a prejudice in favour of the intellectual abilities of those attached to the new approach, it would appear that its best scholars are being unfairly set against the worst of those who will not accept their approach. In addition, there is no recognition on the part that the new approach, as revealed in the discussion of culture and information, that its notion of information is cultureless despite a vast historical and other literature to the contrary. This does not reflect ignorance, to be taken up next, since the literary and cultural turns of history are acknowledged. But this is as far as knowledge of that literature is taken.

More generally, in terms of ignorance, the colonisation of social sciences by economics has been marked by total disregard for the scholarship of the appropriated disciplines and that attached to the object of analysis other than for the parasitical purposes outlined previously. It is simply a matter of investigating sources of, and applications for, informational imperfections. At best, earlier contributions are filtered for this purpose. Once again, not least given the claim of the last quotation above, the new approach to business history is more tempered, predominantly because there is greater dependence upon existing scholarship for historical material both for such analytical purposes and especially for "time and context". However, as is apparent for the reductionism to methodological individualism and information, whether through ignorance or filter, the scope of economic and social theory that is recognised by the new approach is extraordinarily narrow.[23]

This is especially so for the potted history given of the relationship between economic history and business history. Effectively, the only social theory recognised is Parsonian sociology, and neoclassical economics is the only representative of economic theory. All other relevant history is reduced to atheoretical and anti-theoretical descriptive investigation! Not surprisingly, the narrative of the evolution of these histories is one of the eventual movement of the vanguard away from flawed traditional economics to an unquestioned new approach from which the uninformed or incapable are either personally or institutionally discouraged from embracing. The idea that the past rejection of the new economic history, as well as its new version, might be on the basis of alternative methods and theory is simply not acknowledged.[24] Rather, conveniently, the rejection of the earlier assault from economics is seen as justified on grounds of its attachment to perfect competition even if it was often rejected for what is seen to be the wrong reasons of being anti-theory in principle. This allows for the new economics to be projected uncritically as delivering the traditional from its deficiencies, for continuing resistance to be explained but interpreted as unjustified, and for alternative criticisms of the economic theory and its interaction with social theory to be overlooked together with its associated alternatives. Perhaps such rough justice to historiography is unsurprising since the what constitutes the economic has merely been moved marginally from traditional neoclassical economics to incorporate informational imperfections and asymmetries, with a corresponding understanding of the non-economic. Effectively, from a position of having excluded the social, or treating it as economic by other means, the social has been brought back in on the narrowest of bases, with the result that the vast majority of economic and social history and theory remains excluded from consideration as such.

In colonising the other social sciences, economics reveals its contempt for them by the sum of the previously outlined features, with the sum greater than the individual parts. For anything that does not conform to its approach, which ultimately implies dependence upon mathematical models based on optimising individuals, is dismissed as lacking rigorous theory. Within economics itself, such contempt has been heavily associated with the extraordinary process of eliminating heterodox alternatives to the mainstream both in terms of methodology and technique. Mathematical models, methodological individualism and econometrics rule the profession to an unprecedented degree in what has been termed the internationalisation or Americanisation of the discipline by neoclassical economics.[25] Inevitably, in the US academic heartland, the colonisation of economic history will rely more or less exclusively on mainstream economics as much in the past as in the new future. It is worth recalling the earlier warning sounded half-jokingly by Heaton (1965) on the occasion of the twenty-fifth anniversary of the Economic History Association:

> In fact, American research on European topics was so all pervading that some nasty-minded person may one day describe it as Yankee academic imperialism.

Despite the different traditions within the UK both in terms of economics and economic and social history, Lamoreaux (1998, p. 71) is still able to report a 50% cliometric content for the Economic History Review for 1994.

So far, the role of the new approach as an example of colonisation by economics has primarily been assessed from the perspective of economics itself. How has it sought to occupy the analytical terrain previously occupied by other social sciences in general and economic and business history in general? It is also important to examine the way in which such incursions are received by host disciplines. Two general features have been identified. First, and most readily recognisable for the new approach to business and economics history is the incorporation of the new microfoundations in informal terms. This, as reported above, is explicitly encouraged by the new approach. The rationale is in order to save historians of the old type from having to command the technical details of the new microfoundations. However, there is a more sinister consequence of such informal transposition of the new economic theory in informal rather than formal terms. It has the effect of allowing for incorporation whilst concealing or even tempering, usually inconsistently, the formal assumptions on which it is based. It is easier, for example, to accept informal notions of differences in informational imperfections and time and context leading to differences in social organisation than it is to swallow the reductionism and methodological individualism associated with the new microfoundations.

Second, the way in which a colonising economics has been received by other disciplines and topics has been highly varied, depending heavily on the internal momentum of the host discipline. This is borne out by the new approach with, interestingly, marked differences between countries. For the United States, because economic history has traditionally been located within economic departments, it has more readily been appropriated by economics and led to the formation of a separate sub-discipline of cliometrics which has, in turn, had influence elsewhere. Compared to other disciplines this is unusual for there are two broad, not mutually exclusive, but typical responses to an invasive economics. One is to incorporate it in some form, the other is to proceed more or less uninfluenced either at the core or the margin or somewhere in-between. However, this rarely leads to the creation of a separate discipline in its own right. Thus, anthropology and anything involving culture have been relatively untouched by a colonising economics. On the other hand, development economics has been profoundly affected. Even one of the most successful forms that colonisation has taken, the acceptance of human capital as a concept across the social sciences, has not led to a separate discipline equivalent to cliometrics. The partition of business history is a specific response of the broader discipline to the forward roll of economics.

Concluding Remarks

The previous section has critically assessed the new approach by understanding it as part of a more general colonisation of the social sciences by economics. Because history is a discipline which has the potential to incorporate analytical elements from each of the social sciences, it is also possible to draw upon existing critiques of the colonisation that have already arisen in other contexts as well as the more general critique of mainstream neoclassical economics. In this context, the most pertinent example is the new development economics not least because earlier debate around the relationship between economics and economic history dwelled on the issue of its relevance to development.[26] In addition, in a striking parallel to the new approach to business history, the World Bank has recently undergone an intellectual revolution. Led by Joe Stiglitz, a leading theorist of the information-theoretic economics, it has rejected the neo-liberal Washington consensus, based on the notion that the market works best if left as far as possible to its own devices. In its place, the post-Washington consensus has been proposed in which the problems of development are primarily conceived in terms of market imperfections, especially those based on informational imperfections.[27]

The post-Washington consensus has already been received with considerable suspicion, not least because it has been used to justify the extension of state intervention on terms set by the World Bank whilst predominantly remaining market-friendly, Hildyard (1998). Analytically, the post-

Washington consensus is essentially a watered-down reconstruction of the Keynesian/welfarism/modernisation approach to development that characterised the period of the post-war boom that preceded the Washington consensus, Fine (1998c) and Standing (1999).[28] It is, however, based on microeconomic principles and, not surprisingly, is otherwise unable to accommodate traditional concerns within development economics and studies, those addressing economic and social relations, structures, and processes as well as the formation of classes and their economic and political conflicts. In other words, the post-Washington consensus is the new approach to business history writ large - the same analytical content but broader ambitions in scope of subject matter and implications for policy. By the same token, it seeks to incorporate and reduce all other development theory with which it comes into contact.[29]

Alternatives depend upon not falling into the clichéd patterns of analysis which are portrayed by the new approach as filling out what they do not or cannot cover themselves. It is necessary to embrace theory and to make it explicit, not least to draw upon a political economy which is appropriate to the issues being addressed, with a social and historical content sensitive to the specific period and object under study. The challenge is particularly urgent for, just as economics is seeking to colonise the other social sciences, so the extreme form of influence of postmodernism is on the wane. The chances are that the role of economics across the social sciences is set to increase as they incorporate a more substantial concession to material realism. What content and form such economics is to take is yet to be determined. But the outcome will depend upon the extent to which and the way in which a colonising economics is either accepted, incorporated or resisted, in business history as more generally.[30] It would be surprising if economic and social history were to be totally colonised by a newer economic history, given the institutionalised separation that has resulted from past assaults. But, both for the sake of history and economics, it would also be unfortunate if the response were to be one of flight to the "ghetto" through neglect of the economic and economic theory.

Footnotes

* This article was written whilst in receipt of a Research Fellowship from the UK Economic and Social Research Council (ESRC) under award number R000271046 to study The New Revolution in Economics and Its Impact upon Social Sciences. It was completed whilst visiting the Department of Economics, University of Melbourne.

[1] Thanks to Steve Tolliday for critical commentary on an earlier draft, not all of which have been accommodated in this revised version.
[2] See also Lamoreaux et al (1997) and Lamoreaux (1998).
[3] This assessment of the old, then the new, was anticipated by Redlich (1965, p. 482) on the twenty-fifth anniversary of the Economic History Association:

> Traditional economic history deals primarily with the development of economic institutions and secondarily with processes taking place therein. The new approaches tend to deal primarily with and directly with economic processes while more or less neglecting economic institutions.

[4] See Temin (1995, p. 315) for extension of "concern with information to include the coordination of activity both within and between firms".
[5] See Hounshell (1991, p. 39) and also Sutton (1995, p. 98) for whom:

> A decade of work on game-theoretic models in industrial organization has made it plain that, in representing any market of interests, there will usually be many a priori reasonable models, whose design differs in respect of features we cannot observe, identify, or proxy empirically. Now if *all* outcomes are possible, we are in the historian's realm of accident and personality; and the business historian need pay little heed to what the economist has to say. But this is not, in fact, the case. Many outcomes are possible, but by no means all. It turns out that there are certain competitive mechanisms whose operation across *all* reasonable candidate models constrains the set of possible outcomes. These "robust" mechanisms include, notably, the process of price competition and the process of competitive escalation of competitive efforts - whose operation serves to delimit the set of outcomes that can emerge.

Sutton refers to his own work, Sutton (1991), on how (endogenous) fixed costs and increasing returns to scale interact with market size to determine industrial structure. For a critique, see Fine (1999d)

[6] See especially Lamoreaux et al (1997 and 1999) and Lamoreaux (1998).

[7] It is also suggested that access to generous university funding allowed for fragmentation rather than debate and resolution in response to intellectual differences.

[8] Lamoreaux (1998, p. 69) cites the shifting position of Douglass North. See also Lamoreaux's (1998, p. 77) closing remarks:

> Despite recent efforts, therefore, the organizations that cliometricians built so assiduously to promote their work during the early sixties now increasingly demarcate an intellectual ghetto. So, of course, do the many associations that the various other historical subdisciplines - from labour history to African-American and women's history to queer studies - have constructed over the past quarter century. Because, however, the cliometric revolution has largely run its course, it highlights in an especially clear way the double-edged character of these organizations. In particular, it highlights the intellectual costs that disciplinary fragmentation can entail.

[9] For a succinct view of his understanding of historical change, see North (1999, p. 15):

> We have initial perceptions of what reality constitutes. Those perceptions in turn lead to the construction of a set of beliefs, ideologies to explain that reality and explain the way that we should behave. That in turn leads to the creation of an institutional structure, or an institutional matrix, which then shapes our 'world'. And as our beliefs about that reality incrementally change, we enact policies that incrementally modify that institutional structure. An incremental change is always constrained by path dependence. That is, the existing institutions always constrain our choices. As we make those choices which are incrementally altering policy, we are changing reality. And in changing reality, we are changing in turn the belief system that we have. That circular flow has gone on ever since human beings began to try to shape their destiny.

Note that North differs from the new business history in two respects. First, his ambition is much greater in terms of scope of historical change explained. Second, he allows for an ideological belt around economic rationality which is not reducible to the latter. Ultimately, North (1994) inappropriately sees neoclassical economics as neglecting institutions and being unable to address time, uneven development, path dependence and learning. As a result, he emphasises the need to integrate institutional and cognitive analysis across technology, demography and institutions.

[10] See Fine (1997, 1998b, and 1999a and c). For a more popular and an alternative academic account, respectively, see Economist (1998) and Lazear (1999).

[11] The term has been used by Stiglitz, one of the leading proponents. Significantly, he has now become Head of Research and Chief Economist at the World Bank.

[12] For the new economics applied to labour markets, critical assessment, and an alternative, see Fine (1998a).

[13] Note the previously observed role being assigned to historians as providers of raw materials to economists to allow model selection and specification of initial conditions.

[14] In contrast, North (1981, p. 50/1) deploys (a naïve notion of) ideology in response to imperfect information. It is seen as (unconsciously) theory-driven, simplifies decision-making, is "inextricably interwoven with moral and ethical judgements", and is altered when inconsistent with experience.

[15] See also Lamoreaux et al (1997, p. 62) for the presumed affinities between culture and information as understood by the new approach:

> The question at the heart of this new work - how do economic actors know what (they think) they know about their world, and how does what (they think) they know affect their behavior - are remarkably similar to those that inform the work of business historians interested in adding a cultural dimension to their work.

[16] Elsewhere, Fine (1999e), in the context of consumption, I have discussed how culture and economics can be satisfactorily combined in historical studies.

[17] Note Hobsbawm (1997, p. 96) refers to cliometrics as "retrospective econometrics", "because of its a-historicity and the highly restrictive nature of its models". See also p. 112.

[18] Whilst welcoming cliometrics for clarifying hypotheses and arguments and for using counterfactuals as a "nonsense detector", Hobsbawm (1997) suggests that its circularity (given rather than explained constraints) is one of its four weaknesses, the others being ahistorical theory, exclusive preoccupation with rational choice, and undue dependence on unreliable and invented data.
[19] See Vandenberg (1999).
[20] For details of what follows, see Fine et al (1998).
[21] As a typical example, witness the suggestion of Crafts (1999) for whom:

> Gerschenkron on development from conditions of economic backwardness still deserves to be read and might usefully be revisited from the perspective of modern microeconomics.

[22] Here, though, she is in agreement with Hobsbawm (1997, p. 58):

> I have … had close contact with a discipline which does call for considerable brain-power, or at least nimbleness, namely economics at Cambridge, UK and USA, and I have never forgotten this salutary but depressing experience of trying to keep up with a much cleverer body of people", p. 58. Sees trend towards rapprochement between history and social sciences which would have been rejected by orthodox historians of the 1890s, with increasing economic and social developments, p. 63.

However, he continues from his Marshall Lectures of 1980, p. 95:

> For economics, or rather that part of it which from time to tome claims a monopoly of defining the subject, has always been a victim of history. For lengthy periods, when the world economy appears to be rolling on quite happily with or without advice … proper economics has the floor, improper is tacitly excluded, or consigned to the twilight of past and present heterodoxy, the equivalent of faith-healing or acupuncture in medicine … However, from time to time history catches economists at their brilliant gymnastics and walks off with their overcoats.

[23] Even by the standards of the current author who is economist rather than historian by training! But see Misa (1999, p. 251):

> Given the present diversity of approaches in business and economic history (a short list must include Chandlerian, institutional, evolutionary, and cultural approaches) … [the approach] needs more explicitly to justify its approach and to relate its approach to these others.

[24] It is ironic, for example, that Lamoreaux's (1998) contribution should lie cheek-by-jowl with Ross' (1998) study of social history which covers, for example, the influence of the Annales School which, presumably, must be judged by its omission to be unconcerned with economic issues.
[25] See Coats (ed) (1996). Particularly disturbing is the declining number of US students taking PhDs in economics whilst those studying there from abroad continue to increase, Coats (1996). See also Hodgson and Rothman (1999, p. F165) who report that over 70% of the editors of the "top" thirty economic journals are located in the United States, almost 40% in twelve institutions alone. Two-thirds of articles are of US authorship, the top twelve institutions accounting for over 20%. As they conclude, "the degree of institutional and geographical concentration of editors and authors may be unhealthy for innovative research". For the UK, in the light of study of the impact of the Research Assessment Exercise on the discipline of economics, see Lee and Harley (1998) who suggest that non-mainstream economics could be eliminated from British economics departments within ten years!
[26] See contributions, for example, to *American Economic Review*, vol LV, no 2, Papers and Proceedings, 1965.
[27] A striking illustration of the problematic understanding of information as constituting knowledge is provided by the World Bank's 1998 World Development Report, Knowledge for Development, which seeks to establish the World Bank as a "knowledge bank". For a critique, see Mehta (1999).
[28] For critical assessments of the post-Washington consensus across a range of analytical and policy issues, see papers from the SOAS seminar series, available from jb26@soas.ac.uk.
[29] Crafts is a leading representative, and hence conduit, in straddling economics, economic history and development economics. See Crafts (1999) for example. See also his discussion of the relevance of endogenous growth theory for economic history, Crafts (1995). See Fine (1999b) for a critical survey of the new growth theory in the context of the colonisation of other social sciences by economics.

[30] Irrespective of the validity of its judgements in practice as opposed to principle, the imperative implied by Douglas and Isherwood (1996, p. xxvi) in the new introduction to the World of Goods, can only be applauded:

> Methodological individualism is now so much under attack that the only thing wanting for its defeat is a range of alternative assumptions to take its place, and several are in the air.

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