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Economic Theory and Economic History

A Methodological Review of Their Connection in the Development of Economic History as a Discipline

by

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Abstract

Throughout the development of economic history as a discipline, the methodological controversy between histographical investigation and formal theorisation from economics proper, explicit and implicit, has been steadily accentuated since the well-known “battle of methods” (Methodenstreit) in the late 19th century. From the impact of theory to history, which marks the emergence of new economic history in the post-war period, as well as the reverse process from history to theory, this thesis discusses how they have interacted and fissured since the "Methodenstreit" and how they can benefit from one another. It is argued in this thesis that given the complexity and contextuality of historical reality, an attitude of historicism and a general theorisation of economic history might come out futile. A more eclectic and creative relationship between economic history and economic theory would be the most optimal way to investigate the historical fact constantly confronted with its problem swinging between uniqueness and universal law.

Keywords: *methodology, economic history, economic theory, cliometrics, economic thought*

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The process of writing this master's thesis has been intellectually a very challenging one. For a novice like me, it presented a formidable obstacle to starting to study the convoluted and profoundly abstract relationship between economic theory and economic history from a meta-theoretical perspective. Nonetheless, it is also an opportunity for me to have gained a much deeper understanding of the entire development of economic history as a discipline, which I almost took for granted before. It feels like attempting hard to light my own lamp surrounded by total darkness in order to see some of the hidden truth when I was writing on this topic. At least some faint sparks began to appear toward the end of the process.

I must express my gratitude to my supervisor Jonas Ljungberg for his constancy of patience with my hesitation in choosing a proper topic and for my lengthy working process on it. Several of my fellow students and also friends were very much a part of my support during the past year in Lund, especially during the last few months when we were sitting together all day and working on our thesis, which will remain in my memory forever as a whisper of joy from the old days. Finally, my parents have always stood beside me steadily throughout my years away from home. Their love has been like the sky, silently and tenderly looking towards their son as he moves across the land and sea.

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I. Introduction

The historical inquiry has played a prominent role in economics since its inception. Nevertheless, most classical economists regarded the past merely as a storehouse of instances to illustrate their theories and to test the hypotheses derived from those theories (Habakkuk, 1971). As a distinct discipline, economic history emerged first in the mid-nineteenth century as a revolt against classical economic theories that were undergoing a "marginalist revolution" at that time, led by German economists such as Schmoller, Rocher and Hildebrand.

There was a great deal of apriorism and deductivism in nineteenth-century classical economics. The validity of abstract theories and deductive constructions is determined by their logical coherence with basic postulates rather than empirical evidence. The observed reality may differ from economic principles, but this is simply a violation of the ceteris paribus clause, not a falsification of the theory, as many classical economists claimed (Fogel, 1965).

In response to this prevalent classical view, by radically promoting the role of history in economic analysis at that time, the German and British historical schools sought to challenge and even replace classical economics. Eventually, this dispute resulted in the famous "Methodenstreit" during the late 19th century, which marked the first explicit divide between economic theory and economic history. Schumpeter (1954, p. 800-824) described it as the result of a methodological conflict between the German and English historical schools and neoclassical economists, which possesses an unignorable historical significance in the methodological development of both economics proper and economic history.

The commonly recognised fruitlessness of the "Methodenstreit" set both disciplines on truce in the following decades. The movement toward reunifying them first started around the time of World War II. However, the initial unification focused more on the usefulness of advanced theories and econometric techniques from economics proper, aiming to improve the rigour of historical research. As McCloskey (1976, p.435) pointed out, this reunification was more a movement of economists "*equipped with Lagrangean multipliers and Dubin-Watson statistics…to reshape economic history into a form suited to that tastes of their colleagues in* *economics*", and the "*neglect of history persisted into the 1970s, as they rediscovered property rights, inheritance, educational investment, social class, income distribution, and other pieces of history in economics*."

Economic theory, as Habakkuk (1971) pointed out, characteristically proceeds by building a model, a simplified, abstract version of the economic reality. More specifically, it is "*a series of functional relations between the various elements of which an economy is composed*" (Habakkuk, 1971, p.305). Under different assumptions, the major economic elements of interest like wages, investment and consumption derived from reality are isolated, and certain relationships between them, which constitute the actual economic system, are postulated and reconstructed. Through this simplified process with abstraction, economic theories, like any other theories, are principally the efforts to better know the reality.

The task of (economic) history is, in the first place, to describe the characteristics of the economy of a specific period in a particular area as they were. Also, studying history is more generally characterised by its main interest in finding and testing actual, singular, or specific events (Popper, 1961, p.174). However, as Sombart (1929, p.2) noted: "*It is of primary importance for the historian to realise that, whether he is dealing with the conduct of an individual, or a political situation, or a number of successive events, he is concerned not with isolated facts but with connected systems (Ganze)",* making history should probably be more than a narrative of fragmented reality, it should be an attempt to connect the fragmented states in history and to bring them together under a sequence or ordering (Conrad and Meyer, 1957).

As indicated in the title, the main subject matters of interest in this thesis are the two methodological representatives mentioned above in the development of economic history as a discipline: economic history and economic theory. Their methodological interplay is also one of the very central problems of social sciences and its specification in economic science. The purpose of this thesis is not to investigate one specific historical economic issue in its detail---which could be my future aspiration---but to focus on the general methodological principle and to symbolise a wise and well-informed start of any intellectual activity. After all, like an old Chinese saying: sharpening the knife will not waste your time cutting faggot. Based on the underlying methodological and epistemological features of history and theory, the investigation will depict the dispute and reconciliation between economic theory and economic history and attempt to answer the central question of this thesis: *how they are interconnected* *and how they can be combined so that they are reciprocal rather than being impedimental to each other*. And in this regard, the proposed attempt in this thesis is mainly at the level of a metatheory.

To begin with, part II is devoted to a brief discussion of the historical and methodological background of the separation and dispute between economic history and economic theory, more specifically, between the theoretical-deductive and historical-inductive methods in economic history; it is then devoted to presenting two approaches of a general theorisation in the domain of economic history, including Marx's approach of explaining the historical dynamics of the social-economic changes and John Hicks' subsequent pursuit to explain the forces and find a recognisable trend in the long-term development of human society.

This thesis then puts more emphasis on Part III, introducing the beginning and history of new economic history and the position of economic theory in this discipline, as well as the main criticism on this kind of reunification of economic history and economic theory proposed by Fogel (1965). Then from a methodological perspective, part IV carries on to review the role and contribution of economic history to economic theorisation and points out why economic history is important for economic theory from various aspects. Lastly, as a tentative answer to the second part of the questions that this thesis poses, part V concludes with a suggestion by Boldizzoni (2011, p. 138-142) regarding the creative use of history in theorising the past.

II. The “Great Antinomy” and Pursuit of a Grand Theory in Economic History

Eucken (1992[1940], p.34-44) called the “great antinomy” of economic science the problematic relationship between the emphasis on economic historical diversity with its historical and cultural characteristics ("Individual-historical" approach) and its explanation by general and abstract economic theories (“General-theoretical” approach), which represents the methodological discussion between economic theory and economic history. In his book *The poverty of historicism*, Popper (1957) attributed this antinomy to the very different nature and aspiration of the theoretical and historical sciences: “*the fundamental distinction between theoretical and historical sciences—for example, between sociology or economic theory or political theory on the one hand, and social, economic, and political history on die other—a distinction which has been so often and emphatically reaffirmed by the best historians. It is the distinction between the interest in universal laws and the interest in particular facts” (1957, p.174).* In regards to this “great antinomy”, very distinct attitudes emerged with the “Methodenstreit” by the end of the nineteenth century. The “Individual-historical” approach was embodied by the historical schools with their historicism attitude.

The “Individual-historical” approach, according to Eucken, is an approach toward the economic reality that emphasises its singular and historical nature different from time to space. The time structure of production, the choice of technical methods and location, and even the human actions are essential aspects of the economic reality that can only be comprehended against their historical backgrounds (Eucken, 1992, p. 37). So that *“everyday economic life proceeds depend on the nature of the country, the race, culture, and beliefs of the inhabitants, on the political institutions, and structure of the state, in fact, on the entire historical environment*” (Eucken, 1992, p. 35). In a relatively radical way, historicism emphasises these individual-historical aspects of economic reality. Germany's early social science map, including economics and history, was heavily influenced by historicism, a doctrine that emerged in the second half of the nineteenth century.

However, since the very diverse contributions to this intellectual trend have been made, it is hard to give the word “Historicism” an essential and unifying definition. Numerous Authors have contributed to this construction of the close-knitted philosophy. Popper (1957) gave this intellectual trend in social sciences a neat definition: “*…I mean by ‘historicism’ an approach to the social sciences which assumes that historical prediction is their principal aim, and which assumes that this aim is attainable by discovering the ‘rhythms’ or the ‘patterns’, the ‘laws’ or the ‘trends’ that underlie the evolution of history” (1957, p. 19).*

From another perspective, historicism, as Ludwig von Mises (1957) in his book *Theory and History* once noted, is, first of all, an “epistemological doctrine” and must be viewed as:

…the proposition that, apart from the natural sciences, mathematics, and logic, there is no knowledge but that provided by history. There is no regularity in the concatenation and sequence of phenomena and events in the sphere of human action. Consequently the attempts to develop a science of economics and to discover economic laws are vain. The only sensible method of dealing with human action, exploits, and institutions is the historical method. The historian traces every phenomenon back to its origins. He depicts the changes going on in human affairs. He approaches his material, the records of the past, without any prepossessions and preconceived ideas… If the historicists had been consistent, they would have substituted economic history for the—in their opinion counterfeit—science of economics (We may pass over the question how economic history could be treated without economic theory.) (1957, p.133-134).

Eucken (1992[1940], p.37-39) outlined three limitations of the “individual-historical approach” represented by historicism. In the first place, historical economic relationships are impossible to survey as a whole; accordingly, due to the simultaneous action of so many factors in one economic system, it is impossible to trace back the effect of a single factor to its origin. Then, it would not be possible to answer the question of why multiple historical facts occur side by side during a certain historical period by studying single and isolated facts. One example representing the complexity of economic reality from Eucken is how the introduction of new spinning machinery affects the situation of the workers. As he pointed out, even if it can be ascertained that part of the workers will be dismissed and the thread production will increase after the introduction of new machines in various factories, it is not possible to know “*question as to why the workers dismissed find employment again, whether it is connected with* *the introduction of our new spinning machines, or as a result of some other factors, for example, a good harvest…. the effects of this new machine on the provision of consumers' goods, on the machine industry, and on the cotton producer…*(Eucken (1992[1940], p.39)*"* by the inference derived from direct an isolated observation.

Due to these inherent limitations, Eucken concluded that economic reality and its interrelationship cannot be solely approached by the individual-historical method despite the very fundamental historical nature of economic reality. *"To transform what is given to us as happening together into what is connected together" (1992, p.40)*, the analysis must be equipped with another powerful method to reach generally valid propositions which are more accurate and superior to everyday judgements, which leads to another direction of the great antinomy: the general-theoretical problem. As Eucken *(1992, p.40)* noted: *"economic reality and its interrelationships cannot be directly understood through historical study alone"*. Hence, the mere consideration of the individually isolated economic historical facts will be inadequate.

Perhaps one of the earlier approaches and probably one of the most significant ones to overcome the "great antinomy" is the attempt to construct a grand theory of economic history. Following Hegel's historical view that saw history as a logical progress of the Eternal Think Process driven by contradiction and negation of the negation (Eastman, 2021[1941], p.73), the Marxists' economic historical framework possesses the most fully developed unifying theory of economic history that links economic processes with political and cultural behaviour (Wisman, Willoughby & Sawers, 1988). By relying upon two central features of its historical analyses---model of production and historical dialectical materialism---Marxian general framework presents a stage theory of the material history of human society. As North puts it: "*The Marxian approach to economic history explicitly employs theory and concerns itself with the broad sweep of history. Moreover, it attempts to explain a much wider range of issues…integrating social, political, and economic forces in historical explanation" (1977, pp. 191).* A brief clarification of these two central characteristics underlying Marx's interpretation of the development of human economic historical change is needed.

According to Marx's theory, one must look first at the very material aspects of human society to understand its historical evolution. A Marxian economic historian would accept the idea that all historical epochs and their transitions can be explained based on the dominant mode of production in those periods, which is the level of forces of production, the distribution and concentration of the means of production, and how individuals and classes interact with one another during the production process. Contradictions have been inherent in all these historical production modes (including capitalism). While one class has controlled the means of production, another has done the actual work and received (in good times) enough to ensure its reproduction. The related historical social conflicts then arose. Consequently, dialectical materialism, derived from the different modes of production, according to Marx, is both the way in which history works out its inner logic and the only way in which this process can be comprehended. As Cohen paraphrased Marx:

If one accepts that every historically developed social form, as a result of internal contradictions, is in fluid movement, then the only way to take into account simultaneously the form's transient nature as well as its momentary existence is by means of the dialectic. If history proceeds dialectically, then its dynamic is best perceived in relational terms (1978, p.30).

Following the attempt by Marx, John Hicks posed in his book *Theory of Economic History* in 1969 the underlying question regarding the existence of a general theory of economic history. As he noted, very few historians or economists have attempted to answer that question since Karl Marx. In this book, as Hicks states, the primary goal is to apply the theoretical economic reasoning to economic history on a grand scale, as he asked: "*Why should we not treat the Economic History of the World as a single process---a process that (at least so far) has a recognisable trend*?" (1969, p.2), and the task is to "*extend in one of its dimensions, over the whole world in another, over the whole span of human history, from. . . the earliest ages of which anthropologists and archaeologists have given us some fragmentary knowledge, right up to ... the present day*" (1969, p. 1). The method was described by Hicks as follows: "*It is a theoretical enquiry, which must proceed in general terms, the more general, the better. We are to classify states of society, economic states of society; we are to look for intelligible reasons for which one such state should give way to another*" (1969, p. 6). For the purpose of developing a definable theory of world economic history, Hicks proposed and described two different but related methodologies. First, he intended to look at the statistical uniformity of some aspects of historical events. To understand how one situation predictably results in another, he intended to examine the implications of specific historical phenomena.

As Mokyr (2005), in his reading of Hicks, pointed out, what Hicks meant by a theory of economic history is something closer to what Marx tried to do, namely to use theory taken from economics as support to what is to identify as patterns in the past. As Hicks says: "*it will be a good deal nearer to the kind of thing that was attempted by Marx, who did take from his economics some general ideas which he applied to history so that the pattern which he saw in history had some extra-historical support. That is much more the kind of thing I want to try to do*" (1969, p.2). However, as Mokyr (2005) noted, unlike Marx, who constructed a theory that tries to encompass all the social-historical progress, Hicks did not deliver on its promise from the outset and was only partially successful in his undertaking. Also, Bauer (1971) concluded that Hicks had not presented a discernible or definable theory of economic history as he proposed. In addition, In Bauer's (1971) analysis, he explained why the two proposed methods by Hicks, and probably any other method for that matter, cannot achieve a worthwhile grand theory of economic history.

First, the search for statistical uniformities in history is of little value for explaining and predicting the general course of economic history, so as Bauer (1971). Second, another method proposed by Hicks, namely examining the implication of situations to predict the sequence of events, is primarily deductive. As he further noted, this method cannot provide a worthwhile theory of economic history either, since *"most historical events and sequences do not issue in unique and unambiguous results. Widely different results can emerge from given initial conditions…. Speculation about the implications of situations without enquiry into actual phenomena and sequences leads to conclusions out of touch with reality*" (Bauer, 1971, p.177-178).

Moreover, the search for a general theory of history usually involves several characteristics, which can barely stand a closer scrutiny (Bauer, 1971). For instance, as he pointed out, the construction of such theories generally involves a great deal of abstraction and aggregation. In addition, a general theory of history based on economic factors neglects the interaction between economic activity and its parameters: a fascinating aspect of economic history that is crucial to its understanding. Even when such interactions are observed, they are regarded as operating solely from economic variables to attitudes or institutions, even when the reverse influence could be more critical.

Why would the grand theory fail to deliver its promise? Bauer's critique was echoed by the American sociologist Wright Mills. In his book *The Sociological Imagination* (2000[1957]), Mills (2000[1957], p.32-35) outlined and castigated three major tendencies which he saw as inimical to the effective development of what he described as the sociological imagination. The first was the tendency toward a theory of history that he associated especially with the Marxists' economic history. This tendency *"is at once historical and systematic—historical, because it deals with and uses the materials of the past; systematic, because it does so in order to discern 'the stages of the course of history and the regularities of social life" (2000 [1957], p.32-33).* As Wright Mills ironically criticised, this kind of "systematic" theory of history can easily distort into "*trans-historical strait-jacket*" into which "*the materials of human history are forced and out of which issue prophetic views (usually gloomy ones) of the future*" (2000[1957], p. 33). Mills' hostility against the construction of an abstract and all-encompassing theory of human nature and conduct was shared with most leading sociology practitioners and other human scientists at the time (Skinner, 1985, p. 3).

In order to proceed with the truly scientific and value-neutral task of constructing empirical theories of social development and behaviour, Mills' criticism was connected to another positive injunction and its call to abandon the study of the great systems of history, which were unsatisfactory in their combination of descriptive and evaluative elements (Skinner, 1985, p.3). From a perspective of philosophy of science, such scientific aspiration of studying history stemmed from the positivist account of an explanation in the social and human sciences. Especially, in support of a *"piecemeal method of science"*, Popper proposed what can properly be said to count as a scientifically respectable belief should base on the falsifiability test of a statement or a theory (Popper, 2002 [1959], p. 57-73), the approach to construct a grand theory of history which cannot stand to this criterion is eventually regarded by Popper as "*utopian social philosophy*", as he sharply criticised: "*Marxism, psychoanalysis, and all forms of Utopian social philosophy were together consigned to the dustbin of history*" (Popper, 1945, vols 2, 212-80). The supporters of Popper's view believe, using this standard, the social sciences are able to separate their factual statements from merely normative or *"utopian"* (metaphysical) statements, thus putting themselves on the correct path towards becoming genuine sciences (Skinner, 1985, p. 5).

The failures of attempts to construct general theories of history represented by Marxian theory have been exposed by Popper thoroughly in his life works. And As Eastman, after his analysis of the Marxian theory of history, negated all the three historical assumptions on which the Marxian theory was based: "*History is no one thing or process, except as it is made so by the interests of the historian; it has no one cause, either within or without the consciousness of men, which explains it all; it does not advance by a process of dialectic contradiction and the negation of the negation*" (Eastman, 2021[1941], p.76), the material history might be too big and multifaceted to be encapsulated into one single theory, given its nature associated with the complexity of all the material culture of the past, a united series of propositions connected by a logical deduction starting from the simplified assumptions can barely incorporate the past in a satisfactory way. As Mokyr (2005, p. 214) concluded: "History should be analysed in units of manageable size, and no larger". Nevertheless, as Bauer (1971) concluded, despite the criticism of their fallacious methods or failure to achieve intellectually satisfying results, practitioners attempting to construct such a theory will not be deterred because of their emotional and political roots.

III. New Economic History: Reapplication of Economic Theory and Statistical Inference to Economic History

III.1 A Brief History of “New” Economic History

Traditionally, economic history is a subset of history. Nevertheless, with the assertion that historians, especially economic historians, should not only satisfy with collecting historical facts, new economic historians (econometric historians or cliometrician) professionally tend to socialise more in economics, who systematically applicate economic theory and statistical inferences to understand the past located in a stochastical universe. The new economic historian, then, "*think like economists and talk like economists*" (McCloskey, 1987, p. 12). As Redlich (1965, p. 485) summarised, the new economic historians are commonly held together by "*the extensive use of modern economic analysis, concentration on the purely economic aspects of economic history, and quantification along with refined mathematics*." Combining economic history with theories and increasingly advanced quantitative methods with new and expanded databases, new economic history has transformed the discipline profoundly from its old narrative nature to a scientific one in the post-war period since its emergence.

However, instead of attempting to investigate a total determined behavioural pattern (if not teleological) of economic history like Marx or Hick, the new economic historians are generally less ambitious and more cautious and usually have different goals in their intellectual endeavours. As a result, they focus on the causal aspect of history at a smaller scale, closely related to the concept of historical causal order that can be examined and explained using analytical and statistical methods.

Before 1950, only a few economists trained in economic methods applied them to history. In the 1930s, Eli Heckscher in Sweden used them, along with Earl Hamilton in the US and a few British economists. As of the early 1950s, the list began to include Alexander Gerschenkron, Douglass North, and Simon Kuznets in the United States. As Habakkuk (1971) mentioned, before 1945, very few economic historians had made any systematic use of economic history. Historians, including economic historians, were predominantly occupied with studying archive and literary sources for their part. With this background, the promoter of the hybrid field of economic history had enough to do without bothering themselves with the advancement of economic theory from their counterparts (Cesarano, 2006). However, as modern econometrics developed in the late 1950s, a group of young American economists turned their attention to history and attempted to reunite economics and history with new economic history by trying to apply modern economic theories and econometric techniques to history.

Two economic history conferences in 1957 and 1960 were commonly thought to mark the beginning of the new economic history. In the fall of 1957, the Economic History Association and the National Bureau of Economic Research held a joint conference on income and wealth, which presented papers analysing the history of the United States and Canada's economies and discussed how economic theory could be integrated into economic history. The first formal meeting of The Cliometrics Society in the US took place at Purdue University in December 1960, the Purdue Conference on the Application of Economic Theory and Quantitative Techniques to Problems of History.

Two joint papers published by Alfred Conrad and John Meyer during this period initiated the era of the new economic history. In 1957, they published "Economic Theory, Statistical Inference, and Economic History", a methodological treatise for new economic history, in the Journal of Economic History after they presented this paper at the joint conference. In the following year, another article entitled "The Economics of Slavery and Other Studies in Econometric History", following their clarified new economic history's methodological prescription presented in their 1957 paper applied it to the analysis of the economics of slavery before the American Civil War. In 1964, another influential new economic history study on the impact of the railroad on American economic growth was published by Robert Fogel (1964).

These papers ushered in a new era of economic history, marking a break with the predominant tradition of doing economic history. Expressing history in the jargon of economics re-established economics' role in the discipline. As economic theory and econometric techniques have been formalised and implemented, debates on historical economic phenomena have been rejuvenated and revised, quantitative arguments have become ubiquitous, and a new sort of historical awareness has arisen among economists (Diebolt & Haupert, 2015).

Even if there are questions about the simplicity of economic theories and statistical methods used in these earlier articles of new economic history and how revolutionary they really were, as McCloskey (1987) commented:

Robert Fogel's seminal book published in 1964, Railroads and American Economic Growth, subtitled Essays in Econometric History, contained much good history and economics, but econometrically speaking only two elementary fittings of straight lines to scatters of points. A collection in the same year of their earlier papers by Alfred Conrad and John Meyer, entitled The Economics of Slavery and Other Studies in Econometric History, was only a little more ambitious in its statistic. 'Econometric history' was merely a verbal ploy of revolutionaries, like calling one's dictatorship a 'people's democratic republic (1987, p. 12).

As Robert Fogel and Douglass North were awarded the Nobel Memorial Prize in Economic Sciences in 1993, new economic history and its contribution to economic history's transformation were finally recognised (Haupert, 2017). The Nobel committee recognised them "*for having renewed research in economic history by applying economic theory and quantitative methods in order to explain economic and institutional change",* making it *"possible to question and to reassess earlier results, which... not only increased our knowledge of the past, but... contributed to the elimination of irrelevant theories*" (Royal Swedish Academy of Sciences, 1993).

III.2 The Role of Economic Theory

As a result of combining modern quantitative methods and economic theories with history, new economic history has led to much debate (Redlich, 1965; Meiners & Nardinelli, 1986; Hodgson, 2001; Bodizzoni, 2011) about the balance between economics proper and history in the study of historical economic phenomena. The result is that it is both new in the theory and unique in terms of its measurement methods in the inquiry of history.

As figure 1 illustrates, in the new economic history’s method, economic theory as a start point is applied to a historical situation to demonstrate the theory's explanatory power and eventually reach a historical narrative. In order to make historical phenomena of a quantitative type conform to the theory, specific techniques are used (such as regression or statistical testing). When it comes to qualitative phenomena, the theory resorts to other techniques (such as game theory) and mostly hypothetico-deductive methods (Bodizzoni, 2011, p.151).

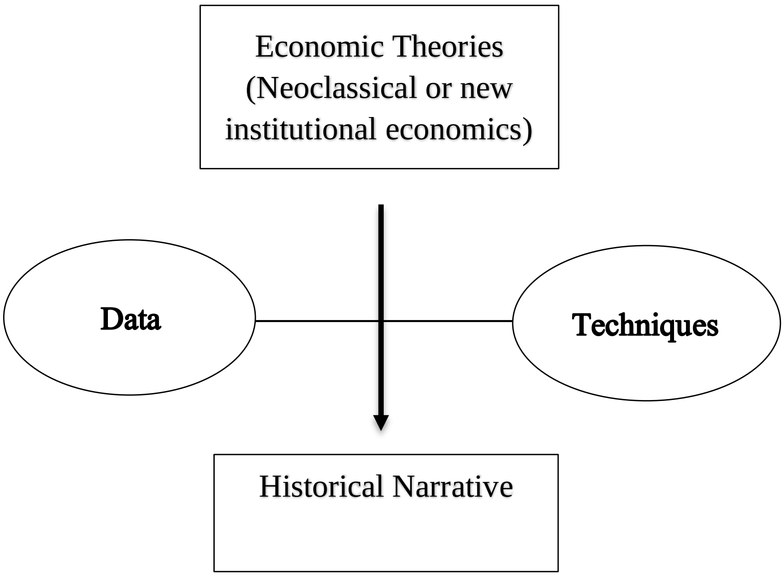

Figure 1: Cliometric method, source: Bodizzoni, 2011, p.152.

Despite its original association with the Fogelian tradition of formal modelling and sophisticated econometric applications, as Diebold and Haupert (2015) pointed out, the core contribution of new economic history is the reapplication of economic theory to economic history. According to them, from the initiation of the new economic history, the "new" of the new economic history is defined as the reapplication of economic theory (using formalised economic models to explain the generality of human behaviour) and the following testing of those theories in the laboratory of history. In this regard, it can be said that the core of new economic history is the application of theory, using the form of econometric modelling extensively.

Thomas Cochrane (1969) portrayed the difference between the traditional practice of economic history and the new economic history movement mainly as controversy over two types of the theoretical economic model, claiming “*the old say that realistic models usually have to be too highly generalised or too complex to allow the assumption of mathematical relationships; the* *new is primarily interested in applying operative models to economic data*" *(1969, p.1566)*. Further, John Habakkuk (1971, p.309) has distinguished five analytical stages at which economic theory is employed in the new economic history: 1. In the first stage, the relevant elements of the economic system are identified and defined. 2. Certain of these categories are chosen for study according to the interested phenomena. 3. Quantitative evidence regarding these elements is obtained. 4. The relations between the quantified elements are investigated. 5. The found relations are interpreted.

In accordance, McCloskey (1978, p.15) also defined a new economic historian as "*an economist applying economic theory (usually simple) to historical facts (not always quantitative) in the interest of history (not economic*)" and saw the essense new economic history as economics proper in the service of history which:

…always applies economic theory and therefore commonly involves quantitative ideas, even if not always actual counting. It applies the theory to history almost invariably in the service of history, not in the service of economics. It sometimes uses simple statistical ideas such as graphs, and less frequently advanced statistics and other devices of the calculator's art (McCloskey, 1978, p.14).

McCloskey claimed that the role of economic theory is primarily the characteristic catalyst that dominates the new economic historian's 1. revision of the historical errors and 2. counting of the unknown. Regarding the first aspect, Robert Fogel (1967) noted: "*Some of the most important revisions of the new economic history have arisen from nothing more than the discovery that the simple functions assumed in the past are poor descriptions of the relationships on which arguments were anchored*" (1966, p.294-295).

In terms of the second dimension, McCloskey (1978) reported that even the most basic economic statistic - national income - incorporates theories about consumers' equilibrium, non-market activities, depreciation, and indexation, by utilising these theories and filling in these empty quantitative boxes with new facts, economic history has made the greatest contributions.

Moreover, in the investigation of the historical unknown, economic theories do not only guide the search with its given elements; since economic historians rarely have the opportunity to measure all variables directly they are interested in, even for periods that have much direct evidence, as Habakkuk (1971) noted, economic theories also function as a bridge from the historical known to the historical unknown, in other words, inferences are drawn directly or indirectly from historical sources about the historical phenomena, which themselves are not the clearest and explicit. For example, Habakkuk (1971) pointed out that historians need to know the marginal social costs of a particular activity. As there is no direct estimate of these costs, the observed prices of the relevant product are used as an indicator of its marginal social costs. Fogel (1966) illustrates that miles of mainline have been substituted for railway investments, and the growth rate of pig iron has also been substituted for the growth of output in the iron industry.

Furthermore, in a more advanced manner, starting from known facts, new economic historians use the relations derived from a theoretical model to derive the otherwise unknown information he needs. This more sophisticated technique of "*utilisation of direct evidence*" through theoretical statistical inference has also been used by Conrad and Meyer (1957, p.536-541) to answer the doubt regarding the lack of quantitative data to permit the methods of new economic history. As an example, Conrad and Meyer (1957) referred to an article by Michael C. Lovell (1957) regarding whether the Bank of England came to function as a central bank in the early eighteenth century. As they commented, although it is confusing and inconclusive to read the deliberately edited records of bank board meetings, it is still possible to find time series on eighteenth-century bankruptcies, bank reserve ratios, and discount rates. As central banking policy might result in particular behaviours in these series, Lovell (1957) tested his inferences from these postulated time series' behaviour against actual data, which led to his conclusion that the Bank of England became a lender of last resort and thus emerged as central bank quite early facing the crises of the eighteenth century.

Also, as Fogel (1966) mentioned, another example to circumventing the data problem based on economic theory is illustrated in Paul David's study (1966) of mechanical reapers, *"The Mechanisation of Reaping in The Ante-Bellum Midwest"*. Regression analysis would require county data on farm size, delivered price of reapers, and average labour wage for determining reapers' threshold functions; nevertheless, such information was unavailable for counties. However, David overcame the data problem by using the theory of production within the context of a simple comparative static model that focuses on relative factors. First, considering farmers as independent profit maximisers, he noted that they would be indifferent to the choice between mechanised and hand reaping if the cost of cutting grain on a given acreage were the same. He also assumed that there were no productivity-increasing technological changes in the absence of economies and diseconomies of scale in the employment of hand labour and farmers' decisions on how many acres to plant in small grains was made independent of the reaper.

Given all these assumptions and specifications, together with two linear approximations, David calculated a threshold size farm at which adoption of the reaper will take place. For the purpose of estimating the three parameters involved in the threshold functions, including the interest rate, depreciation rate and the rate of substitution between reaper and hand reaping in the antebellum Midwest US, the data becomes available (Fogel, 1966; Olmstead, 1975).

Furthermore, the investigation into the historical unknown guided by economic theory has also been extended to reconstruct the historical counterfactual conditions. As Fogel (1966, p.653) pointed out:

The union between measurement and theory is most clearly evident when one attempts to establish the net effect of innovations, institutions or processes on the course of economic development. The net effect of such things on development involves a comparison between what actually happened and what would have happened in the absence of the specified circumstance. However, since the counterfactual condition never occurred, it could not have been observed and thus is not recorded in historical documents. In order to determine what would have happened in the absence of a given circumstance, the economic historian needs a set of general statements (that is, a set of theories or a model) that will enable him to deduce a counterfactual situation from institutions and relationships that actually existed.

In his conclusion (1966), he concluded that the fundamental methodological feature of the new economic history is the attempt to cast all explanations of past economic development in the form of hypothetico-deductive models.

This unique role of economic theories combined with modern econometric measurement in distinguishing new economic history from the old has also been asserted by Fogel as following:
The methodological hallmarks of the new economic history are its emphasis on measurement and its recognition of the intimate relationship between measurement and theory. Economic history has always had a quantitative orientation. But much of the past work on economic data was limited to the location and the simple classification of the numerical information contained

in government and business records. While continuing this pursuit, the new economic history places its primary emphasis on reconstructing measurements which might have existed in the past but are no longer extant, on the recombination of primary data in a manner which enables them to obtain measurements that were never before made, and on finding methods of measuring economic phenomena that cannot be measured directly (1966, p.651).

Following McCloskey and Fogel, Habakkuk (1971) concluded that the distinctive features of the new economic history do not lie in its use of theory to derive new hypotheses or ask new questions, as he mentioned:

Many of the problems tackled by the new economic historians are those posed by the assertions of the historians of an earlier generation. Was slavery profitable? Were the railways built ahead of demand? Were the railways a necessary condition for the exploitation of new lands? How important was technical progress to the growth of productivity? The distinctive feature of the new economic history is that it uses theory (a) to identify the elements about which, for explanatory purposes, it is necessary to obtain quantitative evidence, that is, the elements in the equations and (b) to deduce evidence about these elements when direct evidence is lacking. Most of the attention of the new economic historians has been devoted to (b) (1971, p.309).

In the early days of new economic history, much of the research focused on the American economy's historical development within the neoclassical economics framework. As the new economic history developed, its neoclassical framework contained many theoretical assumptions.

The early work of North focused on the standard neo-classical explanation of economic growth, including capital accumulation, human capital, and technological change. The neoclassical model, however, did not explain the kinds of fundamental social transformations characterised by modern Europe when he studied European economic history. In response to this scepticism about the actual causes of the social changes, North pioneered two revolutionary schools of economics: new economic history and new institutional economics (Galiani & Sened, 2014).

Due to its focus on market mechanisms, which rely on rational, calculated humans who make explicit choices, neoclassical theory inevitably also uses this way to explain how the economy evolved. In addition to emphasising the importance of the market mechanism, neoclassical theories assume a system without transaction costs. North (1977) thus pointed out several limiting factors of the neoclassical framework applied by the new economic historian at an earlier stage to handle the problems of economic history.

First, according to him, due to the fact that economic resources have not been allocated through markets in many societies throughout history, the neoclassical theory has little to say about many other aspects of resource allocation --- the states, for example --- in the historical investigation. Because earlier neoclassical theory in new economic history did not provide a theorisation of resource allocation outside of the organised market, it inhibited a comprehensive study of economic history. A second limitation of neoclassical theory is that it assumes rational self-interested individuals. People's behaviours can be explained by neo-classical theory when they act in their own interests, when they do not bother to vote, or when their participation in organisations is small because of the free-rider problem. However, it cannot effectively explain the other side of human behaviour: "*How do we account for altruistic behaviour, for the willingness of people to engage in immense sacrifices with no evident possible gain? How do we explain the large number of people who do vote or the enormous efforts that individuals devote to participating in voluntary organisations where the individual returns are small or negligible?"* (North, 1977, p.196*)*. The third limitation is the ahistorical manner of many applied neoclassical theories. Since "*human actors make decisions within historically derived constraints"* (North, 1977, p.196*)*, this kind of attitude limits the research range that can be covered and impairs a sequential historical explanation made in its historical context.

In recognition of these inherent limitations of the neoclassical framework in the new economic history, North expanded the boundary of applied theory in the new economic history beyond neoclassical theory, believing that neoclassical theories alone cannot satisfactorily explain some historical incidents. Therefore, North has turned to another theoretical approach (new institutional) in his later works, questioning but also extending the value of neoclassical models in understanding the historical transformation of economies.

Beginning with *Institutional Change and American Economic Growth* (1970, with Lance Davis), North demonstrated the importance of the role played by institutions and property rights in economic development (Diebolt & Haupert, 2016). In his later book *Institutions, Institutional Change and Economic Performance* (1990), North followed his emphasis on the institutions (North, 1971) and their decisive role in shaping the economic outcomes to answer the fundamental question of the clearly observable variance in the success of economic performance across regions and countries. North answered the question as follows: "*Third World countries are poor because the institutional constraints define a set of payoffs to political/ economic activity that do not encourage productive activity*" (North 1990, p. 110), concluding that institutions are a significant determinant in the profitability and feasibility of economic activity; the more significant the institutional uncertainty, the greater the transaction costs and the greater the drag on economic growth and development. In his *Violence and Social Orders* (2009, with Wallis and Weingast), to understand the recorded human history from the primitive to the modern society, North posed another conceptual framework in which the significance of the state in shaping different social-economic orders is emphasised.

III.3 Criticism

Nevertheless, North's new institutional approach to extending the theoretical foundation of new economic history has been fundamentally put in doubt by Boldizzoni:

A major misunderstanding about cliometrics comes from the subsequent spread of Douglass North's new institutional approach. Unlike Fogel, North claims to have challenged traditional economic theory, which he found inadequate. Many think that this is the case, and North has used history to "humanise" economic theory. In fact, what he did was to extend the neoclassical explanatory model to the realm of social relations. North noticed the absence of institutions from standard economics and decided they should have a part in it. But while he restored them to economic theory, he explained their genesis in terms of the same theory he wished to improve…. Its roots lay in North's assumption about the universal nature of certain social arrangements (North et al., 2009) and in his methodological individualism…, …the new institutionalism carries even more serious risks, because it is presented first of all as a theory of society (and of history). In other words, the new institutional economics does not remain on the abstract plane of model building and axiomatisation, but seeks to gain legitimacy from historical and biological material and is offered in its turn as an explanation for human history. Along with the explanation, the prescriptive message that was already contained in the premises filters through as if it was a self-evident reality (2011, p.18-19).

North's theoretical extensions reflect one of the discipline's enormous shifts regarding its own intellectual identity. Before the advent of new economic history, economic theory and statistical tools had undergone a substantial change before the wars. As a trained economist and mathematician, Keynes was reluctant to embrace mathematical modelling because it would restrict the focus to just a few variables, which would fail to capture the interaction among the many relevant factors, which eventually weakened the analysis (Cesarano, 2006). But with the revolution in the methodology of economics continuing and its extension to the economic history after WWII, the new economic history has also been facing the danger of being a total branch of applied economics—the only difference is applying the economic tool and theories to the data from the past. As Robert Solow observed:

As I inspect some current work in economic history, I have the sinking feeling that a lot of it looks exactly like the kind of economic analysis I have just finished caricaturing: the same integrals, the same regressions, the same substitution of t-ratios for thought…. Far from offering the economic theorist a widened range of perceptions, this sort of economic history gives back to the theorist the same routine gruel that the economic theorist gives to the historian. Why should I believe, when it is applied to thin eighteenth-century data, something that carries no conviction when it is done with more ample twentieth-century data? (1986, p. 26).

As a characteristically American phenomenon, this intellectual development in economic history was primarily attributed to the sociological, cultural, intellectual and institutional circumstances in the United States between the 1950s and 1960s. (Boldizzoni, 2011; McCloskey, 1976). As McCloskey pointed out: *Econometric historians [New Economic Historian] have been with few exceptions professionally socialised in economics, not history…. most are trained exclusively as economists and employed exclusively in departments of economics at one of North America's many hundreds of universities…. Many of the characteristics of econometric history arise from the professional and national character of such folk, American economists trained in mathematical methods since the Second World War….* (1976, p.11-12).

With this background of most new economic historians, Douglass North also remarked: *We [Economic Historians] have simply been taking their traditional tools and applying these mechanically to the past …. If that is all we can do, then we are truly expendable and economics departments are quite right in relegating us to a marginal position in their staffing* *requirements* (1976, p. 462). More recently, concerning this problem that both North and Solow observed in the development of new economic history, Cesarano (2006) points out that since economists were not able to find much value in historical analyses that addressed specific problems using their own methodology, the achievements of the new economic history were not enormously appealing to them. Diebold and Haupert also expressed the same concern: "*The very emphasis on theory and formal modeling that distinguishes cliometrics from the "old" economic history now blurs the distinction between economic history and economic theory, an issue that some have blamed for the reduction in demand for economic historians.… it[new economic history] is often perceived as the application of theory and the latest quantitative techniques to old data instead of contemporary data"* (2016, p.983).

Along with concerns about the endangered intellectual position of new economic history between economics proper and economic history, another sharper stream of criticism focuses on the fundamental improperness of the methodological implications new economic history shows when investigating the past.

One of the earliest critics was Fritz Redlich (1965). According to him, much of the new economic history was based on hypothetical models that cannot be verified, while certain methods were both "anti-empiricistic" and "anti-positivist". Redlich concludes that the works from new economic history led by Fogel, Conrad and Meyer often produced not history but "quasi-history", which "do not write history but produce historical models" (1965, p.491). As he further mentioned: "*A model is never a piece of history, because it is conjectural or subjunctive or, in Max Weber's language used for all ideal types, a distortion of reality…. if we were to accept it as history, the piece would be bad history"* (1965, p.490).

More recently, Boldizzoni (2011, p. 139-142) also attacked the approaches of new economic history, focusing his sharpest criticism on its "poor conception" of history, which "*suppose that history is "blind" and needs to be guided from outside so that it can arrive at some form of explanation*", at the perceived expense of its humanity, as he concludes: " *the (unconfessed) aim of cliometrics [new economic history] is not to increase our knowledge of the past. It is to create narratives of the past compatible with neoliberal economics, and often it is a highly ideological exercise to endorse specific worldviews, theories, and policy recommendations"* (Boldizzoni, 2011, p. 5).

IV. The Role and Contribution of Economic History to Economic Theorisation

Many economists have stressed the complementary nature of economic history and economic theory before the modern transformation of economics. Even after classical economics turned to abstract analytical constructions, economic history continued to have a substantial influence on economic theory until the mid-20th century (Cesarano, 2006). As McCloskey remarked: "*Smith, Marx, Mill, Marshall, Keynes, Heckscher, Schumpeter, and Viner, to name a few, were nourished by historical study and nourished it in turn. Gazing down from Valhalla, it would seem to them bizarre that their heirs would study economics with the history left out*" (1976, p.434). Regarding the role of history, which these great economists mentioned by McCloskey really cherished, North (1977) remarked:

These men valued economic history because it provides a dimension of time to the static world of the economists; it attempted to put together the pieces of an economic system rather than examine isolated bits of the jigsaws puzzle; it incorporated an awareness of the interdependence of economic organisation with the political and social aspects of society: it analysed the parameters that the economic theorist takes as given. In short, economic history forced on the economists a wider perspective which could not help but improve his myopic vision (1977, p.198).

Throughout his career, the Swedish economist Eli Heckscher had been occupied with the issue of how to connect economic theory and economic history in such a way that both could benefit from combining, but without merging (Lundahl, 2015). As he once proposed regarding the reciprocal relationship between economic history and economic theory:

In the last few years there has arisen a new interest in the right treatment of economic history and in the relations between economic history and economic theory. More and more it has become clear that the historical and the theoretical treatment of economic phenomena are not mutually exclusive methods, but that, on the contrary, theory is needed for the understanding *of economic development, and history for applying theory to the right sort of premises* (Heckscher, 1967 [1933], p.705).

However, as the historical inquiry has shifted toward a more scientific approach and more sophisticated methods are now used, the historical treatment of economic phenomena has been increasingly neglected and incorporated into the economics itself, and the distinction between new economic history and applied economics is blurred. In this process of reunification between economic theory and economic history (Fogel, 1965), it is the usefulness of economic theory for historical research which has been accentuated (for example by Heckscher (1953 [1929]), but not the reverse relationship from history to theory. As Robert Gordon remarked about the predominant influence of economics proper on economic history: "*The feature of the ''new economic history'' is its use of modern theoretical and statistical tools. But so far as economic theory is concerned, we are still on a one-way street. The movement is from theory to history; there is little if any movement the other way"* (1965, p.118). Following this intellectual development, it is necessarily vital to recall the contribution that history could bring to economics.

Economic history has been the subject of diverse debates about its contribution to economic theory and its proper roles in the economic profession. For example, as Cesarano (2006) points out, studying history for its own sake, as a pleasant cultural experience pleasing one's intellectual curiosity, is hardly sufficient justification since numerous other activities, cultural and not, could have similar effects. A similarly commonplace argument that history assists in making more "realistic" assumptions are probably also irrelevant in the manner of positive economics. In support of the role of economic history, another more powerful argument regarding its underlying importance for economic theorisation has been formulated by Samuelson and Solow. As Paul Samuelson first emphasised the significance of knowledge of economic history in economic theorisation:

[Economic history] is much more than an antiquarian's descriptive narrative of what happened in the past relevant to pig iron, sealing wax, inflation and financial panic. To me economic history is any documentation of empirical experience – across space and time…. Somewhere in the axioms of a relevant paradigm ('model') there must have already been put in relevant (and testable) factual assertions (2001, p.272).

Similarly, Robert Solow pointed out the corroborating function of history and denied the possibility of explaining all economic phenomena with a single theoretical framework, as he points out: "*the end product of economic analysis is likely to be a collection of models contingent on society's circumstances---on the historical context, you might say---and not a single monolithic model for all season"* (1985, p. 329). As he further (1985, p.328) mentioned, all narrowly economic activities are embedded in a web of various background factors, including institutions, norms, and legal frameworks. The different pace how these factors change over time then determine the final outcomes of economic activities. Hence, Solow stressed the importance of economic history in broadening the theoretical perspective. His nicely formulated argument is as follows:

If the proper choice of a model depends on the institutional context---and it should---then economic history performs the nice function of widening the range of observation available to the theorist. Economic theory can only gain from being taught something about the range of possibilities in human societies. Few things should be more interesting to a civilised economic theorist than the opportunity to observe the interplay between social institutions and economic behavior over time and place (1985, p.329).

All these suggestions are essentially interconnected and started from a single feature of history, namely the inherent complexity of the historical conditioning of economic reality that naturally extends to spatial analysis as well (Cesarano, 2006). In this regard, economic history has to be interpreted from a general perspective of economic contextuality and complexity, not just from the historical vantage point of economic analysis, in light of the inherent uniqueness and particularity of past events, one element of which is the time dimension, but it is not the only one. also shared the same point of view:

In my view, an even more important function of economic history in the education of economists is that it introduces the student to the full complexity of economic processes…. The study of economic history forces them [Economists] to look at whole economies in their geographic, political, social, and cultural setting; to explore the interactions between different sectors of the economy and between the economy and its environment; to observe the variety of responses to economic problems in human history; and most important, it forces them to contemplate the problems and processes of economic change through time (Cameron, 1965, p.113).

Then from the abstract complexity and contextuality representing the more concrete "*interplay between social institutions and economic behaviour over time and space* " (Solow, 1985, p. 395), economic history provides a valuable antidote to a narrow approach and thus enriches theory and reveals its limitations. Hence, as Schumpeter (1954) argues, an absence of history can result in a lack of complete comprehension of the complex economic reality:

First, the subject matter of economics is essentially a unique process in historical time. Nobody can hope to understand the economic phenomena of any, including the present epoch who has not an adequate command of historical facts and an adequate amount of historical sense or of what may be described as historical experience. Second, the historical report cannot be purely economic but must inevitably reflect also 'institutional' facts that are not purely economic: therefore, it affords the best method for understanding how economic and non-economic facts are related to one another…. Third, it is, I believe, the fact that most of the fundamental errors currently committed in economic analysis are due to a lack of historical experience more often than to any other shortcoming of the economist's equipment (1954, p.10-11).

What Schumpeter tried to indicate here is also the importance of studying primarily nonmaterial motives that influence the economic behaviour of historical agents. And history is the most important bearer of these nonmaterial and material motives, which are related to and shape and condition each other's operation.

Like Schumpeter's arguments about the "institutional" facts that are reflected by the historical experience, in his writings, Douglass North also emphasised the role of property rights, institutions, and transaction costs gained from diverse economic history throughout his analysis. For example, concerning the study of collapse of Eastern Europe and its transition, Cesarano (2006) noted that an approach neglecting transaction costs, property rights, and institutions - all issues Douglass North emphasised - would be ineffective and unable to capture the essence of the tremendous change during that period, given the numerous inaccurate predictions about the timing and effects of the transition.

Moreover, choosing a small subset of variables from a pool is always a requisite in constructing a theory. Often different or even opposite hypotheses and conclusions are derived according to the choice of these subsets of variables. How to choose is then crucial for reaching a sound theoretical hypothesis and empirical conclusion. Studying history narratively and statistically, but not merely applying the given theory to the historical data, is crucial to extend the understanding of the historical complexity and tremendously enrich our knowledge of historical contingencies.

In this regard, economic history's contributions are undoubtedly perception-widening for economists and "*in their turn serve to remould and enrich economic theory, correct its spatial and temporal distortions, and consequently increase its explanatory power*" (Boldizzoni, 2011, p.141). Therefore, economic history functions not only as an end-product of economic research --- "*not confined to a supply of factual grist for the theorists' mill*" (McCloskey, 1976, pp. 450) --- but also as the most important provider of historical insights for economic research, on which the construction of economic theories can really rely.

However, even when solely stressing a functional role from history to theory, the part of economic theory cannot be dismissed, which is required for an entirely unfolding effect of economic history. as McCloskey (1976) noted, it would be unreasonable to propose in the style of the German historical school that history dominate the education of economists, that abstractions of maximisation be abandoned in favour of the concreteness (or more commonly in practice, the verbal conceptions) of history. As she noted: *an economist hopping along without a historical leg, unless he is a decathlon athlete, has a narrow perspective on the present, shallow economic ideas, little appreciation for the strengths and weaknesses of economic data, and small ability to apply economics to large issues* (1976, p.454).

Considering that complex economic processes can hardly be directly perceived, general economic theories provide the basis for understanding and explaining them (Leipold, 1998). Also, with the internal shortcoming from the sole historical knowledge based on its tendency to a multifaceted nature, illumination and guidance from theory, or at least a rigorous theoretical mindset, is indispensable. This kind of illumination lies in the evaluation of the potential from the lessons of history, further in the selection of the most relevant explanatory variables and helps in choosing a well-considered research strategy with stronger explanatory power. As Habakkuk (1971, p.320-321) regarding the utility of economic theories noted: "*the model provides a source of expectations, and it may be as illuminating to the historian when the expectations are confounded as when they are confirmed*". In this sense, if economic theorisation were a chemical reaction, history would function as a catalyst to increase the rate of the reaction but can never replace the reaction itself.

Another aspect of historical knowledge that needs to be briefly mentioned here, which is also tightly related to its nature, is its external limitation. According to Cesarano (2006), the impact of economic history on economic theory is also determined by the nature of the subject rather than the historical setting. Economic history contributes to economic theory by virtue of these peculiar features and increases in complexity as the subject becomes more complex. Thus, for example, macroeconomics and theory are more likely to benefit from historical inquiry than applied microeconomics.

V. Conclusion

There have been three approaches to economic history that coexisted or were combined (Boldizzoni, 2011, p.138). First-generation humanities approaches are primarily descriptive narratives based on historical facts, not problem-solving approaches like those in social sciences today. In the second version, a historical study begins with ideas taken from economics or even other natural sciences. History itself is then viewed as an instrument to validate economic theories or assumptions about human nature. Known as new economic history, this is the path predominantly followed by its practitioners affiliated with economics proper. The third approach, as Boldizzoni suggested, is the "creative" use of history.

The first version --- economic history in its rather old humanistic fashion --- has retained a prominent place till WWII, but the influence then began to decline. Schumpeter's statement regarding the role of economic history in economic analysis that "*In principle ... Latin palaeography, for instance, is one of the techniques of economic analysis*" (1954, p.11), as Cesarano (2006) noted, would probably be ridiculed by many practitioners of economic history nowadays, which reflects again the fundamental shift of research strategy in this filed.

Following the decline of the humanist tradition, second-generation economic historians have emerged seeking to reconstruct this discipline in a more scientific manner. Alfred Conrad and John Meyer, Douglas North, and Robert Fogel are among the pioneers of this intellectual movement, which started from operating mainly in the United States and dealing with American economic history and seems to have eventually been the most prevalent type in the economic history publishing market till more recently, treating diverse historical economic issues from antiquity to the present across the human civilisation (McCloskey, 1976; Boldizzoni, 2011).

The third alternative approach, using history "creatively", tries to reorient economic history as a discipline by restressing and rejuvenating the role of history while formulating and applicating corresponding economic theory. By adopting this approach, Boldizzoni noted:

Historians are aware of their capacity for building models and ideal types from which their theoretical neighbours can infer generalisations on economic behaviour and practices. Naturally, there are no universal models but only interpretive schemes. Their role is to identify uniformities and differences in human experiences in order to make meaningful comparisons in time and space (2011, p.138).

Regarding solving the seemingly dichotomic methodological relationship between theory and history, Boldizzoni sees the "creative" use of history in the form of a metatheory as "*a framework for finding the bearings but one that is general enough not to be constricting*" for the economic historian, which incorporates "*knowledge from the social sciences and other branches of historical inquiry that can be reworked in total autonomy*" and *"at least economic, social, and cultural theory, as well as social, cultural, and political history"* (Boldizzoni, 2011, p. 140-141).

The idea of a metatheory that incorporates both history and theory implies that there should not be a normative judgment regarding the method choice or preference of either history or theory in economic history. A literal and narrative approach to economic history is probably no longer possible. Latin palaeography will not even be representative of economic history, and far more not one of the techniques of economic analysis as Schumpeter once stated. With time, the attempt to measure and use theory have also gained their established roles in increasing the precision and consistency of statements in economic history. As Cameron (1965) noted, as a historian is inevitably guided by some *a priori* ideas somehow absorbed, the choice now is not between theory or not theory, but between *"explicit, consciously formulated the theory and implicit, unconscious theorising"* (1965, p.112) in economic history. And here again, history is indispensable for a well and consciously formulated theory.

More important, the idea of a metatheory is an active approach to overcome the relatively rigid separation between old and new, positivistic and hermeneutic methods in the (economic) historical inquiry. Being complementary to each other and crushing each other's shortcomings, theory's and history's interdependence among all the research strategies and methods should be stressed. As Popper (1954, p.174) noted, the characterisation of history by its interests in finding and testing specific events is perfectly compatible with the analysis of the scientific method, especially in finding causal laws. Combining both the natural and the historical aspects in man's social-economic attitude (Leipold, 1998; Eucken, 1992[1940]) mutual integration of history and theory for their respective benefit will increase the precision and testability of any new statements and conclusions in economic history without losing the broader historical scope behind them. The problem regarding universal laws and uniqueness will also be treated more consciously. Hence, the mutual relevance of history and theory in establishing a dynamic relationship between them is core for both overcoming their pseudo-dichotomy and advancing the research strategy of economic history, further reaching a more comprehensive historical consciousness.

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