

## Focus: Understanding Economics in U.S. History

History matters. It matters not only because we can learn from the past, but because the present and the future are connected to the past by the continuity of a society's institutions. Today's and tomorrow's choices are shaped by the past. And the past can be made intelligible only as a story of institutional evolution.

This story focuses on the problem of human cooperation - specifically, the cooperation that permits economies to capture gains from trade. Economic growth depends upon the evolution of institutions that create a hospitable environment for cooperative solutions to problems associated with trade. Not all human cooperation is socially productive, of course; twentieth-century history provides many examples of cooperative efforts undertaken in the service of ill-advised or destructive goals. In analyzing human cooperation, therefore, we also need to be concerned with the evolution of institutional frameworks that induce economic stagnation and decline. The purpose in each case is to explain the structure and performance of economies over time.

Understanding the process of economic change would enable us to account for the diverse performance of economies, past and present. We would, for example, be able to account for the long history of sustained growth in the United States and western Europe; for the spectacular rise and demise of the Soviet Union; for the performance of Taiwan and South Korea, marked by rapid economic growth, in contrast to the dismal record of sub-Saharan African economies; and for contrasts in the evolution of Latin America and North America.

Understanding the past has its own value for those who seek to elaborate and refine theories of economic growth. In addition, knowledge of the past is the key to improving the performance of economies today and in the future. A real understanding of how economies grow can unlock the door to greater human well-being through a reduction in abject poverty and misery.

We live in an uncertain world that evolves continually, in surprising ways. In this context, standard theories - including neo-classical economic theory - are of little help, notwithstanding their value for other purposes. Attempting to understand economic, political and social change (we cannot grasp any one of these aspects apart from the others) requires a fundamental recasting of the way we think. Can we develop a dynamic theory of change comparable in elegance to general equilibrium theory? Probably not. But if we achieve an understanding of the underlying process, then we can develop more limited hypotheses about change that can enormously improve the usefulness of social science theory in confronting human problems.

Economic change is a process. In contrast to Darwinian evolutionary theory, the key element in a theory of human evolutionary change must be the intentionality of the players. The selection mechanisms in Darwinian theory are not informed by beliefs about the eventual consequences of events that occur as species evolve. In contrast, human evolution is guided by the perceptions of the players. The perceptions are influenced by the beliefs of the players - the theories they hold about the consequences of their actions - and these beliefs typically are blended with their preferences. The players make decisions in light of their perceptions, with the intent of producing outcomes downstream that will reduce uncertainty arising from the institutions they rely on - political, economic and social - as they pursue their goals. For the most part, therefore, economic change is a deliberate process shaped by the perceptions of the actors as they weigh the likely consequences of

their choices and actions.

But how do humans come to understand their environment? The explanations they develop are mental constructs derived from experiences, contemporary and historical. These constructs are based on something more than the accumulation of individuals' experiences over their lifetimes. They are also influenced by the cumulative experience of past generations.

The cumulative learning of a society - embodied in language, memory and symbol systems - includes beliefs, myths and ways of doing things that make up the culture of a society. Culture not only determines societal performance at a moment in time; through the way in which it supports and constrains the players, it also contributes to the process of change over time. To understand this process, therefore, we need to focus on human learning in a broad sense: on what is learned and how it is shared among the members of a society; on the incremental process by which the beliefs and preferences change; and on the way in which beliefs and preferences shape the performance of economies over time.

We cannot expect high school students to fully appreciate how choices made by their ancestors have fundamentally shaped the institutions with which we live today. They can, however, learn to see events large and small as outcomes produced by the choices people make every day, and they can begin to understand how those choices are shaped by evolving institutions and the ideas on which the institutions are based.

In the efforts educators make to help students grasp these powerful insights, much will depend upon the quality of the instructional materials used. With its explicit emphasis on choices, costs, incentives, rules of the game and voluntary exchange, the curriculum presented here - Focus: Understanding Economics in United States History - will provide educators with a valuable source of focus and direction for their work.

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