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The Rise and Fall of Economic History at MIT

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MIT

Abstract

This paper recalls the unity of economics and history at MIT before the Second World War, and their divergence thereafter. Economic history at MIT reached its peak in the 1970s with three teachers of the subject to graduates and undergraduates alike. It declined until economic history vanished both from the faculty and the graduate program around 2010. The cost of this decline to current education and scholarship is suggested at the end of the narrative.

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The Rise and Fall of Economic History at MIT

Peter Temin

This paper tells the story of economic history at MIT during the twentieth century, even though roughly half the century precedes the formation of the MIT Economics Department. Economic history was central in the development of economics at the start of the century, but it lost its primary position rapidly after the Second World War, disappearing entirely a decade after the end of the twentieth century. I taught economic history to MIT graduate students in economics for 45 years during this long decline, and my account consequently contains an autobiographical bias.

The story begins with Davis Rich Dewey, older brother of John Dewey and Professor of Economics at MIT until 1940. He was one of several people who shaped the profession of economics, and the economics library at MIT is named after him. Best known for his writings on United States economic history, his professional career spanned fifty years during the formative period of the modern economics profession.

Dewey received his doctorate from Johns Hopkins in 1886 with a thesis on the early history of American economics. He was appointed instructor in history and political science at MIT and published his first articles in 1887. He progressed steadily up the ranks to professor and department chairman. He also served as the chairman of the MIT Faculty in 1911-1913.

Dewey was an associate of Francis Amasa Walker, who had become MIT's president in 1881, and he edited Walker's *Discussions in Economics and Statistics* for publication in 1899 after Walker's sudden death. Dewey wrote his classic *Financial History of the United States* for

Albert Bushnell Hart's American Citizen Series in 1902, and a volume entitled *National Problems* for Hart's American Nation Series in 1907. *Financial History of the United States* won the John Marshall Prize offered by Johns Hopkins in 1904.

Dewey was influential in the internal affairs of two major professional organizations, the American Economic Association and the American Statistical Association. He participated in the founding meeting of the American Economic Association while still a graduate student, and he became its president in 1909. When the association's journal, *The American Economic Review*, was started in 1911, he served as its first editor, a post he held until 1940. The medal on the Dewey Library homepage was awarded to him on the occasion of his retirement as editor of *American Economic Review* in 1940. Also in his first year of service at MIT, he became a member and was elected secretary of the American Statistical Association, an office he held until 1906. Dewey helped edit the publications of that organization as well as serving as secretary and a member of the Publications Committee,.

Dewey was above all a practitioner, insisting that applied knowledge was the true realm of the academic economist. He was indifferent to theorizing which had little to do with empirical fact. Dewey also maintained a lively interest in the politics of academic institutions and followed several academic freedom cases of his day.

At the time of Dewey's retirement in 1940, Paul Samuelson came onto the MIT scene. Receiving his PhD from Harvard in that year, he was snatched up by MIT when Harvard failed to make him a faculty appointment (Keller and Keller, 2001, pp. 81-82; Backhouse, 2013; Weintraub, 2013). From this event came both the birth of the MIT economics department, and a revolution of economics itself. Samuelson's thesis, published as *The Foundations of Economic*

Analysis, championed the use of mathematics in economics. He was hardly the first economist to use math, but he showed how math could be systematically employed to reformulate familiar and unfamiliar economic arguments. He was like Adam Smith, organizing various strands of existing economics into a new coherent synthesis.

The economics department started its graduate program after the war. The education was constructed like a three-legged stool, resting on required courses in economic theory, econometrics, and economic history. But while the legs of a stable stool are equal, these required courses were not. Economic theory and measurement were in their ascendancy, and economic history needed to find a way to coexist with the new theories and econometrics to survive.

This problem can be illuminated by another analogy: Marxian class struggles. Marx identified three classes that can be associated with the legs of MIT's three-legged stool. Aristocrats (landowners) are economic historians; capitalists (owners of capital) are theorists, and proletarians (owners of labor) are econometricians. Economic historians were being supplanted in economics as the aristocracy was in Europe after the Industrial Revolution. The question for power then was who the econometricians would support. On the one hand, like economic historians, they regarded facts and data as primary inputs to their work. Dewey had helped form both the AEA and ASA. On the other hand, econometricians also were interested in new statistical and econometric theories. In the early years of the MIT economics department, they went with the theorists.

Dewey was succeeded initially by Karl Deutsch, who was at MIT, albeit not in the economics department. Deutsch taught economic history during the late 1940s and then was

followed by Walt Rostow in 1950. Rostow served in the Office of Strategic Services during the war and became the assistant chief of the German-Austrian Economic Division in the Department of State immediately after the war. He was the Harmsworth Professor of American History at Oxford in 1946-47 and the assistant to the executive secretary of the Economic Commission for Europe in 1947. He was involved in the development of the Marshall Plan and was the Pitt Professor of American History and Institutions at Cambridge in 1949-50.

Rostow was Professor of Economic History at MIT from 1950 to 1961. I took Rostow's class when I began my graduate work at MIT in 1959. He had just written *The Stages of Economic Growth: a non-Communist Manifesto* and was lecturing from it. My most vivid memory from his class was his frequent invocation of the maxim: "It's different in the South." A more widely repeated comment was made by Paul Samuelson to Walt Rostow over lunch one day. After Rostow made a claim that Samuelson disliked, Samuelson said, "Walt, you may be an economist among historians, but you are historian when you are among economists."

The relationship between economics and economic history had changed dramatically from Dewey, who was a leader of both, to Rostow, who was marginal to economists. Economics in this interval became a mathematical social science under the leadership of Paul Samuelson. MIT was at the forefront of this process, and it became the leading proponent of mathematical growth theory under the leadership of Robert Solow in the 1960s. Solow's seminal work was published while Rostow was at MIT, but Rostow by then was moving into politics.

Rostow joined John Kennedy's campaign for the presidency in 1960, coining famous phrases like "The New Frontier" and "Let's get this country moving again." He left MIT to join the Kennedy Administration in 1961, where he worked for McGeorge Bundy. President Johnson

appointed him to the post now called the National Security Advisor in 1966, “at a time when criticism and opposition to the war were beginning to crystallize, and he eventually served the purpose of shielding the president from criticism and from reality (Halberstam, 1972).” He was not invited back to MIT when he completed his government service because—as Samuelson’s quip illustrates—he was not considered enough of an economist. He was an “old economic historian” in the tradition of Dewey, and the faculty feared that he would not interact enough with the increasingly formal graduate students.

One effect of the change in the focus of economics was to change the main mode of reasoning from inductive to deductive. This meant that papers in economics changed from being primarily narrative like Dewey’s papers and started with a model like Samuelson’s papers. The new economics papers progressed from a model to data and then hypothesis tests. Economic historians responded to this change in economics by embracing the new tools of economic theory and measurement in what became known as the New Economic History.

This movement was led by the two recipients of the 1993 Nobel Prize in Economics, Douglass North and Robert Fogel. North was editor of *The Journal of Economic History* with William Parker in the 1960s with the conscious aim of attracting papers using formal economics in their analysis. He gained most fame by stimulating the growth of the New Institutional Economics through his many publications. Fogel burst into this scene with his publications first on the social savings of American railroads and then, with Stanley Engerman, his publications on American slavery. These contributions were showcased first at annual meetings of what would come to be called cliometricians held in in the 1960s at Purdue University in the dead of winter.

The Economics Department at MIT participated in this re-orientation of economic history by hiring me to replace Walt Rostow in 1967. Like Deutsch in the 1940s, I had been teaching economic history in the economics department from outside the department for two years while resident in MIT's Sloan School. My first graduate class in 1965 was extraordinary, containing such later luminaries as Robert Hall in macro and Richard Sutch in economic history. I had learned from Dewey (1903) and Taussig (1910) while I was a student. As I started teaching, they were supplanted by Friedman and Schwartz (1963). I wrote my first book on the Great Depression in response to their views (Temin, 1976).

In terms of the Marxian analogy, economic historians threw their lot in with the econometricians in the New Economic History. Most scholars interested in economic history are not very good and not very well-informed about current problems of economic theory. By contrast, the growing use of computers in economics rapidly reduced the cost of econometric work. New Economic Historians turned to the collection of historical data and their use in testing hypotheses about economic activity. In this way, the New Economic History brought itself into the mainstream of economics as it was developing, but it caused a growing problem for economic history at MIT as the economics department turned its face toward the new theories championed by Samuelson and Solow.

Economic history at MIT expanded in the 1970s as two economists already at MIT turned to economic history late in their careers and taught economic history during the years before they retired. They were Charles Kindleberger and Evsey Domar. Kindleberger had been involved with the war effort like Rostow and other members of the early department. He wrote prolifically about his experiences and turned to teaching and writing in economic history toward

the end of his career. He wrote two books in the 1970s that have become classics. The first was the fourth volume in a series on the history of the world economy in the twentieth century, and it is safe to say that the series is remembered because of Kindleberger's book rather than the other way around. He championed an international view of the Great Depression and introduced the idea of an international hegemon, that is, a country that can lead the world economy to prosperity. Both ideas have had wide currency. The second was a more popular survey entitled, *Manias, Crashes and Panics*. The two books appeared in 1973 and 1978 initially; the first had a second edition in 1986, and the second had many revisions, the latest in 1996 (Kindleberger, 1973, 1978).

Kindleberger made several points in his books. One important point of the first book was that the Great Depression was global, caused in part by the collapse of international raw-material cartels and the dramatic fall in trade. Another point was that the Depression took place in an interregnum when Britain had lost the ability to be hegemon, largely by expending so many resources on the First World War and partly from the decay of its comparative advantage before the war. The United States, which might have been expected to become the new hegemon, was not yet ready to take on that role; only after the Second World War did the United States step forward as an international hegemon. In the second book, Kindleberger asserted that booms and busts are to be expected, not necessarily on the scale of the Great Depression, but still with enough force to disturb the progress of economic growth.

Domar was less prolific, but he left economic historians with the "Domar model": a trilemma that said you could not simultaneously have free land, free labor, and an aristocracy (Domar, 1970). This trilemma can be seen as an adaptation of the Marxian class struggle.

Instead of foreseeing a winning combination of two out of three classes, Domar asserted only a combination of two out of three conditions he listed could exist in a world without capital. The idea of a trilemma has been used widely, and it has migrated into international economics to reveal that you can only have two of fixed exchange rates, free capital movements, and an independent monetary policy (Obstfeld and Taylor, 2004). The trilemma was illustrated tragically in 1931 when Weimar Germany abandoned free capital movements, Britain abandoned fixed exchange rates, and monetary policy in the United States was dedicated to preserving the exchange rate. The resulting deflationary pressure sent the world into the Great Depression (Temin, 1989).

The years of the late 1970s and early 1980s when students had a choice of three economic-history classes represented the high point of economic history at MIT. Kindleberger taught European economic history; Domar taught Russian economic history; and I taught American economic history. I had published my first book on the Great Depression in 1976, focusing on the United States, and Charlie and I spent many hours discussing among ourselves and with students the best way to understand that tragic phenomenon.

The most famous MIT graduate in economic history was Christina Romer, who in her 1985 dissertation analyzed the comparative severity of postwar and pre-First World War recessions. She wrote many papers about the Great Depression and was the chair of the President's Council of Economic Advisers during the first year of Obama's presidency. She is credited with advocating a larger stimulus as Obama took office that might have created more favorable economic conditions by the time of the mid-term elections in 2010. It seems obvious to an outside observer that the claim of immediate politics—how large a stimulus could be

passed by Congress—was weaker than the claim of electoral politics in less than two years. It must not have been as compelling in early 2009. There are no accounts that reproduce such a discussion if it actually took place (Scheiber, 2011).

The abundance of economic history in MIT's graduate curriculum ended when Kindleberger and Domar retired in the early 1980s. I was the Pitt Professor at Cambridge in 1985-86, and I remember taking a long walk with Rudi Dornbusch at a conference in Puerto Rico soon after I returned, during which he persuaded me to teach world economic history. It seemed like a major challenge after teaching American economic history for twenty years, although it proved to be a great stimulus to my teaching and research. I published my second book on the Great Depression in 1989, building on Kindleberger's international approach in the Robbins Lectures at the LSE (Temin, 1989).

I became head of the economics department in 1990. We had made appointments during the 1980s to replace Samuelson—many times—and the other retirees from the postwar cohort that built our department, but we had gotten out of the habit of hiring fresh PhDs. It was a problem of asymmetric information. We were happy to hire older scholars, but we seemed to need more information about younger ones. I launched a campaign to get us to hire freshly minted scholars, and found that it took some years before we relearned how to accomplish this task well. We made some bad choices in the first few years, and then had the opportunity to make a big score in 1993. There were many excellent students on the market that year, and we had the budget to hire several of them.

I decided to push our budget and hire a total of six new assistant professors, including Daron Acemoglu from the LSE and Dora Costa from Chicago. Acemoglu was very bright, but

we were not sure what field he would fit into, while Costa was sharply focused on economic history. Hiring six junior faculty members in one year scared Philip Khoury, the dean of the School of Humanities and Social Sciences, and Jim Poterba and I had to calm him down over lunch one day in the spring of 1993.

That year also was busy among senior members of the MIT economics department when Harvard made offers to many of our senior people. Olivier Blanchard (macro) stayed at MIT, but we lost Oliver Hart and Drew Fudenberg (theorists) to Harvard. To counter this onslaught I hired Abhijit Banerjee from Harvard, a junior theorist with an interest in economic development, and started the process that brought Bengt Holmstrom, another theorist, to MIT the following year. Banerjee was one of the six junior hires in 1993.

The new junior faculty members were a good group, but Acemoglu and Costa were the only ones of the new PhDs who remained in the department, earned tenure and took their place as senior members of the department. Acemoglu continued to work and publish in many fields of economics, and he rapidly emerged as a department leader with his broad interests and abilities. Costa proved to be an excellent scholar who published in leading economics journals as well as those in economic history and demography, but she remained at the edge of the department as an economic historian despite her prize-winning book on the evolution of retirement in America (Costa, 1998).

It is probably not fair to either Acemoglu or Costa to use them as examples of trends, but it is instructive to see their development as instructive in chronicling the fate of economic history at MIT. I frame the argument using two slim volumes in the Oxford University Press series of Very Short Introductions, one on economics and one on economic history (Dasgupta, 2007;

Allen, 2011). Both books start by contrasting rich and poor nations, saying that explaining this difference is the topic of their brief books. Dasgupta starts by contrasting conditions of two ten year old girls, one in America and one in Ethiopia and goes on to contrast rich and poor nations. Allen starts with the great divergence of incomes started by the Industrial Revolution and goes to contrast rich and poor nations. Dasgupta explores differences in trust in the extremes of incomes, while Allen emphasizes the historical paths by which countries arrived to their present positions. They however both end on the same note, as shown by their final sentences. For economics: “There is, alas, no magic potion for bringing about economic progress in either world (Dasgupta, 2007, p. 160).” For economic history: “The best policy to effect economic development, therefore, remains very much in dispute (Allen, 2011, p. 147).”

The two books are quite compatible. Neither claims to have a good answer for the question posed at the beginning. But only one of them is considered central to economics. In terms of the class struggle described earlier, the coalition of theory and econometrics left economic history out of power in the counsels of economics. Proponents of the New Economic History were using more and more econometrics in their work, but they were no match for theorists.

This is a loss to the department because economic history, even in Allen’s short volume, adds to our understanding of economic growth in several ways. Most importantly, economic history contains a sense of time. Economic growth since the Industrial Revolution has continued over a long time, and the gaps we see today are the result of two centuries of varied experiences. In addition, politics and economics are intertwined in economic history. Nations make choices, even if only by default, and these choices affect growth. Demography and resources affect

economic growth, but they do not determine it. And the study of history can expand the insights of formal economics, which provides detailed understanding of specific processes, into a narrative of people and choices. In particular, although not in this small volume, it can acknowledge that history is not always monotonic.

Costa and I taught American and European economic history together for almost twenty years. She also taught econometrics, and I also taught macro, but we only taught undergraduates and were consumers rather than producers to these fields. Costa regularly published many papers and books in both economics and related journals. New graduates of other departments in economic history during these years lacked the technical skills she showed and were not considered by MIT. We did not have many graduate students in economic history, but several students rewrote and published their term papers (Berck, 1978; Mishkin, 1978; Frankel, 1982; Johnson and Temin, 1993; Head, 1994; Slaughter, 2001; Cole, 2005; Gallego, 2010; Hornbeck, 2010).

The economic history paper was central to one of the legs of the three-legged stool supporting the economics department. The paper requirement began many years earlier when most field courses had term papers. It was by the turn of the century only a remnant of this pedagogical approach to graduate studies. The economic-history paper in the first year joined with the econometrics paper in the second year to help guide graduate students through the abrupt change from courses to thesis writing in the third year. We lack a test of the usefulness of these requirements as we have neither random assignment nor a good measure of output for such a test. I remain convinced of the usefulness of having students write papers throughout their education despite the absence of a rigorous test.

The two surviving papers, the remnants of the omnipresent term papers in most courses in the 1950s and 1960s, shared several characteristics. Students had to select a question to answer or a hypothesis to test, drawing on their course work or their general knowledge. They had to answer their question or test their hypothesis with using evidence from empirical data. And they had to write this up in the form of an article for an economics journal. They were, in short, two variants of an assignment in applied economics. In fact they were hard to distinguish at the margin and sometimes overlapped.

The two papers also differed in important respects. The history paper drew from economic history—defined loosely to follow the economics convention of a quarter-century or more past—for its questions and hypotheses. The aim was for the students to analyze events in a different institutional setting or with unfamiliar relative prices. Given the scarcity of historical data for many interesting historical questions, particularly those about foreign countries, many different quantitative techniques were used. The econometrics paper by contrast was focused on the econometric methodology being used and less on the context in which it was used. And of course the history paper came in the first year of graduate work, while the econometrics paper is a feature of the second year.

The emphasis on methodology was in tune with the development of economics at this time. Econometric theory advanced at the same time as growth theory. Given the outsize influence of Samuelson and Solow at MIT, it was only natural that the econometricians joined the theorists, leaving economic history behind. It was, extending the Marxian analogy, an Intellectual Revolution in modern economics.

This new power structure interacted with the perceived need for the students to learn more mathematics for modern economic theory and econometrics. Classes at MIT were set on a two-year basis, and there was only limited time available for students to learn all that appeared necessary. If there was to be more mathematics, preferably at the beginning of the graduate program, then something else in the first year would have to go.

Then, in rapid succession, Costa moved to California, and I retired. The MIT economics department abandoned the graduate requirement of a course in economic history late in the first decade of the twenty-first century. The department made efforts to replace Costa and me, but the bar was set very high, and no appointment was made. The three-legged stool collapsed. In terms of class conflict, the new completely vanquished the old. Theory and econometrics joined to eliminate economic history as the capitalists and workers joined earlier to exile aristocrats. The economic-history paper vanished.

What is the cost of not having economic history at MIT? It can be seen in Acemoglu and Robinson, *Why Nations Fail* (2012). This is a deservedly successful popular book, making a simple and strong point that the authors made originally at the professional level over a decade before (Acemoglu, Johnson and Robinson, 2001). They assert that countries can be “ruled by a narrow elite that have [sic] organized society for their own benefit at the expense of the vast mass of people” or can have “a revolution that transformed the politics and thus the economics of the nation ... to expand their economic opportunities (Acemoglu and Robinson, 2012, pp. 3-4).”

The book takes a shotgun approach to economic history, and many of the pellets go astray. In the areas I know about, their interpretations are out of date and misleading. For example, they quote research into the records of Hoare’s Bank to illustrate that “loans would be

available to all” as a result of Parliament’s reform of finance after the Glorious Revolution (Acemoglu and Robinson, 2012, p. 195). This inference has two problems. It was taken from a paper by me and Hans-Joachim Voth about the *microeconomics* of what we called goldsmith banking (Temin and Voth, 2008). But Acemoglu and Robinson ignored our earlier paper that used the records of Hoare’s Bank to explore the *macroeconomics* of British economic growth (Temin and Voth, 2005). There we showed that financial changes in the early eighteenth century *retarded* the growth of incomes during the Industrial Revolution. In addition, goldsmith banks originated before the revolution noted by Acemoglu and Robinson. Their growth—like the country’s growth a century later—was shackled by Parliament’s financial actions after the Glorious Revolution.

Acemoglu and Robinson also pluck low-hanging fruit in Africa, Asia and Latin America. They discuss China briefly in their discussion of current events, but they ignore the gorilla on the basketball court: the United States (Kahneman, 2011). The United States is in danger of becoming a failed state, and Acemoglu and Robinson miss the chance to relate their survey of human history with an important lesson about the present. The distributions of income and wealth have been getting worse since the 1970s, and political power has been concentrating more and more in the very wealthy. The income Gini coefficient for American families moved slowly downward from the end of the Second World War until the late 1960s when it began to rise. The United States now has one of the highest national income Gini coefficients in the world (United States Department of Commerce, 2012). This process has gone on for a generation and was widely noticed in the literature, including major contributions by Thomas Piketty, one of the young economists hired with Acemoglu in 1993 (Piketty and Saez, 2003, 2006).

The United States is not the only advanced country in trouble at the moment. Other countries are becoming failed states in the Acemoglu and Robinson sense as their income inequality grows. Many countries have adopted policies they should have avoided from their failures during inter-war years, as recounted in my third book on the Great Depression (Temin and Vines, 2013). When I taught the Great Depression at MIT, students asked me whether there could be another one. I replied that there would always be recessions and even possibly another depression, but I said it would not be like the Great Depression—because policy makers had learned to avoid the mistakes of the 1920s and 1930s. Alas, those who do not know history are condemned to repeat it (as Santayana famously noted).

The aim of history is to inform decisions in the present. *How Nations Fail* indicates a desire in the MIT economics department to use economic history for this purpose, but the department is not now equipped to support this endeavor. The New Economic History, which adapted economic history to the MIT economics model described in this volume, is poised to fulfill this role at MIT if given an opportunity. The economics department started out in this direction by hiring me and then Costa, but we are gone without replacement. Anne McCants of MIT's history department continues to teach an undergraduate course in economic history that is cross-listed in economics. Undergraduates can get a taste of economic history, but the faculty and grad students are on their own.

I wish to close on a more positive note. Acemoglu plays a role in this ending, as this protean scholar has affected many things at MIT. Two of his recent students show how economic history might progress to rejoin economics more fully. Richard Hornbeck is now an Assistant Professor at Harvard, and Melissa Dell is a Junior Fellow at Harvard. They both are

competent econometricians, and their research is based on the idea of natural experiments. In both cases, Hornbeck about the United States and Dell about Latin America, they find temporal and geographic boundaries where they can test the effects of various exogenous events. Some of these effects have proved highly durable and therefore important to economic history. Their papers are now appearing in prestigious economics journals. I hope that they will continue to do well and that the MIT economics department will invite one or both of them back at some time to teach economic history at MIT. In this way the three-legged stool could be reconstructed. Or, in the Marxian analog, the three classes could learn to live cooperatively and supportively (Broadberry, 2012).

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