

## Comparative Historical Political Economy: An Old Research Program in a Modern Age

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### **I. Introduction**

It could be reasonably argued that the discipline of political economy was born in the intellectual exercise of comparative analysis. Why are some nations rich, while others are poor? Clearly this was the question that drove Adam Smith *An Inquiry into the Nature and Causes of the Wealth of Nations*. Smith provided a technical answer as well as a comparative institutional answer. The technical answer was that the greatest improvements to man's material conditions were due to an increase in productive capabilities. And the cause of increased productivity was the expansion of the division of labor. Specialized production and the expansion of exchange is what drove the improvement in the material conditions of living in the 17<sup>th</sup> and 18<sup>th</sup> centuries.

Technically, not much has changed in terms of the fundamental answer that Smith gave even when considering 20<sup>th</sup> and 21<sup>st</sup> century condition. We might put the basic point today in a slightly different way: the only way to increase real income is to increase real productivity, and the only way to increase real productivity is through the enhanced capabilities that follow from (a) increase labor skill, (b) increased capital investment, and (c) improvements in organizational (including managerial) capabilities. But the basic point remains the same as was made by Smith, the improvements in material conditions are due to an increase in the real productivity of individuals in any

given society. Division of labor and expanded trade are still the main vehicles through which these improvements in productivity are realized.

But a question still remains underneath the technical one, and that is why precisely is it that some countries are able to realize these gains from specialization and trade, while others languish in poverty. The underlying causal mechanism is to be found in the institutional environment that encourages investment in the improvements in human capital, the development of physical capital, the innovations in the organization of economic activities, and the expansion of the opportunities for mutually beneficial exchange. In the notebooks that Smith worked with in writing *The Wealth of Nations* he stated that: “Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes and a tolerable administration of justice.” More recently, Mancur Olson (1996) attempted to unpack all that would be entailed in this Smithean recipe and concluded that the societies who were unable to realize the great material improvements that resulted from specialization and exchange are in that sorry state because they lack the intricate network of institutions that provide security of property rights and the third-party contract enforcement. These economies of further hindered by poor economic policy, and the prevalence of public and private predation. Social cooperation under the division of labor requires a more sophisticated array of institutions than countries in the underdeveloped world possess at the moment.

It is an intellectually ironic predicament that the most pressing question at the turn of the 21<sup>st</sup> century was in fact the same one that drove the social sciences at the turn of the 20<sup>th</sup> century --- why did capitalism and economic development occur in Europe and the US, and not in China, and Africa and Latin America? Max Weber asked “why no

capitalism in China?” in the first decade of the 20<sup>th</sup> century, and since the mid-1980s, scholars – from the most technical (Robert Lucas) to the most popular (Jared Diamond) have been preoccupied with the differences between countries in terms of the level of economic development and well-being on its populations.

We refer to this conglomeration of interests as “comparative historical political economy” and the goal of studies that come under this rubric is to trace out in general theoretical terms the causal mechanisms that explain the historical patterns we have witnessed. It is our contention that this is what the discipline of political economy has always strove to achieve in terms of explanation, and that the intellectual episodes where intellectual resources were diverted in other directions (whether they be in the pure theory of general competitive equilibrium, or the preoccupation with refinements of statistical techniques, or the claims of historicism which defy comparative analysis) represent deviations from the mainline of argument that constitutes the continuity in the discipline of political economy throughout its history. In short, if the point of continuity in the discipline of philosophy is the seeking of truth, and the continuity in the discipline of politics is an understanding of the nature and operation of government, then the point of continuity in the discipline of political economy is to gain an understanding of how alternative institutional configurations either promote or hinder social cooperation and generalized prosperity. As Adam Smith’s title say, we are engaged in “an inquiry into the nature and causes of the wealth of nations.” Political economy is comparative and it is historical, that is how useful knowledge in the discipline is generated.

## **II. Why Political Economy?**

Not that long ago the term political economy was interpreted to mean that you were a heterodox economist of the Marxist variety. In the 1960s and 1970s the Union for Radical Political Economics (URPE) was established.<sup>1</sup> URPE was founded with the idea of opposing all forms of exploitation (sex, race, class, etc.) and it established a journal, *Review of Radical Political Economics*, and organized conferences and other associated activities associated with advancing the mission of the organization.

During the same time that URPE was agitating for social change, an intellectual counter-revolution was also taking place in the discipline of economics. Back at the turn of the 20<sup>th</sup> century, the discipline of political economy underwent a transformation to economics. This change in terms was meant to reflect a maturing of the discipline from its humble beginnings as a branch of moral philosophy to its new status as a full-fledged scientific discipline. Critical in this switch was the importation of concepts and techniques used in physics into political economy to restructure the discipline into economics.<sup>2</sup> The purging of the remnants of heritage from moral philosophy would take roughly half a century, and reached its zenith with Paul Samuelson's *Foundations of Economic Analysis* (1947). Warnings that Samuelson's agenda had gone too far in its quest for flawless precision and the establishment of a technical economics that could serve as a tool for social control were voiced by Kenneth Boulding in his review of Samuelson's *Foundations* for the *Journal of Political Economy*. But despite the fact that Boulding was himself at the time a recipient of the J. B. Clark Medal for Outstanding Economist under the age of 40, the promise of scientific precision that Samuelson offered was too much, and the fear of ideologically inspired confusions that supposedly

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<sup>1</sup> Exact date of founding is the summer of 1968.

<sup>2</sup> For a history of this intellectual evolution see Mirowski, *More Heat than Light*.

characterized the older political economy, meant that such warnings were dismissed. Instead the goal of an institutionally antiseptic theory of economics captured the imagination of the young would be economists *cum* engineers of social control. Abba Lerner, in fact, had titled his book *The Economics of Social Control* (1944).<sup>3</sup> But as Milton Friedman (1947) pointed out in his review, Lerner's approach to the issue focused on the formal analysis of conditions for an optimum while neglecting the institutional problems. It was economics as done inside of an institutional vacuum and as such is unable to provide a realistic appraisal of the administrative problems of Lerner's policy proposals, nor the social and political implications that would be associated with these policies.

The intellectual counter-revolution to this attempt to purge comparative institutions in the name of formalism began in the 1940s, and if you focus on the work of Mises and Hayek it was actually first launched in the 1920s. But the name political economy was still reserved for the remnants of Marxism in the social sciences until the 1980s, when the counter-revolution in law and economics, property rights economics, public choice economics, new economic history, and the new economics of organization had developed to such an extent that a modern approach to political economy was once again recognized as a viable research program in economics, and the search for

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<sup>3</sup> A curious fact about that book is that it is based on his doctoral dissertation work at the LSE under the direction of F. A. Hayek. The book attempts to resolve the dispute between Hayek and Lange over socialism on the one hand, and Hayek and Keynes on the other, on purely technical grounds. The apparatus of modern marginal economics, Lerner believed, could serve as the basic tool of social control in microeconomics, and fiscal policy could serve as the basic tool of social control in maintaining macroeconomic stability.

underlying causal mechanisms explaining differences in the economic performance of countries was once again located in the realm of comparative institutional arrangements.<sup>4</sup>

Political economy seeks to embed the economic and financial activities of a social system within a broader context that gives weight to the political and legal environment, and the social and cultural beliefs of any particular historical context. To put it bluntly, economic behavior, economic organizations, and economic policy never exists within a vacuum, but is always practiced within a broader social context. Vernon Smith (2003) refers to this point by use of the term “ecology” and he contrasts “ecological rationality” with “constructivist rationality” in economic and political economy analysis. Ecological rationality respects the context of choice, whereas constructivist rationality attempt to judge choice independent of context. But choice is forever bound to context and cannot be ripped out of that context and yet make sense of it.

Knowledge within political economy is derived by the play between the analysis of the effectiveness of chosen means to obtaining desired ends, and the philosophical speculation over what ends should be pursued. The ends to be pursued must be instantiated in practice by way of institutional forms, and those institutional forms in turn structure the incentives that human actors face, and control the flow and quality of information that human actors must process in making their choices. The way that

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<sup>4</sup> This collection of research programs often goes under the names public choice, rational choice politics, modern political economy, Virginia School of Political Economy, Chicago School of Political Economy, the theory of collective action, positive political economy, Constitutional political economy, New Institutional Economics, and more recently political economics. There are subtle (and sometimes profound) differences in these different approaches. But for our purposes what matters is that each of these movements sought to incorporate into the basic model of social interaction the political-legal-social dimension whereas before the dominant intellectual move was to hold these factors as external to the model.

human actors pursue their purposes (i.e., the arranging of means to obtain ends) is a function of the incentives they face, and the information they have to work with. As a result, alternative institutional arrangements will steer behavior in alternative directions.

The play between technical economics and social philosophy produces political economy. James Buchanan utilized the language of pre- and post-constitutional levels of analysis to communicate this basic point. The pre-constitutional level focused on the choice of the rules of the game that could be argued to produce a “good game”. The post-constitutional level would then focus on given the rules agreed upon in the pre-constitutional level, what strategies would human actors pursue to fulfill their plans. If the rules of the game were desirable at a philosophical level, but resulted in strategies which undermined social progress (or social order), then perhaps our philosophic speculation was wrong-headed. The answer of what would be good rules cannot be answered without a hard-headed analysis of the strategies that would be unleashed as the players play the game so defined by those rules. We must ask what are the practical problems associated with playing the game in the fashioned defined both those rules, and what opportunities will exist in the rule regime for abuse by the participants. Inefficiency and opportunism are to the two counter-weights to unconstrained dreams of changes in the rule regime.

The institutional infrastructure of any society is thus defined as the rules of the game, and their enforcement. The rules of the game constitute both the formal rules as well as the informal rules that guide player behavior. Enforcement consists of both informal and formal mechanisms that discipline deviate behavior. Unless these mechanisms are in place, opportunism will overrun the system. As a statement of

positive analysis, it is important to emphasize the informal mechanism --- including internal norms and external social pressures --- because unless the formal mechanism merely reinforce existing informal mechanisms, the costs of enforcement will be prohibitive.

Knowledge is assured in political economy through a careful dichotomization between positive and normative levels of analysis. Political economy so conceived becomes a tool of interpretation and a tool of social criticism, but never a tool of policy advocacy. Policy advocacy must entail the additional incorporation of moral theorizing, and thus entails that the individual doing the advocating explicitly stating their moral stance and being willing to defend it against alternatives. But social criticism can be immanent rather than transcendent and this in fact is one of the best uses to which economics and political economy can be utilized. The science of economics and the art of political economy provide us with negative knowledge to the effect that we can put parameters of people's utopias. But the most important role that economics and political economy plays is to provide an interpretative framework for the student of society. The critical insights of these disciplines are: (1) individuals act purposively in striving to achieve their goals; (2) incentives matter; (3) informational feedback is necessary; and (3) social order is made up of interconnected webs of relationships that emerge out of the actions of individuals though not necessarily from their direct design.

### **III. Why Historical?**

The purpose of theory is to do history. The story of humanity comes to us through historical narratives, but that story must be constructed by us and with particularly

purposes in mind. The empirical record does not just appear to us in raw form. As the German poet Goethe put it long ago, everything in the realm of fact is already theory. As human beings we think in language, we communicate in language, and language already is embedded within theory. For economists trained in the statistical approach to positivist economics, this view cannot possibly be true. Facts have to be objective, in this rendering, and thus able to provide the needed adjudication between competing theories (or hypotheses).

This position misses several critical points. First, statistics are collected as brute facts and in a raw form. They are compiled by way of collection devices, and those collection devices are embedded in theory. Keynesian questions, for example, lead to Keynesian data, and ultimately lead to Keynesian answers. The entire apparatus of statistical economics in the post-WWII period was guided by Keynesian theory. Second, the naïve positivist position on hypothesis testing is overturned even in the natural sciences by the Duhem-Quinne thesis that tests are never unambiguous. When contrary evidence is presented, are we rejecting the focal hypothesis, or the network of subsidiary hypotheses that produced that focal argument that is being examined against the data. In the end, the main point we are making is just that empirical social science is not a routine matter, and the epistemological issues associated with theory and history are not as clear cut as the mid-20<sup>th</sup> century philosophers of economics (Hutchison to Blaug) had suggested, and practicing economists (e.g., Friedman and Stigler) believed they were doing. Instead, even the most formalistic and positivistic of economics were engaged in acts of interpretative understanding, narrative storytelling, and rhetorical persuasion. (see McCloskey 1985)

The purpose of theory is to provide scholars with a set of analytical eyeglasses that we use to read the empirical world and to construct compelling narratives. The narrative form of empirical work has made a comeback in political economy with the work of Robert Bates, Avner Greif and Barry Weingast in what has been termed the “analytic narrative” approach to political economy. (Bates, et. al., 1998) The development of the analytic framework helps organize the narratives we construct, and select between competing narratives we could choose to construct. The narrative, on the other hand, helps fill out institutional details required to appropriately contextualize political economy practice, and also aid the analytic “process tracing” that constitutes a completed story (rather than an incomplete one) in political economy.

Economics, Ludwig von Mises (1949, 92) argued, “is not about things and tangible material objects; it is about men, their meanings and actions. Goods, commodities, and wealth and all the other notions of conduct are not elements of nature; they are the elements of human meaning and conduct. He who wants to deal with them must not look at the external world; he must search for them in the meaning of acting men.” Only narrative forms of empirical evidence can help us gain access to the underlying meaning structures that are in operation in any given historical context. But our understanding of historical outcomes can only be attained by filtering specific historical events through the lens of general, transhistorical, conceptualizations in political economy.

#### **IV. Why Comparative?**

Whenever we discuss empirical phenomena in the social sciences in general, and political economy in particular, we begin with the question “as compared to what.” Whether we are discussing the standard of living of the working-class during the Industrial Revolution, or the plight of the underdevelopment due to globalization today we must address the issue of comparison. We are compelled to make a positive assessment on comparative terms. The living conditions of the working class in the UK during the Industrial Revolution were of course miserable compared to the working class in post-WWII, but how about compared to a generation or two before the timing of the Industrial Revolution?

In his edited book, *Capitalism and the Historians* (1952), Hayek addresses these topic and contrasts the comparative historical political economy approach with that of the politicized approach of Barbara Wooten --- who at the time was teaching the general economic history course to students at University College London. Wooten emphasized the working conditions in factories and the indignity of urban dwelling that characterized the Industrial Revolution. What she did not explore was the problems of poverty, disease, and onerous labor that characterized rural life prior to the Industrial Revolution that produced a miserable and short life for its inhabitants. One simple measure of the change in life due to the Industrial Revolution, is that in the prior period it was a common practice to name the male children after the father over and over because only 1 in 10 would survive to adulthood and be able to carry the name forward for a new generation. This practice ceased after the Industrial Revolution because of enhanced life expectancy due to increased material conditions.

The positive analysis of the empirical record today demands no less a comparative approach. Are workers in less developed countries made better off or worse off by exposure to world markets and globalization? Can less developed countries afford the level of regulation and the establishment of an extensive social safety net that is similar to that of the advanced economies in the Europe and the US?

These questions are not answered exclusively through cross sectional analysis nor time series analysis. Instead, we argue that the more effective way to approach these questions is to engage in comparative case studies (with all the problems associated with them). We need to examine the details of institutional contexts, and to see how these contexts influence the choices of individuals by structuring incentives and impacting the flow and quality of information that actors can use in making their choices.<sup>5</sup>

Knowledge in the social sciences is advanced through the intellectual exercise of “sliding” between alternative institutional environments and examining the impact on human actions and the mechanisms of social order, and using the theoretical framework to shift through the historical record and to construct compelling narratives. These detailed narratives illustrate the causal mechanisms articulated in the comparative institutional analysis.

The recent work by Djankov, et. al. (2005) on the New Comparative Economics focuses on how alternative environments cope with the threat of predation, whereas Acemoglu and Johnson (2005) use the basic building blocks of economic motivations and political conflicts to examine the impact on social order of alternative political-economic

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<sup>5</sup> See the discussion of “comparative historical sociology” and the debate over methods of analysis and the role of historical scholarship by Edgar Kiser and Michael Hechter (1991 and 1998).

regimes. Besely (2006) engages in a slightly different, but no less comparative intellectual exercise when he examines how alternative selection mechanisms for political actors can steer us between the naïvely optimistic perspective of the benevolent social planner familiar in the social welfare functions, and the overly pessimistic view of rent-seeking political entrepreneurs in standard public choice analysis. It is all about institutions that will wisely select those least corruptible by power to take political position, and yet also establish an environment within politics that will constrain them from becoming corrupt. This is formidable project of institutional design, but again it is one that has roots in Hume and Smith and the US founding fathers such as James Madison. Least we forget, it was Thomas Jefferson who warned that without men of virtue and talent good government would not be possible, and even with such men unconstrained government can corrupt.

We have actually argued that comparative political economy must be focused on *robust* political institutions that effectively cope with our ignorance, and guard against our opportunism, and yet cultivate an economic environment that allows individuals to pursue their plans freely, to bet on their entrepreneurial ideas, and to find the financing to bring those economic ideas to life in the marketplace. (Boettke, et. al., 2005) You can imagine environments that would attempt to ward off predation, but do so in a way that would also curtail innovation, and you can imagine a world that attempts to encourage innovation, but predation by private and public actors will serve to steer all innovation in the direction of seeking ways to out predate the next guy. Upon examination through the lens of economics and political economy we would conclude that life in either regime will not exhibit material progress nor the expansion of freedom. In fact, we may very

well conclude that in both worlds life would be nasty brutish and short. The critical point for this stage of the development of our paper is that we think about these issues in comparative terms, not in isolated terms. The economic way of thinking -- whether we are looking at the choices of the individual on the margin, or the entrepreneur considering alternative projects, or the plant manager weighting options in production technology, or the constitutional political economists examining the rules of the game --- begins with, and must begin with if they hope to be grounded in the practical matter of effective action, the question “as compared to what”.

#### **V. Back to the Beginning, or How Much Progress is There in Economics and Political Economy?**

The comparative historical political economy research program that we have just outlined is not new. We are not making a claim to originality. Our argument is instead that this is the way that economics and political economy has always been practiced. Ronald Coase’s examination of the private provision of lighthouses, Harold Demsetz’s discussion of the evolution of property rights in beaver trading among the pacific northwest coast Indians, as well as Steve Pejovich’s analysis of workers’ self-management in Yugoslavia, and Ludwig von Mises’s critical analysis of theoretical visions of alternative forms of socialism, all provide examples of the comparative historical political economy genre of research. And so does Adam Smith’s discussion of mercantilism and other systems of political economy in *The Wealth of Nations*.

This method of imaginary constructions, and in particular, the method of contrast, is the way that many political economists through the history of the discipline

have worked on a theoretical and empirical level. As we argued earlier, there was a period (between 1930 and 1980) when economics was conceived as an almost purely technical discipline that did not need to address questions of an institutional nature. But such an economics analysis as if life was in a vacuum always had its distracters as demonstrated in Milton Friedman's review of Lerner's *The Economics of Control*. The question of public administration was never one of pure technical efficiency no matter how forcefully the technocratic would-be social engineers insisted that they had transformed political economy into the science of economics and forged the tools for social control.

The story of the fate of 20<sup>th</sup> century economics is one of a perilous progress, to use the phrase of Michael Bernstein's. (2001)<sup>6</sup> If we are indeed beginning the 21<sup>st</sup> century with the same broad research program that we ended the 20<sup>th</sup> century with, then what progress was actually made in economics as a science in the intervening century of intellectual effort. It certainly wasn't for lack of funds or talented attracted to the field. The 20<sup>th</sup> century was in many ways the century of economists, and yet despite the funds and despite the influx of talented young scholars into the field, progress on the fundamental questions of the reasons for the wealth and poverty of nations is not that much further than what Hume or Smith told us about in the 18<sup>th</sup> century.

Whereas in the classical period we communicated the basic message of political economy in natural language (whether it be in English or French or German), today we talk in terms of mathematical models, tests of statistical significance, or computer

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<sup>6</sup> The use of the phrase should not indicate an endorsement of Bernstein's exact narrative on economics, though we do agree with critical aspects of his argument about professionalization and public policy ascendancy.

simulations. But at the end of the day, when you push for the underlying causal mechanism it still has to be communicated in some natural language form to its audience to meet the economic intuition test.

The Whig theory of the history of ideas suggests that progress in knowledge is linear and upward sloping. Bad ideas are weeded out in debate, and only the best ideas move forward. It is an upward and onward march from falsehood to truth. In the sciences this theory of knowledge progression leads to a disregard for historical contributions except as of holding antiquarian and honorific interests. The idea that older thinkers could be mined for useful insights is ludicrous. If the ideas were any good, then they are already incorporated into our analysis. If the ideas were bad, they were discarded. The only consequence of studying past writers in the subject would be to find out the errors of these thinkers. It may make for interesting reading to the historically minded, but it certainly does not demand the attention of the scientific mind. The wrong ideas of long dead writers is not a source of scientific enlightenment.

But what if, instead, there are misallocations of intellectual resources in scientific and scholarly endeavors due to fads and fashions. In that case, ideas that could have been fruitful for the furtherance of knowledge may have been discarded, and ideas that should have been rejected were pursued until dead-ends were encountered. Kenneth Boulding (1971) refers to the attempt to reach in the past to glean insights as the “extended present”. All that was valuable in Smith wasn’t incorporated by previous developments in economics. Smith still speaks to us today, he is part of our “extended present”. We contend such is indeed the case in the field of comparative historical political economy. Obviously the world has changed, we have just lived through a century in which

communism and fascism were tried and failed, in which corporatism was instituted in economies of the West as well as the South, and in which the continent of Africa has lingered in poverty and squalor despite massive financial and policy efforts.

The contra-whig theory of knowledge in economics and political economy admits that knowledge that was once had, can be lost, and that contributions that were once honored can now be considered to have been an embarrassment of the community. Knowledge does not progress in a linear and upward sloping manner, there are twists and turns, starts and stalls, and progress and regression. There are diversions (great and small) which prevent us from drawing a clean picture of an upward and onward march from falsehood to truth in political economy.<sup>7</sup>

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<sup>7</sup> To personalize this example, F. A. Hayek used to joke with students in the 1970s interested in his work that he was the only scholar in the 20<sup>th</sup> century to go senile and come back again. What he meant by that was that in the 1930s Hayek could legitimately claim to be the main contender to Keynes for the direction of research in economics, but by the 1940s he was completely discredited as an economist. From 1950 to mid 1970s, he existed in this state of ill repute until the awarding of the Nobel Prize in 1974. There was in the wake of his award a flurry of interest in his ideas in not just in social philosophy, but also economics. Since the collapse of communism in the late 1980s, Hayek's insights into the market economy and political economy has gained respect, if not always acceptance. Perhaps more than any other Nobel Prize winner, Hayek is credited by other Nobel Prize winners with being a positive inspiration of their work (e.g., Buchanan (1986), Coase (1991), North (1993), Smith (2002), and Phelps (2006)). And it could be reasonably argued that as a negative inspiration you could include Stiglitz (2001). Not even Samuelson and Friedman have had as big an impact. However, it is critical to point out that while Hayek has inspired questions, the particular framework and methods that Hayek deployed have not be widely accepted. (see Caldwell 2004) To us these raises an important question about the intimate relationship between insights and the framework of analysis and methods of inquiry. If so many missed a critical point while Hayek came to it through a different analytical framework and method of analysis, then shouldn't it be the case that the framework and method should be explored as well for their usefulness in generating interesting ideas?

The perilous progress experienced in economics throughout the 20<sup>th</sup> century should alert us to the dangers in believing that whatever is new is true.<sup>8</sup> We have argued here that the comparative historical political economy approach offers instead an old research program for a modern age. It is with those who consistently sit in the seat of Hume and Smith, of Say and Mill, of Menger, Mises and Hayek, of Wicksell, Knight and Buchanan, and of Coase and North, where a framework for comparative institutional analysis that addresses the polity, society, economy will be found. And the purpose of this theoretical framework is to do history, for it is in the historical record that our understanding of ourselves – where we have been and where we might be going --- will emerge.

## **VI. Conclusion**

The value of economics and political economy is not to be found in mathematical proofs and tests of statistical significance. We are not against the use of math, or statistics where appropriate. Sometimes a rough and ready picture will suggest a pattern that must be explored. No doubt many a quick picture of correlation has upon statistical analysis proven to be spurious, but it is also the case that no economically meaningful statistical correlation can ever be established without first being seen in that simple picture. The question that the analyst must ask is how do we come to know the economically meaningful statistical correlations from merely the statistically significant relationships we can unearth in the world around us? (Zilak and McCloskey 2007) We contend that it

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<sup>8</sup> Knight in perhaps one of the best sarcastic lines in the history of the discipline of political economy wrote of Keynes's *The General Theory* that "what is true is not new, and what is new is not true." From the perspective of comparative historical political economy, and the institutional and historical turn it demands of research, the Keynesian revolution of *The General Theory* was indeed a great divergence.

is the analytic framework provided by economics and political economy does the sorting out, and that the sorting out is an act of interpretation no less so than constructing a narrative history.

Comparative historical political economy, in fact, tries to triangulate the evidence in the hope at constructing a “compelling story”. When appropriate, hard economic statistics are every bit as useful as deep historical details. It depends on the task at the moment. But what we cannot delude ourselves into believing is that our models and measures can provide determinant solutions. Rather than flawless precision and point predictions, we have an intellectual framework that through explicating casual mechanisms and tracing out economic and social processes is able to provide tendencies and directions of change. We are provided a set of eyeglasses that enable us to read the empirical world, and construct narratives. The “oomph” of this intellectual exercise will be found in the comparative analysis we provide.

Political economy in this vein is far humbler in its ambition than the social engineering project of post-Great Depression economics. The economist and political economist is not privileged in policy discourse. This is not to say that the knowledge of the economist and political economist can be treated lightly. As we said earlier, political economy is capable of putting parameters of people’s utopias when done right. But the role of the economist and political economists is much reduced. He is a teacher of the underlying causal mechanisms that are in operation with alternative concrete institutional configurations; he is a student of society who in his work seeks to understand the impact of alternative institutional forms on economic performance through time and the betterment of mankind; and he is a social critic who uses the tools provided by economics

and political economy to examine the incentive structures and the flow and quality of information generated by alternative institutions to see if stated ends are being served by chosen means. But the economist and political economist is not a social engineer, asked to deploy the tools of his discipline to serve the goal of social control.

No, the number one task of the economists and political economist within a democratic society (as Buchanan has long stressed) is to be one voice within the democratic process, and to communicate as best as he/she can the basic insights of the discipline to others so they can be informed participants within the democratic process. And those insights are best illustrated in the intellectual exercise of comparative studies. By sliding between contrasting situations, we start to learn how incentives impact on individual choice, how information is interpreted and utilized by participants within that environment, and how alternative institutional arrangements either hinder or promote the learning by economics actors through time on how best to serve both their and the interest of others through realizing the opportunities for mutual gain through exchange.