



## LIBERTY MATTERS

### DEIRDRE MCCLOSKEY AND ECONOMISTS' IDEAS ABOUT IDEAS

*The economist and economic historian Deirdre McCloskey is the author of the acclaimed three volume work on The Bourgeois Era. The volumes include, [Bourgeois Virtues](#) (2006) and [Bourgeois Dignity](#) (2010), and [Bourgeois Equality](#) (2016). This Liberty Matters online discussion will assess her progress to date with a Lead Essay by Don Boudreaux and comments by Joel Mokyr and John Nye, and replies to her critics by Deirdre McCloskey. The key issue is to try to explain why “the Great Enrichment” of the past 150 years occurred in northern and western Europe rather than elsewhere, and why sometime in the middle of the 18th century. Other theories have attributed it to the presence of natural resources, the existence of private property and the rule of law, and the right legal and political institutions. McCloskey’s thesis is that a fundamental change in ideas took place which raised the “dignity” of economic activity in the eyes of people to the point where they felt no inhibition in pursuing these activities which improved the situation of both themselves and the customers who bought their products and services.*

### DEIRDRE MCCLOSKEY AND ECONOMISTS' IDEAS ABOUT IDEAS

by Donald J. Boudreaux

#### I.

Reading Deirdre McCloskey’s *Bourgeois Dignity: Why Economics Can’t Explain the Modern World*<sup>[1]</sup> was a humbling experience for me. I don’t refer chiefly to the typical reason that ordinary economists are (or ought to be) humbled when reading McCloskey’s works – that reason being that we ordinary economists can’t help but recognize our inability to perform feats of creative thought and tireless scholarship on a McCloskeyan scale. I refer mainly to the fact that she made me realize how susceptible I am to weak ideas.

For years I accepted the “institutional” account of the economic rise of the western world. This account is the explanation advanced most frequently by market-oriented scholars, perhaps most famously by Douglass North and Barry Weingast. It says, briefly, that the

stupendous innovationism and commercial efforts that fueled the industrial revolution were first unleashed, in 17th century Britain, by changes in institutions – especially those changes that sparked, and that were further refined by, the Glorious Revolution. Changes in political institutions caged government more reliably. Private property and contract rights grew more secure. And these happy developments were reinforced by the decentralized English common law. Promethean entrepreneurs were finally free to create. Prudential managers were finally free to exploit all opportunities for efficiency gains.

It’s a story that economists of a Friedmanite stripe love, and that economists of a Hayekian stripe love even more. I loved this story so much that I never thought seriously to question it even after I’d read Alan Macfarlane’s remarkable history of English individualism. Macfarlane showed convincingly that the Anglo-American individualism that is typically thought to have sprung from the changes in formal political institutions that roiled 17th-century England in fact is rooted at least as deeply in time as 800 years ago:

When Jefferson wrote, “We hold these truths to be sacred and undeniable, that all men are created equal and independent, that from that equal creation they derive rights inherent and inalienable,” he was putting into words a view of the individual and society which had its roots in thirteenth-century England or earlier. It is not ... a view that emerged by chance in Tudor or Stuart England<sup>[2]</sup>

I sensed only very vaguely this tension between the neo-institutionalists’ theory (that our modern prosperity springs from the institutional changes wrought in 17th-century England) and Macfarlane’s history (that ordinary English folk have been rather jealous of their rights and property for nearly a millennia). And this tension intensified only just a bit after I’d studied Harold Berman’s monumental *Law and Revolution* <sup>[3]</sup> – a volume explaining how competition among alternative sources of governance gave rise, long before the 17th century, to a complex, nuanced, and workable system of laws and property institutions that should win the applause of 21st-century free-marketeers.



Oh, and there was also Bruce Benson’s book on the spontaneous development of law and private property rights.<sup>[4]</sup> Like the careful works of Macfarlane and Berman, Benson’s volume showed that sound legal institutions developed in the west long before the industrial and Glorious revolutions. They did so in large part precisely because there was no powerful sovereign practically available in many situations to define property rights and to settle disputes – and, hence, no such sovereign practically available in many situations to stifflingly tax and to regulate enterprise.

I’d long ago read these books and found them, then as now, to be brilliant, compelling, and important. They did almost nothing, however, to cause me to question the story that explains the industrial revolution as springing from the emergence, allegedly for the first time in history in the 17th century, of the rule of law, limited government, and private property rights. Yet if the combination of limited government, the rule of law, and secure property and contract rights is the key to what Nobel laureate economist Edmund Phelps calls “mass flourishing,” <sup>[5]</sup> then the masses should have started flourishing centuries before the Battle of Reading.

How humiliating that I for so long nodded my head in agreement to both the institutional account of the industrial revolution and to the legal and social history told so persuasively by Macfarlane, Berman, and Benson.

Enter McCloskey. What, she asks, changed in the 17th century to spark mass flourishing? Again, the answer can’t be limited or small government, secure private property rights, or a rule of law at least as real as the one that today exists in prosperous places such as Chicago or Shanghai. While perhaps necessary for mass flourishing, those institutions have been around for too long without having launched any sustained economic takeoff. McCloskey’s surprising yet compelling answer is that mass flourishing was sparked by a change in ideas about the dignity of commercial pursuits.

Until the 17th century, those who earned their living through trade were the Rodney Dangerfields of their eras: they got no respect. Merchants and other people operating on the supply side of commercial activities and transactions were tolerated. But they were viewed and spoken of with contempt. Unlike warriors who dirtied their hands honorably (namely, with blood), traders dirtied their hands dishonorably (namely, with profit). Unlike the nobility who got their riches honorably (namely, by idly collecting land rents), merchants got their riches dishonorably (namely, by actively trading). Unlike the clergy who won their rewards honorably (namely, by pondering the eternal), the bourgeoisie won their rewards dishonorably (namely,

by responding to what Hayek later called “the particular circumstances of time and place”).

Dishonor, you see, is a tax. This tax isn't imposed by the state, but so what? It is imposed by society. (Scholars who appreciate the reality and power of spontaneous order understand that collective action need not always be organized by the state.) And like all taxes, this “dishonor tax” (let us call it) discourages the activities on which it falls while it makes alternative, untaxed activities relatively more attractive.

Society's ancient habit of imposing sizeable dishonor taxes on merchants discouraged the best and the brightest from careers in commerce. These taxes worked as all sin taxes are supposed to work: they kept the sinful activity to a minimum. They also kept the few deviants who were not appropriately sensitive to the taxes out of polite society, much as today's animus towards tobacco keeps smokers outside of all public buildings or in designated “airport smoking rooms.” (Don't grow up to be a smoker, Junior. See how society ostracizes those who engage in such antisocial behavior?!) Such a tax does not weigh lightly.

Of course there was tinkering and invention long before the industrial revolution. Blacksmithing improved. So did sailing ships. Agricultural tools and practices advanced. But there wasn't a great deal of market-driven innovation. There wasn't the frenzied quest that marked much of the past two centuries to create entirely new products for sale to the general public. Premodern creativity seldom involved creative destruction. As odd as it sounds, creativity confined to improving known products, industries, and methods of production – creativity that creates without simultaneously destroying – isn't sufficiently creative to create mass flourishing. Such undestructive creativity is too polite. It often saves labor (that is, “destroys” some jobs), yet it poses no significant threats to the status quo or to the familiar structures of everyday life. So this polite creativity, while it might never have received an honor subsidy, was never burdened with a dishonor tax.

The dishonor tax was levied on merchants, those who dared to seek personal profit from impersonal exchange

– from the art of (it was once mistakenly thought) duping one group of strangers to part with their money in exchange for goods produced by another group of strangers. How can that be honorable? But repeal the dishonor tax and watch out! Such exchange then occurs with greater and greater frequency. We get mass flourishing.

## II.

I buy it. I'm sold. McCloskey's rhetoric has persuaded me that the repeal of the dishonor tax was the key change that launched modern prosperity.



**Deirdre McCloskey**

Nevertheless, a question for McCloskey intrudes here: what exactly is the connection between market-driven innovation and the repeal of the dishonor tax on merchants? It's clear that repealing the dishonor tax on merchants encourages mercantile activity to blossom and boom as never before. We get more trade and more specialization according to comparative advantage. But how does this expansion of trade, and the resulting greater efficiency at producing known goods and services, lead to orgies of innovation of the sort that McCloskey correctly identifies as the sine qua non of modern market economies?



The premodern world always had real live merchants to tax with dishonor. But it never had anyone like modern market innovators. Twelfth-century Europe, for example, wasn't home to any medieval Gustavus Swifts, John D. Rockefellers, or Malcolm McLeans struggling to creatively destroy established industries and familiar commercial practices. It's certainly believable that, had such Schumpeterian heroes arisen back then, they would have been slapped with an especially hefty dishonor tax. Yet it is not quite certain. Innovative activity of the sort that makes the modern world such a marvelous place is not (as McCloskey herself points out) quite the same thing as trade and commerce. And such innovation is entirely new. How can there have been widespread contempt, before the start of the age of mass flourishing, for occupations or activities that simply didn't exist? How can a dishonor tax have been imposed on people who couldn't back then even be imagined to exist, much less be seen or spoken ill about?

Asked differently, how exactly did the burden of the dishonor tax stymie innovationism of the sort that makes us all so prosperous today?

Part of the answer is that innovation that destroyed jobs was indeed held in contempt prior to the modern age. Repealing the dishonor tax on relatively simple labor-saving innovation plausibly also made more radical species of innovation more socially acceptable and, hence, unleashed this radical innovation so that it could bring its manifest blessings to the masses.

Yet I think that there's a second, complementary channel through which the repeal of the dishonor tax eventually led to Schumpeterian-McCloskeyan innovationism. It is this: by finally giving dignity to traders and shopkeepers, the repeal of the dishonor tax greatly expanded and made more reliable the economic institutions necessary for market-tested innovation to be a profitable pursuit. To thrive, market-tested innovation needs extensive markets. As (of course) Adam Smith taught, increasingly extensive markets are a result of expanding trade. And the freer is trade, the more it expands. The more trade expands, in turn, the more extensive grow markets. Therefore, repealing the dishonor tax makes

trade freer which, by widening markets, increases the rewards for successful innovators.

Having to pay no hefty dishonor tax for innovating, and finding that expanding trade has increased (as standard textbooks predict) the monetary rewards for innovation, innovationism of a sort never before known in history began to happen on a routine basis. The result is our modern prosperity.[\[6\]](#)

This (or a similar) causal chain is almost certainly what McCloskey has in mind when she writes that the rise of bourgeois dignity – the repeal of the dishonor tax – is responsible for the innovationism that is so central to our modern mass flourishing. But on my reading of McCloskey this chain is more implied than explicit.

### III.

I know from several conversations that I've had with economists whose judgment I respect that McCloskey's idea-and-talk-based theory of the industrial revolution remains suspect. The objection is that ideas are too immaterial to explain material reality. McCloskey herself, of course, is quite aware of this objection to her theory, and she is far more able than I am to expose the weaknesses of this objection. I content myself here, as a finale to this opening essay, simply to acknowledge that I don't understand the idea that ideas don't matter. They do. So, too, do the ways that we talk and otherwise share our ideas. That this is so I have no doubt.

I do understand the reality of material constraints and the importance of material alternatives. No amount of changes in ideas will repeal the law of demand. Economists do great a service by reminding John and Jane Doe that these constraints are real and unavoidable. But we economists also teach even our freshmen students that movement occurs not only along given demand curves; demand curves themselves move. And we teach these students that at least one important reason for a shift in demand is a change in consumers' tastes and preferences – which surely include changes in the ideas that consumers have about different goods and services available on the market. If things as subjective, as unobservable, and as immaterial as “tastes

and preferences” matter fundamentally for demand, why can’t unobservable and immaterial ideas matter fundamentally for supply?

Suppose people come widely to believe that “two apples a day keep the doctor away.” Would any economist be surprised to discover that the demand for apples rises as a result? I doubt it. So now let the idea spread that shopkeeping is a profession more dignified than once thought. Or the idea that, contrary to earlier ideas, making a boatload of money is honorable if that money comes from consumers voluntarily buying your new gizmo. Watch what happens then. We get more shopkeeping and more and better gizmos. The latter proposition (the one about supply) is as perfectly plausible as the first (the one about demand).

Was such a change in ideas about bourgeois pursuits the cause of the industrial revolution? That’s a separate question, although it’s one to which McCloskey’s affirmative answer is (for me) compelling. But even if McCloskey’s theory is one day proven wrong, I’m confident that the reason will not be because someone showed conclusively that ideas do not profoundly affect the course of history or of economies.

It is high time that economists’ improve their ideas about ideas. They should start by studying Deirdre McCloskey’s work.

### Endnotes

[1.] Deirdre McCloskey’s *Bourgeois Dignity: Why Economics Can’t Explain the Modern World* (Chicago: University of Chicago Press, 2010). Also, Deirdre McCloskey, *Bourgeois Virtues: Ethics for An Age of Commerce* (Chicago: University of Chicago Press, 2006).

[2.] Alan Macfarlane, *The Origins of English Individualism* (Oxford: Blackwell, 1978), pp. 202-203.

[3.] Harold Berman, *Law and Revolution* (Cambridge, MA: Harvard University Press, 1983).

[4.] Bruce L. Benson, *The Enterprise of Law* (San Francisco: Pacific Legal Foundation, 1990). See also Robert C. Ellickson, *Order Without Law* (Cambridge, MA: Harvard University Press, 1991) and Erik O. Kimbrough, Vernon

L. Smith, and Bart J. Wilson, “Historical Property Rights, Sociality, and the Emergence of Impersonal Exchange in Long-Distance Trade,” *American Economic Review*, Vol. 98, June 2008, pp. 1009-39.

[5.] Edmund S. Phelps, *Mass Flourishing* (Princeton: Princeton University Press, 2013).

[6.] What role was played by the growing acceptance of consumer sovereignty? Was a rising recognition that consumers are (or should be) the ultimate judges of the value of economic activities a – perhaps *the* – cause of the repeal of the dishonor tax? Was it a consequence? Both? Neither?

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## IDEAS MATTERED, BUT SO DID INSTITUTIONS

by Joel Mokyr

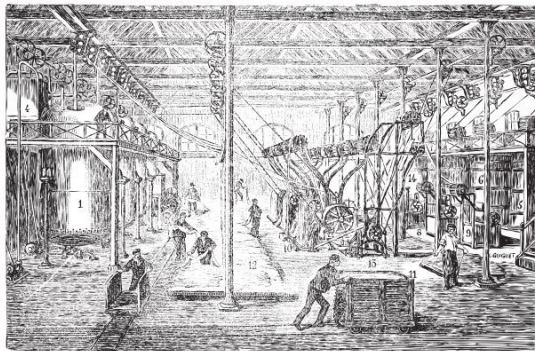
Don Boudreaux wisely rejects the idea that ideas did not matter. Where did we ever get *that* idea? One answer, of course, is from Marx and his sidekick Friedrich Engels, whose (a)historical materialism was as doctrinaire as it was mistaken. But modern economists are not necessarily much better. In their widely reviewed and noted massive *Why Nations Fail*, noted economists Acemoglu and Robinson have no interest in “culture” (which is a close cousin of “ideas”). On the other hand, Professor McCloskey, with equal certainty, rejects the notion that “institutions” mattered. England had a rule of law and property rights in the Middle Ages, she says, and so how can institutions explain the Industrial Revolution of the late 18th century? So: ideas, yes, but institutions, no. Professor Boudreaux is convinced.

Not so fast. If by “institutions” we mean *formal* institutions that regulate the relation between King and subject, between taxpayer and taxpayer, perhaps so. But that is an overly narrow definition of the classic Northian view of what institutions do and what they are. Institutions are the rules by which the economic game is played. Certain actions are rewarded, others are punished. They thus form a huge matrix of incentives that help

determine how everyone plays the game. One set of rules determine whether taxes are levied reasonably and whether the King respects his subjects' property and other legal rights. But there is so much more. And by dismissing the Northian definition, McCloskey and Boudreaux are rash in dismissing the importance of the rules of the economic game for subsequent economic development in Britain.<sup>[7]</sup>

The short answer to why Britain was so successful can be summarized in two words: attitudes and aptitudes. Professors McCloskey and Boudreaux make a convincing case for attitudes. The case they make is incomplete (*whose* attitudes exactly, and how about minor intellectual developments preceding the Industrial Revolution such as the Enlightenment — arguably the most significant intellectual development in the Western World since monotheism?), but it is convincing. Attitudes matter. But what about aptitudes? Can we understand them without worrying about institutions?

One such institution is apprenticeship. Mechanical skills and ingenuity, like playing music, required *both* a born talent and training. Talents may be distributed uniformly across nations (though malnutrition and disease could cause irreversible damage to them), but training required something more. Before the Industrial Revolution there were no technical high schools or community colleges. An artisan was trained by another. Masters begot apprentices. Apprentices became masters and trained more. Cultural evolution in action. Every skilled craftsman produced two things: a product or service and young men trained to make more. Cultural evolution in action.



A moment's reflection will indicate that, to work well, apprenticeship needed an institutional framework in which it could function. After all, the contract written between a Master and an Apprentice (usually the parents) was the Mother of all Incomplete Contracts. In it both sides agreed on a complex bilateral deal that contained multiple components: training as well as room and board for the apprentice, a cash payment, and the promise of future services for the Master. It is literally impossible to specify fully the contract between them, since such a contract cannot contain all the details of the skills that the Master will teach the eager young pupil, or the various chores and services the Apprentice will carry out in return. Since the relation was a one-shot encounter, a naive economist might think that both sides would behave opportunistically. Such behavior did occur, inevitably. In truly egregious cases, of course, one of the parties could go to court, but given the slowness, high cost, and unpredictable nature of court decisions, this was truly a *pis aller*. Another way of enforcing and overseeing this contract was through craft guilds, which in some Continental regions regulated the entire training process. Both of these options could be found to some extent in England before the Industrial Revolution.

But it is clear that apprentice contracts, to work well, needed something more, and that was spontaneous, self-enforcing contracts.<sup>[8]</sup> Many writers on institutions, above all Avner Greif, have emphasized the importance of reputation effects in making “private-order” institutions work.<sup>[9]</sup> In the small artisanal communities of England's provincial towns people knew one another. Opportunistic or immoral behavior toward one's apprentices would be punished, not only by drying up the supply of would-be youngsters, but through a bad reputation that could spill over to creditors, customers, suppliers, and so on. For the youngster, too, there were reputational considerations, not just concerning him but his family as well. Guilds, on the other hand, especially outside London, had lost their regulatory power.

That this training system worked astonishingly well in Britain is supported by the Continent-wide reputation that British artisans had for high-skills. One Swiss visitor

said in 1766 that for a thing to be perfect, it has to be invented in France and worked out in England. Between 1750 and 1850, tens of thousands of English and Scottish engineers and mechanics swarmed to the Continent to install, maintain, and operate machinery. John Kennedy, a Manchester cotton manufacturer, stated the obvious in 1824: that it was impossible to use machinery “without having at hand people competent to its repair and management.” But the manufacture of competence itself required institutions that made training contracts work, and hence institutions were important.

In other areas, too, the story cannot be told without institutions. Think of corruption: it is all good and well to have a judiciary and a tax administration that have formal limitations (the much-loved “constraints-on-the-executive” of the institutional literature), but how corrupt is it? Recent work on China shows how the Imperial administration, on the surface a well-working machine, was destroyed internally by local corrupt officials.<sup>[10]</sup> In today’s world, corruption is widely seen as the central obstacle to economic progress in nations as far apart as Nigeria, Pakistan, and Russia. It weakens the judiciary, unravels contracts and property, distorts the allocation of property, misdirects incentives and efforts, reduces the efficacy of the public sector in creating infrastructure, and in the end can threaten to extinguish the spirit of enterprise and risk-taking needed for technological progress and commercial development. Corruption is one area in which the world of ideology and beliefs feeds directly into the institutional framework and from there to economic development. If the ruling ideology is that corruption is morally unacceptable and if people who believe so know that this belief is widely shared, there will be little corruption (think: the Netherlands).

In 1700, Britain was still thoroughly corrupt: political favors were bought and sold, and people in power handed out patronage to their relatives and friends, and enriched themselves in sometimes shameless ways. Mercantilism was, among others, a system of rent-seeking, designed to extract resources from those with little political influence for the benefit of an elite in power.<sup>[11]</sup> After 1750, corruption in Britain went on the

decline. Under the influence of Enlightenment ideas, corrupt practices came under fire in the late 18th century. Radical critics raised questions of corruption and privilege at the expense of the well-being of the realm, and the ruling elite, whether under pressure from such critics, or because they themselves had been influenced by enlightened thought, reformed government.<sup>[12]</sup> By 1830, the Duke of Wellington complained that as prime minister he had no patronage to hand out. There remained a few bad apples, but the post-1830 Whig reforms effectively disposed of those as well.

Corruption is the institutional dog that did not bark. It is perfectly reasonable to think of a hypothetical world in which predatory rent-seeking by a powerful elite could have expropriated the profits of innovative entrepreneurs in the Industrial Revolution, as was traditionally done in the medieval world. Instead, the British aristocrats who ruled the country in the 18th century let the entrepreneurs have their way and pocketed the capital gains on their real estate holdings and the interest on their railway bonds. Organizations such as the rent-seeking monopolies, set up in the age of mercantilism (think of the East India Company or the Bank of England), were either dismantled or turned into public institutions. Slowly but certainly rent-seeking institutions were weakened. By 1850 or so the country was as free of it as any nation had the right to hope for.

How then to think of the “ideas vs. institutions” debate? Oddly enough McCloskey and Acemoglu-Robinson both seem committed to a “one-or-the-other” mode. But it is not so. Institutions rest on beliefs. If we have rules against the sale of narcotics, it is because someone in power believes that such drugs are socially bad. When those beliefs change, the institutions (hopefully) adapt. Adaptiveness requires meta-institutions that can change the rules when beliefs and/or circumstances change. Britain’s great success between 1750 and 1914 rested on the existence of such meta-institutions. When needed, Parliament set up a committee that researched and investigated matters *ad nauseam* and then changed the rules. Slowly, and perhaps not always quite perfectly, British formal institutions adapted. But the same was true



for private-order institutions: the rather sudden rise of country banks in the second half of the 18th century illustrates the high degree of adaptiveness of private-order British institutions; they were not coordinated or supervised by some central authority, and no political revolution was necessary to bring them into existence. Yet once the circumstances were suitable and opportunities arose, these banks emerged almost *ab nihilo*. They replaced the informal activities of local merchants, notaries, and attorneys who had previously intermediated in credit transactions.

Ideas mattered, but so did institutions. Their continuous interaction and coevolution in Europe from 1500 created Modern Science, the Industrial Revolution, and McCloskey's "factor of fifteen or more" by which income grew — and living standards by a lot more. How they did interact precisely remains one of the great challenges of historical social science. The greatest idea of them all, underemphasized by her, is the somewhat fuzzy and inconsistent set of beliefs we still call the Enlightenment. Without the ideas of Enlightenment philosophers, the growth-enhancing institutions established in the young American Republic are unthinkable. Where the Enlightenment came from and what it did to the economy should remain at the center of our agenda. Defending it against the cantankerous "critical theorists" who see the Enlightenment as a conspiracy of an 18th century white male imperialist elite remains of paramount importance.<sup>[13]</sup>

## Endnotes

[7.] Some of the following is based on Joel Mokyr, "The Institutional Origins of the Industrial Revolution." In Elhanan Helpman, ed., *Institutions and Economic Performance* (Cambridge, Mass.: Harvard University Press, 2008), pp. 64–119.

[8.] Jane Humphries, "English Apprenticeships: A Neglected Factor in the first Industrial Revolution." In Paul A. David and Mark Thomas, eds., *The Economic Future in Historical Perspective* (Oxford: Oxford University Press, 2003), pp. 73–102.

[9.] Avner Greif, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (Cambridge: Cambridge University Press, 2005).

[10.] Tuan-Hwee Sng, "Size and Dynastic Decline: The Principal-Agent Problem in Late Imperial China 1700–1850." *Explorations in Economic History* (in press, 2014).

[11.] Robert B. Ekelund Jr. and Robert D. Tollison, *Mercantilism as a Rent-Seeking Society* (College Station: Texas A&M University Press, 1981).

[12.] See especially Philip Harling, *The Waning of 'Old Corruption': The Politics of Economical Reform in Britain, 1779–1846* (Oxford: Clarendon Press, 1996).

[13.] Max Horkheimer and Theodor W. Adorno, *Dialectic of Enlightenment*, ed. by Gunzelin Schmid Noerr (Stanford, Calif.: Stanford University Press, [1947] 2002).

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## HOW DO IDEAS MATTER?

by John V. C. Nye

Don Boudreaux writes that reading McCloskey's *Bourgeois Dignity* – the second volume in a proposed tetralogy that rumor suggests might even blossom into a series of five or six books – proved to be a humbling experience. I know whereof he speaks. As a young graduate student with dreams of becoming a professional economic historian many decades ago, I was mightily impressed by McCloskey's earliest writings – at that time, in the form of journal articles, not books. No other journal articles managed to combine Deirdre McCloskey's rigor of argument and historical erudition with such elegant prose. That body of work served as an inspiration and a challenge to me as I began my career.

The book under discussion – a substantial part of her magnum opus – makes a profound and important point that is too often neglected by those who hold to overly simplistic versions of political, technological, and institutional explanations of modern economic growth. Modern economic growth, as the most significant event in world economic development, is a profound phenomenon that subsumes the British

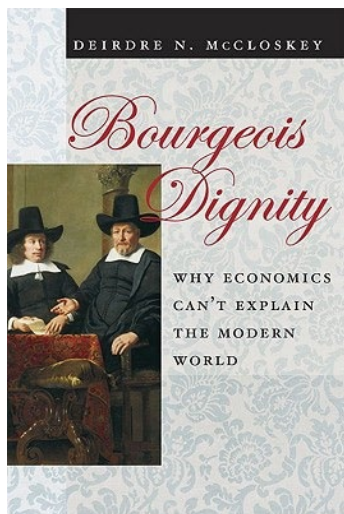


Industrial Revolution and covers the rise of a handful of countries to world dominance and the elevation of an unheard of share of the people of the globe to standards of living not attained by even the richest nobles of empires past.

McCloskey's deep insight is to argue that attitudes towards the bourgeoisie and support for their striving is more appropriately seen as growth's cause and central motor than the more obvious candidates that others in the profession have promoted. And the neglect of these ideas and of the rhetoric that made possible those changes accounts for the economics profession's blind spot in this one area. This is all to the good, and McCloskey makes her point vigorously and wittily while pushing aside all friend and foe who stand in her way.

But at this point I hope I will not sound ungracious if I register a few concerns that pick at the limits of McCloskey's thesis and that I hope will push her and her supporters to amplify and expand on these views.

McCloskey had long impressed me by promoting a viewpoint I had first heard from the great physicist Richard Feynman: It matters not how good a theory sounds or how carefully you have constructed it; what matters is that one make every effort to refute said thesis and, only upon failing to do so, might you suspect that said theory is true. I fear however, that the thesis of *Bourgeois Dignity* still needs more stress testing before we should pronounce ourselves convinced.



McCloskey herself used to claim that good work must answer the questions: So what? (Why is it important?) and How big is big? (How large are the observable effects of a cause?) There is no doubt that the role of ideas and their significance in igniting the escape of humanity from the clutches of inevitable poverty is a Big Idea deserving attention. But how big was this effect, and exactly how it functioned, are less clear to me even having read this book and other work of McCloskey on what Boudreaux calls the decline of the dishonor tax in history.

Consider the general issue of attitudes. Does McCloskey mean by this the attitudes of the general population? Of the elites or the King? The clergy or the chattering classes? Whose opinions matter to unleashing the power of the market?

To take a simplistic measure first: [A recent survey](#) of international attitudes towards the market<sup>[14]</sup> showed that while people in the United States are more likely to believe that the free market is the best means to achieve prosperity than people in most of the countries surveyed, the pro-market attitudes of the American public were not as favorable as those from the Philippines or the People's Republic of China. China in fact topped the survey handily. In contrast, the French were amongst the most anti-market in the sample. While the differences between U.S. and French political economy might be explained by differences in attitudes towards market production, how is one to explain how the Philippines with its massively protectionist regulations or China with its attempt to promote growth through centralized party direction and nationalist ambition exhibit much greater superficial support for market economies? More significant perhaps is that, for all of the French people's disdain for the market, there is no doubt in most people's minds, nor in the rankings by those who score economic freedom, that China and the Philippines do worse than both the United States and France on any aggregate measure of market liberalism.

And exactly how does the transformation from illiberal mercantile nation to liberal modern state occur? Do ideas change first and then the economy or its laws? Do only some of the elites have to change first? Or do norms and

attitudes change to accommodate the realities of successful growth rather than the other way around? Can we even believe it when scholars and politicians proclaim that a nation is pro-market?

My own research on Britain in the 18th and 19th centuries<sup>[15]</sup> showed that Britain -- although quick to proclaim itself a free-trade nation in the early 1800s -- was in fact more heavily protectionist and more reluctant to remove its most important long-standing trade restrictions than its rival France. France, in contrast, moved to lower tariffs and to reduce effective restrictions on trade more quickly than Britain, while its leaders publicly proclaimed their antipathy to unrestricted free trade and downplayed their dramatic liberalizations so well that generations of historians simply took the leaders at face value.

Moreover, other work<sup>[16]</sup> (including Mokyr and Nye, 2007) suggests that the British in the 18th century helped promote liberalism at first because members of Parliament wished to grab power from the landed aristocracy and enrich themselves through crony capitalism, all the while undermining property rights that upheld illiberal feudal restrictions. Is what matters attitudes towards the rising bourgeoisie or the collusion of high-minded thinkers with venal operators eager to profit from changing rules and norms? Is it the level of general support for the bourgeoisie or is it critical support for a few important legal changes that makes the big difference? Or is it legal change with technological innovation that does it? Or trade? Or education?

As McCloskey herself notes, the Dutch were first in creating a society that honored and promoted bourgeois values -- certainly more than the English in the 17th century. Yet the Dutch were also-rans in the story of modern economic growth -- a prosperous, happy people that for the most part relied on the innovations and financial transformations of other nations after the 1800s. France and Germany seem to have played a bigger role in modern economic growth than they did, despite Holland's never being plagued with nasty dictators, long-term invasion, or unusual levels of corruption over the last few hundred years.



**Deirdre McCloskey**

Must one honor and support the bourgeoisie? Or is it enough, as in China's case, to speak of promoting socialism with Chinese characteristics? After all, when the early sprouts of agricultural reform began in China, they started from the bottom up, with mere tolerance of early experiments rather than full-throated acceptance. Can the bourgeoisie thrive if the overall rhetorical environment is hostile but the legal one permissive? Or is general approval more important in transforming an otherwise oppressive legal and institutional regime? And what of cases where bourgeois approval is granted, but rules are held back for fear of ethnic clashes due to asymmetric success of visibly different minority groups?

If I have seem somewhat critical of McCloskey's work, it is not because I doubt her thesis. Ideas can and do matter. But exactly how and under what circumstances is still unclear. In particular, how do new ideas interact with the matrix of institutions, legal rules, and political bargaining that might constrain development or allow for its flourishing? It is high time for us to understand the role that ideas and culture play in shaping a nation's economy. But for that very reason it would behoove us to dig more deeply into the hows and whys of any such claims. We have seen enough examples in history, for example, where disdain for Confucian values that were first blamed for holding back China's development changed to uncritical belief in some quarters that those selfsame Confucian attitudes were now the engines of

Asian success. The importance of promoting liberal, bourgeois-friendly reform for the vast portion of the globe that still suffers from poverty and want, and for not allowing existing institutions to crumble in the globe's leading economies, demands that we investigate as rigorously and thoroughly as possible the actual mechanisms by which growth is promoted and the life of a bourgeois nation sustained. McCloskey has given us a great work. Let us all see how much more there is to be learned about this transformative vision that Don Boudreaux has so rightly praised.

### Endnotes

[14.] Catherine Rampell, "Chinese Love Free Markets as Much as Americans Do," *New York Times*, July 13, 2012; online at: [http://economix.blogs.nytimes.com/2012/07/13/chinese-love-free-markets-as-much-as-americans-do/?\\_php=true&\\_type=blogs&\\_r=0](http://economix.blogs.nytimes.com/2012/07/13/chinese-love-free-markets-as-much-as-americans-do/?_php=true&_type=blogs&_r=0).

[15.] J.V.C. Nye, *War, Wine, and Taxes: The Political Economy of Anglo-French Trade 1689-1900* (Princeton, N.J.: Princeton University Press, 2007).

[16.] J.V.C. Nye and J. Mokyr, "Distributional Coalitions, the Industrial Revolution, and the Origins of Economic Growth in Britain," *Southern Economic Journal*, July 2007, vol. 74, 1, pp. 50-70.

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## THE FRUITS OF HUMILITY, AND READING, IN ECONOMICS: A GENIAL REPLY TO DON BOUDREAUX

by Deirdre N. McCloskey

I am humbled that Don feels humbled by *Bourgeois Dignity*. He is among the clearest thinkers in our crazy field, and has shown recently on many occasions—this being another one—that he grasps what are laughingly called my "ideas" better than I do.

Humility, is not, of course (as Don knows), Uriah Heep-type self-deprecation. It is part of the cardinal virtue of temperance. The novelist and philosopher Iris Murdoch once put it this way: "Humility is not a peculiar habit of self-effacement, rather like having an inaudible voice. It is selfless respect for reality and one of the most difficult and central of all virtues." [17] Don Boudreaux is a striking example in my own experience, as was another Don, Boudreaux's beloved colleague, the late Don Lavoie (1951-2001). Their names reflect it: They are "Don," in Cajun or French-Canadian style, not ordinarily the full Hibernian Donald, which means in Old Irish "world ruler," and was indeed once my own name.



Humility is a most startling quality in a professor of economics, a field not known for it. "The good man," writes Murdoch, "is humble; he is very unlike the neo-Kantian Lucifer.... Only rarely does one meet somebody in whom [humility] positively shines, in whom one apprehends with amazement the absence of the anxious avaricious tentacles of the self." [18] Murdoch observes that humility is one of the chief virtues in a good artist and in a good scientist. Good scientists read a lot and listen a lot and experiment a lot.

As usual, I learn humility from Don. I learn for example how to square my belief

(1) that Alan Macfarlane was substantially correct in his great *Origins of English Individualism* (1978, of which I gave an admiring review in the *Journal of Political Economy*) that English people were "individualistic" in their personal and market lives, and therefore (as Don points out) that the careless North-Weingast and now Acemoglu-Robinson attribution of the invention of property rights to the Glorious Revolution is wrong

with my belief

(2) that something did change radically at about the same time as the Revolution, the something being a new attribution of dignity and liberty to the betterers among the bourgeoisie.

After all, the society that Macfarlane praises as individualistic in the 13th century (and before: Macfarlane goes back to Anglo-Saxon times) was also deeply hierarchical. It is hierarchy, I argue—the Great Chain of Being, in the Elizabethan view, plain in every play of Shakespeare—which was the main obstacle to betterment. Equality before the law and equality of social dignity, perfected in the Blessed Adam Smith—“[allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice](#)”—was around 1700 a startling novelty.<sup>[19]</sup> The Leveller Richard Rumbold, facing the hangman in 1685, declared, “I am sure there was no man born marked of God above another; for none comes into the world with a saddle on his back, neither any booted and spurred to ride him.”<sup>[20]</sup> The crowd in witness would not have agreed.

But medieval England—like medieval France and Italy and Germany—*was* a society of laws, and in particular of property rights. Don cites on the point Harold Berman (1983), another great book, and more than English in scope. He could have cited on the same point still another great ‘un, Frederick Pollock and F. L. Maitland *The History of English Law Before the Time of Edward the First*,<sup>[21]</sup> two big volumes, which Armen Alchian read every page of, *twice*. Thus do real scholars work, who put the careless nonreaders among the neo-institutionalists in the shade.

How to reconcile Macfarlane with the new equality c. 1700? Easily now. Property laws are necessary but nothing like sufficient for the startling betterment that begins in the Industrial Revolution and eventuates in the still more startling Great Enrichment of the past 150 years—all of which, embarrassingly for the North-Acemoglu orthodoxy at the World Bank (“Add institutions and stir”), occurred 600 years after property rights were well established in England (and in China, and in every organized society). A society can be “individualistic” in a thoroughgoing way but still honor

only noblemen, not ordinary people having a go at spinning jennies and desktop computers.

I accept Don’s suggestive notion that “a sizeable dishonor tax” was placed on merchants. I would only add that it was placed on less-routine betterers, too, stifling invention, as the multiple taxes collected every few miles on the Rhine stifled ordinary specialization and trade; and that the tax was not the clean VAT of the economist’s imagining but a cascading tax on every entry into a market or every innovation at every stage of production. In 1621 the scholar and cleric Robert Burton in England wrote fiercely, in *The Anatomy of Melancholy*, “What’s the market?... A vast chaos, ... the theatre of hypocrisy, a shop of knavery, flattery, a nursery of villainy.... It is not worth, virtue,... wisdom, valour, learning, honesty [which meant then “nobility”], religion, or any sufficiency for which we are respected, but money, greatness, office, honor, authority; honesty is accounted folly.”<sup>[22]</sup> If many people believed this, and acted on it—as to this day some of the clerisy do—a modern economy would be impossible. If dignity was not accorded to market transactions and to the betterments that the bourgeoisie brings forward to the test of profit, and if the liberty to trade and to invent were scorned, and if liberty to compete were not the market test of anyone’s betterment, then the modern world would have stopped cold in 1621.

And I like Don’s idea that only creative *destruction* is radical enough to produce a Great Enrichment. I think it may answer his own question of why repealing a tax on merchants would lead to *enormous* betterment. (The trouble is that the removal of mere Harberger triangles, such as characterize all explanations of the modern world that do *not* focus on creative destruction, such as exploitation or property rights or coal, don’t have the oomph, as I argue in the book, to explain the Great Enrichment. Not even close.) Don writes, “Repealing the dishonor tax on relatively simple labor-saving innovation plausibly also made more radical species of innovation more socially acceptable and, hence, unleashed this radical innovation so that it could bring its manifest blessings to the masses.”





### Not In My Backyard (NIMBY)

But I think perhaps he understates how very angry innovation made the elite and its allies among the non-elite. To get a sense of it, though, one merely has to look at present-day NIMBY attitudes and dogmatic environmentalism and what the Norwegians in 1917 called a “braking law.” The law expressed in plain form the conservative-left-and-right worry about “capitalism” that social democrats and political reactionaries had then and still have: “Every headlong development is dangerous.... The many new factory centers need to have time to settle down peacefully and learn to lead and develop their private conduct and the conduct of the local communities.”<sup>[23]</sup> Such a law would have been impossible in 1917 in the wild United States. Yet by now environmental objections to creative destruction such as the Keystone XL Pipeline have created braking laws even in the second home of *laissez faire*. The left and right join in opposing the future—the one because it is not a planned future and the other because it is not identical to the past.

In 2013, for example, some companies in the United States had taken brilliantly bettering advantage of smart phones. The Uber X startup offered rides in ordinary cars to smartphone users (as did the Lyft and the SideCar), Airbnb offered New Yorkers access to private homes as hotels, and Aereo allowed mobile devices to pick up local TV signals. Yet all three were promptly attacked by American regulators. Unsurprisingly, the regulators, paid with your tax dollars, dears, were concerned that the electronic revolution would disturb the profits on

conventional taxis, on hotels, and on copyright holders of TV programs.<sup>[24]</sup>

And of course I side with Don’s remark that he doesn’t understand the idea that ideas don’t matter. After all, as a small example, the materialism (deriving in part from Marx) that dominated intellectual life from about 1890 to about 1980 was an idea. The idea that regulation of the economy is a good thing is an idea. The idea that merchants and inventors are evil is an idea. “Perfect competition” is an idea in economics, encouraging anti-market speculation that has been fruitful in Nobel prizes. Socialism is an idea. And so is its enemy, the liberal plan of equality, liberty, and justice, long may it prosper.

### Endnotes

<sup>[17.]</sup> Iris Murdoch, “The Sovereignty of Good over Other Concepts,” Leslie Stephen Lecture, 1967, in Murdoch, *The Sovereignty of Good* (London: Routledge, 1970, 1985), p. 95.

<sup>[18.]</sup> Ibid., p. 103.

<sup>[19.]</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Glasgow edition. Campbell, Skinner, and Todd, eds. Bk. IV, Chp. ix (Indianapolis, Ind.: Liberty Classics, 1976, 1981), p. 664. See also online: Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations by Adam Smith, edited with an Introduction, Notes, Marginal Summary and an Enlarged Index by Edwin Cannan* (London: Methuen, 1904). Vol. 2. .

<sup>[20.]</sup> Quoted in Henry Noel Brailsford, *The Levellers and the English Revolution* (Stanford: Stanford University Press, 1961), p. 624.

<sup>[21.]</sup> Frederick Pollock and F. L. Maitland *The History of English Law Before the Time of Edward the First* (Cambridge: Cambridge University Press, 1895). See also Sir Frederick Pollock, *The History of English Law before the Time of Edward I*. Reprint of 2nd edition, with a Select Bibliography and Notes by Professor S.F. Milsom. (Indianapolis: Liberty Fund, 2010). 2 vols. <[titles/2312](#)>.

<sup>[22.]</sup> Richard Burton, *Anatomy of Melancholy*, 1621, spelling modernized. Project

Gutenberg: <https://www.gutenberg.org/files/10800/10800-h/10800-h.htm>.

[23.] Francis Sejersted, *The Age of Social Democracy: Norway and Sweden in the Twentieth Century* (Princeton: Princeton University Press, 2011), p. 29.

[24.] Ameet Sachdev, “When Upstarts Launch into Uncharted Space,” *Chicago Tribune*, Business, Oct 13, 2013, Sec. 2, pp. 1, 4; and for an uncritically pro-taxi view, Jon Hilkevitch, “City to End Raid-Shares’ Easy Street,” *Chicago Tribune* Feb. 3, 2014.

# SKYSCRAPERS, WRECKING BALLS, AND GUMPTION

by Donald J. Boudreaux

In their eloquent responses to my lead essay, both Joel Mokyr and John Nye say little with which I disagree. (My apologies to readers who are hoping for a tense, take-no-prisoners intellectual ink-bath.) The only claims worth disputing with any vigor are Joel's charges that Deirdre, in explaining the industrial revolution, "rejects the notion that 'institutions' mattered," and that I accept such a rejection of the significance of institutions.

Because Deirdre is actively participating in his forum, I'll let her speak for herself. Yet I have never interpreted her as denying the significance of institutions or as jettisoning institutional analyses. But even if I profoundly misread Deirdre, I know for certain that I myself emphatically believe that institutions matter, and matter a lot. Fulsome and widespread respect for merchants, entrepreneurs, and innovators will yield nothing if too many formidable predators are on the prowl. Ditto if too many respected elders or officials have the power and interest to thwart progress or to attempt to channel economic activities in certain favored directions and away from disfavored ones.

Of course, ideas about predation and political interventions affect the extent and frequency of such activities – but so, too, do institutions. For example, a formal constitution that fragments political power can stand as an obstacle to the dangerous concentration of

such power. Likewise, a formal or even informal arrangement that gives different courts overlapping jurisdiction with each other can serve as a check against judicial corruption and as a competitive spur to productive innovations in formal legal proceedings.

Pro-bourgeois, innovation-friendly ideas require tolerably fertile institutional soil in which to take root and bear fruit. They cannot spark and sustain mass flourishing on their own.



Changing analogies: I often think of ideas, skills, individual initiative, and creativity as the actual activities that construct skyscrapers of prosperity, and bad institutions as powerful wrecking balls that knock these skyscrapers down whenever they begin to rise. Obviously, as long as such wrecking balls swing in the direction of rising skyscrapers, no skyscraper will be built, regardless of the gumption and learning of architects and construction workers. And eventually, even the most ambitious and hopeful architects and construction workers will stop even trying to build skyscrapers. Why bother?

Given human nature – that is, given that humans are self-interested, incurably ignorant of many relevant details of any situation, and prone to irrationality, myopia, and envy – the prevalence of such wrecking balls is likely a default reality. The specific institutional manifestations of such a default reality vary over space and time, but in all cases they discourage large accumulations of capital, robust innovation, and economic change. Pro-growth institutions, therefore, are those that penalize or otherwise raise the costs of predatory behavior. These institutions take us human beings as we are – warts and

all – and change, not us, but the material incentives that we face. They manage to temper our ability to swing wrecking balls.

But again, while growth cannot occur if wrecking balls swing, the absence of swinging wrecking balls – that is, the presence of good institutions – is not sufficient to make growth happen. Personal characteristics such as gumption, risk-taking, and tolerance for the material successes of others are necessary to rouse individuals actually to do what must be done to create widespread prosperity. Admiration and applause for these and other bourgeois virtues supplies the missing ingredients for growth.

John Nye, of course, is correct. More hard-headed analyses must be done to clarify important details. Exactly what *sort* of ideas matter most? Are some people's ideas generally more influential than other people's ideas? (Hayek, for one, said yes: the expressed ideas of intellectuals – that is, the ideas expressed by "secondhand dealers in ideas" – are especially important. [\[25\]](#))

And is there a relevant difference between the ideas that people consciously hold and the ideas that actually govern people's behaviors? Deirdre (I think) would say that the former governs the latter. But maybe the relationship between ideas consciously held and expressed and the ideas that actually fuel and steer human actions is more complex than a simple one-direction causal chain from "ideas expressed" to "ideas consciously held" to "ideas that govern human actions." (If there *is* such greater complexity, we might here have a clue to why the still-poor Filipinos express greater enthusiasm for free markets than do the long-rich Americans.) And what is the role of time in nurturing ideas and in transforming those ideas into mass flourishing?

Yes. Much more serious, careful research and thinking must be done (and always with minds as scientifically skeptical as humanly possible). Fortunately, not only do the norms of scientific inquiry today prompt such painstaking further inquiry, so, too, do the institutions of scientific inquiry.

## Endnotes

[\[25\]](#) F.A. Hayek, "The Intellectuals and Socialism," *University of Chicago Law Review* (Spring 1949): [≥](#)

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## ETHICS FOUNDS INSTITUTIONS

by Deirdre N. McCloskey

These are all my dear friends, and so I am not going to adopt the convention of referring to them as Professors X and Y. They are Don, Joel, and John to me, close allies in most of our scientific projects, and in many of our personal ones, too. When my replies to them are sharp, it is because we can all rely here on mutual love and respect regardless of our minor disagreements. Only a seminar based on love can flourish, because it can get down to the disagreements frankly and quickly, improving everyone's evidence and logic in the end—a point I have been trying to get across to my colleagues for decades.

I entirely agree with Joel (I say) that "Without the ideas of Enlightenment philosophers, the growth-enhancing institutions established in the young American Republic [for example] are unthinkable." I say so at length in the third and final volume of the trilogy *The Bourgeois Era, Bourgeois Equality: How Betterment Became Ethical, 1600-1948, and Then Suspect* (forthcoming 2015). Joel and Jack Goldstone and Peg Jacob and a few others—maybe John Nye in some moods—constitute a tiny group of economic historians (we joyfully welcome Don Boudreaux to the group) who believe that ideas mattered greatly. Joel, for example, has emphasized that the idea of scientific progress for practical fruit promulgated by (the hideously corrupt) Francis Bacon inspired Western scientists for centuries. If we are correct in our ideational idea, economics and history will need to be rewritten, massively, to acknowledge the role of ideology in human affairs. Language will come to be seen as decisive, not as mere cheap talk derivable from interest in the style of Friedrich Engels or George Stigler. Creativity will

undermine the routine predictabilities of Samuelsonian and Marxist economics.



**Friedrich Engels**

But even for the young American republic, to recur to Joel's opening claim here, it was not the "institutions" that mattered, but an ethic of republican duty among Federalists and an ethic of popular sovereignty among Democrats. The ethics were themselves fruits of the ideas of the Enlightenment—especially, I would emphasize, the Scottish one. It is through the (Scottish) Enlightenment, out of Dutch-English Locke, that the Founding Brothers came to believe, as Adam Smith put it, in "[allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice](#)" (*Wealth of Nation*, 1776, Bk. IV, Chp. ix, p. 664). Believing it, and willing to pledge their lives, fortunes, and sacred honor in aid of the project, little hung on whether Congress was unicameral or the Senate elected by direct vote.

I am disappointed, therefore, that one of my little group of colleagues in the ideational view wants to defend the World Bank orthodoxy about institutions, derived from Doug North (whom we all love, but with whom some of us disagree). I devote four chapters in *Bourgeois Dignity* to criticism of the Northian orthodoxy, going far beyond the potted summary of the criticism that Joel gives in two sentences. Joel wants the argument to be simple, wham,

bam. But it's not. The deep and illiberal errors in the neo-institutional approach are not summarizable in one simple point about the history of English law. More broadly, as I argue at length in the book, institutions are reducible to ethical commitments, themselves not to be seen as "constraints" (as the Samuelsonian is required always to say) but as a human dance of meaning. "O body swayed to music, O brightening glance,/ How can we know the dancer from the dance?"<sup>[26]</sup>

Observe while we're at it, though, that Joel does not reply to the historical point in question, namely, that property rights were very good in England many centuries before the Industrial Revolution or the Great Enrichment, a point that Boudreaux emphasizes. Nor does Joel drop the other historical shoe, namely, that that property rights were good in a great many societies—for example in technologically advanced China. But about North and Acemoglu and Greif there are 20 or so shoes to be dropped.

The Northians regularly save their hypothesis by extending it at the level of abstract definition to All Human Action. That's the burden of Joel's opening complaint that I am speaking as though "*formal* institutions" were what was at issue. Thus the North/Acemoglu theory says that All Human Action is influenced, some, by All Human Action. Startling.

But having raised their theory to the level of a tautology (similar to tautological definitions in Samuelsonian economics of "rationality" or in Marxist economics of "class interest"), when push comes to shove the neo-institutionalists descend quickly to what Joel immediately describes as "a huge matrix of incentives." We are back to North's original definition of "the rules of the game," and Samuelsonian "incentives." Neo-institutionalism is Samuelsonian economics in historical drag.

Let's test it. Joel proposes English apprenticeship as an institution crucial for the Industrial Revolution. But wait. Apprenticeship was Europe-wide—not universal, but lively in Italy, say, and extremely lively in Germany. Joel writes, following his student Avner Greif down this blind alley, "In the small artisanal communities of England's provincial towns people knew one



another.” As long as we are being cute and snappy in reply to complicated scientific arguments, I say: And they didn’t in Germany?

I agree that English (not Scottish?) mechanics after their apprenticeships (really? Formal apprenticeships, and not mere experience on the factory floor?) were famously competent, something that Peg Jacob, Jane Humphries, and Joel have made us aware of. But isn’t this a result, not a cause? The English apprentices were *not* judged especially competent at machines in the 17th century, not at all. It was Dutch engineers in those days, and in theorizing, the French and even the Germans. Wasn’t the flourishing of mechanical invention the cause, not the consequence of men skilled out of their apprenticeships? One could hardly have new machines for making, say, screws in great numbers without some man like Henry Maudslay (1771-1831) already educated in making machines. But where did such an elite of mechanics come from? In Holland and Britain and the United States it came from ordinary people—that being the only way to achieve a sufficient mass of technically literate folk, oriented not towards the production of rare luxuries or military victories but the production of ordinary goods for ordinary people. The problem in, say, France (as Jacob has argued persuasively in her latest book) was that the engineers came from the younger sons of its large nobility, such as Napoleon, educated for military careers (Jacob 2014).<sup>[27]</sup> In Britain by contrast a promising *working*-class lad would become a bourgeois master of new machines and new institutions. The bourgeois career in Britain, like Napoleon’s army or Nelson’s navy, was open to talent. Maudslay, two years younger than Napoleon and 13 younger than Nelson, began work at 12 years old filling cartridges at the Royal Arsenal, becoming then a blacksmith, and by age 18 a locksmith, and more. Joel is taking as given a structure that in fact had a vibrant modern history, driven by the new and bizarre ethic of human equality of liberty and dignity, in law and in esteem. The new equality let the ordinary, and the extraordinary, have a go. (The “having a go” is a British idiom, used in this application by the economic historian Peter Mathias.) The having-a-go then produced in the Great Enrichment of the 19 century

a veritable idea-explosion—an explosion of ideas for example about nitroglycerine, dynamite, gelignite, TNT, and C-4.

The “spontaneous, self-enforcing contracts” that Joel speaks of as crucial for the institution of apprenticeship depend on ethics. The point is that the ethics goes far beyond the Prudence-Only view retailed by Joel in Samuelsonian style: “Opportunistic or immoral behavior toward one’s apprentices would be punished, not only by drying up the supply of would-be youngsters, but through a bad reputation that could spill over to creditors, customers, suppliers, and so on.” Yes, true. But these are humans we are construing, not rats or pigeons, and humans care about their ethical standing. It is built into us by evolution, in contrast to other great apes. To stop at incentives, as the Northians do, reminds me of the courses on business ethics that say, “Be good because it is profitable.” That’s not ethics, and it’s not human, and it’s far short of what institutions depend on.

The ethical foundations on which Joel’s “institutions” rely are well illustrated by his own example of corruption. On being corrupt I am fond of pointing out that my city, Chicago, was appallingly so when in the late 19th century it was the fastest growing city in the world. It still in 2014 beats Des Moines and Minneapolis hands down. Joel surrenders without realizing it to the ethical case when he notes that “If the ruling ideology is that corruption is morally unacceptable and if people who believe so know that this belief is widely shared, there will be little corruption (think: the Netherlands).” (At any rate the Netherlands in 2014. I am not so sure that the Netherlands in the Golden Age was so very free of corruption in building contracts.) Referring to the Sherlock Holmes story, Joel remarks, “Corruption is the institutional dog that did not bark.” No it isn’t. The dog is *ethical*, and as he himself affirms, it *did* bark, against the Old Corruption.

It won’t suffice, in other words, as the World Bank nowadays recommends, to add institutions and stir. You can set up British-like courts of law, and even provide the barristers with wigs, but if the judges are venal and the barrister have no professional pride and if the public

disdains them, the introduction of such an institution will fail to improve the rule of law.



Acemoglu and Robinson report on an attempt to curb absenteeism among nurses in India by introducing the institution of time clocks.<sup>[28]</sup> The economists in charge of the experiment were sure that the bare incentives of the “right institutions” would work. They didn’t. The Indian nurses conspired with their bosses to continue not showing up for work. Acemoglu and Robinson draw the moral that “the institutional structure that creates market failures” is what went wrong (Acemoglu and Robinson 2012, p. 450). But the continuing absenteeism was not about “institutions” or incentives. These had been confidently applied by the economists relying on the World Bank orthodoxy, yet had miserably failed. The failure was rather about a lack of an ethic of professionalism among the nurses, of a sort that, say, Filipino nurses do have, which is why they are in demand worldwide.

Acemoglu and Robinson do not see that what failed was the new theory of the economics profession of add-institutions-and-stir. “The root cause of the problem,” they conclude, was “extractive institutions.” On the contrary, the root was ethical failure, in the presence of which no set of incentives will work well, and under which extractions will persist. The institutions—the time clocks and management practices—and the “incentives” they are said to provide, as though to rats in a maze—were not the problem. Defects in ethics and in the Impartial Spectator and in the professionalism of the nurses were.

The crux of the Industrial Revolution and the Great Enrichment is ideological change bringing a new Impartial Spectator into the habits of heart. Institutions are mere frosting if they lack the cake of ethical custom, from the bus driver taking professional responsibility for the plans and the lives of the 60 people under his care, to the politician resisting the well-placed bribe from a highway construction firm. New egalitarian ideas, in which bus drivers and politicians, professors and housewives, felt themselves in northwestern Europe empowered to be equally responsible, broke the old cake of custom. Surprisingly, treating people as free and honorable made us all immensely wealthy. We already had the institutions.

### Endnotes

<sup>[26.]</sup> W.B. Yeats, “Among School Children” (from *The Tower*, 1928).

<sup>[27.]</sup> Jacob, Margaret S. 2014. *The First Knowledge Economy: Human Capital and the European Economy, 1750-1850*. New York: Cambridge University Press.

<sup>[28.]</sup> Acemoglu, Daron and James Robinson. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. New York: Crown Business.

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## HOW BIG WERE IDEAS?

by Deirdre N. McCloskey

*Bourgeois Dignity*,” John says, “still needs more stress testing before we should pronounce ourselves convinced.” *Bien sûr*. Much more scientific work remains to be done, and in “science” I include the humanities. I observe only that it is more true of the materialist arguments, such as those depending on the improvement of property rights after 1688 (small) or the profits of the slave trade (smaller). The materialist arguments can’t come close to explaining the Great Enrichment. That much I think we agree was pretty much established by *Bourgeois Dignity*. The third (and final) volume, *Bourgeois Equality* (forthcoming, *deo volente*, 2015),

provides more stress testing of an ideational hypothesis that all four of us to varying degrees favor.

So I see convergence. The unadorned neo-institutional notion that Incentives Are All needs sharp revision, admitting the force of words, ideas, rhetoric, ethics, the habits of the heart and mind and lip. But as John and Joel argue, surely existing structures do matter. What is disturbing in much of the literature of neo-institutionalism is that it reduces such ideas and language to power and incentives, immediately. We circle back to Marxist and Samuelsonian materialism, which at any rate as a sufficient cause Don, John, Joel, and Deirdre wish to deny.

John asks, “Whose opinions matter to unleashing the power of the market?” He is correct that the answer depends on the interaction with existing institutions of, say, power—though I am not surrendering the point that the institutions in turn depended on ethical persuasions. Clearly, in England at first only the elite and their clerks mattered, when public opinion counted for less than it came to count in the 18th century. In Holland during the Golden Age a wider public opinion counted. By the 19th century in Europe the invention of the steam press and cheap wood-pulp paper made public opinion powerful indeed, forcing governments into wars, for example. Ibsen talks repeatedly of the power of the press in Norway in the late 19th century, by no means always sympathetically.

Opinions, especially opinions declared to a survey researcher, are of course sluggish. The French grew rich back when they admired entrepreneurs (admitting that there is, at any rate according to George W. Bush, no word for the concept in French). And opinion-in-questionnaire is not the same as opinion-in-action. Saying that one is “anti-capitalist” can range in action from violent overthrow of private property to regulation of the quality of bread in Paris. I can offer my own example of the paradox of opinion, namely, Sweden. Americans left or right regard Sweden as “socialist.” Swedes regard the land of Hollywood and the Koch brothers as capitalist hell. Neither opinion—though heard frequently—is correct. Sweden is capitalist

(to use the misleading word we seem to be stuck with) and the United States has a larger social safety net than its expressed ideology of free markets would lead one to expect.

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Opinion-in-action is what John is pointing to when he notes that “France ... moved to lower tariffs and to reduce effective restrictions on trade more quickly than Britain, while [French] leaders publicly proclaimed their antipathy to unrestricted free trade.” But what nonetheless moved the dial was opinion, ideas, in this case elite opinion-in-action, traceable no doubt in the elite’s correspondence. There’s something John could do to resolve the issue—look into the privately expressed opinions of Chevalier and Rouher in 1859; or look into their educations in economics; or ask whether they had read [Bastiat](#).



**Frédéric Bastiat**

John suggests that norms and attitudes might change to accommodate the realities of successful growth rather than the other way around. Materialism here is redux, but of course it is sometimes true. The present enthusiasm for markets in China would not be so great if real income were not growing there at upwards of 10 percent per

year. “Is what matters attitudes towards the rising bourgeoisie or the collusion of high-minded thinkers with venal operators eager to profit from changing rules and norms?” Doubtless both, but when elite opinion is arrayed strongly against markets, expressed at every level of society, as was the case in Shakespeare’s England, the thinkers matter. That is a point argued in *Bourgeois Equality*—that before the 18th century all opinion, elite and common, was hostile to betterment and markets.

Indulge me in one sharper reply on a smaller point. “The Dutch,” John declares, “were also-rans in the story of modern economic growth – a prosperous, happy people that for the most part relied on the innovations and financial transformations of other nations after the 1800s.” Joel likewise has said that the Dutch become conservative, and “played third fiddle in the Industrial Revolution.” From this Joel concludes (in personal correspondence) that there must be something amiss in my emphasis on bourgeois liberty and dignity. After all, the Dutch had both early.

It is unfair in debating terms for me to note that in the *forthcoming* book, *Bourgeois Equality*, I stress that the bourgeoisie is capable of reversing its betterment by making itself into an honorable hierarchy, which is one way of describing what the Dutch regents did in the 18th century. But we are not debating here. We are trying to discern the truth. In aid of the truth I want merely to point out that John and Joel are adopting in their remarks the mistaken convention that the Dutch “failed” in the 18th century. They did not. Like Londoners, they gave up their industrial project in favor of becoming bankers and routine merchants. National borders do not always compute. If one is to blame the Dutch in the 18th century and early 19th century for conservatism, one will also have to blame the Southern English, who also turned to specializing in mere trading and financing, giving up their industrial might. And London and the Home Counties, also like the Dutch, though at a very different level to start with, adhered to distinctions of rank that were less important in the industrial North.

Joel’s inertial lemma—that once initiated, a social change must be permanent or else it did not exist in the first

place—makes graver problems for his own emphasis on science as the initiating event than for mine on bourgeois dignity. After all, the Dutch in the 17th century had invented the telescope and the microscope among numerous other scientific devices, such as the pendulum in clocks. Why did not inertia propel them, then, into the Industrial Revolution and the Great Enrichment?

“And what of cases where bourgeois approval is granted,” John continues, “but rules are held back for fear of ethnic clashes due to asymmetric success of visibly different minority groups?” Yes, of course. But that is best treated in response to Don, which see.

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## DOING THE DISHES WITH ETHICS AND INSTITUTIONS

by Deirdre N. McCloskey

I am astonished at Don’s ability to find just the right metaphor to make a scientific point. In his first response he supplied us with the suggestive image of the tax on market/bettering transactions, suggestive indeed of ways of measuring it. The tax should show up as profit opportunities or price differentials, properly controlled for other sources such as transaction and transport costs. Pick a place with evidently strong distaste for innovation and markets—the small Norwegian seaport in Ibsen’s first bourgeois play, *Pillars of Society* (1877), would serve, a town which the conservative schoolmaster Rørund commends: “We ought to thank God, here in this town, that we live as we do.... We have to stand firm against all this experimentation that a restless age would like to foist on us” (act 1). Measure therefore the shadow of the tax in profit opportunities disdained.

Now Don supplies us with the metaphor of the skyscraper and the wrecking ball, helping us—well, me—to admit that institutions, of course, have to matter *some*. (The reason I am so hostile to the vapid assurance that “institutions matter” in recent economics is that it pointedly ignores the ethics required for an institution to be anything but a dead letter. “No ethics, please. We’re economists.” Institutional analysis when



not accompanied by serious inquiry into ethics and rhetoric is just a return to Max U unimproved (the character imagined maximizing under constraints).

Don assigns Good Institutions the role of preventing the wrecking balls from swinging. Yes. But I would merely add that a change in attitudes towards skyscrapers can help prevent them, too. Economists are inclined to set aside changes in attitudes, in the style of the old paper by Becker and Stigler, “De Gustibus Non Disputandum” (*The American Economic Review*, Vol. 67, No. 2 [Mar., 1977], pp. 76-90; [PDF](#)).<sup>[29]</sup> I approve of the humanistic use of Latin in the paper’s title. But I do not approve of the anti-humanistic message, which is that tastes, attitudes, ideology, ethics, and rhetoric are all given, and outside economics, and probably pretty stable anyway. No they aren’t. My favorite, bizarre example these days is ... dog poop. Two decades ago you didn’t pick up your dog’s leavings. (In Paris you still don’t.) You took your dog over to the neighbor’s yard, let him do his duty, and then walked away. Now everyone—for example in my very doggy Printer’s Row in Chicago—picks up. Ethics changed, quickly. A more serious example is the change in attitude created by the feminist movement about jobs for married women (something I’ve written a little on: yes, the Pill; but also ideological change, and amazingly quick). The “absence of swinging wrecking balls” is not quite, as Don claims, merely about “the presence of good institutions.”

In accepting John’s suggestions, Don notes that I am fuzzy about the relation between ideology and action. My only excuse is that everyone is, except people who take up a corner solution—either a Hegelian idealistic one or a Marxist materialist one. But I do not accept John’s (perhaps?) implied position, which Don, I believe, would reject, too, that we cannot unfuzz the matter in actual historical cases by exercising the comparative breadth that John brings or the historical depth that Joel brings.

I see a paper we four can write together, called “Ideas Matter Deeply, Institutions Superficially, But Both Matter.” Don can supply us with our ruling metaphors, John with our comparative scope, Joel with telling details

from British, Irish, and a half-dozen other histories. I’ll do the dishes.

## Endnotes

<sup>[29]</sup> Becker and Stigler, “De Gustibus Non Disputandum” (*The American Economic Review*, Vol. 67, No. 2 [Mar., 1977], pp. 76-90; [PDF](#)).

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## WHICH CAME FIRST: IDEAS OR GROWTH?

by John V. C. Nye

Readers seeking bloodsport may be disappointed that we all agree on so much, but anyone seeking to understand how material progress has been obtained in the past and might continue to in the future will see how our refinements at the margins open up vast areas for further research.

Both Don and Deirdre acknowledge the value of my speculative questions, but feel that their case is sufficiently robust that discussion of How Ideas Matter should be thought of as next-level issues to advance a mature thesis. But, in fact, I still want to hear an explicit chain of reasoning -- linking the timing of attitude changes in Britain to their influence on politicians or entrepreneurship to the laws as enforced to industrial take-off -- that would explain why Britain was first to industrialize and was so much more successful than the Dutch. Deirdre claims that the Dutch became an honorable hierarchy. But how are we to know when that hierarchy is or is not destructive of growth? As the example of China suggests, neither the formal rhetoric of the Communist Party nor its actual functioning in the 1980s suggested respect for bourgeois values. Yet in that case, merely opening the door to toleration of capitalism seems to have worked miracles. Were the Dutch really so much less liberal than Deng’s China? It would seem that a Dutch nation with advanced understanding of commercial and market liberalism seems to have been rather easily held back by seemingly smaller changes in norms and rules. Yes, the Dutch at least acquired

prosperity, but they were leaders in the prosperity game before the advent of modern economic growth and did little to lead the way in promoting those ideas after industrialization.



**Michel Chevalier**

Or take the French case: the relevant figure I claim was neither Chevalier nor Rouher but Napoleon III. It was he who presided over the decades when French growth began its ascent, and it was his regime that carefully nurtured liberal ideas in a way that allowed France to perform well even if one takes the most pessimistic assessment of 19th-century France as an also-ran. Someone following on McCloskey's work might point to Louis Napoleon's exposure to liberal ideas while in exile in Britain as being formative of his later policy decisions and as a good example of the Bourgeois Values thesis. Yet if Louis Napoleon was a liberal, he was certainly not a consistent one. After all, while Napoleon III promoted universal male suffrage, he did it to facilitate his becoming a dictator for life. Then, having become a dictator, he made himself Emperor. Yet his empire was successful in promoting European free trade, modernizing Paris, promoting investment banks,

liberalizing corporation law, and spurring mechanical invention. All in a rather un-bourgeois top-down fashion. Was he successful despite his inconsistency, or because he saw that his interventions made liberal reform more possible than a less hypocritical and openly democratic course of action?

I think that ideas matter most where the political system privileges the opinions of a few over the many. In those cases, accidents of influence and upbringing may matter a lot. In contrast, the more liberal and competitive is the political system, the more likely it is that a nation which has not yet become a productive market economy will be mired in factionalism and rent-seeking, even when – as in the case of the Philippines – the general public attitude supports and even admires market ideals in the abstract.

I still do not understand when ideas should be seen as either necessary or sufficient conditions. We have not discussed the problem of individualism and the nuclear family as necessary if not sufficient conditions for bourgeois market success. While individualism is not sufficient for success, some may be necessary. To this day, countries with strong clan and extended family ties – as we see in the Middle East or the Philippines – find it difficult to effectively support liberal norms even when the formal rules mostly mimic those of the developed West. China seems to have lost the entanglements of multigenerational clans that were characteristic of the society even up to the late 19th and early 20th centuries. But change came after many horrendous interventions, some unintended (as the Second World War) and some following from the draconian policies of different rulers. If this factor is significant, then the Catholic Church, and its promotion of the nuclear family many centuries ago, may have made a greater contribution to the eventual rise of Europe as a whole than the timing of attitudinal changes in early modern England.

The problem of liberal ideas emerging from rapid growth (rather than vice versa) also comes up when comparing China and Russia over the last two decades. Certainly, the modern Chinese leadership tends to view the experiments of Russia with democracy and an open espousal of liberal ideas through a relatively free press as

a failure to be avoided, and President Putin also seems to agree. Yet an illiberal Putin and an oil-rich elite seem to have spawned a new liberal middle class in the very cities – Moscow and St. Petersburg – that benefited from cronyism and unequal growth.

If timing matters, then this also keeps alive the case for institutions and property rights because the specifics of those rights and how they were exercised were quite different in early medieval England and 18th-century Britain. Property rights may be most progressive in very specific political circumstances with appropriate material and/or attitudinal support. I deeply want to believe that ideas were the key element in the Industrial Revolution. Promoting reform would actually become easier. But we are a long way from understanding when ideas cause growth or vice versa.

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## SOME EXPLICIT CHAINS OF REASON LINKING IDEAS TO GROWTH

by Deirdre N. McCloskey

John wants “an explicit chain of reasoning -- linking the timing of attitude changes in Britain to their influence on politicians or entrepreneurship to the laws as enforced to industrial takeoff -- that would explain why Britain was first to industrialize.” That’s not hard, since there are numerous chains lying about all over the place. One is explored in vol. 3, *Bourgeois Equality*, showing that elite opinion early in the 18th century shows many signs of shifting from an essentially Elizabethan political economy to a Younger Pitt version. As to the link to *laws as enforced*, a result (which I don’t much explore: I can’t do everything!) was, for example, that courts in Britain stopped enforcing guild rules. You can see how it would lead to betterment directly, and this in contrast to say Germany or France. At the same time, as Peg Jacob points out, petitions for patents start bragging about labor *saving*, instead of “job creation” (the Mercantilist Mind—in the

amiable Bob Reich for example—has not much advanced beyond Elizabeth I). You can see how such bragging might lead to more betterment on the table. Then gradually the case for free international trade, as John has noted himself, becomes respectable (and indeed the Blessed Adam Smith also and even more strongly inveighs against domestic monopoly). Speaking of Pitt the Younger, had he not had to manage a war against the French he would have introduced actual free trade decades before it happened. And as to entrepreneurship, isn’t it obvious that someone like Samuel Arkwright would have been crushed in 1560, and only a little less crushed in 1660? Can one imagine the serried ranks of betterers after 1760 coming out of Elizabethan or even Restoration England? No: they would have been sneered at, and then actually stopped—and were if they had a go. John knows the history of the English inventor of the knitting frame.



**Charles Dickens**

But to proceed to the other half of John’s sentence as quoted -- “and was so much more successful than the Dutch” -- why am I making no impression on the easy and mistaken conviction by John (and I suppose still Joel) that the 18th- and early-19th century Dutch were not “successful”? I repeat: if so, East Anglia, London, and the Home Counties generally were also not “successful.”

Charles Dickens had not the slightest idea of how industrialization was going, because he lived in London and hardly ever ventured North. So his portrayals of economic life are of merchants and bankers and other Londonish trades. John sticks then with “the Dutch failed” in “It would seem that a Dutch nation with advanced understanding of commercial and market liberalism seems to have been rather easily held back by seemingly smaller changes in norms and rules.” “Held back” the way London and environs were “held back”?

One might well suppose, as John does about China, that “neither the formal rhetoric of the Communist Party nor its actual functioning in the 1980s suggested respect for bourgeois values. Yet in that case, merely opening the door to toleration of capitalism seems to have worked miracles.” *Of course* a bit of laissez faire, after three decades of idiotic economic governance, can work “miracles” (let us not get too excited, by the way, until the Chinese approach Japan or Korea, not to speak of Hong Kong, on the “miracle” front)—if *in modern conditions, able to take advantage (finally) of two centuries of betterment*. The evidence from India is in some ways cleaner, since there is *before 1991* a marked change in ideology in favor of entrepreneurship and against planners and bureaucrats. But even in the Chinese case there is no doubt, surely, that the commanding heights of the Party became much, much more tolerant of merchants and manufacturers.

John turns to the French case. I am happy to hail Napoleon III as a “liberal,” setting aside his ideological teachers Cobden, Bright, Bastiat, Chevalier, and Rouher. John evidently thinks that the approach as he delicately puts it of “top down” is somehow inconsistent with liberalization in mid-19th century Europe. I suggest he consult the case of Prussia, where Bismarck, too, introduced manhood suffrage for mixed reasons (Bismarck *was* a liberal in many ways). Or consult the case of Sweden or Italy liberalizing the same era, from the top down.

John argues plausibly that “ideas matter most where the political system privileges the opinions of a few over the many,” and points to the Philippines unable to

implement liberalizing *because* it is democratic (contrast Singapore). I agree too with his point that clans in the Middle East make liberal laws of incorporation, say, dead letters—this is what is wrong with Timur Kuran’s notion that the Islamic world was held back by not having French laws of incorporation (to state his thesis admittedly a little crudely). But they got the French laws, in the 19th century, and nothing happened—except in Timur’s own native Turkey, because of “the opinions of a few over the many.”

I merely want John to admit that ideas matter, sometimes, and to join Don and me in researching the numerous cases in which they do. It is revealing that he writes, “I still do not understand when ideas should be seen as either necessary or sufficient conditions.” But we are not looking for universal necessary or sufficient conditions, just local ones, in this time or that, which I am sure John would agree are sometimes sufficient and sometimes necessary.

I would say that Holland and Britain and the United States provide numerous “explicit chains of reasoning” connecting ideas to outcomes. Yet at the very end John falls back into the Materialist’s Lemma, which economizes so much on tiresome inquiries into the human mind and spirit in favor of calculations of Interest: “we are a long way from understanding when ideas cause growth or vice versa.” Admitted. But we will never get straight the history, or the present-day economics (to venture into universals), if we insist, as the neo-institutionalists/ Samuelsonians/ Marxoids do insist, on only examining the evidence for the one direction of causation.



## BOURGEOIS VALUES AREN'T ENOUGH

by John V. C. Nye

Deirdre, your points are well taken. I still think you miss my point about the Netherlands – that the Dutch are free riders on what the English, French, Germans, and Americans created, especially in technology – not that they didn't do well for their time. They prospered and had bourgeois values, but somehow that was not sufficient for them to produce the Industrial Revolution, which was the phenomenon your books wished to explain. If the presence of early British property rights without growth causes you to dismiss the role of institutions, I don't see why a bourgeois Netherlands doesn't weaken the case for values as a sufficient condition. As you yourself note, values and attitudes combine with appropriate institutions to produce Modern Economic Growth.



Also, the Chinese case illustrates that because most of the world is and was so poor, modest changes in policy, even if values lag behind, can still do wonders. Most countries like the Philippines just need to change policy or rearrange the political process to unleash tremendous growth. But I see no easy way of creating sustainable liberal policy if entrenched interests and existing social coalitions impede the liberal rules that already exist. Conversely the Chinese had no formal property rights till just a few years ago, but in practice were more receptive of competition and capital accumulation than

the rhetorically liberal Philippines and parts of Latin America.

But in general, we have converged to a joint equilibrium, and I gladly accept the point that it makes no sense to study materialist causes without some consideration of the attitudinal changes. I still insist that a truly strong case for the importance of ideas should be more persuasive to the unconvinced, and I don't believe we are there yet.

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## CHANGING IDEAS IS TOUGHER THAN CHANGING INSTITUTIONS

by Donald J. Boudreaux

There's much to say, but I content myself here to make only two brief points.

First, at the end of his most-recent comment ("Which Came First: Ideas or Growth?"), John says that "I [John] deeply want to believe that ideas were the key element in the Industrial Revolution. Promoting reform would actually become easier."

I disagree. I suspect that the importance of ideas does not make the promotion of reform easier – or, at any rate, it doesn't make *actual* reform easier.

I think I understand what John means, and this point is indeed important: if ideas really do matter, it is then at least *possible* to loosen the choking grip of special-interest groups on the throat of the body-economic. Not so in the idea-impotent world as seen, for example, by George Stigler. There, there is no hope. There, there is in play only the inexorable logic of interest-group politics, rational ignorance, and other collective-action ailments causing governments -- barring some happy exogenous changes in constraints – to grow in economically destructive ways.

So, yes, if ideas matter then society isn't destined to be impoverished by rent-seeking interest groups. Genuine reform is possible. But *easier*? Changing dominant ideas, it seems to me, is far more difficult than changing

institutions. And any such change in ideas takes more time, too.

This reality relates to my second point. Hernando de Soto famously calls for the governments of developing countries not only to make poor people's property rights in their land and small buildings more secure, but also to memorialize those rights in formal titles of the sort that are prevalent in developed countries. Poor people can then use those formal titles as collateral for loans to start and expand businesses. Enterprise will flourish. Or so De Soto argues.<sup>[30]</sup>

It's a nice story, but it doesn't work so well in practice. The reason is that ideas prevalent on the ground in many developing countries make it very difficult to transform land titles into collateral. I'm told by reliable on-the-ground researchers in sub-Saharan Africa that many poor people there hold strong beliefs that their land is something that simply should not be traded in commercial markets or used as collateral for loans. Also, banks remain reluctant to foreclose on loans that are in default because they fear strong popular opposition to such foreclosures; banks, therefore, are reluctant to make such secured loans in the first place. <sup>[31]</sup>

Changing the institution here is rather easy: create a system of formal titling. Western experts are available for hire to help get the institutional details just right! Changing the ideas that people have about their and their neighbors' relationship with land and about the proper and improper uses of land is far more difficult. No western experts can help here.

### Endnotes

<sup>[30.]</sup> Hernando de Soto, *The Mystery of Capital* (New York: Basic Books, 2000).

<sup>[31.]</sup> See Karol C. Boudreaux, "The Legal Empowerment of the Poor: Titling and Poverty Alleviation in Post-Apartheid South Africa," *Hastings Race and Poverty Law Journal*, Vol. 5, 2008, pp. 309-37. See also Karol Boudreaux and Paul Dragos Aligica, *Paths to Property: Approaches to Institutional Change in International Development* (London: Institute of Economic Affairs, 2007).

## FALSE DICHOTOMY

by Joel Mokyr

Deirdre McCloskey seems to believe that an argument about institutions (that is, incentives) can be settled by an argument that it was not institutions but ethics that mattered. I cannot recall that anyone — least of all Doug North or Avner Greif — ever argued that ethics (or morality) did not matter. Indeed, Greif has a set of recent papers (Greif, 2012; Greif and Tadelis, 2010) in which the importance of morality is neatly integrated into an institutional framework. More generally, a theory of institutions without the underlying set of beliefs, ethical or otherwise, would be woefully inadequate, as North himself would be the first to admit (North, 2005). That does not imply that institutions do not matter. The reason that institutions have become so popular among economists is not because it has been the flavor of the month or because “as the World Bank nowadays recommends, to add institutions and stir” (as Deirdre writes, violating her own friendly advice given to me so often: “don’t sneer.”). The idea that institutions mattered for economic growth resonates in the economics profession because it rings true. Governance matters. The effective rhetorical device employed by Acemoglu and Robinson in their *Why Nations Fail* (2012) is to juxtapose two societies that are similar in most respects except governance: North and South Korea, or Nogales, Arizona, and Nogales, Sonora. In every measurable way, a huge gap exists between these cases, yet it’s hard to say that North Koreans are ethically different from their southern cousins even though their GDP per capita is lower by a factor of 18 (an order of magnitude that should impress Professor McCloskey, who finds a factor of “at least sixteen” to be “the heart of the matter”).

Most of Deirdre’s arguments against my defense of institutions seem to be equally ill-founded. I wrote a long paper on the “Institutional Origins of the Industrial Revolution” in which I discussed how and why British institutions may have been better in c. 1700 than they had been in England in 1200, or than they were in Germany in 1700. Even Gregory Clark, who is if possible even less

friendly to the idea that institutions were of importance than Deirdre, has a little graph pointing out how English murder rates in 1700 were lower than in 1200, a point since made in great detail by Steven Pinker. Property rights existed in 1200, but whether they confirm that “property rights were very good in England many centuries before the Industrial Revolution or the Great Enrichment” remains unproven. Were they as good? Surely the rule of law, as approximated by the level of daily violence, had improved between King John and King George.

Deirdre objects to my example (and that is all it was) of apprenticeship in England. Yes, of course, there was apprenticeship on the Continent and in most places in the world. But was it the same? One small institutional difference: on the whole, the rules in most of Europe were enforced by formal organizations, craft guilds. In England, because guilds were relatively weak, the rules had to be self-enforcing. It worked better: as early as 1690, even Dutch travellers commented on the superiority of British artisans and their high level of skills from furniture design to the casting of metal rollers (Dobbs and Jacob, 1995, p. 74). By the late 18th century British engineers and skilled artisans were swarming all over the Continent, installing, maintaining and operating state of the art machinery. Ethics?

Related Links:

- [Pierre Bayle \(1647-1706\)](#)

The real issue, unresolved as yet, is how we build an institutional and cultural explanation of technological progress. After all, if we agree with Deirdre that the modern growth is driven by innovation, what is the institutional basis of the growth in useful knowledge? How were the people who created it rewarded, compensated, and incentivized? It is this issue that my new book, *The Cultural Origins of Economic Growth* (Princeton University Press, forthcoming, 2019), will tackle, though a taste of the argument can be found in various papers. The argument in a nutshell eschews the false dichotomy between beliefs and preferences (“ethics” if you want — but there is so much more) on the one hand and institutions on the other. It looks at the

European experience of the period 1500-1700 and asks where the Enlightenment came from. If we understand the sources of the Enlightenment, I believe, we have solved a great deal of the riddle of the Great Divergence. The book argues that ideas and beliefs of all kinds and types are presented to a market for ideas, in which people try to persuade one another (the importance of persuasion and rhetoric as a historical force was impressed upon me many years ago by one Deirdre McCloskey). But the market for ideas took place in a framework that created rules and norms, higher rewards for the successful and reduced risks for the venturesome. In short, the institution in which people tried to persuade one another mattered. Within that institution, successful cultural entrepreneurs such as Martin Luther, Nicolaus Copernicus, and Benedictus Spinoza (to name just three) could thrive and influence others. The test of a good market is that entrepreneurs and innovators can be spectacularly successful, and this is what happened in Europe. The institution that made all this possible was called the Republic of Letters. It was a virtual institution, a network of publications and correspondence, of people who read other people’s work, vetted, criticized, and cited it. They rarely met, but that did not prevent them from setting up rules that rewarded and penalized, determined how people should and should not behave, and what was an acceptable product. It was competitive, creative, and destructive all at the same time, as effective markets are supposed to be. This is not the place to explain precisely how and why this institution emerged and what the rules were; but it was there for all to see. Unlike, say, the Middle Ages or Classical Antiquity, it was not a construct of historians: The term originates in 1417, and Pierre Bayle began publishing his newsletter named *Nouvelles de la République des Lettres* in 1684. It created open science, a world in which discoveries and new ideas were placed as quickly as possible in the public domain — an institution that is still with us. It was the institution that explains the fantastic explosion of useful knowledge that drove modern growth.

Related Links:

- [Sir Francis Bacon \(1561-1626\)](#)

Ethics mattered too, of course, who would deny it? None of the arguments that Deirdre makes in her rich and persuasive books rings wrong to me. But the evolution of ethics, too, emerged from a competitive marketplace for ideas and was subject to persuasion. Was it ethical to kill someone because he was a heretic? In 1550 the answer was different than in 1680. Was it ethical to postulate that the earth was not the center of the universe, that a vacuum could exist, that Ptolemy and Galen were wrong about most things? Among many societies, to impugn the learning of the “ancients” was the one of the worst sins -- not least among my forefathers, the Jews of Europe (who expelled the sinful and horrid apostate Spinoza from their midst). Was it ethical to do science not only to illustrate the glory and wisdom of the creator but also, as Bacon said, “to establish and extend the power and dominion of the human race itself over the universe, his ambition ... is without doubt a wholesome thing and ... noble.... Now [the empire of man over things](#) depends wholly on the arts and sciences. For we cannot command Nature except by obeying her”?



Oscar Wilde

Oscar Wilde once said, “It is not enough for me to succeed; my friends have to fail.” It is not enough for Deirdre to be right; (almost) all others have to be wrong. As she well knows, I stand beside her in most of the chapters in *Dignity*, in which she disposes of half a dozen or more bogus explanations of the Industrial Revolution and the Great Divergence. But on institutions she is dead

wrong. This is not to say that her critique of much of the institutional literature is off the mark -- far from it. But if North may not have gotten all the details quite right, his insight stands undiminished.

Culture cannot be understood without institutions, just as institutions cannot be understood without culture. Understanding how the two interacted remains a challenge for the next generation.

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## THE LOGIC OF IDEAS AND INSTITUTIONS IMPLYING GROWTH: LAST REPLIES TO DON, JOEL, AND JOHN

by Deirdre N. McCloskey

The poet and Latinist A. E. Housman issued his *Last Poems* in 1922, but he kept on writing, and in the year of his death, 1936, his brother published *More Poems*. Perhaps this will be my Last Replies here about ideas, institutions, and the Great Enrichment. Or maybe there will be More—not, I hope, after I’m dead.

When I read Don Boudreaux’s contributions to this colloquy, such as his own Last, I find myself nodding my head, and thinking, “What a good point!” For example, he notes that “ideas prevalent on the ground in many developing countries,” such as ideas about what sorts of things should be traded (e.g. not land), “make it very difficult to transform land titles into collateral.” Bingo. Such ideas are *not* easy to change, as one can see in the persistence down to the present of mercantilist or populist ideas against betterment by trade or innovation, as for example in the writings of Robert Reich or John Gray. The difficulty of changing prevalent ideas is one reason why the Industrial Revolution and especially the more significant Great Enrichment following was a one-off event.

I think Joel would agree. The book he is working on, which we all want to see drafts of, traces what he calls the Industrial Enlightenment back to improvements in the



conversation of the Republic of Letters and before, a rhetorical event unique (he and I would claim) to Europe in the seventeenth century, and before. I make a similar point, with less depth, in Part VI of *Bourgeois Equality*. I would add, though, that we both, Joel and I, need to find more comparative evidence. I worry that our celebration of the better rhetoric of Europe as a cause of the modern world may yet founder on evidence-still-to-be-found that, say, China also had periods of Republican Letters. Or South Asia, usefully fragmented as it often was.

But back to the contrast with my reading of Don's contributions. What is odd is that when I read Joel's and John's contributions here I do not nod my head with approval. These are two scholars I admire extravagantly (as can be judged by the frequency with which I steal their ideas—properly footnoted, of course). And in this forum I have admitted the truth of many of their points, especially when backed by evidence. “Yes,” I say, “admitted: if institutions are very bad, then ideas get choked off, and so does growth. A war of all against all is not good for business. That's the scheme in Acemoglu and Robinson, to find cases in which institutions are very bad, and then to infer from the cases assembled that institutions (alone) are necessary for growth.”

Yet I do not nod in agreement. Instead I find fault in what Joel and John say, at any rate here, where we are exploring rather fine points of difference among four scholars who pretty much agree. I refrain from nodding not because I want to—out of, say, political disagreement, which is not what is going on here, not at all—but because, reluctantly, I do find faults in their logic and evidence, at any rate on the fine points.

Why? One reason is that Joel and John have not quite escaped, I think, as Don has, from a positivist, behaviorist, Samuelsonian definition of what is a respectable scientific argument in economics or economic history. (Understand, in case you have not heard, that I do not regard positivist, behaviorist, or Samuelsonian as terms of praise.) To put it another way, they doubt humanistic evidence. I could go on (and on and on) about the point, but I'll leave it at that for now.

Another reason for my lack of affirmative nodding is that Joel and John have not really taken on the idea that ideas can matter *independent* (sometimes) of incentives. They say they have taken it on, but then they keep falling back into arguments that say that Institutions (let's symbolize them by *N*, since the other term, Ideas, also start with an *I*) suffice for growth (*G*):  $\{N\} \Rightarrow G$ , [Good] Institutions imply [Positive] Growth. That is, they are denying what Don and I have come to believe, on the basis of masses of positivist, behaviorist, and Samuelsonian evidence, but also on the basis of the humanistic testimony of plays, novels, philosophy, biography, and ordinary human experience, namely, that [*N* is Institutions, *D* is Ideas, remember]  $\{N \text{ and } D\} \Rightarrow G$ . The Ideas, *D*, are to be thought of as “sound, pretty favorable ideas about markets and betterment.” Likewise, the Institutions, *N*, are to be thought of not as perfect but as pretty good. (The rhetoric of “pretty good” comes from a brilliant book in 1999 by the political scientist now at Ohio State, John Mueller, *Capitalism, Democracy, and Ralph's Pretty Good Grocery* [Princeton: Princeton University Press].)



Here's the problem. Joel and John seem on odd days of the month to believe in the North-Acemoglu pre-judgment that  $\{N\} \Rightarrow G$ . No Ideas. Joel calls the ideas Culture, which is the vague way that people talk when they have not taken on board the gigantic and exact literature about rhetoric, ideology, ideas, ceremonies, metaphors, stories, and the like since the Greeks or the Talmudists or the Sanskrit grammarians,

(Please, Joel, don't reply again that Doug North and Avner Greif *do* admit the force of ideas in their stories. Well, I'm not quite sure about Avner in this regard—I disastrously forgot an appointment with him some months ago to go to dinner in Chicago and get down to discussing ideas in detail; he is quite properly sore at me about it; I need to do more homework. But I am quite sure of Doug. In his *Understanding the Process of Economic Change* [Princeton University Press, 2005] he says he is very interested in the source of ideas. Good. But instead of entering the humanistic conversation since the Epic of Gilgamesh, which has largely been about the source of ideas, he defers to “brain science” [about which, it must be said, he knows very little]. That is, Doug reduces Ideas to Matter, and to the mechanical incentives surrounding Matter, every time. He takes the brain to be the same thing as the mind, which after all is the central error in the New Phrenology known as brain science. [If you, dear reader, want to know more about what's wrong with Doug's ideas about ideas, read Chapter 33-36 in *Bourgeois Dignity*. You, too, Joel].)

Anyway, if one believes that  $\{N\} \Rightarrow G$ , then it follows that not- $G$  implies not- $N$ , and the hunt is on for Institutions that failed, and kept nations failing. But if one believes that  $\{N \text{ and } D\} \Rightarrow G$ , as Don has persuaded me to believe, and as Joel's and John's interesting examples here have helped me to see more clearly, then it follows that the failure to grow (not- $G$ ), implies *either* not- $N$  (those bad institutions) *or* not- $D$  (the bad ideas), or both. (This logical point in the philosophy of science is known as Duhem's Dilemma, and kills off the simple Friedman-Samuelson falsificationism underlying modern econometrics.) If so, then the hunt is on for *either* bad institutions *or* bad ideas, *with no presumption that the bad-idea possibility is somehow less of a scientific priority*. I recognize the impulse to stick with Max-U version of Institutions as the first on the agenda, since I used to say the same thing to people like David Landes: “First, let's use total factor productivity; then, if there's anything left over, we can look at the correspondence of ironmasters.” I never intended to look at the correspondence, and did not, to my

shame. Samuelsonian economics, I thought, sufficed. So here. (To the claim that Northian institutionalism steps *beyond* Samuelsonian economics, I say, as I've been saying to Doug now for thirty years, puh-*leez*!)

To turn to John's Last. Of course inventions can be free ridden upon, which is why it is irrational for a small country to invest in R&D, especially R. But my point, which John in turn don't seem to acknowledge, is: What kind of failure is it when southern England shared in the failure? True, Holland didn't continue its leading role in, say, science, that it had attained in the Golden Age; nor, I think, in mechanical invention; and perhaps not in institutional invention, either, such as the East India Company (Holland's private version, *Vereenigde Oostindische Compagnie*, went bankrupt in 1800), although Holland did still invest vigorously overseas. But neither did Cambridge and London have a lot going on in such matters c. 1800. Regions specialize, and not always through “failure.” (I've been making this point all my scholarly life, so you see why I repeat it.) What was bizarre was what was happening in the English North and in Scotland, and there the ideology did match. They don't call it the “Manchester School” for nothing.

The option of removing materialist obstacles might be open—though note that it seldom has worked very well without massive ideological change preceding—I mention Ataturk again, to which one could add Adenauer. Removing tariffs, for example, might be thought of as a materialist change. But the removing is not merely to be called up by economists, of course. The removing happens—as it seems to have in India—after the ideology changes, as when German Ordo Liberals (who were talking this liberal way in the 1930s, to no avail) take charge in post-War Germany after the occupation was lifted (the British, by then persuaded socialists, mainly, resisted the liberalizing moves in their sector).

Ideology may not have to change in a world in which politics doesn't matter, or in which politicians take the advice of [the right kind of] economists without question. But in our world the ideology had better change, or else the materialist policies (e.g., sending lots of kids to engineering schools) won't be sustained, and

won't be matched by other policies in depth that make the matter bear fruit (e.g., letting high tech flourish in Bangalore without the License Raj interfering). Or, worse: Raul Prebisch will take over the ideas, just as LSE socialism took over India at Independence.

John's commitment to *I*-first shows in his peroration: "I still insist that a truly strong case for the importance of ideas should be more persuasive to the unconvinced, and I don't believe we are there yet." I invite him to read *Bourgeois Equality*, which I will make available to him in draft. Or, at less cost in time, he could read anything by Don Boudreaux.

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## ABOUT THE AUTHORS

**Donald J. Boudreaux** is a senior fellow with the F.A. Hayek Program for Advanced Study in Philosophy, Politics, and Economics at the Mercatus Center at George Mason University and a professor of economics and former economics-department chair at George Mason University. He holds the Martha and Nelson Getchell Chair for the Study of Free Market Capitalism at the Mercatus Center. He specializes in globalization and trade, law and economics, and antitrust economics. Boudreaux is committed to making economics more accessible to a wider audience, and he has lectured across the United States, Canada, Latin America, and Europe on a wide variety of topics, including antitrust law and international trade. He is the author of the books *Hypocrites and Half-Wits: A Daily Dose of Sanity from Cafe Hayek and Globalization* (Free To Choose Press, 2012). His articles appear in such publications as the *Wall Street Journal* and *U.S. News & World Report* as well as numerous scholarly journals. He writes a blog (with Russell Roberts) called [Cafe Hayek](#) and a regular column on economics for the *Pittsburgh Tribune-Review*.

**Deirdre N. McCloskey** is Distinguished Professor of Economics, History, English, and Communication at the University of Illinois at Chicago and Professor of Economic History, Gothenburg University, Sweden. She is currently completing a three volume work called "The Bourgeois Era", the first volume of which is *The Bourgeois*

*Virtues: Ethics for an Age of Commerce* (University of Chicago Press, 2006); the second *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (Chicago Press, 2010); and the third *Bourgeois Equality: How Betterment became Ethical, 1600-1848*, and then *Suspect* (Chicago Press, forthcoming). She has also written among many other titles *The Cult of Statistical Significance* [co-authored with Stephen Ziliak] (University of Michigan, 2008); and *Crossing: A Memoir* (Chicago Press, 1999). Her website is . Her website is <<https://www.deirdremccloskey.com/>>.

**Joel Mokyr** is the Robert H. Strotz Professor of Arts and Sciences and a professor of economics and history at Northwestern University and Sackler Professor (by special appointment) at the Eitan Berglas School of Economics at the University of Tel Aviv. He specializes in economic history and the economics of technological change and population change. He is the author of *Why Ireland Starved: An Analytical and Quantitative Study of the Irish Economy* (London: George Allen and Unwin, 1983), *The Lever of Riches: Technological Creativity and Economic Progress* (Oxford University Press, 1990), *The British Industrial Revolution: An Economic Perspective* (Boulder: Westview Press, 1993, 1998), and *The Gifts of Athena: Historical Origins of the Knowledge Economy* (Princeton University Press, 2002). His most recent book is *The Enlightened Economy*, published by Yale University Press and Penguin in 2009.

**John V. C. Nye** holds the Frédéric Bastiat Chair in Political Economy at the Mercatus Center and is a professor of economics at George Mason University. He also serves as a research director at the National Research University – Higher School of Economics in Moscow. He is a specialist in economic history and the New Institutional Economics. Prior to coming to GMU, he was a professor for over two decades at Washington University in St. Louis and was a founding member of the International Society for the New Institutional Economics. He has done research on a variety of topics from Anglo-French trade war and the rise of the British fiscal state, to Soviet collusion in championship chess, demography and cultural norms in Asia, and problems of reform in developing nations. He is currently directing a

large-scale cross-national project on the importance of human capital for preferences, achievement, and institutional quality for HSE, Moscow. He received a BS in physics from Caltech and an MA and PhD in economics from Northwestern University. He is the author of *War, Wine, and Taxes: The Political Economy of Anglo-French Trade 1689-1900* (Princeton, 2007) and was co-editor with John Drobak of *Frontiers in the New Institutional Economics* (Academic Press, 1997). *Institutions, Innovation, and Industrialization: Essays in Economic History and Development*, which he jointly edited with Avner Greif and Lynne Kiesling, is forthcoming at the end of this year from Princeton University Press.

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