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2011

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MPRA Paper No. 32376, posted 23 Jul 2011 00:12 UTC

A Behavioral Approach to the Political and Economic Inquiry into the Nature and Causes of the Wealth of Nations

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Abstract

Deirdre McCloskey's *Bourgeois Dignity* (2010) represents another breakthrough work in her career, and the second volume in a multi-volume work on the economic and intellectual history of western civilization. In a sense, the subtitle of the book explains well what this volume is all about--why economics can't explain the modern world. An important modifier would be – *modern* economics can't explain the modern world – because much of what McCloskey argues is the resurrection of an older argument that was associated with classical liberal political economists from Smith, Bastiat, Mises, Hayek and Friedman. Fundamentally, she reasserts the power of ideas to shape the world. McCloskey's narrative is simple and compelling -- materialist stories (whether technological, genetic, or institutional) do not work; incentive based stories do not provide a complete picture of why some countries grew rich while others remained poor, let alone for the exact timing for the divergence in the wealth and poverty of nations with the Industrial Revolution in the 18th and 19th century. McCloskey proposes that incentive based explanations must reside within a broader narrative that addresses values and beliefs, as well as institutions, technologies, and material conditions. In doing so, McCloskey paves the way for a true behavioral approach to a political and economic inquiry into the nature and causes of the wealth of nations.

JEL Codes: N00; O10; P10

A tide of opinion, once it flows strongly, tends to sweep over all obstacles,
all contrary views.

-- Milton Friedman and Rose Friedman, *Free to Choose* (1980, 284)

Deirdre McCloskey's *Bourgeois Dignity* (2010) critically engages the theoretical and historical literature on the rise of capitalism in the 18th and 19th centuries, and then traces out the implications of that argument for the 20th and 21st centuries. It is a breathtaking intellectual tour and its emphasis on the shift of rhetoric concerning the bourgeois,

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commercial activity, and entrepreneurial innovation in the Dutch Republic, in Britain, in France, and in the US during the pivotal years of the Industrial Revolution is as refreshing as it is rewarding. McCloskey is a thorough historical scholar and a gifted writer. But I want to contend that she is able to persuade in her endeavor because she is a brilliant *analytical economist*. If she wasn't such a good economist, then her critique of the efforts by other economists to explain modern economic growth would be only so much "talk" about "talk" so to speak. But because she is a skilled economist, McCloskey is able to put "talk" at the center of her analytic narrative of modern economic growth and to do so convincingly. The Samuelsonian economists must be reminded of the Smithian political economy that came before, which is capable of transforming current practice precisely because it can explain more. Such an implicit endorsement of contrawhig history of ideas will run into serious resistance unless offered by a master economist.¹

If you do a Google Scholar search for D.N. McCloskey, then you will discover soon after references to her work on the rhetoric of economics, the impressive citation impact of her work on statistical significance, her work on applied price theory, and her work on the economic history of Britain. She often says jokingly that she spent the first half of her career developing the sort of "prudence only" explanations that she now rejects, but this actually is not that accurate of a description if you read closely her work on applied price theory. Yes, Max U is a central character in her earlier manifestation as an economist, but never as the only character. And, if you read her recent work closely you will see that as much as she might want to push the boundaries of her economics

¹ See Kenneth Boulding (1971); also see Boettke, Coyne and Leeson (2010) and references therein.

theorizing, she is an economist through and through.² The unifying theme throughout McCloskey's work as an economist and economic historian are not only rational choice analytics and competitive market mechanics, but a deep and abiding appreciation for the gains from trade, the gains from innovation, and the gains from social cooperation under the division of labor. And, the unique institutional pre-requisites that are required to realize all these gains. But she is striving to place all of this human activity within its broader social and cultural context. She is situating activities within the environment of "talk" about those very activities.

McCloskey respects both Adam Smith's observation that man has a natural propensity to "truck, barter and exchange" and Thomas Hobbes's observation that life can indeed be "nasty, brutish and short" when man's propensity to rape, pillage and plunder is unchecked by either social convention or formal institutions of law and order. Which human propensity is pursued will be a function of the broader social context (including not just the pattern of institutions that are defined and enforced, but the conversation that exists about the moral legitimacy of those institutions). In short, in McCloskey's analytic narrative of the Industrial Revolution the idea that incentives matter can be found, but it isn't the main explanatory factor; and the idea that institutions matter can also be found, but again it isn't the main explanatory factor. Instead, McCloskey stresses that "ideas matter"-- and in particular the ideas that influence

² My favorite *economistic* line in *Bourgeois Dignity* is: "If we abandon economic principles in our worrying about the environment, we can revert to \$3 a day, and live in huts on a hillock in the woods by Walden Pond, depending on our friends in town to supply us with nails and books." (2010, 450) The trade-offs that human actors must make due to the reality of scarcity, and the prices they rely on to guide them in making those trade-offs, and the profit and loss accounting which provides the critical feedback necessary for learning are all evident in McCloskey's thinking whether she is talking about history or contemporary affairs. To this reader, McCloskey's ever-present economist makes her critique of the alternative explanations of the Industrial Revolution that much more persuasive. She is not offering a non-economic critique of economic explanations, but an economic critique of materialist explanations that do not put the human actor at the center of the story.

political and popular “talk” about commercial life and entrepreneurial innovation. This set of human activities was attributed a sort of dignity that was unique to that time and place, and that explains the “take off”. The ideas that emerged from the “talk” of 17th century Dutch Republic, 18th century Britain, and 19th century France and the US explains the Industrial Revolution, its spread and its transformation of the modern world. The rise of science contributed; the conflation of science, technological innovation, and commercial entrepreneurship contributed; the improvement of the quality of institutions that lowered the risk of appropriation contributed; the expansion of trade contributed; BUT the cause was a widespread and significant shift in public opinion about the life and activities of the bourgeoisie that unleashed all those contributing factors to produce the Industrial Revolution and change the course of modern history.

In *The Bourgeois Virtues* (2006), McCloskey had explained the search for a morality for the commercial society to contrast with the ancient virtues of the warrior or hero culture, or the Christian virtues of faith, hope and charity. She also revealed her concern with the caricature of economists as offering “Prudence Only” explanations. But of course Adam Smith wasn’t a prudence only theorist. In a review of *The Bourgeois Virtues*, I argued that perhaps the best way to understand McCloskey’s contribution is to see her book as the book Adam Smith would have written had he combined *The Theory of Moral Sentiments* and *The Wealth of Nations* into one book. (see Boettke 2007)

McCloskey also demonstrates in *The Bourgeois Virtues* that traditional society as opposed to commercial society did not exhibit such a moral life. (see McCloskey 2006, 139-148) There are no moral bonus points for living in poverty, squalor and ignorance. Modernity is a blessing, not a curse. The village was not a place of harmony, but one of

conflict, murder, rape, and theft. Commercial life, on the other hand, civilized man and provided mankind with amazing material means to pursue ends from the highest ideals to the basest of desires. Capitalism, she argues, does not need to be radically modified, let alone abolished, for it to be moral. “In a fallen world,” she wrote, “the bourgeois life is not perfect. But it’s better than any alternatives.” (2006, 1)

McCloskey’s *Bourgeois Virtues* and *Bourgeois Dignity* can be seen as making the critical Hayekian point that an economist who only knows economics is not only a poor social scientist but perhaps an outright danger to the society he or she populates. But she also can be read as pointing out that the only thing more dangerous than an economist who knows only economics might be a moral philosopher who knows no economics whatsoever. Moral philosophy cannot answer the questions that can be answered only with factual inquiry. And the logic of economic analysis cannot be dismissed solely because it doesn’t confirm the prejudices of the clerisy. McCloskey’s call is for a *humanomics*.³ In other contexts, I have described Elinor Ostrom’s work as rational choice as if the choosers were human, and institutional analysis as if history mattered.⁴ On this, as in many other areas, Elinor and Deirdre are working along similar, though separate lines, of inquiry into the human condition and how we can come to live better together through social processes of communication and cooperation. This is the true behavioral approach to political economy, not the currently fashionable effort to highlight how human foibles lead to deviations from the Max U model of man. Rather than anomalies, a behavioral approach to political economy treats human actors as fallible but

³ Bart Wilson, of Chapman University, and a close collaborator of Vernon Smith, and an associate with McCloskey uses that label to describe the work he is doing mixing literature, economics, and experiments.

⁴ See my overview work on the Ostrom’s research program in Boettke and Coyne (2005), Aligica and Boettke (2009) and also Boettke (2010a).

capable, who interact with other fallible but capable human actors and enter into economic and social relations with one another in specific institutional ecologies. The behavioral approach to which I am attributing McCloskey's work on virtues, beliefs, attitudes, and public opinion about the bourgeois life is in the same intellectual vein as that laid out by Vernon Smith in his Nobel Lecture where he contrasted constructivist and ecological rationality. (see Smith 2003) The behavioral approach of Smith, Ostrom and McCloskey is ecological and eschews constructivism, just as Adam Smith, David Hume, and F. A. Hayek did before them.

But let's get back to my main contention in this essay, and that is that McCloskey's work can be seen as a behavioral approach to *the political and economic inquiry into the nature and causes of the wealth of nations*. David Hume long ago argued that civil society required for its operation three core principles: private property, the keeping of promises embedded in contracts, and the transference of property by consent. One way to think about McCloskey's argument is that widely held public opinion legitimates or condemns certain values, beliefs and actions associated with Hume's property, contract and consent condition. I have argued in an essay on the role of spiritual capital in economic development that the underlying values and beliefs in a society either lowers or raises the transaction costs associated with economic exchange relations. (see Boettke 2010b) When the widely held values and beliefs in a community align with property, contract and consent, then exchange relationships do not depend for their existence on the formal apparatus of law and order. In such a society the costs of formal enforcement are lower, and specialization and exchange can spread relatively unimpeded. But in a society where every exchange can only be undertaken through the

watchful eye of the formal apparatus of coercion (police and courts; or the watchful eye of the moralist whether priest, rabbi, or imam), then specialization and exchange will have a limited span (at least in the official above ground economy.)

McCloskey's narrative of modern economic growth is not focused on the mechanics of economic growth-- neither the division of labor, nor technological innovation, and not even the development of a tolerable administration of justice (institutions!). McCloskey's narrative of modern economic growth is ultimately about the spiritual in economic growth.⁵ I am not sure if she would agree with my language choice since she focuses on the rhetoric and the active "talk", but basically she is arguing that when commercial activity is not only legitimated, but applauded, by the people (including but not limited to the elites) in any specific society at any specific time, then the mechanics of economic development will be unleashed. In other words, the cause of economic development is ideas that give dignity to the bourgeoisie, while the various mechanisms through which economic development is realized are unleashed due to shifts in ideas. As McCloskey goes to great pains to point out, the timing and the historical specifics do not align to simply rely on the mechanisms alone to tell the story of modern economic growth. But a documented shift in ideas in each of the particular national circumstances does, and the same can be seen she argues in the contemporary world when we look at China and India. When the ancient virtues of the warrior are supplanted by the commercial virtues of the bourgeoisie, economic growth follows. Modern civilization is a consequence of ideas, and its biggest threat is ideas. This is why the

⁵ "In 1776 Adam Smith," McCloskey (2010, 397) writes, "who invented sociology as much as economics, called the new amalgam 'the obvious and simple system of natural liberty.' But my point, and his, is that, astonishingly, the system was not considered 'obvious and simple' until the eighteenth century." The granting of dignity and liberty to the bourgeois is what shifted, and that is what McCloskey documents.

central message of *The Bourgeois Virtues* is so vital for setting the stage for the argument in *Bourgeois Dignity*. McCloskey's work strongly affirms the wonderfully worded passage of Keynes (1936, 383) on the power of ideas to shape the world in which we live:

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. *Indeed the world is ruled by little else*. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. (emphasis added)

“Language,” Mises (1949, 177) wrote, “is a tool of thinking as it is a tool of social action.” Beliefs and expectations give rise to actions, and actions result in consequences. And, all of human action takes place within social and cultural contexts. The problem with modern Samuelsonian economics is that it has proceeded as if man is disembodied from context. The history of the modern institutionalist counter-revolution in economics --public choice, property rights, law and economics, new economic history, market process theory, etc.-- is the history of the long trek back from the institutionally antiseptic theory of Samuelsonian economics. But as the German philosopher and sociologists, Hans Albert (1979) warned his friends in the New Institutional movement, neoclassical economics will never be able to repair its institutional deficiency until it repairs its behavioral deficiency. In McCloskey's language, Max U cannot be the central character of economics if we hope to have an institutionally and historically informed narrative of the modern economic world, let alone one that gives primary status to ideas. When McCloskey (2010, 297) points to Doug North, of all people, as still being a Samuelsonian economist down to his wing-tipped shoes, I believe she is making the same point as Hans

Albert made.⁶ This is, of course, that same point Mises made at the very beginning of *Human Action* (1949, 1-142), though most critics focus exclusively on his methodological pronouncements, rather than the substantive claims he is making about economic analysis. In those early pages of his treatise, Mises explains why the closed model of man does not suffice to capture the human actor in society. The argument in *Human Action* attempts to spell out clearly why the maximizing model of man and the perfectly competitive model of the market is incapable of providing an understanding of the choosing actor and the dynamic entrepreneurial economy, and as such cannot engage in the sort of comparative institutional analysis which has been the hallmark of economic thinking since Smith explained the failure of Mercantilism and the success of free trade, or Say explained the self-correcting capacity of the market, or Mill explained the amazing resiliency of free economies to bounce back after either natural disasters (such as fire, earthquakes or floods) or man-made disasters (such as war). It was precisely because modern technical economics had adopted the closed model of man, that economists were blind to the consequences of socialism with respect to social cooperation under the division of labor that Mises had identified with the problem of economic calculation under collective property. It was also the case, as Mises attempted to show, that with a closed model of man and an equilibrium theory of the market, the insidious role that the manipulation of money and credit had on the economic system would be hidden from view. But following the logic of the Misesian argument would take us too far afield for

⁶ It is ironic that McCloskey has focused her critical attention so sharply on North. North's work on "mental models" and in particular the turn toward cognitive science and away from the strict neoclassical model of choice should be more in line with McCloskey's emphasis. Her critique, in my opinion, is more appropriate for *Structure and Change in Economic History* (1981) and less so for works such as *Understanding the Process of Economic Change* (2005).

the task at hand⁷ – the assessment of McCloskey’s case for a behavioral approach to the economic inquiry into the nature and causes of the wealth of nations. For our purposes, the bottom line is that Max U just doesn’t work in the study of human action, though it might work in a toy economy populated by robots. Samuelsonian economics (whether practiced at MIT or Chicago) is the economics of toy economies, not the economics of real economies that exist in time and in particular places. Max U is indistinguishable from other animals – rats and pigeons, etc. – but the human animal that populates historical economies reasons, the human animal speaks, the human animal forms friendships, forges political alliances, gossips with their neighbors, and forms world views. Those world views shape social relations as they help form the understandings of cause and effect in human action. Robots don’t have ideas, they don’t *act*. Human’s *act*; human’s *believe*; human’s *live* in historical circumstances. It is human actors that are free and responsible beings, who participate and try to prosper in a free market economy, and who strive to live within and be actively engaged in caring communities. It is human actors that come up with new ideas, recognize the gains from trade and the gains from innovation, and act upon the opportunity for those gains by engaging in enterprise. As economists we want to study human economies, not toy economies. This is what McCloskey is talking about when she speaks of *humanomics*, and it is reflected in her analytic narrative about how the critical juncture in the modern world was the sudden attribution of dignity to the bourgeois life provided the fuel that unleashed capitalism and transformed the world. When dignity and liberty are for ordinary people extraordinary things can happen, and did happen in the 17th, 18th and 19th century. McCloskey is even

⁷ However, the reader should consult the brilliant discussion of the implications of the closed and single-exit theories in contrast to open and process theories found in Richard Wagner’s *Mind, Society and Human Action* (2010).

willing to put the chain of combustible forces in an easy to read form for the modern economist. (see 2010, 406ff)

Deirdre McCloskey's *Bourgeois Dignity* is an amazing tour through the facts and theories concerning the Industrial Revolution as well as modern economic growth. Her emphasis is on ideas, and in particular the spread of ideas related to the dignity of the bourgeois life. Entrepreneurial activity – both in terms of the art of the deal and the innovative impulse – must be embedded within an ideology that not only respects it but encourages it as a worthy vocational calling for the best and the brightest to pursue. It has to be widely understood that tinkering with technologies and trading in goods and services can improve the lives of the masses if permitted. Economic science is about logic and evidence, and economic life (the bargaining over resources and the seeking of profit) will exist whether economists understand it or not. But the widespread development of economic life does require ideas that legitimate and identify the activities associated with economic life as morally worthy endeavors.

A central message of economics from Smith to Hayek has been that we do not have to understand in order to have and benefit from the spontaneous order of the market. But a central message of Smith, Ricardo, Say, Mill, Mises and Hayek has been that while it may not be essential to understand in order to have, it very well may be essential to cultivate an understanding of the spontaneous order of the market among the population in order to sustain that order and realize its benefits on a wide scale. This enlisting of the economist in the “battle of ideas” over economic freedom and economic prosperity was central to the careers of Smith, Say and Bastiat, Mises and Hayek, Friedman, though not Stigler, but certainly Buchanan. Deirdre McCloskey joins that list of those contributing

to our understanding of the relationship between economic freedom (and the dignity and liberty it affords to ordinary people) and the wealth and poverty of nations.

McCloskey not only contributes to our scholarly understanding in a significant way by tackling one of the great mysteries of the sciences of man – the Rise of the West-- but joins the contemporary battle of ideas with her multi-volume works on capitalism. When bourgeois virtues do not thrive, she documents, the results are very sad indeed for the people. This point about the importance of ideas to shape the world is worthy of several volumes of writings, and hours of lectures to make sure the message is effectively communicated – *who and what societies attribute in their “talk” are to be dignified and granted liberty to matters for human welfare*. When the bourgeoisie are accorded dignity and liberty, the least advantaged among us are made significantly better off and the society as a whole achieves a level of material well-being that seems impossible to our ancestors. McCloskey’s task is two-fold: we have to cultivate in our broader culture a new “talk” about the bourgeoisie, commercial life, and entrepreneurial innovation; and, we have to reorient political economy and historical scholarship away from an exclusive focus on resources and ruthless efficiency and towards the humanistic science of man “that honors number and word, interest and rhetoric, behavior and meaning” (2010, 450) must be praised and encouraged --- and accorded the dignity and liberty of inquiry that will encourage such scientific and scholarly entrepreneurship among contemporary economists and political economists.

Congratulations to Deirdre McCloskey for another amazing contribution, and I for one cannot wait for the *Bourgeois Re-Evaluation* to appear in print and to continue her

effort to forge a behavioral approach to the political and economic inquiry into the nature and causes of the wealth of nations.

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