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## **Creative Language, Creative Destruction, Creative Politics**

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Part 13 of 13:  
“Creative Language, Creative  
Destruction, Creative Politics”

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*Bourgeois Dignity and Liberty:  
Why Economics  
Can't Explain  
the Modern World*

[Vol. 2 of The Bourgeois Era]

Deirdre N. McCloskey

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To Readers: The argument is, I fancy, complete, but some details  
in footnotes and references, and occasionally matters of routine  
calculation in the main body, need to be cleaned up.

**Abstract:** Why did the North-Sea folk suddenly get so rich, get so much  
cargo? The answers seems not to be that supply was brought into equilibrium  
with demand---the curves were moving out at breakneck pace. Reallocation is  
not the key. Language is, with its inherent creativity. The Bourgeois  
Revaluation of the 17<sup>th</sup> and 18<sup>th</sup> centuries brought on the modern world. It

was the Greatest Externality, and the substance of a real liberalism. Left and right have long detested it, expressing their detestation nowadays in environmentalism. They can stop the modern world, and in some places have. The old Soviet Union was admired even by many economists---an instance of a "cultural contradiction of capitalism," in which ideas permitted by the successes of innovation rise up to kill the innovation. We should resist it.

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## Chapter 32:

### It Was Not Allocation, but Language

The main economic puzzle with the explanations of the Age of Innovation proposed so far is that they assume that, until 1750 and the wave of gadgets sweeping over England, opportunities for profit were simply ignored. As I've said now repeatedly, that's not economically reasonable. If the spinning jenny was such a swell idea in 1764 C.E., why was it not in 1264, or 264, or for that matter in 1264 B.C.E.? If factories extracted surplus value in 1848, why not in 1148? Thus the economic puzzle of the Industrial Revolution.

The other, historical puzzle, as I've also noted repeatedly, is that many of the so-called preconditions (high savings rates, lots of international trade, private property, science) happened long before, and in other places than northwestern Europe. Bragging, thrusting, crusading Christendom was notably backward compared to the great Asian empires even in 1700 and certainly in 1600, and quite embarrassingly so in 1500. Imagine as a mental experiment that preconditions of the material sort – investment, trade, empire, science – do make for an industrial revolution and for the sustained enrichment of the poorest among us. In that case China or India should have had an industrial revolution in 1600, or centuries earlier, as should Rome or Greece. The historical puzzle is the temporary oddness of the lands around

the North Sea after, say, 1700 or 1800. One can offer plausible offsets in the case of Greece or Rome, especially the slavery and misogyny that supported a contempt for labor, and for active, stirring, laborious men of business. It might apply to China and India and the Ottoman Empire, too. In other words, I am claiming, the anti-bourgeois character of society before 1700, in Europe, too, explains the lag.

The economic and the historical puzzles are twins. If having lots of foreign trade in Britain in 1700 C.E. made for explosive opportunities for profitable innovation and an Industrial Revolution by 1800, and a sharp rise of living standards in northwestern Europe by 1900, then why did it not do so in China in 700 C.E. or Egypt in 1700 B.C.E.? If security of property and other such legal institutions made the modern world, why did they not in Republican Rome or Muslim Spain? Unless European people changed around 1600 or 1700 in their greediness – a popular notion right down to modern anti-consumerism, though hardly plausible – heaps of 100-guilder or 100-pound-sterling notes or coins cannot have sat on the ground for hundreds of years un-picked up. Whatever the cause of the modern world, in other words, it has to be something that does not assume that earlier or non-North-Sea people were so stupid as to ignore strikingly good deals. And it has to be unique to a very recent time and to a northwestern European place.

Why did the North-Sea folk suddenly get so rich, get so much cargo? The answer can't be that the Dutch and English (suddenly, belatedly) showed

racial superiority. A sensible answer has to honor the Dutch and English around 1700, but not in the same breath dishonor the rest of humanity, including in the dishonor the earlier Dutch and English. After all, the rest elsewhere caught on to the North-Sea routine pretty quickly once it had been invented. If they happened to move to Holland or Britain or America they did well, whatever their genes. And at home they often nourished their own, if constrained, traditions of bourgeois virtue. In the end people in Asia and Africa and all over, in Taiwan and Botswana and Chile, learned pretty quickly to perform the northwestern European trick. But the trick could not have consisted of an open opportunity lying around all over the place, unused even in England for centuries, such as the routine taking of opportunities for profit from digging a canal or from sending a ship to Africa – that would violate economics just as Euro-centrism violates history.

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I admit the danger in the argument here, the Fallacy of the Immeasurable Residue. It is not entirely cogent to keep measuring causes, finding the measurable ones to be small, and then concluding that The Cause Our Author So Persuasively Proposes *must* be true, though hard to measure. The method of knocking off contrary hypotheses, I said, is what John Stuart Mill recommended in his *System of Logic*, and is the admired practice in

physical and biological sciences. But it is biased towards the immeasurable—witness string theory in physics, or for that matter Newton’s anti-Aristotelian but question-begging terminology of “gravity” as a force, measurable in result but not in cause. As Mill wrote, the Method of Residues works “provided we are certain that [in the present case, a rhetorical change] is the only antecedent to which [the Industrial Revolution] can be referred. But as we can never be quite certain of this, the evidence from [the method] is not complete.”<sup>1</sup> What may be missing is an unnoticed but still material and measurable alternative. (There are immaterial *and measurable* causes, too, by the way: it is another of the numerous materialist prejudices floating in the minds of many historians and social scientists in the twentieth century that there aren’t any. Opinion, for instance, is measurable—better measured in many cases, for example, than pot-of-pleasure “happiness.”) Theists have often made the similar tactical error of positing a God of Gaps, supposing on the eve of the discovery of evolution by natural selection, for example, that the complexity of, say, the astonishing and delicate machinery of the eye implies an unexplained gap in materialist explanations, and there an eye- (and watch-) making God.<sup>2</sup> Like the unlucky theists, maybe I have overlooked some material cause that in contrast all the ones I have here examined, separately or in combination,

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1 Mill 1843, p. 464.

2 Collins 2007 93, 95, 193-195, 204.

actually explains the factor of 2 or 16 or 100. I'm very willing to concede the scientific point – if some materialist can find a material cause that works. I have little optimism that she will succeed, having myself tried them repeatedly since 1966 and having found them in the end to be wanting. As Emerson noted, “an idealist can never go backward to be a materialist.”<sup>3</sup>

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<sup>3</sup> *Essays*, “The Transcendentalist,” p. 1.

A piling up of rejected alternatives, all of the same re-allocative character, does suggest by sober scientific criteria that we may be looking in the wrong place – perhaps under the lamppost of static economics, or under a somewhat grander lamppost of a dynamics depending on statics, or under the grandest lamppost discovered so far, of a non-linear dynamics of chaos theory. Perhaps we are looking in such places not because the evidence leads us to them but on account of the excellent mathematical light shining under all these impressively ornamented lampposts. Yet one after another of the proffered material explanations has failed. No believable case can be made that adding them all together would change much, or that other countries and other times did not have equally favorable material conjunctures – not if we are trying to explain the unprecedented factors of growing production per head.

The problem with all the economic explanations lies deep within classical and most of subsequent economic thought: the conviction that shuffling stuff around makes us rich. Transportation. Reallocation. Information flow. Accumulation. As Kirzner expressed it, “for [the British economist flourishing in the 1930s Lionel] Robbins [and the Samuelsonians], economizing simply means shuffling around available resources in order to secure the most efficient utilization of *known* inputs in terms of a *given* hierarchy of ends.”<sup>4</sup> Yet the path to the modern was not through shuffling and reshuffling. It was not by the growth of foreign trade or of this or that industry, here or there, not by shifting weights of one or another social class. Nor indeed was it about reshufflings of property rights. Nor, to speak of another sort of reshuffling, was it through rich people piling up more riches. They had always done that. Nor was it through bosses being nasty to workers, or through strong countries being nasty to weak countries, and forcibly shuffling stuff towards the nasty and strong. They had always done that, too. Piling up bricks and money and colonies had always been routine. The new path was not about accumulation or theft or commercialization or reallocation or any other reshuffling.

It was instead about discovery and a creativity supported by novel words. Previously unknown inputs were discovered (coal for steam engines; coke for iron), fresh hierarchies of ends were articulated (in the new political

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<sup>4</sup> Kirzner 1976, p. 79.

economy, for example, the ends of general vs. privileged prosperity; in the new politics the radical end of achieving strict equality), new goods and services were created (black tulips, common stocks). The new path led around 1700 from the change in rhetoric by around 1800 and especially by around 1900 to shocking innovations in factory machinery and in business practice. It was supported and extended by shocking innovations in politics, with the result that as early as 1832 a few countries protected your life, liberty, and pursuit of innovation from progressive or conservative assault. The result was a startling enrichment of our ancestors, poor though they began. We ourselves are now better off than all but the richest of the ancestors were, measured by goods and human flourishing.

In a deep sense, in other words, the economist's model of allocation does not come close to explaining the factor of sixteen. If allocation and accumulation and property rights were the only causes, then previous centuries and other places would have experienced what Britain experienced 1780-1860 and after. Macaulay said, in a Smithian way, "We know of no country which, at the end of fifty years of peace, and tolerably good government, has been less prosperous than at the beginning of that period."<sup>5</sup> Yes, agreed. But 100 percent better off, and most particularly on the way to 1,500 percent better off? There had been many times of such peace before, with no such result as the factor of sixteen. By 1860 "what had really

changed” writes the wise Goldstone, “was that innovation became common and widespread, even expected, because a British culture of innovation gave people the outlook and the intellectual and material [and sociological] tools to search for their own new ways of working.”<sup>6</sup>

To put it another way, economics in the style of Adam Smith, which is the mainstream of economic thinking, is about scarcity and saving and other Calvinistic notions.<sup>7</sup> In the sweat of thy face shalt thou eat bread, till thou return unto the ground. We cannot have more of everything. Grow up and face scarcity. We must abstain Calvinistically from consumption today if we are to eat adequately tomorrow. Or in the modern catchphrase: There Ain’t No Such Thing As A Free Lunch (TANSTAAFL).

I have the greatest respect for such economics, which I acquired laboriously, Calvinistically from 1961 to 1981 or so, and of which I am still learning new uses and new tricks. It is a great intellectual construct. I’ve written whole books in its praise. No joke.<sup>8</sup> But the chief fact of the quickening of industrial growth 1780-1860 and its amazing aftermath in the Age of Innovation is that scarcity was relaxed. It was relaxed in the long view, not banished in the short view by an “affluent society” – whatever the size of

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<sup>6</sup> Goldstone 2009, p. 120.

<sup>7</sup> Again see Nelson 1991, 2001.

<sup>8</sup> See all my writings before about 1983, and many even afterwards.

income at any one time, more of it is scarce, and cannot be seized for admirable public purposes without loss. That is what economists mean by a “production possibility curve.” More Housing has always an opportunity cost in All Other Goods and Services. So far Samuelsonian economics goes – and is correct. But over time, taking the long view, modern economic growth has been a massive free lunch. Discovery, not reshuffling, was the mechanism. As Kirzner put it, entrepreneurship is not about optimal shuffling – a hired manager can carry out that routine. “The incentive is to try to get something for nothing, if only one can see what it is that can be done.”<sup>9</sup> A new rhetorical environment in the eighteenth century encouraged [literally: gave courage to] entrepreneurs. As a result over the next two centuries the production possibility curve bulged out by a factor of sixteen, and more.

In 1871, a century after Smith, John Stuart Mill’s last edition of *Principles of Political Economy* marks the perfection of classical economics. Listen to Mill: “Much as the collective industry of the earth is likely to be increased in efficiency by the extension of science and of the industrial arts, a still more active source of increased cheapness of production will be found, probably, for some time to come, in the gradual unfolding consequences of Free Trade, and in the increasing scale on which Emigration and Colonization will be carried on.”<sup>10</sup> Mill (whom you know I admire) was here in error. The gains from trade, though statically commendable, and well worth having,

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<sup>9</sup> Kirzner 1976, p. 84.

were trivial beside the extension of industrial arts. The passage exhibits Mill's classical obsession with the "principle of population," a leading theme in economics from 1798 to 1871. Mill, with many others, believed that the only way to prevent impoverishment of the working people was to restrict population growth. His anxieties on this score find modern echo in the environmental and family limitation movements, such as China's one-child policy, arising from pessimistic (and Orientalist) theorizing in the West. The prudence of such a policy seems very doubtful today, and its lack of justice and liberty are plain. In any case the Malthusian idea told next to nothing about the century to follow 1871. The population of the United Kingdom increased by a factor of 1.8, yet income per head more than tripled.<sup>11</sup> Nor did Mill's classical model, as we have seen, give an altogether reasonable account of the century before 1871.

Mill again: "It is only in the backward countries of the world that increased production is still an important object: in those most advanced, what is economically needed is a better distribution, of which one indispensable means is a stricter restraint on population" – still more wrong, in light of what in fact happened during the century before and the century

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10 Mill 1871: Bk IV, ch. ii. 1 : 6. Note his usage of the word "science," in the older and wider sense of "systematic inquiry," as in all his writings.

11 Maddison 2006, pp. 415, 419, 439, 443.

after.<sup>12</sup> Mill did not anticipate the larger pie to come, so strong was the grip of classical economic ideas on his mind – even in 1871, even after a lifetime watching the pie grow larger. He says elsewhere, “Hitherto it is questionable if all the mechanical inventions yet made have lightened the day’s toil of any human being,” a strange assertion to carry into the 1871 edition, with child labor falling, education increasing, the harvest mechanizing, and even the work week shortening.<sup>13</sup>

Mill was too good a classical economist, in other words, to recognize a phenomenon inconsistent with classical economics. That the national income per head might triple in the century after 1871 in the teeth of rising population is not a classical possibility, and he would have seen the factor of sixteen in Britain from the eighteenth century down to the present as science fiction. And so the classicals from Smith to Mill put their faith in greater efficiency by way of Harberger Triangles and a more equitable distribution of income by way of improvements in the Poor Law. It should be noted that Mill anticipated social democracy in many of his later opinions, that is, the view that the pie is after all relatively fixed and that we must therefore attend especially to distribution. That the growth of the pie would dwarf the Harberger Triangles available from efficiency, or the Tawney Slices available

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12 Mill 1871 : Bk IV, ch. vi. 2: 114.

13 Mill 1871: Bk IV, ch. vi. 2: 116.

from redistribution, did not fit a classical theory of political economy.

Macaulay's optimism of 1830 turned out to be the correct historical point: "We cannot absolutely prove that those are in error who tell us that society has reached a turning point, that we have seen our best days. But so said all who came before us, and with just as much apparent reason."<sup>14</sup> The pessimistic and Calvinistic classical economists, with the pessimistic and Calvinistic and Romantic opponents of industrialization at the time such as Carlyle and Ruskin, and the Calvinistic and Malthusian opponents of modern economic growth nowadays, too, have come up short.

In the beginning was the word. Free innovation led by the bourgeoisie became at long last respectable. For instance, the merchants and machine makers and manufacturers in northwestern Europe were elevated for the first time to the rank of "gentlemen" (the ladies, once "women" or "wenches," were carried along). The middling sort of man came slowly to be called by the word previously reserved for the idle and well-born. For that matter some of the gentlemanly idle and well-born, in Holland and England and Scotland and the British colonies, and then a few decades later even in France, took to trade and innovation. Voltaire wrote in 1733 that in England "a peer's brother does not think traffic is beneath him. . . . At the time that the Earl of Orford [that is, Robert Walpole] governed Great Britain, his younger brother was no more

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14 Macaulay 1830, p. 186.

than a factor in Aleppo.”<sup>15</sup> A Swiss traveler wrote about the same time that “in England commerce is not looked down upon as being derogatory, as it is in France and Germany. Here men of good family and even of rank may become merchants without losing caste.”<sup>16</sup> He meant it literally: in France and Spain a nobleman caught engaging in commerce could be stripped of his rank. The rule was ancient. “In Thebes,” wrote Aristotle with evident approval, “there used to be a law that one who had not abstained from the market for ten years could not share in office.”<sup>17</sup> Surprisingly, in their rhetoric the northwestern European elite began to deem a bourgeois career honorable. During the seventeenth and early eighteenth centuries at Rotterdam, Bristol, Glasgow, Boston, and then later at Rouen and Cologne, the younger sons of gentry and even of noblemen embarked at length on bourgeois careers. And indeed the honorable classes in Holland and England had long viewed the improving of their estates as a good idea – if not going so far as to become a factor in Aleppo.

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15 Voltaire 1733, p. 154. The remark is not strictly accurate, since Walpole, though the longest-serving prime minister in British history (1721-1742), became an Earl only after his fall from power in 1742 (Voltaire must have added the remark to a later edition, since the earldom did not exist at the time of the first edition, in 1733). But for my purposes it will do: Walpole when in power was made early a Knight of the Bath, and was in other ways a member of the aristocracy, or at the worst the very highest ranks of the gentry.

16 César de Saussure in 1727, quoted in Blanning 2007, p. 110.

17 Aristotle, *Politics* 1278a20-25.

The historian Tim Blanning puts it so: “In the past it had been an axiom of English political theory that a virtuous polity depended on a traditional of civic humanism, sustained by a landed elite whose independence ensured their virtue” – thus Roman and neo-Roman theorizing down to Thomas Jefferson, and in the mid-twentieth century also certain British Tories and American Republicans. By the early eighteenth century in England, though, a century after its emergence in the Netherlands, “there emerged a greater willingness to view commercial society, not as a sink of corruption but as a wholly legitimate sphere of private sociability.”<sup>18</sup> The debate in the middle of the eighteenth century, argues John Danford, was “whether a free society is possible if commercial activities flourish.”<sup>19</sup> The models on the anti-commercial side of the debate, as Pocock and Skinner have shown, were Republican Rome and especially, of all nightmarish ideals, Sparta. Thus Thomas More’s Utopia. Commerce such as the Athenian and now the British favored would introduce “luxury and voluptuousness,” in the conventional phrase of the Scottish law lord Kames, as the debate reached its climax, which would “eradicate patriotism,” and extinguish at least ancient freedom, the freedom to participate. As the Spartans vanquished Athens, so likewise some more vigorous nation would rise up and vanquish Britain, or at any rate stop

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<sup>18</sup> Blanning 2007, pp. 110-111.

<sup>19</sup> Danford 2006, p. 319. The quotation from Lord Kames (1774) is Danford’s.

the admirably Republican “progress so flourishing . . . when patriotism is the ruling passion of every member.” And the poet William Cowper in 1785: “Increase of power begets increase of wealth;/ Wealth luxury, and luxury excess.”<sup>20</sup>

Danford reads Hume as opposing such a civic humanist view, that is, the view that stressed “the primacy of the political.” Commerce, said Hume, was good for us, and Georgian mercantilism in aid of the political was bad for us. “In this denigration of political life,” writes Danford, “Hume [is] thoroughly modern and [seems] to agree in important respects with [the individualism of] Hobbes and Locke.”<sup>21</sup> Hobbes, Locke, and Hume constituted “the challenge posed by early modern thinkers to the understanding of human nature which had been regnant for nearly two thousand years.”<sup>22</sup> Danford does not claim that all we moderns now reject the nationalist, sacrificial, anti-luxury, classical republican view. On the contrary, he says, no paradigm rules without challenge. We can see the Spartan ideal in politics left and right, Green and nationalist. Classical republicanism is alive and well and living in the pages of *The Nation* and *The National Review*. In Germany, for example, great social distance and a deference to various

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20 Cowper 1785, *The Task*, Book IV.

21 Danford 2006, p. 324.

22 Danford 2004, p. 325.

pseudo- and real aristocracies persisted into recent times, with unhappy results. The secularized Christianity known as socialism scorned the bourgeoisie in Russia, with equally unhappy results. Still today, even in the strongholds of commercial prudence in America and Europe, the old models of priest or knight continue to shine, alongside the new model of the entrepreneur. The academic expert is a new priest, the TV cop a new knight. The entrepreneur gets the blame – because after all she makes obscene amounts of money. Some of our fictional heroes are businesspeople (Jimmy Stewart in “It’s a Wonderful Life”), but not many.

By the late nineteenth century in the democracy-honoring and bourgeois-admiring United States, which lacked real aristocrats, the word “gentleman” – so called in address, if less so behind his back – became almost completely democratic. It meant any adult, male, white, non-immigrant citizen. Outside the old Confederacy few aristocratic gestures were admired. Mark Twain’s Connecticut Yankee in King Arthur’s court astounds the aristocratic rubes with industrial devices, not with knightly heroism, which on the contrary he thinks silly. Outside of church, a peasant/Christian holiness was laughed at. Twain spoofed Christian Science so harshly that (it is said on admittedly dubious authority) those mild folk are sworn to undertake to cut out any reprinting of the essay from public library books. By now over 90 percent of Americans identify themselves in surveys as part of a quasi-gentlemanly “middle class.” It shows up in the terminology of American

elections, in which “the middle class” means virtually everybody.<sup>23</sup> (“Don’t tax him./ Don’t tax me./ Tax that duke behind the tree.”) The words assume that dealing and marketing and innovating is what we Americans are supposed to do. Every gentleperson from truck driver to congresswoman in the United States thinks of herself as doing a little business, and dreams of novelties.

Less so in other countries. In a much more class-conscious Britain the percentage self-identifying as “middle class” in 2007 was only 37 percent, though well up from figures one would get in 1900.<sup>24</sup> In France in 2004, 40 percent replied “middle” to the question, “To which class do you have the feeling of belonging?” About 23 percent in France replied “working” – high by American standards, if sharply down from what French (and British and even American) people would have said in 1904. That in the French survey only 4 percent called themselves “*bourgeois*” reflects the unpopularity of the B-word in modern European politics. It would be good to revive the word and its associations with liberty. But even so, note that forty percent and more of

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23      Pew Research Center 2008, p. 10. The authors of the report, for reasons they do not state, want to define people who call themselves “upper middle” (19 percent) as “upper” and people who call themselves “lower middle” (another 19 percent) as “lower,” which is how they arrive at the assertion that only 53 percent identify as middle class (these being people who replied to the phone survey “middle” with no adjectives). That puts Americans in the same range as British and French respondents. But taking people at their self-defining word, all but the 2 percent pure “upper” and the 6 percent pure “lower” (and 1 percent not replying at all), use the middling word. The fact is at least rhetorically interesting.

24      National Centre for Social Research 2007, p. 2. Compare Marshall and others 1988, p. 144, 38.5 percent identifying as middle class.

people in rich countries call themselves middle class, if not the Marx-spoiled “bourgeois.” Compare the much lower percentages one can imagine in the worlds of André Gide or of Stendhal, not to speak of Molière. The change in rhetoric has constituted a revolution in how people view themselves and how they view the middle class, the Bourgeois Revaluation. People have become tolerant of markets and innovation.

The argument applies to routine innovation as much as to great creative ideas, to Mokyr’s macro-invention as much to the micro-inventions that refine the inventions. The economist Alan Kirman has pointed out to me that much innovation is as he puts it “generated by demand,” such as the improvement in the ballast-sweeping brooms on rail lines that an Australian friend of mine resident in Amsterdam has developed and sold to railways worldwide. But such innovations depend if anything more on respect for the bourgeoisie and the liberty to innovate than the macro inventions. Great geniuses forcing the pace of innovation like Edison or Ford might have braved contempt and interference better than the modest genius improving ballast-sweeping.

## Chapter 33:

# Dignity and Liberty for Ordinary People, in Short, Were the Greatest Externalities

I have argued that the Industrial Revolution and its sequel cannot be explained by open opportunities such as trade or property rights lying about unused until taken up in the eighteenth century. The economic theories depending on routines such as accumulation or imperialism, that is, can't explain the factor of sixteen. The innovation was fundamentally unpredictable. If it had not been – if it was routine economic opportunities lying about – then it would have happened elsewhere at other times. Hayek put it this way: "Nowhere is freedom more important than where our ignorance is greatest – at the boundaries of knowledge, . . . where no one can predict." And the greater is "our" knowledge the greater is the ignorance of any one of us, whether a central planner or a great scientist. "The more men know," Hayek continues, "the smaller the share of all that knowledge becomes that any one mind can absorb."<sup>25</sup> It is said that John Milton was the last man in Europe who had read *everything* – well, everything in Western European and certain biblical languages. It's been a long time since Milton. The more social

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25 Hayek 1960, p. 26.

knowledge there is, the more urgent it is for free arrangements to try out an idea in this or that way, since no one mind can predict where it will end. No one in 1990 could have guessed how the internet would turn out. Inventors themselves commonly do not know what use their invention will be.

“Prediction is difficult,” said Yogi Berra, “especially about the future.”

Thomas Edison believed his recording cylinders would be used mainly for office dictation. When someone asked Orville Wright what he thought the use of his airplane was going to be, he replied, “Sport, mainly.”

But economists have a word for *closed* opportunities that *can* lie about unused, until stumbled into – “positive externalities.” The more transparent word for the idea is “spillovers.” In the jargon, a spillover or an “external effect” means some harm or benefit that is not paid for with money in a market. Therefore it spills over from one person to another without being subject to market discipline, or the market signals for an opportunity. It stands off the market’s stage, so to speak, hidden in the wings, unpaid and unheeded. Yet it will from time to time loudly deliver its own lines, disrupting or advancing the play. It has real effects, in other words, though not accounted for in private financial statements, and therefore not attended to.

Smoke from a power plant is called a “*negative* externality” (like all masters of mysteries, the economists love jargon). The harm caused by the smoke does not show up as a money cost to the power plant or to the users of

its electricity. That's why the disruption is ignored, external, offstage, unpaid. "Luckily," says Charles Montgomery Burns, rubbing his hands with glee, "I don't have to pay money for the privilege of dumping the radioactivity from my power plant into the air you breathe. So what do I care?!" There's no market in which another person can buy the radioactivity or smoke or aircraft noise to stop it, expressing her distaste in money bids.

But not all externalities or spillovers are bad, like power-plant smoke or aircraft noise or other dumping of by-products. Some are good, those positive externalities. Even some smoke – from leaf fires in autumn or from wood fires in winter – is not a harm but a benefit, at any rate to older folk remembering the sweet smells of 1959. Some of us even have a loony nostalgia for the smell of diesel exhaust from the old London buses. More seriously, having lots of educated people around is a spillover beneficial to you and to me and to many others, educated or not. We do not pay fully for the educated-populace benefit in a market. (We do pay in part through wages paid to educated workers.) And so the uncompensated part is an externality. You would pay a little if it could be arranged to get the sweet, nostalgic smell of autumn or winter, or of London in a late 1950s smog. You would pay a lot to deal with people who can read and can calculate and can see through the more obviously manipulative campaign advertisements. People routinely pay the big costs of migration to get from countries that do not have such positive externalities of education into those that do.

A pair of positive externalities, I have been arguing, had been untried on a large scale until stumbled into by the United Provinces in the seventeenth century and by the United Kingdom imitating the bourgeois Dutch in the eighteenth century. They were a new dignity for the bourgeoisie in its dealings and a new liberty for the bourgeoisie to innovate in economic affairs. Both were necessary for the modern world. The two, when linked, appear even to have been sufficient, if you supply a few routine background conditions – having already somewhat large cities, for example, and extensive trade and reasonable security of property and cheap if slow riverine or coastal transport. Such background conditions were widespread in the world of 1700, and cannot therefore be thought of as shocking Dutch and English novelties. China had them. So did Japan, the Mughal Empire, the Ottoman Empire, northern Italy, the Hansa.

But without the two necessary, and large scale, conditions of dignity and liberty for the innovating class, we would have no modern world. Both were necessary. Without the liberty to innovate no amount of new social prestige for the previously scorned bourgeoisie would have done the trick. The constitution of 1689, wrote Hume in the last volume of his *The History of England* (1754-1755), “gave such an ascendant to popular principles, as has put the nature of the English constitution beyond all controversy. And it may justly be affirmed, without any danger of exaggeration, that we, in this island, have ever since enjoyed. . . the most entire system of liberty that ever was

known amongst mankind.”<sup>26</sup> He perhaps overstates the case – Holland led the way, after all, to speak only of recent examples. And the poor in Britain, though vividly aware that they were freeborn English men and women (and very willing in the eighteenth century to riot in aid of such a notion), had not yet been emancipated in politics or in wealth. Yet Frenchmen like Voltaire and Montesquieu and later Tocqueville were right to emphasize the peculiarity of English liberties – habeas corpus, Parliamentary pre-eminence, and especially the ancient English security of property. Tocqueville wrote in 1835 that “it is above all the spirit and habits of liberty which inspire the spirit and habits of trade.”<sup>27</sup> Liberty is necessary. Merchants and manufactures could have been brought with full dignity into the British national elite of 1700, with ribbands, stars, and a’ that, but had they lacked the liberty to profit from innovation, either in machines or in ways of doing business, nothing would have happened. The French in the eighteenth century illustrate the problem in their state-sponsored prizes and industrial espionage, namely, that they did not give liberty to innovation. In France as in Japan and the Ottoman Empire one had to apply to *l’État* for permission to open a factory. With such lack of liberty (and without the Dutch and then the British examples) the program of the French elite would have stayed as it had for centuries, namely,

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26 Hume 1754-1755, p. 531.

27 Tocqueville 1835, p. 116.

the preservation of the old ways, the cake of custom. Or so at least an economist would claim.

But without the new dignity for merchants and inventors, no amount of the liberty to innovate would have broken the old cake, either. Or so at least a sociologist would claim. The foreigners were startled by the esteem in which trade was held in Britain, though also noting the continuing hauteur and practical power of the British aristocracy. Merchants in Japan and China were ranked for millennia close to night-soil men. In Christian Europe they were considered for millennia the enemies of God. Innovations were for millennia viewed as threats to employment. And so the best minds went into war or politics or religion or bureaucracy or poetry. Some still do, often on anti-bourgeois grounds taught to them by the clerisy after 1848.

By adopting the respect for deal-making and innovation that Amsterdam and London pioneered around 1700, the modern world was born. Dignity and liberty still work. The special development zone of Shenzhen in mainland China, a suburb of Hong Kong, went from being a small fishing village to an eight-million soul metropolis in two decades. Such a feat required a shift in rhetoric: stop jailing millionaires and start admiring them; stop resisting creative destruction and start speaking well of innovation; stop over-regulating markets and start letting people make deals.

In 1776 Adam Smith, who invented sociology as much as economics, called the new amalgam “the obvious and simple system of natural liberty.”<sup>28</sup> But my point, and his, is that, astonishingly, the system was not considered “obvious and simple” until the eighteenth century. That’s the point of theorizing it as an “externality.” In many circles to this day it still is suspect. You can still hear people who do not pretend to have thought very deeply about the matter declaring confidently that the market of course needs to be closely regulated, or that trade needs to be fair, or that immigration must be restricted, or that jobs are to be created by governmental programs, or that businesspeople routinely cheat, or that markets are chaotic, or that the more complex an economy is the more it needs government regulation, or that that governmental bureaucracies are always fair and efficient. And many still declare that it is ever-so-much more dignified to work as a professor or a civil servant or another sort of non-profit employee than as someone making deals in the financial services industry or in the wholesale meat trade. Such anti-bourgeois people (many of them my good friends) do not believe the bourgeois axiom that a deal between two free adults has a strong presumption in its favor, practically and ethically and aesthetically. They deny that allowing such deals and honoring their makers has resulted in the modern enrichment of the poor. They think instead, against the historical evidence, that action by government or trade unions did it.

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28      Smith 1776, IV.ix.51, p. 687 (vol. II).

But a sufficiently large number of Europeans were converted to a rhetoric of bourgeois-respecting in the late seventeenth and especially in the eighteenth century. Nowadays many people worldwide have come believe in market-guided innovation, and have learned to speak kindly of it. The endlessly renewed schemes of “protection,” which seek to keep us doing what we have always done, have enemies they did not have in 1600. The evidence has become overwhelming that letting innovation rip is the best plan for helping the poor – from the enrichment of poor Europeans around 1900 to the enrichment of poor Indians around 2000. (One is reminded of the old joke: “Do I *believe* in infant baptism?! I’ve *seen* it!”) As early as 1641 one Lewes Roberts in England praised “the judicious merchant, whose labor is to profit himself, yet in all his actions doth therewith benefit his king, country, and fellow subjects.”<sup>29</sup> Adam Smith could not have put it better. In 1675 an anonymous English writer declared that “cupidity has taken the place of charity, and effects it after a manner which we cannot enough admire.” Note the word “admire.” He asked, “What charity will run to the Indies for medicines, stoop to the meanest employments, and not refuse the basest and most painful offices?” Note, too, the hierarchy in which many “employments” are reckoned mean and base, not honorable. A job of work in those hierarchical days was “service,” as in “servant.” And yet he continued,

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29 Lewes 1641, pp. 1-2, quoted in McKeon, p. 202.

“cupidity will perform all this without grudging,” to our collective good.<sup>30</sup>

John Stuart Mill could not have put it better. Dudley North, that man of aristocratic background enriched by a bourgeois career trading with the Ottomans, wrote in 1691 that “to force men to deal in any prescribed manner may profit some as happen to serve them; but the public gains not, because it is taking from one subject to give to another.”<sup>31</sup> Milton Friedman could not have put it better. “I don’t know which is the more useful to the state,” wrote Voltaire in 1733 with heavy sarcasm, “a well-powdered lord who knows precisely when the king gets up in the morning. . . or a great merchant who enriches his country, sends orders from his office to Surat or to Cairo, and contributes to the well-being of the world.”<sup>32</sup> The emphasis was soon to shift from merchants to manufacturers, who also buy low and sell high. But the young Robert Nozick could not have put it better. Deals to buy spices or steam engines low and to sell them high were for the first time admired. The admiration overturned the various versions of anti-bourgeois hierarchy which had so long prevailed: that deals are dirty, that the dealers are dangerous and disreputable, and that men of honor, such as the gentry or the mandarins, should of course keep them in their place.

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30 Quoted in McKeon 1987 (2002), p. 197.

31 North 1691, Preface, p. viii.

32 Voltaire 1733, Letter 10, p. 154f.

To put the historical point in the economist's jargon, then, the new bourgeois liberty and the new admiration for the bourgeois life constituted world-making externalities. They were not tried in earlier times or other places because they stood offstage, and the prevailing powers wanted them to stay there. The powers could not imagine how very rich allowing onstage the honoring and liberating of economic innovation would make the powers themselves – and by the way their subjects. No economist, for one thing, had stated the argument persuasively. That economics itself is such an oddly modern invention lends plausibility to the case for a modern shift in rhetoric. The professors of Salamanca, the pamphleteers of Amsterdam and London, the political economists of Edinburgh were figures of the sixteenth, seventeenth, and eighteenth centuries. Nothing like their thought can be found earlier in Europe, and only glimmers elsewhere. And in early times, for another, no stunning, whole-country examples of success from according dignity to the bourgeoisie and leaving it free to innovate had stood in mute testimony, such as Holland in the seventeenth century, or now China in the twenty-first.

On the contrary, dignity and liberty for the bourgeoisie was viewed, until the view suddenly changed in academic circles in Spain and in commercial circles and Holland and then in Britain and then (in all circles) in the United States, as an outrageous absurdity. *Of course* the bourgeoisie was contemptible, in Confucianism the fourth and lowest of the social classes, or in

Christianity the rich man of the Gospels who can scarcely enter heaven. *Of course* the market needed to be regulated in the interest of the rich – and if not the rich baldly, then regulated in the interest of the continued rule of the rich by way of enriching some selected and favored and relatively well-off poor (unskilled automobile workers earning \$30 an hour, high-school-graduate Cook-County hospital administrators earning \$100,000 a year, members of local 881 of the United Food and Commercial Workers International Union earning more than what Wal-Mart employees are eagerly willing to work for). *Of course* people should be arrayed in a great chain of being from God to slave, and kept in their place, except by royal favor or state examination or Party membership.

My theme in short is the true liberal one of the de la Court brothers, Thomas Rainsborough, Dudley North, Locke, Voltaire, Hume, Turgot, Montesquieu, Smith, Tom Paine, Destutt de Tracy, Jefferson, Madame de Staël, Benjamin Constant, Wilhelm von Humboldt, Charles [*not* Auguste] Comte, Charles Dunoyer, Malthus, Ricardo, Harriet Martineau, Tocqueville, Giuseppe Mazzini, Frédéric Bastiat, Mill, Henry Maine, Richard Cobden, Elizabeth Cady Stanton, Cavour, Johan August Gripenstedt, Herbert Spencer, Karl von Rotteck, Friedrich Dahlman, [Johan Rudolf Thorbecke](#), Lord Acton, Josephine Butler, Knut Wicksell, Luigi Einaudi, H. L. Mencken, Johan Huizinga, Frank Knight, Ludwig von Mises, Rose Wilder Lane, Nora Zeale Hurston, Karl Popper, Isaiah Berlin, Friedrich Hayek, Raymond Aron, Ronald Coase, Milton

Friedman, James Buchanan, Gordon Tullock, Thomas Sowell, Julian Simon, Israel Kirzner, Wendy McElroy, and the young Robert Nozick. It is the obvious and simple system of natural liberty. It contradicts the aristocratic sneering by conservatives at innovation and at the bourgeoisie, or the clerical sneering by progressives at markets and at the bourgeoisie. The true-liberal claim is that unusual bourgeois dignity and personal liberty in northwestern Europe, and especially in Holland and then in Britain, made for unusual national wealth, by way of a Revaluation of ordinary, bourgeois life. “The true end of Man,” wrote von Humboldt expressing in 1792 the elevated form of the claim, “is the highest and most harmonious development of his powers to a complete and consistent whole. Liberty is the grand and indispensable condition which the possibility of such a development presupposes.”<sup>33</sup> Notice that a Kantian (and novel) respect for personhood is here combined with a political demand for liberty.

The conservative political theorist Tod Lindberg points out that neo-conservatism was for a while animated by empirical studies of what did not work in the aspirations of post-War American liberalism – minimum wages that unfortunately damaged the poor, educational expenditure that unfortunately enriched middle-class teachers’ unions and mis-educated the poor, foreign aid that unfortunately enriched big men, and so forth. But he

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33 The first sentence of Chapter 2 of *The Spheres and Duties of Government* (published only in 1851, after his death, because of its libertarian content, and swiftly translated into English.)

concludes that “the proper response to a mugging by reality is not the abandonment of liberalism, broadly construed, in favor of a pre-liberal or anti-liberal or ‘conservative’ alternative, neo- or otherwise, but rather the abandonment of those elements (rife in postwar liberalism) that reality would not accommodate in favor of those that reality would accommodate and, indeed, compel. This is our current and future politics.”<sup>34</sup> I agree. The economic history supports our opinion.

Dignity and liberty, to put the point in economic terms, were the Greatest Externalities. As the historical anthropologist Alan Macfarlane writes in summarizing the liberal theme, “political and religious freedom seem to have a close association with the generation of economic wealth.”<sup>35</sup> That is to put it mildly. A notion of liberty to try novelties that in its origins was “a liberty,” that is, a special privilege, as in the phrase “a freeman of the City of London,” came by various happy accidents to be asserted by wider groups, and to characterize northwestern Europe and its offshoots. At the same time a life in trade and manufacturing came to be a little bit honored, at more than a local level. Liberty, I say again for the benefit of my libertarian colleagues, does not by itself suffice. The political theorist James Otteson asserts a theorem that many libertarians believe: “Those countries that respect private

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<sup>34</sup> Lindberg 2004.

<sup>35</sup> Macfarlane 2000, p. 207.

property and efficiently administer justice prosper, and those that do not do not. It is as simple as that."<sup>36</sup> Not quite, unless the word "respect" has more meaning than "enforce the laws of property."

The older aristocratic and peasant/Christian rhetorics began to be questioned, if never entirely abandoned. When a bourgeois rhetoric born in Venice or Antwerp in the Middle Ages began to be elevated during the seventeenth century into an ideology, equipped with its own literature and its own history and its own symbolic life, no longer borrowing these from court or church, and came to be equipped with the muskets and cannons to deal peremptorily with traditional folk, the Bourgeois Era was fairly launched. Richard Steele, with Joseph Addison, in the *Spectator* 1711-1712 had provided a weekly reflection on bourgeois vs. gentry-aristocratic virtues. Ten years later, in his play of 1722, *The Conscious Lovers*, Steele has Mr. Sealand (thus the range of merchant, from sea to land) declare, "we merchants are a species of gentry that have grown into the world this last century, and are as honorable, and almost as useful, as you landed folks, that have always thought yourselves so much above us. For your trading, forsooth, is extended no farther than a load of hay, or a fat ox."<sup>37</sup> George Lillo's embarrassingly cloying play another ten years later, in 1731, *The London Merchant*, can stand as an emblem for the

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<sup>36</sup> Otteson 2006, p. 160.

<sup>37</sup> Steele 1722, Act IV, sc. 2, p. 159 in Quintana 1952.

change – though a change always under challenge from the aristocracy and the clerisy and the peasantry/proletariat. The honest merchant of the title (absurdly named “Thoroughgood”) declares in the first scene that “as the name of merchant never degrades the gentleman, so by no means does it exclude him.”<sup>38</sup> The play was put on at least annually until 1818 for the edification of the apprentices of the City of London. Courtesy, once confined literally to the court, spread to the middle class. At the Octagon Room in Bath later in the century the daughters of the better merchants danced with the sons of the lesser gentry. A century later the heiresses of American bankers and manufacturers were refreshing the fortunes of British ducal families.

The dual ethical change of dignity and of liberty for ordinary bourgeois life led to a reign of sense and sensibility from which we are still benefitting. Its virtues are commercial prudence and family love, combined in the self-defined middle class with an almost insane inventive courage fueled by hope, protected in its politics by faith and temperance, and by a just improvement in the condition of the other, working classes – the ancestors of all the rest of us, to say it again – who themselves at last came to partake of the citizenly, bourgeois dignity of a vote, a house, an education, and became themselves “gentlemanly” middle class.

Thus Norwegian immigrants to the upper Midwest read a comic strip drawn by Peter Rosendahl from 1919 to 1935 in their community newspaper,

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**38** Lillo 1731, Act I, sc. 1, p. 294 in Quintana 1952.

*Decorah-Posten*, concerning the adventures of Han Ola and Han Per (“Han” means “Him,” in the sarcastic sense of “Himself,” “His Nibs”). One of the running jokes is Per’s obsessive inventiveness, sometimes a crazy reuse of older technologies. During the life of the strip he tries out with disastrous effect fully sixty new machines, the editor of a collection of the cartoons notes, “invented (or bought) by Per. Rosendahl presents him as the undying optimist, trying in every way possible to mechanize not only the outdoor work of the farmer but also the indoor work of his wife.”<sup>39</sup> Thus in 1927:

It is all very American, as the characters keep saying. People in the Bourgeois Era were free to dream of innovation, and found the attempt dignified. Even fools were free thus to dream. They found their dignity, and their comeuppance, in comical attempts at innovation.

The rhetorical explanation for such a historically unique madness seems to cohere within itself and to correspond with the facts better than the materialist alternatives from left or right.

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39 Rosendahl, p. xi. The cartoonist “Rosendahl,” by the way, would appear to have come from the unique barony of that name (unlike Danes and Swedes, the Norwegian peasants working their wretched soils were not on the whole serfs of any baron). It is three miles from the Dimelsvik of my ancestors.

## Chapter 34:

### They Warrant Not Political or Environmental Pessimism, but an Amiable Optimism

The economist Bryan Caplan has argued recently that the economist and the citizen disagree on four points.<sup>40</sup> The economist says that: markets work well because of profits, foreigners deserve as much ethical weight as we do, production not “jobs” is the point, and things are getting better and better. The average citizen believes on the contrary that the food market needs close regulation (the discipline of publicity and profit does not suffice), that protection against the “flood” of Chinese goods is an ethically justified idea, that a football stadium “generating jobs” must be a good idea, too, and that the sky is always falling.

I would add a fifth disagreement. The average citizen does not realize that her paid work is beneficial to others. She therefore believes that only charity or volunteer work “pays something back to the community.” The economist, who looks at the economy from the eighth floor, sees markets and innovation as enormous engines of (unintended) altruism. We do good by doing well. As Smith famously put it in 1776, “As every individual, therefore, endeavors as much as he can both to employ his capital . . . that its produce

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Caplan 2007, Chapter 2, “Systematically Biased Beliefs About Economics.”

may be of the greatest value; every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. . . . He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good."<sup>41</sup>

Caplan argues that an economy governed on Citizen Principles will impoverish the citizens. He worries, as many have since Tocqueville and Bastiat and before, that a democratic politics can lead to disastrously protectionist and redistributive policies, as in Peron's Argentina. He's right. It is sadly true that democratic politics unprotected by a rhetoric of free trade and creative destruction can ruin economies. (Democracy is thus the worst system – except for all those others that have been tried from time to time.) Every agricultural economy until Holland and England and the English American Colonies was governed on a similarly self-destructive theory (though nothing like democratic). The governing theory was the Aristocratic Principle that most people exist for the comfort of a small group of lords and priests and kings. Bizarrely, the Aristocratic policy and the Citizen policy

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<sup>41</sup> Smith 1776 IV.ii.9, p. 456.

closely resemble each other in what they recommend. Against the positive-sum theory of the bourgeoisie they advocate expropriation of profit and the close regulation of markets, xenophobia, irrational projects of public works, protectionism amounting to staying forever in the same job, and a grim zero-sum belief that one person's or one country's gain is another's loss – and that only charity therefore can help the poor.

The point here is that brief reign of the entirely new and more genial Bourgeois Economist's Principles led to the modern world. Yet in many countries the civic religion recommended by the clerisy remains a version of the Citizen or the Aristocratic policy – stubbornly anti-capitalist, protectionist, anti-technological, allied with anti-Americanism. French thinkers of the 1960s, for example, wrote elaborate books on the economy without reading any books on non-Marxist economics, and little enough of Marx. Gilles Deleuze, Jean Baudrillard, Georges Bataille, and other worthies talked about the economy without an acquaintance with the best that had been thought and written about it, excepting a bit of Marx and Engels and Gramsci. The practice persists in university departments of the humanities worldwide.

And therefore it persists in a good deal of teaching worldwide. The required texts for French secondary-school students of social sciences, for example, three volumes called *Histoire du XX<sup>e</sup> siècle* (2005), declares that “economic growth imposes a hectic form of life, producing overwork, stress, nervous depression, cardiovascular disease, and, according to some, even the

development of cancer.”<sup>42</sup> Such an assertion contradicts the experience of the hundreds of millions of bourgeois and working-class Westerners, whose lives are spent in education up to their early-20s, and in retirement to a life of leisure twenty years longer than the life expectancy of their grandparents by their early 60s (or as early as age 50 if they are engine drivers on the French railways; and age 55 if they are managers). In 1910 a job working 60 hours a week in a factory spinning cotton in Lille might just possibly have been more stressful than one nowadays working 35 hours a week as a computer salesperson in Paris, or even a train driver. And before that, in 1810, a factory job in Lille just might have seemed less in the way of overwork and nervous depression than farm work west of Puy-de-Dôme in the Auvergne, with no work at all in late winter and hectic harvests and endless threshing, and the children starving in April. At any rate people did move from the farm in the Auvergne to the factory in Lille, with alacrity, and later a smaller distance to the Michelin factory. And then they did move, *avec plaisir*, from the factories to computer sales in Paris or to driving the *Train à Grande Vitesse*.

Recent decades, the French school text admits, have witnessed “doubled wealth” – but also “doubled unemployment, poverty, and exclusion, whose ill effects constitute the background for a profound social malaise.” Yet the unemployment in France, and the barring for example of Muslims from wealth, might perhaps be caused not by “American” capitalism but by

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42 Theil 2008, from which subsequent quotations are also drawn.

exclusive elite education in France, and by segregation of the Muslims in Le-Corbusier-inspired high-rise concentration camps around Paris far from factories, and by heavy regulation of the terms of employment – for example, the near impossibility of firing someone in France once she has miraculously achieved a job. France ranked in 2006, according to the World Bank, 144<sup>th</sup> out of 178 countries in ease of employing workers. Germany, also then with a high unemployment rate, was 137<sup>th</sup> and South Africa, with an appalling unemployment rate (but employment laws imitated from Germany), 91<sup>st</sup>. This against low-unemployment countries such as the UK (21<sup>st</sup>) and the US (1<sup>st</sup>).<sup>43</sup>

Capitalism, according to the French instructors of the young, is “brutal,” “savage,” and worst of all (wait for it) “American.” Globalized capitalism is said to be much worse, for example, than those splendid examples of thoroughgoing socialism covering a quarter of the globe in 1970 from Cuba to North Vietnam. Many on the American left have agreed with their overseas comrades, and would advocate still, as the French schoolteachers put it “the regulation of capitalism on a global scale” – retrying yet again the glorious central-planning-with-gulags socialist experiment of 1917-1989. Such opinions have deep roots among the clerisy. In 1966, at the height of Western optimism about the future of socialism, the United Nations issued an International Covenant on Economic, Social, and Cultural Rights

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43 World Bank, *Doing Business* (2006).

which did not so much as mention the right to property.<sup>44</sup> The liberal heroes from Locke to Jefferson spun furiously in their graves.

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The new alternative to central-planning socialism is environmentalism. It is taught now as a civic religion in the American schools (and with an even more fevered rhetoric in Germany and the Netherlands), the way anti-communism was in the American schools of the 1950s or nationalism in the French schools of 1890s or the great chain of being in the English schools of the 1590s. Freeman Dyson, no right-wing crank, wrote in the *New York Review of Books*, no right-wing rag, that “There is a worldwide secular religion which we may call environmentalism, holding that we are stewards of the earth, the despoiling the planet . . . is a sin, and that the path of righteousness is to live as frugally as possible. The ethics of environmentalism are being taught to children . . . all over the world. Environmentalism has replaced socialism as the leading secular religion.”<sup>45</sup> The economist Robert Nelson argues that the American civic religion was once bourgeois economics, but has become

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44 As Marc Plattner noted in 1999, p. 6.

45 Dyson 2008, p. 45, examining sympathetically the arguments of that ever-useful economist, William Nordhaus, in his book *A Question of Balance: Weighing the Options on Global Warming Policies* (2008).

progressive environmentalism.<sup>46</sup> The left has now adopted Malthus, not on fresh scientific evidence but on the mathematical “logic” that “resources” “must” be limited. (Such evidence-free logic might be why a mechanical environmentalism appeals to so many physical and especially biological scientists.) The left’s saint has become Malthus, not Marx.

Since 1798, however, the evidence has been no kinder to the clever economist-parson Malthus than to the clever journalist-philosopher Marx. The economic historian Eric Jones notes that “economic history provides the antidote to the assumption that there is a static and readily exhaustible resource base.” Yet the “fears of these kinds are hydra-headed and astonishingly resistant to contrary evidence.”<sup>47</sup> The new environmental left has ignored the overwhelming evidence that incomes depend on human creativity not on natural resources, that innovation has unleashed creativity in resource-poor places like Japan or Hong Kong, and that the resulting high incomes generate a demand for a better environment. By what might be called an environmental Say’s Law (“supply creates its own demand”), the creativity of innovation generates the supply of environmental improvement, and the enrichment from innovation creates the demand for the improvement by embourgeoisified citizens. It is starting to do even in China, and already has

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<sup>46</sup> Nelson 2010.

<sup>47</sup> Jones 2003, p. 58.

done so in Europe and East Asia and the United States and other high-income places. The air quality of rich cities, for example, has improved radically since 1950.

But the hydra keeps growing new heads, against the evidence. A leading spokesman for the environmental left, Paul Ehrlich, wrote in *The Population Bomb* in 1968 that “The battle to feed all of humanity is over. In the 1970s and 1980s hundreds of millions of people will starve to death in spite of any crash programs embarked upon now. At this late date nothing can prevent a substantial increase in the world death rate.”<sup>48</sup> After Ehrlich’s firm scientific prediction in 1968 the world death rate (and soon the birth rate) fell sharply. The economist Julian Simon, who articulated the economic findings from the 1950s to the 1990s against the population-bombers – and famously won a wager with Ehrlich against the notion that we were running out of mineral “resources” – wrote in 1996 that the bombers “are reduced to saying that all the evidence of history [that in modern conditions population growth is good for people, not bad, and itself results in lower, not still higher, population growth] is merely ‘temporary’ and must reverse ‘sometime,’ which is the sort of statement that is outside the canon of ordinary science.”<sup>49</sup>

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48 Ehrlich 1968., p. xi.

49 Simon 1996.

The bombers, though, are hard to embarrass with evidence, and carry on railing against motherhood. Many of them are fine scientists in their own fields. They become unsteady, though, when they venture into economics. The paleontologist Niles Eldridge, for example, quoted in 1995 with approval a geologist at Columbia who had predicted in the 1960s on the basis of “simple measures of the volumes of the great sedimentary basins” that the world would run out of recoverable petroleum in the mid-1990s.<sup>50</sup> After the 1960s, in fact, oil reserves grew worldwide, which by 1995 Eldridge knew. Yet he did not draw the appropriate lesson in economics from the error, or from Ehrlich’s or the Club of Rome’s similar errors during the same era, which he also quoted with approval. He didn’t see that in a world in which people respond to economic incentives, and to environmental worries, too, the mechanical extrapolation of economic variables is not going to work well. For example, it didn’t from the 1960s to the 1990s. Oil got expensive, and oil companies spent more to uncover previously unknown reserves. Infant mortality went down, birth control cheapened, and mothers had fewer children. A path to a fuller life through education opened up, and young people took it.

In 1830 Macaulay asked, “On what principle is it that, when we see nothing but improvement behind us, we are to expect nothing but deterioration behind us?”<sup>51</sup> On what principle indeed. Ehrlich’s 1968 book

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<sup>50</sup> Eldridge 1995, p. 9.

<sup>51</sup> Macaulay 1830, pp. 186, 187

sold famously, and he continued well into the new millennium to defend the propositions that the Green Revolution and the fall in the world's birth rate and the rise of life expectancies and such triumphs of environmental reversals as the banning of spray-can propellants eroding the ozone layer and the banning of soft coal dirtying the cities are temporary and must reverse sometime, and that we have seen our best days and will see nothing but deterioration before us. Nonetheless, the environmental left has won the rhetoric. By now for instance, without evidence or much reasoning, the debate is closed about such a vague and questionably ethical idea as "sustainability" (which entails imposing burdens on present-day poor people in aid of a distant future generation likely to be very much richer), just as in the 1950s the discussion about such a vague and questionable idea as "progressive taxation" was closed without evidence or much reasoning.<sup>52</sup>

The economists have long tried to provide the reasoning and evidence – to the point where convinced environmentalists have in vexation stopped listening to them, so painful is the experience, and have stopped trying to show that the economists are wrong scientifically or ethically. Allyn Young, the economist responsible for inspiring the new generation of growth theorists in the late twentieth century, wrote thus in 1928 (he died prematurely, and his influence was tenuous until recently revived):

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52 Blum and Kalven 1963.

No analysis of the forces making for economic equilibrium, forces which we might say are tangential at any moment of time, will serve to illumine this field, for movements away from equilibrium, departures from previous trends, are characteristic of it. Not much is to be gained by probing into it to see how increasing returns show themselves in the costs of individual firms and in the prices at which they offer their products. . . . The counterforces which are continually defeating the forces which make for economic equilibrium are more pervasive and more deeply rooted in the constitution of the modern economic system than we commonly realize.<sup>53</sup>

One can only agree, and affirm that such agglomerating and upscaling models are plausible. My economist colleagues (and especially my future-economist undergraduate students) are very, very smart. Their models properly deny, for example, the environmentalists' Malthusian notion that increasing population results in such strong diminishing returns to inputs of labor that people are going to be driven by a Population Bomb back to \$3 a day. On the contrary, say the economists following Allyn Young (and I agree: otherwise I lose my union card), the natural resources that environmentalists obsess on are unimportant constraints in a modern world. The "ultimate resource," as the economist the late Julian Simon put it, is brain power.<sup>54</sup> And therefore

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<sup>53</sup> Young 1928.

<sup>54</sup> Simon 1981 (1996).

when the world has become educated and free, and when the implacable populist hostility to bourgeois innovation has faded, then it is quite true that success breeds more success. There develop, the economists put it, those “economies of scale.” Virtuous spirals.

Getting more people and agglomerating them into cities becomes in the models therefore a good thing, not bad, if the people have more going for them than strong backs and the ability to reproduce. Goldstone notes that “by the late twentieth century, in every 20 years [over any one generation, that is] the number of people being born was greater than the entire population of the world 200 years before.”<sup>55</sup> In each generation we have more chances of a Socrates, an Ibn-Khaldūn, an Admiral Zheng He, an Isaac Newton, a James Watt than in all generations before 1800. Africa’s genetic diversity (all the rest of us came from merely 1000 or so Africans, on account of the “founder effect,” as the population geneticists call the falling away of lineages in small populations) implies that when over the next fifty years or so Africa acquires a European standard of living it is going to dominate world culture, producing ten Mozarts and ten twenty Einsteins.<sup>56</sup>

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55 Goldstone 2009, p. 17.

56 Compare Tishkoff and others 2009 reporting on the relationships of 2400 people from 113 separate linguistic groups in Africa.

But observe: without the dual ideas of the dignity and liberty for ordinary life and extraordinary innovation, no innovation is going to occur, no one is going to get properly educated, and we are back in the world of lives poor, nasty, brutish, and short (though by no means solitary) – a bomber’s Malthusian world in which diseconomies to labor input overwhelm economies of scale.

Changing social ideas, in short, explain the Industrial Revolution. Material and economic factors – such as trade or investment or exploitation or population growth or the inevitable rising of classes or the protections to private property – do not. They were unchanging backgrounds, or they were consequences of the rhetorical change, or they were beside the point, or they were weak, or they had already happened long before, or they didn’t actually happen at the time they are supposed to have happened, or they required the dignity and liberty of ordinary people to have the right effect. And it seems that such material events were not in turn the main causes of the ethical and rhetorical change itself. On the contrary, for largely non-economic reasons, the prestige of a bourgeois prudence rose around 1700 in the way northwest European people talked, within an economic conversation still honoring a balance of virtues. Economic prudence gradually came to be thought of as virtuous, though merely one among the virtues of a good townsman.

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If pro-innovation ideas of *the elite* caused the Industrial Revolution, and if elite artistic and intellectual turned against innovation after 1848, as it did, first in nationalism and then in socialism, and then in national socialism, and finally in environmentalism, why didn't the turn bring to a halt the Industrial Revolution?

One reply is that a split developed between the elite and public opinion, in a new world in which public opinion came to matter as much as elite opinion. The clerical elite despises advertising and advocates central planning and believes we are doomed by population bombs and the destruction of the environment. Other people don't. Many artists and at length professors moved to the left, and developed a socialist and at length an environmentalist rhetoric. Others of them moved to the right, and developed an elitist rhetoric against public opinion itself.

In economic scholarship an emblem of the elite's scorn for bourgeois virtues is the treatment of Friedrich Hayek, the great libertarian economist from Austria, a naturalized Briton. Mention of Hayek can to this day evoke ignorant sneers on the left and center even of economics. While he was still at the London School of Economics, an internationally famous economic scientist, the equal in scientific reputation at the time of J. M. Keynes, he wrote, in 1944, an attack on the then immensely fashionable socialism, *The Road to*

*Serfdom*. In Europe no one much minded such a popular book. But when the book appeared in the United States it caused a furor, partly because a long précis of it appeared in the vulgar and steeply right-slanting *Reader's Digest*. In 1950 Hayek was denied an appointment in Economics at the University of Chicago because of *The Road*, and spent his years at Chicago in the Committee on Social Thought.

But lawyers and at length educated businesspeople adhered to the market values that Hayek admired, against both left and right. In the United States the Eisenhower administration in the United States was an emblem of the split. Elite opinion sneered at Ike and his economic policies — Eisenhower's cabinet was called "eight millionaires and a plumber" (the Secretary of Labor, Martin P. Durkin, had been the president of the plumbers' union). But the bourgeois policies stayed, and worked pretty well.

And certain institutions and countries stored the idea of bourgeois dignity and liberty, which could re-emerge easily after the pessimism about innovation in the decades following the 1930s had passed. Economics itself went through a flirtation with socialism, 1933-1981, and then returned strongly to its true-liberal roots. Non-elite opinion in the United States (see *Reader's Digest*), and to a lesser degree even welfare-state Britain, was always a reservoir of anti-socialist opinion. A world without a United States might have permanently turned after 1945 against the Industrial Revolution, just as a

world without Britain and Holland would not have developed bourgeois dignity and liberty in the first place.<sup>57</sup>

A deeper reply is that the turn to the left, and many of the turns to the right, did in fact stop the Industrial Revolution, at any rate in the places where anti-innovation was well and truly tried. To be sure, in 1945 it looked like market societies were exhausted, and that giving socialism and the welfare state a serious trial even in the United States was in the cards. The best economists, such as Joseph Schumpeter, Alvin Hansen, John Maynard Keynes, Oskar Lange, Paul Samuelson, and Abba Lerner, thought at the time – with greater or lesser pleasure at the thought – that the world was moving from capitalism to socialism, whether or not the embattled democracies survived. Many people were impressed by the Soviet successes of the 1930s, whatever their human costs, and were very impressed by Stalin’s victory over Hitler. They could not see that in the longer run, when opportunities for imitation had been used up, central-planning socialism could not achieve real innovation. Among students of the Soviet experience only a few, such as G. Warren Nutter and Alexander Gerschenkron and Abram Bergson, stood in the 1950s and 1960s against the prevailing elite opinion that socialism in Eastern Europe had successfully forced fast growth superior to what capitalism would

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57 I owe these hypotheses to a discussion with graduate students in economics at Northwestern University in March 2009.

have achieved there.<sup>58</sup> It was later discovered that after the heroic age of the 1930s the Soviet growth rate fell steadily, reaching such low levels in the 1980s that the growth of productivity relative to inputs was negative.<sup>59</sup> Indeed, in 1995 the World Bank economists William Easterly and Stanley Fischer reckoned that *only* in the 1950s was Soviet total factor productivity greater than zero.<sup>60</sup> The capital input in Soviet ideology was treated as a free good, and consequently was overused, in “extensive growth.” Build giant factories and full speed ahead.

Nonetheless as late as 1984 John Kenneth Galbraith was writing that “the Soviet system has made great material progress in recent years is evident both from the statistics and from the general urban scene. . . . One sees it in the appearance of solid well-being of the people on the streets [Galbraith did not perhaps spend much time in the provinces]. . . and the general aspect of restaurants, theaters, and shops. . . . Partly, the Russian system succeeds because, in contrast with the Western industrial economies, it makes full use of its manpower.” In 1985 the great economist Paul Samuelson wrote that “what counts is results, and there can be no doubt that the Soviet planning system

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58 Nutter 1962; Gerschenkron 1947 and a collection of his papers on Soviet growth in Gerschenkron 1962; Bergson 1961.

59 The summary table of Answers.com at <http://www.answers.com/topic/soviet-economic-growth> tells the sad story, on the basis of research by Gur Ofer (1996), Laurie Kurtzweg, James Noren, and Angus Maddison (2001).

60 Easterly and Fischer 1995, p. 42, Table 4.

has been a powerful engine for economic growth. . . . The Soviet model has surely demonstrated that a command economy is capable of mobilizing resources for rapid growth." In 1989 Lester Thurow asked, "Can economic command [that is, the industrial policy that Thurow advocated] significantly. . . accelerate the growth process? The remarkable performance of the Soviet Union suggests that it can. . . . Today the Soviet Union is a country whose economic achievements bear comparison with those of the United States."<sup>61</sup> When a few years later the USSR collapsed and the Soviet statistics were at length opened – or indeed when earlier in the early 1960s the crops had failed – Nutter and Gerschenkron and Bergson were proven correct. (Hard political turns to the right, too, could and did stop industrial revolutions. Nationalist central planning in aid of *Lebensraum* was just as crippling as socialist central planning in aid of steel and farm tractors.)

But the still deeper reply is that once the cat of dignity and liberty was out of the bag she was hard to stuff back in. It was not impossible locally, as in Argentina or in Poland for a while, but the cat was on the prowl. We can if we work hard at it kill her with war and tyranny and protectionism and anti-innovation. But it will be difficult.

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<sup>61</sup> The Galbraith, Samuelson, and Thurow quotations come from D'Souza 1997.

Still, if the new rhetoric of innovation is what caused the modern world, then it is possible – not logically inevitable, but possible – that losing the ideology can lose the modern world. In other words, the Age of Innovation might have led to anti-capitalist ideologies that destroyed innovation. In fact, it did, in fascism and communism, and in a longer-running form in the clerisy's disdain for the bourgeoisie. All were annoyed reactions to innovation. The worry is the old one of "the cultural contradictions of capitalism," as Daniel Bell put it in 1978, anticipated by Schumpeter's gloomy prediction in 1942 – one of the darkest years of a dark decade – that the future lay with socialism, and Hayek's of 1944 that the clerisy were advocating a road to serfdom, or Aron's in 1955 that Marxism was the "opiate of the intellectuals." Expressed as hope rather than worry the reversion in rhetoric to central planning socialism is Karl Polanyi's "great transformation," the "double movement" in which society reacts against innovation and reestablishes a suitably embedded and conservative economy under central government control.

By now you will know that I would regard a loss of bourgeois and innovative rhetoric as a deep worry, not a hope, and that one purpose of my hopeful sestet on "The Bourgeois Era" is to argue against accepting such a loss. We need bourgeois rhetoric. Bourgeois innovation supported by the rhetoric has elevated the poor of the world. On the scale of actual relief of poverty from let-it-rip innovation practiced in England in the nineteenth

century and nowadays in places like China and India, the dribbles of personal or religious charity, or government-to-government foreign aid, have been negligible, and often enough have perversely damaged the poor.

On the other hand, for the same reasons I have adduced here for not believing that efficiency gains are the heart of past economic growth, I do not believe that the inefficiencies of welfare states are greatly to be worried over – so long as innovation is not restricted. Harberger triangles are not the way to wealth, and consequently their loss from economically inefficient arrangements is not greatly to be lamented. The Swedish economy, for all its questionable payments to able-bodied people who decide not to work (one out of seven Swedes of working age in 2005 were on full disability), retains a good deal of innovative dynamism. The welfare state, we know by now, has not in fact been the first step on the road to serfdom. Not yet at least. Western European social democracy is surely democratic, and (recent anti-immigrant movements aside) has obviated the alternative of fascism.<sup>62</sup>

Yet reverting to full-scale, central-planning socialism of the sort many of the clerisy still pine for on old socialist grounds or on new environmental grounds would be a catastrophe, judging from results of actually existing socialism that prevailed over large swathes of the world during the twentieth century. It would be scientifically strange to ignore the material and spiritual failures of full-blown socialism from 1917 to 1991, or to ignore the present-day

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<sup>62</sup> As is argued persuasively by Berman 2006.

examples to the contrary in China and India, or to ignore the beginning of it all in the rhetorical change on the shores of the North Sea around 1700.

We need to strengthen the rhetoric of innovation. That does not mean celebrating “greed is good,” which I argued at length in *The Bourgeois Virtues* is a childish and unethical rhetoric—however popular on Wall Street and in the Department of Economics. Strengthening the rhetoric means celebrating innovation and respecting market deals. We must not worship them. That would be in Abrahamic terms idolatry. But we must not, either, cast them out as Baal or Mammon.

Take for example the fraught issue of CEO compensation in the United States. Richard Nardelli was perhaps not worth every dime of the \$50 million a year he earned for running Home Depot into the ground, or for the comparable amount he got during the descent of Chrysler into bankruptcy. On the other hand, few economist can be found who care very much. We economists have long pointed out, and correctly, that CEO pay even of the grotesque variety is a trivial percentage of the earnings of the companies involved. And yet in rhetorical terms the non-economists are right. The danger, many people argue, is that the grotesque salaries and the ego-pleasing rides on corporate jets and the vacation perks for the family paid for by suppliers to the corporation undermine the faith in innovation. *That matters.*

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A good deal hinges on whether the new understanding of our economic and ethical past that I have argued for here is true or false. If true, a finding that an ethical and rhetorical and ideological change made the modern world would be scientifically important. The Victorian skeptic Alexander Kinglake suggested that every church should bear on its front door a large sign, “Important If True.”<sup>63</sup> So here. Economic history faces no more important question than why industrialization and the reduction of mass poverty first started, and especially why it continued. The continuation made us richer and freer and more capable of human achievement than our ancestors. The latest continuation—located most spectacularly in, of all surprising places for it to happen, China and India—shows that the whole world can be so.

For instance, if ideas and ethics and “rhetoric” contributed largely to such a happy result then perhaps we should point our social telescopes also towards ideas and ethics and rhetoric. Looking fixedly at trade or imperialism or demography or property law—very interesting though all of them are—will not do the bulk of the scientific job. Ideas are the dark matter of history, ignored for a century or so 1890-1980. In those days, I have noted, we were all historical materialists.

To be able to detect the dark matter we will need a new, more idea-oriented economics, which would admit for example that language shapes an economy. For such a humanistic science of economics—explored in this and

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63 Tuckwell 1902, Chp. V.

related books, and which a happy few others of us are working on – the methods of the human sciences would become as scientifically relevant as the methods of mathematics and statistics now properly are.<sup>64</sup> Such a new economic science would scrutinize literary texts *and* simulate on computers, analyze stories *and* model maxima, clarify with philosophy *and* measure with statistics, inquire into the meaning of the sacred *and* lay out the accounting of the profane. The practitioners of the humanities and the social sciences would stop sneering at each other and would get down to cooperating for the scientific task.

It will not have escaped you that there is of course a political moral, too. If the economy were understood as more than Prudence Only, then we could re-moralize it. If innovation were an upshot of desirable ethical changes, then we could respect it. The rhetorical change was itself in part a consequence of dignity and liberty. Dignity and liberty were in turn the result in part of the long perfected property rights of Europe, the inheritance from medieval liberties of the towns, the competition among states smaller than the Asian giants, the decline of serfdom outside of sad Russia, the theory of individual dignity in Protestantism and more anciently in all Abrahamic religions, the partial liberation of women outside the Mediterranean, the mind-freeing shock of the Scientific Revolution to Europe's relatively primitive science, the uneven

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64 Hirschman 1977; and recently Klamer 2003, 2007; Bronk 2009. But one could cite many older economists, as I have earlier, from the sainted Adam Smith to the blessed Frank Knight.

fall of religious and secular tyrants just when Asia was abandoning its much older tradition of toleration, the emergence of at least a tiny public sphere, the careers of quite a few open to talents, the improvements in military technology that briefly gave the West (and the Chinese) the weapons to lord it over aristocratic warriors of horse-using Steppe or elephant-using empire, the techniques of printing on paper imitated and improved from China and the Muslim world, making possible a more free periodical press and reasonably uncensored theatres and publishing houses (all imperfectly implemented 1600-1800, but startlingly novel, it seems, on the scale practiced in northwestern Europe, even allowing for recent findings that Orientalist notions of Asian backwardness are false). If the technological change was in part a consequence of a new dignity and liberty then we free humans could be modestly proud of it. If our bourgeois building was not raised on foundations of imperialism or exploitation or unequal trade (excepting the brief reign of gunboats, and that in aid of trivial parts of the bourgeois economy), then we could admire it, though self-critically. If serious innovation were not amoral, then we could practice ethics more grown-up than a right-wing Greed is Good or a left-wing Down With the Bosses.

Give a woman some rice, and you save her for a day. That's the simplest form of what Christians flatter themselves by calling "Christian charity." Give a man some seed and you save him for a year. That's the plan of investment in capital, tried for decades in foreign aid without a great deal of

success. But give a man and a woman the liberty to innovate, and persuade them to admire enterprise and to cultivate the bourgeois virtues, and you save them both for a long life of wide scope, and for their children's and their grandchildren's lives. That's the Bourgeois Deal. When bourgeois values do not thrive, the results are poor. As the economists Virgil Storr and Peter Boettke note about the Bahamas, "virtually all models of success to be found in the Bahamas' economic past have to be characterized as piratical," with the result that entrepreneurs there "pursue 'rents' rather than [productive] profits."<sup>65</sup> Piratical greed, which is to say self-interested prudence without the balance of other virtues such as justice, is not good. And contrary to a widespread opinion on left and right, it is not characteristically bourgeois. Bernard Mandeville and Ivan Boesky were wrong. Prudence-only is not the virtue of an innovative society.

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Yet if innovation, even in a proper context of the virtues, continues to be scorned by the clerisy, as it has been by many of our opinion makers now for a century and a half, we can if we wish repeat the nationalist and socialist horrors of the mid-twentieth century. If we calculate only the disruptions of a pastoral ideal, and neglect the gains from innovation, we can remain poor

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<sup>65</sup> Boettke and Storr 2002, pp. 180-181. Compare Storr 2006.

shepherds and dirt farmers, with little scope for intellectual and spiritual growth. If we abandon economic principles in thinking about the environment, we can revert to \$3 a day, living in huts on a hillock in the woods by Walden Pond. Now in the early twenty-first century we can even if we wish add for good measure an anti-bourgeois religiosity, as new as airplanes crashing into the World Trade Center and as old as the Sermon on the Mount.

But I suggest that we don't. I suggest instead that we recoup the bourgeois virtues, which have made us capable, in von Humboldt's words, of developing the highest and most harmonious of our powers to a complete and consistent whole. We'll need to surrender the economic idea that reshuffling and efficiency made the modern world. We'll need instead to welcome an economics that properly celebrates ethics, rhetoric, language, creativity, innovation.

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