

Deirdre McCloskey's Critique of Institutional Economics

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1 Deirdre McCloskey's concept of "the autonomous role of ideas" refers to her argument that ideas, beliefs, and cultural attitudes play an independent and fundamental role in driving economic growth and social change, separate from material factors like institutions, resources, or technological advancements.

McCloskey emphasizes that the transformation known as the Great Enrichment—the dramatic increase in economic growth and living standards beginning around 1800 in northwestern Europe—was primarily driven by a shift in the prevailing ideas and ideologies of the time, rather than by changes in material conditions alone.

Key Points of McCloskey's "Autonomous Role of Ideas":

1. **Ideas as Independent Drivers of Change:** - McCloskey argues that ideas have their own power and can independently shape human behavior, social norms, and economic outcomes. This view contrasts with many traditional economic theories that prioritize material incentives, institutional structures, or technological changes as the primary drivers of economic growth.

- For McCloskey, ideas like dignity, freedom, equality, and the value of innovation and entrepreneurship were critical in shaping the modern world. These ideas did not simply emerge as a byproduct of economic or institutional changes; they actively shaped those changes by influencing people's behaviors, decisions, and interactions.

2. **The Role of Ideas in the Great Enrichment:** - McCloskey attributes the Great Enrichment—the period of unprecedented economic growth beginning around 1800 in northwestern Europe—to the spread of new liberal ideas rather than solely to institutional reforms, capital accumulation, or technological advancements.

- She emphasizes that a shift in ideology towards valuing commerce, innovation, and individual liberty was crucial. These ideas encouraged people to experiment, innovate, take risks, and pursue their own economic interests freely. This ideological shift created a cultural environment conducive to growth, fostering entrepreneurship, and allowing for "trade-tested betterments" that spurred economic development.

3. ****Challenging Neo-Institutionalist Views:**** - McCloskey's focus on the autonomous role of ideas directly challenges the neo-institutionalist perspective, which holds that economic growth primarily results from the establishment of secure property rights, rule of law, and other institutional frameworks. While she acknowledges that institutions matter, McCloskey argues that they are not sufficient to explain the scale and timing of the Great Enrichment.

- She points out that many societies throughout history had secure property rights and strong institutions but did not experience the same economic transformation as northwestern Europe. Therefore, she suggests that something else—the new liberal ideas that emerged in the 18th century—played a decisive role.

4. ****Ideas as More than Mere Epiphenomena:**** - McCloskey contends that ideas are not just secondary reflections or consequences of underlying material conditions (like economic interests or institutional structures); they are active forces that shape and direct human actions and societal evolution. In this sense, ideas have an "autonomous" role because they do not merely arise from economic circumstances but can themselves create and transform those circumstances.

- For instance, the idea that "making money is glorious," as promoted in China since 1978, has driven rapid economic growth despite the lack of a fully developed rule of law. Similarly, the liberal ideas of equality, liberty, and justice that emerged in northwestern Europe around 1700 CE encouraged a shift in attitudes toward commerce and innovation that led to the Industrial Revolution.

5. ****Ideas Create New Possibilities:**** - According to McCloskey, ideas create new possibilities by changing how people see the world, what they value, and what they consider possible or desirable. For example, the rise of the idea that ordinary people have dignity and worth, and that they should be free to pursue their interests, encouraged behaviors that were essential for economic growth—such as innovation, entrepreneurship, and the willingness to take risks.

- By fostering a culture that celebrated creativity, experimentation, and market-driven innovation, these new ideas enabled a dramatic expansion in economic activity and productivity, which McCloskey argues was the true driver of the Great Enrichment.

McCloskey's concept of "the autonomous role of ideas" underscores that ideas are not just passive reflections of economic conditions or institutional settings; they are powerful, independent forces that shape economic and social outcomes. She believes that the radical shift in ideas towards liberalism, equality, and the respect for commerce and innovation was the central cause of the Great Enrichment, more important than changes in institutions, resources, or other material factors. For McCloskey, understanding the history of economic growth requires acknowledging how changes in ideas and ideologies can drive

human progress.

2 Deirdre McCloskey is explaining why the transformative "tidal force" of ideas that liberated people and fueled economic growth began in northwestern Europe, leading to what she calls the "Great Enrichment."

McCloskey argues that this liberation and the subsequent economic transformation were the result of a series of "happy accidents" or historical contingencies that created a unique cultural and ideological environment in that region. She identifies four key events, or the "four Rs," that played crucial roles in shaping this environment: the spread of reading, the Reformation, the Revolt in Holland, and the various political revolutions in England, the United States, and France. Together, these events overthrew old elites and promoted new, radical political ideas about liberty and equality, forming the basis for a new ideology that enabled economic and social progress.

Key Points of McCloskey's Argument:

1. **The Four Rs: Key Historical Events** - McCloskey identifies four key historical events—the "four Rs"—that helped create the conditions for the economic and social transformation in northwestern Europe:

- **Reading Spread**: The spread of literacy and reading was crucial for disseminating new ideas. The printing press, invented in the mid-15th century, dramatically increased access to books and written material. This greater access allowed ideas about human rights, individual liberty, and economic freedom to circulate widely and influence public opinion. As more people became literate, they were able to engage with new ideas, leading to cultural and ideological changes.

- **Reformation**: The Protestant Reformation, which began in the early 16th century, challenged the authority of the Catholic Church and its control over religious and political life in Europe. The Reformation encouraged questioning of established authority and promoted individual interpretation of religious texts. This questioning spirit spilled over into other areas of life, including politics and economics, fostering a culture of inquiry, debate, and dissent.

- **Revolt in Holland**: The Revolt in Holland against Spain (also known as the Dutch Revolt, which lasted from 1568 to 1648) was a struggle for independence that resulted in the establishment of the Dutch Republic. The Dutch Revolt helped to overthrow the old Spanish Catholic elite and led to the rise of a new, commercially-minded bourgeoisie. The Dutch Republic became a hub of trade, finance, and innovation, further spreading ideas about economic freedom and entrepreneurship.

- **Revolutions in England, the United States, and France**: Several political revolutions—England in the 1640s and again in 1689 (the Glorious Rev-

olution), the United States in 1776, and France in 1789—overthrew old elites and promoted radical political ideas about liberty and equality. These revolutions challenged the existing monarchical and aristocratic power structures, replacing them with new political ideologies that emphasized individual rights, democratic governance, and economic freedom.

2. ****Impact of the Four Rs on Political and Social Ideology:**** - McCloskey argues that these four events collectively created a cultural and ideological environment that was uniquely conducive to economic growth and social transformation. The spread of literacy and the Reformation encouraged people to question authority and think independently. The Revolt in Holland and the various revolutions promoted new ideas about political liberty and equality, reducing the power of traditional elites and opening up opportunities for broader participation in economic and political life.

- The result of these events was a new ideology that celebrated individual freedom, innovation, and the pursuit of economic betterment. This ideological shift encouraged people to take risks, innovate, and engage in entrepreneurial activities, which McCloskey identifies as the core drivers of the Great Enrichment.

3. ****Overthrowing Old Elites and Embracing New Ideologies:**** - McCloskey emphasizes that the key factor behind the economic transformation was not simply the establishment of secure property rights or institutions but the overthrow of old elites and the elevation of radical political ideas about liberty and equality to a dominant ideological position. These ideas reshaped social norms and attitudes, creating a new cultural environment in which commerce, innovation, and individual initiative were valued and rewarded.

- The revolutions and political changes in northwestern Europe replaced the existing aristocratic and monarchical structures with new, more egalitarian political frameworks that allowed ordinary people greater freedom to pursue their interests. This shift in power dynamics and the accompanying ideological changes were crucial in enabling the unprecedented economic growth of the modern world.

4. ****The Role of "Happy Accidents":**** - McCloskey describes the combination of these events as a series of "happy accidents," meaning that they were not planned or orchestrated with the specific aim of creating modern economic growth. Instead, these events happened to come together in a way that facilitated the development of a new ideology supportive of economic dynamism and innovation.

- By referring to these historical contingencies as "happy accidents," McCloskey underscores the unpredictable and contingent nature of history. The spread of ideas about liberty, equality, and economic freedom occurred due to a particular sequence of events that happened to align in northwestern Europe, making it a unique breeding ground for the ideological transformation that led to the Great Enrichment.

McCloskey argues that the economic and social transformation of the modern world—the "tidal force" that liberated people and enabled unprecedented economic growth—occurred in northwestern Europe due to a series of histor-

ical contingencies or "happy accidents." These events, the "four Rs," created a unique cultural and ideological environment that overthrew old elites and elevated new ideas about liberty, equality, and economic freedom. This ideological shift, rather than changes in institutions or material conditions alone, was the essential cause of the Great Enrichment, as it encouraged innovation, entrepreneurship, and individual initiative in a way that had not been seen before.

3 Robert Whaples distills the central argument of Deirdre McCloskey's trilogy on the "bourgeois virtues," "bourgeois dignity," and "bourgeois equality." He uses the term "meme" to highlight how economic growth emerged not from deliberate planning or specific policies but from the spread of transformative ideas—memes—about human dignity, freedom, and the value of commerce.

Key Points of Whaples' Summary:

1. ****Economic Growth as an Unintended Outcome:**** - Whaples suggests that the remarkable economic growth during the Great Enrichment—starting around 1800—was an unintended consequence of the spread of certain cultural ideas or "memes." These ideas were not strategically deployed to create economic growth; rather, they spread organically and fundamentally altered how people viewed themselves and their societies, leading to an environment that fostered economic dynamism.

2. ****Ideas About Human Dignity and Freedom:**** - The key ideas that sparked economic growth were those promoting dignity and freedom for common people. These ideas asserted that ordinary individuals have intrinsic worth as human beings and that they are better off when elites (such as aristocrats, monarchs, or other ruling classes) are deprived of the power to control and dictate their lives. This meme promoted a culture that valued individual autonomy and freedom, encouraging people to act on their own behalf, innovate, and engage in economic activities that suited their interests.

3. ****Respect for Business and Commerce:**** - Another significant idea, or meme, that spread was the notion that business people deserve respect because trading and commercial activities typically benefit society. This was a departure from earlier views that often regarded merchants and traders with suspicion or disdain. The spread of this idea led to greater social acceptance and esteem for those engaged in commerce, fostering a more favorable environment for trade, innovation, and entrepreneurship.

4. **The "Trade-Tested Betterments Are Good" Meme:** - McCloskey's concept of "trade-tested betterments" refers to innovations, products, and improvements that prove their worth in the market through trade. The "meme" that "trade-tested betterments are good" suggests that market-driven innovation and improvements are valuable and should be encouraged.

- This idea originated in northwestern Europe, where a cultural shift occurred that began to celebrate the benefits of market-tested innovation. As this meme spread, it created a positive feedback loop, encouraging more innovation and economic experimentation.

5. **Global Spread of These Memes:** - Whaples emphasizes that these cultural shifts—these memes about dignity, freedom, and respect for commerce—began in northwestern Europe but eventually spread worldwide. As these ideas took hold globally, they created the cultural and ideological foundations necessary for sustained economic growth, innovation, and social transformation.

Whaples effectively uses the term "meme" to capture the idea that economic growth was largely an unplanned result of the spread of transformative ideas about human dignity, freedom, and commerce. McCloskey's trilogy argues that these memes, which valued the worth of ordinary people, promoted individual freedom, and respected business innovation, were crucial in fostering the Great Enrichment. The spread of these ideas from northwestern Europe to the rest of the world established a new cultural framework that encouraged economic growth and development, highlighting the power of ideas in shaping economic history.

4 Deirdre McCloskey critiques P.J. Hill's reliance on neo-institutionalist claims about the importance of institutions, particularly the rule of law, in economic development. Hill argues that legal institutions, such as rules protecting freedom of contract and property rights, were crucial for the economic changes associated with the Industrial Revolution. McCloskey disputes this perspective by questioning the timing and evidence behind these institutional changes and their alleged impact.

Key Points of McCloskey's Argument:

1. **Disagreement with Neo-Institutionalist Claims:** - P.J. Hill, following the neo-institutionalist framework of North, Wallis, and Weingast, suggests that the rule of law—defined as legal rules protecting freedom of contract and prop-

erty rights—was a critical component for economic growth during the Industrial Revolution. He sees these legal changes as central to the emergence of an "open access order," characterized by broad economic and political participation.

- McCloskey disagrees with this emphasis on institutions, particularly the timing of their impact. She argues that while some changes to the law of contract and property did occur, they came *after* the Industrial Revolution had already begun. For her, causes must precede their effects, not follow them. Therefore, these legal changes cannot be considered the primary causes of the economic transformation.

2. **Questioning the Scarcity of the Rule of Law:** - Hill claims that a "clear and effective rule of law is a relatively rare phenomenon." McCloskey challenges this statement by referring to a long tradition of legal scholarship—from Pollock and Maitland (1895) to Harold Berman (2003)—which does not support the idea that the rule of law was as rare as Hill suggests.

- McCloskey criticizes the tendency of economists and economic historians to accept claims by North and Weingast that English law, for example, was significantly defective before the Glorious Revolution of 1688. She argues that this claim is not well-documented and that there is substantial historical evidence to the contrary.

3. **Comparative Evidence from Different Historical Contexts:** - Hill, echoing North, Wallis, and Weingast, argues that the rule of law is a feature of "open access orders" (societies with widespread participation and rights) and is "noticeably absent" in "limited access orders" (societies where elites restrict access to political and economic power).

- McCloskey challenges this assertion by asking for the evidence supporting the claim that the rule of law was absent in various historical contexts, such as the Ottoman Empire. She refers to a recent book by Metin Coşgel and Boğaç Ergene (2016), which explores the application of the rule of law in a part of the Ottoman Empire and finds that it was not radically different from English law's application in the same period. This evidence shows that even in societies often labeled as "limited access orders," there was a form of rule of law, albeit one that sometimes favored the rich over the poor—just as in England.

4. **Critique of the "Defective" Law Argument:** - McCloskey criticizes the narrative that English law was "defective" before the Glorious Revolution and that the changes brought by the revolution were pivotal in establishing economic growth. She suggests that this view simplifies the complex reality of legal systems in different historical contexts and relies on undocumented or selective interpretations of legal history.

- She points out that rich people often did better in court than poor people, both in England and in other societies like the Ottoman Empire, but this is neither unique nor surprising. This similarity challenges the idea that the presence of the rule of law (as defined by Hill and other neo-institutionalists) is an exclusive characteristic of societies that experienced significant economic growth.

McCloskey's statement challenges the neo-institutionalist perspective that emphasizes the primacy of institutions, particularly the rule of law, in explain-

ing the economic changes associated with the Industrial Revolution. She argues that the legal changes cited by scholars like P.J. Hill and the neo-institutionalists often occurred *after* the economic transformations had already begun, making them insufficient as causal explanations. She also questions the claim that the rule of law was a rare or unique phenomenon in the contexts associated with economic growth, pointing to historical evidence that shows its presence in various societies, including those deemed "limited access orders." McCloskey's broader critique is that economic historians and economists need to move beyond simplistic explanations that rely too heavily on institutional changes and consider a wider range of cultural and ideational factors.

5 Deirdre McCloskey responds to P.J. Hill's argument that the concept of human equality has its roots in the Abrahamic religions (Judaism, Christianity, and Islam), specifically the idea of the *Imago Dei*—that humans are created in the image of God.

While McCloskey agrees with Hill that there is something valuable in the Abrahamic respect for individual souls, she challenges the notion that this theological foundation directly led to the modern concepts of equality and liberalism that emerged around 1700 CE. She argues that the real transformative change occurred much later, driven by new ideas and movements in Europe that marked a sharp, rather than gradual, shift towards liberalism.

Key Points of McCloskey's Argument:

1. **Acknowledgment of the Abrahamic Concept of Human Dignity:** - McCloskey agrees with P.J. Hill that there is a long tradition within the Abrahamic religions—Judaism, Christianity, and Islam—that emphasizes the inherent dignity of the individual, grounded in the idea of the *Imago Dei* (the belief that humans are created in the image of God). This concept has contributed to a broader respect for human souls and the value of individuals.

2. **Critique of the Historical Timing:** - While acknowledging the significance of the Abrahamic tradition, McCloskey argues that this religious foundation alone did not directly cause the development of modern ideas about human equality and liberalism. She points out that there is a substantial gap—about 3,400 years—between the Abrahamic covenant (around 1700 BCE) and the rise of modern liberal ideas (around 1700 CE). This long delay suggests that something specific and unique about the ideologies around 1700 CE, not those from 1700 BCE, was responsible for the modern world.

- McCloskey notes that Hill concedes this point by acknowledging that the kind of liberal equality both of them admire only became widely expressed in social, political, and economic structures during the period from 1517 to 1789.

This period, marked by events such as the Reformation, the Enlightenment, and various revolutions, saw a distinct shift in attitudes toward individual rights and equality.

3. ****Comparison to the Neo-Institutionalist Hypothesis:**** - McCloskey compares Hill's "Abrahamic hypothesis" to the neo-institutionalist hypothesis that emphasizes property rights as a key driver of economic growth. Both hypotheses, she argues, suffer from the same problem: they fail to account for the specific timing and nature of change. Just as the mere existence of property rights cannot explain the sudden surge in economic growth during the Industrial Revolution, the Abrahamic religious tradition does not sufficiently explain the rapid emergence of liberalism and equality in the modern era.

4. ****The Delay in the Impact of Christian Moral Beliefs:**** - McCloskey cites Larry Siedentop, who notes that it took centuries for the implications of Christian moral beliefs to be fully realized. Despite the Christian teachings of equality before God, many Christian societies continued to endorse slavery and tolerate severe social inequalities without serious objection until the advent of liberal thinkers like John Locke, Voltaire, and Mary Wollstonecraft in the 17th and 18th centuries. This shift marked a decisive and abrupt change in attitudes toward human equality and rights. [Larry Siedentop, who writes that "Centuries would be required for the implications of Christian moral beliefs to be drawn out sidering that they held people in slavery, and in other ways approved of appalling inherited inequalities of status in this world, without the slightest misgiving, right up until liberalism in the persons of Locke, Voltaire, force, and Mary Wollstonecraft sharply changed their minds. In the book I push back the causes of a nascent liberalism and equality of standing to its origins during the centuries after the Reformation. There was no noticeable drawing out and clarifying until some radical Protestants spoke out in Europe, presaged by less successful challenges to the Church of Power before the printing press, such as Lollardy—as did some radical bourgeois stripped of a ruling nobility in Holland, and some radically egalitarian citizenry during the English Civil War, and some radical revolutionaries in America and France in the late eighteenth century.]

5. ****Role of Radical Movements and Events in the Emergence of Liberalism:**** - McCloskey traces the origins of nascent liberalism and equality of standing to specific radical movements and challenges to established authority that occurred after the Reformation. For example, she mentions radical Protestants in Europe, groups like the Lollards who opposed the Catholic Church before the invention of the printing press, and the radical bourgeois in Holland who were free from a ruling nobility.

- She also points to significant events like the English Civil War, the American Revolution, and the French Revolution, where radical egalitarian ideas began to take shape and spread. However, she notes that even among intellectual elites ("the clerisy"), these liberal ideas were not widespread until the late 18th century.

6. ****The Sharp, Not Gradual, Change Towards Liberalism:**** - McCloskey argues that the shift towards liberalism was not a slow, drawn-out process but a sharp, relatively rapid change that occurred late in the historical timeline,

especially when considered against the backdrop of millennia since the time of Abraham or Jesus. This transformation was marked by a clear break from the past rather than a continuous unfolding of ideas from religious teachings.

McCloskey contends that while the Abrahamic religions provided a foundation of respect for individual souls, they did not directly lead to the modern concepts of human equality and liberalism. The real catalyst for these ideas emerged much later, around 1700 CE, driven by new ideological movements and radical challenges to established social and political orders. She emphasizes that this change was not a gradual "drawing out" of ancient religious ideas but rather a sharp, revolutionary shift in thinking that began with the Reformation and continued through the Enlightenment and various revolutions. McCloskey's critique highlights the importance of timing and specific historical contexts in understanding the rise of modern liberalism and equality.

6 Deirdre McCloskey challenges the neo-institutionalist emphasis on the importance of secure property rights and the rule of law as the primary drivers of economic growth and development.

She argues that while institutions like secure property rights and the rule of law have existed in many societies throughout history, they have not been sufficient on their own to generate the kind of economic transformation seen during the Great Enrichment that began in northwestern Europe. Instead, McCloskey emphasizes the importance of a supportive ideology, particularly the liberal ideas that emerged in the 18th century, as the critical factor driving sustained economic growth.

Key Points of McCloskey's Argument:

1. ****Ubiquity of Secure Property Rights:**** - McCloskey points out that secure property rights are not a unique feature of modern economies; they have been present in many societies throughout history. She refers to legal historian Harold Berman's work on the High Middle Ages, which shows that secure property rights were established even during this period. This suggests that the mere presence of secure property rights does not automatically lead to significant economic development.

- She provides the example of Genghis Khan, who strictly enforced property rights within his horde, particularly regarding horses and wives. This enforcement ensured order and stability within the Mongol Empire, but it did not lead to the kind of transformative economic growth seen in modern times.

2. ****Institutions Alone Are Not Sufficient for Economic Growth:**** - McCloskey argues that institutions favorable to "market-tested betterment" (i.e., improvements and innovations that are validated in the marketplace) have appeared repeatedly throughout world history, but they have not consistently resulted in sustained economic growth or what she calls the "Great Enrichment."

This term refers to the dramatic increase in economic productivity and living standards that began with the Industrial Revolution in the late 18th century.

- She emphasizes that while institutions like property rights and the rule of law are important, they are not the decisive factors in explaining the timing and location of the Great Enrichment. Other regions, such as France, Spain, Sweden, and the German and Italian lands, also had the rule of law and secure property rights but did not initiate the kind of sustained economic transformation that occurred in northwestern Europe.

3. ****The Role of Ideology in Economic Transformation:**** - McCloskey argues that the critical difference between societies that experienced the Great Enrichment and those that did not lies in the ideologies that supported economic growth. The ideologies that led to the Great Enrichment emerged "quite late" in history, particularly in the 18th and 19th centuries in northwestern Europe.

- She notes that while countries like France, Spain, Sweden, and the German and Italian states had secure property rights and the rule of law, they did not lead the Industrial Revolution. It was northwestern Europe, particularly Britain and the Netherlands, where new liberal ideas—such as those valuing commerce, innovation, and the dignity of the common person—fostered an environment that encouraged economic growth.

4. ****China's Example of Growth Without the Rule of Law:**** - McCloskey also uses the example of China to illustrate her point. Since 1978, China has experienced rapid economic growth, with an average annual growth rate of about 10 percent per capita. This growth occurred despite the lack of a strong rule of law, which is often cited as essential by neo-institutionalists.

- Instead, McCloskey argues that China's growth can be attributed to a change in ideology, specifically the embrace of the idea that "making money is glorious." This new attitude towards commerce and entrepreneurship, introduced by Deng Xiaoping, encouraged economic activity and investment, leading to substantial growth despite the absence of a fully developed legal framework to protect property rights.

5. ****Timing and Ideological Shifts as Crucial Factors:**** - McCloskey emphasizes that the timing of ideological shifts is crucial to understanding economic transformation. The ideologies that promoted economic growth and innovation—such as the liberal ideas that emerged in northwestern Europe in the 18th century—were the real catalysts for the Great Enrichment. They provided a cultural and intellectual environment that encouraged experimentation, risk-taking, and entrepreneurship, which were essential for sustained economic growth.

- In contrast, the mere existence of secure property rights or the rule of law does not explain why certain regions, like northwestern Europe, experienced a dramatic economic transformation while others did not.

McCloskey argues that while secure property rights and the rule of law are important, they are not sufficient to explain the timing and location of the Great Enrichment. These institutions have existed in many societies throughout history, yet transformative economic growth did not occur until the emergence of new liberal ideas in northwestern Europe around 1700 CE. She suggests that

the key factor driving economic transformation is not the institutions themselves but the ideologies that support and encourage innovation, entrepreneurship, and economic freedom. The example of China further demonstrates that even without a robust rule of law, a shift in ideology toward embracing commerce and innovation can lead to significant economic growth.

7 Deirdre McCloskey reflects on her intellectual journey over the past twenty years, particularly during the twelve years spent writing her trilogy on "bourgeois virtues," "bourgeois dignity," and "bourgeois equality." She outlines her central argument that the essential cause of the modern world's economic growth—the "central pole of the tent"—was not a change in the psychological traits or behaviors of the bourgeoisie, as Max Weber suggested, but rather a sociological and political change in northwestern Europe.

This change involved a shift in the ideology surrounding ordinary people and the acceptance of the bourgeoisie and their economic activities. McCloskey argues that it was this shift in ideology, which embraced Adam Smith's "liberal plan of equality, liberty, and justice," that made people bolder, more inventive, richer, and more cultured, ultimately driving the Great Enrichment.

Key Points of McCloskey's Argument:

1. ****Main Discovery: Ideology, Not Institutions or Character Traits:**** - McCloskey asserts that the main discovery she has made in her work is that the "one essential cause" of the modern world and the Great Enrichment was a change in the social and political ideology of northwestern Europe. This shift in ideology involved accepting the bourgeoisie (the middle class) and their economic activities, rather than focusing on any particular changes in individual character traits or behaviors.

- Contrary to Max Weber's argument in **The Protestant Ethic and the Spirit of Capitalism** (1905), which suggested that a change in psychological traits (such as work ethic and frugality) among the bourgeoisie led to modern capitalism, McCloskey argues that it was the surrounding ideology—the social rhetoric or social ethics—of ordinary people that changed. This ideological shift allowed people to take risks ("have a go") and pursue their economic interests, which led to innovation, economic growth, and cultural development.

2. **Misunderstanding by Gerry Gaus:** - McCloskey addresses a misunderstanding by Gerry Gaus, a philosopher who criticizes her work for not being sufficiently "game-theoretic" and institutional. Gaus seems to think McCloskey's argument aligns with Weber's idea that character traits and attitudes are central to explaining economic development. He argues that McCloskey underestimates the importance of "the institutional rules of the game" and should focus more on the "rule-governance of social morality" from a game-theoretic perspective.

- McCloskey clarifies that her argument is not about the character traits of the bourgeoisie but about the broader ideological shift in society that accepted and encouraged bourgeois values. This shift is what she refers to as "social rhetoric" or "social ethics," terms she uses to describe the change in ideas and discourse that led to economic growth.

3. **Critique of Neo-Institutionalism and Gaus's Approach:** - McCloskey notes that Gaus's criticism seems to miss her central point, possibly due to his prior commitment to a game-theoretic, institutional perspective similar to that of Douglass North and other neo-institutionalists. While Gaus wants her to focus on the institutional rules and frameworks that govern economic behavior, McCloskey argues that this approach neglects the "autonomous role of ideas."

- She suggests that Gaus's critique aligns with the neo-institutionalist emphasis on formal institutions and rules as the primary drivers of economic development. However, McCloskey argues that this view overlooks the critical role of changing ideas and social norms—factors that cannot be fully captured by models focusing solely on incentives and institutional constraints.

4. **The Importance of the Ideological Shift:** - McCloskey emphasizes that the key to understanding the Great Enrichment is recognizing the importance of the ideological shift that occurred in northwestern Europe around 1700. This shift involved embracing liberal values such as equality, liberty, and justice, which were articulated by thinkers like Adam Smith. It was not a matter of creating new institutions or enforcing new rules but of changing the way society viewed commerce, innovation, and the role of ordinary people.

- She argues that this change in ideology—what she calls "allowing every man to pursue his own interest in his own way"—was the real driver of the economic and cultural transformations that followed. It made people bold, inventive, and willing to take risks, leading to unprecedented economic growth and development.

5. **Rejection of the Economistic Line of Argument:** - McCloskey criticizes Gaus's approach as "slouching towards North," referring to Douglass North's neo-institutionalist framework that heavily emphasizes the role of institutions in shaping economic outcomes. She argues that Gaus is moving towards an "economistic line of argument" that neglects the independent role of ideas and ideologies in driving economic and social change.

- For McCloskey, the focus should not be on institutional rules or game-theoretic logic but on the transformative power of ideas, rhetoric, and social ethics. She believes that the spread of liberal ideas was the key factor that led to the Great Enrichment, not just the institutional arrangements or rules

governing economic behavior.

McCloskey contends that the primary driver of the modern world's economic transformation was not changes in institutions or the psychological traits of the bourgeoisie but a significant shift in social ideology and rhetoric. This shift involved accepting and valuing the bourgeoisie and their economic activities and embracing liberal ideas of equality, liberty, and justice. She critiques those, like Gerry Gaus, who focus too heavily on institutional frameworks and game-theoretic models, arguing that they overlook the critical role of changing ideas in shaping economic development. For McCloskey, it was the change in the social rhetoric—what people believed, said, and valued—that made people bold, inventive, and prosperous, leading to the remarkable economic growth of the Great Enrichment.

8 Deirdre Nansen McCloskey is responding to comments made by Barry Weingast on her work, specifically her paper and her book on the causes of the "Great Enrichment"—the unprecedented economic growth that began in the early 19th century in northwestern Europe.

McCloskey expresses her gratitude for Weingast's generous and positive feedback, noting that they share significant common ground on an essential point: the importance of a "new liberalism" that emerged in northwestern Europe around 1800 as a crucial factor in this period of economic transformation.

Clarifying the Key Points:

1. ****Agreement on the Role of Liberalism:**** - McCloskey and Weingast agree that the emergence of a new form of liberalism in northwestern Europe around 1800 was a critical factor in driving the economic growth and prosperity known as the "Great Enrichment." This period saw the rise of ideas centered on individual liberty, equality before the law, and freedom of thought, speech, and trade, which McCloskey and Weingast argue were instrumental in fostering innovation, entrepreneurship, and economic dynamism.

2. ****Neglect of Liberty and Equality in Economic Literature:**** - Weingast acknowledges that the significance of liberty and equality in understanding economic development and the Great Enrichment has been "woefully underappreciated" in the existing economic literature. McCloskey agrees with this point, emphasizing that traditional economic analyses often overlook the role of shifting ideas, values, and rhetoric in shaping human actions and economic outcomes. By highlighting this gap, McCloskey and Weingast advocate for a greater focus on ideational factors in explaining economic history.

3. ****Support for Humanomics:**** - McCloskey's concept of "humanomics" emphasizes that human actions are influenced not only by material incentives

but also by changing ideas, values, and rhetoric. In her view, the ideas of liberty and equality—promoted by thinkers of the Enlightenment and institutionalized in political and economic practices in northwestern Europe—were vital components of the Great Enrichment. Weingast's recognition of the importance of these ideas aligns with McCloskey's argument that economic growth cannot be fully understood without considering the ideational and rhetorical shifts that shaped human behavior and societal organization.

4. **Recognition of the Role of Ideas in Development:** - McCloskey is pleased that Weingast agrees with her that scholars studying economic development and the Great Enrichment have not adequately considered the critical role of ideas such as liberty and equality. She argues that these ideas had "material consequences" that significantly influenced economic growth. For example, the political rhetoric of leaders like Olof Palme, who declared, "The political winds are from the left: let us set sail," illustrates how shifts in political and social rhetoric can have substantial economic and social impacts.

5. **Appreciation for Weingast's Acknowledgment:** - McCloskey expresses her delight and appreciation for Weingast's agreement with her arguments. She appreciates his "amiable and generous" comments and acknowledges that his recognition of the importance of liberty and equality in economic growth aligns with her broader perspective on the role of ideas in shaping history.

Broader Context:

- **Humanomics vs. Traditional Economics:** McCloskey is advocating for a new approach to economics—humanomics—that integrates insights from history, philosophy, and the humanities to understand economic behavior more comprehensively. She argues that traditional economics, which often relies heavily on material incentives and mathematical models, fails to account for the profound impact of ideas, values, and rhetoric on economic outcomes. By recognizing the importance of ideational shifts, such as the embrace of liberalism in the 19th century, McCloskey believes we can better understand the true drivers of economic growth and development.

- **The Great Enrichment:** McCloskey's work often centers on explaining the "Great Enrichment," the period of sustained economic growth that began in the West around 1800. She argues that this growth cannot be fully explained by material factors alone, such as capital accumulation or institutional changes. Instead, she contends that the ideas of liberty, equality, and individual freedom played a crucial role in creating an environment where innovation, entrepreneurship, and economic dynamism could thrive.

- **McCloskey's Argument in Economic History:** McCloskey frequently critiques the conventional economic history approach, which often emphasizes institutional changes (such as the protection of property rights) or material incentives as primary causes of economic growth. By contrast, she argues that ideational changes, such as the cultural shift toward valuing individual liberty and innovation, were the true drivers of the dramatic economic changes seen in the 19th and 20th centuries.

9 Deirdre Nansen McCloskey is responding to Barry Weingast's critique of her work and providing a broader critique of neo-institutional economics, a school of thought that Weingast and Douglass North have been instrumental in developing.

McCloskey's central argument is that neo-institutional economics, despite its claim to be a revolutionary alternative to neoclassical economics, ultimately reiterates many of the same assumptions, particularly the belief in the sufficiency of material incentives (such as property rights or government policies) to explain economic outcomes. She argues that this approach overlooks the critical role of ideas, rhetoric, and cultural changes—elements that she believes are essential to understanding the "Great Enrichment," the extraordinary economic growth that began in the 19th century.

Key Points of McCloskey's Critique:

1. ****Insufficiency of Routine Explanations for Economic Growth:**** - McCloskey argues that traditional explanations in economic history—such as routine investment, specialization, or improvements in property rights—are inadequate for explaining the enormous increases in production possibilities per person since 1800. She contrasts the modest growth (e.g., 50% to 100%) that could be attributed to such factors, like the property rights improvements after England's Glorious Revolution, with the thousands of percent increase in economic output seen in the "Great Enrichment." McCloskey argues that the scale of this growth cannot be accounted for by these "routine" factors alone.

2. ****Emphasis on Liberalism and Technological Ingenuity:**** - McCloskey contends that the true drivers of the "Great Enrichment" were ideational and cultural changes—specifically, the rise of liberalism in Europe, which led to a climate of freedom that encouraged technological innovation and creativity. She attributes the economic transformation not to changes in property rights or institutions, but to the adoption of liberal ideas that allowed for technological ingenuity and entrepreneurship to flourish. This "accident" of European politics, which led to a culture of liberalism, was critical for the economic transformation that followed.

3. ****Critique of Neo-Institutional Economics:**** - McCloskey criticizes Weingast's characterization of her work as rejecting the role of technology, noting that her point is not to downplay technology but to emphasize that technological ingenuity arose from a liberal cultural environment, not merely from institutional changes. She also takes issue with Weingast's claim that neo-institutional economics exposes the "fallacy" of neoclassical economics by asserting the necessity of laws and governments. McCloskey argues that this supposed fallacy is a misinterpretation of neoclassical economics, which, in its classical form (as seen in the works of Menger, Marshall, Wicksell, and their successors like Fogel and

Engerman), did recognize the importance of institutions.

4. **The Real Fallacy: Material Incentives as the Sole Driver:** - According to McCloskey, the significant fallacy of modern neo-institutional economics is its reliance on a "Samuelsonian" approach—named after economist Paul Samuelson—that focuses exclusively on material incentives and assumes that modeling economic behavior as utility maximization under constraints is sufficient. Neo-institutionalists, like North and Weingast, build on this by suggesting that the constraints (such as constitutions or formal "rules of the game") are critical in shaping economic outcomes. McCloskey argues that this approach neglects the role of ideas, language, and cultural change, treating them as irrelevant "noise."

5. **Compatibility with Neoclassical Economics:** - McCloskey points out that despite its claims to be a revolutionary alternative, neo-institutional economics has been well-received by mainstream neoclassical economists, like the Samuelsonians, because it essentially reiterates their core assumptions. Neo-institutionalism, in her view, remains tied to the idea that economic behavior can be fully explained by rational choice models and non-cooperative game theory, without sufficient attention to the influence of ideational factors like rhetoric, cultural norms, and the evolution of beliefs.

6. **Critique of Neo-Institutionalism's Approach to Testing:** - McCloskey also critiques neo-institutionalism for its reliance on "theoretical tales" rather than rigorous empirical testing, whether quantitative or qualitative. She suggests that neo-institutionalists often make broad theoretical claims about the role of institutions without adequately supporting them with robust evidence. This criticism echoes her broader call for a more interdisciplinary approach that incorporates insights from history, philosophy, and the humanities to understand economic behavior more comprehensively.

7. **Examples from Economic History:** - McCloskey provides examples from economic history to illustrate that neoclassical economists were indeed aware of the importance of institutions. For instance, the work of Robert Fogel and Stanley Engerman on slavery and North's earlier work on ocean transport demonstrated an appreciation for how institutional changes impacted economic outcomes. However, she argues that modern neo-institutional economics has shifted towards a narrower focus, reinforcing the belief that material incentives and formal rules alone determine economic outcomes.

8. **Distinction Between Neo-Institutionalism and Elinor Ostrom's Work:** - McCloskey contrasts the work of neo-institutionalists like Weingast and Williamson with that of Elinor Ostrom, who won the Nobel Prize in the same year as Williamson. Ostrom's research on collective action and governance of common-pool resources emphasized the importance of local knowledge, community norms, and cooperative behavior, showing that institutional change is not just about formal rules but also involves social norms, trust, and local practices. This stands in contrast to the more rigid, materialist approach of neo-institutional economics.

McCloskey argues that the major flaw in neo-institutional economics is its overreliance on material incentives and formal rules to explain economic out-

comes, neglecting the profound impact of ideas, rhetoric, and cultural change. She critiques the field for claiming to be a revolutionary departure from neoclassical economics while actually perpetuating its fundamental assumptions. McCloskey calls for a broader approach that recognizes the central role of ideational shifts, such as the rise of liberalism, in driving technological innovation and economic growth. This, she believes, is necessary to truly understand the "Great Enrichment" and the extraordinary economic changes of the past two centuries.

10 Deirdre Nansen McCloskey critiques the approach of neo-institutional economics, particularly as it is practiced by scholars like Douglass North, John Wallis, Barry Weingast, Oliver Williamson, and Avner Greif.

McCloskey argues that despite neo-institutional economics presenting itself as a new or revolutionary approach, it remains fundamentally rooted in conventional neoclassical economic thought, which she describes as "Samuelsonian." This term refers to the school of economics influenced by Paul Samuelson, which heavily emphasizes mathematical modeling, optimization, and the idea that economic behavior can be explained primarily through material incentives.

Key Points of McCloskey's Critique:

1. ****Neo-Institutional Economics as Conventional Neoclassical Economics:**** - McCloskey asserts that neo-institutional economics, in the hands of North, Wallis, Weingast, Williamson, Greif, and others, is not genuinely distinct from traditional neoclassical economics. Instead, it is "Samuelsonian" in its approach, reducing all social and economic interactions to "incentives." This means that neo-institutionalists, like traditional neoclassical economists, assume that individuals and institutions act primarily in response to material incentives—such as profits, costs, benefits, or risks—and that these incentives are sufficient to explain human behavior and social outcomes.

2. ****Weingast's Notion of a "Fallacy" in Neoclassical Economics:**** - McCloskey addresses Barry Weingast's critique of what he perceives to be a fallacy in neoclassical economics. Weingast argues that neoclassical economics implicitly assumes several conditions: the security of persons and property, a strong system of property rights and contract enforcement, and the absence of arbitrary or predatory behavior by the state. He points out that these conditions cannot exist without a functioning government, suggesting that neoclassical economics overlooks the foundational role of government in maintaining these conditions.

3. ****The Problem with Weingast's Argument:**** - McCloskey counters that even though Weingast critiques neoclassical economics for failing to consider the need for government, his own explanation remains rooted in the same materialist framework. He suggests that government itself arises out of a "self-enforcing" set of incentives. In other words, Weingast pushes the problem back one step

but still relies on the same underlying logic: that all social and economic order can be explained by material incentives. For McCloskey, this approach is still behaviorist and materialist—it does not fundamentally differ from the neoclassical focus on incentives but merely extends it to a different level.

4. **Critique of Materialist Focus and Exclusion of Ideas:** - McCloskey criticizes this approach for ignoring the role of "words or ideas." She argues that by reducing everything to material incentives, neo-institutional economics, like Samuelsonian neoclassical economics, disregards the importance of ideas, rhetoric, values, culture, and discourse in shaping human behavior and social institutions. McCloskey suggests that this narrow focus on material incentives fails to capture the full complexity of social interactions and economic development, which are often driven by ideational factors such as changing norms, beliefs, and ideologies.

5. **Behaviorist and Materialist Limitations:** - By labeling neo-institutionalists as "behaviorists and materialists," McCloskey emphasizes that they adopt a reductive view of human behavior, treating people like machines responding only to external stimuli (incentives) without acknowledging the role of internal motivations, ethical considerations, or cultural influences. This critique points to a fundamental limitation in neo-institutionalism's explanatory power: it overlooks the non-material dimensions of social life that are crucial for understanding complex phenomena like economic growth, social change, or political stability.

Examples and Broader Context:

- **Samuelsonian Economics and Incentive-Based Models:** - "Samuelsonian" economics, named after Paul Samuelson, represents a formalist, mathematical approach that emphasizes the modeling of economic behavior under conditions of utility maximization subject to constraints. In this framework, all actions are explained through the optimization of material payoffs, ignoring the role of values, ideologies, or narratives. McCloskey suggests that neo-institutional economics, despite claiming to be different, still operates within this materialist paradigm by explaining institutional development and governance through self-enforcing incentives alone.

- **Neo-Institutional Economics and Government:** - Weingast's argument that a functioning government is necessary for securing property rights and preventing predatory behavior is consistent with neo-institutionalist thought, which focuses on how institutions (like governments) provide the "rules of the game" that shape economic incentives. However, McCloskey's critique points out that even this understanding does not escape the confines of incentive-based reasoning. It still assumes that the creation and maintenance of government itself can be fully explained by self-interested incentives, without considering the broader ideational, ethical, or cultural factors that also play a crucial role.

- **The Role of Ideas and Rhetoric:** - McCloskey advocates for a broader view that recognizes the power of ideas and rhetoric in shaping economic and social outcomes. For example, she would argue that the rise of liberalism in Europe—a shift in ideas and values around individual rights, freedom of expression, and economic liberty—was critical for fostering the environment of innovation and growth that led to the Industrial Revolution and the "Great En-

richment." These changes cannot be adequately explained by material incentives alone; they were driven by new ways of thinking, speaking, and understanding the world.

McCloskey's critique of neo-institutional economics centers on its reliance on a materialist framework that reduces all social interactions to incentives. While neo-institutionalists like Weingast challenge neoclassical assumptions by highlighting the importance of government and institutions, McCloskey argues that their approach remains fundamentally "Samuelsonian," merely extending the logic of material incentives to a different level. She contends that this focus on incentives alone is inadequate for explaining complex social phenomena and calls for a more comprehensive approach that incorporates the role of ideas, rhetoric, and cultural shifts. McCloskey believes that to truly understand economic growth and social change, economists must look beyond material incentives and recognize the transformative power of ideas and discourse.

11 Deirdre Nansen McCloskey critiques what she refers to as "legal centralism," a view held by Barry Weingast and other neo-institutionalists like Douglass North, which argues that the conditions necessary for markets—such as property rights, contract enforcement, and the absence of predatory state behavior—cannot exist without a government or state to enforce them.

McCloskey contends that this view is historically inaccurate and overly simplistic, and she offers both theoretical and empirical evidence to argue that property rights and market conditions can and have emerged independently of government enforcement.

Key Points of McCloskey's Argument:

1. ****Rejection of "Legal Centralism":**** - McCloskey challenges Weingast's claim that markets require government intervention to exist. According to Weingast, stable property rights, secure contracts, and protection from arbitrary government action are essential conditions for market functioning, and these conditions, in turn, necessitate a strong government. McCloskey argues that this view is mistaken because it assumes that government is the primary or only source of property rights and social order, a perspective she calls "legal centralism."

2. ****Historical and Logical Flaws in the Legal Centralist View:**** - McCloskey critiques the argument put forward by figures like James VI of Scotland (James I of England), who claimed in his work *The True Law of Free*

Monarchies* (1598) that kings were the original creators of laws and that all property was initially distributed by them. James argued that kingship and legal authority predated all other social institutions, and therefore, property rights originated from royal authority. McCloskey argues that both in fact and in logic, this claim is incorrect. She notes that recent experimental studies and historical evidence show that property rights can and do emerge without the direct involvement of a state or central authority.

3. ****Empirical Evidence Against Legal Centralism:**** - McCloskey cites experimental studies by Kimbrough, Smith, and Wilson (2010) and by Wilson, Jaworski, Schurter, and Smyth (2012), which demonstrate that property rights can emerge in communities without legal enforcement from a central authority. These studies suggest that human societies can establish norms of property ownership, exchange, and conflict resolution organically, based on mutual agreements, trust, and social norms rather than imposed legal structures.

- She further notes that there is no archaeological or historical evidence to support the view that formal laws or state institutions were always necessary for the existence of property. For example, agriculture and animal husbandry, which involve property rights over land and livestock, existed long before the development of formal states and legal systems. The researchers McCloskey cites argue that to claim property rights could not exist without state law is to take an "overly narrow view of human history."

4. ****Joel Mokyr's Support for McCloskey's Argument:**** - McCloskey refers to Joel Mokyr's work, which also critiques the idea that the rule of law in the 18th century was primarily dependent on the state. Mokyr argues that the growth of knowledge and technological innovation during the Industrial Revolution was not driven by the state's legal framework but by cultural and intellectual developments, social norms, and ethical practices that encouraged collaboration, experimentation, and the dissemination of new ideas. Mokyr's findings support McCloskey's argument that economic and social order can be maintained through ethical norms and cultural practices rather than solely through state-enforced laws.

5. ****The Role of Ethics over Law in Social Cohesion:**** - McCloskey concludes that it is mainly ethics—shared norms, trust, and mutual understandings among people—that hold societies together and drive progress, rather than formal laws imposed by a central authority. She suggests that human communities have long been capable of creating systems of property, exchange, and cooperation based on ethical understandings and social agreements rather than relying on state enforcement.

- This point challenges the neo-institutionalist perspective that views the state as a necessary enforcer of economic order. Instead, McCloskey posits that social cooperation and economic growth are often the results of bottom-up processes where ethical behavior, trust, and informal institutions play a more significant role than top-down state intervention.

Broader Context and Examples:

- ****Historical Evidence Against Legal Centralism:**** - Many pre-modern societies developed norms of property and exchange without a formal state ap-

paratus. For instance, various indigenous societies, medieval European guilds, and early trading networks operated based on customary laws, social norms, and agreements rather than formal state legislation. These examples demonstrate that stable property rights and economic transactions can exist without centralized government enforcement.

- **Experimental Studies:** - The studies cited by McCloskey, such as those by Kimbrough, Smith, and Wilson, use controlled experiments to simulate conditions where individuals must establish property rights and resolve conflicts without any external legal enforcement. These experiments show that communities can develop shared understandings and conventions that effectively mimic the role of formal law, suggesting that legal enforcement is not always necessary for economic order.

- **Joel Mokyr's Historical Analysis:** - Mokyr's research on the Industrial Revolution and the Enlightenment supports McCloskey's argument by emphasizing the role of intellectual and cultural developments in driving economic growth. He argues that the rise of scientific knowledge, technological innovation, and entrepreneurial spirit in Europe was not primarily the result of state policies or laws but was driven by cultural and ethical changes that encouraged experimentation, open inquiry, and the spread of ideas.

McCloskey's critique of "legal centralism" challenges the idea that government is the sole or primary source of the social and economic conditions necessary for market functioning. She argues that property rights, social order, and economic cooperation can and often do emerge organically from ethical norms, social agreements, and cultural practices, without the need for state enforcement. This perspective broadens the understanding of how societies create and maintain economic order, emphasizing the role of ideas, ethics, and bottom-up processes in fostering social cohesion and economic progress. McCloskey's argument is supported by both empirical studies and historical evidence, which show that human communities have long been capable of generating order and prosperity through means other than formal laws and government intervention.

12 Deirdre Nansen McCloskey argues against the neo-institutionalist and game-theoretical view that human behavior is driven solely by material incentives, such as fear of punishment or desire for reward, and that language, ethics, and words have no real power to shape actions or maintain social order. She challenges the idea that formal rules and coercive power are always necessary for people, including political officials, to act in accordance with agreements or social norms.

Key Points of McCloskey's Argument:

1. ****Critique of the Neo-Institutionalist View on Incentives:**** - McCloskey addresses Barry Weingast's assertion that "political officials must have incentives to adhere to the rules." Weingast uses "must" to imply that adherence to rules is only possible if officials have the right material incentives, such as personal gain or the avoidance of punishment. McCloskey challenges this view by arguing that such a narrow definition of "incentives" — focused solely on material or self-interested motivations — is incomplete and overlooks the power of words, ethics, and social norms in guiding behavior.

2. ****Hobbes' View on Coercion and Social Order:**** - McCloskey critiques the perspective of Thomas Hobbes, who argued that human behavior could not be controlled by mere words or promises without the backing of coercive power. In **Leviathan**, Hobbes famously claimed that "the bonds of words are too weak to bridle men's ambition, avarice, anger, and other passions" without the threat of force. Hobbes further stated that "Covenants, without the sword, are but words, and of no strength to secure a man." Weingast, in line with neo-institutionalist thought, appears to support this Hobbesian view by suggesting that agreements or covenants require the backing of enforcement mechanisms (like the state's coercive power) to be effective.

3. ****Game Theory's View of "Cheap Talk":**** - McCloskey also critiques the view in game theory, particularly within Samuelsonian economics, that regards talk or communication as "cheap." In game theory, "cheap talk" refers to communication between parties that does not directly affect the payoffs of a game, implying that words alone have no binding or consequential power. Game theorists often argue that since words do not change the material incentives or structure of a situation, they have little impact on behavior or outcomes.

4. ****Words and Ethics as Powerful Motivators:**** - McCloskey argues that Weingast, Hobbes, and the game theorists are wrong to dismiss the power of words, ethics, and moral commitments in shaping human behavior. She points

out that people often act in ways that reflect their values, beliefs, and ethical considerations, not merely their material self-interest. For example, the motivation of a scholar like Barry Weingast to be serious and courageous in his academic work cannot be reduced to material incentives alone; it involves a commitment to truth, intellectual integrity, and the values of scholarly pursuit.

- McCloskey is suggesting that words—such as promises, declarations, and expressions of intent—can have real power to influence behavior, create social bonds, and maintain order. Ethical commitments, trust, and shared values often motivate people to act in ways that are not directly linked to material incentives or enforced by external authority.

5. ****Rejection of Material Incentives as Sole Drivers:**** - McCloskey rejects the idea that material incentives (like fear of punishment or desire for reward) are the only drivers of human action. She argues that language and ethics play a critical role in human societies by fostering trust, cooperation, and shared understanding. She points out that while Hobbes and some modern economists believe that rules or covenants are meaningless without the threat of enforcement (the "sword"), real-world social interactions often depend on mutual respect, ethical norms, and the power of words to bind individuals to their commitments.

6. ****Appeal to Everyday Examples:**** - To support her argument, McCloskey asks readers to consider their own motivations or those of Weingast himself. Scholars like Weingast are driven by more than just material incentives; they are motivated by a sense of duty, a commitment to intellectual integrity, and a desire to contribute to knowledge. These motivations are shaped by ideas, values, and words—factors that are not adequately captured by the narrow focus on material incentives favored by neo-institutionalists and game theorists.

Examples and Broader Context:

- ****The Role of Words and Ethics in History:**** - Throughout history, words and rhetoric have played significant roles in shaping events and social orders. For example, the American Declaration of Independence, the speeches of Martin Luther King Jr., and Gandhi's writings on nonviolence were not backed by immediate material incentives or the threat of force but were powerful because they articulated ideas that resonated with people's values, ethics, and sense of justice. These words mobilized millions and led to profound social changes.

- ****Interpersonal Relationships and Social Norms:**** - In everyday life, much of human behavior is guided by words, agreements, and mutual understandings rather than by material incentives alone. Friendships, marriages, business partnerships, and community organizations often rely on trust, shared values, and verbal commitments rather than enforceable contracts or the threat of sanctions. The effectiveness of these social bonds demonstrates that words and ethics can be powerful motivators for human action.

- ****Contradiction in Neo-Institutionalism's Approach:**** - McCloskey suggests that the neo-institutionalist emphasis on the necessity of material incentives and state enforcement ignores the fact that ideas, rhetoric, and ethical considerations often underpin the formation and maintenance of institutions themselves. By claiming that ideas only matter if they are backed by coercive

power, the neo-institutionalists are dismissing the fundamental ways in which social norms, trust, and language shape institutions and social orders.

McCloskey challenges the neo-institutionalist and Hobbesian belief that material incentives and coercive power are the only effective means of ensuring adherence to rules and agreements. She argues that this perspective fails to recognize the genuine power of words, ethics, and social norms in motivating human behavior and maintaining social order. McCloskey's point is that people are often driven by values, beliefs, and ethical commitments—factors that cannot be reduced to simple material incentives. By dismissing the importance of ideas and language, neo-institutionalists miss a critical aspect of what actually drives human behavior and social cooperation.

13 Deirdre Nansen McCloskey challenges the neo-institutionalist view, particularly as articulated by Barry Weingast, that government power and its ability to enforce material incentives are essential for maintaining social order and promoting economic growth. She critiques this "legal centralism" by arguing that most social life is governed without direct government intervention and that norms, ethics, and social conventions, communicated through language and shared understandings, play a crucial role in maintaining order.

Key Points of McCloskey's Argument:

1. **Critique of Legal Centralism:** - McCloskey argues that "legal centralism," the belief that government authority and enforcement are necessary to maintain social order, has little empirical support. She contends that much of social life operates without government intervention and is guided by social norms, customs, and language. These "rules" are upheld by mutual understanding, shared values, and social conventions rather than by the direct exercise of governmental power.
2. **The Role of Language and Social Norms:** - McCloskey points out that social norms and the "language games" people play are powerful forces in regulating behavior. She refers to the experimental economist Bart Wilson's observation that concepts like "justice" exist as much in the shared language and social practices of a community as in the material interests or individual utilities of its members. Justice is not something that exists only in people's

minds; it is also shaped and expressed through the everyday use of language and social interaction.

- McCloskey suggests that concepts like justice, fairness, and trust are maintained and enforced through social norms and language, rather than solely through government-imposed rules or incentives. This challenges the neo-institutionalist assumption that government authority is the primary or necessary source of social order.

3. **Contradiction with Everyday Experience:** - McCloskey argues that Weingast's reliance on governmental power to explain social order contradicts ordinary experiences in any society. For example, in academic settings like the community of economic historians, rules of politeness, relevance, and scholarly conduct are maintained without any direct government intervention or coercive power. These rules are adhered to not because of external enforcement but because of shared understandings and social expectations.

4. **Historical Examples of Governance Without Government:** - McCloskey provides the example of 10th-century Iceland, which functioned as a society with minimal or absent government yet still maintained social order. Icelandic sagas like *Njáls Saga* illustrate that disputes, social norms, and justice were often resolved through personal agreements, community standards, and shared cultural values rather than formal government authority. For instance, the resolution of conflicts in the sagas involved negotiation, honor, and community consensus, not a centralized government's monopoly on violence.

- This example demonstrates that societies can be "governed" through social norms, customs, and language games rather than by the formal legal structures and enforcement mechanisms typically associated with government.

5. **Constitutions as Language Games:** - McCloskey challenges the notion that constitutions are purely formal, legal documents enforced by governmental power. Instead, she describes constitutions as "language games"—sets of agreements, understandings, and shared norms that govern behavior. The effectiveness of a constitution often depends on the willingness of people to adhere to its principles, which is shaped by social norms, ethical commitments, and cultural practices, rather than solely by the threat of force.

6. **Critique of the "Doorstep Condition":** - McCloskey critiques the "doorstep conditions" put forward by North, Wallis, and Weingast for transitioning to an "open access" society, particularly the third condition: "the absence of arbitrary or predatory behavior by the state." She argues that this condition is problematic because it assumes that the government, which is supposed to enforce these rules, will not itself engage in arbitrary or predatory behavior. This assumption contradicts much of what has been learned from political theory since Machiavelli and Hobbes, as well as from public choice theory, which suggests that governments often act in their own self-interest and may not always protect citizens' rights impartially.

7. **The Notion of "Self-Enforcing" Mechanisms:** - McCloskey addresses Weingast's idea that institutions must be "self-enforcing" to be effective, meaning that they must create their own incentives for compliance without requiring external enforcement. She notes that Weingast claims this concept of "self-

enforcing" institutions was not widely conceived before the *Federalist Papers*. McCloskey finds this claim surprising and suggests that it overlooks the many ways in which societies have historically maintained order and adherence to norms without formal, coercive enforcement mechanisms.

Examples and Broader Context:

- **Historical Examples of Non-Governmental Governance:** - McCloskey uses the example of 10th-century Iceland to show that social order can be maintained without a centralized government. In medieval Iceland, legal disputes were often settled through assemblies (things) where decisions were based on customary laws and community consensus, not by a centralized authority with a monopoly on violence. This example challenges the idea that a strong government is necessary for maintaining social order.

- **Constitution as a Language Game:** - By describing constitutions as "language games," McCloskey emphasizes that constitutions are not just formal documents enforced by the state but are also products of social agreements, norms, and shared understandings. The success of a constitution depends on the willingness of people to follow its principles and the ethical norms that underpin it, not merely on the government's ability to enforce it through coercion.

- **Public Choice Theory:** - Public choice theory, developed by scholars like James Buchanan, emphasizes that government officials are also motivated by self-interest and may not always act in the public's best interest. This theory challenges the assumption that governments are always benevolent enforcers of social order and highlights the potential for government failure, corruption, and arbitrary behavior.

McCloskey's argument critiques the neo-institutionalist view that governmental power and the enforcement of material incentives are essential for maintaining social order and promoting economic growth. She argues that most social life is governed without direct government intervention and that norms, ethics, and social conventions, communicated through language, play a critical role in regulating behavior. McCloskey suggests that relying solely on government enforcement overlooks the power of shared understandings, cultural practices, and social norms in shaping human behavior and maintaining order. She emphasizes that concepts like justice, fairness, and trust are not just products of formal institutions but are deeply embedded in the language games people play in everyday life.

14 Deirdre Nansen McCloskey criticizes Barry Weingast and other neo-institutionalists for relying on outdated or simplistic interpretations of economic history based on early modern theorists like Hobbes, Locke, and the authors of *The Federalist Papers*. She argues that this approach, common before the professionalization of historical scholarship, leads to erroneous conclusions about historical periods like the medieval era and misrepresentations of the state of law and property rights before events like the Glorious Revolution of 1688.

Key Points of McCloskey's Argument:

1. **Critique of Reliance on Early Modern Theorists:** - McCloskey argues that Weingast's understanding of economic history relies heavily on the views of early modern theorists such as Thomas Hobbes, John Locke, and the authors of *The Federalist Papers*. This method is reminiscent of a time before history became a professionalized academic discipline based on rigorous empirical evidence. She likens this approach to the use of foundational figures by both the left (Marx) and the right (Montesquieu) as authoritative historians, which can lead to simplistic and ideologically-driven narratives.

2. **Challenging the Claim About the Medieval World:** - McCloskey takes issue with Weingast's assertion that the medieval world lacked key features assumed by neoclassical economics, such as secure property rights, contract enforcement, the rule of law, and a lack of violence. She argues that this assertion is not supported by the work of medieval economic and social historians. In fact, these historians often find that property rights, contracts, and laws were more complex and robust in medieval societies than is commonly portrayed by neo-institutionalists.

3. **Critique of the "New Day" Thesis of 1688:** - McCloskey criticizes the argument made by Douglass North and Barry Weingast in their 1989 paper, which claims that the Glorious Revolution of 1688 marked a "New Day" for English law and governance by establishing secure property rights and laying the foundation for modern economic growth. This view has been widely accepted by many economists, including Daron Acemoglu, who, according to McCloskey, have not closely examined the historical evidence.

- She points out that many legal and economic historians, from Frederick Pollock and Frederic Maitland in the late 19th century to Harold Berman in the

21st century, disagree with the idea that English law was notably defective before 1688. These historians have found that English law was already relatively well-developed and that the Glorious Revolution did not represent a radical break in terms of the rule of law or property rights.

4. ****Lack of Evidence for the Absence of Rule of Law:**** - McCloskey challenges the notion that the rule of law was "noticeably absent" in societies outside of England before the rise of "open access orders." She specifically questions P.J. Hill's statement, which echoes North, Wallis, and Weingast, that the rule of law was absent in so-called "limited access orders" (more restrictive societies). She points to recent research by Metin Coşgel and Boğaç Ergene on 18th-century Ottoman Turkey, which demonstrates that the legal system there had elements of fairness and structure comparable to those in England at the same time.

- McCloskey argues that these findings reveal that the legal systems of different societies were often complex and could provide justice, even if not always equally or perfectly. She points out that bias in favor of the wealthy is not unique to any particular society or legal system, as even English law in the 18th century could be harsh towards the poor and favorable to the rich.

5. ****Misinterpretations of Historical Evidence:**** - McCloskey calls on economists and economic historians to stop relying on the "undocumented claim" by North and Weingast that English law was particularly flawed before the Glorious Revolution. She suggests that this view is not based on solid historical evidence and that it overlooks the complexities and nuances of legal systems in different historical contexts.

6. ****Use of Historical Examples:**** - To support her argument, McCloskey refers to various historical works that challenge the neo-institutionalist interpretation. For example, she cites the work of Pollock and Maitland, who documented the development of English common law, and Harold Berman, who explored the legal traditions of medieval Europe, to show that legal systems were more sophisticated and capable than neo-institutionalists often portray.

- She also points to the recent research by Coşgel and Ergene, which demonstrates that even in societies like the Ottoman Empire, often characterized by neo-institutionalists as lacking the rule of law, there were functioning legal systems that provided justice and regulated behavior effectively.

Examples and Broader Context:

- ****Legal and Economic Historians' Views:**** - McCloskey emphasizes that many respected historians have shown that legal systems before the modern era were more developed than often assumed. For example, the works of Pollock and Maitland highlight the complexity of English common law well before 1688, while Berman's research demonstrates that medieval European legal systems were already moving towards codified laws, procedures, and institutions that regulated social and economic life.

- ****Research on the Ottoman Empire:**** - The study by Metin Coşgel and Boğaç Ergene offers evidence that the Ottoman legal system in the 18th century functioned in ways comparable to Western legal systems in terms of adjudicating disputes and enforcing contracts. This contradicts the idea that the rule of law was absent in societies not following the English model of governance. Their

findings show that while legal systems might differ in form and practice, they could still function to maintain social order and provide justice.

- **Critique of Economic Historians' Reliance on Simplistic Models:** - McCloskey calls for a more nuanced understanding of legal and economic history, moving beyond simplified models or narratives like those put forward by North, Wallis, and Weingast. She argues that a careful reading of historical evidence reveals that different societies have found various ways to enforce rules, maintain property rights, and promote economic activity without necessarily fitting into a rigid framework that emphasizes a particular model of governance.

McCloskey challenges the neo-institutionalist interpretation that views the development of modern economic growth as fundamentally tied to specific events like the Glorious Revolution of 1688, which supposedly established secure property rights and the rule of law. She argues that this interpretation is based on a simplistic reading of history that lacks empirical support and overlooks the complexities of legal and economic systems across different societies and time periods. McCloskey calls for a more evidence-based approach that recognizes the diverse ways in which societies have maintained order and supported economic growth, rather than relying on narrow, ideologically-driven models that do not accurately reflect historical reality.

15 Deirdre Nansen McCloskey critiques the neo-institutionalist and conventional economic perspective that treats institutions as rigid, rule-based systems that operate mechanically, like fixed sets of steps in a dance. She argues that this view is too narrow and fails to capture the complexity, flexibility, and interpretive nature of social life, laws, and institutions.

McCloskey emphasizes the importance of norms, practices, and "language games" in shaping social order, suggesting that these elements are not fixed or formulaic but are instead fluid, interpretable, and subject to context.

Key Points of McCloskey's Argument:

1. **The Flexible Nature of "Language Games":** - McCloskey uses the concept of "language games," a term from philosopher Ludwig Wittgenstein, to illustrate that social rules and norms are not fixed and mechanical but are flexible, open to interpretation, and influenced by the context in which they are used. "Language games" refer to the ways in which words and expressions acquire meaning through their use in social interactions and practices, rather than through strict definitions or rules.

- This flexibility is why the United States has a Supreme Court: legal texts,

including the Constitution, require interpretation because their meaning is not always clear or straightforward. The law, like other "language games," is open to multiple interpretations depending on the norms, values, and perspectives of the interpreters.

2. ****Fareed Zakaria's Insight on Democratic Norms:**** - McCloskey cites Fareed Zakaria, who argues that what sustains democracy is not just legal safeguards and rules but also "norms and practices" of democratic behavior. Zakaria's observation underscores the importance of unwritten rules, conventions, and ethical standards that guide behavior in democratic societies. This supports McCloskey's argument that social order relies on more than just formal institutions; it depends on how people interpret and adhere to norms and practices.

- Zakaria's concern about the rise of "illiberal democracy" (where democratic forms are maintained, but democratic norms are eroded) illustrates the point that the mechanical application of rules is insufficient to sustain democracy if the underlying democratic norms and behaviors are not maintained.

3. ****James Davis on Morality and Social Conventions:**** - McCloskey refers to James Davis, a historian of the medieval English economy, who argues that understanding the morality and social conventions of the marketplace is crucial for understanding the influence of formal institutions like the assize of bread or guild rules. Davis notes that medieval England's "moral economy" was not a simple alignment of institutions and cultural beliefs but a complex mix of vested interests, pragmatism, and idealism, influenced by varying circumstances like trade pressures or religious teachings.

- This example shows that institutions and rules are interpreted and shaped by the social and moral contexts in which they operate. The effectiveness and meaning of rules depend on how they are understood and applied by people within their specific social and cultural settings.

4. ****Stanley Fish on Interpretation and Meaning:**** - McCloskey brings in Stanley Fish, a literary critic and public intellectual, who argues that the meaning of legal documents (or poems, in his analysis of John Milton) is largely shaped by "interpretive communities." These communities consist of people who share common ways of understanding and interpreting texts. Fish's point is that laws, like literature, do not have a single, fixed meaning but are understood differently by different groups, depending on their values, norms, and perspectives.

- McCloskey extends this idea to argue that law is an "ethical conversation" or even "a dance"—a dynamic and evolving process shaped by ongoing dialogue and interpretation, rather than a set of rigid, mechanical rules.

5. ****Critique of Economists' Narrow Definition of "Institutions":**** - McCloskey criticizes economists, particularly those influenced by the Samuelsonian tradition, for wanting to reduce the concept of "institutions" to a set of formulaic steps or rigid rules that are publicly known and mechanically followed. In this view, institutions are merely sets of constraints within which individuals maximize their utility (material incentives).

- She argues that this reductive view overlooks the complexity and interpretive nature of social interactions. Just as a dance cannot be fully captured

by a series of choreographed steps without the artistry of the dancer, social institutions cannot be fully understood as fixed sets of rules without considering the human actions, interpretations, and ethical commitments that give them meaning.

6. **The Importance of Interpretation and Human Agency:** - McCloskey uses the analogy of a dance by Bill Robinson or Fred Astaire to illustrate that while the steps of a dance can be described in a formulaic way, the dance itself is brought to life by the creativity, interpretation, and skill of the dancers. "It don't mean a thing if it ain't got that swing," she quotes, suggesting that just as a dance needs the artistry of the dancer, social life needs human interpretation and agency to be meaningful.

- She argues that reducing institutions to a mechanical set of rules ignores the role of human agency, creativity, and ethical reasoning in shaping social outcomes. Social norms, practices, and interpretations matter just as much—if not more—than the formal rules themselves.

Examples and Broader Context:

- **Supreme Court as an Example of Interpretative Law:** - The existence of the U.S. Supreme Court is evidence of the interpretative nature of law. Justices interpret the Constitution and other legal texts, and their decisions often hinge on differing interpretations of the same text. This process demonstrates that laws are not self-executing; they require human interpretation within specific social, political, and cultural contexts.

- **Democratic Norms Beyond Legal Safeguards:** - Zakaria's observation about "illiberal democracy" highlights the importance of democratic norms and practices that go beyond formal legal structures. The erosion of democratic norms, such as respect for a free press or fair elections, can undermine democracy even when formal rules remain in place, illustrating the limits of legalistic approaches to governance.

- **Historical Context of Medieval England:** - James Davis's study of medieval England illustrates that social order and market practices were influenced by a complex interplay of moral norms, social conventions, and varying circumstances. This historical example challenges the idea that formal institutions alone, such as guild rules or market regulations, were sufficient to maintain order and economic activity.

- **Interpretive Communities in Law and Literature:** - Stanley Fish's concept of "interpretive communities" suggests that meaning is not inherent in texts themselves but is created through the interpretations of those who read them. Applying this to law, McCloskey argues that the interpretation of laws depends on the communities that engage with them, making the law a dynamic, ethical conversation rather than a fixed set of rules.

McCloskey argues against the neo-institutionalist view that treats institutions as rigid, mechanical structures governed solely by formal rules and material incentives. She emphasizes the importance of norms, social practices, and interpretations in shaping social and economic outcomes. By likening social institutions to a "dance," she underscores that institutions are not just formulaic sets of rules but are given life and meaning by the people who participate in

them, interpret them, and engage with them. McCloskey calls for a broader understanding of social order that recognizes the power of language, norms, and human agency.

16 Deirdre Nansen McCloskey argues that an economics useful for understanding economic history cannot be reduced to the simplistic "Max U" (Maximum Utility) framework that has long dominated economic thought.

"Max U" represents a neoclassical model of human behavior where individuals are assumed to make choices solely to maximize their utility, given a set of constraints like budget lines and prices. McCloskey critiques this reductionist approach and advocates for a broader understanding of human motivation that includes ethical considerations, social norms, and the influence of laws and state power.

Key Points of McCloskey's Argument:

1. ****Critique of the "Max U" Framework:**** - McCloskey challenges the dominant economic framework of "Max U," which treats all human decisions as the outcome of rational utility maximization, constrained by budget lines and prices. This framework is ingrained in economists from early in their education, leading them to view it as a comprehensive theory of choice that applies universally to all aspects of human behavior.

- She reflects on her own experience, admitting that before 1983, she too was caught in this mindset, focusing only on the virtue of Prudence (making rational decisions to maximize personal benefit) in her economic history work. However, she came to realize that this view was too narrow and failed to account for other virtues, like Temperance (self-control), Love (compassion), and Justice, which are crucial for understanding many economic problems.

2. ****Importance of Ethical and Moral Considerations:**** - McCloskey suggests that economists need to recognize that human choice is often an exercise in ethical identity, not merely a mechanical response to budget constraints. She points to the opening pages of Aristotle's *Nicomachean Ethics*, the "Exodus" in the Bible, and the Hindu *Mahabharata* as examples of texts that depict human choices as moral and ethical struggles rather than purely economic decisions. These examples illustrate that real-life decision-making involves a complex interplay of virtues and values that go beyond the economic calculation of costs and benefits.

3. ****Critique of Neo-Institutionalist Interpretation of Institutions:**** - McCloskey references Joel Mokyr, who, while praising Douglass North's contributions to understanding institutions, describes institutions as "incentives and constraints" that society imposes on individual behavior, similar to prices in a competitive market. This interpretation treats institutions as mere extensions

of the "Max U" framework, reducing them to factors that shape behavior by altering the costs and benefits associated with different choices.

- Mokyr's view, McCloskey argues, is too neat and simplistic because it assumes that institutions function just like prices in a market—externally imposed constraints that individuals must accept and navigate without being able to change them. She suggests that this ignores the complex and often ambiguous ways in which institutions actually operate, requiring interpretation, negotiation, and adaptation by the people living within them.

4. **"Inclusion of 'S Variables' and 'L Variables':"** - McCloskey argues that human behavior is influenced not only by the "P variables" (Price, Property, Profit, Prudence) that represent material incentives but also by "S variables" (Speech, Stories, Shame, the Sacred) and "L variables" (Legal rules, the use of state power, the monopoly of violence). The "S variables" capture the cultural, ethical, and rhetorical factors that shape human motivation, such as narratives, social norms, and moral values. The "L variables" represent the legal frameworks and state enforcement mechanisms that also influence behavior.

- She points out that these three sets of variables are interconnected, not independent or "orthogonal" from each other. For a comprehensive understanding of economic history, all three dimensions—material incentives, ethical and social norms, and legal frameworks—must be considered. Ignoring any one of these dimensions would lead to biased and incomplete interpretations.

5. **"Technical Argument Against Simplistic Models:"** - McCloskey argues that using only one set of variables, like the material incentives of "Max U," results in models that are "biased and inconsistent." In statistical terms, this means that the model would fail to accurately capture the true relationships between different factors influencing human behavior and economic outcomes. To provide a correct and complete analysis, economic historians must consider all relevant influences—economic, ethical, and legal.

Examples and Broader Context:

- **"Ethical and Moral Choices in Historical Texts:"** - McCloskey uses classic texts, such as Aristotle's *Nicomachean Ethics*, the Biblical story of the Exodus, and the *Mahabharata*, to illustrate that human choices are deeply influenced by ethical and moral considerations. These texts depict decision-making as a complex negotiation of values, responsibilities, and ethical dilemmas, rather than as mere calculations of utility.

- **"The Limits of 'Max U' in Explaining Human Behavior:"** - The "Max U" framework, which assumes individuals act solely to maximize their utility, is inadequate for explaining the full range of human motivations and actions. For example, decisions made out of love, compassion, or a sense of justice cannot be easily reduced to calculations of personal gain or utility.

- **"Role of Institutions Beyond Material Incentives:"** - McCloskey challenges Mokyr's interpretation of institutions as mere budget lines that constrain behavior. She argues that institutions are more than just material incentives; they are also social constructs shaped by cultural practices, ethical norms, and the ways in which people interpret and apply rules in real-life situations. Institutions are dynamic and require interpretation, which is influenced by the

values and beliefs of the people within them.

- ****Integration of Multiple Influences on Behavior:**** - McCloskey emphasizes that to understand economic history fully, one must account for the interplay between material incentives (P variables), cultural and ethical considerations (S variables), and legal and political frameworks (L variables). She suggests that economists who fail to recognize the complexity and interdependence of these factors will produce flawed analyses that do not capture the real drivers of historical economic change.

17 Deirdre Nansen McCloskey critiques the framework proposed by Douglass North, John Wallis, and Barry Weingast (often referred to as NWW) regarding the transition to liberal economies and societies.

NWW suggest that there are three "doorstep conditions" that must be met for a society to transition to an "open access" order, which is a precursor to liberal economic growth. McCloskey argues that these conditions are not as unique or rare as NWW claim and that the real driver of the transition to modern economic growth was the emergence of liberal ideas, rather than the institutional changes NWW emphasize.

Key Points of McCloskey's Argument:

1. ****Critique of the "Doorstep Conditions":**** - North, Wallis, and Weingast propose three "doorstep conditions" necessary for the transition to a liberal economy: 1. The rule of law for elites. 2. A perpetually lived state and organizations. 3. Control over the various sources of violence. - McCloskey argues that these conditions are not unique or rare in history. She contends that such conditions have been observed in many societies throughout history, far beyond the few examples NWW focus on (England, France, and the USA). For example, similar conditions existed in fourth-century Athens, the Roman Republic, ancient Israel, Song China, and Tokugawa Japan.

2. ****The Ubiquity of "Doorstep Conditions":**** - McCloskey challenges NWW's assertion that these "doorstep conditions" are unique to a small number of states and necessary for modern economic growth. She points out that these conditions have existed in numerous societies across different times and places, yet most of these societies did not experience the kind of sustained economic growth and liberalization that occurred in northwestern Europe around 1800.

- McCloskey argues that what was different in northwestern Europe was not the presence of these conditions but rather the new ideology of liberalism that emerged. This ideology emphasized liberty, equality, and justice for all, which was not "in play" in other societies where the "doorstep conditions" were also present.

3. ****Refutation of the Necessity of Institutional Embodiment:**** - Mc-

McCloskey refutes the idea that ideas must be embodied in institutions to have an impact. She argues that this is false because institutions often slow down change rather than facilitating it. Contrary to what NWW suggest, she believes that ideas themselves can drive change directly without always needing to be formalized in institutions.

- Furthermore, McCloskey challenges the idea that institutions like private property always require government enforcement. She argues that property rights and other institutional arrangements have existed in many societies without always needing government backing.

4. **Questioning the Material Explanation of Growth:** - McCloskey critiques NWW's "tough-guy materialist" stance, which emphasizes material factors such as property rights and the control of violence in explaining the transition to open access societies. She argues that when NWW discuss the actual transition to "open access societies," they inevitably end up using ideational terms, such as "the transformation in thinking," "a new understanding," "the language of rights," and "the commitment to open access."

- These phrases, McCloskey points out, suggest that NWW's explanation is fundamentally ideational rather than material. They are acknowledging, perhaps unintentionally, that the real change was in the realm of ideas and discourse ("sweet talk") as much as in material interests and institutional changes.

5. **The Special Ingredient Around 1800:** - McCloskey argues that if the "Great Enrichment"—the dramatic rise in economic growth and prosperity that began around 1800—required some "Special Ingredient," it was not the mere presence of NWW's "doorstep conditions," which were present in many societies throughout history. Instead, the crucial ingredient was the emergence of liberal ideas that promoted equality, liberty, and justice for all.

- She maintains that earlier societies had repeatedly seen economic growth and democracy stifled or "malnourished" because they lacked these liberal ideas. It was the ideology of liberalism, unique to northwestern Europe, that allowed these societies to finally achieve sustained economic growth.

6. **Concession and Misunderstanding by Weingast:** - McCloskey points out that Weingast, in attempting to refute her, actually concedes her main point. He acknowledges that many societies throughout history, from ancient Israel to the Roman Republic, had attained the "doorstep conditions" but did not experience the Great Enrichment before 1800. However, he misses McCloskey's argument that these societies did not experience this growth precisely because they lacked the liberal ideas that emerged in the 18th and 19th centuries in northwestern Europe.

Examples and Broader Context:

- **Widespread Presence of "Doorstep Conditions":** - McCloskey argues that NWW's "doorstep conditions" have been met in many societies throughout history, such as ancient Athens, the Roman Republic, and various Chinese dynasties. Despite meeting these conditions, these societies did not experience the sustained economic growth seen in the West around 1800, indicating that these conditions alone are not sufficient for such growth.

- **Importance of Liberal Ideology:** - McCloskey emphasizes that what

made the difference in northwestern Europe was not the mere existence of NWW's "doorstep conditions" but the adoption of a liberal ideology that prioritized equality, liberty, and justice for all. This ideological shift fostered an environment that encouraged innovation, risk-taking, and economic growth, leading to the Great Enrichment.

- **Critique of Neo-Institutionalist Materialism:** - McCloskey critiques NWW's focus on material explanations for the transition to modern economic growth. She argues that their own language betrays an underlying recognition of the importance of ideas and rhetoric. Despite their attempt to frame their explanation in material terms, they end up highlighting the role of changing ideas and discourses in facilitating the transition to open access societies.

McCloskey challenges the neo-institutionalist view that the "doorstep conditions" identified by North, Wallis, and Weingast are unique, rare, or necessary preconditions for modern economic growth. She argues that these conditions have existed in many societies throughout history, yet only in northwestern Europe did the emergence of liberal ideas lead to the Great Enrichment. McCloskey critiques the materialist focus of NWW and highlights the critical role of ideas and ideologies in shaping economic and social outcomes. She suggests that it was not the presence of certain institutional conditions, but rather the spread of liberal ideas, that enabled the unprecedented economic growth that began around 1800.

18 Deirdre Nansen McCloskey argues that the neo-institutionalist approach, which focuses on the design of formal institutions and legal mechanisms, is insufficient to explain the sustained presence of liberty and equality in society. She challenges the idea that institutional design alone—like the U.S. Constitution—is enough to guarantee or maintain these values, emphasizing instead the crucial role of ideas, beliefs, and cultural change.

Key Points of McCloskey's Argument:

1. **Critique of the Neo-Institutionalist Belief in Institutional Design:**
- McCloskey criticizes the neo-institutionalist belief that the proper design of institutions can ensure liberty and equality. For example, she cites Barry Weingast's claim that James Madison and his coauthors in *The Federalist Papers* figured out how to design and sustain a regime of liberty and equality. This perspective suggests that the U.S. Constitution, through its structure and rules,

automatically guarantees these values.

- McCloskey argues that this view is overly simplistic and overlooks the complexities and contradictions inherent in the Constitution and its historical context. She challenges the idea that a legal framework alone can ensure the protection of values like liberty and equality, pointing out that the Constitution itself contains provisions that contradict these ideals.

2. ****Constitutional Contradictions:**** - McCloskey points to specific examples within the U.S. Constitution that demonstrate its failure to embody a complete commitment to liberty and equality. For instance, she mentions Article IV, Section 2, Clause 2—the Fugitive Slave Clause—which required that escaped enslaved people be returned to their enslavers. This clause directly contradicts the principle of liberty by upholding and protecting the institution of slavery.

- She also notes that the Constitution lacks any provision or clause recognizing the rights of women, reflecting the exclusion of half the population from political and legal equality at the time of its drafting. These examples show that the U.S. Constitution, despite its design, did not fully ensure the values of liberty and equality for all people.

3. ****Limitations of Institutional Mechanisms:**** - McCloskey suggests that the reliance on institutional mechanisms and legal frameworks is inadequate to guarantee liberty and equality because such mechanisms are often incomplete, flawed, or subject to reinterpretation and change. The election of Donald Trump, for example, is used to illustrate how formal democratic processes do not always result in leaders who support or uphold these values. This point also echoes Fareed Zakaria's warning about "illiberal democracy," where democratic forms are maintained while democratic norms erode.

4. ****The Power of Ideas and Beliefs:**** - McCloskey argues that ideas and beliefs are fundamental to shaping the reality of liberty and equality. For example, the idea that "a subject and a sovereign are clean different things" or that "all men are created equal" reflects philosophical and moral beliefs that have significantly influenced political and social developments. These ideas are not static; they evolve, are debated, and can either strengthen or weaken over time.

- McCloskey emphasizes that the real driver of sustained liberty and equality is the ongoing commitment to these ideas and the cultural context in which they are maintained or challenged. Legal and institutional frameworks alone are insufficient without the support of evolving ideas and beliefs that underlie and inform them.

5. ****The Need for Cultural and Ideational Change:**** - McCloskey highlights the importance of cultural and ideational factors in sustaining liberty and equality. While neo-institutionalists often focus on the mechanics of governance and the structure of institutions, McCloskey argues that it is ultimately the beliefs, norms, and ideas circulating within society that determine whether these values are upheld.

- The reference to Fareed Zakaria's concerns about "illiberal democracy" illustrates how even when democratic institutions are in place, the absence of a cultural commitment to democratic norms and values can lead to their erosion.

Examples and Broader Context:

- **Fugitive Slave Clause and Women's Rights:** - McCloskey uses the Fugitive Slave Clause and the absence of any clause on women's rights in the original U.S. Constitution as examples of how the document, despite its aim to promote liberty and equality, contained provisions and omissions that were antithetical to these principles. These contradictions demonstrate that institutional design alone does not ensure the full realization of liberty and equality.

- **Election of Donald Trump and "Illiberal Democracy":** - The election of Donald Trump serves as an example of how formal democratic institutions (like free elections) do not automatically guarantee that leaders who respect democratic norms and values will be elected. This reflects the concern that democracy requires more than just institutional mechanisms; it also needs a culture that values and practices democratic behaviors.

- **Importance of Evolving Ideas:** - The ideas that "a subject and a sovereign are clean different things" and "all men are created equal" represent significant shifts in political thought that have helped shape modern democratic societies. These ideas emerged from historical struggles and debates and continue to be central to discussions about governance and rights. McCloskey argues that it is these ideas, rather than formal institutions alone, that sustain the values of liberty and equality.

McCloskey argues that the neo-institutionalist focus on institutional design is insufficient to ensure or sustain the values of liberty and equality. While institutions and legal frameworks are important, they are not enough by themselves. Real change and sustained commitment to these values come from the power of ideas, beliefs, and cultural practices. McCloskey emphasizes that it is the ongoing evolution of ideas and the cultural commitment to principles like liberty and equality that ultimately determine whether they are upheld in practice. Institutions alone cannot guarantee these values; they require a supportive ideological and cultural environment to thrive.

19 Deirdre Nansen McCloskey responds to Barry Weingast's critique of her position on the role of institutions in promoting liberty, equality, and economic growth.

Weingast appears to misunderstand McCloskey's argument, thinking she claims that liberty and equality can exist entirely apart from institutions. McCloskey clarifies that while she acknowledges the importance of institutions like the rule of law and the separation of powers, she argues that these institutions alone are not sufficient to explain the extraordinary economic growth and creativity that characterized the Great Enrichment around 1800 in northwestern Europe. Instead, she emphasizes the crucial role of a shift in ideology—specifically, the rise of liberal ideas.

Key Points of McCloskey's Argument:

1. **Misinterpretation of McCloskey's Position:** - Weingast criticizes what he perceives to be McCloskey's position: that liberty and equality can exist without institutions. However, McCloskey clarifies that this is not her argument. She does not deny the importance of institutions such as the rule of law or the separation of powers; rather, she argues that these institutions, while valuable, are "commonplace" and not sufficient by themselves to explain the economic transformation of the Great Enrichment.

2. **Commonplace Nature of Institutions:** - McCloskey points out that the institutions admired by both her and Weingast, such as the rule of law and the separation of powers, have existed in various forms throughout history. For example, Genghis Khan enforced the rule of law strictly among the Mongol tribes, and the Roman Republic had a separation of powers with three branches of government. However, these institutional features did not lead to sustained economic growth or the kind of transformative creativity seen in northwestern Europe around 1800.

3. **The Role of Liberal Ideas in the Great Enrichment:** - McCloskey argues that what made the difference around 1800 in northwestern Europe was not the mere presence of institutions but the emergence of a new liberal ideology. This liberal idea inspired ordinary people to extraordinary levels of creativity, which fueled the economic growth known as the Great Enrichment. The liberal ideas of liberty and equality, she contends, sufficed to encourage this creativity and innovation.

- She contrasts this with Weingast's position, which suggests that liberal values need to be "embodied and implemented through institutions" to drive economic growth. McCloskey disagrees, arguing that while institutions can play a role, they are not the primary drivers. Instead, the shift in social and political rhetoric—toward liberty, dignity, and equality—was key to fostering the conditions for growth.

4. **Critique of the Smithian Explanation for Economic Growth:** - Weingast seems to align with a more conventional economic view, derived from Adam Smith, which holds that economic growth is driven by factors like the division of labor and capital accumulation, enabled by appropriate institutions. McCloskey argues that this "Smithian idea" is inadequate to explain the Great Enrichment, pointing out that while these factors might contribute to growth, they cannot account for the extraordinary leap in human creativity and economic development seen in this period.

- McCloskey suggests that institutions such as patents, internal improvements, and other government interventions are often obstacles rather than facilitators of creativity. She argues that liberty itself is sufficient to foster creativity, challenging the idea that institutions are necessary to reward or incentivize problem-solving.

5. **Dependence on Ideology:** - McCloskey emphasizes that changes in capital, institutions, and even the reduction of government-sponsored exploitation (e.g., the ending of serfdom in Denmark, mine slavery in Scotland, and forced labor in Sweden) were themselves dependent on shifting ideology. She

uses the term "social and political rhetoric" to describe how changes in ideas, beliefs, and discourse—what people talked about, believed in, and advocated for—were the true drivers of economic growth, rather than merely the formal institutions in place.

- She draws on Marxist language to make her point that the material and institutional changes associated with economic growth were underpinned by ideological shifts, arguing that growth did not depend solely on institutions, which were common to various historical contexts like ancient Greece, Song China, and 18th-century Europe.

6. ****Reframing the Role of Institutions:**** - While Weingast seeks to incorporate McCloskey's arguments into his own by stating that liberty and equality, when "embodied and implemented through institutions," lead to economic growth, McCloskey argues that this misses the central role of ideology. She contends that institutions are not sufficient on their own and that their effectiveness depends on the underlying cultural and ideological shifts that support them.

- For McCloskey, it is the change in rhetoric—ideas, language, and discourse—that has the most significant impact on social and economic transformation. She argues that the institutions valued by neo-institutionalists often lag behind or even obstruct the social changes driven by shifts in ideas.

Examples and Broader Context:

- ****Historical Examples of Institutions and Ideological Change:**** - McCloskey references historical examples to illustrate that institutions like the rule of law and separation of powers existed long before the Great Enrichment. For example, Genghis Khan's enforcement of law among the Mongols and the Roman Republic's separation of powers did not lead to the kind of economic growth seen in 19th-century Europe. This suggests that these institutions, while important, were not sufficient drivers of transformative growth.

- ****Shifting Ideologies in Northwestern Europe:**** - McCloskey argues that the difference in northwestern Europe around 1800 was the rise of a liberal ideology that valued liberty, equality, and justice for all. This ideological shift inspired ordinary people to innovate and create, leading to the unprecedented economic growth of the Great Enrichment. Without this change in ideas, the institutional frameworks alone could not have achieved the same results.

- ****Critique of Conventional Economic Explanations:**** - By challenging the conventional Smithian view that growth results from factors like capital accumulation and the division of labor, McCloskey argues that the real drivers of growth are ideational. The creative and innovative potential unleashed by the liberal ideology was far more significant than the mechanical effects of institutional arrangements.

McCloskey's argument emphasizes that while institutions like the rule of law and separation of powers are valuable, they are not sufficient to explain the Great Enrichment or the sustained economic growth and creativity observed around 1800 in northwestern Europe. She argues that it was the shift in ideology toward liberal ideas of liberty, equality, and justice that truly inspired extraordinary levels of innovation and growth. McCloskey challenges the neo-institutionalist focus on institutions as the primary drivers of economic outcomes, arguing in-

stead that changes in social and political rhetoric—shaped by evolving ideas and beliefs—were crucial in bringing about the historical transformation known as the Great Enrichment.

20 Deirdre McCloskey's critique of Douglass North, John Wallis, and Barry Weingast (often abbreviated as NWW) centers on their explanation of the historical transition to liberalism, particularly in their book **Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History (2009).**

McCloskey argues that although North, Wallis, and Weingast present themselves as "tough-guy materialists" focused on material interests, institutions, and economic incentives, they inadvertently acknowledge the crucial role of ideas, rhetoric, and ideology in explaining the transition to open and liberal societies.

Key Points of McCloskey's Critique:

1. ****Materialist Framework vs. Ideational Explanations:**** - McCloskey notes that North, Wallis, and Weingast initially frame their analysis within a materialist perspective. They emphasize economic incentives, institutional changes, and power dynamics as the primary drivers of historical transitions. Their work relies heavily on concepts from economics, such as utility maximization (Max U) and non-cooperative game theory, which focus on self-interested behavior and strategic decision-making. This materialist approach is common among economic historians who seek to explain societal changes through concrete, measurable factors like resources, wealth, and institutional arrangements.

2. ****Recognition of Ideational Changes:**** - Despite their materialist orientation, McCloskey points out that North, Wallis, and Weingast eventually concede that ideational factors—changes in ideas, beliefs, and rhetoric—played a significant role in the "transition proper" to liberalism. They describe this transition in terms such as "the transformation in thinking," "a new understanding," "the language of rights," and "the commitment to open access." These terms suggest that shifts in the way people thought and talked about governance, rights, and social arrangements were central to the emergence of open access societies, which McCloskey identifies as liberal societies.

3. ****Ideology as a Causal Factor:**** - McCloskey argues that North, Wallis, and Weingast, perhaps without realizing it, acknowledge that the root cause of the shift toward liberalism was a change in ideology. This ideational shift included new ways of understanding society, governance, and individual rights that emerged in Britain, France, the United States, and elsewhere. McCloskey suggests that such explanations align more with the "school of ideational eco-

nomics," which emphasizes the power of ideas, rhetoric, and discourse in driving economic and social change. Scholars like Joel Mokyr, Jack Goldstone, Margaret Jacob, and Eric Jones, along with McCloskey herself, argue that ideas and language play a central role in shaping economic and social transformations.

4. **The Power of Rhetoric and Ideas:** - McCloskey emphasizes that "sweet talk," or the persuasive power of rhetoric and discourse, is as important to economic growth and societal change as material interests and institutional factors. She suggests that the widespread acceptance of liberal ideas—such as equality before the law, freedom of speech, and open markets—was not merely a byproduct of material changes or economic incentives but a driver of those changes. According to McCloskey, the transformation of societies into open access orders involved not just new institutions but also a profound change in the way people talked about rights, governance, and the role of the individual in society.

5. **Contradiction in NWW's Analysis:** - McCloskey critiques North, Wallis, and Weingast for an apparent contradiction in their analysis. On the one hand, they present themselves as relying on a purely materialist framework, focused on institutions, interests, and economic incentives. On the other hand, they describe crucial moments of change using ideational language, acknowledging that shifts in rhetoric and understanding were fundamental to the development of liberal societies. McCloskey argues that their materialist framework cannot fully account for these ideational shifts, which are better explained by theories that recognize the autonomous power of ideas and beliefs.

6. **Support from Ideational Economists and Social Historians:** - McCloskey aligns herself with other scholars who emphasize the role of ideas in economic and social change. Joel Mokyr, for instance, has written extensively on how Enlightenment ideas about progress, science, and innovation spurred the Industrial Revolution. Jack Goldstone and Margaret Jacob have highlighted the importance of intellectual and cultural movements in fostering economic growth and political transformation. McCloskey places herself within this tradition, arguing that the liberal economic order emerged not just from changes in material conditions or institutions but from a broader cultural shift in favor of individual rights, free markets, and democratic governance.

Examples of Ideational Shifts:

- **The Enlightenment:** The period known as the Enlightenment (17th-18th centuries) exemplifies how ideas can transform societies. Thinkers like John Locke, Voltaire, and Adam Smith introduced new concepts of human rights, liberty, and free markets that directly influenced political revolutions and the development of liberal democracies. These changes in thinking laid the groundwork for modern institutions like constitutional government, rule of law, and market economies.

- **The Language of Rights in the American and French Revolutions:** Both the American and French Revolutions were driven by powerful ideas about individual liberty, equality, and justice. The Declaration of Independence (1776) and the Declaration of the Rights of Man and Citizen (1789) articulated new ways of thinking about human rights and governance, helping to establish so-

cieties based on democratic principles and the rule of law. These documents did more than express existing interests; they shaped new political realities by changing how people conceived of their relationship to the state and each other.

- ****Shift from Authoritarianism to Liberal Democracy:**** Throughout the 19th and 20th centuries, numerous countries transitioned from authoritarian regimes to liberal democracies, often driven by changing ideas about governance, civil rights, and individual freedoms. In Eastern Europe after the fall of the Soviet Union, for example, the desire for freedom, democracy, and market economies was fueled by a growing belief in liberal values and the rejection of authoritarian ideologies.

McCloskey's critique of North, Wallis, and Weingast highlights the importance of ideas, rhetoric, and ideology in understanding historical transitions to liberalism. She argues that while these scholars set out to provide a materialist explanation for the rise of open access societies, they inadvertently acknowledge the crucial role of ideational factors—such as changes in thinking, language, and understanding. McCloskey contends that these shifts in ideas, rather than merely changes in material interests or institutional structures, were fundamental to the development of liberal societies, aligning with the perspectives of scholars who emphasize the power of ideas in shaping economic and social change.

- 21 In **Beyond Positivism, Behaviorism, and Neoinstitutionalism in Economics**, Deirdre Nansen McCloskey critiques the prevailing trends in modern economics, particularly the behaviorist positivism and neo-institutionalism that have dominated the field since the 1930s. McCloskey argues that these approaches have led economics away from a focus on the “liberated human” and have instead adopted an authoritarian perspective that treats individuals as objects to be analyzed and manipulated from the outside. She calls for a return to a more human-centered approach, which she terms “humanomics,” that incorporates a broader range of human experiences and recognizes the role of ideas, ethics, and narratives in economic life.

Main Critiques of Positivism and Neo-institutionalism:

1. ***Critique of Behaviorist Positivism:*** - McCloskey critiques behaviorist positivism, which has been a dominant methodology in economics since the 1930s. This approach treats individuals as passive subjects whose behaviors can be predicted and manipulated through external forces, similar to the behaviorist approach in psychology that focuses solely on observable actions rather than internal states like thoughts or feelings. Positivism in economics emphasizes empirical data, statistical analysis, and mathematical modeling, often reducing human behavior to quantifiable variables. McCloskey argues that this approach “treats people from the outside,” stripping away the complexity, creativity, and agency that define human life. Instead of viewing individuals as active, thinking agents, behaviorist positivism treats them as mere data points to be controlled or predicted.

2. ***Critique of Neo-institutionalism:*** - McCloskey also takes issue with the neo-institutionalism of economists like Oliver Williamson and Douglass North. Neo-institutionalism focuses on the role of institutions—formal rules, laws, organizations, and informal norms—in shaping economic behavior and outcomes. While acknowledging the importance of institutions, McCloskey argues that neo-institutionalism often adopts a manipulative stance, seeing institutions as tools to be engineered or adjusted to achieve desired economic

outcomes. She critiques this view for being overly mechanistic and deterministic, failing to account for the deeper, more dynamic aspects of human behavior and social life.

3. ****Institutions as Intermediate, Not Ultimate, Causes:**** - McCloskey contends that institutions should not be seen as the ultimate causes of economic development or behavior; rather, they are intermediate and temporary. Institutions, she argues, are human-made constructs that depend on a range of cultural, social, and ideological factors—such as words, myths, ethics, ideologies, histories, identities, and even gossip or movies. These cultural elements shape how institutions are created, understood, and maintained. McCloskey points out that human societies constantly evolve their institutions through conversation, interpretation, and negotiation. Therefore, focusing on institutions as the primary drivers of economic outcomes ignores the more fundamental role of human creativity, communication, and ideas.

Proposal for "Humanomics":

1. ****Introduction of Humanomics:**** - To counter the limitations of behaviorist positivism and neo-institutionalism, McCloskey proposes "humanomics," an economics that brings humans back into the center of economic analysis. Humanomics keeps many of the traditional tools of economics, such as theory, quantification, experiments, mathematics, and econometrics, but calls for more rigorous application and a broader scope. It challenges the reductionist approach that treats people merely as economic agents driven by material incentives, advocating instead for a richer understanding that incorporates insights from history, philosophy, literature, and other humanities and social sciences.

2. ****Incorporating a Broader Range of Human Experiences:**** - Humanomics emphasizes the importance of understanding the economy as a human activity shaped by culture, ethics, values, and narratives. McCloskey argues that economic life is deeply intertwined with the stories people tell themselves and each other, the ethical frameworks they adopt, and the historical contexts in which they live. She advocates for an interdisciplinary approach to economics, where lessons from the humanities are integrated into economic thinking. This approach would offer a more comprehensive understanding of human behavior, one that recognizes the importance of ideas, values, and social contexts alongside material incentives.

3. ****Reaffirmation of Market-Tested Innovation:**** - McCloskey reaffirms her belief in "market-tested innovation" as a driving force behind economic growth and human progress. She argues that the continuous process of innovation, driven by free markets and entrepreneurial activity, has led to remarkable improvements in human welfare over the past few centuries. McCloskey challenges the notion that market imperfections require correction by a "perfect government," suggesting that government interventions often lack the flexibility, information, and incentives to foster innovation effectively. Instead, she believes that innovation thrives best in environments where individuals are free to experiment, take risks, and exchange ideas.

4. ****Rebuilding the Foundations of Economics:**** - With her characteristic zeal and incisive wit, McCloskey calls for a rebuilding of the foundations of

economics to better reflect the complexities of human life. She argues that economics needs to move beyond its narrow focus on materialist explanations and mechanistic models to embrace a broader vision that recognizes human dignity, creativity, and freedom. McCloskey insists on the importance of "sweet talk," or the role of rhetoric and dialogue in economic life, as a force that shapes human behavior and social change just as much as material interests or institutional structures. She advocates for a more human-centered economics that respects the diversity of human motivations and the power of ideas.

Examples and Applications of McCloskey's Humanomics:

- **The Role of Rhetoric in Economic Change:** McCloskey points out that much of economic growth and societal progress cannot be explained solely by material factors. For example, the Industrial Revolution and the subsequent "Great Enrichment" were driven not just by technological advancements and capital accumulation but also by a profound shift in societal attitudes and ideas about innovation, entrepreneurship, and the dignity of the bourgeoisie. The cultural embrace of market-tested innovation and the celebration of individual achievement were crucial elements that fostered economic dynamism.

- **Understanding Economic Behavior Through Literature and Philosophy:** McCloskey suggests that economists can learn much about human behavior by engaging with works of literature, philosophy, and history. For instance, novels like Jane Austen's *Pride and Prejudice* can offer insights into social norms, economic behaviors, and the negotiation of values in a market economy. Philosophical works, such as those by Adam Smith or David Hume, can provide a deeper understanding of the ethical underpinnings of economic life, beyond mere self-interest.

- **Critique of Overreliance on Mathematical Models:** While McCloskey does not reject the use of mathematics and econometrics, she criticizes the overreliance on formal models that often ignore the nuances of human behavior. She argues that models should be tools for understanding the complexities of human life, not ends in themselves. For example, she suggests that purely quantitative analyses of markets, which ignore cultural and social factors, fail to capture the full range of human motivations and actions.

In *Beyond Positivism, Behaviorism, and Neoinstitutionalism in Economics*, Deirdre Nansen McCloskey critiques the authoritarian tendencies of recent economic thought, particularly the behaviorist and neo-institutionalist approaches that dominate the field. She argues for a return to a more human-centered economics—"humanomics"—that integrates the insights of history, philosophy, literature, and the broader humanities. McCloskey contends that institutions are not ultimate causes of economic outcomes; they are human-made and shaped by ideas, ethics, and social narratives. She calls for an economics that recognizes the complexity and richness of human life, values, and creativity, thereby rebuilding the discipline on a more comprehensive and inclusive foundation.

- 22 Deirdre McCloskey, in her analysis of economic history, aligns herself with what she calls the "Ideational School," a group of scholars that includes Joel Mokyr, Margaret Jacob, Jack Goldstone, and occasionally Eric Jones. This school emphasizes that the central driver of economic growth, particularly the extraordinary economic growth witnessed since the 18th century, is not merely routine changes in economic institutions, investment, or property rights. Instead, they argue that the heart of economic growth lies in radical changes in technology and ideas, as well as a cultural shift toward liberalism that encouraged innovation and creativity.

Key Points of McCloskey's Statement:

1. **The Role of Radical Technological Change:** - McCloskey argues that the primary driver of economic growth has been radical changes in technology. She points to transformative inventions and innovations such as the steam engine, general anesthetic, and printed circuits as examples of technological advancements that have drastically increased production possibilities and improved standards of living. The "Ideational School" contends that these technological changes have had a far more significant impact on economic growth than routine economic activities or institutional changes.

2. **Secondary Role of Changes in Economic Institutions:** - While acknowledging that changes in some economic institutions have contributed to growth, McCloskey asserts that these changes have played a secondary role compared to technological innovation. She cites examples like the development of the engineering profession, forward markets, branding, and containerization as institutional changes that have facilitated economic progress. However, she downplays the impact of what she refers to as the "formal rules of the game"—the established legal and regulatory frameworks that economists often credit for fostering economic growth.

3. **Critique of Traditional Economic Explanations:** - McCloskey critiques the traditional explanations in economic history that attribute growth to routine investment, specialization, or improvements in property rights. Since Adam Smith's time, economists have tended to credit these factors for economic development. Similarly, Marxist economists have focused on the appropriation of

surplus value or the redistribution of wealth through labor struggles. McCloskey argues that these factors, while relevant, cannot adequately explain the unprecedented increase in economic output—measured in thousands of percent—since the Industrial Revolution.

- She points out that the improvement in property rights that economists like Douglass North and Barry Weingast attributed to England's Glorious Revolution (1688) might explain a moderate increase in economic growth (e.g., 50 to 100 percent), but it cannot account for the massive and sustained economic expansion seen since 1800. This expansion, which she terms the "Great Enrichment," requires a different explanation—one that focuses on the transformative power of ideas, innovation, and liberal values.

4. **The Greatness of the "Great Enrichment":** - McCloskey emphasizes the magnitude of the economic growth that has occurred since the 1800s, which she calls the "Great Enrichment." She argues that this growth is of such a scale that it cannot be explained by "routine" factors such as accumulation of capital, property rights improvements, or redistribution of resources. The increase in production possibilities per person has been on the order of thousands of percent, far beyond what these conventional factors can account for. For McCloskey, the "Great Enrichment" is the result of something much more profound: a cultural and ideological shift that led to a burst of technological ingenuity and innovation.

5. **The Role of Liberalism in Economic Growth:** - McCloskey argues that the key to understanding the "Great Enrichment" lies in a set of accidents in European politics that led to the rise of liberalism—a political and cultural movement emphasizing individual freedom, free markets, and the protection of property rights. Liberalism, according to McCloskey, created an environment in which individuals were free to experiment, innovate, and pursue new ideas without fear of undue repression or interference from authorities. This environment of freedom and openness fostered technological ingenuity and the rapid dissemination of new ideas, which in turn led to sustained economic growth.

- The rise of liberalism in Europe created a unique context where technological innovation could flourish. The protection of intellectual property, the emphasis on personal and economic freedom, and the openness to new ideas and experimentation were key ingredients in the dramatic growth experienced during and after the Industrial Revolution. McCloskey suggests that without this ideological shift towards liberalism, the technological advances that drove the "Great Enrichment" might not have occurred or might have been stifled.

6. **A Critique of Neo-Institutional Explanations:** - McCloskey critiques the explanations provided by scholars like Douglass North and Barry Weingast, who attribute significant economic growth to institutional changes such as those following England's Glorious Revolution. North and Weingast argued that the Glorious Revolution led to the establishment of more secure property rights, which in turn promoted economic growth. While McCloskey acknowledges that such changes may have contributed to growth, she contends that they are insufficient to explain the dramatic increase in wealth and production since the 1800s.

- According to McCloskey, the improvements in property rights or other in-

stitutional changes can account for moderate growth but not the scale of growth observed over the past two centuries. She suggests that North and Weingast, and other institutionalists, overlook the critical role of ideational changes—specifically, the cultural embrace of liberalism and the resultant technological innovation—that were essential to the "Great Enrichment."

Examples of Radical Technological Changes and Liberalism:

- **Technological Innovations:** The steam engine, invented by James Watt, revolutionized industries such as textiles, mining, and transportation, significantly increasing productivity and economic output. The development of general anesthetics in medicine dramatically improved surgical outcomes and the overall quality of life, while the invention of printed circuits laid the foundation for modern electronics and computing. These and other technological advances drove economic growth in ways that traditional economic factors could not fully explain.

- **Cultural Shift Toward Liberalism:** The Enlightenment period in Europe, characterized by a move toward individual rights, free speech, and open markets, created a fertile environment for innovation. Thinkers like Adam Smith advocated for economic freedom and competition, while political changes such as the English Bill of Rights (1689) and the French Declaration of the Rights of Man and of the Citizen (1789) promoted ideas of liberty and equality. These ideological shifts allowed for a freer exchange of ideas, greater protection of private property, and the encouragement of entrepreneurial activity, all of which contributed to sustained economic growth.

McCloskey's position within the "Ideational School" challenges traditional economic explanations of growth by emphasizing the critical role of ideas, rhetoric, and ideology—particularly the rise of liberalism—in driving the technological innovation and creativity that led to the "Great Enrichment." She argues that conventional factors such as routine investment, property rights improvements, and institutional changes, while contributing to growth, cannot account for the extraordinary scale of economic expansion witnessed since the 1800s. Instead, McCloskey points to the radical technological changes enabled by a liberal culture that valued freedom, experimentation, and the pursuit of new ideas, highlighting the importance of a cultural and ideological shift that allowed human creativity to flourish and transform the economy.

23 Joel Mokyr, in his book **A Culture of Growth: The Origins of the Modern Economy, argues that the Industrial Revolution and the subsequent sustained economic growth in Europe were not simply the result of technological inventions or institutional changes, but were deeply rooted in the unique cultural developments of early modern Europe, particularly during the European Enlightenment.**

Mokyr's analysis combines elements from economics, the history of science and technology, and models of cultural evolution to demonstrate that the beliefs, values, and social norms that emerged during this period played a crucial role in fostering the scientific advances and pioneering inventions that sparked the Industrial Revolution.

Main Ideas on Why Enlightenment Culture Sparked the Industrial Revolution:

1. ****The Unique Culture of Growth in Europe:**** - Mokyr argues that a distinctive "culture of growth" emerged in Europe during the period from 1500 to 1700, laying the groundwork for the Industrial Revolution. This culture was characterized by a commitment to inquiry, innovation, and the pursuit of knowledge, driven by the values and beliefs of the Enlightenment. The Enlightenment fostered a belief in human progress, rational thought, and the scientific method, which encouraged experimentation, empirical observation, and the questioning of traditional knowledge. These values created an environment conducive to scientific and technological advancements, which were crucial for the Industrial Revolution.

2. ****Political Fragmentation and the Market for Ideas:**** - One of the key factors that Mokyr identifies as contributing to the Industrial Revolution in Europe, rather than elsewhere, is the political fragmentation of the continent. Europe was divided into numerous states and principalities, each with its own political systems, rulers, and policies. This fragmentation created a competitive "market for ideas" where thinkers and inventors could move from one region to another if their ideas were not accepted or welcomed in their home country. For example, scientists, philosophers, and innovators could find sanctuary and support in different states if they faced persecution or opposition in their own. This fostered an environment of intellectual diversity and competition, which encouraged innovation and the dissemination of new ideas.

- In contrast, Mokyr argues that China's political unity under a single imperial authority limited the development of a similar market for ideas. The Chinese government maintained strict control over intellectual activity, and there was less tolerance for heterodox thinking or challenges to established norms. As a

result, China's version of the Enlightenment remained more constrained and less able to foster the kind of creative and experimental mindset that flourished in Europe. This lack of political fragmentation and intellectual diversity meant that China did not experience the same kind of sustained economic and technological dynamism that occurred in Europe.

3. **The "Republic of Letters":** - Another critical factor identified by Mokyr is the role of the "Republic of Letters," a transnational community of scholars, scientists, and intellectuals who freely exchanged ideas, writings, and knowledge across Europe. This community was characterized by a shared commitment to intellectual freedom, the open circulation of ideas, and the advancement of knowledge for its own sake. Members of the Republic of Letters communicated across national boundaries, sharing discoveries, collaborating on projects, and challenging each other's ideas. This created a fertile environment for the cross-pollination of ideas, which accelerated the pace of scientific and technological progress.

- Mokyr emphasizes that the Republic of Letters was not just a social network but an intellectual force that helped to create a culture of inquiry and innovation. The exchange of ideas was facilitated by new communication technologies, such as the printing press, and supported by a growing number of universities, scientific societies, and academies. This intellectual environment encouraged experimentation, debate, and the accumulation of knowledge, all of which were essential to the scientific advances that eventually fueled the Industrial Revolution.

4. **Cultural Evolution and the Spread of Enlightenment Ideas:** - Mokyr draws on models of cultural evolution to explain how Enlightenment ideas spread and took root in Europe. He argues that cultural evolution, like biological evolution, is driven by variation, selection, and replication. In this context, the Enlightenment produced a wide variety of new ideas and intellectual frameworks, which were then tested against empirical evidence and practical utility. Those ideas that proved most effective or persuasive—such as the scientific method, principles of mechanics, or new approaches to manufacturing—were adopted and replicated across Europe.

- The Enlightenment culture created an environment where new ideas could be generated, tested, and spread rapidly. Unlike in more centralized societies, where ideas were often constrained by state authorities or cultural norms, the fragmented political landscape of Europe allowed for multiple centers of innovation, where new ideas could compete and proliferate. This process of cultural evolution helped to lay the intellectual foundations for the technological and economic developments that characterized the Industrial Revolution.

5. **Contrast with China and Other Societies:** - Mokyr contrasts the cultural conditions in Europe with those in other societies, particularly China, to explain why the Industrial Revolution began in the West. Although China had comparable levels of technology and intellectual activity, its political and cultural environment did not foster the same degree of intellectual freedom or innovation. In China, the ruling elite maintained tight control over intellectual activity, and there was less tolerance for dissent or unorthodox ideas. This lim-

ited the scope for independent inquiry and experimentation, which were essential for technological and economic progress. Moreover, China's centralized political structure meant that there was no competitive "market for ideas" similar to what existed in Europe, reducing the incentives for innovation and cross-cultural exchange.

6. **The Foundations of Modern Economy Laid Between Columbus and Newton** - Mokyr argues that the cultural and intellectual foundations of the modern economy were laid in the relatively short period between the voyages of Columbus (late 15th century) and the work of Isaac Newton (late 17th century). During these two centuries, Europe underwent a profound transformation in its approach to knowledge, science, and technology, spurred by the Enlightenment and the activities of the Republic of Letters. This period saw the emergence of a culture that valued empirical evidence, scientific inquiry, and technological innovation, which ultimately led to the Industrial Revolution and the sustained economic growth that followed.

Joel Mokyr's *A Culture of Growth* offers a compelling explanation for why the Industrial Revolution began in Europe and not elsewhere, emphasizing the unique cultural factors that emerged during the Enlightenment. He argues that Europe's political fragmentation, the competitive market for ideas, and the transnational intellectual community of the Republic of Letters created a conducive environment for scientific and technological innovation. These cultural developments, rather than just material conditions or institutional changes, laid the foundations for the sustained economic growth that spread worldwide. Mokyr's analysis suggests that the roots of modern prosperity lie not just in technological or institutional factors but in the values, beliefs, and cultural practices that emerged during the Enlightenment and transformed European society.

24 In *The Gifts of Athena: Historical Origins of the Knowledge Economy*, Joel Mokyr offers a comprehensive analysis of how the growth of technological and scientific knowledge over the past two centuries has driven economic and social development, culminating in what is often referred to as the "knowledge economy."

Mokyr's central argument is that the extraordinary economic growth experienced in the modern West was not only due to the appearance of new technological ideas but also due to improved access to these ideas, facilitated by a unique social and intellectual environment that emerged in Europe. He constructs an original framework centered on the concept of "useful knowledge,"

emphasizing the role of institutions, social networks, and cultural shifts that enabled the dissemination and application of this knowledge.

Key Ideas from *The Gifts of Athena*:

1. ****The Concept of "Useful Knowledge":**** - Mokyr introduces the concept of "useful knowledge" as knowledge that can be practically applied to improve technology, production processes, and overall economic performance. He differentiates between two types of knowledge: "propositional knowledge" (knowledge about natural phenomena, such as scientific theories) and "prescriptive knowledge" (knowledge about how to do things, such as technological applications). For Mokyr, the growth explosion of the modern West was driven by not just the generation of new knowledge, but also by society's increased ability to access, use, and apply this knowledge effectively. This effective utilization of knowledge depended on social networks and institutions such as universities, publishers, professional societies, and other organizations that enabled knowledge to be widely disseminated, debated, and refined.

2. ****Improved Access to Knowledge and the Role of Social Networks:**** - Mokyr emphasizes that the mere existence of new technological ideas or scientific discoveries was not enough to drive the Industrial Revolution or subsequent economic growth. Instead, it was the improved access to these ideas across society that made a significant impact. Social networks, including universities, scientific societies, publishers, and professional organizations, played a critical role in facilitating this access. These networks provided platforms for sharing information, debating ideas, and translating theoretical knowledge into practical applications. For example, during the Enlightenment, scientific knowledge and technological know-how were circulated widely across Europe through publications, lectures, and correspondence networks, which allowed inventors, entrepreneurs, and industrialists to learn from and build upon each other's work.

3. ****Changes in Intellectual and Social Environment:**** - Mokyr links the growth of useful knowledge to changes in the intellectual and social environment of Europe during the Enlightenment. He argues that the Enlightenment fostered a spirit of inquiry, experimentation, and skepticism toward traditional authority, encouraging the pursuit of scientific and technological advances. Intellectual forces during this period, such as the focus on empirical observation, rationalism, and the scientific method, created a fertile ground for innovation. This cultural shift towards valuing knowledge for its practical utility was crucial for the subsequent economic changes of the nineteenth century. The rise of scientific societies, the spread of printed books and journals, and the establishment of new educational institutions further strengthened these intellectual currents, creating an environment where knowledge could be more easily generated, disseminated, and applied.

4. ****Institutional Background and Mechanisms of Knowledge Dissemination:**** - Mokyr also explores the role of institutions in creating and maintaining the environment necessary for knowledge growth. He argues that institutions such as universities, academies, patent offices, and trade networks were fundamental in the generation and diffusion of knowledge. These institutions facilitated collaboration, protected intellectual property rights, and provided

platforms for sharing information. For example, the Royal Society in England and the Académie des Sciences in France became centers for scientific exchange, contributing significantly to technological and scientific advancements. Mokyr also highlights the importance of intellectual property regimes, such as patents, in incentivizing innovation by providing inventors with legal rights to their discoveries, thereby encouraging investment in research and development.

5. **Implications of the Knowledge Revolution:** - Mokyr discusses several key implications of the knowledge revolution sparked by this environment. One of these is the rise and subsequent decline of the "factory system" as the dominant form of economic organization. The factory system emerged as a response to technological innovations that required centralized production methods, such as the mechanized spinning and weaving processes of the textile industry. However, Mokyr also notes that the knowledge revolution has led to new forms of economic organization, such as the information technology and communications sectors, which rely more on decentralized networks and less on traditional factory models. He also examines the impact of technological change on public health, showing how medical knowledge and public health interventions, driven by scientific advances, significantly improved life expectancy and quality of life.

6. **Resistance to New Knowledge:** - Mokyr does not overlook the social and political resistance that new knowledge often encounters. He explores how entrenched interests, cultural conservatism, and political institutions have resisted new ideas and technologies, slowing down the process of economic transformation. For example, guilds and craft associations in pre-industrial Europe often resisted innovations that threatened their traditional practices or monopolies. Similarly, political authorities sometimes suppressed new scientific ideas that challenged established dogmas or threatened their power. Mokyr links these patterns of resistance to broader themes in political economy, drawing connections to the New Institutional Economics, which examines how institutions shape economic behavior and development.

7. **Integration with New Institutional Economics:** - Mokyr connects his analysis of the growth of knowledge to the broader framework of New Institutional Economics, which looks at how institutions—formal rules, informal norms, and organizations—shape economic performance. He argues that the development and dissemination of useful knowledge cannot be understood without considering the institutional context in which it occurs. For example, the availability of secure property rights, the rule of law, and a political culture that values intellectual freedom are all critical for fostering innovation and economic growth. Mokyr suggests that the knowledge revolution was not just a matter of technological advancement but also the result of specific institutional arrangements that allowed ideas to flourish.

Examples from *The Gifts of Athena*:

- **The Role of the Royal Society and the Académie des Sciences:** Mokyr discusses how institutions like the Royal Society in England and the Académie des Sciences in France were instrumental in fostering scientific collaboration and knowledge exchange during the Enlightenment. These societies provided platforms for scientists to share their discoveries, publish their research, and engage

in debates. This facilitated the spread of new ideas and the rapid accumulation of knowledge, which was critical for technological innovation and economic growth.

- **Patents and Intellectual Property Rights:** Mokyr highlights the importance of patents in encouraging innovation by providing inventors with legal rights to their creations. The patent system offered economic incentives for individuals to invest time and resources in developing new technologies, thus fostering a culture of invention and discovery. For instance, James Watt's improvements to the steam engine, a key technology of the Industrial Revolution, were protected by patents, allowing him to profit from his innovation and encouraging others to invent as well.

- **Public Health and Knowledge Dissemination:** Mokyr also shows how improvements in public health were linked to the dissemination of useful knowledge. For example, the development of germ theory in the 19th century led to significant advancements in medical practices, hygiene, and public health policies. These changes were facilitated by the widespread publication of medical research, the establishment of public health institutions, and the collaboration of medical professionals across Europe.

In *The Gifts of Athena*, Joel Mokyr provides a detailed analysis of the historical origins and mechanisms of the knowledge economy. He argues that the growth of technological and scientific knowledge was not only driven by new ideas but also by improved access to these ideas, made possible by a unique social and intellectual environment in early modern Europe. The competitive "market for ideas," the role of social networks and institutions, and the cultural shifts of the Enlightenment all contributed to the dissemination and application of useful knowledge. Mokyr's work links the intellectual forces of the European Enlightenment to the economic changes of the 19th and 20th centuries, demonstrating that the knowledge revolution was central to the Industrial Revolution and the sustained economic growth that followed.