

A Combustible Combination: McCloskey on Ideas, Institutions, and Economic Performance through Time¹

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Deirdre McCloskey states in *Bourgeois Equality*, the final volume in the Bourgeois Era,² that the “modern world was not caused by ‘capitalism,’ which is ancient and ubiquitous ... The modern world was caused by egalitarian liberalism” (p. xv). McCloskey understands that the political-legal framework of rules, within which persons interact with one another, is an important and necessary element in any economic system. However, if those rules are to produce extensive economic growth, they must be grounded in ideas that legitimate and bring dignity to commercial practices. For most of human history, we lived in conditions of poverty and sickness, but something happened and some of us started to live wealthier and healthier lives. The “wealth of nations” is dubbed the Great Enrichment by McCloskey. What facilitated the Great Enrichment, beginning in the early 19th century, was what we refer to as a “combustible combination” of ideas, institutions, and practices, or as McCloskey puts it “[b]etterment tested by trade, a system of property rights coordinated by prices, and the bourgeois speech-work in support of it” (p. 470). Economic growth for McCloskey is not just a function of the security of property rights, as her critique of Douglass North’s depiction of the Glorious Revolution indicates, but increasing the *scope* of market exchange due to the spread of bourgeois ideas that afforded dignity to commercial practices and respected institutions such as private property.

The inquiry made by McCloskey regarding the wealth and poverty of nations is not unlike that of Adam Smith, who argued that specialization under the division of labor is limited by the extent of market. McCloskey, however, takes up a broader question and places this into the foreground of analysis: What limits the extent of the market, or as she dubs it, “trade-tested progress” (p. xiii)?

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For McCloskey, trade-tested progress is limited by ideas that extend the scope of market exchange and specialization. She writes: “[I]deas are intrinsically subject to economies of scale and therefore can yield dynamic effects able to explain factors of thirty or one hundred” (p.122). This dynamic effect can only take place within a larger context that permitted, or at least did not prevent, ethical norms and rules of just conduct to emerge that would underpin the extension of the market to capture greater gains from trade and greater gains from innovation. This is how commercial practices became not just tolerated but morally acceptable and culturally feasible. When the ideas, institutions, and practices align, a combustible combination emerges and well-being drastically improves for humanity. As Ludwig von Mises put it:

Saving, capital accumulation, is the agency that has transformed step-by-step the awkward search for food on the part of savage cave dwellers into the modern ways of industry. *The pacemakers of this evolution were the ideas that created the institutional framework within which capital accumulation was rendered safe by the principle of private ownership of the means of production.* (2006/1956, p. 24, emphasis added)

For the purposes of our argument, what we wish to emphasize from this quote is not the increasing returns to *scale* to any single productive activity within the market, such as capital accumulation or technological innovation. Rather, we are highlighting the increasing *scope* of the market itself brought about by bourgeois ideas, which in turn yields generalized increasing returns from productive specialization and mutually beneficial trade and creative innovation. The Great Enrichment is inseparable from an *institutional* extension of the market, but the spark in the combustible combination is provided by *ideas*. The idea of “universal dignity—the social honoring of all people—was necessary in the long run, to encourage people to enter new trades and to protect their economic liberty to do so” (p. 403). It was not just the security of property rights to Bourgeois activity that activated the Great Enrichment, but the universalizing of the legitimacy of voluntary exchange to individuals of all classes and all trades. Secure property rights under the rule of law are necessary for trade to take place, but the scope and the extent to which property rights will facilitate specialization under the division of labor is limited by the extent of Bourgeois values.

Economists since Adam Smith, including modern institutional economists, such as Douglass North and Daron Acemoglu, have focused on the necessity of secure and well-enforced property rights as a determinant of economic performance through time. Yet, for McCloskey, and Smith as she argues (pp. 172–183), property rights “are necessary but they are nothing like sufficient for the startling betterment that begins in the Industrial Revolution and eventuated in the still more startling Great Enrichment of the past 150 years—all of which, embarrassingly for the North-Acemoglu orthodoxy in economic history and development, happened a century or more after the allegedly sharp improvement of property rights” (p. 296).

In short, in McCloskey’s history of the Industrial Revolution, the idea that incentives matter can be found, but it isn’t the main explanatory factor; the idea that institutions matter can also be found, but again it isn’t the main explanatory factor. Instead, McCloskey stresses that “*ideas matter*”—and in particular the ideas that influence “talk” that gives dignity to commercial practices and entrepreneurial innovation. As she states, if

dignity was not accorded to transactions in trade and to the betterments that the bourgeoisie brings forward to the test of profit, and if the liberty to trade and to invent were scorned, and if liberty to compete were not the test of anyone’s betterment, then the modern world would have languished. (p. 301)

This set of human activities was attributed a sort of dignity that was unique to that time and place, and that explains the “takeoff” in economic growth beginning in northwestern Europe. That is the source of the Great Enrichment—egalitarian liberalism—and without it, the modern world would not have been possible.

The point that McCloskey is making, particularly in her critique of Douglass North, is a rather straightforward historical timing point: the institutional arrangements associated with markets and liberty had already been technologically feasible dating from the late Middle Ages (McCloskey 2010, p. 315). As she states, “the historical point is that *the ideas and ideology and ethics changed. The institutions did not*” (italics original, 2016, p. 121). McCloskey’s critique of “neo-institutionalism” in the hands of North and Acemoglu, or cultural explanations as asserted by David Landes (see p. 509), is not refuting the crucial importance of institutions required to protect the bourgeoisie from both public and pri-

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vate predation. What McCloskey is criticizing is the modeling of formal or informal rules, such as political institutions and culture, respectively, as being reducible to a factor in a production function. Critical to understanding McCloskey's critique is her resistance to purging any reference to human meaning attached to the rules of game that structure economic relations in commercial life. In this respect, McCloskey agrees with Austrian economists that "economics is a science that must be preoccupied with meanings" (Storr, 2013 p. 25). While institutions in *form* may not have changed in Western Europe prior to the nineteenth century, institutions and culture are constitutive of patterns of meaning that not only condition the desirability of particular ends but also the propriety of particular means to satisfy those ends. Property rights are fundamentally about what it means to be engaging in proper action. Therefore, the propriety of action, and hence property in *use*, did change to facilitate a greater extent of the market, once we regard bourgeois values as being inseparable from the increasing scope given to private property rights in facilitating exchange and production.

Moreover, McCloskey's view of economic progress emphasizes how the institutional framework of liberty engenders a *process* of entrepreneurial discovery of new ways of combining resources together in a more productive manner, as well as entailing a new way of relating to one another within the extended order of the marketplace. An extension of the limits of the market yields economic progress not only by enabling a more fine-grained specialization of entrepreneurial talent, but also because entrepreneurial discoveries provide positive feedback for the discovery of additional entrepreneurial opportunities. For McCloskey, specialization under the division of labor is institutionally contingent, in that what determined the extent of the market was the security of private property and the establishment of freedom of contract protected under the rule of law. However, what is inseparable from McCloskey's explanation is that the "wave of gadgets, material and political" that "came out of a bourgeois ethical and rhetorical tsunami around 1700 in the North Sea" yielded generalized increasing returns to existing institutions (p. 423). The ability of the existing institutional framework to support a greater scope for specialization under the division of labor, and hence The Great Enrichment, is embodied by generalized increasing returns to bourgeois values. It is a combustible combination of ideas, institutions, and commercial practices that explains the wealth of nations, and nobody since

Adam Smith has stated that more clearly than Deirdre McCloskey has in her studies of the Bourgeois Era.

Endnotes

- 1 This paper draws liberally from previous joint work inspired by McCloskey's project to understand the Bourgeois Era. See Boettke and Candela, "Comparative Historical Political Economy and the Bourgeois Era," and Boettke and Candela, "The Liberty of Progress: Increasing Returns, Institutions, and Entrepreneurship," both available at Social Science Research Network (SSRN) in their working paper form.
- 2 The term "The Bourgeois Era" corresponds to McCloskey's *The Bourgeois Virtues: Ethics for an Age of Commerce* (2006), *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (2010), and *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (2016). Like McCloskey (2016, p. xi), we will use this term in referring to the trilogy. While our discussion of The Bourgeois Era will encompass all three volumes, our emphasis will be on *Bourgeois Equality*.

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