

Dear Participant:

Good session! We should have more of these quick but friendly back and forths—because what sociologists of science call The Empiricist Monologue (one great, thick book after another, eh, Mr. Gibbon?) does *not* do the scientific job adequately. We need to *reply* to each other, yes? What is crucial, wrote Amélie Oksenberg Rorty in 1983, is:

our ability to engage in continuous conversation, testing one another, discovering our hidden pre-suppositions, changing our minds because we have listened to the voices of our fellows. Lunatics also change their minds, but their minds change with the tides of the moon and not because they have listened, really listened, to their friends' questions and objections.

Amiable Notes on Our Conversation

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Of course institutions “matter” for the Great Enrichment, just as capital accumulation or rainfall or the arrow of time matter. They are necessary, or helpful.

But they are intermediate, in the same way that capital is. They are not causal in the way human ideas are indeed causal. (That ideas have causes is of course true epistemologically, and historically, as I show in *Bourgeois Dignity* 2016); but if we are not to become entirely historical materialist about it, we need to acknowledge human action, not just *reaction*.) Institutions and capital are not ultimate causes themselves. It was the freeing of human creativity that made for a 3,000% increase of real income per head. The internet. Containerization. The modern university combining research and teaching. Yes, just like capital, ideas have to be embodied in *something* to be real—thus the autobahn as an idea of limited access highway. But the unique cause in the 18th century and after is the ideas inspired by liberal equality overturning ancient hierarchies in northwestern Europe, and at length the world.

And **capital accumulation, like trade and some rule of law, is ancient**. It is ancillary, just as institutions are. We have to have a scale on which to measure the extent and significance of this or that level of rule of law. China had it at, say, 8 on a 10 point scale for millennia. England had it, as Geoff said, from before the time of Edward I.

And of **course most institutions are** conservative, obstacles to progress. That is their purpose. Thus some of the institutions of science, and law.

The key scientific problem is the great size of the Great Enrichment (not to be confused with the classical Industrial Revolution, which only doubled incomes) – 3,000 percent since 1800. None of the usual explanations make sense of such an enormous alteration. (If they did, it would have happened in China or Rome or whatever.)

One reason neo-institutionalism has captured the imagination of many economists is, like maximizing utility, **it can be defined to be true**. “Institutions” can’t mean *everything*. In Acemoglu and Robinson’s new book they do so. Geoff avoids this, but many do not.

There is a strict institutionalism, which believes that law implies behavior, strictly, with incentives, but not with speech, ethics, rhetoric, ideology.

That is, we have to make a distinction between formal, “codified” institutions, such as the Queen prorogues Parliament, or that the Electoral College elects the US president, and ethics. They interact, of course. But they are different, as Geoff emphasizes. The Soviet Constitution in three versions was lovely. . . but ethics meant it was a dead letter.

And ethics are not to be thrown into “culture” and then declared a stable background, unchangeable. It can change quickly, as we have just seen in the behavior of the Republican Party in the USA facing Trump. We need to know why ethics changes. Williamson for example claims repeatedly, as economists do when adhering to the dogma of *de gustibus non disputandum est*, that ethics always changes slowly. But there is no historical or experimental evidence for such a claim.

It changes largely by speech, rhetoric, persuasion, emotional appeal, songs, stories, political slogans, lessons at one’s mother’s knee. Not always by “incentives.”

But language is unpredictable. Had the American Patriots in 1776 and then the Founding Fathers in 1787 not been eloquent, with such sweet pens as Thomas Paine or James Madison, events would have gone very differently.

Max U machinery, as Geoff and I agree, **is not how institutions on the whole, and especially under stress, behave**. Geoff makes a beautiful statement of this in one of his writings, with which I wholly agree: “Pointing to the incentives and sanctions associated with rules is insufficient because it would not explain how individuals evaluate the sanctions or incentives involved. We also have to explain why they might, or might not, take incentives or sanctions seriously.” It is utterly destructive of the approach of North/Weingast/Grief/Acemoglu. North talked later about the source of ideas, but then turned to “brain science,” about which it must be said he knew very little. He never realized that the record of human speech since the invention of writing is massive evidence for the so-called truce of ideas, such as the master idea in the modern world, liberalism.

Neo-institutionalism is notably, and disastrously, non-quantitative.

“Matter” can mean “necessary” or “sufficient considering widespread necessary items.”

The idea of liberalism is the key.

But language is not plannable.

What’s new in 18th century is liberalism.

“Modern finance is modern” is circular, and not modern. It’s still another maybe necessary, certainly helpful, but nothing like “sufficient given numerous necessary conditions widely available in human history.”