

# Austrians, Anti-Samuelson, and the Rhetoric of Quantification: A Comment on Daniel Klein's *Knowledge and Coordination*

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What a clever and profound book.

One of its many admirable features is its scholarship. Daniel Klein *actually reads* even the people he does not agree with. Amazing. George Stigler, a funny man if a terrible reader and a profoundly misleading economic scientist, once remarked that John Stuart Mill “was perhaps the fairest economist who ever lived: he treated other people’s theories at least as respectfully as his own, a mistake no other economist has repeated” (Stigler 1987, p. 90). Klein is fair—maybe not to Mill’s standard, but far above the mean. And so one gets a sense reading his book what The Others were actually saying. Over the medieval town hall in Gouda in the Netherlands is inscribed a Latin tag, *Audite et alteram partem*, Listen even to the side. Good advice.

Klein is good, again, at categorization (I especially admire the skill because I don’t have it), distinguishing usefully, for example, “concatenate coordination” (a pleasing social order looked at from above) and “mutual coordination” (people lining up their plans, as in Schelling Points). “Respondence,” another Klein coinage (p. 12), is “our rather automatic responding to new bits of information that simply rain down on us,” not “information” on, say, the distribution of prices in a local market for second-hand Toyota Camerys, which is sought out as a routine investment. He distinguishes response on the one hand from Stiglerite “information” and on the other from Epiphany, where discovery lives. Surely Israel Kirzner is right in claiming that “the most impressive aspect of the market system is the tendency for [innovations] to be discovered” (Kirzner 1985, p. 30)—which is to say that the static efficiency beloved of Samuelsonians such as Stigler is not.

And yet the lovely details of static efficiency, not the sources of innovation, is what we teach in microeconomics.

Klein, who was a student of Kirzner, interprets the Rabbi: “Under a regime of economic freedom, substantial and socially beneficial epiphanies occur more often not only because more opportunities exist but also because interpretive faculties are more advanced and more aroused”(Klein 2012, p. 119), because more practiced. Though Kirzner emphasizes that discovery depends on an internal insight, the Aha! moment in which one’s way of looking at the matter suddenly shifts, he also argues that laissez faire provides a context for an “interest” as he calls it in making innovations. Surely. The “interest” that Kirzner and Klein are taking about, though, is not merely prudential, Max U. It is not only about money. It is about the engagement of humans with their lives, illuminated by the stories we tell. To analyze the mix of interest and epiphany that is entrepreneurship Klein retells Somerset Maugham’s story “The Verger,” in which an illiterate servant becomes an entrepreneur. (It is another merit in Klein’s book, by the way, that he takes the insights from the humanities, our stories and metaphors, as seriously as, say, game theory [that storied metaphor wholly unaware of its humanistic character]. He is one among a small but growing group of economists who practice what Bart Wilson and I call “humanomics,” economics with the human literature, philosophy, theology, history left in.)

A good context for the mix of interest and epiphany comes also from liberty of speech (Klein 2012, pp. 87-89 gives an illuminating exposition). The multiple voices that the printing press, the Reformation, and the fragmentation of political power in Europe began to allow in the seventeenth century made for a new regime of, as the science journalist Matt Ridley, puts it, “ideas having sex” (2010, pp. 1, 270). But the same is true within a single person: we are each a polylogue of internal interests, some articulate, some tacit—this in sharp disagreement with the single-mindedness of Max U. Klein uses most interestingly the idea of multiple selves proposed by the computer scientist at MIT, Marvin Minsky, quoting him so: “Even the ideas we ‘get’ for ourselves come from communities—this time the ones inside our heads” (*The Society of Mind*, 1986, p. 66, quoted in Klein 2012, p. 92). The truth is that a person’s mind holds different views in different realms” (Minsky, p. 302, quoted in Klein 2012, p. 92). Klein, in other words, is edging away from Kirzner’s asocial vision of the alert entrepreneur. Klein remarks, p. 142: “Going forward, rarely can [the entrepreneur] go it alone; she needs cooperators.” I recommend to him, and to you, the research of the management empiricist Saras Sarasvathy at the Darden Business School of the University of Virginia. She shows at work in the careers of entrepreneurs exactly such a rhetorical skill in recruiting cooperation.

Another Kleinian idea among scores in the book is the self-correcting character of the profits from obstacles thrown up to innovation. “The pitfall itself generates betterment opportunities that spark entrepreneurial transcendence” (Klein 2012, p. 113). Yes: the obstacles to innovation make the rewards to whatever innovation *does* break through even higher. By “pitfall” Klein means governmental obstructions and monopolies. There’s a nice little puzzle here, which can be analyzed with a Good-Old-Chicago-School, Marshallian economics of entry and exit—the *echt* economics (Vernon Smith calls it “ecological” economics) which has been driven out of the minds of young economists by the triumph of Samuelson’s reduction to the individual level of Max U (“constructivist” economics). Because a restricted situation, such as the War on Drugs, creates opportunities for rent-seeking, the profit from real progress is starved. Look for the evidence at lower-class neighborhoods of African Americans. The War on Drugs is a war on poor blacks, tempting their young men into the trade and then jailing them for long terms, destroying family life.

Such an economics supports Klein’s central (Smithian) “liberal” concern, which is to support a free society. Opportunities in a free and sensible society are *not* crowded out by the profit from evading ill-advised laws, and are therefore directed to the real obstacles of error or ignorance or lack of alertness. Instead of dreaming up new ways to defeat the Drug Enforcement Agency the alert person—think of Stringer Bell in the brilliant TV series *The Wire*—is invited to dream of new “socially beneficial epiphanies.” (Defeating the Agency, of course, is also “socially beneficial,” since consumers of drugs are willing to pay for the services of the skilled evader of the law. But the benefit is like that of ceasing to bang one’s head against the wall. The more direct suggestion would be not to *start* banging one’s head—for example, not to start a War on Drugs—and therefore provide a favorable context for using one’s head to innovate in the use of oil or cell phones.)

In other words, there are two margins, one of getting around a governmental obstruction and the other getting around a lack of imagination. Both yield pure profit if an epiphany detects a new way around an obstacle, artificial or natural, the free lunch of economic growth that Kirzner talks about. Both profits are driven down by entry. Getting around governmental obstructions, however, has a natural limit, namely, the point at which all the obstructions are removed, as in Hong King under the British. No one is banging her head against the wall, and there is no social benefit remaining in advising people to stop doing it, or devising profitable tricks for getting around it. But getting around lack of imagination has no limit. That ideas having sex

has increasing returns to scale is a contingent fact of the world, to be sure, and not provable a priori. But it is the source of the modern world.

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So Daniel Klein is an academic entrepreneur, observing alertly new ideas and pursuing them with all energy. One may ask, though, what market he is testing his ideas in. In other words, are we persuading anyone? I join Klein, for example, in being unhappy with my good friends the Samuelsonians and their misleading obsession with Max U and equilibrium. (That I was once a Samuelsonian merely makes me wish more fervently that I could persuade them to change their minds. Like the Kropotkin anarchists or the Marxists or the social engineers or the progressive Episcopalians, they are all My People, too.) The Samuelsonian obsession with methodological individualist, mechanical models of Max U (“That’s what a ‘model’ *is*,” the Samuelsonian declares, and walks away well satisfied) leads them into a position that if any of the market conditions shown to be *sufficient* for equilibrium in some imagined Max-U world are violated (infinite number of traders, information symmetry, honesty on all sides), then Markets Don’t Work. The argument is undeniably illogical, since sufficient conditions are not the same as necessary conditions. Vernon Smith, Bart Wilson, and other experimentalists of *markets* (as against the behavioral economists over-studying *individual* behavior, in line with the Max-U program) have shown how quickly humans achieve efficiency, especially if they talk to each other. Yet the sufficiency-to-necessity move, however illogical, has been immensely powerful since A. C. Pigou and then Paul Anthony Samuelson first articulated it. The crudest version, which even non-economists have heard about, turns on the unhappy vocabulary of “perfect” markets, which economists have been conjuring with for about a century. “Well,” says the Samuelsonian determined to propose new governmental regulation of markets, “*nothing’s* perfect. So we must have regulation by [a presumptively perfect] government.”

Now, Kenneth Arrow is someone I know a little, and admire. Like his brother-in-law, Samuelson (who was, by the way, for a long time my mother’s mixed doubles tennis partner, just in case you needed to know that), Ken is a tolerant, amiable, and extremely intelligent economist. (I am fond of remarking that economics has had the advantage over linguistics that its Great MIT Leader was the tolerant, amiable, and blindingly intelligent Paul Samuelson instead of the intolerant, nasty, and blindingly intelligent Noam Chomsky.) Yet Klein finds without much trouble a bizarre assertion by Arrow, writing in 1974, typical of the line of Pigou-Samuelson-Arrow-Hahn-Stiglitz: “Trust and similar values, loyalty or truth-telling, are examples of what the economist would call

‘externalities.’ . . . They are not commodities for which trade on the open market is technically possible or even meaningful” (Arrow 1974, p. 23; in Klein, p. 180). Huh? Oh, Ken, Ken. Klein proceeds in a chapter on “The Integrity of You and Your Trading Partners” to give with ease, of course, scores of examples of markets, such as the old Marshall Fields department store in Chicago, providing trust, loyalty, truth-telling, in bulk (Fields motto: “Give the lady what she wants”). How, I worry, are we to persuade *anyone* of the merits of a truly liberal society if so intelligent an economist as Ken Arrow overlooks the relevance to the performance of markets of such obvious assurance mechanisms as hired inspectors, brokers, branding, franchising, *Consumer Reports*, and gossip?

Another example of the persistence of Samuelsonian and Max U ideas against Marshallian and ecological economics, again out of our Nobelest folk, is Douglass North. Doug (whom I know even better than Arrow and Samuelson, and has nothing to do with my mother’s tennis) has long claimed that he has converted, and is now *against* neoclassical economics. Ho, ho. His neo-institutionalism is merely more of the same Samuelsonian weak tea. The theory in neo-institutionalism, which you can find displayed for example in Acemoglu and Robinson’s unfortunate recent book, *How Nations Fail* (2012), is that the economy is kept from equilibrium by bad property rights (for example in ideas: patents and copyright—gotta tighten up on the conversation of humankind by defining every remark in it as private property). Make the property rights perfect (there’s the “perfection” word again), and, bang, we achieve equality of marginal cost and marginal benefit and all our joy (I speak more of this in a comment on Douglas Allen’s fine book, in McCloskey 2013).

I myself thought exclusively in terms of marginal benefit and marginal cost, and the efficiency cost of their failure to be equilibrated, in the early 1970s, when I was still a recent Harvard graduate, and when even the Chicago School, taken over just then by Gary Becker and especially Bob Lucas, was adopting Max U with enthusiasm, and trying to forget that it had long been the refuge of Marshallian and ecological economics. The focus on Max U’s terminally boring adventures (“*Once again*, I ‘choose’ to equalize marginal rates of substitution in consumption and production”—Yawn) is why the Samuelsonians have such difficulty explaining real, and exciting, Austrian discovery, such as the steam engine or the personal computer.

But I have realized now at last—which is to say nearly four decades later, being an exceptionally slow learner—what the Samuelsonians such as the neo-institutionalists have still not grasped. It is that the Harberger Triangles of gain achieved by Max U freshly equipped with perfect property rights are, even if all added together, fully *two orders of magnitude* too small to explain the Great

Enrichment, 1800 to the present. We can perhaps explain a doubling with such charming new efficiencies. But not a factor of 30 or 100.

Something therefore is terribly scientifically wrong with the Samuelsonian approach to innovation. What is wrong, Klein argues, is that a quasi-Kirznerian entrepreneurship is left out of economics, even by such wise heads as Frank Knight. The leaving out is a piece with the narrowing of economics to Max-U players who already know what North calls the “institutions,” in his unhappy definition, “the rules of the game.” A particularly ignorant and dogmatic exponent of this view is Ken Binmore (trained, by the way, as a mathematician): “Game theorists usually assume that the rules of the game and the preferences of the players are common knowledge” (Binmore 1992, p. 150). You bet. It’s the Northian assumption, and it is Samuelsonian, and it is, well, pretty silly. The rules of the human game are always under discussion, moment-by-moment, and therefore the analogy in game theory of society to a game of checkers, while once in a great while a little bit illuminating, is very far from an all-purpose social science. “Economists and game theorists typically assure closure,” Klein remarks, “by assuming that agents interpret things in a definite and final way. . . . Models each much . . . . But overexposure to models . . . can impair our ability to see . . . that there is much that is *not* known, even knowable,” such as the differential equations that keep a bicycle rider upright. “We forget that the knowledge we articulate,” such as North’s rules of the game, “rests on knowledge that is personal and tacit” (Klein 2012, p. 10).

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But how to sell such an anti-Samuelsonian idea? I think Klein and I face the same problem of marketing. How can we change the minds of at least the 30-something junior versions of Paul Samuelson and Kenneth Arrow or Douglass North? What do we do with young economists entranced by, say, my graduate-school classmate, Tom Sargent, another of the Nobelest, when Tom says, “You *must* reduce macro to Max-U micro.” “Why is that, Tom?” “You *must*.” “Tom, you can’t just legislate Method out of the blue. You have to *argue* it. I don’t see why macro *must* have micro foundations of Max U.” “You are wrong. It *must*.” “Tom, dearest Tom. . . .”

How to change such minds? Klein’s tactic is to cite Hayek or Kirzner and then to back up their theoretical claims by appealing to the admirable new tradition of empirical Austrianism—thus among his teachers Don Lavoie and Lawrence White, and among his colleagues Peter Boettke and his students, such as Emily Chamlee-Wright and Virgil Storr (although it is a trifle odd that not one of *these* are cited). On p. 173 Klein lists some striking case studies of

the free-market provision of roads, including his own study of historical turnpikes in colonial North America with John Majewski.

Let me assess Klein's approach by coming at it indirectly. I know Klein would not object to raising another Hayekian theme, that of the contrast between two of the ideals of the Enlightenment. The one is that of Liberty, which Klein and Hayek and Adam (and Vernon) Smith and I admire so much, a liberty under which people innovate and find themselves in good, and sometimes bad, spontaneous orders. Such a pragmatic ideal is the characteristic goal of the *Scottish* Enlightenment, although the French provided its leading phrase: *Laissez faire, laissez passer*. The "Smithian allegory," Klein writes, "could be further deployed to give better formulation to economic talk of market communication, social cooperation, and other basic ideas" (2-12, p. 31). True.

The *French* Enlightenment, by contrast, admired Rationality, and therefore the rule of experts, which Smith so deprecated. The modern descendants of the confident French are Pigou, Samuelson, Arrow, and Stiglitz (Joe, who is tolerant, amiable, and rather intelligent, was Samuelson's star pupil, and the *second* Nobel prize winner, after Paul himself, to graduate from Gary, Indiana High School). Their ideal is theoretical, not pragmatic.

For example the left-Samuelsonian's pursuit of equality, or "social justice," comes with rational social engineering, since that is how it is to be achieved. Take from Peter and give to Paul. As Klein observes, in one of his numerous vivid metaphors, if one ran a skating rink on social-engineering principles "to prevent collisions, [the planner] would have to . . . [make the skating] slow and simple. . . [The skaters] would not find the joy and dignity that come from making one's own course" (Klein 2012, p. 5). "Making one's own course" is saved from its apparent selfishness by a spontaneous order in a world in which there are many opportunities for mutually advantageous exchange. As Klein explains, "An important quality of collision is mutuality," just as in an exchange in a market. "If I don't collide with you, then you don't collide with me." If I don't succeed in getting you to agree to a bargain that hurts you, then you don't get hurt by the bargain we do arrive at. "In promoting my interest in avoiding collision with you, I also promote your interest in avoiding collision with me" (Klein 2012, p. 4). And so the obvious and simple system of natural liberty is expected to perform pretty well, like Ralph's Pretty Good Grocery in *Prairie Home Companion* (Mueller 1999).

But the Samuelsonians want to *direct* society to an ideal performance, and are confident that they are just the people to do the directing. They are in this respect like lawyers rather than economists. They expect black-letter law together with the state's monopoly of violence to determine economic incidence, say, and talk a good deal about laws "designed" to achieve such-and-

such. I remember how in the sixties we young economists at places like Harvard and MIT and Stanford were confident that the economy could be designed, that is, “fine-tuned.” What killed such chutzpa—aside from the evident failure of designing and fine tuning in another sphere, the war in Vietnam—was its *quantitative* failure. When for example even the stodgy old US of A, never mind Israel or Brazil, was experiencing in the late 1970s inflation rates of 13.3 percent per year the magnitude was enough to kill off, say, the wage-price spiral of my first teacher of economics, Otto Eckstein.

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And that’s my point. I suggest, as an alternative tactic to Klein’s Hayekian-Kirznerian narratives and case studies, to criticize the Rationalists on *quantitative* grounds. It just might have success against the Samuelsonians. They are obsessed with pointless existence theorems and meaningless tests of statistical significance (Arrow, incidentally, emphatically agrees that statistical significance is meaningless). But they *believe* they adhere also to still another rhetoric that developed mightily in the eighteenth and especially in the nineteenth century: Quantity, Calculation, Accounting, Oomph, Order of Magnitude. Boswell says to Johnson: “Sir Alexander Dick tells me, that he remembers having a thousand people in a year to dine at his house; that is, reckoning each person as one, each time he dined there.”

JOHNSON: That, Sir, is about three a day.

BOSWELL: How your statement lessens the idea.

JOHNSON: That, Sir, is the good of counting. It brings every thing to a certainty, which before floated in the mind indefinitely.

BOSWELL: But . . . one is sorry to have this diminished.

JOHNSON: Sir, you should not allow yourself to be delighted with error.

*Life*, Vol., II, 1783, Everyman ed., p. 456.

To persuade the Samuelsonians, as almost the worst case on the scene, to move to a truly liberal society, let’s take advantage of their (largely phony) rhetorical attachment they think they have to Quantity.

“How things work *by and large*” (p. xiii), correctly attributed by Klein to Marshallian thinking, is the crux. You have to measure, *nationally*, if you want to establish that something is “by and large” true. Case studies, unless presumptively extreme bounds, won’t persuade. You have therefore in your measurement to attend to possible biases and errors (and not only sampling errors). For this reason existence theorems are irrelevant to economic science, though still studied intensively in Mas-Colell-governed first-year courses

worldwide. The first-year “micro” courses, for which real analysis is required, is useless for any later economics depending on actual quantitative magnitudes in the world, unless to generate more meaningless proofs in the style of the Math Department instead of the Physics-or-Engineering Department. It is on/off, not “how much, by and large.”

I for example was trained in the early 1960s in a qualitative Harvard Keynesianism. And in micro I was something like the last undergraduate student of Edward Chamberlin (he died a few years later). We were taught, against the then-devils of the much-despised Chicago School, to claim that macro adjustments of real wages were “impossible” or that micro markets were “obviously” imperfect. On/off. Likewise the existence-theorem program that Samuelsonian economics propounded up the street at MIT, and which I got a whiff of from being a student in two courses taught at Harvard by Hank Houthakker, spoke of on/off, exists/not. “By and large, not axiomatically or categorically” is *not* on/off—as Houthakker, also an empiricist, understood, against his Dutch training in Math-Department mathematics. As an economic historian I realized that on/off, existence, wouldn’t do, and was useless for a scientific economics. If you wanted to show that managers of British iron and steel companies in the late nineteenth century were pretty good you had to measure, and get a quantitative estimate of the by and large.

I was coming to understand by and large, too, from being a research assistant during two summers early in grad school in John Meyer’s project on the Colombian transport system. The brilliant MIT civil engineers whom John was working with, Marty Wohl and the Englishman Brian V. Martin, taught me about approximation. A sensitivity to approximation in those days was heavily reinforced by our dependence on slide rules for multiplication. Using a slide rule you can’t get sensible results unless with every slip and slide you remind yourself about the order of magnitude you are calculating, because only then will you correctly locate the decimal point. Orders of magnitude were drilled into your head. A decade later the slide rule was wholly obsolete, and the kids started thinking in 8-or-16 digit “exact” results instead of orders of magnitude. We of the slide-rule generation also walked to school through six-foot drifts of snow, up-hill both ways.

On the Meyer-Wohl-Martin project we were simulating the Colombian economy, along with its transport system (my sole value-added in two summers on the project was to realize in a Kleinian epiphany one day that we needed some way to connect, for every, single sector we were modeling, Colombian pesos of *economic* output with ton-miles of *transport*; no one else had noticed it). In 1965 the simulation on the physically massive but computationally weak Harvard computer was too difficult (I was also a two-course student of the

econometrician Guy Orcutt, visiting from Wisconsin, who was also trying to use simulation, also prematurely considering the computational power of computers early in the history of Moore's Law). Daniel Klein's Smithian point, following Hayek on the use of knowledge, is that *no* computer can do what "the man of system" thinks it can do, moving people the way his hand can move chess pieces (*TMS*, p. 233). I disagreed at the time, since I was still in my social-engineering stage. (I have had the luck at each stage of *believing* what was put before me, and not developing skepticism until I pretty much grasped the believer's world from the inside. Thus age 14 to 70, Kropotkinite anarchism, Marxism, Keynesianism, Democratic Party welfarism, Max-U Samuelsonianism, social engineering, econometrics, Marshallian supply and demand, Chicago-School entry-and-exit, libertarianism, rhetoric, post-modernism, feminism, empirical Austrianism, Christian economics, humanomics.)

My own tactic differing from Klein's, then, is to direct attention to the *overall* social magnitudes. I worry that Kleinian case studies can be dismissed as unrepresentative (I do not believe they are unrepresentative, but we are trying to persuade people who do *not* want to stop and consider the evidence soberly).

For instance, one can show factually that competition has enormously increased since 1800, nationally speaking, contrary to the conviction on the left that we are increasingly in the grip of Corporations. Socialists and others claim that capitalism tends to monopolies, a case made for the United States by the American socialists Paul Baran and Paul Sweezy in their amazing book of 1966, *Monopoly Capital*. As much as I admire the scientific seriousness of the book, I believe it was quite mistaken. Falling transport and transaction costs since 1800 have steadily increased the number of suppliers vying for the business of you and me. Economically speaking, monopolies are vastly less powerful now than they were in 1800. The bicycle, for example, sharply increased in the 1880s the buying range of housewives and the employment range of their husbands. The automobile in the 1920s made labor, well, mobile. The decline of tariffs after World War II gave American consumers access to 20 instead of 3 1/2 auto manufacturers. The internet now gives a buyer of a watch or a dress sixty places to shop, letting her fingers do the walking. Ask yourself how many automobile manufacturers you face compared with your grandfather, or how many stores you can visit in your car compared with your great-great grandmother in a buggy, or how many businesses vie for your attention on the internet compared with even a city-dwelling great-great-grandparent with a bicycle or a tram line. You can measure it, rather easily.

And, for another instance, one can show that the existing governmental programs to help the poor are too small to do their alleged job, for the excellent reason that the relatively rich arrange this to be so. Think for a

minute about the statistics in the distributive-justice argument. If the one third and more of national income that the American government collects *actually* went to the poor, would there be any American poor? Of course not. Imagine that as much as a quarter of the one third went to the poor—below the fraction I suppose people have in mind when defending governments of the twentieth century as "helping the poor." That's  $1/3 \times 1/4 = 1/12$  of gross domestic product, earmarked in such a hypothetical world for transfers to the poor. That would be about \$1000 billion in 2006 terms (when I first made the calculation, in *The Bourgeois Virtues*, pp. 44-45). According to the official definitions of numbers living in poverty, 34 million Americans did in 2006, over 10 percent of the population. The poverty figure, though it has fallen dramatically since Presidents Kennedy and Johnson drew sharp attention to it in the 1960s, appalls me as much as it appalls you. But whatever the dimensions of the problem, government doesn't seem to be the solution. If it were, then each poor person would be getting, according to the  $1/4$  of  $1/3$  hypothesis, goods and services from the government equal to \$1000 billion divided by 34 million. That's about \$30,000 for every man, woman, and child in poverty. \$30,000 is still below the average gross domestic product per capita in 2006 was about \$40,000. Yet no one would have called a family then with two adults and two children getting goods and services in the amount of \$120,000 a year "poor." With such an income, obviously, the poor would not be poor. But they *are* poor, namely, poor in those appalling 34 millions of souls. So it must not be true that the government's taxes go mainly, or even much at all, to the poor.

For another instance, ask whether the national statistics support the notion that expropriation of the rich is a good program for the poor. (Set aside that most of what governments spend on are *not* such redistribution, but subsidies to one middle-class person at a cost in taxes to another.) Redistribution has not been the chief help to the poor. The social arithmetic shows why. If all profits in the American economy were forthwith handed over to the workers, the workers (including some amazingly highly paid "workers," such as sports and music stars and big-company CEOs) would be 20 percent or so better off, right now. Sounds nice. Or again, to speak historically, ten hours' pay for just eight hours' work would, again, raise the incomes of the portion of the working class that got it by 25 percent. Great. Yet 20 or 25 percent is not the Great Enrichment of poor people since 1800, conservatively measured an increase from about \$7 a day in the U.S. in 1800 to \$127 a day now. Even if we took away the disturbingly high share of U.S. income earned by the top 1 percent, about 22 percent of national income in 2010, and gave it to the rest of us, we as The Rest would be only be 22/99, or a

little under 22 percent better off. The combined impact of such egalitarian interventions is trivial when put beside a rise in real wages 1800 to the present by a factor of 10 or 30 or (allowing for improved quality of goods and services) 100, which is to say 900 or 2,900 or 9,900 percent. If we want to make the poor better off by a significant amount, 9,900 percent beats a range from 20 to 25 percent every time. The Great Enrichment was caused by liberal institutions, a new liberty and dignity for ordinary people (McCloskey 2010, and more in McCloskey forthcoming, 2015).

For still another instance, if one grasps the 9,900-percent magnitude of the Great Enrichment it becomes impossible to maintain that unions or governmental regulations caused it. The productivity of the economy in 1900 was very, very low, and in 1800 even lower. The only way that the bulk of the people were going to be made better off was by making the economy much, much more productive. The share going to the workers was roughly constant (actually for a long time during the nineteenth and early twentieth century it was rising, as land rent fell in its share). The share was determined, as the economists put it, by the marginal productivity of workers. And so according to the economists' account even the poorest workers would share in the rising productivity—by those factors or 10 or 30 or 100. Radical creative destruction piled up ideas, such as the railways creatively destroying stage coaches, electricity creatively destroying gas lighting, universities creatively destroying ignorance. For the Great Enrichment—in the third act—one needed the Bourgeois Deal. (If you are still doubtful, dears, devote your days and nights to the study of the trilogy, *The Bourgeois Era*.)

Maybe that's how to argue for a true liberalism.

## Notes

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