

It was Ideas and Ideologies, not Interests or Institutions, which Changed in Northwestern Europe, 1600-1848

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The Schumpeter of 1912 was optimistic, as most people were at the time, about the future of what he later called a “business-respecting civilization.” But he did not then or later attempt to unify his economics of entrepreneurship with a sociology that could lead to the then-novel liberty and dignity for ordinary, bourgeois people. Later attempts at unifying the economics and the sociology fall into a political left, middle, or right. The left sees ideology as a reflex of the relations of production. The middle – and the rest, for that matter, though in their theories the history is not as generative – take seriously a German Romantic history of “capitalism rising” in the sixteenth century, and then proceed to build non-Communist manifestos on the savings-generated take-off into self-sustained growth that is supposed to have followed some centuries later. The right, echoing the left in another key, sees ideology as being reducible to interest.

The history on which left, right, and center build their sociology is mistaken, as has been shown repeatedly during the past century of historical scholarship. Unhappily, the economic or political students looking casually into economic history, such as the middle-of-the-roaders Daron Acemoglu and James Robinson, rely expressly and even a little proudly on a startlingly out-of-date account of the Industrial Revolution and its astonishing follow on, the Great Enrichment, which drove incomes up from \$3 or \$6 a day to \$80 or \$130 a day. So do the other schools, left or right.

The result is bad history, bad economics, and bad sociology. It is no surprise that it does not achieve the unification we seek. “Our argument about the causes,” Acemoglu and Robinson assert, “is highly influenced by a list of “scholars in turn . . . inspired by earlier Marxist interpretations” of the 1920s through the 1960s, such as R. H. Tawney, Maurice Dobb, and Christopher Hill.² The *locus classicus* of the interpretations, and the introduction of the phrase “the industrial revolution” into English, had been *Lectures on the Industrial Revolution of the Eighteenth Century in England* (1884) delivered by a young university lecturer and ardent social reformer Arnold Toynbee’s (1852-1883), in the year before his death at age 31. It in turn depended on the story of triumph and tragedy put forward in *The Communist Manifesto*. For example, Toynbee declared that “as a matter of fact, in the early days of competition,”

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² Acemoglu and Robinson 2012, p. 471.

the capitalists used all their power to oppress the labourers, and drove down wages to starvation point. This kind of competition has to be checked. . . . In England both remedies are in operation, the former through Trades Unions, the latter through factory legislation.³

None of this is historically correct, though all of it fills the popular view of industrialization. There were no “early days of competition” – competition was common in any society of trade, as its enemies the medieval guildsmen sharply realized. Supply and demand, not “power,” is what determines wages. The workers in the Industrial Revolution did not starve. Their diet improved. Competition needs to be encouraged, not checked. The wages of worker were rising and children were being taken out of English factories before the legalization of trade unions and before factory legislation began to bite.

In other words, Acemoglu and Robinson and the rest are accepting a leftish story of economic history proposed in 1848 or 1882 by brilliant amateurs, before the professionalization of scientific history, then repeated by Fabians at the hopeful height of the socialist idea, and then elaborated by a generation of (admittedly first-rate, if mistaken) Marxian historians, before thoroughgoing socialism had been tried and had failed, and before much of the scientific work had been done about the actual history – before it was realized, for instance, that other industrial revolutions had occurred in, say, Islamic Spain or Song China, as Jack Goldstone argued in 2002: “Examined closely, many premodern and non-Western economies show spurts or efflorescences of economic growth, including sustained increases in both population and living standards, in urbanization, and in underlying technological change.”⁴

The old historians, indeed, wrote before the British Industrial Revolution itself had been seriously researched, or they paid no attention to the findings coming out. In 1926 the economic historian John Clapham showed for example that Britain in the mid-nineteenth century was no steam-driven factory. “At what point” during the Great Enrichment, he noted, “the typical worker may be pictured as engaged on tasks which would have made earlier generations gape is a matter for discussion. It may be suggested here that this point will be found some rather long way down the [nineteenth] century.”⁵ Gape-worthy steam power in Britain, for instance, increased by a factor of fully ten from 1870 to 1907 (“some rather long way down the century”), a hundred years after the mills, mostly at first propelled by water, first enter British consciousness.⁶ And the bulk of goods and services in 1890, say, were still provided in traditional ways outside the mills. Think of the masses of household servants.

A foundational text in Acemoglu’s and Robinson’s tale, they say, is a book by Paul Mantoux (1877-1956), frequently reprinted (which was a publishing decision, not a testament to scientific currency). “Our overview of the economic history of the

3 Toynbee 1884 (1887, 2nd ed.), p. 87.

4 Goldstone 2002, Abstract.

5 Clapham 1926, p. 74. Compare Pollard 1981, pp. 24-25; von Tunzelmann 1978; Kanevsky 1979.

6 Musson 1978, pp. 8, 61, 167-168.

Industrial Revolution,” they declare forthrightly, “rests on Mantoux (1961).”⁷ Note the date given, 1961. But Mantoux’s book, translated from the French once, in 1929, contains no historical science done after 1906. Mantoux was not himself an economist or an economic historian, but a professor of French history. He was a friend of Lloyd George, and was the English translator for Clemenceau at the Versailles Conference. The comforting phrase “revised edition” of Mantoux in the bibliography does not refer to the reported date of 1961. *La révolution industrielle au XVIIIe siècle* was last revised in its French edition of 1906, well before we knew much beyond Marx, Engels, and Toynbee’s youthful anti-economic essay about the Industrial Revolution. We did not know for example Clapham’s finding of the 1920s; or the finding of the 1950s that early factories had little to do with massive accumulations of capital; or the finding of the 1990s that such Smithian growth was common worldwide; or the finding of the 1960s through the 2010s that the Great Enrichment, not the Industrial Revolution, was the most amazing fact.

Capitalism has always been with us, since the caves. Schumpeter took the old history seriously – it was not obsolete in 1912, or even entirely in 1950 – and attributed its “rise” to banking in Italy – banking which existed full-blown in fourth-century Athens, and probably in some form in every large or small society. Interests and institutions, too, did not change radically from 1600 to 1789. What changed was ideology, and it is the fact we need to understand.

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Better ideological conditions for uptake of new techniques and institutions like the electric motor or the modern research university awaited a change in the conditions of talk.⁸ People were permitted by their society’s prevailing rhetoric for the first time to experiment, to have a go, and, especially, to talk to each other in an open-source fashion about their experiments and their goings, rather than hiding them in posthumously decoded mirror writing out of fear of theological and political disapproval. They awaited after 1700, as Joel Mokyr puts it, the Industrial Enlightenment: “Economic change in all periods depends, more than most economists think, on what people believe.”⁹ Or more precisely, as he has also written, “intellectual innovation could only occur in the kind of tolerant societies in which sometimes outrageous ideas proposed by highly eccentric men [and women, Professor Mokyr] would not entail a violent response against ‘heresy’ and ‘apostasy’.”¹⁰ Or, as I would say, to put the same thought in a political and rhetorical way, they awaited in the Dutch Republic after 1600 and in England after 1688 or in New England after 1697 or in Scotland after 1707 or in France after 1789 the changes in the character of the conversation of northwestern Europe that caused the French and Scottish Enlightenments in the first place, with their marvels of

7 Acemoglu and Robinson 2012, pp. 471-472.

8 On open source: Allen 1983; Nuvolari 2004; and Bessen and Nuvolari 2012 for a historical survey.

9 Mokyr 2010, p. 1, the opening sentence of the book.

10 Mokyr 2010, Chp. 2.

science, Freemasonry, newspapers, concertos, and the economic and political dignity of ordinary people.¹¹ The origins did not, of course, instantly result in perfectly open societies. But by earlier standards, such as the politico-religious slaughters in Tudor-Stuart England, or late-Valois France, or the German lands 1618-1648, they were pretty good.

By the nineteenth century the resulting handful of open and liberal societies on their way to Schumpeter's "business-respecting civilization" were not met, alas, with universal applause, for example from the hierarchy of the Roman church. In 1864 Pope Pius IX, for example, condemned in number 80 of his Syllabus of Errors the absurd proposition that "The Roman Pontiff can, and ought to, reconcile himself, and come to terms with, progress, liberalism and modern civilization." Yet already in the Pope's hearing, as his blast itself shows, the ideas had changed many of the economies. The rule of the betterers became usual. By the late nineteenth century even the popes commenced favoring "capitalism" over, at least, a socialism that had not been so obviously worrying in 1864. Social life without private property is impossible, they affirmed, at any rate in large groups. So said Pope Leo XIII in 1891 in *Rerum Novarum*, re-echoed by Pius XI in 1931, John XXIII in 1961 and 1963, by Paul VI in 1967 and 1971, and by John Paul II in 1981 and 1991.¹² These men were not nineteenth-century liberals – especially, as Michael Novak explains, not in the Continental sense. But they celebrated private property, at any rate when used with regard to soul and community.

Two steps forward, though, one step back. In 2013 Pope Francis I reverted, as many earnest Christian do, and among them many popes, to a medieval theory of the zero-sum society, two centuries after the economy and its ideology had created progress, liberalism, and modern civilization, all of them positive sum. As the libertarian economist Peter Bauer noted of Paul VI's *Populorum Progressio* (1967) and *Octogesima Adveniens* (1971):

The spirit of these documents is contrary to the most durable and best elements in Catholic tradition. They are indeed even un-Christian. Their Utopian, chiliastic ideology, combined with an overriding preoccupation with economic differences, is an amalgam of the ideas of millenarian sects, of the extravagant claims of the early American advocates of foreign aid, and of the Messianic component of Marxism-Leninism.¹³

Sophus Reinert argues that the translations of John Cary's 1695 *Essay on the State of England* into French, Italian and German developed an anti-free-trade case – of which Reinert approves, in business-school style (Reinert teaches at the Harvard Business School). Business schools, which focus naturally on the fortunes of the individual firm,

11 On Freemasonry and the associated "radical enlightenment" (a concept that she, not Jonathan Israel, devised) see Margaret Jacob 1981. Bakunin declared in 1869 that during the eighteenth century "the bourgeoisie too had created an international association, a universal and formidable one, Freemasonry. It was the International of the bourgeoisie" (Bakunin 1869, First Letter).

12 These are Pius: *Quadragesimo Anno*; John: *Mater et Magistra* and *Pacem in Terris*; Paul: *Populorum Progressio* and *Octogesima adveniens*; and John Paul: *Laborem Exercens* and *Centesimus Annus*. Michael Novak is my guide here, Novak 1984, Chps. 6-8.

13 Bauer 2004, p. 107.

teach that “competitiveness” is all. They believe it follows that governments, not price signals from the world economy, should choose winners. Even the economists in the business schools have a hard time persuading their colleagues that the pattern of trade and specialization is determined by “comparative advantage,” which has nothing to do with absolute advantage, which professors of management and of history regularly mistake it for. Pakistan sends knit apparel to the United States, the economists preach without effect, not because it is better per hour at making socks and sweaters but because it is *comparatively* better at them than at making jet airplanes and farm tractors. If Pakistan is going to do anything, it had better focus on knit apparel, not high-tech machines. That is the best use of its time, and best for us all on average.

The Continentals in the nineteenth century, Reinert notes, believed that England’s great success in trade was the product of the sort of policy that Europeans had always thought necessary, mercantilism: an “exceedingly conscious [industrial and commercial] policy” favoring, they imagined, industrialization. It was a denial of comparative advantage in the pursuit of treasure by foreign trade. The Continentals therefore carried on as before, but more so, seeking to “codify and promote the ideas and policies responsible for the economic development of states locked in ruthless international competition.”¹⁴ Thus, with Reinert’s approval, came Friedrich List of Germany and a century later “dependency theory” and still later the “industrial policy” of a wise and benevolent state picking winners. The trouble is that the “success” we are talking about down to 1815 was a zero-sum extension of trading by way of Empire and military victories. If a conscious industrial policy had ever been able to achieve a great enrichment, it would have happened before – mercantilism in the small would have sharply enriched ordinary people by a factor of 30 or 100 in an imperialist Venice or a protectionist Augsburg or a centralizing Edo. It didn’t. Latin American countries under the spell of List and dependency theory have therefore stagnated. They had the wrong ideas.

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My theme that ideas and circumstances are intertwined in making the modern world is also the theme of the Cambridge School of historians of European political thought, such as Laslett, Pocock, Skinner, Dunn, Tuck, Goldie. The Cambridge/Johns Hopkins methodological point, which Schumpeter from another direction also emphasized, is that you may not omit ideas, nor even their internal logic or their political context pushing them to extremes. A good example is, Carlos Eduardo Suprinyak’s recent study of the way a dogma of the balance of trade became the default reasoning of early English mercantilists.¹⁵ The ideology is sometimes – the materialist would mistakenly say “always” – crudely self-interested. Schumpeter took a more nuanced view: “Ideologies are not simply lies”

14 Reinert 2011, pp. 202, 269.

15 Suprinyak 2011.

They are truthful statements about what a man thinks he sees. Just as the medieval knight saw himself as he wished to see himself and just as the modern bureaucrat does the same and just as both failed and fail to see whatever may be adduced against their seeing themselves as the defenders of the weak and innocent and the sponsors of the Common Good, so every other social group develops a protective ideology which is nothing if not sincere.¹⁶

Not just people at the time, Schumpeter continued, but historians looking back have ideologies about what they think they see. “The source of ideology is our pre- and extrascientific vision of the economic process and of what is – causally or teleologically – important in it and since normally this vision is then subjected to scientific treatment, it is being either verified or destroyed by analysis and in either case should vanish qua ideology.”¹⁷ I am not so confident as Schumpeter was, at the height of positivism, that verification and analysis will be the end of ideology. But it is my project, to change the pre-scientific vision of my colleagues.

Leo Tolstoy, in contrast to his somewhat older contemporaries Karl Marx or Henry Thomas Buckle, was no materialist, but rather what might be called a society-ist. “The less connected with the activity of others our activity is,” he wrote in 1869, “the more free it is; and on the contrary, the more our activity is connected with other people the less free it is.”¹⁸ We can raise our arm at will; but for half a million men to invade Russia, Tolstoy argues, more than the individual will of Napoleon was required. The notion is familiar to economists reflecting on the summed wills of suppliers and demanders. But in Tolstoy’s passion to reject the Great-Man theory of history he made merry of the force of ideas: “A locomotive is moving. Someone asks: What moves it? Some see it as a force directly inherent in heroes, as the peasant sees the devil in the locomotive; others as a force resulting from several other forces, like the movement of the wheels; others again as an intellectual influence, like the smoke that is blown away.”¹⁹ Yet, Count Tolstoy, you will admit that if the smoke gets in the eyes of the engineer, or if an idea of putting a high-pressure steam engine on rails inspires the provincial British artisans Richard Trevithick and George Stephenson, freed after 1800 from Watt’s patent monopoly, then ideas can matter mightily.

One can properly make merry of an ideational history that does not give a serious account of how exactly ideas moved people and where the ideas came from and what they had to do with the sociology at the time. Wrote Tolstoy: “Certain men wrote certain books at the time. At the end of the eighteenth century there were a couple of dozen men in Paris who began to talk about all men being free and equal. This caused people all over France to begin to slash at and drown one another.”²⁰ Or Sellar and Yeatman’s explanation of the Industrial Revolution in *1066 and All That*: “Many

16 Schumpeter 1949, p. 349.

17 Schumpeter 1949. p. 351.

18 Tolstoy 1868-1869 (1933), p. 548.

19 Tolstoy 1868-1869 (1933), Second Epilogue, p. 499.

20 Tolstoy 1868-1869 1933), Second Epilogue, p. 491.

remarkable discoveries and inventions were made [in the early nineteenth century]. Most remarkable among these was the discovery (made by all the rich men in England at once) that women and children could work for 25 hours a day . . . without many of them dying or becoming excessively deformed. This was known as the Industrial Revelation.”²¹

But consider the analogy with religion. The monotheistic, universalist religions of what Karl Jaspers called the Axial Age, 600 BCE to 200 BCE, arose it seems from the conversation of ideas between different civilizations, made possible by the material condition of improved trade.²² No one would deny that monotheism thereafter had gigantic material effects on politics and the economy. But monotheism after all is an idea, not a means of production, spreading for example from Temple Judaism (or it may be, as Freud dubiously claimed, from the pharaoh Akhenaten in the fourteenth century BCE) to Christianity to Islam, with remoter contacts in Zoroastrianism (providing the notion of reincarnation at the end of history) and even perhaps ideas from some versions of sophisticated Hinduism and Buddhism. Monotheism is a “meme,” a socially inheritable idea. When given a chance by trade or even by one holy man speaking to another – pre-Socratic philosophers in Ionia for example mulling Persian ideas – the intellectual prestige of a search for The One turns out to compete rather well in people’s minds with the vulgar particularism of tree worship and witchcraft and Olympian gods.

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Material circumstances mattered, of course. The Little Ice Age of Late Medieval times was long thought to have put pressure on régimes from Ming China to the Spanish Netherlands (though a recent paper by Kelly and Ó Gráda pretty much demolishes the statistical case for such an event).²³ And rising population worldwide in the sixteenth century set one elite against another.²⁴ The rapid adoption in the West of a gunpowder technology invented in the East put the final nail in the coffin – or rather the final bullet hole in the armor – of the mounted knight and his Norman castle walls and, with a very long lag, his aristocratic values. As late as the sixteenth century the mounted knight, or for that matter a Spanish commoner similarly equipped, could sometimes prevail, but only if faced with Aztecs and Incas deathly ill from imported smallpox and measles, and lacking iron and guns and horses.²⁵

And speaking of Mexico and Peru, the voyages of discovery and the resulting empires were perhaps useful if not essential contexts for an industrial revolution, as was trade inside Europe and – this one being essential – the long-established security of property. Yet these were only contexts, available from Nagasaki to Norwich, not vital

21 Sellar and Yeatman 1931 (1932), Chapter XLIX, pp. 92-93.

22 Goldstone 2009, p. 36.

23 De Vries 1976, 2009; Kelly and Ó Gráda 2011, 2014.

24 Goldstone 1991.

25 McNeill 1976; Diamond 1997, Chp. 3.

and uniquely northwestern European causes. If Europeans had not ventured in their startlingly violent way to Africa and India and the New World, and had not acquired empires by intent or by inadvertence, yet had nurtured the idea that all men are created equal, the Great Enrichment would have nonetheless duly happened.

Demographic history, as Richard Easterlin has argued, is a good place to watch the dance between ideas and conditions.²⁶ The Great Fall in Mortality is as important to a (literally) full human life as the Great Enrichment. Easterlin notes that ideas led the fall in mortality – this against the prevailing orthodoxy dating from the 1940s and Thomas McKeown that nutrition, not medicine, is what drove it. The demographer Sheila Johannson argues persuasively from the excellent records since the late Middle Ages on elite families – presumably not suffering from malnutrition, at any rate in the amounts they ate – that useful ideas such as quinine for malaria, inoculation for smallpox, and orangeries in the houses of the rich providing wintertime cures for scurvy brought death rates down for the rich. “Ignorance, not hunger, is the villain of mortality history.”²⁷ When ideas pioneered by the privileged yielded cheap versions of the ideas suitable to the poor, the poor eventually benefitted. Yet one can also admit that the poor eventually benefitted from eating better, in potatoes and tomatoes from the Columbian Exchange. The betterment in mortality was a dance between ideational and material causes.

High science, however, was not a cause of the drop in mortality, until very late in the story. None of the early medical advances that Johannson describes had much to do with theoretical breakthroughs. They were empirical, yes, but not deductions from biological laws, such as the germ theory of disease (itself among the earliest practical fruits of high science, yet of course adopted only late in the nineteenth century, after a period of “therapeutic nihilism” when it was realized that bleeding and the humors theory of disease did not work.) The historian Margaret Jacob argues plausibly for an ideal cause working earlier through a very material one. The steam engine, itself a material consequence of seventeenth-century ideas about the “weight of air,” inspired new ideas in the 1740s about machinery generally. Yet it is doubtful that the inventor of the “atmospheric” steam engine, Newcomen, an artisan familiar with pumps, knew much about high science. Science didn’t make the modern world. Technology did, in newly liberated and honored instrument makers and tinkerers.²⁸ The liberation and the honoring were the causes.

The East after 1500 and probably by 1689 and certainly by 1848 looks slow to follow, by comparison with what became the frantic levels of betterment of the West, from 1600 in Holland and from 1700 in England and its American colonies and from 1760 in Scotland and France and then northwestern Europe and the world. Even within Europe there were leaders and followers and contingency. Perform a mental experiment on, for example, France in the eighteenth century. In a France counterfactually without the nearby and spectacular examples of bourgeois economic

26 Easterlin 1995 (2004).

27 Johannson 2010, p. 6..

28 If you doubt it, see Chapter 38 in my *Bourgeois Dignity*.

and political successes in Holland and then in England and Scotland and in far America (constituting together what Walter Russell Mead calls “the Anglosphere”), modern economic growth would have been throttled – and would even in a France blessed with such clever advocates of trade-tested betterment as Vauban, Cantillon (an Irishman living in France, despite his French-appearing name), de Gournay, Voltaire, Quesnay, Turgot, and Condillac.²⁹ (And such men were of course themselves greatly influenced by the embarrassingly successful Anglo-Saxons across La Manche.) Consider how very anti-bourgeois and anti-libertarian most of France’s elite was until the Revolution – or for that matter in the early twenty-first century still is. Henry Kissinger jokes that France, with the highest percentage of government spending in the OECD, is the “only successful communist country.” Analytic geometry, because of its military applications, was declared a state secret in early modern France. Turgot fell from his cabinet post of controller-general in 1776 because he proposed the elimination of privileges ranging from those of the guilds monopolizing technique to the nobility exempt from taxation. There was, of course, haut-bourgeois or aristocratic privilege in Holland and Britain, too. But it was less extensive and more reformable by parts.

Among the French for two centuries after the Unfinished Revolution of 1789 reactionary parties prospered which were uninterested in economic growth if they could but impose a rigid form of Catholicism on the schools and keep the Army free of Jews. The cultural struggle was what the French themselves have called the interminable “Franco-French War.”³⁰ Even nowadays the privileged young engineers-in-training of the École Polytechnique in France march around in uniforms, under a banner inscribed with a motto that would strike students at such bourgeois and anti-aristocratic institutions as MIT or Cal Tech in the United States or even at the rather less bourgeois Imperial College in Britain as hilariously antique and unbusinesslike: *Pour la Patrie, les Sciences et la Gloire*. In Spain, too, which was the European hegemon of the sixteenth century, economic growth was in fact throttled until very recently, for conservative reasons (though reasons that continue to trouble the country), despite the examples of the Dutch and British and then even the French.³¹ But in the bourgeois and aristocratically dishonorable countries, such as early on the Netherlands, which eventually included even France – and in the very long run even, of all improbable developments, Spain – the circumstances made a new rhetoric, which made new circumstances, which then again made new rhetoric. And the Great Enrichment came.

That a material base can of course have an influence, in other words, does not at all require that we reduce mind to matter, or indulge our tough-guy affection for realism in international relations and declare that economic growth comes out of the barrel of a gun. John Stuart Mill, writing in the 1840s of the sources of the new

29 Mead 2007, p. 114.

30 *La guerre franco-française* was first coined in 1950 in a book about Vichy France, but has been taken up to describe left vs. right from 1789 to the present (Williams 2014, p. 2).

31 See the book of the economic historian of Spain, Regina Grafe (2012), which argues that Spain’s problem was the power of regions – not the sort of centralism that France has practiced from the sixteenth century to the present.

sympathy for the working class, noted that “ideas, unless outward circumstances conspire with them, have in general no very rapid or immediate efficacy in human affairs; and the most favorable outward circumstances may pass by, or remain inoperative, for want of ideas suitable to the conjuncture. But when the right circumstances and the right ideas meet, the effect is seldom slow in manifesting itself.”³² The Industrial Revolution and especially the Great Enrichment and its rhetoric of respect for ordinary life, for example, given the quasi-free market for ideas, made possible the rise of mass democracies. Mill speaks especially of the British Reform Bill of 1832. The Bill was admittedly a modest extension of the franchise (unlike the fuller democratizations of 1867, 1884, 1918, and 1928). But if the specifically rhetorical change had not happened, as it did – a change on the lips of influential people about political representation – modern economic growth and therefore modern democracy in Britain would have been throttled in its cradle, or at any rate starved well before its maturity.

Economic growth and democracy had after all been routinely throttled or starved in earlier times. Douglass North, John Wallis, and Barry Weingast want to be seen as tough-guy materialists, but when they seek explanations in their recent book for the “transition proper” to “open access societies,” they fall naturally into speaking of a change in rhetoric. Two crucial pages of their 2009 book speak of “the transformation in thinking,” “a new understanding,” “the language of rights,” and “the commitment to open access.”³³ Though they appear to believe that they have a material explanation of “open access to political and economic organizations,” in fact their explanation for why Britain, France, and the United States tipped into open access is ideational.³⁴ Ideas change through sweet talk as much as through material interests.

An interest-only theory of the economist S. N. S. Cheung inspired North, Wallis, and Weingast. Cheung, though a naturalized American and a capitalist-roader of the purist kind, was by his own account a teacher of the Communist Party grandees allowing China to experiment after 1978 with trade-tested betterment. In 1982 he explained to a Western audience that such an institutional change comes from accumulated information combined with interest.³⁵ It is a mere matter of calculation. A part of the elite somehow acquires information about better institutions, “better” being defined as “better for the interests of the elite.” And then the better-informed party spends resources to compel the others, against the interests of the others. There is in Cheung’s theory no sweet talk, no ideological persuasion, no fundamental changing of minds, no mutual gain in the realm of ideas – merely cost and benefit defined as material interest. Acemoglu and Robinson have an identical theory, expressed in a more nuanced and mathematical form.

The Cheung theory does fit some of China’s turn to “capitalism.” The Party officials making their first trips to the West after Mao’s death were mortified by the

32 Mill 1845 (1967), p. 370.

33 North, Wallis, and Weingast 2009, pp. 192-193.

34 North, Wallis, and Weingast 2009, p. 194.

35 Acemoglu and Robinson 2006.

riches they saw – which was their new information.³⁶ Let us have some of that, they thought, and some Swiss bank accounts for high Party members as well. The political struggle of Deng Xiaoping to put “socialist modernization” into practice had costs, which figure in the Cheungian calculation. And yet a great deal is missing from such a prudence-only account of benefit and cost. The favorite book of a recent Premier of China, Wen Jiabao, is Adam Smith’s *The Theory of Moral Sentiments*, which famously begins, “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.”³⁷ As the economists Ning Wang and Ronald Coase argued recently about the political prospects for China, “multiparty competition does not work unless it is cultivated and disciplined by a free market for ideas, without which democracy can be easily hijacked by interest groups and undermined by the tyranny of the majority. The performance of democracy critically depends on the market for ideas, just like privatization depends on the market for capital assets.”³⁸ Coase and Wang pay attention to the way the ideas of the elite and the people changed for reasons beyond sheer interest. Without the power of words our liberties and our central heating would have been denied.

Words, ideas, rhetoric make for a “humanomics,” an economics with full humans let back in. And its killer app is a new theory of how the modern world became free and rich.

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36 Coase and Wang 2013b, pp. 32-35.

37 Smith *TMS*, first page; Coase and Wang 2013b, p. 205.

38 Coase and Wang 2013a, p. 10. And yet at one point in their book, 2014b, Coase and Wang praise Cheung and his eager American students North, Weingast, and Wallis (pp. 163-164).

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