

# Review of: "Liberalism Caused the Great Enrichment"

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Fernando López-Castellano, review of Deirdre Nansen McCloskey, "Liberalism Caused the Great Enrichment", Qeios

Professor McCloskey revisits a theme already studied on other occasions in her criticisms of Weingast and in her conversations with Paolo Silvestri on the weaknesses of North's neoliberal institutionalism (McCloskey, 2017; McCloskey and Silvestri, 2021); in her questioning of Acemoglu and Robinson's "relentless statism" (McCloskey, 2021); in her review of Deneen's text (McCloskey, 2018), or in her defence of Fukuyama's thesis (McCloskey, 2019).

The idea on which her entire argumentative framework pivots is that liberalism produced a "Great Enrichment", which allowed the enormous increase in population since 1800, enriched it and freed it from the physical coercion of others. Moreover, in contrast to the "reactionary" thinking of authors like Thomas Carlyle, Charles Dickens or John Ruskin, in the past, and of Pikettys, Deneens, and rulers like the Putins and the Maduros, today, the big story of the modern world is not inequality. With liberalism, the world, in the period 1800-1960, came to the end of history, as political scientist Francis Fukuyama once declared (McCloskey 2019).

McCloskey argues that liberalism is "the Telos of History", understanding Liberalism with a capital "L", in the sense of the "liberal plan" described by Adam Smith in 1776, "of [social] equality, [economic] liberty and [legal] justice", with modest and restrained government providing real help to the poor.

In his search for the ultimate cause, "the secret sauce" of such "Great Enrichment", she warns that "A section of economic thinking confuses in Schumpeter's way, necessary conditions with sufficient conditions, and intermediate causes with ultimate causes, and confuses helpful normal science with inspiring revolutions"; and that "The economist's non-ideological causes such as investment and institutions or exploitation are merely allocative, routine, not transformative, and cannot explain the 3,000 percent increase in human material welfare".

In his view, the most plausible hypothesis is that the cause of the "Great Enrichment" was the change of ideas in human minds, and the ideological change is called liberalism: "The crux was liberalization at the level of ideas in the Netherlands and then in Britain, favouring a culture of somewhat free speech and an economy of quite energetic enterprise". To elaborate on this idea, Professor McCloskey stresses that liberation in ethics and ideology produced "innovism", not "capitalism", which was a long-standing phenomenon. "Innovism" should be understood as the accumulation of ideas, not capital, hence the sequence she proposes and which history has corroborated: liberalism led to innovism and thence to Great Enrichment.

In my opinion, the most valuable aspect of Professor McCloskey's work lies in the capacity for synthesis, erudition and knowledge of the History of Economic Thought that she explores in her attempt to rule out the necessary but not sufficient causes of the Great Enrichment. Thus, with the support of an updated and very complete bibliography, her account includes a long list of historians, economists and sociologists, and a large part of the theoretical currents that have approached the problem of economic development since Adam Smith.

McCloskey questions these currents as she understands that they explain only part of the effects on growth, but not the "Great Enrichment". She argues that variations in geography, common law, savings rates, human capital, science, Christianity or empire, railways, banking or institutions were necessary causes in every economy and in every age, but not sufficient.

Throughout her critique appear the "Great Divergence" (Landes, Durlauf, Pomeranz); W. W. Rostow's "stages of growth"; Wallerstein's idea of capitalism as a "world system"; Acemoglu and Robinson's Political Economy of failure; Paul Romer's "endogenous growth" theory; the neo-institutionalist theses of North, Weingast and Williamson; or Mazzucato's recent idea of the "entrepreneurial state", among others.

Professor McCloskey enters the debate on the neo-institutionalist narratives of the "paradox of the West", which attribute to the institutional matrix the explanation for the "miracle" of growth and historical evolution that made possible the great transformation that took place between the 10th and 18th centuries. This narrative argues that the creation of an efficient economic organisation and the definition and protection of property rights, which created incentives for investment, and the establishment of a political structure that limited despotism, expanded the framework of economic opportunities for private agents and encouraged innovation (North and Thomas, 1973; North, 1990, 1995; North and Weingast, 1989; Acemoglu and Robinson, 2012).

Cox (2012) qualified the impact of the revolution on property rights, and Ogilvie & Carus (2014) stress that long-distance trade also increased in periods and places where public authorities guaranteed property rights across the board to all economic agents rather than in particularised ways to members of privileged guilds. Europe's commercial success was achieved through a combination of trade, coercion and colonisation (Malik, 2012; Findlay and O'Rourke, 2007).

The development of private enterprise was possible in an external context that strengthened the state, its armed forces and economy. In the West, the creation of national markets coincided with the formation and expansion of state institutions. The English mercantilist state created internal and external security frameworks within which laws and rights could be implemented and enforced, which allowed the development of a market economy (O'Brien, 2003). In both England and the Netherlands, the state, in order to increase its revenue-raising power, promoted and supported through legal and administrative measures the formation of shipping companies. O'Brien (2011) investigated the process of the construction of a fiscal constitution by England's political elites, concluding that it had positive effects on external security and internal order, and enabled the implementation of successful mercantilist policies that made an early industrial revolution possible. Also Karaman and Pamuk (2011) and Dincecco and Prado (2012) show evidence regarding the positive effects on the fiscal capacity of states of changes in economic structure, represented by urbanisation, and

interstate competition, brought about by the pressure of war.

Professor McCloskey also engages in the unfinished debate on attempts to solve the "puzzle" of Western Europe's "great divergence" from the rest of the world. The literature on the subject highlights the role of historical contingencies in explaining the 'Great Divergence', arguing that Europe's economic success is underpinned by phenomena such as the rise of the mineral-based economy, colonialism or the Atlantic economy (Pomeranz, 2000). McCloskey (2010, 2023) joins Landes (2006) and points to cultural change and shifting beliefs in the seventeenth and eighteenth centuries as decisive factors that encouraged entrepreneurship and facilitated the industrial revolution in England. But cultural factors do not act independently of social, political and economic determinants. A multitude of factors, such as ideology, religion, culture, history, invasions, colonisation and geography, must be considered in order to understand the configuration of an institutional structure (Chang, 2011a).

Unlike McCloskey's dichotomy between liberals and "relentless statist" such as Acemoglu or "the columnist" Krugman, historical evidence corroborates that state capacity is a critical variable in successful cases of development. The inability of the state to articulate a unified and non-discriminatory fiscal and legal system was the main brake on pre-modern economic growth (Epstein, 2009; Di John, 2010). On the other hand, the existence of an effective government is a precondition for the transition to a market economy, because voluntary exchanges cannot take place in an institutional vacuum. The role of the state increases in a Schumpeterian world based on competition and innovation (Burlamaqui, 2000; Jessop, 2003). Shaoguang's (2003) study of China shows that market development requires an arduous process of "legitimation", underpinned by coercion, and that a market economy cannot exist without effective legal, administrative and taxation institutions that define property rights, enact laws, enforce contracts and collect taxes.

In contrast to Hayek's idea of "spontaneous order", Chang (2002b) stresses that the market is just one institution in a capitalist system that is also made up of other institutions, such as firms and the state, as the creator and regulator of institutions governing relations and as a political institution, as well as other informal institutions such as social convention. The market is a political construct, defined by a series of institutions, formal and informal, that regulate participation, the object of exchange and the rights and obligations of the agents involved. In other words, the market is an institution, involving social norms, customs and instituted exchange relations (Hodgson, 2015).

Another important aspect not highlighted by Professor McCloskey is that, with some exceptions, all today's developed countries actively pursued industrial, trade and technology policies to promote infant industries during their stages of development. Such is the case of England or the United States, two laissez faire myths, which disregard Adam Smith's "advice" not to develop manufacturing industries and protect "infant industries" (Chang, 2007). As Reinert underlines, the chosen productive specialisation profile is a determinant variable of economic growth and development, to the extent that the form of insertion in the world economy could be related to a country's institutional matrix. In the initial phase of their industrial development, the world's most successful economies sought dynamic imperfect competition through a policy of import and export bans and the introduction of tariffs (Reinert, 1995, 2007).

Meanwhile, only an episode of "historical amnesia" can explain why Professor McCloskey forgets such paradigmatic and not very "liberal" cases as the so-called "golden age of capitalism". Chang (2002a) finds that during the three decades

after the Second World War, both rich and developing countries experienced growth rates far higher than those of the "first globalisation" (1870-1913) with well-designed intervention programmes and severe controls on international capital movements. It also shows that most poor countries experienced higher economic growth in the 1960s and 1970s, when they pursued active economic policies, than in the following twenty years, when they abandoned such policies in favour of institutional structural adjustment reforms.

In all the countries that achieved sustained economic growth (the Asian tigers, China, Chile, India, Botswana), while defining and protecting private property rights, public social policies, infrastructure provision and support for technological innovation and productive investment were implemented. The triumph of the "idiosyncratic" Asian model was underpinned by a formidable expenditure of political energy and economic resources. The Korean case is an example of "heretical" economic policy and remarkable economic performance between the 1960s and the 1997 crisis. Its strong economic performance was due to a powerful bureaucracy that fostered macroeconomic stability and productive efficiency, a particular relationship between the state and industry to carry out a "national transformation project", and the implementation of redistributive mechanisms to reduce the insecurity generated by rapid structural changes and cyclical influences (Chang, 2002a; Chang and Evans, 2005).

This brings us to another important issue. In the text under review, although there is a brief reference to the Walter Lippman colloquium held in Paris in late August 1938, it is not clear what is the distinction between liberalism and neoliberalism, between neoliberalism or neoliberalisms, and to which epochs the author is referring. At one point she goes so far as to state, in a clear nod to Montesquieu (Hirschman, 1977), that after a brief era of "sweet and productive liberalism" it was attacked by enthusiasts of state action against human action. However, McCloskey later proclaims that Ireland, today, thanks to adopting "liberal" policies, is the fourth or fifth richest country in the world by far!!!! Furthermore, she also goes on to claim that liberalism also worked in China after 1978 and India after 1991, both of which underwent substantial changes by relaxing planning and regulation.

The reality is that neoliberalism has been imposed almost everywhere in the world, thanks to the impetus of the "unholy trinity of capitalism", the IMF, the WB and the World Trade Organisation (WTO) (Chang, 2008); and, in Europe, through the Maastricht Treaty (López and García, 2019). Its effects are well known. Financial instability, widespread increase in social inequality, and an intense process of 'creative destruction' of institutional frameworks, social relations, social services and reproductive activities (Harvey, 2007; Streeck, 2014). Over three decades, the neoliberal system widened the gap between rich and poor and increased inequalities in income, health and life chances within and between countries to levels unknown since before the Second World War (Foster, 2019, Chancel et al., 2022).

In Latin America, neoliberalism was a common but heterogeneous project, albeit with similar effects in terms of increasing inequality, poverty and misery (López Calva and Lusting, 2010). In the early 1990s, the new development agenda was formalised in the Washington Consensus, with disappointing results. Latin America, the privileged recipient of its prescriptions, experienced low and volatile growth and social inequalities increased. Neoliberalism shaped African development, leading to high levels of inequality, increased state fragility, reduced public employment and favoured deindustrialisation (Olamosu and Wynne 2015; López Castellano et al. 2019, 2022). The current 'Africa rising' narrative is

an attempt by international financial institutions to demonstrate that the adjustment and stabilisation policies imposed on the continent in the last decades of the 20th century are bearing fruit (Mkandawire 2014), ignoring the serious problems of inequality, poverty, unemployment and environmental destruction caused by natural resource extraction that affect many African countries (ObengOdoom, 2017). The reality is that economic growth is concentrated in a small group of countries rich in natural resources (Nigeria, Angola, Equatorial Guinea, Democratic Republic of Congo, Chad), but which occupy the last places in the global ranking of the Human Development Index (Kabunda, 2017). Maastricht also imposed a neoliberal culture on social policy, a culture that has resulted in the restriction and reduction of social spending and the privatisation of welfare services, with a serious deterioration of the social contract and an increase in precariousness in the field of labour relations (Standing, 2011, López and García, 2019).

Finally, although McCloskey argues that Fukuyama's view of liberalism is still valid three decades later, the political scientist himself partly contradicts this assertion by stating in his recent book that classical liberals have to move beyond the neoliberal era in which the state was demonised as an inevitable enemy of economic growth and individual freedom. He also questions the use of GDP as the sole measure of success and warns of the dangers of extreme inequality (Fukuyama, 2022).

Furthermore, the text under review makes no allusion to political domination - national as well as transnational, colonial and post-colonial - nor ecological degradation. The hidden secret of capitalism's endless accumulation is that it does not pay its bills. Capital expropriates chunks of nature for free and treats it as a freely available and exploitable source of wealth and as a dumping ground for waste (Fraser, 2020, Moore, 2020).

I reiterate my emphasis on Professor McCloskey's ability to stimulate debate and her high level of knowledge and scholarship. On the other hand, although there are confusing aspects that, I think, should be clarified (the sequence liberalism-neoliberalism; the idea of wealth; the problem of capital; institutions...), I am in favour of the article being published and widely disseminated.

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