Review of: "Liberalism Caused the Great Enrichment"

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The paper argues that liberal thinking represents the fundamental cause of the unprecedented period of economic growth that started in North-Western Europe from the 18th century onwards. The author understands liberalism primarily as the liberation of human ideas and creativity, the so-called “innovism”. Saving, investment, sound institutions, rule of law, capital accumulation and other material causes, which have been put forward by most economists as the main ingredients for economic growth, are deemed as necessary, but only “routine” or “trivial” contributing factors. Allegedly, “innovism” was the key driver of the 3,000 per cent increase in real income per capita achieved during the period of Great Enrichment. Convinced that only “innovism” could have achieved this kind of quantum leap in economic growth, the author bemoans that mainstream economics has focused on “capitalism” instead.

The focus of the paper on individual freedom as the main driver of economic growth is praiseworthy. It is also undeniable that the liberation of creativity spurs innovation which together with capital accumulation leads to technological progress. But, it is less obvious that innovation is so much more important than capital accumulation in driving economic growth.

Murray N. Rothbard claims that production may be limited by technological knowledge, but it is even more limited by the amount of saved capital (Rothbard, [1962] 2004). The proof is the large pile of scientific ideas which remain idle because there are not enough factors of production to help them materialize. In order to use a new invention in production, more capital must be invested first. The fact that a new invention is not adopted immediately or at all by all firms shows that capital is a narrower limit to growth than innovation.

Ludwig von Mises makes a similar argument by looking at the case of underdeveloped countries (Mises, [1949] 1998). In principle, the latter have relatively easy access to the technological knowledge of advanced economies. They can get their youth educated and acquainted with more efficient methods of production and purchase the necessary know-how from abroad. What they actually miss to catch up rapidly with the advanced world is the capital to be invested in the structure of production to implement the new technologies. By only borrowing the new technologies without the accompanying capital goods would take underdeveloped countries many decades to catch up.

In the same vein, the paper seems to downplay the fundamental role played by property rights and rule of law, underpinning economic freedom, in the accumulation of physical and human capital. The author views secure property rights as a necessary condition for growth, but believes that they are “commonplace and given” and “have been more or less universal, with or without the permission of an effective sovereign, if there was one”. This generous perception of the availability of economic freedom does not seem to fit reality, at least according to the 2023 Index of Economic Freedom. The latter considers that there are at present only 27 “free” and “mostly free” countries in the world, whereas 55 are “moderately free” and more than half of the total countries, i.e. 93, are “mostly unfree” and “repressed”.

Conditions regarding political and economic freedom have hardly been better throughout history. For centuries imperial China inhibited the rise of rich merchants and feudal lords that could have challenged the political authority. The emperor and the ruling class of civil servants suppressed the use of inventions in market production, and eventually China fell behind the West despite having been more advanced in terms of science and technology than Europe until the 15th century (Rosenberg and Birdzell, 1986). This example contradicts directly the author’s claim that property rights and rule of law have played only a secondary role to “innovism”.

The author could have also given more attention to other periods of rapid economic progress, such as the rise of the free “city-states” in Europe starting with the 11th century. Ralph Raico and other economic historians believe that an economic miracle took place in the independent Italian city-states, the Dutch ones and the free Hanseatic towns of the North Sea and the Baltic in the high Middle Ages, when the latter witnessed the development of merchant capitalism and early democratic forms of government (Raico, 2016). Europe’s decentralized powers and jurisdictions and Christian values and philosophy, which mitigated slavery and contributed to the concepts of natural law and the legitimacy of resistance against unjust rulers, favoured the emergence of secure property rights, rule of law and the ending of outright expropriations and of confiscatory taxation. The lack of reliable statistics makes it difficult to say whether growth rates have been much lower than during the Great Enrichment, but the profound changes in political and economic systems in the free city-states set in motion the ideological change and accumulation of capital that set a fertile ground for the Industrial Revolution and the Great Enrichment.

In conclusion, the main merit of the paper is to filter out from the plethora of likely contributors to economic growth its fundamental cause, i.e. the liberal ideology promoting individual freedom. Progress towards “equality of permission” for the entire society liberated human spirit, entrepreneurship and innovation and caused the Great Enrichment. It is true that all rational human actions are based on ideas, which exist in an almost infinite number at any time. But, the economics science investigates their materialization with the help of scarce resources and factors of production. Hence its focus on saving, investment, capital accumulation and social arrangements that underpin them, rather than on “innovism”, seems justified.

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