

CEPOS ESSAY: LIBERALISM CAUSED THE MODERN WORLD

08-09-2021

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Any innovation—mechanical, biological, institutional, scientific, artistic, culinary, bureaucratic, entrepreneurial, athletic, personal—begins of course in a human mind. True, as the philosophers say, “instantiation” (Latin “an instance of”) in words or action or matter is then necessary for an effect in the world. But the root cause of the human instances of changing words or action or matter is a human thought.

The point is perfectly obvious. Corporations, state offices, laboratories, sports teams, families do not think and therefore innovate. Not literally. Literally some single human does, and then perhaps persuades others to come along. The English style of knitting, the Danish dairy cooperative, the Messi football turn all came out of some human’s mind and will and venturing.

Strangely, the point has been mostly overlooked in economics. Most economists don’t credit the creative mind. They credit instead the tools the economic artist picks up or devises. It would be like explaining Van Gogh’s “Sunflowers” by leaving out Vincent’s mind and will and venturing, and instead attributing the painting to the tube of synthetic chrome yellow number 1 he picked up.

The biggest economic painting to be explained is the stunning growth in most economies since 1800. It was, and will continue to be, a wholly unprecedented Great Enrichment for ordinary people, a fully 3,000 percent rise in real income per person, in places like the USA and Denmark and Japan and now Botswana and South Korea. Airplanes instead of horses. Universities instead of illiteracy. Haute cuisine instead of black bread. Antibiotics instead of bleeding.

Real income per head in the world is growing at 2 percent per year, and has no reason to stop, if we don’t mess up. The fashionable threats, varied monthly in fevered editorials, such as an alleged rise of inequality or the actual rise in global temperature, are solvable, if we have the riches to solve them. At 2% a year we will. Danes have more wind power than most because they are rich. By century’s end at such rates the average African will have a considerably larger command of goods and services and leisure than the average Dane has now. Admittedly, by being pessimistic about all this, and stroking your chin, and nodding sympathetically, you can acquire cheaply a reputation for profundity and concern. But if you want to be historically and economically scientific, and truly concerned about your fellow humans, you’ll instead be optimistic about human creativity in a liberal world.



Yet the economist wants to explain this optimistic modern miracle with various intermediate causes, by themselves not creative, like van Gogh's tube of synthetic chrome yellow number 1. They want to do so even though the ultimate cause of a new way of doing things is always a human mind. The conditions for the human mind to exercise creativity are where an economic scientist should be looking. But she strides past the mind. She instead looks intently at causes that are merely derivative from, and dependent on, a creative mind. Capital and labor and land lack point without a mind's creative direction. Novel direction, not the machinery of intermediate faux-causes, is what made us rich.

In particular it wasn't capital, as to the contrary the scientifically misleading word "capitalism" implies. In 1776 the cause was said to be the accumulation of physical capital, as Adam Smith claimed, capital as tubes of chrome yellow. Then in 1848 it was surplus value extracted from exploited workers, as Marx claimed, resulting again in accumulation of physical capital. Then in 1942 it was the alleged routinization of innovation, as Joseph Schumpeter claimed, resulting in accumulating capital. Then in 1960 it was human capital, resulting in accumulation of capital. Then in 1993 it was institutions of various sorts, from legal to scientific, resulting in . . . accumulation of capital.

Notice a theme here? All such proffered causes are mechanical add-ons, auto bodies built so to speak on an imagined automobile chassis of accumulation. Yet the chassis doesn't have any wheels. Such economic thinking fails to explain Smith's "nature and causes of the wealth of nations." And therefore, the clients of the economists are misled, and adopt radically mistaken policies which make us poorer in body and spirit. As was wisely said long ago by the great J. M. Keynes—an originator, though, of a set of radically mistaken theories and policies: "Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."

The problem in the actual *history* with the accumulative materialism typical of economic thought is that most of the suggested "causes" are of long standing. Typically very, very long standing. It's as though synthetic chrome yellow number 1 had existed since the caves, yet art historians still say that it caused "The Sunflowers." Thus: canals are good for an economy. But Imperial China a thousand years ago had a longer canal than anything in fragmented Europe, ever. Peace is good for an economy. But Japan under the Tokugawa had peace for centuries, far longer than any period in quarrelsome Europe. Yet the Great Enrichment did not come to such materially blessed places, places engaging in massive accumulation and having the stability of peace and law. It came to the wretched, war-torn, hate-filled, legally chaotic backwater of northwestern Europe, in particular to Holland and then to the Anglosphere, and then to Denmark and Italy and the rest. Something is wrong with the materialism of canals and peace and the like.



To mention a new “and the like,” some academic and policy economists have claimed that an improvement in the rules of the game is what enriched us. Such “institutions,” though, are another materialist machine facing an appointment with historical embarrassments. Good property rights and good contract law were commonplace in ancient Israel of the judges and in ancient Rome of the lawyers. *Njáls Saga* declares that *með lögum skal land byggja* (in case there are non-Danes reading this: “with law will the land be built”). It is the first sentence of the Jutland law code of 1241, the motto of the Shetland Islands entire, the motto of the Icelandic police force, and is to this day inscribed on Danish law courts. Splendid. But the Great Enrichment did not arise in ancient Israel, Rome, Iceland, or even Jutland. Old and routine things can’t be the cause of new and radical things. The Great Enrichment is new and radical.

And the problem in the actual *economics* with materialist accumulations, or the neo-institutionalist theories of altering the legal rules of their manipulation, is that all face diminishing returns. The scientific question is how to explain a stunning rise in the opportunities available to ordinary people—what economists suggestively call a rise in “the production possibility curve.” It rose in the last two centuries by a factor of *thirty*. The British phrase applies: gob-smacking. Any scientific explanation has to acknowledge the astounding fact.

But altering legal rules can only make allocations come a little closer to ideal efficiency. They don’t yield a factor of thirty. Suppose bad laws had caused income per person in England before 1689 to be, say, as bad as half of what it could be. The motto in *Njáls Saga* continues, *en með ólögum eyða* (“and with bad laws [the land is] destroyed”). Yes, true. You will hear economists who have not actually looked into the legal and economic history assert that in 1689 in England the laws became much better. All right, suppose they became after the Glorious Revolution *perfect* compared with a shockingly bad fifty percent lower-than-perfect production possibility curve. Then getting to perfection would, you see, explain only a *doubling* of income per head. The miserable 50 rising to a perfected 100 is a doubling, very welcome. But where, one needs to ask, did the rest since 1800 of the *thirty* times more food, books, housing, transportation, medical care, education, word processing, adventure vacations, and 500 channels of TV rubbish come from? By such a standard, doubling is not of a gob-smacking magnitude. A rise from 50 to 100 is far, far less than a rise from 50 to 1,500.

Your own homely experience shows, too, why capital accumulation without new ideas faces similarly diminishing returns. Your home in Copenhagen is doubtless very nice, valuable in your daily consumption, and at any rate is a great deal better than living in a tent in the Vestre Cemetery. And your nice little *second* home between Houvig Strand and Sidselbjerg Strand is just great for July and August. But a third place would of course be much less valuable in your consumption—maybe you could store spare furniture and spare kids. Then a fourth would be even more useless. Then a fifth. . . You get the point: accumulation faces diminishing returns. A fifth Göteborg making Volvos would be much less productive than the first.



What made us rich and can in the next fifty years bring everyone on the planet to the present Danish standard of living, and then beyond, is not accumulation of capital or exploitation of workers leading to accumulation of capital or better legal rules leading to accumulation of capital, but innovation. Ideas do not face diminishing returns. They face increasing returns. As more ideas are accumulated, as Matt Ridley puts it, the ideas start having sex. The idea of rails for carrying coal in little cars out of mines is married to the idea of a high-pressure steam engine, the child of this union being the railway. As more and more people adopted railways, more opportunities arose for creativity: hydraulic brakes permitting much longer trains; strict time zones and scheduling and telegraphs to prevent trains crashing into each other; welded rails; smaller crews; higher speeds. The returns enormously increased, accounting for the magnitude of the Great Enrichment.

Vincent's new idea for painting sunflowers was such an innovation. Additional amounts of stuff are nice—that vacation house, or more ice cream. But what is transformative, and enriching to the society as a whole, are new ways of doing things, or new things entirely. Divided highways. Dropped ceilings. Existentialism. Radio. University education for 27 percent of the population of Danes aged 25-64. Containerization. Insulin. Google maps. Lego blocks. All of these originated in the mind of some human being, such as Alexander von Humboldt inventing the modern university in Berlin in 1810 or Malcom McClean inventing corrugated steel shipping containers in North Carolina in 1956.

An innovation in the economist's sense of the word does not have to be a glorious new vista such as the Bohr atom or the crisper gene editor. It can be modest and local, yet in its own modest way just as creative and courageous as the big ones. The little innovations, when permitted in bulk, can be immensely powerful. A local woman today innovates by venturing to open a new hair-dressing salon in the neighborhood, or a Danish peasant innovates in 1890 by emigrating courageously to Iowa. As the novelist N. S. Naipaul put it, a million mutinies against routine made modernity.

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By now you will be *most* impatient to raise the objection that accumulated capital, university degrees, steel for shipping containers, synthetic chrome yellow number 1 are all of course *necessary* for the results we admire. You will defend with some indignation at my arrogant violation of *Janteloven* the poor, beset-upon economists and their policy-making clients. *Lögum* (rule of law) and capital, *obviously*, you declare, cause higher income. Because suppose we had *none* of them! Suppose we had no laws at all, no capital, no education, no state? That's the usual imagined experiment to determine whether something is necessary. It slips over in convincing people that whatever level of law, capital, education, state we now have is desirable.



Probably all should be bigger. Usually, people do not imagine the scientifically relevant question—of supposing we merely had *less* of *lögum* and capital, of a certain relevant quantity. It has a very different implication. A little less property law, such as a less wide definition of intellectual property, might well raise income, not lower it.

You will say, too, if you are an economist, that so-called growth theory explains the Great Enrichment, or that the so-called neo-institutionalism at the World Bank, does the scientific job of explaining it. There's no need to bother with mind, ideas, ideology, creativity, and certainly not the humanities. It's the material machinery that matters, stupid! Let's turn to fiddling with the machines. Let's have industrial policy and protection policy and population policy and immigration policy and innovation policy. All power to the state, a loving family governed by wise *fædre* and *mødre*, because we citizens are all of us mere sad or bad *børn*.

Calm down, *elskede*. Think about it for a moment. Yes, one needs the capital, infrastructure, legal institutions, absence of a civil war, and so forth—all the obviously necessary conditions for doing any business, public or private, large or small. You can't open a hair salon without hairdryers and skilled hairdressers. You can't go to Iowa without a ship and a railway.

But we are looking for the conditions that, spreading from Britain in the early 19th century, allowed the world to enter on the Great Enrichment. The usual, necessary, routine, and already given conditions cannot be the scientific answer, or else (on historical grounds) they would have worked in 1800 BCE instead of waiting until 1800 CE. And (on economic grounds) the adding up of necessary, routine conditions faces those cruel diminishing returns. Only ideas in human minds experience sharply increasing returns, and therefore suffice to explain our riches.

There is an elementary point of logic here. A necessary condition is not the same as a jointly sufficient one. For the Great Enrichment to come to Denmark there needed to be of course basic civil peace, law courts, some education, and . . . well, that's the problem: the necessary conditions for the outcome are literally infinite in number. We seek a scientific cause helpful to understanding the Great Enrichment and forming policy now, not an infinite list of routine, if necessary, conditions. A labor force was necessary. The Danish language was necessary, at any rate if it was going to happen in the "marches of the Danes." Rainfall was necessary. Oxygen in the air was necessary. The arrow of time was necessary. Keep going. You see the problem.

Suppose you believe, as to repeat many economists have come to believe recently, that better institutions (call them *N*) cause economic growth (call it *G*). Near enough, the neo-institutionalist economists believe, *N* implies *G*. Then it follows in strict logic that not-*G* implies not-*N*. If growth does *not* happen it must be because one or another needful cause was missing. War, not peace. Bad laws. Those institutions. That's what one means by saying that institutions are "necessary," a truth easily established by imaging what happens if any one of them is set at zero. No labor force. No arrow of time. The hunt is on for institutions, *N*, that in fact failed, the not-*N*, and that kept nations failing, resulting in a sad not-*G*. This is the logic in the important but flawed book by Daron Acemoglu and James Robinsons, *Why Nations Fail* (2012).



But suppose instead you believe a more plausible theory: that institutions, *N*, and Ideas, *I*, and the interaction of institutions with ideas, such as the idea of British-style liberalism interacting with British deep-water seaports, cause enrichment. Then it follows in equally strict logic that a lack of enrichment, not-*G*, implies either not-*N* (the bad institutions) or not-*I* (the bad ideas) or the bad consequences of an interaction function $f(N,I)$, or all of them. This elementary point in logic, by the way, has been known in the philosophy of science since 1914 as Duhem's Dilemma. It disposes in a line of symbolic logic the mechanical and partial falsificationism underlying econometrics and much of the other recent rhetoric of economic science. It's a worry.

The failures to grow in the economy that litter human history are indeed explained by idiotic ideas and bad institutions—though distressingly of course these continue down to the present (vaccine hesitancy in the USA, anyone?). But what we actually want to explain is not the sad sequence of failures before 1800, which doubtless depend on defective necessary conditions. We want to explain the success of the Great Enrichment after 1800. We know the correct explanation is not institutional change, because such change didn't actually happen, not much, and anyway any such change faces those tragically diminishing returns.

We are led to the real cause, jointly sufficient if accompanied by all those necessary but wholly routine and ancient and (if not set in the counterfactual at zero) inconsequential conditions (the capital): a wholly novel explosion after 1800 in human creativity in ideas.

The history of food can illustrate. Elevating the necessary existence of the tomato in Europe after the Columbian Exchange to the "cause" of the glorious French use of *sauce tomate* would clearly be mad. The tomato was necessary, obviously, but not itself jointly sufficient to produce French haute cuisine, equally obviously. The British and the Dutch and the Germans had the necessary tomatoes, too, but did not have the sufficiencies peculiar to the French. Tomatoes, labor, and capital in Germany made for German cuisine; in France, French. (I rest my case.) Or consider pastry. Austria, France, and Denmark, alone among the nations, know how to make edible pastry. If you drive from Copenhagen across the bridge and up to Lund the pastry shifts from ambrosia to fodder. The Danish recipe and its skilled use was not created equal to the Swedish. (Again, I rest my case.)

Auguste Escoffier's *Le Guide Cuisinaire* (1903) is perhaps a necessary input, or certainly a helpful one, into mastering the art of French cooking. But the sufficient and inspiring causes of French cuisine are not such items in the supply chain, what the economists call the production function. They are instead the social and intellectual arrangements in French courts and homes and restaurants that made for Escoffier's book in the first place, from Guillaume Tirel in the 14th century and Catherine de Medici in the 16th century down to untold thousands of French wives, and then husbands, too, inventing crème caramel and bouillabaisse, with the millions of French diners insisting on getting good, slow food, and willing to talk about it at tiresome length—talk astounding to British and Dutch and American eaters, especially male ones.



All this created (note the word) the production function. The tomatoes, flour, ovens, bakers, cookbooks, and sous-chefs are not the cause of the production function itself. Obviously.

The causes in a sense relevant to serious scientific analysis of the coming of the Great Enrichment—and to proposals for policies to facilitate the desirable outcome of haute cuisine or Danish pastry or continued economic growth—were not recipes. They were the ideas for the recipes, human creativity along with the conditions such as liberty in using it, and practice, practice. Economists like other scientists should seek root causes, the way psychiatrists seek space-time to explain the inverse square law or biologists seek DNA to explain life or historians seek the character of the Roman republic to explain its fall. The economist's production function or the businessperson's supply chain are not root causes, but rather the routine, bookable recipes helpfully teaching how to combine ingredients and to practice, practice in chopping potatoes. The root cause was the creativity that made the books useful and the ingredients relevant and the practice worth the candle.

Confusing necessary with jointly sufficient conditions, confusing modestly helpful pedagogy with powerfully inspiring conditions for creativity, leads away from a scientific understanding of innovation, among lesser topics in economics.

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Ideas have not been on the scientific agenda in most economic thinking. It's part of the anti-humanistic pose: "I'm a Scientist. Observe my white coat. I don't deal with mere *ideas*." (You will spot the self-contradiction here). Therefore, economists have missed the real source of the Great Enrichment. And therefore, public policy has regularly crippled innovation. That's the danger. We became prosperous from innovation. Now we are in danger of inadvertently killing it.

The new ideas formed in someone's head depend of course on more fundamental ideas than the economic outcomes in assembly lines or stock markets. They depend on ethics, myths, histories, opinions, prejudices, theories, rhetorics, ideologies. They are good for us if they support a society of liberated creativity.

The crux in creating (note again the word) an environment for creativity was the beginning in the 18th-century of liberalization—that is, the then-bizarre notion that all people are created equal. Liberalism is the deeply egalitarian idea that adults should not be treated as children, that no one should be a slave to a master, unable to say No, or unable to say, "Take this job and shove it." Take this idea and use it. The British philosopher Albert North Whitehead claimed, correctly, that "the greatest invention of the 19th century was the invention of the method of invention." He claimed incorrectly, though, that Science was the machine for it. No: it was the liberation of people, among them scientists. Liberalism, not accumulation or exploitation, made the modern world.

In the economy of Britain and the rest after 1800, as it turned out, massive creativity came from the mere idea, the ideology, of liberalism—Adam Smith's "obvious and simple system of natural



liberty,” “the liberal plan of [social] equality, [economic] liberty, and [legal] justice.” The extension of equality from the individual soul to the secular person came suddenly in the 18th century, without deep roots within a decidedly illiberal Europe. Shakespeare’s England was not at all liberal. Jane Austen’s was beginning to be.

The *Oxford English Dictionary of Historical Principles* speaks of liberty, sense 3a: “Freedom to do a specified thing; *permission, leave*” (italics supplied). In the opinion of radical liberals in the late 18th century, such as Thomas Paine and Mary Wollstonecraft, the lord-and-servant and priest-and-parishioner hierarchies natural to an agricultural society were to be overturned as never before, and the world made anew. The utopia of the liberals contained no adults treated as children, no slaves or serfs, no beaten wives or apprentices or sailors, no jailed protesters or journalists, no select permission granted in a special charter following on a humble appeal to the noble lord, or to the bishop, or to a state functionary. Permissions for the generality were to be laid on in all directions. Gradually implemented in the economy—though by no means always as thoroughly in the polity or the society—the new permissions made people bold then in England and Denmark, and now in China and India. It slowly began to yield its gob-smacking and entirely unanticipated results.

Such a liberalism promised an equality, note, of *permissions*. It did not promise an equality of initial material opportunity or of final material outcome, which has been the impossible and self-contradictory socialist utopia since 1762 and Rousseau. The very word “liberalism” contains the core of the modest and eminently possible liberal program. “Liberal” is of course from classical Latin *liber*, understood by the slave-holding Romans as (in the words of the *Oxford Latin Dictionary*) “possessing the social and legal status of a free man (as opp. to slave),” and then *libertas* as “the civil status of a free man, freedom.” Permission. That we *can* grant. But we can’t grant, that you have just as good parents as your neighbor had. We can’t grant, that you are as intelligent or as handsome as he is. We can’t grant, without reducing the economy to rubble, equality of wages.

As is so often the case in English, however, there are paired words, the Latin-origin “liberty” and the Germanic-origin “freedom.” The two have relatively recently acquired slightly different connotations, and it is essential to distinguish them if we are not to become muddled. “Liberty” retains the political connotation of all people being non-slaves to other humans. “Freedom” in English, though, has increasingly come to mean not subject to constraint by physics or, in particular, by wages. Thus, Franklin Roosevelt in his Four Freedoms speech in 1941 numbered as third “a freedom from want,” and the economist Amartya Sen wrote in 1999 of economic development as freedom. Thus, we acquire a “right” to happiness, instead of permission to pursue it.

The trouble is that we already have words for such lack of want, or for economic development, namely: income, wealth, riches, capabilities, adequacies, lack of want, economic development, happiness. To push together, as the modern English usage of “freedom” does, the politics-word of non-enslavement to others (liberty) and the wage-word of ability to buy things from others (wages, wealth, part of happiness) leads only to confusion. The English ambiguity influences through English-language economics and philosophy the other languages.



The liberal claim, to be sure, is that liberty *results* in an increased ability to buy things—and so it has done spectacularly over the past two centuries. But for the claim to be meaningful, its alleged ruth should come from the scientific evidence, not from a philosophical mis-definition of development as being freedom, *simpliciter*.

When liberalism was implemented—if fitfully—it permitted, encouraged, honored an ideology of “innovism.” The word describes what is economically new and astonishingly creative about modernity. It is more apt than the misleading word “capitalism,” with its erroneous suggestion that the modern world was initiated by and keeps growing by piling bricks upon brick, university degree upon university degree—and that such a “capitalism” did not exist when *Homo erectus* accumulated Acheulean hand “axes” by the hundreds and when *Homo sapiens* traded across hundreds of miles for shell ornaments and when the Romans and Chinese organized massive divisions of labor to make fish sauce and silk. The Nobel prize winning economist W. A. Lewis declared in 1954, that “the central fact of economic development is rapid capital accumulation.” But in the same decade this by then two centuries old conviction was shown by Robert Solow and Moses Abramowitz to be incorrect. Innovism is piles of innovation arising in liberated human minds, not the piles of capital out of matter implied by the word “capitalism.” “Capitalism,” or for that matter “laborism” might be a good word for the maintenance of the routine incomes we already have. All right. But progress for us and for the wretched of the earth depends on innovism. The next step comes from new and good ideas.

The claim that liberalism led to innovism and thence to the Great Enrichment is highly testable—for example, by comparing places with liberal encouragements to innovation with places with oppressive hierarchies, England after 1800 compared, say, with England and other places before 1700. The old places lacked liberalism—and liberalism alone. They had all the *necessary* “causes.” Liberalism was the magic sauce. Or one could follow innovators individually in their lives, in Victorian England, say, comparing each with matched individuals in illiberal regimes, such as Elizabethan England. Did blacksmiths or the sons of blacksmiths in the late 16th century become makers of marine chronometers or of magnetic-electric coils? Seems not.

The historical materialist in us all after 1848 nonetheless demurs. Surely, they cry, even if they are merchants of ideas, innovism cannot come out of mere *ideas*! The psychologist Steven Pinker, for example, though he wisely emphasizes recent human progress, announces as historiographic dogma that “the most satisfying explanation of a historical change is one that identifies an exogenous trigger”—by which he means a materialist one, not a social psychological or rhetorical-ideological one. But why? The political scientist and military historian Azar Gatsays says that attitude change “had no particular [viz. material] reason and was not different from a fashion or a fad” Well, yes. Such are humans.



Liberalism, in short, eroded ancient hierarchies, long stultifying. As the British say in their sporting fashion, people were permitted in liberalism for the first time after 1776 or 1789 or 1832 or 1865, to “have a go.” And go they did. Alexis de Tocqueville, that canny observer of the new spirit of equality of permission, wrote in 1835, “Looking at the turn given to the human spirit in England by political life; seeing the Englishman. . . inspired by the sense that he can do anything. . . I am in no hurry to inquire whether nature has scooped out ports for him or given him coal or iron.” in 1853, noting the slow spread of democracy (which is liberalism viewed from the voting booth), he wrote that “the sentiments, the ideas, the mores [*moeurs*] . . . alone can lead to public prosperity and liberty.”

Economists and policy-makers need to look for the conditions for the flourishing of ideas, and to realize that the laws and railways and institutions depend on them, every time. The gearing in the historical-economic watch, to be sure, is accumulation and institutions. But the individual human mind, liberated, is the spring that imparts motion to it all. And more: the ideas coming from the mind make it profitable to make the gearing of accumulation and institutions.

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We can lose it, as you can see in the recent bubble of “illiberal democracy,” or the straightforward tyranny of the famed “Chinese model.” There is, you should realize, no such Chinese Model. It is a mythical beast. Western journalists and politicians should stop echoing the propaganda of the Chinese Communist Party, which claims there is one. China succeeded when it abandoned central planning and adopted liberalism in the economy. Xi Jinping is intent on stopping liberalism and returning to Mao. Progress, except in domination by the Party, will cease.

Ideas such as Lenin’s or Mussolini’s that undermine creativity originated in the 19th century and were enthusiastically applied in the 20th with known results: nationalism and socialism; and if you like those perhaps you will like *Danmarks Nationalsocialistiske Arbejderparti*. And short of communism and fascism, which are not alas entirely dead, the big threat to liberal creativity is well-meaning, moderate, reasoned, expert statism. Keynes claimed in 1936 that the expert economist, in particular John Maynard Keynes placed at the commanding heights of the state is “in a position to calculate the marginal efficiency of capital-goods on long views and on the basis of the general social advantage.” It is on inspection an insane if very ancient and also very modern notion. It says that Maynard could tell whether the hair salon should be opened, or what you should buy for dinner, or what the next innovation is going to be, or the future of science, or the turning point of the next business cycle. One is astonished that anyone could believe such a thing. Yet many people, including a young D. N. McCloskey, have believed it. The statist notion is immensely flattering to a young expert, who is told that she is already all-wise, after studying a little bit of econometrics, and should be given charge of everyone’s life.



An appropriate response to Keynes' claim is the American Question: If you're so smart, dearie, why aren't you rich? It's a fair question to ask the economic planner, regulator, calculator of the general social advantage. Her great knowledge, superior to those silly businesspeople on the scene, should give her a private advantage, too. Buy a Caribbean Island.

One wonders why people such as the Italian-American leftist economist now alarmingly fashionable, Marianna Mazzucato, believe in such planning for, say, innovation. Their confident statism seems to come from extending personal experience to that of a nation. You have to plan your own life, of course. And when you were a child, *Far* and *Mor* planned it for you. Good. The life of an individual or a family without a good plan aimed intentionally at a single end, such as putting dinner on the table, would be dangerous chaos. At the level of family life, some plan is usually better than no plan, to get the kids off to school, to clean the house, to do your job, to keep to the right side of the road, to get vaccinated in 2021.

That's why people of good will such as Mazzucato believe that a nation of 5,800,000 also needs intentional planning, detailed regulation, numerous paternal and maternal masters. It's like one's justified belief in *Far* and *Mor* and sounds like common sense. We think, "Well, the more complicated an economy is, the more it needs planning and regulation. An unplanned nation is like a disordered house: get organized."

But it's the other way around. The bigger and more complicated an economy is, the *less* can its billions of decisions depending on detailed local knowledge be planned. You plan today to pick up *smørrebrød* at the little shop at the corner on your way home from work. But does it seem plausible that a bureaucrat in Copenhagen can anticipate your plan in The Plan, or design what Regulations make sense? You know what shop has the best *smørrebrød*. You went to school with the owner. She doesn't want to poison you. Yet the master planner in the state bureau doesn't know, or short of bureaucratic sainthood doesn't much care.

A big economy works best, the evidence agrees, bottom-up, not top-down. West Germany versus East. South Korea versus North. And what is "best." It's not the unified goal of a household getting dinner, or a nation resisting invasion. The liberal points out that in a varied society the definition of the best is not one, but as varied as 5,800,000 loves and abilities and projects. Since 1776 we have believed it, if not always followed it. And sometimes we fall back into the traditional collective, unified, one-goal national enthusiasm for Harry, England, and St. George. It's necessary for wars and plagues. (Yet we liberals were charmed when a party leader in Denmark at the height of the Cold War said that his defense policy was to remove little Denmark from NATO and replace the Danish military with a toll-free number saying in Russian, "We surrender.") The liberal historian Lord Acton observed in an essay on nationality in 1862: "Whenever a single definite object is made the supreme end of the State, be it the advantage of a class, the safety or the power of the country, the greatest happiness of the greatest number, or the support of any speculative idea, the State becomes for the time inevitably absolute." *Far* and *Mor* in a



home *should* be absolute. Eva and Gunnar in a nation (I pick the Swedish example beginning in the 1930s) should not.

Most Danes in practice agree. The Swedes are more attached to *folkhemmet*, the keyword in a famous speech in their Riksdag in 1928. Denmark and even Sweden are actually liberal “capitalist” countries (actually innovistic), much closer to those of the UK or the USA than is commonly believed, especially in the UK and the USA. The prices of most goods and services are determined by supply and demand. Enterprise is honored, except by writers of Swedish mystery novels and makers of Danish films. Property is secure, though taxed, and occasionally seized by the state which in return has to fully compensate the former owner, a constitutionally protected right. Most economic activity is private.

Liberalism has worked. It need not be selfish. (And socialism is often far from unselfish, as the experience of the USSR shows.) A helping hand to the disadvantaged is perfectly consistent with liberalism. Making them into undignified, slavish children is not. Denmark converted to liberalism after 1870 and commenced transitioning in fifty years from being poor to being one of the richest countries in the world. China and India ran for decades on the analogy of the state as an authoritarian home, what the Indians bitterly called The License Raj. They both sat at \$2 a day per person for decades after 1947, as against Denmark’s \$130 a day now. Then China in 1978 and India in 1991 began loosening the planning and regulation, letting people start businesses more easily and move to where the work was and carry out their little personal projects without *Far Mao* or *Mor Gandhi*. Income in China is now equal to that of Brazil, about \$45 a day per person. India is catching up.

Let’s keep it. Let’s be liberal. Let’s not keep expanding the role of *Far/Mor* state. A better word for liberalism might simply be “adultism,” in favor of the liberated adults promised in 1776—the ones who came to be the creative adults making the modern world.

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Dette essay er en del af CEPOS’ omfattende projekt ”3% vækst”, der skal vise, hvad det vil kræve af økonomiske og politiske tiltag at hæve den økonomiske vækst i Danmark til tre procent årligt de næste 10 år. Projektet er støttet af Kraks Fond og Novo Nordisk Fonden.