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Causation and Economic History

Matthew Brown
University of Illinois-Springfield

Abstract
McCloskey's Bourgeois Era trilogy attempts a sweeping reimagining of the origins of northwestern European, then Western, then global economic growth over the last few centuries. This topic is perhaps the most important one economic historians can explore. I offer thoughts on the nature of causation and our ability to identify causes in history, then discuss why I think market processes are a key factor. Capitalism destroys the institutional, social, and cultural status quo and builds anew in their places. The market process is thus part of the Great Cause of the Great Enrichment; most other proposed explanations went along for the ride. A clear understanding of how cause and effect (or cause and enrichment) played out remains to be explored.

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I. Introduction

I remember hearing Deirdre McCloskey refer to her project, the Bourgeois Era, as (I'm paraphrasing from memory) "the reason I was put on this earth" throughout her process of writing the three books. And a grand reason it is! The trilogy attempts a sweeping reimagining of the narrative of northwestern European, then Western, then global economic growth over the last few centuries. "Unambitious" is not a label anyone would associate with the project.

In her first volume, *The Bourgeois Virtues*, McCloskey makes a powerful case for a better understanding of the role of capitalism and commercial society in shaping, and being shaped by, admirable virtues. I give her credit for absconding with the Marxist term "bourgeois" and rehabilitating it with a new, positive connotation. The association of "bourgeois" and the "bourgeoisie" with all the evil, selfish, destructive, Earth-imperiling mental models they have been saddled with has done a great disservice to society's understanding of the role of commerce these last two hundred or so years. In the intellectual discourse, before McCloskey's intervention, "bourgeois" equaled private property, trade, commercial society, entrepreneurship, spontaneous order, and so on, and "bourgeois" equaled evil. No further explanation was needed (McCloskey 2006). McCloskey, a highly regarded scholar of rhetoric, has done us all a great service by claiming the term "bourgeois" for the voluntary, mutually beneficial, undesigned, liberty-enhancing social order of capitalism. Rhetoric matters, and the mental models people associate with words matter. A virtuous capitalist order is one that is far too underappreciated and misunderstood in the history of ideas and in current scholarly, political, and popular discourse.

The second and third volumes of the trilogy feature McCloskey's critique of existing theories about the history of modern economic growth. They also feature a discussion of her intriguing interpretation that the rhetoric about commerce and commercial practice accounts for why economic growth took off in a sustained, world-revolutionary fashion for the first time in human history. The emphasis on rhetoric's role in the history of economic growth fits in well with McCloskey's other works on academic rhetoric and her criticism of the overformalization and dehumanization of academic economics. All of this taken together promises a crowning intellectual valedictory from one of the world's most successful economic historians and interdisciplinary scholars. And it allows us to imagine a much more useful scholarly economics that takes social and cultural approaches seriously and that desanctifies the overformalization so common in modern academic economics.

To answer the great question ("What caused the Great Enrichment?"), you must be willing to look for great answers and not just the easy-to-find ones. You can't come away from any chapter in the Bourgeois Era trilogy without wanting to immediately follow up with several books on some interesting snippet or historical episode McCloskey presents. Her diversity of ideas and approaches inspires passion.

And McCloskey is nothing if not passionate about economic history, how it is written about, the importance of bourgeois capitalism, and its history. And passion it requires to attempt the kind of sweeping reimagining of the entrenched historical narratives about and leading up to the Industrial Revolution and modern economic growth. But she bravely tackles the challenge. She cannot have been clearer about the ambitious and exciting goal of her project. "A big change in the common opinion about markets and innovation, I claim, caused the industrial revolution, and then the modern world"

(McCloskey 2010, p. xi). "Innovation . . . caused the industrial revolution" and "talk and ethics and ideas caused the innovation" (McCloskey 2010, p. 6). "In the crucial early case from 1600 to 1800 in northwestern Europe the words and ideas led the way" (McCloskey 2010, pp. 29–30). "The three volumes show that we are rich because of an ethical and rhetorical change" (McCloskey 2016, p. xi). "The rhetorical change was necessary, and maybe sufficient" (McCloskey 2016, p. 417). "What made the light unceasing . . . were the unique changes in language, that is, a new way of talking about profit and business and invention" (McCloskey 2016, p. 421). "Yes, it was ideas, not interests, or institutions, that changed, suddenly, in northwestern Europe" (McCloskey 2016, p. 511).

One imagines a great many more traditional economics scholars not knowing where to begin with such ideas. Ultimately, the great contribution of McCloskey's provocative trilogy may lay in the fact that her proposal for such a radical departure for understanding the emergence of the modern economy has got a lot of people talking about the question in a serious way, as the contributors to this volume demonstrate.

I next discuss the challenges of identifying causation in economic history and suggest an important and often overlooked narrative that incorporates McCloskey's innovative emphasis on the crucial role of rhetoric.

II. Economists and History

In her second volume, *The Bourgeois Dignity*, McCloskey takes on the ambitious task, as laid out in her subtitle, of explaining "Why Economics Can't Explain the Modern World" (McCloskey 2010). It is important to distinguish here between "economics," as in the academic economics profession, and "economics," as in the economic way of thinking. Most dominant strands of the modern economics profession—"mainstream" economics rather than "mainline" economics, in Peter Boettke's memorable characterization,[1] which a great deal of McCloskey's later career has been dedicated to critiquing—indeed prove inadequate for the task. In the twentieth century, academic economics, which was born of an effort to explain "the nature and causes of the wealth of nations," grew increasingly focused on the Keynesian chimera of countercyclical policy and managed growth in a framework of

[1] See, for example, Boettke, Haeffele-Balch, and Storr 2016.

Samuelsonian formalism—the intellectual hegemony of the two Cambridges that McCloskey has memorably dubbed MaxU economics. This approach to economics has long been accused of not being good at looking out the window, and McCloskey has taken great delight in throwing it out of said window. And when this approach did turn its attention back to the importance of long-run economic performance and the nature and causes of the wealth of nations, following the lead of Robert Lucas and Paul Romer, among others, it proceeded in the type of overly stylized, abstract way that McCloskey, mostly fairly in my reading, dismisses as MaxU economics.

Thankfully McCloskey isn't alone in seeing Max's shortcomings. Along the way, many leading economists started breaking out of this approach and reintroducing academic economics to the foundations of economics, going back to its birth and in the process refocusing on ideas about how human decision making is influenced by incentives and how those incentives are shaped by the human sphere. Nobel-recognized scholars such as Hayek, North, Friedman, Coase, Smith, and Ostrom, even when working within the dominant Keynes/Samuelson paradigm as Friedman did, started shifting the focus away from the narrow dominant paradigm and toward a more holistic approach to economic change based on a solid application of an older economic way of thinking and not just formalism.[2] Many other less-lauded figures have made important contributions to this evolution, and the economics profession today contains a wealth of differing approaches to the question of economic history and long-run growth that were missing during most of the post-WWII economic discourse dominated by the unfortunate Mr. MaxU.

In *The Bourgeois Dignity*, McCloskey is at her strongest taking on the most "input"-oriented of the approaches economists have proposed to explain the modern world: capital accumulation, coal, transportation costs, and so on. The availability-of-resources argument, pushed recently by the so-called "California school" of economic historians, takes both an oversimplified view of the historical narrative—even while wrapping it in a patina of broad-mindedness with an emphasis on non-European experiences[3]—and an unusually naïve view of the determinism imposed by resources

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[2] My characterization of their work is not intended to suggest that McCloskey holds a similar view.

[3] A worthwhile goal, but one unsuccessfully implemented, in my readings of the literature.

without, apparently, an understanding of the fundamental role of markets in overcoming such constraints. The by-now-well-known McCloskeyan critique of the shortcomings in this type of economics is well worth reviewing for those unfamiliar with her earlier work. And it is always useful to read discussions that challenge our own assumptions.

Economists often struggle to move away from easily identifiable inputs because the alternatives can't be as easily modeled mathematically or statistically. So it is not surprising that much early emphasis in economic history work focused on just those types of explanation, which even McCloskey, earlier in her career, enjoyed a great deal of success exploring. Things get trickier when discussing more uneasily measured concepts like "institutions" and yet even more difficult when trying to incorporate ideas like "culture," "religion," and "beliefs."

Much work has been dedicated in the last few decades to getting a better handle on the idea of institutions, which I think has been fruitful to our understanding of both contemporary economic performance and the historical evolution of economies. Some stories of institutions as causes of economic performance have run into resistance because twentieth-century efforts—for example, the so-called "Washington Consensus"—to impose institutions mostly failed. But unlike in the twentieth-century development projects, the institutions in early modern Europe that contributed to the Great Cause of the Great Enrichment were not imposed; they organically evolved from a competitive process. The events of 1688, Douglass North's preferred explanation for the Great Enrichment (too late though it was for explanatory purposes)—replacing a monarch and establishing a new constitutional monarchy—was not as radical as it sounds. Rather, it was the natural extension of a much longer process of institutional evolution, never guaranteed, and not linear. "God said, 'Let Newton be!' and all was light," doesn't capture the real history of science, and 1688 doesn't capture the real history of institutional evolution and the Great Cause (Alexander Pope quoted in Cassirer 1938, p. 367). Institutions may "rule," as many very good contemporary economists claim, but they are also the *results* of a historical process. They don't just appear one day as exogenous inputs in the human story.

This reality makes many economists uneasy, but it shouldn't. We don't just have prices, and resources, and Max, and all the mini-Maxes. Just like Leo Bloom in *The Producers*, there's a lot more to economics than most economists realize. We also have the economic way of thinking, which as the name suggests is a "way"; in other words, process matters in economics, and it matters in history as well.

III. The Great Cause, or "All That Is Solid Melts into Air"[4]

"The exogenous accident of the Glorious Revolution of 1688 and its settlement in 1689," as McCloskey summarizes North's identification of the Great Cause, should be seen more correctly as an outcome of the great competitive process that played out, resulting in the Great Cause of the Great Enrichment. The Industrial Revolution is an outcome, the Glorious Revolution is an outcome, the Scientific Revolution is an outcome, the Enlightenment is an outcome—these are mental models that capacity-limited human minds have placed on the incomprehensible complexity of history. In other words, most big labels we have come up with as a society to make sense of history are *outcomes*, not explanations. We treat them as explanations for the same reason misled economists treat resources as the only explanation: they are easy to identify and categorize based on our mental models. Understanding the *process* that led to the things we label is where the real work needs to be done.

North's work in economic history has contributed to this process-driven approach even though he may be more closely associated with the *causes* he identifies, which are really *outcomes*. The same goes for Marx's work, despite ultimately going down the wrong path with the labor theory of value (among other theoretical problems). Marx was a great social observer, within limits, and understood the dynamic nature of capitalism and its effects. So too did great Austrians such as Mises and Hayek. Scarcity requires choices, thus economics. Human nature requires competition, thus sociology, Tom Brady, and war. How the two fundamental elements of our existence interact has, for most of the human story, led to misery and, mostly at best, stagnation. Poverty is the norm and wealth is the exception, as Rosenberg and Birdzell (1987), and anyone else with half an eye for facts, have observed. Occasionally, here and there, a fleeting glimpse of an outcome other than yet more misery has arisen: Athens, the Roman Republic, the great Arab and Turkish trading networks, the Silk Road, the Italian city-states, Ming China prior to 1433. But never has the outcome been sustained

[4] Marx and Engels ([1848] 2014, chap. 1).

improvement in well-being, as McCloskey rightly emphasizes—only straight hockey sticks.

As North and others have suggested, one of the driving forces of scarcity interacting with human nature is that the guys on top—and they were almost always guys—were competing for a monopoly on the legitimate use of violence. They wanted to stay in power, and usually they did; if they got replaced, it was by someone similar (think regicide and patricide). With the benefit of hindsight, we can watch this historical process play out (in our overly simplified, socially constructed narratives) and gradually lead to different results in northwest Europe, then North America and continental western Europe, and then Japan, and more recently, thankfully, a lot of the rest of the world. But what benefits us also leads us astray in our analysis, as it has always been too easy looking backward to connect the dots, the dots in this case being socially constructed labels to simplify the storyline and make it easier for limited minds to understand. *A* led to *B* led to *C* led to *D* led to iPhones, "periodic holidays with pay," and the McRib sandwich. North has his *D* (the events of 1688), the California school has its *D*s (coal and other resources), contemporary Marxists have their *D*s (class conflict). But all those pet *D*s are outcomes, just like artificial hips and online dating. What we need to train ourselves to do as scholars of the human experience is to stop looking at the capital letters and start looking at the "led to's." The process. Not just the changes in the institutions, which were outcomes of the process, but why the institutions changed through various mechanisms (Stringham and Hummel 2010). Why did the competitive process necessitated by scarcity and human nature lead to betterment in a tiny part of the world hanging on to a corner of far western Eurasia?

North and others make a key connection with the emphasis on understanding the competition for the monopoly on violence and the evolution of institutions (I employ the term "institutions" more broadly than most, but also find it helpful to think in terms of continuums rather than discrete labels). Benjamin Constant and others also make a key observation in their understanding of how capitalism undermines traditional social norms, "thanks to commerce . . . there are no longer slaves among the European nations" (Constant 1815 [1988], p. 314). But it is (ironically?) the *Communist Manifesto* that most persuasively and forcefully drives this concept home:

> [The bourgeoisie] has drowned the most heavenly ecstasies of religious fervour, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. . . . It [bourgeois capitalism] has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals . . . uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life, and his relations with his kind (Marx and Engels 1848).

Please, Sir, I want some more!!! Your lot (including the probability of your existence; thank you, Professor Hayek) is literally incalculably better thanks to the destruction mercilessly and ceaselessly rained down on traditional social order by economic freedom and the market process. Marxists and Austrians of the world unite!

In the now-famous Brenner debate in the economic history literature, Marxist historian Robert Brenner proposed a model of change for the fourteenth and fifteenth centuries based around Marxist class theory—when you have a Marxist class-hammer, everything looks like a nail (Aston and Philpin 1987). Brenner correctly rejects both the traditional Malthusian process argument and the newer linear commercialization argument, as does McCloskey. Simple Malthusian arguments don't account for the rise of liberalism because the population collapse of the mid-1300s that increased labor freedom and led into the early modern period in Western Europe led into a solidification of serfdom in Eastern Europe that in many places lasted, if we're being honest, through the Cold War.

Prices are determined by supply *and* demand. Brenner wants us to believe that class conflict was the key. In England, he claims class conflict led to larger lordly domains, and in France, to less consolidated holdings—then to the normal exploitation story and capital accumulation leading to the Industrial Revolution. But Brenner's argument devolves into a discussion of the nature of the state and the policies (like heavy taxation in France, but not England) of the monarchy. So Marxist class conflict analysis devolves into a backdoor discussion of institutions. Hmmm . . . sounds familiar.

Trade and wealth creation depend on markets and rights—rights to things and rights to behavior (trading of things). Thus the need for some form of social-organizational practice, codified or uncodified, that allows a general understanding of such property and markets to exist and be utilized. Language here is a problem.[5] Like our historical labels, words are something we use to signify something much more complex going on (see, for example, Wittgenstein 1953).

This inherent subjectivity of language becomes an issue in economic history over discussions of ideas like "institutions." What exactly are institutions? Nobody knows, but everybody thinks they do. Institutions could be only formal rules that are enforced, or they could be categorized, still vaguely, as formal and informal institutions, or they could be still broader and encompass things many people would ascribe to "culture." We then have to ask the same questions of the term "culture." And on and on. It is difficult in part because we are trying to define diffuse ideas with concrete, discrete terminology.

It can be more useful to think in matters of degree. Rather than the common "institutions changed, and *poof!* the economy grew" argument (much fantasized about by the World Bank in the late twentieth century), I prefer to think of the early modern period in Europe as being categorized by a gradual increase in the degree of individual economic freedom—that is, an increase in the ability to control one's own actions and a concurrent decrease in direction from the violence of monopolists (also an institution of some variety) as they lost out on the ongoing challenges to their monopoly. You could take this approach too far, saying "everything affects everything affects everything, QED." But somewhere, there are more helpful middle grounds, and I think looking to those changes on the individual level before and after they were codified into law or coalesced into norms and culture can be helpful.

Here I don't mean economic freedom in the sense of the literal measures annually compiled by Gwartney, Lawson, and Hall in their Economic Freedom of the World reports (that would be anachronistic), but in the sense of their general conceptual

[5] And it is a problem even with such widely used terms as "property rights," as discussed partially in Brown and Cardiff-Hicks (2017).

framework—developed in part by the great reformed Keynesian Milton Friedman—of a negative rights, choice-based social interaction regarding labor, goods, and services, which is certainly relevant to the period under discussion (or any other). The fact that individual economic freedom had been increasing in parts of extreme western Eurasia in a relatively sustained fashion for several hundred years is a world-historic phenomenon.[6]

If we look to the individual level in early modern Europe, we see lots of changes occurring to "the little guys" that traditionally have been overlooked in the historical metanarrative. These changes are now getting much more serious treatment from social and cultural historians—praise be the failure of academic economic imperialism! It is difficult and perhaps foolhardy to try to identify a unifying "cause" for such changes, but there does seem to be at least one common thread in their origins. They are coming from the same place from which shifts in fashion are occurring, with the better sort starting to dress more like the working class (see, for example, Styles 2007). They are coming from the same place as shifts in architecture and housing. And they are coming from the same place that foreign travelers are observing and writing about—changes in behavior and quality of life among the lower ranks (see, for example, Macfarlane 2014). That is, they are coming from the changes wrought on the traditional age-old hierarchy and social order by market exchange increasing at an ever greater and sustained pace for the first time in human history.

The melting metaphor presented by Marx helps us understand this process even though the labor theory of value led him to take it to the wrong conclusion. Capitalism destroys the institutional, social, and cultural status quo. As people are gradually better able to fend for themselves because of increases in individual economic freedom, they naturally overturn the traditional order potentially reinforcing the process—but the reinforcement is not a given, as it is not a deterministic process. The competitive balance could shift, as it

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[6] The idea of "Europe" is a totally artificial, socially constructed concept with absolutely no basis in physical geography. And even more directly of relevance to our topic, the idea of Europe as a separate geographic entity is not just based on racial and religious constructs. It is also explicitly predicated on institutional ideas going back centuries before the emergence of modern economic growth, as is commonly recognized in the literature on the social history of geography. "Observers of the peculiar identity of Europe have fastened upon some conception of liberty as the defining feature of all the societies of Europe," wrote Pagden (2002, p. 4). See Brown (2017) for further explanation.

always has in human history, back toward less economic freedom and less individual control and back toward a rhetoric and culture less sympathetic to those things. But as people become less dependent, they are less likely to act like dependents. This truth reveals itself in fashion, entertainment, leisure, housing, family, religion—and yes, rhetoric.[7]

I will grossly oversimplify the idea as follows. Competition for power is the name of the game. Competition can occasionally result in a loosening of control and increased economic freedom, which most people without a comparative advantage in violence would generally prefer but cannot attain because of said comparative disadvantage. If the competitive process erodes the relative comparative advantage in violence of the status quo, consistently and for long enough (and bear in mind, the comparative advantage will in all periods also depend on natural factors such as plagues, and technological innovation such as military technology), then higher levels of individual economic freedom can emerge.

The emergence of higher levels of individual economic freedom, we know from endless supplies of empirical data across time, lead to greater wealth. The resulting wealth and market interactions further erode dependence on and respect for traditional authority (in all periods we have observed it arise: "all that is solid melts into air"). Changes in rhetoric, dress, customs, and eventually codified laws ensue (changes in codified law can also ensue directly during any period from the competitive process among the potential violence-monopolists).

This is not a deterministic model. It is a process. Outcomes are not given; they depend on the results of the process. In early modern Europe, for the first time in history, the outcomes of the competition for the monopoly on violence were breaking consistently enough in favor of the little guys that higher levels of individual economic freedom could emerge on a sustained and reinforcing basis. Ultimately, the history of the origins of modern economic growth will probably be found in that story and in the behavior of millions of unknown and truly great men and women who have not been part of the dominant story.[8]

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[7] See, for example, Williamson (2011) for a helpful empirical exploration of some of these economic and social interactions in contemporary society.

[8] See, for example, Griffin (2013).

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