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Comparative Historical Political Economy and the Bourgeois Era

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Abstract
Economics, properly understood, is a dual examination of rules and the social interaction within those rules, not the parametrization of atomistic interaction. Taken together, McCloskey's trilogy is a welcome return to comparative historical political economy, one that embraces a diversity of historical, political, and cultural contexts anchored in the universality of economic analysis. Moreover, it illustrates the importance of unpacking the relationship between ideas and institutions to explain the nature and causes of economic growth. We explore this relationship using a dual analysis of rules and of interaction within rules as discussed by Buchanan, Lachmann, and Hayek to understand how ideas and institutions interact to generate the ethical underpinnings for trade, innovation, and economic growth.

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> *"The methodological individualist must, it seems to me, acknowledge the relationships between individual utility functions and the socioeconomic-legal-political-cultural setting within which evaluations are made. But such acknowledgement carries with it, almost as a matter of course, the possible productivity of investment in the promulgation of moral norms."*
> —James Buchanan, *The Economics and the Ethics of Constitutional Order*, 1991, p. 186

> *"The peculiar characteristic of social changes is that* ***they are brought about (or prevented) by talking about them*** *(publicly, excluding the conspiracy or coup d'etat, where not talking publicly is essential); but, the talk, which is effective in promoting, preventing, or directing change, is a* ***totally different kind*** *from that used in analyzing and describing phenomena."*
> —Frank Knight, "The Newer Economics and the Control of Economic Activity," 1932, p. 439, emphasis original

I. Introduction

The old saying that a book should never be judged by its cover certainly applies to Deirdre McCloskey's trilogy on the Bourgeois Era.[1] The subtitles of these volumes—*Ethics for an Age of Commerce*, *Why Economics Can't Explain the Modern World*, and *How Ideas, Not Capital or Institutions, Enriched the World*—might lead one to suspect that McCloskey has it in for economics. A more subtle interpretation, and one that is consistent with the overall body of McCloskey's scholarship, is that the trilogy offers an indictment of mainstream economics and its tendency to mimic the procedures of the physical sciences[2]—namely, in its ability to "predict" the causes of economic growth by isolating and reducing its explanation to certain key variables: population growth, capital accumulation, and political-legal institutions, for example. McCloskey's message echoes what F. A. Hayek proclaimed in his Nobel Prize address: "In the sciences of man, what looks superficially like the most scientific procedure is often the most unscientific, and, beyond this, that in these fields there are definite limits to what we can expect science to achieve" ([1974] 1978, p. 30). Or, as McCloskey puts it, "There is nothing unscientific about emphasizing ideas. The unscientific attitude would be to assume, as economists are inclined to do, that only *incentives* of a straightforwardly Samuelsonian sort can matter" (2015, p. 7; italics original).

Political economy can be understood as the following tripartite division: (1) pure theory,[3] (2) institutionally contingent theory, and (3) economic history and statistical analysis (Boettke and Leeson 2006, p. 249). McCloskey's explanation of modern economic growth since 1800, or the Great Enrichment as she dubs it, denies neither the status of economics as a science nor that individual economizing

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[1]The term "the Bourgeois Era" corresponds to McCloskey's *The Bourgeois Virtues: Ethics for an Age of Commerce* (2006), *Bourgeois Dignity: Why Economics Can't Explain the Modern World* (2010), and *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World* (2016). Like McCloskey (2016, p. XI), we will use this term in referring to the trilogy. While our discussion of the Bourgeois Era will incorporate all three volumes, our emphasis will be on the latter two.

[2] "Mainstream economics" refers to a sociological concept related to what is currently fashionable among the scientific elite of the profession. This term is distinct from "mainline economics," which is defined by a set of positive propositions about social order that were held in common from Adam Smith onward. See *Living Economics* (Boettke 2012, p. xvii).

[3] Pure theory is synonymous with what Carl Menger refers to as "exact laws" and what F. A. Hayek refers to as "the pure logic of choice."

action is the source of explaining social phenomena (i.e., methodological individualism); rather, it is an indictment of a closed-ended, utility-maximization model of economic science, one in which individuals respond passively to given constraints (i.e., 2 and 3 are collapsed onto 1, and 2 and 3 are independent of each other). In reality, human choice is entrepreneurial, and the factors that explain the Great Enrichment are not only "entangled" (McCloskey 2010, p. 415) but also an emergent phenomenon of such entrepreneurial action (McCloskey 2016, p. xii).

According to McCloskey, technological innovation dovetailed with business acumen within an institutional environment of private property rights, free pricing, and the pursuit of profit was legitimated. This "combustible combination" of ideas, institutions, and commercial practices has produced a great burst in productivity, which has enabled mankind to reap the fruits of modern economic growth (Kasper, Streit, and Boettke 2012, p. 24). McCloskey's trilogy is a welcome return to comparative historical political economy, one that embraces a diversity of historical, political, and cultural contexts anchored in the universality of economic analysis.

The purpose of this paper, and of comparative political economy in general, is to unpack this "combustible combination" and answer the following question: How do ideas and institutions matter in the particular contexts in which they develop? Namely, how can we explain the Great Enrichment? Economics, properly understood, is a dual examination of rules and the social interaction within those rules, not the parametrization of atomistic interaction. We explore this relationship to understand the "combustible combination" in McCloskey's argument using a dual analysis of rules and of interaction within rules as discussed by Buchanan, Lachmann, and Hayek to understand how ideas and institutions interact to generate the ethical underpinnings of trade, innovation, and economic growth. Moreover, our paper illustrates the importance of unpacking the relationship between ideas and institutions to explain the nature and causes of economic growth. Taken together, McCloskey's trilogy is a welcome return to comparative historical political economy, one that embraces a diversity of historical, political, and cultural contexts anchored in the universality of economic analysis.

II. A Brief Overview of McCloskey's Bourgeois Era

For most of human history, we lived in conditions of poverty and sickness, but something happened and some of us (certainly not all) started to live wealthier and healthier lives after 1800. That improvement is correlated with the emergence of the bourgeois values. McCloskey, more than any other scholar who has tackled this "Great Fact," takes the reader along for the ride and demonstrates the consequences for human betterment that this "Great Fact" represents. Perhaps the best description of the Bourgeois Era is that the trilogy would be what Adam Smith would have produced had he decided to combine both *The Theory of Moral Sentiments* and *The Wealth of Nations*. Squeeze these two books into one, and add a command of history that is unprecedented in works of modern political economy, and you get something approximating the Bourgeois Era.

In *The Wealth of Nations*, Adam Smith remarks that the division of labor is limited by the extent of the market (1776 [1981], p. 31). McCloskey's inquiry into the nature and causes of the wealth of nations can be understood in similar terms, but with different emphasis. Smith attributes the wealth of nations to three consequences of the division of labor: specialization, technological innovation, and capital accumulation. As he states:

> This great increase of the quantity of work, which, in consequence of the division of labour, the same number of people are capable of performing, is owing to three different circumstances; first, to the increase of dexterity in every particular workman; secondly, to the saving of the time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. (1776 [1981], p. 9)

Taken together, improved dexterity, the saving of time, and the application of machinery generate a "virtuous cycle," each component of which is dependent on the other. Increased possibilities of trade result in increasing specialization and a more extensive division of labor, which in turn increases the productive capacity of individuals and leads to even greater trading opportunities. With specialization and trade, there is also great scope for opportunities for capital accumulation and technological innovation, leading to economic growth.

However, McCloskey's inquiry into the Great Enrichment—the fortyfold increase in wealth since 1800—can be understood as follows: What determines the "extent" of the market? How did the limits of the market "extend" first to Holland and Britain, and then to other parts of the world, most recently China and India?

According to McCloskey, markets are processes that not only convey knowledge about goods and services through the price system; they also convey ideas through talk, persuasion, and rhetoric. Implicit in each aspect of the market process is the entrepreneur's role in catalyzing such knowledge, not only in the act of buying and selling goods and services for pure economic profit, but also in the act of persuading others in the ideas they share, not just about the prices of the goods they are buying and selling, but also about what ought to be bought and sold in the first place.

McCloskey respects both Adam Smith's observation that man has a natural propensity to "truck, barter and exchange" and Thomas Hobbes's observation that life can indeed be "nasty, brutish and short" when man's propensity to rape, pillage, and plunder is unchecked by neither social convention nor formal institutions of law and order. Which human propensity is pursued will be a function of the broader social context, including not just the pattern of institutions that are defined and enforced, but also the conversation that exists about the moral legitimacy of those institutions. In short, in McCloskey's analytic narrative of the Industrial Revolution, the idea that incentives matter can be found, but it isn't the main explanatory factor; the idea that institutions matter can also be found, but it isn't the main explanatory factor, either. Instead, McCloskey stresses that "ideas matter"—in particular, the ideas that influence political and popular "talk" about commercial life and entrepreneurial innovation. This set of human activities was attributed a sort of dignity that was unique to that time and place, and that explains the "takeoff."

The ideas that emerged from the "talk" of the seventeenth-century Dutch Republic, eighteenth-century Britain, and nineteenth-century France and the United States explain the Industrial Revolution, its spread, and its transformation of the modern world. The rise of science contributed; the conflation of science, technological innovation, and commercial entrepreneurship contributed; the improvement of the quality of institutions that lowered the risk of appropriation contributed; the expansion of trade contributed. However, the cause was a widespread and significant shift in public opinion about the life and activities of the bourgeoisie that unleashed all those contributing factors to produce the Industrial Revolution and change the course of modern history.

III. The Protective State, the Productive State, and the Predatory State: Unbundling the Institutions of Political-Economic Analysis

Economics since the collapse of communism has been forced to consider at deeper levels of analysis the three I's: incentives, institutions, and ideas. In the wake of the dysfunction of real-world communist economic systems, it became a mantra to insist that incentives matter. As efforts to transform these systems were undertaken, it was quickly realized that changing the incentive scheme within the existing system would not work, but instead that institutions matter in aligning the incentives. It wasn't that incentives no longer mattered; it was that focusing on incentives led to a deeper analysis about institutions. One can read McCloskey as pushing economists to think even deeper about where those institutions come from and how they are sustained and legitimated. Thus, her focus on ideas matters.

How does the discussion of McCloskey giving primacy to the role of ideas in explaining the Great Enrichment relate back to our previous discussion of Smith? As McCloskey states in *The Bourgeois Equality*:

> What mattered were two levels of ideas—the ideas in the heads of entrepreneurs for the betterments themselves (the electric motor, the airplane, the stock market); and the ideas in society at large *about* the businesspeople and their betterments (in a word, that liberalism). What were *not* causal were the conventional factors of accumulated capital and institutional change—which happened, to be sure, but were largely dependent on betterment and liberalism (2016, p. xii, emphasis original).

Smith's argument in *The Wealth of Nations* likewise must be understood in this two-stage manner. The greatest improvements in the material conditions of mankind are due to the refinement in the division of labor. But, as Smith pointed out, the division of labor is limited by the extent of the market. Division of labor is, to use more modern language, a proximate cause of development. The fundamental cause is what gives rise to the expansion of the market, and thus the refinement of the division of labor. That fundamental cause is the ideas that gave rise to *the institutional framework* that made savings and capital accumulation safe. As Smith (1759 [1982], p. 322) stated in his lecture notes that he used to develop *The Wealth of Nations*, "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things." Unpacking precisely the institutional infrastructure that produces those has been one of the central tasks of political economists and social philosophers ever since Smith.

Recall in our introduction that we divided political economy into a three-part analysis: individuals act to discover a more preferable state of being (i.e., pure theory); but how they act to secure that more preferable state of being is institutionally contingent (i.e., applied theory); and it is the universality of purposive action, or the pursuit of self-interest, grounded in institutional analysis, that renders social phenomena intelligible to explanation (i.e., economic history and statistical analysis). This practice of analysis represents a "mainline" of economic analysis going from Adam Smith to Vernon Smith.

At the turn of the twentieth century, an intellectual revolution occurred in economics: political economy began to transform into the science of economics. Although this terminological change was meant to reflect a maturing of the discipline from a branch of moral philosophy to a positive science, what it also entailed was a metamorphosis of institutions and incentives into the parameters of a closed-ended maximization problem, or what McCloskey dubs Max U, which became the basis of all economic analysis. Critical in this switch was the importation of concepts and techniques from physics into political economy to restructure the discipline into economics. Purging the remnants of the discipline's interdisciplinary heritage took half a century. The purified product was Paul Samuelson's (1947) *Foundations of Economic Analysis.*

Our only disagreement with McCloskey isn't substantive; it is ironically rhetorical in this explanation of the Great Enrichment as the Great Fact. McCloskey's point, particularly in her critique of Douglass North, is a rather straightforward historical timing point that the institutional arrangements associated with markets and liberty had already been technologically feasible dating from the late Middle Ages (McCloskey 2010, p. 315). As she states, "The historical point is that *the ideas and ideology and ethics changed. The institutions did not*" (2016, p. 121; italics original). Our point here is the following: *institutions in form may not have changed, but the purposes, practices, and meanings attached to propriety of action, and hence property, did change to facilitate a greater extent of the market.*

While this change required a change in ideas, it must be understood that "ideas are intrinsically subject to economies of scale and therefore can yield dynamic effects able to explain factors of thirty or one hundred" (McCloskey 2016, p. 122). This dynamic effect may only take place within a larger context of rules that permitted, or at least did not prevent, the contestation of ideas in the first place, from which the ethical values emerged to underpin the extension of the market to capture greater gains from trade and greater gains from innovation. However, there still needed to be a shift in the general mindset such that these arrangements became morally acceptable and culturally feasible. When the ideas, institutions, and practices align, a combustible combination—the Great Fact—emerges, liberty expands, and well-being drastically improves for humanity. As Ludwig von Mises put it:

> Saving, capital accumulation, is the agency that has transformed step-by-step the awkward search for food on the part of savage cave dwellers into the modern ways of industry. The pacemakers of this evolution were the ideas that created the institutional framework within which capital accumulation was rendered safe by the principle of private ownership of the means of production. Every step forward on the way toward prosperity is the effect of saving. The most ingenious technological inventions would be practically useless if the capital goods required for their utilization had not been accumulated by saving. ([1956] 2006, p. 24)

But, this lesson is the lesson that classical political economy taught. The grand tradition of political economy focused our attention on rules and the social interaction that takes place within those rules, which enabled diverse human societies to realize productive specialization and peaceful cooperation.

McCloskey's analysis, however, fits nicely into this dual level of analysis (as indicated in the quote above regarding two levels of ideas) to critique what she regards as a Samuelsonian rendition of institutional economics. As she states, "'Norms' are one thing, 'rules' another. The neo-institutionalists turn their arguments into the tautologies by melding the two. They end up saying, 'Social change depends on society'" (McCloskey 2016, p. 114). However, McCloskey is careful not to dismiss all institutional economists:

> Earlier economists did consider institutions, and often in a much broader way than the neo-Samuelson-Institutionalists do—look at Fogel and Engerman on the institution of slavery, or Buchanan on the institution of government, or for

> that matter Marshall on the institution of the business firm or Smith on the institution of civil society. (2016, p. 121)

James Buchanan frames his discussions of institutions in the language of pre- and postconstitutional levels of analysis to communicate the idea that the interaction between economics and social philosophy produces political economy. In his framework, the preconstitutional level of human decision-making focuses on a choice over rules of the game and involves a debate about what kind of rules produce a good game. The postconstitutional level of human decision-making focuses on understanding what strategies individuals will pursue to fulfill their plans given the rules upon which they agree at the preconstitutional level.

Buchanan points out that if the rules of the game are desirable at a philosophical level but result in strategies that undermine social progress, our social philosophy is wrongheaded. The metaquestion—what rules make for a good game?—cannot be answered without a rational-choice analysis of the strategies individuals will follow under a game defined by those rules. In his analysis of the institutions of government, as McCloskey alluded to in the quote above, another useful distinction that Buchanan makes to understand the relationship between ideas and institutions is between the protective state, the productive state, and the predatory state ([1975] 2000, pp. 88–90).

The productive state, or "the institutions of 'law' broadly interpreted," emerges at the constitutional stage as the enforcing agency or institution. Its sole purpose is to enforce voluntarily negotiated exchanges of property rights. In this role, the political-legal order plays the role of referee under "the precepts of neutrality" (Buchanan [1975] 2000, p. 88). The productive state refers to the agency through which individuals provide themselves with "public goods" in postconstitutional contract. The puzzle that must be examined is whether political-legal institutions can be established, which produce the protective and productive state without unleashing the predatory state to such an extent that it undermines society's wealth-generating capacity. If indeed the protective state steps "beyond the bounds of propriety when it seeks, and explicitly, to redefine individual rights" (Buchanan [1975] 2000, p. 89) and unleashes the "predatory" state, then the market process that emerges (i.e., rent-seeking) will not support the bourgeois values conducive to the Great Enrichment. Therefore, it may be true that having good institutions (i.e., the protective state) is necessary, but not sufficient.

For individuals to contract themselves out of private predation, bourgeois values that support exchange under anonymity are required for property rights to support technological innovation and economic growth. However, and perhaps more importantly, institutions *do matter* when the protective state steps beyond its bounds of propriety, since it is much more difficult for individuals to contract around public predation.[4] With this latter point, McCloskey seems to agree:

> In the present case the claim is that an antibourgeois rhetoric, especially *if combined with the logic of vested interests*, has on many occasions damaged societies. Rhetoric against a bourgeois liberty, *especially when backed by government violence*, prevented betterment in Silver Age Rome and Tokugawa Japan. It stopped growth in twentieth-century Argentina and Mao's China. It suppressed speech in present-day North Korea and Saudi Arabia. Such words-with-swords-and-guns in 1750 could have stopped cold the modern world beginning in Holland and England. (2016, p. 417, emphasis added)

Let us be clear, however, that our claim is not that the exchange of property rights and/or good ideas has not existed in societies that have had poor institutions in which public predation saps the potential for economic growth. Relating this point to a gardening metaphor from Hayek's "The Pretence of Knowledge" ([1974] 1978, p. 34), ideas and property rights have emerged always and everywhere, like flowers in nature, constantly competing for space against "weeds," which in this case are the ideas and institutions that support opportunism (i.e., private predation) and rent-seeking (i.e., public predation). The framework of rules, which fosters *institutional competition*, will not only allow property rights to emerge that are

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[4] Acemoglu and Johnson (2005, p. 955) also may be understood as employing a dual level of analysis when they distinguish between "property-rights institutions" and "contracting institutions," which is somewhat analogous to Buchanan's distinction between the "protective state" and the "productive state." Property rights institutions determine the relationship between ordinary private citizens and the politicians or elites with access to political power. They are the rules and regulations protecting citizens against public predation. If property rights institutions fail to constrain those who control the state, it is not possible to circumvent the ensuing problems by writing alternative contracts to prevent future expropriation, because the state, with its monopoly of legitimate violence, is the ultimate arbiter of contracts. Contracting institutions refer to the contractual exchanges that emerge between individuals within property-rights institutions. While weak contracting institutions can be very costly, individuals can change the terms of the contracts or the nature of their activities to protect themselves from the worst type of opportunistic behavior.

adaptive to a growing extension of the limits of the market, but will also cultivate bourgeois values, and hence, the Great Enrichment, that curb the emergence of antibourgeois values and property rights supporting the acquisition of wealth through rent seeking rather than profit seeking.

Extraeconomic conversations are taking place not only between individuals within the market (see Storr 2008, 2009), but also about the institutions themselves. Rules, as *guides regarding the propriety of future human action* and their enforcement, frame the metaconversation that takes place within the marketplace. As Richard Wagner states, "Property, after all, denotes propriety or proper-ness in action, and so it pertains to a social relationship" (2010, p. 28), not a parameter to atomistic individual action. While we often talk about institutions as being conservative, routine, and predictable (McCloskey 2016, p. 361), viewing institutions, such as property rights, as guides to entrepreneurial action implies not only technological innovation within a set of rules, but also institutional innovation and evolution:

> In principle, variation in institutional frameworks can serve as a form of competition that generates information about the properties of different frameworks . . . In practice, there typically are many forms of institutional differences in play, which reduces the clarity of any association that might be inferred between institutions and performance. In one area the organization and reorganization of commercial enterprises might be wholly a matter of private law. In another area such commercial activities are subject to public law, as illustrated by various statutes regarding monopoly. If all other institutional arrangements were the same between the two places and if this social experiment were to play out for several years, information about the comparative properties of these two frameworks could plausibly be secured. (Wagner 2010, p. 127)

Austrian economist Ludwig Lachmann makes this point about institutional competition as well: "Drawing once more on the analogy of the market, we may say that the theory of institutions is the sociological counterpart of the theory of competition in economics. In both cases innovation and imitation are the complementary elements of what is virtually the same social process" (Lachmann 1971, p. 68). He draws on the distinction between "external institutions" and "internal institutions," the former corresponding to the level of rules and the latter to the level of social interaction within the rules. External institutions provide "the outer framework of society, the legal order" that allows internal institutions to evolve "as a result of market processes and other forms of spontaneous individual action" (Lachmann 1971, p. 81).

Applying this distinction to McCloskey's argument, we can understand that her claim that the *internal* institutions of private property and freedom of contract had existed in northwestern Europe since the Middle Ages, and what was required for the Great Enrichment was a rhetorical and ethical change. But ideas and norms never exist in a vacuum. The rhetorical and ethical change has to be understood within the broader *external* institutional context. The required change in talk and ethics may have emerged neither by "the creation of a new institution, nor by replacing an old by a new, but by 'widening' an existing institution in such a way that it can serve new interests without upsetting the plans which have thus far made use of it" (Lachmann 1971, p. 91). A "combustible combination" of ideas, institutions, and practices resulted in the Great Enrichment, but the rhetorical and ethical change must be understood within a framework of institutional competition that would allow for the scalability of this combination to arrive at a combustible point.

IV. Liberty, the Extended Order, and Institutional Robustness

According to McCloskey, the "modern world was not caused by 'capitalism,' which is ancient and ubiquitous . . . The modern world was caused by egalitarian liberalism" (2016, p. xv). Like Adam Smith, McCloskey understands not only that the political-legal framework of rules within which persons interact with one another is important and necessary in the inclusive constitution of liberty, but also that opportunistic behavior must be held in check by norms of mutual respect and reciprocal regard, norms that define a complementary "moral constitution" (see Buchanan [1996] 2001, p. 290).

Political economy is never a conversation about alternative allocations of wealth or particular distributions, but rather about the alternative sets of institutional arrangements that engender patterns of exchange, production, and distribution. While the beneficial results of the Great Enrichment, both in terms of material wealth and overall human flourishing, have brought the masses out of extreme poverty, the failure to distinguish between rules and allocations of wealth within rules poses the greatest challenge to understanding how the unhampered market economy generates wealth. The widely held belief that wealth discrepancies are a result of ill-gotten gains may be destructive to social order. As a result of income disparity domestically and internationally, social tensions arise. Class war breeds real war, as the downtrodden rebel against the perceived injustice and use any means at their disposal to fight back (McCloskey 2010, p. 415). The idea of analytical egalitarianism, that we should strive for a politics characterized by neither discrimination nor dominion—"egalitarian liberalism," as McCloskey dubs it—becomes a political demand for resource egalitarianism, and the step from one to the other is taken without much thought.

The claim of injustice in the resulting distribution of income is deeply rooted in our evolutionary past, and thus intellectual challenges to our evolutionary inheritance have had difficulty sinking in regardless of their theoretical or empirical nature. The development of the marginal productivity theory of wages did not stop the spread of the moral belief that capitalism was unjust. The cold logic of economics clashed against the hot emotions of moral injustice. Why does this tension exist? Economics is a scientific discipline that offers analytical explanations about how the world works, whereas moral theory offers normative suggestions about how the world ought to be. What happens when our moral intuitions about how the world ought to operate are at odds with the institutional framework required for the world to actually work such that individuals can live prosperous lives?

Hayek (1988) postulated that this tension between our moral intuitions and the institutional demands of the extended order was a product of our evolutionary past. Human beings evolved in a setting where social cooperation required solidarity and altruism toward other group members over outsiders. Humans were thus conditioned by social norms appropriate for small-group living. The norms of face-to-face interaction adopted in such circumstances work for the intimate order of family and close kin. But with the emergence of specialization and exchange under anonymity, our social interactions move far beyond intimates. As we enter the extended order of the nexus of exchange, the norms of the intimate order must give way to norms more appropriate for anonymous interactions that restrain our evolutionary instincts regarding social cooperation. This does not mean that our moral intuitions regarding solidarity and altruism must be abandoned and replaced. Rather, they simply must be constrained to the intimate order, as they are insufficient for sustaining cooperation within the extended order. This tension is why, in

Hayek's view, "we must learn to live in two sorts of world at once" (1988, p. 18).

Adam Smith, too, recognized that our moral intuitions alone could not sustain cooperation among large anonymous crowds, while his treatment of intimate and face-to-face interactions among individuals was similar to Hayek's. Smith's *Theory of Moral Sentiments* ([1759] 1982, p. 9) uses moral sympathy, the ability to enter into another's situation by means of the imagination, as the foundation for the development of social rules and norms regarding acceptable and unacceptable behavior, justice, and so on, and thus as conducive to social cooperation in such settings. Smith also considers benevolence and acts of kindness, as well as attempts to receive acts of kindness from others, as ways to induce cooperation. He remarks that man "has not time, however, to do this upon every occasion. In civilized society he stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons . . . man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only" ([1776] 1981, p. 26). In Smith's view, it is precisely because we obtain "the greater part of those good offices which we stand in need of" ([1776] 1981, p. 26) through exchange in modern society that we rely not on benevolence or sympathy for social cooperation under the division of labor, but on self-interest.

When a father divides a candy bar between his two sons, it makes perfect sense to ask one to divide and the other to choose, thus ensuring a fair division of the fixed quantity of candy bar. Such rules of social division, however, make no sense when the dividers are unknown to the arbiter and the size of the "candy bar" is endogenous to how it is divided, as is the case for modern society. Although Smith's argument, as McCloskey notes, was an argument written "against the excess of bourgeois self-interest" (2016, p. 174) promulgated by mercantilist institutions, the normative benchmark on which the market process has been judged is in terms of its efficiency to allocate resources, rather than patterns of distribution that emerge from a set of institutions. In other words, the "excesses" of capitalism have been blamed not on the perpetuation of mercantilist policies that encourage an ethics of crony capitalism, but rather on egalitarian liberalism, which had supported the ethics conducive to the Great Enrichment.

The puzzle that we confront is thus not how to ensure a fair division of a fixed amount of income, but instead to discover what set of rules will allow multitudes of strangers to live better together realizing the mutual gains from specialization and exchange and the bountiful gains from innovation. Small-group cooperation must be replaced by large-group cooperation. As Hayek argued, the span of our moral sympathy can only stretch so far before our emotional instincts, such as solidarity, altruism, benevolence, and empathy, destroy our ability to realize the gains from social cooperation under the division of labor by preventing an extended order from arising altogether (1988, pp. 11–28). Small-group norms of social cooperation based on moral sentiments must thus be replaced by large-group institutions of governance. The inherited moral intuitions of our small-group cultural past, which laud the warrior-protector or the judicious king, come to be replaced by the rule of law and the bourgeois virtues of ownership, hard work, and commercial innovation. What is required to undergird the institutional framework necessary for a greater extension of the market are not only commercial practices but also ideas that legitimate the patterns of allocation and distribution of an ever-growing economic pie. This shift from the morality of the ancients to the ascendancy of the bourgeois virtues that brought about the miracle of modern economic growth has improved the lives of billions—first in Europe, then in the United States, and eventually throughout the world.

V. Conclusion

The focus on ideas, institutions, practices, and their interaction raises questions we would like to ask about the relationship between the head, the heart, and the stomach in human affairs. The head refers to our rational facility, the heart to our emotional, and the stomach to our base appetites. Human interaction must play with all three, and ignoring any one, let alone two, will cause serious miscalculations. The great tragedies of the human condition—the inhumanity of war, the ignorance of discrimination, the injustice of dominion—all follow when the head, heart, and appetite are not forced to reconcile with one another. This struggle between reason, passion, and instinct, we would argue, brings us back in our discussion to McCloskey's point in the first volume, *The Bourgeois Virtues*, about the balance in the virtues and about our confusion in thinking through the ancient warrior virtues and the Christian virtues while ignoring the Bourgeois virtues. While ideas matter for the rhetorical and ethical change required for the Great Enrichment, property rights must first be secure from public predation to allow trade-tested ideas to emerge through entrepreneurial discovery, which in turn legitimates and reinforces those commercial values that sustain modern economic growth.

The Bourgeois Era was unique in human history, and the ascendency of a set of ideas that gave dignity to practices that previously were ridiculed and in many instances despised, and instantiated in the prevailing institutions of the relevant societies, resulted in an alignment of incentives that produced enrichment. You can break down humanity's transition from poor and sick to wealthy and healthy, as Peter Bauer (2000) does in describing the transition from subsistence to exchange, as a move from small-scale trading and capital accumulation to medium-scale trading and capital accumulation to large-scale trading and capital accumulation.

But again, the real question is what triggers the move from one to the other. McCloskey's answer is not technological. It is not even institutional. It is ideological, and without that ideological component, you cannot explain the rise of the Western world. As highlighted by the quote from Ludwig von Mises provided above, it was ideas that provided the "spark" for the combustible combination of ideas, institutions, and practices. The realization of social cooperation under the division of labor requires specific institutions, and the scalability and sustainability of those institutions require a legitimating ideology. In short, McCloskey's "humanomics" should not be contrasted with economics, but held up as a prime example of economics and political economy at their finest.

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