

Liberal Read

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The Revolutionary Liberal Idea

BOOK REVIEW

Deirdre McCloskey

*Why Liberalism Works:
How True Liberal Values Produce
a Freer, More Equal, Prosperous
World for All*

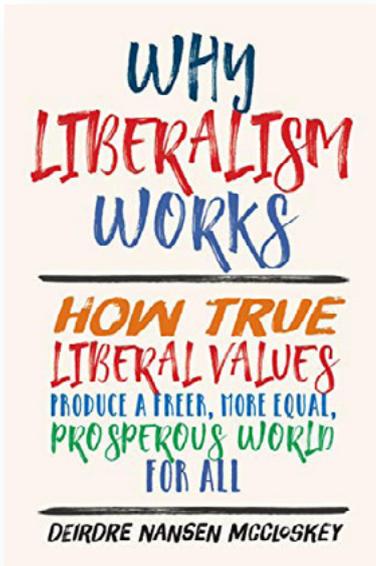
Yale University Press, 2019

By Adam Mazik

A series of crises has put many liberal ideas under question. Inspired by a popular commercial concept, Liberal Reads are packaged in an easily accessible format that provides key insights in 30 minutes or less. The aim of Liberal Reads is to revisit and rethink classical works that have defined liberalism in the past, but also to introduce more recent books that drive the debate around Europe's oldest political ideology. Liberal Reads may also engage critically with other important political, philosophical and economic books through a liberal lens. Ideological discussions have their objective limits, but they can still improve our understanding of current social and economic conditions and give a much needed sense of direction when looking for policy solutions in real life problems.

Liberal Read

The Revolutionary Liberal Idea



Liberalism is in danger, and liberal values and democracy are facing many challenges in today's world. McCloskey's book is the antidote to the ideology of populisms, which are trying to make illiberal solutions for today's challenges, and against the "big state" that is so loudly proclaimed in today's public spheres and fora of exchange. McCloskey paints a picture of our history and free markets very differently from what we are almost coerced into seeing on a daily basis. It is a picture of optimism and progress, a story not filled with greed and corruption but rather human dignity and ingenuity. Not a story of war, coercion, and hierarchy—but of international cooperation, sweet talk, and égalité.

According to McCloskey, the modern world as we know it evolved because of a specific ideology, a specific "idea". This idea, born in the 17th and 18th centuries in great minds such as John Locke, Adam Smith, or Mary Wollstonecraft, continued with Bastiat in the 19th century and Hayek and Milton Friedman in the 20th century.

And it is liberalism, as McCloskey emphasises, not libertarianism, the name the philosophy acquired after its original name was stolen by the American left. It is not conservatism, as it allows for creative destruction and change both in the marketplace and in the sphere of culture and ideas. It is not neoclassical liberalism, neoliberalism, or classical liberalism: it is just "liberalism".

McCloskey's book is not aimed mainly at academics but at the mature and open minds of modern citizens, particularly those who are sceptical about true liberalism.

Why Liberalism Works is divided into four sections. In the first, McCloskey explains why you, the reader, should become a true humane liberal. The economist continues in the second section with a positive explanation about how the idea of liberalism makes everyone more prosperous, freer, more dignified, healthier, and richer.

The longer, second part of the book is a defence of liberalism against the common arguments brought forward by its opponents. Section three deals with issues of equality and mainly engages with left-wing market scepticism. In the fourth section, McCloskey

both dismantles other arguments against a society of spontaneous orders and gives additional positive reasons, especially for the left, to let go of their coercive ideology and embrace true humane liberalism.

According to Deirdre McCloskey, the cause and initiative force for the “Great Enrichment” were ideas—more precisely, the ideas of liberalism.

The book is charmingly written and highly approachable, and the author takes the reader by the hand, explaining through the art of storytelling and rhetoric complex issues in ways that make the underlying problems and theory understandable.

What McCloskey wants the reader to know and understand

The centre of McCloskey’s argumentation is the statement that the revolutionary 18th-century liberal idea is what caused the most significant change in the history of modern man (and woman!). Liberalism and its embrace of bourgeois values, through “commercially tested betterment”, caused the “Great Enrichment” of the 19th century.

Throughout the long history of humanity, McCloskey notes, prosperity and economic progress could be measured in waves: from one dollar per person to three or maybe five dollars per person. This long-term stagnation ended in the 19th century, when the GDP of the world exploded into dimensions not comparable to anything before then. The 1800s started a period of drastic and dynamic progress which continues until today.

But what caused it? Was it the exploitation of colonies or imperialism? Was it perhaps slavery? More sophisticated individuals like economists suspect the accumulation of capital or the growth of formal institutions, such as the rule of law, property rights, and the enforcement thereof. Max Weber, as McCloskey notes, sees cultural reasons: the ethics of protestant Christians in north-western Europe.

All of those explanations, however, are wrong. According to Deirdre McCloskey, the cause and initiative force for the “Great Enrichment” were ideas—more precisely, the ideas of liberalism.

What does McCloskey mean by “liberalism”?

The description of someone as a “liberal” can cause problems with precision. Especially in the United States, the word “liberal” means something different than the earliest meaning of the term or the one that still holds true in Europe. The American liberal, just like the European one, to a large extent respects individuals’ right to privacy and basic democratic freedoms, but they are generally quite sceptical towards markets. The author sees them as dangerous and abstract creations, with a lot of imperfections that should be corrected by the government. Therefore, the American liberal supports wide and strong market interventions (such as a high minimum wage, a vast and intrusive tax system, and high rates of redistribution from the highest earners to the poor).

Deirdre McCloskey does not argue in favour of that kind of liberalism. She advocates for the kind of liberal idea formulated by Adam Smith. McCloskey wants to retake the “L word”. Social democrats in the USA nowadays prefer the term “progressive”, after all—let them have it.

She does, however, add something else: true humane liberalism. It is “Liberalism 2.0”, as she calls it in the book, a warm and welcoming kind of liberalism. It is a liberal idea that concerns itself with the lives of the poor, minorities, and the marginalised, a liberalism for everyone in society. McCloskey argues that liberalism is very much compatible with charity, equality (of rights and dignity), and empathy. She isn’t a liberal in spite of caring about the poor. She is a liberal because she cares about the poor.

How the liberal idea caused the Great Enrichment

Today, the great majority of humanity lives in a state of incredible wealth, comfort, and prosperity when compared to other times in history. From the 19th century onwards, humanity has experienced what McCloskey calls “The Great Enrichment”. The last two hundred years were an unprecedented explosion of economic growth. As McCloskey writes, economic growth throughout the Great Enrichment was about 3,000%.

The modern poor in countries like the USA, Germany, or France experience greater comfort and wealth than the richest individuals did just one or two hundred years ago. They have modern medicine, like antibiotics and vaccines. They can buy food grown and produced all around the world for a very low price, and they can store this food in their freezer. We can cook and experience culinary expeditions directly from the stoves of our own apartments, not worrying about dying of hunger in our lifetimes. If you feel a sharp and debilitating pain in your chest, instead of dying, you’ll go to the hospital where a surgeon can build a bypass in your heart, effectively leaving you with almost the same life quality as before the heart attack.

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This amazing jump, according to McCloskey, was initiated by the idea of liberalism. For the majority of our history, humanity was a highly hierarchical society, with barely any movement in between different groups. The idea that people were equal before the 18th century and the Enlightenment borders on absurdity. Indeed, a king, duke, or a different kind of aristocrat had a wholly different standing than a peasant did. And the possibilities for moving from one social class to another were limited; peasants could not simply work for themselves and their families. Their place was fixed, and so was the place of their children and grandchildren.

So, what happened? Liberalism.

For the first time in history, as McCloskey writes,

people started to get treated with a basic level of dignity and respect. The radical idea of equality before the law started a great creative fire in the minds of the common people. Innovations and inventions began to be seen not as something dangerous but as something overwhelmingly positive. These “commercially tested betterments”, as McCloskey defines innovations, were the reason behind newly acquired riches. Innovators and the emergent middle class, the “bourgeoisie”, took over the course of the world’s future. A person’s name or birthplace no longer determined their material standards; rather, what the individual could offer to their equals became more important. People grew bold and used their minds; they cooperated and competed. They sold and bought, learned and specialised, and then exchanged. Inventions revolutionised the daily lives of people and made their inventors rich, but not forever: competitors arose, making these products more available to the general population. The creative destruction of innovations became something positive.

McCloskey names a variety of inventions that resulted from this explosion of creativity, both in the commercial and in the cultural sphere: “Give the middle class [...] dignity and liberty for the first time in human history and here’s what you get: the steam engine, the automatic textile loom, the assembly line, the symphony orchestra, the railway, the corporation, abolitionism, the steam printing press, cheap paper, wide literacy [...]” and many other examples.

McCloskey claims that this radical change could not have been caused by investment, the accumulation of capital, formal institutions, and property rights. These and other admittedly necessary phenomena have also existed at numerous times in human history. Therefore, according to McCloskey, the idea that the term “capitalism”, used by both proponents and opponents of the economic system, resulted from liberalism is scientifically false. The Great Enrichment did not have anything to do with the accumulation of capital. It was caused by ideas.

The broad idea of liberalism gave workers and the middle class the rights, agency, and dignity needed to release their own creative forces, as well as their specific ideas, innovations, and inventions resulting from this newly acquired freedom. Capitalism, in McCloskey’s view, is a misnomer: it should be “innovism”, a system of innovation.

Enrichment, not equality, should be our ethical goal

But what about inequalities of wealth? Isn’t it unfair that some have so much and others so little? Shouldn’t we all therefore aim for a more equal society? Shouldn’t we favour the progressive taxation of income? Shouldn’t we call on governments to redistribute wealth from the rich to the poor? Why can’t we just confiscate the money of the billionaires who spend their money on private jets, cars, and travelling the world when so many people have to struggle every day?

Contrary to popular opinion, the answers to those questions are not that simple. In fact, even claims of rising inequality aren’t necessarily very accurate. According to the evidence presented by McCloskey, such statements are a vast oversimplification of what is happening: “The rich became richer, true. But the poor have gas heating, cars, smallpox vaccinations, indoor plumbing, cheap travel, rights for women, low child mortality, adequate nutrition, taller bodies, doubled life expectancy, schooling for their kids, newspapers, a vote, a shot

at university, and respect." The poor are therefore the biggest beneficiaries of McCloskey's "innovism". Yes, the rich are getting richer, but the poor are getting richer too!

So, does equality matter?

According to McCloskey, the whole problem of relative poverty is related to a fundamental misunderstanding. The ethical goal should not be a society more equal in outcomes, but a society in which the poorest also live according to high material standards. The aim should not be to make everyone more equal, but to make everyone richer. It is simply irrelevant from an ethical point of view whether inequalities occur in a free economy. In fact, the liberal market economy does have significant equalising properties in the aspect where it matters, which is consumption.

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McCloskey argues that the great enrichment resulting from commercially tested betterment leads to the vastly more equal consumption of basic capabilities and necessities. She underlines the findings of Donald Boudreaux and Mark Perry, who in 2013 argued that relative household spending on basic necessities has continuously decreased in relation to disposable income. In 1950, families spent 53% on basic utilities ("food at home, automobiles, clothing and footwear, household furnishings and equipment, and housing and utilities"). 20 years later, it dropped to 44%. It was just 32% in 2013.

But the argument gets even stronger. McCloskey quotes great liberal economist Steve Horwitz, pointing out that the quality of goods and services have also been increasing. According to Horwitz's analysis, the notion that the poor in the US are becoming poorer is not only wrong—the opposite is true! McCloskey quotes Horwitz: "looking at various data

on consumption, from Census Bureau surveys of what the poor have in their homes to the labor time required to purchase a variety of consumer goods, makes clear that poor Americans are living better now than ever before. In fact, poor Americans today live better, by these measures, than did their middle-class counterparts in the 1970s."

But wait! Even if the material levels of the poor are rising, widening inequality might still be a problem. McCloskey quotes Robert Reich, declaring that this widening inequality prevents social mobility, i.e., the possibility to advance into a wealthier class in society. That argument, however, is also dismissed with the help of Horwitz, summarising a study by Julia Isaacs on individual mobility between 1969 and 2005: "82 percent of children of the bottom 20 percent in 1969 had [real] incomes in 2000 that were higher than what their parents had in 1969. The median [real] income of those children of the poor of 1969 was double that of their parents."

But shouldn't we still aim for more redistribution?

Thus, McCloskey supports the absolute enrichment of the poor instead of the goal of more equality. Material levels among the poor should be rising and, contrary to popular opinion, substantial social mobility still exists. Provided that the goal is to make the poor richer, though, is it also good to aim for redistribution? Can more instruments be applied in addition to the equalising power of the markets, such as subsidies, minimum wage regulations, and other social welfare measures?

McCloskey argues that most of these proposed measures don't decrease poverty; on the contrary, they increase it. Even though a programme might be designed to help the poor, that doesn't mean it objectively does so. After all, competent governments are a rarity. And even the policies of competent governments fail relatively often.

Wages and profits in a large society cannot be as easily redistributed as in a small community like a family. The market is a Hayekian spontaneous order, in which prices communicate important information about the supply of and demand for goods and services in the economy. The information supplied by prices is an important incentive in the decision-making process of all market agents. An occupation which requires an extensive amount of education and training, the services or products of which are in high demand, must therefore be compensated accordingly. High wages are an important incentive on the job market: in a freely functioning market economy, the supply curve adjusts; consequently, more people enter the business.

In this respect, McCloskey argues that these price signals are crucial for the functioning of the market. Without the incentive of prices, there are fewer reasons for specific specialisations, thus decreasing the productivity of the whole economy and therefore making the pie smaller.

Additionally, the redistribution of wealth via taxation cannot continue endlessly. Even if we assume that we can redistribute a portion of the wealth of the rich to the poor, we cannot expect the wealthy to continue to deliver. The effects will be dampened; and the results, while significant in the short term, will not at all reach heights comparable to the 3,000% growth of the great enrichment in the long term.

An especially harmful social welfare measure which McCloskey spends a whole chapter on is the minimum wage. The economist points out that the minimum wage was initially designed to damage people of colour and women. According to the author, the minimum wage is historically a chauvinist and racist invention, designed to keep blacks, women, and minorities out of the markets. McCloskey explains further: "[r]ace suicide theory, adopted with rare exceptions by most social scientists before National Socialism shamed it, held that the inferior races with low wage standards would drive down wages of Saxons, thus reducing their fertility—unlike the wretched Blacks and immigrants, who would always have large families."

McCloskey provides multiple quotes from leftist and progressive economists at the beginning of the 20th century to demonstrate the complete moral depravity of social engineering back

then, for instance, economist Thomas Leonard says: “[the minimum wage] was the holy grail of American progressive labor reform and a Who’s Who of progressive economists and their reform allies championed it”, and “[...] removing the inferior from work benefited society by protecting American wages and Anglo-Saxon racial purity”.

And again, a quote from British socialist Sidney Webb: “Of all ways of dealing with these unfortunate parasites, the most ruinous to the community is to allow them to unrestrainedly compete as wage earners.”

As McCloskey points out, they unmistakably show the racist goals and sentiments surrounding minimum wages. Unfortunately, unlike many other governmental measures, this one was actually highly effective. According to Sowell, whom McCloskey quotes, the minimum wage has had a drastic negative effect on the unemployment rate among young black males. Unemployment among that group from 1971 to 1994 never fell under 30 percent, frequently oscillating around 40 or even 50%. As Sowell points out, the damage is not merely short term, as low wage jobs are usually entry-level jobs which enable young people to gather experience and references to get higher paid jobs in the future. The lives of those especially poor individuals were and are damaged by regulations effectively prohibiting them from working.

What should be done?

In order to facilitate the enrichment of the poor and the flourishing of our entire market-based society, McCloskey proposes a set of measures. Some of them are listed here.

Most importantly, the government should not worsen the situation of unqualified workers with regulations such as minimum wages. It should not push young men into criminality by taking away their ability to provide for themselves through wage protections and harmful zoning, while simultaneously creating incentives to become criminals through policies like the war on drugs. It shouldn’t engage in counterproductive social programmes like public housing.

The government should not interfere with markets through the prevention of competition. There is no reason for most occupational licensure measures to prevent entry into the occupation and therefore raise wages for privileged cronies. There is no reason to protect and restrict corporations from competition originating abroad.

While basic education should, according to McCloskey, be paid for by taxation, the service of education does not have to be administered by the government. Give families vouchers that they can use in private institutions, thereby allowing different models and innovation. Instead of a minimum wage, argue for a minimum income, like the negative income tax of Friedman, providing the poor with the most effective help they can get without taking away their ability to work.

Most importantly, allow the magic of commercially tested betterment to work. Treat people like grown-ups. Let them make decisions and mistakes. Let them cooperate locally and globally. Allow them to pursue their individual goals through aspiration; lead the invisible hand of the free market to the enrichment of the entire world. Do not disturb! Let them be.

Why we have to protect the liberal idea from illiberal forces

McCloskey's book shows the great benefits we have derived from the liberal idea since its acceptance in the 18th century. Yet liberalism and freedom are always in danger. Tribalist, authoritarian instincts can easily cloud the judgement of individuals and whole nations. And the devil is in the rhetoric: it starts with words.

It was the liberal idea that started to transform the world; and it is the liberal idea that keeps moving us towards a more tolerant, more equal, and richer world in which humans can live in respect and dignity.

McCloskey strongly criticises the quasi-mercantilist rhetoric of many experts, portraying markets as a competition between nations and countries. War metaphors, as well as a focus on the relative economic power of countries, are based on a faulty understanding of economics. The pessimistic visions of illiberal actors diagnosing and predicting the economic decline of the West are a real threat for the liberal order that has ensured the prosperity of the developed world.

Contrary to self-proclaimed experts' statements, Great Britain hasn't declined. There has been no degradation but, just like in other European countries, a steady continuation of economic progress. Neither is the US in decline: markets and trade are not zero-sum games. The relative position of a country is not even a secondary concern. Absolute growth and progress are more important.

McCloskey argues that we shouldn't be worried about China, India, or South America catching up. We aren't harmed by their progress. Their enrichment isn't achieved at our expense. Contrary to the violent and economically illiterate rhetoric, we should be happy about global enrichment. The enrichment of our partners not only enables them to buy more from us; it also lets us profit from new inventions, new innovations, and a sea of brilliant and concentrated minds.

Trade isn't war; it is peace and cooperation.

Why Liberalism Works shows how the idea of liberalism has materially, ethically, and spiritually enriched the world. Markets are more than the great egalitarian mechanism providing people in the modern world with a level of wealth unprecedented in human history. They've led to great cultural flourishing and progress. They've enabled the common man to innovate and raise himself up from the past hopelessness of his poverty.

Liberalism and markets have also contributed to the dissolution of old antiliberal hierarchies. The liberal idea and markets empowered women to emancipate themselves from the patriarchal orders of society which had been the standard throughout most of human history. This radical idea started a chain reaction. It gave people hope and dignity. It gave them boldness and aspirations. It gave them the room to dream about a society in which

everyone, no matter what race, no matter what gender, no matter what background, could achieve their aspirations. Liberalism liberated and keeps liberating marginalised groups such as women, immigrants, and the LGBTQI+ community. Governments and their coercive actions do not protect the weak. In fact, through discriminatory legislation like punishments against homosexuality or the enactment of the minimum wage, governments have often been a force emboldening the vilest elements of human nature.

It was the liberal idea that started to transform the world—step by step, not with immediate results. And it is the liberal idea that keeps moving us into the right direction: a more tolerant, more equal, and richer world in which humans can live in respect and dignity.



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The European Liberal Forum (ELF) is the official political foundation of the European Liberal Party, the ALDE Party. Together with 47 member organisations, we work all over Europe to bring new ideas into the political debate, to provide a platform for discussion, and to empower citizens to make their voices heard. Our work is guided by liberal ideals and a belief in the principle of freedom. We stand for a future-oriented Europe that offers opportunities for every citizen. ELF is engaged on all political levels, from the local to the European. We bring together a diverse network of national foundations, think tanks and other experts. In this role, our forum serves as a space for an open and informed exchange of views between a wide range of different EU stakeholders.

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