Why Are We So Rich?
Guest: Deirdre McCloskey
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Deirdre McCloskey, a professor at the University of Illinois at Chicago, is the author, most recently, of The Bourgeois Virtues and Bourgeois Dignity.

WOODS: I have read *Bourgeois Dignity* and *The Bourgeois Virtues*. I find these books absolutely intriguing, strikingly original, maddening at times—but I think that's a sign of brilliance a lot of the time. So I want to have you talk about, first of all, what is the primary question that you're seeking to answer in this trilogy?

MCCLOSKEY: How should we view the modern economy? Should we think of it as a terrible system of exploitation? Has it been good for ordinary people or not? In a way my central question is ethical. What should we think about? Now, of course, the corresponding scientific question is, how did we get so rich? We are. And how did it happen?

WOODS: There have been alternative explanations, of course, and you take each one in turn and completely undercut it. For a long time people thought that, well, the West became wealthy because we had trade and capital accumulation, and favorable institutions and so on. What's wrong with those explanations? They sound plausible.

MCCLOSKEY: Yeah, they sound plausible, and the problem is that such conditions of having a lot of a coal, or having a lot of foreign trade, or having good institutions of property are very widespread. China had them. The Ottoman Empire had them. South Asia had them. So if you're going to explain what's peculiar about northwestern Europe in the 18th and especially the 19th century, you have to find something that's peculiar, and I think I did.

WOODS: In a way, I don't want to give away the punchline because I want people to read your thesis; I want them to encounter it and come face-to-face with it themselves. But at the same time, what kind of host would I be if I didn't ask you to talk about what the answer is? If it's not something material that can account for this extraordinary phenomenon of growth, what could it be?

MCCLOSKEY: Well, it's ideological. It's ideas. It's changes in attitudes towards the economy and towards the middle class in particular. That's why all three volumes have the word *bourgeois* in

the title, because the much-maligned bourgeoisie is the social class where it happened where these ideas flourished. And these ideas are the idea—what I am calling sort of equality. And by equality I mean equality of the freedom to open a business, on the one hand, and the honor that's accorded people who do so, people who innovate. And those two things—the first is legal, the second is sociological—Tom, are the key ideological changes in the 18th and 19th century.

WOODS: I would like to know how then in Western civilization have businessmen, innovators, merchants been viewed? This is not simply Christian disapproval of people seeking after wealth because we also see it in the ancient world. What kind of attitude have we seen in the West toward these people?

MCCLOSKEY: Well, in the West and the East and everything in between we've seen a lot of hostility towards innovation, which disturbs the existing hierarchies and a contempt from the aristocracy on the one hand, and the peasantry on the other, of the person in the middle. Now, it's odd, because in some places this contempt is not as strong as it was in the West. In the West it was exceptionally strong, this hatred of the middle class. Yet it's there, in western Christian Europe, that first the Industrial Revolution of the 18th century, and then what I call the Great Enrichment of the 19th century, happened.

WOODS: What is it that happens? This rhetorical change occurs. What kind of rhetorical change? In other words, people are more willing to say there is indeed some value to what you folks are doing after all?

MCCLOSKEY: That's right, and it happens first in Holland. Holland is the original place of the modern world. In the 16th and 17th century, the Dutch, who are in revolt against their Spanish overlords, are not contemptuous of trade. They have always been traders and middle-class folk. And they become extremely innovative. Their guilds, what amount to trade unions, were weak. Their urban places—Amsterdam and Rotterdam and Utrecht and so on—were competing with each other for excellences, economic excellences of all kinds. So it starts there. And then in the late 1600s, the English adopt a Dutch king, and the Dutch central bank, and a Dutch money exchange, and Dutch corporate entities, and the English then, so to speak, become Dutch as the American colonists, in a way, already had, and as the Scots didn't do. So what someone has called the Anglosphere, the English-speaking world, becomes approving of innovation and markets. So it's a spread of the ideas from Holland, and then the spread from England that made the modern world.

WOODS: In the third volume of this trilogy, which you've just told me is complete, and it's sent off to the publisher and has to go through the usual process, but we hope and expect to see it maybe about a year from now, based on what I see in the title, are you looking to answer the question not just what happened but how does it happen? How does the rhetoric change in a culture?

MCCLOSKEY: Yeah, how it changes and what the consequences were, and the answer is somewhat unsatisfactory, but it has the virtue of being true. It's somewhat accidental. It's not some deep European or English superiority that makes for the change in ideology in the 17th and 18th and then with the great payoff in the 19th century. It's an accident of European politics, for example, this revolt against Spain that I spoke of that happened in Holland. That turned out well. It took the Dutch 80 years to finally expel the Spaniards from there to new territory, but they accomplished, and in the meantime created a society without kings and without lords, run by the middle class. And likewise, the Reformation, starting in 1517, of course, with Martin Luther, bred radical Protestants, Anabaptists, and then later on in England Quakers who were radically egalitarian, unlike the Anglicans or the Lutherans who are not egalitarian. These sort of extreme Protestants were. And so what accidentally happened in the 17th and 18th centuries was that an equality of respect and a legal equality of the ability to have a go, as one economic historian expressed it, became commonplace in northwestern Europe.

WOODS: Have you ever read that book—I probably shouldn't even ask—but Helmut Schoeck's book, *Envy*?

MCCLOSKEY: I own it, but I haven't read it.

WOODS: I think it's one of those books we all feel that way about: I'll get to it one of these days. I wonder, given that today the type of rhetoric that we have toward business enterprise is not as favorable as during these glorious golden years that you're describing, how they were able to suppress envy for so long to allow this respect to develop.

MCCLOSKEY: Well, that's the danger in the modern world. That's the danger nowadays. If we indulge envy, which is a great sin, theologically speaking, and we seek another kind of equality, not an equality of respect or the legal ability to have a go, but equality of outcome. If we insist that everyone have the same number of yachts, we can kill the goose that laid the golden egg. So that's why I wrote the three books, because I am concerned that we keep this business respecting civilization that has made us so well off—not just materially, but also spiritually. So it was a close thing. It could easily have gone the other way. Accidentally, as I said, English people and Scottish people and Americans across the pond and how Australians even further across the pond developed this non-envious attitude. You do well, I say, fine. You go ahead and do well, and it leads on to what I call the bourgeois deal, which is: you let me innovate, and in the long run, I will make you rich. And that's what happened.

WOODS: How did that change? How did it become what it has become now or what it became under the influence of Marxism and so on? Where did all of that come from?

MCCLOSKEY: Well, the so-called clerisy, the journalists, and the intellectuals, and the scholars, and the artists, turned against the middle class, which mainly was their fathers in the middle of the 19th century. In 1848, the revolutionary year in Europe, was the turning point, and very shortly afterwards by the 1870s and '80s, most of the advanced thinkers in the world were

socialists or nationalists, and if you liked that, then you could have national socialism, in a way that was very sad for the history of the 20th century. So, again, it was a change at the level of ideas that caused the bad things about the last couple of centuries. So both the good thing—the enrichment of ordinary people by a factor of 30, not doubling, or even a tripling, but an increase by 30 times in the material welfare of the ordinary person—happened in parallel with a turn against what we unfortunately call capitalism.

WOODS: Something you hinted at here is a point that I want to bring out. In reading your work, I find it very interesting that although we have to acknowledge, and we want to acknowledge, the material advances that we've made, your argument is much more compendiously broad than that. You're saying that it's not just that I have a better toaster than I used to have, or I have a toaster at all, but that there are vistas of opportunity for self-enrichment that are there. Now, it's true: lot of people in a capitalist society may live lives that are unworthy of human beings, they don't ever read, and they don't—but that's true in any society. But you state so beautifully and elegantly the vistas that have opened to us, and we don't even notice that this has happened, but it's the most extraordinary development ever.

MCCLOSKEY: Absolutely, the number of readers—take that as a measure of this. The number of people in the world who can read, the absolute number, has increased since the early 19th century by a factor of 40. So that's why there are so many more museums and so many books published. A quarter of a million new books are published in English every year, a quarter of a million books. So although it's true that you can spend your life reality TV and eating Fritos—which is better, I have to note, than starving to death in 1300. So that's perhaps an unworthy life although physically prosperous. Many people have taken advantage of this enriching opportunity in another sense—and it's not just material enrichment, but it's spiritual enrichment. Now, the left and some of the right have claimed that we got rich but lost our immortal souls in the process, and that I don't believe that is true. I think that on the contrary, when ordinary people, your ancestors and mine, who were very, very poor, become prosperous, they are able to start thinking for themselves. They are able to understand and appreciate art, and many of their political ideas improve, and altogether they live more full human lives.

WOODS: Well, I went through in my life—I went through a phase where I was so angry at the modern world—

MCCLOSKEY: I was, too.

WOODS: And I romanticized the Middle Ages. But the fact is, even apart from things like dentistry, just your daily life as a French peasant would have been miserable.

MCCLOSKEY: It was horrible.

WOODS: There would have been no chance. You'd be lucky to survive, much less develop any of your human faculties. So I look back at my reactionary phase, and I'm quite embarrassed.

MCCLOSKEY: In Burgundy in the 1840s, as recently as the 1840s, the men who worked the vineyards after the crop was in in the fall would go to bed and they would sleep huddled together—I am not making this up—in order to preserve their warmth, and they would actually hibernate for months in that state. That's how poor they were. They couldn't afford the heat. They couldn't afford the food that they would have to consume if they got up. So even in a country as rich as France in the middle of the 19th century, people were very poor. I estimate that world income around 1800s was, in modern terms, in terms that you could apply in Chicago or Bombay, three dollars a day. Imagine trying to live in the 13th century or in the 19th century or nowadays, as many people still do, on the cost of a quart or two of milk spread over all your consumption—all your housing, your clothing, and your education—everything. So three dollars a day is a terrible, terrible life.

Now, the world average—now, this is in constant prices, and purchasing power parity, and all those adjustments for exchange rates and so on—is $33 a day. It's about what Brazil is now. Three dollars a day to $30 a day, even if you include very poor countries like Chad or Bangladesh, is an enormous increase. It's a factor of ten. And in countries like Sweden or the United States or Australia—or for that matter, Hong Kong, where I just was—the average now is over $100 a day. So it's either ten, a factor of ten for the whole world per capita, or it's a factor of over 30 for the countries that have fully absorbed the message of equality, bourgeois equality.

WOODS: That brings me to my last question before I let you go. You made a video not long ago, a short video, on the subject of inequality—which, it seems to me, since the financial crisis, especially, has become the major indictment of the market system: it yields these wild extremes of inequality. I've heard all different ways that free-market people have responded to that, but I'm curious to hear yours in particular.

MCCLOSKEY: Well, here's the most important point. The average poor person in the world, I just told you, is a factor of ten better off than she was in 1800, and in the countries that have allowed the ill-named capitalism to flourish, like Sweden, which is a highly capitalist country for all we've heard of its socialism, it's a factor of 30. So the equality of real comfort—having a roof over your head, having an education of some sort, a serious education, having some smallpox vaccination or the elimination of smallpox, having enough food to eat—those comforts which were denied most people, 90% of the people in 1800, are now enjoyed by ordinary folk. Even the poorest in a rich society are vastly better off in material terms than they once were. This engine has been so much more productive in improving the condition of the poor than any of the schemes of equalization of incomes. You can take away money from the rich people if you want. I am not particularly opposed to that. That's okay. Tax them if you want. Tax me. That's fine. Although, I wish you wouldn't use it for war or on stupid things. I wish you'd actually give it to the poor, which most governments don't, but that kind of redistribution is not the solution to the problem of poverty. The solution is economic growth—to let the goose go on laying the golden eggs.

WOODS: Professor McCloskey, if people want to follow your work online, which I am going to encourage them to do, I suppose DeirdreMcCloskey.com is the place to go?

MCCLOSKEY: That's the place to go. It's an amazing website, which I had nothing to do with. Fortunately, I am not competent in that kind of thing. Yes, Deirdre McCloskey. You have to spell Deirdre correctly, though—Deirdre—which is the Catholic spelling in the North of Ireland.

WOODS: Nice, got it. Well, listen, we are super-grateful for your time today. I have had so many—such a diversity of guests on the show—but I bet a lot of my listeners have not read your stuff, and what excuse have they got now?

MCCLOSKEY: Absolutely.