

**Austrians Should Reject North and Acemoglu:
Some Critical Reflections on
Peter Boettke's *The Struggle for a Better World***

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Peter J. Boettke, whom I am going to call, as do all who love him, “Pete,” has given us a bouquet of his essays on the method and the history of political economy, especially those over the past five years. Pete is one of a handful of the best missionaries to the pagans from Austrian economics – which I would rather call “adult common sense; no magic allowed, except human creativity.” Through instruction by him and other Austrians, especially at George Mason, I have in late middle age and now in definitely old age gradually got the point. Thanks, Pete. The outcome is that I agree with nearly everything Pete says in the book. It could make for a dull review.

But I said “nearly” everything. Pete and I disagree very sharply indeed about the proper relation between the Austrian economics of Israel Kirzner and Don Lavoie and

the neo-institutionalism of Douglass North and Daron Acemoglu. Briefly, neo-institutionalists are statist through and through, and bad historians and incompetent economists to boot. You can see why such allies might not be what Austrian economics needs.

In the Conclusion to the book Pete quotes in a footnote the philosopher Daniel Dennett's counsel on "How to compose a successful critical commentary: 1. You should attempt to re-express your target's position so clearly, vividly, and fairly that your target says, 'Thanks, I wish I'd thought of putting it that way.' 2. You should list any points of agreement (especially if they are not matters of general or widespread agreement). 3. You should mention anything you have learned from your target. 4. Only then are you permitted to say so much as a word of rebuttal or criticism" (Boettke 2021, p. 305n7). The scientific and scholarly world would be transformed if Dennett's Rules applied. (Dennett himself might do well to apply them to his own fierce arguments against theism.)

While we're offering mottos that all of us should frame and hang over our desks, my own ideal, which admittedly I often fail to achieve, is from another philosopher, Amélie Oksenberg Rorty. She wrote that what is crucial, is "our ability to engage in continuous conversation, testing one another, discovering our hidden presuppositions, changing our minds because we have listened to the voices of our fellows. Lunatics also change their minds, but their minds change with the tides of the moon and not because they have listened, really listened, to their friends' questions and objections"

(Rorty 1983, p. 562). You will note that in substance Rorty's motto is the same as Dennett's, except that it is in a more feminine mode. Dan Dennett has little of the feminine in him.

Pete has in him both, as the best liberal adults do. But such "rules of the game," as Doug North influentially put it (Pete uses the phrase 30 times in the book), are dead letters if people do not acquire somehow the ethics and ideology to follow them, and to deviate from them when common sense suggests one should. Good behavior is achieved, actually, not by rules or catechisms or snappy if self-contradictory 18th-century formulas like the categorical imperative or the greatest happiness or the greatest number, but rather, as the ancients in Greece and China and everywhere else said, by forming one's character well, and then acting in accordance with it (McCloskey 2006). Pete remarks that Paul Krugman habitually "violates every rule" laid down by Dennett (Boettke 2021, pp. 86, 305n7; all page citations without an author are to his book). And we all know that in her so-called intellectual biography of James Buchanan, the Duke historian Nancy MacLean violated Dennett's Rules and Rorty's Rule, and every other standard of the profession of history. She has announced that she will not respond to questions and objections from anyone whose university is supported at all by the Koch Foundation. Duke is supported in part by the Koch Foundation. I suppose that is why she has not engaged in a continuous conversation with herself about her own professional responsibilities in history.

That's my point against the mechanism that, say, Daron Acemoglu and James Robinson exhibit in all their work, and that Pete has long, if confusedly, embraced in his analysis of institutions (Acemoglu and Robinson 2019; on which see McCloskey 2021). Neo-institutionalism rejects the Austrian point that human action is *not* mechanically reactive, and that language – the master model of spontaneous order – is creative and matters to the functioning of an economy, and that discovery/creativity, not an institution, was the cause of the Great Enrichment, 1800 to the present. Neo-institutionalism is hostile to everything Pete learned from Don Lavoie and that Lavoie learned from Kirzner and Lachmann and that they in turn learned from Hayek and Mises and Menger. Austrian economists are not famous for their senses of humor. But I recommend to them the truth of the great US comedienne Mae West, who said, "I favor the institution of marriage. But I'm not ready for an institution."

Pete says that "modern economic growth . . . results from the expansion of trade and commerce" (p. 5). No, it doesn't. It is surprising to find an Austrian saying so, turning aside from the alertness and innovational creativity that did actually cause it, and was permitted for the first time in history by liberalism. Pete repeats over and over the formulation "productive specialization and social cooperation," and he thinks they make us as rich as we astoundingly are (e.g., pp. 14-15). But specialization and trade are ancient commonplaces. Rome ate Egyptian wheat. China massively specialized the industry of silk cloth. Traders from the Persian Gulf supplied goods to what is now southern Iraq from what is now Pakistan. The oldest necklace in the world was from

the Blombos cave in south Africa, in 70,000 BCE, hundreds of kilometers from the seashore where its shells originated.

If Pete means simply, as Mises in the shadow of the Great War did, peace, one can only agree. Little of civilian value by way of innovation was going to happen at Verdun or the Somme. But it is a wholly static vision to think that “expansion of trade” is the ticket. The economic oomph of static improvements in allocation is limited to Harberger Triangles, 2%, 5% only, when we are trying to explain a *Great Enrichment* since 1800. And it is historically false to claim that the rules of the game changed recently – say in 1689. Further, property rights and laws of contract were anciently good in many societies, such as in England before 1272. The North-Weingast tale of suddenly better rules of the game after 1689 is entirely mistaken. For these and other reasons the alleged changes in institutions are singularly ill-adapted to explaining the Great Enrichment – a 3,000% increase since 1800 of real income per person over the misery of the ancestors.

Pete knows better sometimes. He speaks wisely in various places of the history of economic policy being an on-going struggle amongst what he calls Smith, Schumpeter, and Stupidity (pp. 111n3, 239, 241n12, 285-286). Smithian static gains from trade, such as archaeologists have shown *Homo sapiens* gathering in bulk in our African home and beyond, are contrasted with Schumpeterian innovation, such as the bow and arrow or the computer. The utterly unprecedented explosion of such innovation is what was bizarre about the past two centuries, and is what made us rich beyond the dreams of

Adam Smith. It did not come from efficiency – admittedly a cause dead easy to teach with a diagram in Econ 1. Both Smith and Schumpeter, though, are opposed by what Pete calls the Stupidity of government, characterized by the US proverb: “It ain’t what you don’t know that hurts you, but what you know that ain’t so.” Thus “industrial planning” and “protectionism” and “stimulus” and “creating jobs,” or in harsher Putinesque form entirely shutting down free speech and jailing the innovators.

Pete wisely wants to encourage Schumpeterian progress against Stupidity, to “unleash the creative potential of mankind” (p. 35). But institutional analysis on the basis of incentives and the routine of rules of the game is not going to do it. Pete’s neo-institutional formula of “how alternative institutional arrangements impede or encourage . . . learning by economic actors” (p. 28) contradicts his Austrian formulation of “the processes by which economic actors adapt creatively on the margin [and beyond: Schumpeter, remember] to changing circumstances” (p. 27). The one is North, the other is Kirzner. I vote for Kirzner, and so should Pete – not out of sheer party loyalty but because the Austrian analysis of enrichment is scientifically correct and the neo-institutional analysis is scientifically incorrect.

Pete does so passionately believe in neo-institutionalism. The word “institution” occurs in the book 377 times. He follows it into believing that “institutional arrangements must be forged that will check the ambitions of some against the ambitions of others to ward off predation by private and public actors” (p. 20). He doesn’t notice that a society utterly lacking such institutions is hardly a society at all.

Another favored word, often italicized, is “framework,” used 70 times, and meaning to Pete something like “the necessary top-down governing that makes markets work efficiently.” A less Austrian and more historically erroneous construct is hard to imagine.

Without courage, justice, love, temperance, hope, and faith instilled in people by their mothers or movies or novels or friends or rock music, institutions or frameworks are dead letters. Article 125 of the 1936 Constitution of the USSR guaranteed freedom of speech, of the press, and of assembly, and had many other lovely assurances, such as Article 128: “The inviolability of the homes of citizens and privacy of correspondence are protected by law.”¹ How did that work out?

Pete of course well knows the answer, being a profound student of socialism in its worst forms. In the Soviet Constitution of 1924 the opening Declaration says that “there, in the camp of capitalism: national hate and inequality, colonial slavery and chauvinism, national oppression and massacres, brutalities and imperialistic wars. Here, in the camp of socialism: reciprocal confidence and peace, national liberty and equality, the pacific co-existence and fraternal collaboration of peoples [Capitalism is] a system of exploitation of man by man.” As the old joke goes, under capitalism, man exploits man, under socialism, it’s the other way around. Yet the institutions of the USSR were lovingly described in its constitutions in wonderful detail. So much for

¹ <https://www.departments.bucknell.edu/russian/const/36cons04.html>

institutions without urgent and thorough attention to their ethics, ideology, rhetoric, narrative, commitment, tradition.

Alas, that is also what is mistaken in the work of an economist whom Pete and I admire extravagantly, that same James Buchanan. For his constitutional convention to work there has to exist already somehow people raised up to care to frame the institution justly (Kant has an identical problem).² For the institution then to function as “designed” (an anti-Austrian word and idea) the people likewise have to have ethics instilled by something beyond the Hobbesian game theory that people have tried to make suffice over and over since 1651. Mises, Hayek, and Buchanan are Pete’s inspiration. All of them were good men and great scientists, none of whom brought ethics into their social thinking. They lived in a disenchanted age in which ethics, which they believed was mere opinion, was to be separated from science, as though doing so made sense in a social science. Better follow Kirzner and Lavoie into ethics.

In a recent paper on Julian Simon’s thinking, not in Pete’s book, Pete and Christopher Coyne summarize Julian Simon’s formulation of the “ultimate resource,” human imagination. “Progress is not the result,” they wisely write, “of giving power to elites who purport to be extraordinary, but instead of empowering people to live their lives and pursue their bold conjectures about the world. Ordinary people can

² McCloskey, “Hobbes, Rawls, Buchanan, Nussbaum, and All the Virtues,” 2006. The full essay is available on request, deirdre2@uic.edu. Translated into Swedish, Timbro Klassiker, December 2016.

accomplish extraordinary things, Simon argued, if given the freedom and opportunity to do so” (Boettke and Coyne, no date., p. 1). Spot on.

But having got it right, Pete and Chris then revert to institution-talk, speaking of “the institutions underpinning individual freedom.” Such as the Politburo, eh, guys? And then the rest of the paper abandons Simon’s focus on human creativity, which is Austrian discovery and human action. Pete and Chris return to the claim of neo-institutionalism that all that’s needed is $MC = MU$. Get the right legal rules, and then property will be correctly allocated.

Now I yield to no one in enthusiasm for $MC = MU$. If you want to understand it, study my old price theory book (McCloskey 1985, free pdf on my website; do it). But I have discovered since then, and Simon did before me, as did Schumpeter in his youth (he got confused later) and Kirzner (Pete’s intellectual grandfather) and Fogel (for railways) and Solow (for the economy), that such Smithian efficiencies have little to do with the Great Enrichment. Lining up property rights does not explain a 3,000% per capita explosion in two centuries of the production possibility curve.

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At one point in his Presidential Address to the Southern Economic Association, reprinted in the book, Pete refers with characteristic grace and generosity to some of my own thoughts on the matter: “There was, in her historical narrative, a general shift in attitudes toward commercial life, and an attribution of dignity and respect to ordinary people ‘giving it a go’ [actually, ‘permitting people to have a go,’ a very English

sporting metaphor] in the world of commerce that triggered the process of development. I agree with the primacy of ideas in economic, political, and social history” (p. 45). I’m pleased. As the man shouted to appalled watchers from the 50th floor after he had jumped out of the 100th, “So far, so good.”

But then Pete hits the ground, and takes it all back, and even brings me in as approving the taking back: “but for my purposes here the focus is on the *framework* that these ideas legitimated, and the practices that were engendered by that *framework*.” Notice the italics. The “framework” talk brings us safely back to a Samuelsonian Max U world in which ideas do not matter, where prices, property, and prudence, the P-variables, rule by themselves, without the S-variables of speech, society, the sacred. Pete doesn’t seem to realize, at least in his theoretical assertions, that the “framework” is made of rubber. He does want to acknowledge Culture – which in this vague form is not actually what I am saying – but when he hits the ground he cannot get beyond Max U and the constraints Max faces in the rules of the game. Unless like Trump he can cheat.

Pete then recurs to Smith, whom he summarizes as saying that “development follows from the expansion of the market, and thus the refinement of the division of labor” (p. 46). This I repeat is quite false as economic history, though correct as history of thought. He then claims that I “stress” it. I have in fact from the beginning of my scientific career back in the 1960s discovered over and over again that trade is not an engine of growth (in marginal productivity terms; and certainly not either as a

Keynesian absorber of excess savings; you may trace it in McCloskey 2020). Pete then concludes that in such growth, which he himself has noted is merely Smithian, not the Schumpeterian sort that explains most of our wealth, “development follows from the expansion of the market, and thus the refinement of the division of labor.” No.

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The American columnist and political theorist George Will is good on all this. He argues that “the Founders intended the Constitution to promote a way of life” (Will 2020, p. 236). Will’s term for the way government shapes the ethics of its citizens, for good or ill, is “soulcraft.” Soulcraft, he writes, “is something government cannot help but do. It may not be done competently or even consciously, but it is not optional” (Will 2020, p. 237). Will is of course correct. By this route surely institutions “matter,” and some of them are governmentally “crafted” (if that is the right word for what is done, Will concedes, often unconsciously and incompetently). The commercial values that the Constitution purposed did help create a new people in a new republic, if we can keep it.

In particular 1789-1865 some of the people mentioned in the Constitution were slaves, and slavery mattered mightily as soulcraft, and not for good. Will quotes Tocqueville on the contrast in 1831 between the two banks of the Ohio River, slave Kentucky and free Ohio. On the Kentucky side, Tocqueville wrote, “society is asleep; man seems idle,” because the peculiar institution had made physical labor undignified for whites. On the Ohio side, by contrast, “one would seek in vain for an idle man”

(quoted p. 235 in Will 2020). Will concludes that the two institutions, slave and free, “result in radically different kinds of people” (Will 2020, p. 236). The historian of South Africa Hermann Gilomee comes to the same conclusion about the effect on the white Afrikaners of having Blacks enslaved, and later the Blacks and coloreds still subordinated to an Afrikaner *boer* up on a horse. It persisted until after the Boer War their leaders such as Jan Smuts took the Afrikaners in hand, giving them educations and jobs on the railways, while taking away the same from the Blacks and coloureds (Gilomee 2003).

So of course “institutions matter.” As an intermediate cause, to mention the biggest example for good, the institutionalization of the idea of an entirely new liberalism in northwestern Europe and its offshoots after 1776 mattered mightily for the explosion of creativity in the economy and polity and society after 1800. But observe in this example and Gilomee’s example and Will’s example the deep ideational causes of the very institutions (for instance in the case of liberalism, in 1776 the conflicted slaveowner asserting that all men are created equal, an equality that he did not extend to his children by Sally Hemings), and subsequently the ideational route of how such liberal declarations mattered, as for example the embarrassment of segregated Army units fighting fascism. An institution was in each case an intermediate cause inspired by ideas, and having many of their effects by way of ideas, in minds. It was largely not a physical matter but a mental matter, not chiefly from the soil but the soul, not only governed by the incentives but by the ethics, *les moeurs, die Geiste*, the ideologies of elites and then of ordinary people. The matter came to the point, for US governing as for

marketing, as Lincoln declared in the first Lincoln-Douglas debate in 1858: “With public sentiment, nothing can fail; without it nothing can succeed. Consequently he who molds public sentiment goes deeper than he who enacts statutes or pronounces decisions. He makes statutes and decisions possible or impossible to be executed” (Lincoln 1858 [1894]) p. 298).

Thirty pages before the end of their long book of 2019, Acemoglu and Robinson, by way of a *refutatio*, quote at length their declared enemy, Hayek, who wrote 1956:

“the most important change which extensive government control produces is a psychological change, an alteration in the character of the people. This is necessarily a slow affair, a process which extends not over a few years but perhaps over one or two generations. The important point is that the political ideals of the people and its attitude toward authority are as much the effect as the cause of the political institutions under which it lives. This means, among other things, that even a strong tradition of political liberty is no safeguard if the danger is precisely that new institutions and policies will gradually undermine and destroy that spirit” (in Acemoglu and Robinson, p. 466)

Acemoglu and Robinson believe they are cleverly responding to Hayek’s point by claiming airily that anyway “society” can offset the evils of serfdom to Leviathan. But Hayek’s point is soulcraft – that you make people into children if you treat them like the children of a feared or revered Papa or Mamma Leviathan. Recent developments in American politics are not reassuring that we can avoid the internal, psychological road to serfdom. The Leviathan, Acemoglu and Robinson claim in an earlier passage, “is

shackled by people who will complain, demonstrate, and even rise up if it oversteps its bounds” (Acemoglu and Robinson 2019, p. 27). Uh huh. But notice, dears, that demonstrations, and uprisings are precisely about spirit and ethics and rhetoric. Consider January 6, 2021 in the halls of the US Congress, or January 23, 2021 in one hundred Russian cities.

There are many, many more stunning scientific faults in neo-institutionalism (McCloskey 2010, 2016, 2021 among other writings on the matter). Neo-institutionalism is a scientific train wreck. Like the word “capitalism,” it drives us off in the wrong direction. Austrian economics drives us in the right direction, to what Bart Wilson, Vernon Smith, and I call “humanomics” (Smith and Wilson 2019; McCloskey 2021b). Austrianism, which is scientifically correct, is inconsistent with the statism and Max-U of neo-institutionalism, which is scientifically incorrect.

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One other point, less consequential – remember, I agree with 95% of what Pete says in the book. It is this: he is interestingly sloppy, as many people are, in his use the word and idea “freedom,” or the Emancipation Project, as he calls liberalism, including material emancipation “from the miserable poverty of the Plough” (p. 3), and in the same terms on p. 9 (my emphasis): “the emancipation of individuals from serfdom, from dogma, from violence, *from poverty*.” On p. 5 (again, my emphasis) he says it again, all this the first few pages of the book, and repeated throughout, so there is no doubt that he is merging the material results of liberty with its definition: “the

emancipatory promise of liberalism to overcome subjugation, repression, oppression, *and misery*, and instead see humanity flourish in peace and prosperity.”

Emancipation from the physical coercion of others is what “liberty” should mean. *Not income, not the material results* of non-coercion. That’s the so-called (by Isaiah Berlin) *positive* liberty favored by Progressives and New Liberals and socialists in the line of Rousseau (whom Berlin and Boettke and McCloskey do not approve of). It is not the liberty line of Smith, the equal permission to be accorded to adults – the Blessed Adam’s “obvious and simple system of natural liberty.” To include income in the *definition* of “freedom” leads only to confusion, as in the third of FDR’s Four Freedoms. The Great Enrichment, Pete and I agree, is a *consequence* of liberty, and I have shown empirically. But, to use I promise emphatic italics for the last time, it’s *not the same thing*.

The problem is the semantic drift of the word “freedom.” It’s wise to distinguish the French/English *liberté*/liberty from the German/English *Freiheit*/freedom. (English always has two words, because of the Norman Conquest of 1066.) The Germanic word has in the age of statism become hopelessly confused with “the ability to do things,” as in Amartya Sen’s statist book of 1999, *Development as Freedom*. The problem is that we already have words for the ability to do things – such as ability, wealth, power, income, capabilities. We need an exclusively political word for “not being physically coerced as a slave to a master, husband, state.” That way we can ask scientifically whether such liberty leads to wealth (happily and contingently,

not by definition, it does). Otherwise we have merely smooshed the two together, and will never know if liberty is a good idea or not, consequentially speaking.

It is of course *libertas* in Latin, which was used by the Romans exclusively to mean “not a slave.” (Look it up in the *Cambridge Latin Dictionary*.) If you mix the political with the economic words, in the way “freedom” has been used for the past century and a half, you start thinking for example that we can give freedom to people by coercing them to do what we wise economists and philosophers think they should do, as in “nudging.” Become a slave and be free.

My advice? Never use the word “freedom.” Pete uses it 112 times in the book. Always use “liberty,” as Pete’s gratifyingly does 173 times. I told you I agreed with him.

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Pete of course does not believe such a thing as “become a slave and be free.” My point is that in his loosey-goosey use of “institutions” and “frameworks” and “freedoms” he is falling into a top-down statism that he does not in fact believe.

Please, dearest Pete, give up your confused advocacy of neo-institutionalism.

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