

## **The Three Scientific Faults in Some Neo-Institutionalism**

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I very much admire the seriousness of Geoff's journey. My own tends to a random walk lacking an absorbing barrier, so I admire people who take a definite direction (compare McCloskey 2021a.) True, deciding on the direction too early, for example in graduate school, as most economists do, can make for dogmatism. 'Normal science' was Thomas Kuhn's word for it.

Geoff and I are decidedly abnormal. The orthodox, normal scientist calls us both 'curmudgeons', as though we say the unusual things we say – in my case, for example, 'statistical significance is disjoint with scientific significance' or 'ideas resulting from liberalism, not capital or exploitation, caused the Great Enrichment' – merely to irritate normal people. We don't. Geoff and I declare upon oath that we are merely earnestly stumbling towards the truth. No joke. And no unscientific dismissal by calling us 'curmudgeons'.

Being of the same generation, he and I have earnestly taken up and then sadly put down some of the same orthodox fashions in economics. We both were lefties when young, and retain some of the left's ethical commitments. Geoff was in his youth a more serious Marxian than I ever was, but we both came to see, as Geoff puts it here, that the Sraffian version and even the old version of Marx himself lacked a plausible theory of motivations. It was all structural trickery, the making of commodes from commodities or the alleged implications of the length of the working day.

And by now we're both impatient with the notion that method and politics are lined up in the predictable way the left assumes. Geoff says, 'Like many other so-called heterodox associations, . . . identity is now defined more by leftist ideology than anything else'. I agree, and wish it were not so. For instance, I keep telling my left-wing friends, of whom I have many (Jack, Arjo, Nancy, Ralph, listen up), that they need to read carefully the Austrians, also heterodox. Geoff takes the Austrians seriously, and the Austrians take creativity in the economy seriously. The only leftist economist I know who does, and even more so, is Ted Burczak (Burczak 2006).

Geoff and I also developed ethical seriousness about the dead-end utilitarianism in which I was trained by Samuelsonians at Harvard, civil engineers at MIT, and economists at Chicago (I taught there for twelve years, in the time at Chicago they had given up on Frank Knight and had disdained Hayek, in favor of a phony positivism). My own conclusion recently about ethics and social arrangements is that because no man is an island, entire of itself, there is no change whatever that is truly Pareto optimal (McCloskey 2022, Chps. 13-14). For example, if Geoffrey Hodgson writes more intelligently about neo-institutionalism than many others of the school, as he assuredly does, the others, you see, are damaged. He's better than they are. If the only thing the others care about is Max-U self-interest, they would prefer that he would shut up and stop showing their writings to be narrow and barbarous. So his creation is not Pareto optimal, strictly speaking. No human action is.

The only solution to such an ethical and social dead end is an agreement in the style of James Buchanan and his friend John Rawls to support liberal meta-rules – a constitution of liberty, one might say. (Like Geoff, I discovered Hayek 1960 quite late.) You can call the constitution an 'institution' if you wish, but Geoff is surely correct to say here that institutions are better seen, he puts it here, as 'inputs into a preference function'. He tells me in private correspondence that he agrees with me that ethics always underlies an institution. But in that case one wonders what causal role the institution can have.

It's one of the three main scientific faults of much of neo-institutionalism – not Geoff's entire – that it skips over ethics, or simplifies it as Max U and utilitarianism. You would think that in the age of Trump and Bolsonaro, not to speak of Nicolás Maduro and Viktor Orbán, we economists would get the point. The institutions of the United States did not work as designed, unless judges and secretaries of state with ethical grounding defended them, as some did, often at large personal cost. Not Max U. Humans are not vending machines of Prudence Only. They exercise other virtues, and the corresponding vices (McCloskey 2006). Much of neo-institutionalists, following the orthodox Samuelsonians or orthodox Marxists, ignore this obvious truth. Uh-oh.

I agree with Geoff's impurity principle 'according to which every socio-economic system must rely on at least one structurally dissimilar subsystem to function. . . . , so that the social formation has requisite variety to promote and cope with change and uncertainty'. But again the subsystem is . . . ethics. Uh-oh. Coase, he also says, 'neglected the possibility that the mode of organization or internal culture of the firm may affect its productivity'. Right again. But uh-oh, again: ethics.

Geoff notes correctly that Oliver Williamson's 'general emphasis on opportunism had inadequate empirical grounding'. That's to put it mildly. Williamson in his reflections on governmental bureaucracies as 'public agency', for example, calls

individual ethics learned at one's mother's knee 'probity', that is, 'the loyalty and rectitude with which the . . . transaction is discharged' (Williamson 1999, p. 322). Like all orthodox Samuelsonians, and on a class basis all orthodox Marxists, Williamson wants to reduce ethics to incentives: 'Probity concerns,' he declares, 'will be relieved by governance structures to which reliable responsiveness can be ascribed', by which he means incentives that work to make it unnecessary that anyone actually have any probity (p. 323). 'Probity concerns', he claims, only arise in 'extreme instances. . . . Breach against probity is better described as inexcusable incompetence or even betrayal. In the limit, such breach is punishable as treason' (p. 324).

His uncharacteristically hot language ('extreme', 'betrayal', 'treason') signals a common supposition that ethics is confined to grand issues such as murder or abortion or outright fraudulence in accounting. Yet ethics is also about daily good (or bad) will and professionalism (or its lack) – an accountant doing as well as she can to get the accounts right, or for that matter a professor of economics or management earnestly trying to tell the truth about firms or bureaucracies. Williamson would undoubtedly affirm that he himself is motivated by something more than prudence. After all, grass and rats and Donald Trump act as Max U. Something must be wrong with thinking that a human science can get away with stopping at Prudence. Actual, non-sociopathic humans like Williamson and Hodgson and Sraffa and Samuelson do more. Having the 'best' career in normal science, for example, is not the goal of a serious scientist: truth is.

Williamson claims repeatedly, as economists do when they believe they are adhering to their dogma that one should not dispute about tastes (and the underlying positivist dogma supporting it that ethics is *merely* a matter of taste), that ethics always changes slowly. Yet there is no persuasive historical or experimental or common-sense evidence for such a claim. Sometimes ethics changes quickly. Sometimes it does not. You have to find out. Sometimes ethics is independent of incentives, as routinely for example in religions. And sometimes ethics shifts paradoxically sharply against incentives, as when parents start coming late to pick up their children from daycare when a money price for lateness is imposed – because the price shifts the ethical scene from the shaming sacred to the commercially profane (Gneezy and Rustichini 2000). Changing slowly or quickly, further, the non-prudent virtues thrown into an error term are not always non-correlated in their changes with the virtue of prudence. Therefore the econometrics relying on prudent incentives, technically speaking, is biased.

That's one devastating fault in neo-institutionalism, that it is premised often on a childishly thin characterization of humans, and keeps falling back into the economist's Max-U, Prudence-Only, act-utilitarian version.

Another, connected fault is that neo-utilitarianism tends to tautology, following in this the Max-U tautology in normal-science microeconomics: ‘don’t you understand, you idiot, that anything people do, *must* be what they want to do?! Revealed preference! Max U is merely what they wish to do, and do. Shut up!’ Neo-institutionalism, though it sometimes claims to be courageously opposed to Samuelsonian orthodoxy, is a re-inscription of Samuelson’s Max U.

In an irritated reply to me saying this, Avner Greif and Joel Mokyr wrote (Greif and Mokyr 2015, p. 31),

We’re not all Max *U*’s anymore. Her criticism [of Max *U*] is especially otiose, however, because the literature has long recognized that rules are, well, rules and that motivation is the linchpin of institutions. One work that expresses this view is Greif (2006). He noted that rules “are nothing more than instructions that can be ignored. If prescriptive rules of behavior are to have an impact, individuals must be motivated to follow them. . . . By ‘motivation’ I mean here incentives broadly defined to include expectations, beliefs, and internalized norms.”

But such a construal of ‘rules’ turns the economics into a logical tautology, and scientific mush. The locution ‘motivation is the linchpin of institutions’ says that humans are motivated. Well, sure, one supposes so. If you define ‘incentives’ so broadly that they include ‘expectations, beliefs, and internalized norms’, then you can fit into them any evidence you wish, without scientific content – at any rate if you have no testable account of the formation of expectations, beliefs, and internalized norms. You will insist for example on a rigid behaviorism ignorant of the arts and humanities, which is the 4,000-year-old human inquiry into expectations, beliefs, and internalized norms. If ‘motivation’ is anything that humans do, then nothing is gained scientifically by saying that they respond to motivation. Of course they do. Humans are moved to human action. Yup.

Yes, institutions ‘matter’. But a science needs to get beyond tautology, and to talk seriously about how exactly they matter as causes in view of actual human ethics. The American columnist and political theorist George Will is good on this. He argues that ‘the Founders intended the Constitution to promote a way of life’ (Will 2020, p. 236). His term for the way government shapes the ethics of its citizens, for good or ill, is ‘soulcraft’. Soulcraft ‘is something government cannot help but do. It may not be done competently or even consciously, but it is not optional’ (p. 227).

He 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, as Will concedes, often unconsciously and incompetently). The commercial values that the 1789 Constitution purposed did help create a new people in a new republic, if we can keep it.

In particular from 1789 to 1865 some of the people acknowledged in the Constitution were slaves, and slavery among some other less salient state-supported

institutions such as the tariff and the Post Office 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 bank, Tocqueville wrote, 'society is asleep; man seems idle', because the Peculiar Institution had made physical labor undignified for whites. On the Ohio bank, 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' (p. 236). Hermann Gilomee comes to the same conclusion about the effect on the white Afrikaners of having Blacks enslaved, and later having the Blacks and coloureds anyway subordinated to a Afrikaner up on a horse – until after the Boer War their leaders such as Jan Smuts took them in hand, giving them educations and jobs on the railways, and taking away the same from the Blacks and coloureds (Gilomee 2003).

So of course 'institutions matter'. As an intermediate cause like slavery and apartheid, to give another example, 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, the deep ideational causes of the very institutions. An institution was in each case an intermediate cause inspired by ideas, and having many of its outcomes – arguably, all of them – by way of minds. They were not physical matters but mental matters, not chiefly the soil but the soul, not only the incentives but the ethics, *les moeurs, die Geiste*, the ideologies of elites and then of ordinary people. Think Trumpism.

Daron Acemoglu and James Robinson in their neo-institutionalist book of 2019 recommending that the state get larger and larger (regardless, for example, that it might be taken over by, say, Trump) quote at length on p. 466 their chief enemy Hayek, writing in 1956, a dozen years after the appearance of *The Road to Serfdom*:

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, . . . perhaps over one or two generations. . . . 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. . . . 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.

Acemoglu and Robinson believe they are responding to Hayek's point by claiming that a vaguely described 'society' can offset the evils of a Leviathan state. (A society dominated, say, by fascists or communists or anyway by sociopaths.) But Hayek's point is not material or institutional. It is ethical and psychological: that you

make people into children if you decide to treat them like children of a feared or revered Papa or Mamma Leviathan. Recent trends in world politics are not reassuring that we can avoid the internal, psychological road to serfdom. The Leviathan, Acemoglu and Robinson hope, 'is shackled by people who will complain, demonstrate, and even rise up if it oversteps its bounds' (p. 27). But complaints, demonstrations, and uprisings are precisely about spirit and ethics and rhetoric. Consider January 6, 2021 in the halls of the US Congress. The rising up contradicts the structural materialism of Acemoglu and Robinson and most of the other neo-institutionalists. Even sometimes Geoff.

When at one point Acemoglu and Robinson admit the insufficiency of their materialist account they evoke 'the *desire* to avoid the *fearsome* face of the Leviathan' (p. 53; italics supplied). But people fear in their minds, not in their big toes. Then they desire to avoid tyranny, and then are moved by ideas to move their toes and mouths with purpose. Unlike the Chinese woman I heard in December 2020 on the BBC, such revolutionaries are *not* persuaded by the idea that Order trumps Liberty every time. The woman *scorned* the silly Western stupid-talk of so-called 'liberty'. Individuals in her thinking *must* be subordinated to *la volonté generale*, and the general will is to be discerned of course by the Communist Party of China. But such institutions and policies, as Hayek said, will gradually undermine and destroy the spirit and idea of liberty, and turn people into dependent children in adult drag, like the woman on the BBC. Another word for liberalism is 'adultism', and in this it contrasts with the infantile dependence on the Leviathan state that Acemoglu and Robinson advocate, and is advocated indeed by every political philosophy except classical liberalism.

To put it another way, what Acemoglu and Robinson and the other neo-institutionalists ignore is the human mind and its liberated creations – partly liberated at least after 1776. The mind is more than a brain. The mind, quoth Andrew Marvell in the late 17<sup>th</sup> century, is "that ocean where each kind / Does straight its own resemblance find, / Yet it creates, transcending these, / Far other worlds, and other seas; / Annihilating all that's made / To a green thought in a green shade'. The onset of economic growth after 1800 depended not on new laws and good institutions, which were anciently routine and were often enough merely obstructive. It depended on green thoughts about liberty surpassing these (McCloskey 2016, 2021b). Creativity and the supports for it in liberty and liberal ethics explains why we are 3,000 percent better off materially, and not worse spiritually, than our ancestors. Accumulation in all its mechanical forms, such as physical or human capital, and 'structures' in all their mechanical forms, such as black-letter laws and supreme courts, depend for their fruits on creativity supported by ideology and ethics.

You can see that ignoring the mind, as the neo-institutionalists and for that matter most economists since Ricardo insist on doing (though not our Blessed Founder,

Smith; Geoff is of two minds), might be a fault in *une science humaine*. Admittedly, the tactic of such voluntary ignorance of all the best that has been thought and said since 2000 BCE has been a commonplace in self-conscious Scientific folk, if usually unconsciously adopted. Some of my own early writings on entrepreneurship, for example, adopted the tactic. So too, with rather more consequence, do the sciences of humanity that identify the mind with the brain. Brain science of this sort is as though close study of the physiology of Sandy Koufax's arm would give a sufficient account of his baseball pitching in 1966. George Will, who is a serious student of baseball, would agree. I would instance in cricket Sir Donald Bradman's swift feet: his test average of 99.97 depended on more than muscles.

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And in any case the mattering of institutions needs serious testing. Uh-oh. That the testing of neo-institutionalism has mostly not been serious is the third devastating fault. There are exceptions: the economic historian John Wallis does brilliant work on it (Wallis 2021). And in fact economic historians (though oddly not Douglass North) have been seriously testing how institutions matter for a century. Robert Fogel and Stanley Engerman did so for the institution of the slave gang on large plantations – though another pair of economic historians, Alan Olmstead and Paul Rhode, have shown recently that rising productivity was in fact caused by the liberal idea of selective breeding of the cotton plant.

I know Geoff agrees that science advances by conjecture and refutation. But since Ricardo, or indeed since Aristotle, our beloved economics has wandered from one conjecture to another without facing up factually to plausibly proffered refutations. Karl Polanyi for example has been refuted time and again in his economic history. Yet Geoff, though he realizes that Polanyi's claim that olden times saw not the institutions of markets, depends on a similar tale in his Schumpeterian claim that banking is new, new, new. (Geoff and I admire instead the work of Karl's smarter brother, Michael Polanyi, the liberal chemist and philosopher of science.)

The facts can be tested quantitatively or qualitatively. Science – defined as it should be to include all systematic inquiry (as it is in all languages except English after the mid-19<sup>th</sup> century) – doesn't care. Qualitative science always precedes quantitative science. You need to know what energy is before you can count it. Biology, philosophy, mathematics, theology, literary criticism, parts of history, and all of economic theory use words or qualitative mathematics in a qualitative, on/off, yes/no method to examine categorical facts, such as whether evolving horses are one species or whether Jane Austen pioneered free indirect style or whether monopoly entails downward sloping demand curves. Physics, engineering, geology, astronomy, parts of history, and parts of econometrics use numbers and quantitative mathematics in a

quantitative, how-much method to examine actual facts, such as whether plate tectonics accounts adequately for the formation of mountains or whether the coming of liberalism accounts adequately for the Great Enrichment.

Anyone who had not been driven mad by some juvenile methodological dogmatism knows it. The great physicist Richard Feynman said so repeatedly, against the obsession with beautiful axiom-and-proofs by some of his colleagues (Feynman 1965). The great sociologist Howard S. Becker (contrast – no relation – Gary Becker) writes (Becker 2017, pp. 22, 34):

We shouldn't equate good science exclusively with the kind that uses numbers (or with its opposite) and should instead refuse to add to our troubles in making social science by engaging in that kind of intramural quarreling. . . . The 'quantitative' model most often has trouble with the connection between data and evidence, with showing that the data really measure what the investigator says they should measure to be useful as evidence in the later argument. The 'qualitative' model has trouble at the other end, with showing that the collected evidence, though based on acceptable data that are what they claim to be in relation to observed fact, is clearly related to the idea the investigator insists it embodies or demonstrates or is relevant to.

Consider for example the dominant role in the history of economics of alleged 'imperfections'. To borrow the jargon of theoretical statistics, imagined imperfection is a conjecture-granting-function. But the conjectures have been insulated from possible refutation, and none of them have been tested seriously quantitatively. Monopoly, for instance, an imperfection that haunts many of the over one hundred imperfections discerned by economists since Mill and Marx, can be shown quantitatively to have declined, not risen, over the past two centuries (McCloskey 2022). The reason is simple: transportation and transaction costs have been radically declining since 1800, bringing more and more competitors closer and closer to a typical consumer. Informational asymmetry has declined, too. So has the search cost for avoiding unemployment. And meanwhile this *terribly* imperfect laissez-faire economy has raised income per head for the formerly wretched of the earth by 3,000 percent.

The way to produce still another degenerative research programme is to never face up to ethics, never avoid tautology, never really test quantitatively, or often enough qualitatively. Many smooth careers will thereby be assured. You will offend no one. But science will not progress.

In the early second century Juvenal satirized the 'aged, genial Crispus' (compare Shakespeare's Polonius, though less lucky) as the perfect courtier, 'not a citizen able/  
To speak freely the words of his heart, and his life to hang upon a truth./ And so many  
winters he saw, and his eightieth/ Solstice, by such weapons safe even in that lofty hall'



(Juvenal 4, lines 86-83). In hanging his life upon a truth Geoff does well, by the standard of neo-institutionalism and its three scientific faults. But let's go even further.

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