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## “A Dialogue on Market Innovation and Laissez Faire”

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Deirdre McCloskey and John Lyne

## **Abstract**

A dialogue on laissez faire capitalism and the free market.

**KEYWORDS:** laissez faire, market innovation

# A Dialogue on Market Innovation and Laissez Faire



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We are old friends from our days in the 1980s and 1990s at the University of Iowa, teaching rhetoric together to graduate students and participating in Iowa's famous "Project on Rhetoric of Inquiry," Poroi. Lyne is a self-described "moderate liberal," by which he means (in the definition peculiar to the U.S. after the Progressives) a mildly leftish Democrat. McCloskey is *also* a self-styled "liberal," by which she means (in the definition used everywhere else) a non-conservative Libertarian. In 2006 McCloskey—who is an economist but has drifted—wrote a book with the paradoxical-sounding title *The Bourgeois Virtues: Ethics for an Age of Commerce* (University of Chicago Press). It was the first of a series six of books, two published and four in the oven, called "The Bourgeois Era," intended to defend what is usually (if misleadingly) called capitalism, especially for the people like Lyne who think it needs a defense. In the fall of 2009 McCloskey visited the University of Pittsburgh and spoke about the book, and the second one forthcoming in October, 2010, *Bourgeois Dignity: Why Economics Can't Explain the Modern World*. On a warm afternoon at the solstice in 2010, Lyne responded:

*Lyne:* During your visit to Pittsburgh, you turned to me at one point and said "YOU are my audience." I took that to mean that you were crediting me with rational persuade-ability, liberal leanings but an open mind, and susceptibility to philosophical arguments that also take account of facts. Thank you! Your praise was also just after I had said that reading [the libertarian economist, the late] Julian Simon's *The Ultimate Resource* [about environmentalism, arguing that human creativity, not oil or land, is the constraint] had a great impact on me. So I thought I might return the favor and try to tell you where you stand as far as persuading me and try to describe what the obstacles are to my being further persuaded concerning bourgeois virtues.

*McCloskey:* An academic—and personal—friend can do no greater favor than to tell his friend where she goes wrong! My motto (I sometimes neglect to follow it, to my shame) is Amélie Oksenberg Rorty's, and, I know, yours: 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.”<sup>1</sup> It's why Poroi at Iowa worked, and works, so well. We loved. So we could disagree in ways fruitful to all sides. (I would claim, by the way, that such egalitarian love is a feature of the bourgeois liberalism I praise.) Such conversations are widely possible, and not confined to aristocratic students of Socrates. . . if we will merely stop hating each other, and listen, really listen!

*Lyne:* All right, in the style of *Poroi* and Amélie Rorty, first the good news. I have recently been having an ongoing argument with a left-leaning graduate student who was at Pitt for your talk but didn't hang around. I have taken the position with him that capitalism does not require exploitation (although it often occurs), that it is better than the alternatives, and that it is the goose that cracks out the golden omelets.

*McCloskey:* So much we agree on—a lot. I don't think that voluntary trade, as compared with say gulags and slavery, is “exploitation.” And to claim that trade is “exploitation” is to treat it as equivalent to the real exploitation in other systems. Remember the old adage under communism: “Under capitalism, humans exploit humans. But under communism it's the other way around.” Our system of market-regulated, property-honoring innovation is thus the worst system. . . except for all those others that have been tried from time to time.

*Lyne:* That may be, though I still think we can improve it. But in any case I thought I'd better start reading your *Bourgeois Virtues*, for ammunition. I must say that your fact-filled arguments and commanding historical perspective are very helpful, and of course it is delightful to read.

*McCloskey:* I wish everyone felt that way. Some praised it—Martha Nussbaum called it “exhilarating and provocative” and Jean Bethke Elshtain at least admitted that it “holds the reader's interest throughout”—but others, especially from the hard left, just found it infuriating. At a seminar I gave a few months ago to the fine Department of Philosophy at DePaul University in Chicago, three graduate students like your leftish one stormed out when I

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<sup>1</sup> Amélie Oksenberg Rorty, “Experiments in Philosophical Genre: Descartes' *Meditations*,” *Critical Inquiry* 9 (March, 1983): 545-565, p. 562.

argued, fact-filled, that Western prosperity does not depend on exploiting the South.

*Lyne:* In the opening chapter of the book I found myself persuaded by the evidence of improved life quality and longevity, and the argument that trade can cultivate virtues. I love the quote [from the Chief Rabbi of the British Commonwealth] about how capitalism makes difference a source of riches rather than a curse.

*McCloskey:* If you like that you are going to love the opening chapters of the new book, *Bourgeois Dignity*. I retail there the overwhelming evidence, collected mainly by other historians, that the post-1800 Age of Innovation (as I prefer to call it) led to a jump of real, price-corrected ability-to-consume in places that took advantage of it from about \$3 a day to about \$100 a day. The magnitude is why, as the subtitle says, “economics [whether bourgeois or Marxist] can’t explain the modern world.” Exploitation or colonies or slavery or peaceful trade or virtuous saving or sensible reallocation or routine exploration for oil or corporate laboratories for inventions are the events that economists talk about. Such events might explain a doubling of consumption, a factor of two (though, by the way, stealing from poor people in the Third World has never been a successful business plan; commonly it *hurts* ordinary people in the imperial country, so imperialism, contrary to your leftish students and mine, can’t explain an increase). But the routine economics can’t explain the actual factor after 1800 of about thirty. That depended on Simon’s “ultimate resource,” innovation from true creativity—which incidentally was something *increased* by rising population.

*Lyne:* As Simon half persuaded me. But when your other shoe fell (unlaced laissez-faire), I couldn’t help feeling that the ideological was dominating the historical motivations.

*McCloskey:* Guilty on both counts. I admit to writing as the Greeks and Romans said an *apologia*, a defense in a trial at law, for the Age of Innovation. (The world “capitalism,” by the way, prejudices that modern growth by a factor of about thirty was caused by piling brick on brick, or bank account on bank account, or dead African on dead African. I show in the new book what I merely intuited in the first: that no version of accumulation can explain the modern world, or else the modern world would have been ancient, since accumulation was.) So in the *apologia* I praised laissez-faire, because I claim that it was in fact how the innovation happened. The left believes that innovation was caused by the State, the right thinks by Science. Neither are right: it was caused by creativity unchained by bourgeois dignity and liberty (thus the title of the second book in the series).

*Lyne:* The growth you're describing is beautifully illustrated in the video visualizations constructed by Hans Rosling.<sup>2</sup> Whatever its causes, the dynamism of the past two centuries is eye-popping. But I'm trying to keep the two strands, enrichment and *laissez faire*, separate as I read the rest of the book. Thinking ahead to the next books in the series, it seems to me that you would have a potentially larger audience for what I take to be your main argument if those could be kept separate—assuming it's possible to do so.

*McCloskey:* You may be right about what would please the audience, and put my book on the *New York Times* best-seller list. But, unhappily for my royalties (my chief capitalist property!), I don't think it's possible to separate improved life quality (and greater responsibility and other good ethical effects) from *laissez faire*. Innovation depended on the people doing it getting two entirely novel changes in status. The first was dignity. Being a merchant or businessperson or inventor rather suddenly started to be admired, in Venice and Florence and Barcelona as preface (though quickly developing into over-regulated sclerosis), and then in Holland in the 17<sup>th</sup> century (another late sclerosis), and then in the 18<sup>th</sup> century Britain imitating Holland, with no sclerosis, and in British North America from its founding doing its own, highly bourgeois and emphatically non-sclerotic thing. Look at Benjamin Franklin (the real one, not the cardboard parody attacked by anti-bourgeois reactionaries such as D. H. Lawrence). But the second, necessary change in status is what you are worried about: liberty to do and to trade, or "*laissez faire, laissez passer*," as the French theorists of the new society began to say in the early 18<sup>th</sup> century. Without the liberty a dignified bourgeoisie becomes merely a monopoly—since what economic "liberty" means is not the right to violate the laws of contract or tort or property, but the right to start a cable company or a hotdog stand competing with existing businesses. May the best win. And then, the history shows, we all do.

*Lyne:* Still, I find it much easier to accept that idea of the benefits and even benevolence of capitalism than I do the *laissez-faire* doctrine.

*McCloskey:* So do many people. If you try not calling it by the misleading name of "capitalism," and called it "innovation" instead, I think you would be able to see better the connection with the anti-statism that is *laissez faire*. In fact, I think you'll find that your young leftish students are themselves anti-statists. States support monopolies because of the Golden Rule: those who have the gold, rule. Look at the "regulation" of deep drilling in the Gulf of Mexico up to April 20, 2010. And for similar reasons states

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<sup>2</sup> <http://www.gapminder.org/>

crush innovation—look at the computers used by air traffic controllers, or the seizure of state-run schools by unions.

*Lyne:* BP was essentially regulating itself. Does anyone think we'd be better off simply to leave it now to its own devices?

*McCloskey:* Laws are necessary, as I said, and so is the state-sponsored courts to enforce them (though much of law happens well short of a state-paid judge). Laws of tort, for example, need to exist, under which people can sue the pants off careless oil drillers. Yet what happens when governments get big enough to be worth corrupting? "Regulation" that acts as a liability cap for Big Oil! It's happened again and again in the U.S.

*Lyne:* But like most people, I think governments have a responsibility to regulate things like the stock market, sustain infrastructure, keep the water clean, and protect citizens against big corporate entities. Whenever an argument in your book seems to question such things, I lose the sense of common ground.

*McCloskey:* Yes, alas: most people think so. I *do* question such thoughts, and suggest, as Oliver Cromwell did to the Presbyterians, that you consider in the bowels of Christ that you may be mistaken! You would agree (after all, it is your main point here) that the proffered findings on good growth and its ethical consequences might be worth some concessions to *laissez faire*, yes, if one could show that *laissez faire* did the trick? And let me ask the anti-statist's Big Question: *quis custodiet custodiam?* Who is going to "regulate" the government, and "protect" us from government? I claim that markets do so. We can leave off buying British Petroleum products or stocks, and sue it for the pants I mention. We can't leave off attending to the narcotics police breaking down the door, and you can sue the king only with his permission.

*Lyne:* Who will govern the government? Ay, there's the rub. Fortunately, our Founders didn't leave that as a rhetorical question. All societies have governments, and not all are equally good or bad. So, maybe this is the elephant in the room. I'm a Constitutionalist. We have mechanisms for self-correction, and they sometimes work. I hope your next book brings Madison, Hamilton, and Jefferson into the discussion.

*McCloskey:* In the spirit of the Founding Brothers I would rather bring in history. Power tends to corrupt, which is precisely what most worried Madison. I believe the Brothers would be stunned by the powers of modern governments, and their subservience to the "factions" so prominent in the arguments of *The Federalist Papers*. The U.S. government at all levels has so much power that it is worth corrupting. Since American politicians are imperfect people (I do not join in the anti-democratic sneering at all of them), and not philosopher-monarchs, they do what their economic masters order up. Here, note, the left and the right

agree: we both are suspicious of the executive committee of the propertied classes.

*Lyne:* Let's take up one of your early arguments as a case in point. I was led off the main track by the principled argument against taxation. The discussion of taxation was posed as if taxation were theoretically (but falsely, as you might say) about helping the poor.

*McCloskey:* The calculations [about what the U.S. government spends for the poor] were meant for people who think that the big role of government is to help the vulnerable. It turns out that most of the money goes back to the middle class. The other day I heard the new British Chancellor of the Exchequer touting the fact in his new budget: you, oh bourgeois voters, have nothing to fear from the state's redistribution, he said, since most of it goes to you! For the same reason the high-taxed Swedes of the middle class are contented. By actual count, some 80 percent of what they pay in taxes goes back to them, to pay for education through graduate school and for co-pays of zero in health care.

*Lyne:* Looking at a pie chart of the federal budget, it appears that 300 billion and change out of a 3+ trillion budget goes to unemployment and welfare payments.

*McCloskey:* That was my point. Mostly a well-off Peter is being robbed by modern governments to pay. . . not poor Paul, but another well-off Peter who has persuaded Congress to write him into law.

*Lyne:* I don't see Social Security and Medicare, the biggest combined lump, or "defense" spending, or building roads, and so on, as being about "robbery."

*McCloskey:* Don't you feel it as robbery on April 15? I do. We anarcho-capitalists are fond of saying that the government is a band of robbers into whose clutches we have fallen!

*Lyne:* It seems less a matter of "robbing" from well-off Peter to pay anyone—and more like giving Peter some economic and medical security in old age (which is fortunate), and taking from Peter to create a global empire secured by some 800 military bases and endless wars (which is unfortunate). It is in respect to the latter clause that I find common ground with libertarians—Ron Paul is rousing on that topic.

*McCloskey:* Good old Ron Paul.

*Lyne:* Yes, they may take from Peter, but Paul will have none of it!

*McCloskey:* Cute! I voted for Paul for president on the Libertarian ticket. If he only had a personality! But you are making my case. Government spending that is not entirely wasted on "defense" consists largely of transfers *within* the middle class, such as protection for big U.S. sugar farmers or bribes to public service

unions or low-cost higher education subsidizing middle- and upper-income out of taxes imposed on poor people. Give poor people the money (taxed from you and me) to go to school, I say. But don't put the schools in the hands of big state bureaucracies and big unions. Well-off Peter can pay for his own BA or his own retirement. And the other "services" like roads would be better provided if privatized. Imagine publically provided baked goods! With cheap modern electronics, roads could be largely tollways, with congestion charges and pollution charges. You Democrats like mass transit, right? Well, sell local and state roads to companies, and suddenly they would be priced correctly, and mass transit would boom.

*Lyne:* Down-size the government, especially the military-industrial complex. Now you're ringing my chimes.

*McCloskey:* Another crucial point of agreement! I thought you were a Democrat?

*Lyne:* Yes, but not dogmatic. Yet please don't sell off the roads and other infrastructure!

*McCloskey:* "Infrastructure" has a magic ring. It sounds like a solid (indeed, reinforced concrete) concept in economics. But it's not. In practice it means "things I want the government to provide even if private alternatives have become cheaply available." Thus for a while roads *were* very expensive to privatize. Curse those darned toll gates (by the way, many roads in Britain and the pre-Revolutionary colonies were in fact toll roads with gates, but at 4 to 8 mph the stop to pay off the low-wage man collecting tolls was technologically not much of an inconvenience). My point is that nowadays if you put a cheap transponder in every car and cheap a wire in every road the roads could be owned like bakeries.

*Lyne:* That last sounds like a pipe dream.

*McCloskey:* Not so dreamy as you might imagine. Chicago sold off the Chicago Skyway and the downtown parking rights. It's a great temptation for the politicians you put so much trust in to get money right now by selling "infrastructure" in order to avoid imposing taxes, or, still better, to finance their pet projects.

*Lyne:* But here's another point of resistance. The rhetorical gesture in your work of seeing corporations as competitors, jockeying to sell us burgers and sneakers, was puzzling to this reader. In my experience, corporate influence is pervasive. I depend on Comcast for my television, my phone, and my internet. I see media outlets that are largely controlled by a half dozen big corporations, and which give a very filtered view of the world. My credit cards are under the control of a few large banks, which also apparently have the capacity to take the entire global economy over a cliff. My insurance, auto and gasoline, electronics—and even free access to books that should long ago have been in the

public domain—are just a few of the places large corporations are present in my life. And, as for my representatives in Congress, to quote Senator Durbin, “the big banks own this place.”

*McCloskey:* And so, John, you want “this place” to make more laws? The idea that a government corrupted by corporations is going to *protect* you from the machinations of corporations is strange at best.

*Lyne:* To me the corporate economy increasingly has the look of oligopoly.

*McCloskey:* So you want to replace the oligopolistic corporations with a monopolistic government? In the words of a great (nineteenth-century definition) liberal, Thomas Babbington Macaulay, To quote again the farsighted Macaulay in 1830, against Robert Southey’s proto-socialism: Southey would suggest that “the calamities arising from the collection of wealth in the hands of a few capitalists are to be remedied by collecting it in the hands of one great capitalist, who has no conceivable motive to use it better than other capitalists, the all-devouring state.”<sup>3</sup>

*Lyne:* I didn’t say I was in favor of state ownership of the means of production.

*McCloskey:* Except for that “infrastructure,” eh? What I am suggesting is that big government, which you’ve said you are suspicious of, too, is in effect a corporation-sponsored all-devouring state.

*Lyne:* The libertarian counter-argument you are making is that it is *governments* that make all of that possible. I’ll concede it only up to a point.

*McCloskey:* I thank you up to that point.

*Lyne:* But great concentrations of wealth, it seems to me, make inevitable that the rich will exercise forms of control through government and influence-peddling. They put people in place who will legislate to their interests, and then we can say that it’s the government’s fault.

*McCloskey:* All right: it’s the fault of the malefactors of great wealth. But you agree that they work through the very government you wish to pile responsibilities on. The answer? Make the government much smaller. Take responsibilities away from it. In a phrase, institute *laissez faire*. Kill off the military-industrial complex, for example, by reducing “defense” to actual defense—against the wild Canadians and Mexicans, say, a Coast

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<sup>3</sup> Thomas Babbington Macaulay, “Southey’s Colloquies on Society,” *Edinburgh Review*, Jan. 1830, reprinted in *Critical, Historical, and Miscellaneous Essays by Lord Macaulay* (Boston, 1860 [1881]), 2: 132–187, p. 183.

Guard. The point I'm making, again, is that a big government is well worth the money of the malefactors to corrupt. As the American economist James Buchanan famously put it, summarizing a famous old Swedish economist, "Economists should cease proffering policy advice as if they were employed by a benevolent despot, and they should look to the structure within which political decisions are made."<sup>4</sup>

*Lyne*: As long as we are offering preferences of terminology, I'd opt for "regulation"—prudent regulation—instead of "big government." I think regulation doesn't necessarily entail the latter—even if it usually does.

*McCloskey*: I think you're violating Buchanan's rule. If in the United States a regulatory agency is routine usually captured by the industry it is supposed to be policing, maybe we ought to think of some other policy—such as enforcing the antitrust laws with enthusiasm, or not giving corporate welfare to prop up obsolete industries in Detroit. And in any case making the government small. *Vive la laissez faire*.

*Lyne*: Let me draw on another historical memory. In the heady days of post-Soviet Russia, when Boris Yeltsin brought in Western economists to tell him how it's done, I was struck by what appeared to be naiveté on the part of the free-marketers ideologues. They seemed to think that all you need is the absence of government for a bountiful economy to thrive. But what happened? Ordinary people rushed by the millions to invest in the stock market, because that was what one was supposed to do. And they got robbed, because there were no meaningful regulations on the market. And oligarchs scooped up all the country's assets.

*McCloskey*: I agree in part. But one can make the case that the Russians didn't try innovation seriously: do you know that land is *still* not freely traded in Russia? And of course without honest courts in which to sue the malefactors fraud was likely. But what's your alternative (I ask, as you asked the student)? Let's see. . . a Securities Exchange Commission "protecting" us? If it didn't work in 2008 here, why do you suppose it would have worked in 1992 in Russia? And the main counterexamples in history are the success of laissez faire in the West, and now its success in the East in China and India.

*Lyne*: My point is that the mere absence of government is not what creates stable and prosperous economies.

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<sup>4</sup> James M. Buchanan, "The Constitution of Economic Policy," Nobel Memorial Prize Lecture, 1986, at [http://nobelprize.org/nobel\\_prizes/economics/laureates/1986/buchanan-lecture.html](http://nobelprize.org/nobel_prizes/economics/laureates/1986/buchanan-lecture.html)

*McCloskey:* I agree: not the “mere” absence of government, that is, liberty. But also dignity, a dignity that protects the liberty, and is notably lacking in Russia.

*Lyne:* The “bourgeois virtues” argument makes a lot of sense to me when tied to local commerce. What I don’t see is any great resemblance between mom and pop merchants and global corporations, which it seems to me lack the proportionality that is necessary to virtue—they are not on the scale of the local landscapes where virtues matter. As a moderate liberal, I see a world of huge mega-banks that extort huge bail-outs lest they destroy the china shop.

*McCloskey:* I opposed the bailouts, at any rate on odd days of the week (on the even days I did fear a Great Depression.) The big difference between a law forcing you to pay taxes for the American empire and the money you pay to those evil corporations is that you can opt out of paying the corporations, and most conveniently so when two or more of them vie for your business. You can’t opt out of taxes, this side of the federal penitentiary or emigration to Canada (with higher taxes). The corporations do compete with each other. If they didn’t, their profits would rise and rise and rise to swallow national income—rather in the way that modern states, when they do not have competitors, *have* risen and risen in the share of income they spend. All profits, corporate and otherwise, are about 15 percent of national income, and have been that way for two centuries (before, they were higher). The unreasonable and populist fear of monopoly has powered a rise of a real monopoly, the holder of the monopoly of violence called the government. In 1900 the share of all levels of government in U.S. national income was about 10 percent; now it is 40 percent (mostly that shuffling of income within the middle class I spoke of). In places like Sweden it is over 50 percent.

*Lyne:* I see an income distribution that has tilted sharply toward the very upper crust, where secretaries pay a greater portion of their income to taxes than the wealthy do (Warren Buffett has made that point).

*McCloskey:* Which is an argument for simplifying the tax code—on the off chance that one could get a rational tax code through “this place.” Many economists favor a value-added tax over the inquisitorial and so-easy-manipulated income tax. My friendly acquaintance, the Marxist geographer David Harvey, who like me opposed the Vietnam War, was audited by the Nixon-era IRS *seven years in a row*.

*Lyne:* Jimmy Carter, of whom I doubt that you are a fan, had one line I think we might both agree with. The income tax law, he said, “is a disgrace to the human race.”

*McCloskey:* No, I much admire Jimmy, and voted for him (mostly I vote Libertarian). Alas, he didn’t understand economics, and

had the bad luck of the Iranian Hostages. But he's not alone in thinking that the Lawyers', Accountants', and Rich Persons' Welfare Program we call the Internal Revenue Code is a disgrace.

*Lyne:* So we agree again. But what about the income distribution?

*McCloskey:* The income distribution moves historically over long swings: unequal in 1800, equal in 1850, unequal in 1920, equal in 1970, and unequal now. It will swing back. The present disparity is mainly not because of obscene CEO salaries but because of the economy's unmet demand for high-skilled people (except for university professors, sad to say!).

*Lyne:* It will take me a while to digest this. (But I'll try not to let it be blocked by my taste buds). On questions relating to "natural resources" my eyes were opened by Julian Simon, whom I see as an excellent ally for your argument. Still, I think it's misleading to say, as you do, that oil is a small part of our economy—like saying that blood is not so important, because it makes up only a small part of bodily weight. The oil-based economy is also supported by massive U.S. military presence around the world, which makes the hidden costs enormous. (Are the neocons simply confused about this?)

*McCloskey:* Yes, the neocons are terminally confused. They want to play a thrilling Great Game "for oil." But oil is not that important. My calculations (as any economist will affirm) are not misleading. They lead to the conclusion that it has been a gigantic error to base American foreign policy on one input among many into our economy. An early example was a resource-maddened attempt by the U.S. to stop a resource-maddened Japan from conquering resources in Indonesian owned then by a resource-maddened Netherlands under the instructions of Royal Dutch Shell. Stop the resource madness, before it kills again!

*Lyne:* But what protections do we Pennsylvanians have against the likes of Halliburton, as they drill tens of thousands of natural gas wells by sending ungodly quantities of toxic chemicals into the ground (made possible by the "Halliburton exception" in the 2005 Energy Act)? Should government play no role in regulating that—or should we depend on Halliburton's virtues?

*McCloskey:* We should take Congress out of the hands of Halliburton by making what Congress can do smaller. (Congress is paid to make laws: so does it follow that we will be *so* much better off in 2060 when Congress has had 50 more years to write Halliburton Exceptions?)

*Lyne:* I'm counting on a pendulum swing. In any case, I like the argument that, for all its problems, capitalism beats the alternatives.

*McCloskey:* Yes, and a capitalism without laissez faire is meaningless: it becomes a creature of the ruling class. Laissez faire, John, is *your friend!*

*Lyne:* My left-leaning grad student tends to measure it against an imagined ideal, so I like to press the “compared to what?” question.

*McCloskey:* Spot on. As the political scientist John Mueller put it, capitalism—or as I prefer to call it, “innovation”—is like Ralph’s Grocery in Garrison Keillor’s self-effacing little Minnesota town of Lake Wobegon: “pretty good.”<sup>5</sup> Something that’s pretty good, after all, is pretty good. Not perfect, not a utopia, but probably worth keeping in view of the worse alternatives so easily fallen into. Innovation backed by liberal economic ideas has made billions of poor people pretty well off, without hurting other people. By now the pretty good innovation has helped quite a few people even in China and India. Let’s keep it.

*Lyne:* Let’s keep it, indeed. As far as I know, tossing it out is not on the table (unless Kim-Jong Il or from another madness Glenn Beck are right). So it appears to me that in this discussion we are using polar possibilities, most likely as leverage to find the right middle ground. In terms of an ideological transaction, I’d say I suspect that you may be low-balling the virtues of government in order to have somewhere to go with those who high-ball it.

*McCloskey:* A low-baller can’t tell you that’s what she’s doing. Well. . . I can tell *you*, John! Note, though, that I have in my quieter moments conceded a number of reasonable functions to government: enforcement of tort, contract, and property; defense against our (immediate) enemies, a few ICBMs with H-bombs on them to discourage extortion.

*Lyne:* And that’s also why I think it’s highly pertinent to have concrete exemplars. We’re talking about finding the right mix—that’s how I see it. Ask a liberal professor what countries have the highest quality of life, and you’ll probably get the answer that it’s the western European countries (as the “studies” also show).

*McCloskey:* Hmm. I wonder then why the moderately leftwing professors have not decamped to Sweden or Holland. I love both countries, but know enough about them to know the downside.

*Lyne:* I love the U.S., but the quality of life seems to vary quite a lot. So for general quality of life, I’d pick, say, Denmark. What is the libertarian’s answer to that question, and why? That’s not intended as a rhetorical question, but rather a real question.

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<sup>5</sup> John Mueller, *Capitalism, Democracy, and Ralph’s Pretty Good Grocery*, Princeton: Princeton University Press, 1999.

*McCloskey:* I've changed my opinion recently a little, though like you I am a U.S.-lover. I readily admit that Denmark is a nice place to live, especially if you can speak Danish (no easy feat: they swallow their words). Switzerland. Finland. The Netherlands is the liberal paradise I know the best, having lived there for three years. Netherlands and the Scandinavian countries are *not* "socialist," not in the classic sense of state ownership of the means of production. They are still highly enterprising. It is not too hard to start a business, or to innovate (thus in Sweden IKEA: though its founder now lives in low-tax Switzerland). What's the downside (set aside Holland and Denmark's miserable climate)? It is: to make Holland work you have to be Dutch ("*overleg*," "*overleg*," they say, for example, "discuss, discuss," a consensus-finding that drives Americans crazy). Sweden and Swedish, too.<sup>6</sup> You have to be honest, you have to be homogenous, you have to be obedient. The point? Making a Dutch-style welfare state and corporate cartels in the U.S. would be disastrous. No one would work and the monopolies would feed on all of us. And in the end the U.S. really is more open, especially since the 1960s in which free international trade became our policy. People from Holland and Sweden and, yes, Denmark say it. "You can do anything in America." Ask Garrison Keillor. *U.S.-luft maakt vrij*.

*Lyne:* Funny you should mention Switzerland. I "decamp" there whenever I can. It has the blessings of exhilarating mountains, bucolic settings, independent people, innovation, productivity, cows with bells, and prosperity. And I think that would be the case even without the bankers in Zurich. Everyone has to buy health insurance, by the way, but since it is required, the government regulates the private health-insurers. Still, I wouldn't quit the U.S. of A. After all, who doesn't want to be near the capital of the empire?

*McCloskey:* You bet (with heavy sarcasm). I think where we would both prefer to be is near the capital of innovation.

*Lyne:* More common ground. Your substitution of "innovation" for "capitalism" is rhetorically astute, by the way.

*McCloskey:* I'm just an honest old lady economist. No rhetoric in me!

*Lyne:* But what about exchange? Is there a word that captures both innovation and exchange?

*McCloskey:* Part of my argument is that the two have been inseparable in making us rich. But I do wish there was such a word. Exchange is ancient (contrary to writers inspired by Karl Polanyi, by the way), dating from the invention of language c.

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<sup>6</sup> *Reason* (magazine) video. "Sweden: A Supermodel for America?" <http://www.youtube.com/watch?v=tDAQWJbEl9U>.

50,000 BCE in southern Africa. So “the market” doesn’t capture the combination-word we are looking for. Perhaps “enterprise” or “profit-seeking”? But those, too, are ancient. People have always picked up \$100 bills lying on the sidewalk. There is something peculiarly enterprising and creative about the modern world, which is what got us from \$3 to \$100 a day. That’s the mystery of the modern world I try to solve in *Bourgeois Dignity*. I won’t solve it here, to encourage purchases.

*Lyne*: A capitalist to the end. But we seem to agree that “capitalism” is a tainted term. In the days of the Cold War, the Soviets would refer to “capitalism” as though it were all we were about. Capitalist baseball. Capitalist art. Their doctrine was that economic arrangements are everything—a premise I never wanted to grant them. I always liked to point out that capitalism is an economic system, but that America also has a political system, which is also very much what it is about. So, ironically, here I find myself looking to my right flank, and seemingly hearing that capitalism (by another name) is what we are all about.

*McCloskey*: Not from me. My book (beyond that early, long riff we are mainly talking about here) is a 500-page argument *against* the reduction of our lives to what I call Prudence Only, the old word being Greed. Here I sharply disagree with many of my economist friends. Greed is *not* good. The modern world, I argue, depends crucially on ethics, and a good rhetoric of the ethics. And as I say, I’ve grown restive under the word “capitalism.” The trouble is that it draws attention, unwarranted attention, to banks and accumulation. As the Master said, “Accumulate, accumulate! This is Moses and the prophets!”<sup>7</sup> No it isn’t. It’s “innovate, innovate.” That’s what gave you and me, the descendents of peasants, the leisure to chat of a summer afternoon about deep matters of economy and politics and history (neither “Lyne” nor “McCloskey” figure, I reckon, in the king lists of Europe—though an ancestor of mine, come to think of it, did murder the High King of Ireland). That’s called in rhetoric, you know, a “circumstantial ad hominem”: the very circumstances of the opponent of the modern world shows her to be wrong.

*Lyne*: Returning to the question of whether we must talk in terms of an either/or: isn’t it a false choice to demand one between “a collective good springing from the bourgeois virtues and a collective good ordered by government”? Can’t I opt for government *and* capitalism?

*McCloskey*: As the northern-European cases show, yes, you can get big governments and yet innovation and liberty—if there is a

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<sup>7</sup> Karl Marx, *Capital: A Critique of Political Economy*, Vol. 1, 1867, edited by F. Engels, translated from the 3rd German ed. by S. Moore and E. Aveling, 1887; New York: Modern Library, n.d., chap. 24, p. 652.

uniform attitude of honesty and trust in government. That is, if you are not an American.

*Lyne:* I think Americans trust government more than they like to let on. Look at the response to the oil leak in the Gulf. The chorus is overwhelming—why doesn't the government *solve* this? In every crisis, we show our true colors. Even the folks who are painting Obama as a dangerous socialist will on alternate days scold him for not intervening here and there more vigorously. (And God bless Jon Stewart's video archive, where it becomes comically apparent.)

*McCloskey:* Don't confuse my position with Fox News! Or more exactly, *do* watch on Fox John Stossel, who says things like "Time to stop fighting the drug war" (June 20, 2010). But watch no one else on Fox. They are all dangerous idiots. Think of me as a combination of Stossel on Fox and Olbermann on MSNBC.

*Lyne:* Has the laissez-faire model any exemplars in modern history?

*McCloskey:* Sure, as I said: places like the U.S. and Britain, and even France. But before 1914, when governments were modest. Now they are not.

*Lyne:* I thought much of the greatest economic growth happened post WWII.

*McCloskey:* Not "much" of it. Real income per head in the U.S. has been about 2 percent per year for two centuries. True, 1945-1973 was sweet, worldwide (though not so sweet until the 1960s if you were a woman, black, gay, handicapped, colonial). But its success was one of capitalism, mainly. The 1930s (the economic historian Alexander Field has proven) was, strangely, one of the most *inventive* decades in American history. Then the pause for the War. Then the inventions were applied. It's innovation, innovation. That's why we need dignity and liberty for innovators. Their profit from the innovations, another economist has found, is about 2% of the social gain from the inventions. The rest goes to the rest of us, through the entry allowed by. . . laissez faire.

*Lyne:* Interesting that the decade of FDR was one of the most inventive in American history. It appears that the most robust capitalist economies right now are places like China and Singapore, which have strong central governments, providing for the infrastructure and keeping the people in line. What is your read on that?

*McCloskey:* That the Chinese make \$13 a day, for all their recent progress, as against \$130 in the U.S. and Singapore. The Chinese economy still has enormous socialized sectors that build dams that will silt up in 20 years. And, need I note, the Red Army.

*Lyne:* You need not. I'm not saying I like their political system. But saying they are far behind is sort of missing the point, isn't it? Surely this is an economic explosion of historic proportions, and on the greatest scale.

*McCloskey:* Sure, after 1978 in China—but on a similar scale to that of India after 1991, and India is the world's largest democracy. The historical lesson is that liberalization (in this time in the European meaning of the word) works astoundingly well. India from 1948 to 1991 groaned under a "License Raj" of central plans and local bureaucrats, and its real income per head grew at 1 percent per year per head. Since 1991 it has been growing at Chinese rates, 7 percent per year.

*Lyne:* When I was teaching in Shanghai two years ago, I asked people what term they would use for what to me seemed like capitalism on steroids in their midst. "Socialism" was the answer!

*McCloskey:* Yeah. I had a student from China a couple of years ago who thought that "socialism" meant "set up a business when and where you want" and "buy low and sell high." We know better!

*Lyne:* Well, thanks for indulging me. I hope you are pleased that I want to argue with you.

*McCloskey:* Of course I am! Because we both listen, listen.