Language and Interest in the Economy:

A White Paper on "Humanomics"

Deirdre N. McCloskey[1]

Economics ignores persuasion in the economy. The economics of asymmetric "information" or common "knowledge" over the past 40 years reduces to costs and benefits but bypasses persuasion, "sweet talk." Sweet talk accounts for a quarter of national income, and so is not mere "cheap talk." The research would direct economics and the numerous other social sciences influenced by economics back towards human meaning in speech—meaning which has even in the most rigorously behaviorist experiments been shown to matter greatly to the outcome. Sweet talk is deeply unpredictable, which connects it to the troubled economics of entrepreneurship, discovery, and innovation. The massive innovation leading to the Great Fact of modern economic growth since 1800 is an important case in point. Some economic historians are beginning to find that material causes of the Great Fact do not work, and that changes in rhetoric such as the Enlightenment or the Bourgeois Revaluation do. A new economic history emerges, using all the evidence for the scientific task: books as much as bonds, entrepreneurial courage and hope as much as managerial prudence and temperance.

A worrying feature of economics as presently constituted is that it ignores language working in the economy. To put it another way, economics has ignored the humanities and related social sciences, such as cultural anthropology, with their studies of human meaning. Adam Smith spoke often of "the faculty of speech," and considered meaning, but his followers gradually set them aside. Until the 1930s the setting aside was gentle and non-dogmatic, allowing for occasional intrusions of human meaning such as Keynes on animal spirits or Dennis Robertson on economized love. But in the shadow of 20th-century positivism, and under the influence of Lionel Robbins and Paul Samuelson and Gary Becker and others, the study of the economy was reduced strictly to "behavior" (yet oddly ignoring linguistic behavior).

But what, an economist would ask, of studies by Marschak and Stigler and Akerlof and others on the transmittal of information? Yes: information is linguistically transmitted, and surely one of the main developments in economics since the 1970s has been the introduction of information and signaling. But the sort of language that can be treated by routine application of marginal benefit and marginal cost—which is the bed on which all studies of language in the

[1] Distinguished Professor of Economics, History, English, and Communication, University of Illinois at Chicago

economy have been laid down—is *merely* the transmittal of information or commands: "I offer $4.15 for a bushel of corn"; "I accept your offer"; "You're fired." The trouble is that a large part of economic talk is not merely informational or commanding but persuasive: "Your price is absurdly high"; "We need to work together if our company is to succeed"; "I have a brilliant idea for making cooling fans for automobiles, and you should invest in it"; "The new iPhone is lovely."

Does it matter? Does persuasive economic talk have economic significance? Yes. One can show on the basis of detailed occupational statistics for the U.S. that about a quarter of income in a modern economy is earned by "sweet talk"—not lies or trickery always, but mainly the honest persuasion that a manager must exercise in a society of free workers or that a teacher must exercise to persuade her students to read books or that a lawyer must exercise if a society of laws is be meaningful. The economy values sweet talk at one quarter of its total income, a gigantic and economically meaningful sum. If language in the economy was merely "cheap talk," as the non-cooperative game theorists put it, then ignoring it would not matter, and its share of economic would drift towards zero: an economic agent would be no more valuable if she were sweet than if she were a mere pipe for transmitted bids and asks. The chattering character of people in markets and firms and households about their economic affairs would be like left-handedness or red hair: interesting for some purposes doubtless in the Department of English, but irrelevant to the tough, scientific matter of the economy. But that is not the case.

Formal maximum-utility economics cannot explain the sweet talk. The research would need to establish the fact beyond doubt, bringing together for example mathematical economists and rhetorical theorists. It can be treated mathematically by showing that cooperative equilibria (for example) cannot be achieved without a trust created by earnest talk. In a way it is the oldest and most obvious finding of game theory that games have of course always a context of rules and customs and relationships, all of them affected by language.

But the main emphasis in a research that would matter for the future of the social sciences would focus steadily on the facts of the matter, and not chiefly on the abstract theory (the abstract theory can yield *any* conclusion if permitted to choose any assumptions, as a matter of logic; the facts constrain the conclusions scientifically). At one level, sweet talk emerges as crucial to experiments and field studies, as Eleanor Ostrom and her colleagues have shown. Indeed, experimental economics in the past twenty years has shown that allowing experimental subjects to establish relationships ("true") through conversation radically changes the degree of cooperation. "The bonds of words are too weak," Hobbes declared, "to bridle men's ambitions, varice, anger, and other passions, without the fear of some coercive power." It appears that Hobbes was wrong. Businesses work with trust, "Good old trustworthy Max"—not Max U, the maximizer of utility in a Samuelsonian way, who cannot be trusted at all.

Maximizing utility is not human meaning, as one can see in mothers and suicide bombers. The framing of bargaining anyway depends on the stories people tell. The language, the trust, the sweet talk, the conversations, all depend on ethical commitments beyond "I'm all right, Jack."

The literature bearing on the matter even in economics alone has become quite large, ranging from Vernon Smith to Herbert Gintis. In particular the Austrian economists such as Friedrich Hayek and Israel Kirzner have long recognized the importance of discovery and other human activities beyond maximization, but stop short of grasping the role of language. They point out that real discoveries, such as that a separate condenser makes a steam engine much more efficient or that treating the bourgeoisie with something other than contempt results in enormous economic growth, arise as it were by accident. They cannot be pursued methodically—or else they are known before they are known, a paradox. The research would show in empirical detail that conversation is the crux of discovery, and especially the astounding series of discoveries that have made the modern world. Once a discovery is made by what Kirzner call "alertness" it requires sweet talk to be brought to fruition. An idea is merely an idea until it has been brought into the conversation of humankind. And so the modern world has depended on sweet talk. The "cooperative equilibria" are gigantically important to the success of a modern economy.

The best way to persuade that a multi-disciplinary study of language in the economy and society might matter is to exhibit a possible sub-project, itself of great importance, on which a good deal of preliminary work has been done (Mokyr 2010, Goldstone 2009).

Thus: what was the conversational context of invention and the sweet talk entailed by innovation in the era of the Industrial Revolution? The Great Fact of an enrichment by a factor of 20 or 30 or much, much more since 1800 is the most astounding economic change since the domestication of plants and animals. Historians, economists, and economic historians have been trying to explain it since Smith, and recently have come to concentrate on it, as in the work of the economic historians Joel Mokyr and Eric Jones, the historian Margaret Jacob, the historical sociologist Jack Goldstone, the anthropologist Alan MacFarlane. The Great Fact has usually been explained by material causes, such as expanding trade or rising saving rates or the exploitation of the poor. The trouble is that such events happened earlier and in other places, and cannot therefore explain the Industrial Revolution and its astounding continuation. One can show in considerable detail, as in McCloskey 2010, that the material causes, alas, do not work. One can also show how attitudes towards the bourgeoisie began to change in the 17th century, first in Holland and then in an England with a new Dutch king and new Dutch institutions. What appears to be needed to explain the Great Fact is a "humanomics," that is, an economics and sociology and history that acknowledges humans as speakers of meaning.

Two things happened 1600-1848, and the more so 1848-the present. For one thing, the material methods of production were transformed. For another, the social position of the Third Estate was raised. Whether the two were connected as mutual cause and effect through language remains to be seen. What appears to be the case (say many of the economic historians who have been looking into the question since the 1950s) is that foreign trade, domestic thrift, legal change, imperial extractions, changing psychology, and the like do not explain the onset of economic growth in northwestern Europe (while the Rest stagnated). Material causes do not appear to work. And so we must recur to non-material causes. Humanomics to the scientific rescue.

(1.) One hypothesis would go as fellow: if the social position of the bourgeoisie had not been raised in the way people spoke of it, aristocrats and their governments would have crushed innovation, by regulation or by tax, as they had always done. And the *bourgeois gentilhomme* himself would not have turned inventor, but would have continued attempting to rise into the gentle classes. Yet if the material methods of production had not thereby been transformed, the social position of the bourgeoisie would not have continued to rise. One could put it shortly: without spoken honor to the bourgeoisie, no modern economic growth. (This last was in essence the late economist Milton Friedman's Thesis). And without modern economic growth, no spoken honor to the bourgeoisie. (This last is in essence the economist Benjamin Friedman's Thesis.) The two Friedmans capture the essence of freed men, and women and slaves and colonial people and all the others freed by the development of bourgeois virtues. The causes, one might conclude (I repeat: it remains to be seen), were freedom, the scientific revolution (not, however, in its direct technological effects, which were postponed largely until the 20th century), and above all a change in the rhetoric of social conversations in Holland and then in England and Scotland and British North America about bourgeois virtue. Or perhaps not: that is the matter for research.

(2.) Another question is the ethical: can a businessperson can be ethical without abandoning her business? What then was the role of ethical change in the Bourgeois Revaluation of 1600-1800 in the Industrial Revolution. One might reply that the seven primary virtues of any human life—prudence, temperance, justice, courage, faith, hope, and love—also run a business life. Businesspeople are people, too. "Bourgeois virtues" would therefore not be a contradiction in terms. On the contrary, capitalism works badly without the virtues—a fact long demonstrated by economic sociologists, and now admitted even by neo-institutional and behavioral economists. The virtues can be nourished in a conversation about the market, and often have been. You can see why the neologism “humanomics” is appropriate here: a serious inquiry into the ethical context of the Industrial Revolution (and of development in presently poor countries, too) would require collaboration between the social sciences as behavior and the humanities of philosophy, anthropology, history, and even theology as meaning (as in Robert Nelson's books on economic theology).

(3.) One can ask how an explicitly and persuasive bourgeois ideology emerged after 1700 from a highly aristocratic and Christian Europe, a Europe entirely hostile—as some of our clerisy still are—to the very idea of bourgeois virtues. In 1946 the great student of capitalism, Joseph Schumpeter, declared that "a society is called capitalist if it entrusts its economic process to the guidance of the private businessman" (*Encyc. Brit.* 1946). It is the best short definition of that essentially contested concept, "capitalism." "Entrusting" the economy to businesspeople, Schumpeter explained, entails private property, private profit, and private credit. (In such terms you can see the rockiness of the transition to capitalism in Russia, say, where agricultural land is still not private, and where private profit is still subject to prosecution by the state, the jailing of billionaires, the cutting down of tall poppies.) Yet what Schumpeter leaves aside in the definition, though his life's work embodied it, is that the society—or at any rate the people who run it—must *admire* businesspeople. That is, they must think the bourgeoisie capable of virtue. (It's this admiring of the bourgeois virtues that Russia lacks, and has, whether ruled by boyars or tsars or commissars or by secret police.)

(4.) Attributing great historical events to ideas was not popular in professional history for a long time, 1890-1980. A hardnosed calculation of interest was supposed to explain all. Men and women of the left were supposed to believe in historical materialism, and many on the right were embarrassed to claim otherwise. But the "dream of objectivity," as the historian Peter Novick called it, hasn't work out all that well. Actual interest—as against imagined and often enough fantasized interest—did not cause World War I. The Pals Brigades did not go over the top at the Somme because it was in their prudent interest to do so. Non-slave-holding whites did not constitute most of the Confederate armies for economic reasons. Nor did abolition became a motivating cause because it was good for capitalism. And on and on, back to Achilles and Abraham. We do well to watch for cognitive-moral revolutions, and not simply assume that Matter Rules, every time. A showing that ideas matter is not so unusual nowadays among historians, such as in works by Skinner or Israel. But it is another matter to show that the material base itself is determined by habits of the lip and mind—*that* conclusion evokes angry words among most people on the economistic side of the social sciences, and often enough from historical materialists in the humanities.

In short, the sub-project proposes to give a big example of the force of language in the economy—its linguistic embeddedness as the sociologists would put it. The larger point, I repeat, is to demonstrate that in the economy the force of language is not to be ignored. (Or that it *is* to be ignored: if the research is genuine the possibility must be lively that the hypothesis turns out to be wrong.) Thus "humanomics." Ignoring the burden of art and literature and philosophy in thinking about the economy is strangely unscientific: it throws away, under orders from a largely unargued law of method, a good deal of the evidence of our human lives. I do not mean that "findings" are to be handed over from novels and philosophies like canapés at a cocktail party. I mean that the exploration of human meaning from the Greeks and Confucians down to Wittgenstein and *Citizen Kane* casts light on profane affairs, too. A human with a balanced set of virtues, beyond the monster of interest focusing on Prudence Only, characterizes our economies. And so (the hypothesis goes) economics without meaning is incapable of understanding economic growth, business cycles, or many other of our profane mysteries. The research extends, but also to some degree calls into question, modern economics, and the numerous other social sciences from law to sociology now influenced by an exclusively Max U economics.

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