

## Interview on economic growth in *Magyar Narancs*

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Deirdre Nansen McCloskey

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*Magyar Narancs*: In your work you argue that the increase in our societies' wealth, the so called Great Enrichment that started about 2.5 centuries ago cannot be explained only by institutions, capital accumulation, trade, slavery, inheritance, exploitation, science, or wealth distribution. They might have contributed to it, but the catalysts were bourgeois values.

*Deirdre McCloskey*: Not exactly. It's not the values of merchants and manufacturers that changed. The notion that they did change was Max Weber's in 1905. Not true. Merchants and manufacturers in ancient Greece or China had much the same values as merchants and manufacturers in Hungary in 1913 or Britain in 1813. What changed, and dramatically so in northwestern Europe during the 18th century, and then slowly elsewhere, as in China and India nowadays, was the attitude towards the bourgeoisie. It shifted from protectionist-mercantilist hostility to a liberal approval of entrepreneurship, what the great economist from the Austro-Hungarian Empire Joseph Schumpeter called "a business-respecting civilization."

The result after 1800 and especially after 1900 was an increase in the goods and services for the poorest among us, such as better food and better education and clean water and indoor plumbing and antibiotics and all, by a factor of 30 per person, 3,000%. Think of it. Its great magnitude is why it can't be explained by capital accumulation or exploitation, which are ancient, or a change in values in the bourgeoisie, which didn't happen. It can only be explained by a new ideology, such as Hungary tested after communism, of letting masses of people "have a go," as the British say.

*Magyar Narancs*: But does their importance still apply today? Can these values lead us to further prosperity?

Oh, yes, on both counts. Look at China and India, which liberalized – not perfectly, but a great deal. Until 1978 and 1991 they stumbled along under socialism, with real incomes able to double only in 70 years. Now they grow at rates under which the doubling happens every 7 to 10 years. That's transformative. In a few generations China and India will have European standards of living, for everyone.

*Magyar Narancs*: Isn't it possible that we have reached the peak, that in the 21st century the rich cannot get richer without making the poor worse off?

No. Pessimism about the "old" rich countries is widespread, but silly. Hungary, for example, is half or a third what it could be in real income if it stuck with liberal values. Its present illiberalism has been tried before and has failed: fascism (in

Hungary), then communism (in Hungary). Those who forget their past are condemned to repeat it. I suggest you don't.

And how would anyone know that present-day innovations in biology, electronics, materials science will not have big effects even on now very rich countries? Imagine trying to predict the effects of chemical engineering and organic chemistry in 1880, or of electronics in 1930, or of the computer in 1970. It would be impossible.

*Magyar Narancs*: and wouldn't that mean that we need to change the direction into which we are heading, by embracing different values, as a catalyst of a different kind of progress, one that takes into consideration that economic growth cannot go on forever in a world with finite resources?

No. Resources are not "finite" in the sense non-economists usually suppose. After all, what is a "resource" is determined by human ingenuity, not by God's givenness. Such zero-sum thinking has been proven radically mistaken by the Great Enrichment of 3,000 percent. Once upon a time we lit our homes with vegetable and animal fats, such as olive oil and tallow and especially whale oil. The whales started to run out, but then we discovered that mineral oils could be made into kerosene, eventually a much cheaper and better light. Then we turned on the electric lights, once generated by coal that we worried was "finite," and bad for the environment, but increasingly now by nuclear or renewable. And on and on.

*Magyar Narancs*: So you would say that our economy will green itself out and become more sustainable, if we just stick to liberal values? Even if countries like China and India seem to turn into economic wastelands while celebrating their remarkable economic success?

A hostile question, that! It supposes for one thing that China and India are economic wastelands, which is not what ordinary Chinese and Indians think. They like having incomes that double in real terms every seven or ten years, quadrupling in a short generation. I do not understand why so many members of the clerisy disdain economic growth. Apparently they want the Chinese and Indians to remain poor. Maybe they think such folk are amusingly quaint sleeping on the streets! No one in China now starves. Before 1978 they did. On that count is liberalism good or bad?

Your question supposes also that it is impossible to deal with environmental matters in a liberal society. The supposition is mistaken. It was central-planning *socialist* societies, such as Hungary's and China's, that spoiled the environment. Look at the Caspian Sea under Soviet communism. A liberal society can be a clean society. Indeed, the higher our income, achieved by a dynamic society of trade-tested betterment, the more clean we want it to be. Look at Denmark and its great interest in wind power. We should have a carbon tax, for example. And pollution can often be handled by suing people in the courts – that is the most usual method historically.

As to "sustainability," I ask you to consider the possibility that the word is not very good economics. Sustainability has become an all-purpose way of answering economic questions, regularly proposed by people who have not studied economics with any seriousness. It is often quite mistaken as a criterion, because it is premised on no time

limit (sustainable over what time horizon?) and premised on believing we have now a perfect understanding of future tradeoff in the economy and the environment.

Therefore, applying it can easily damage poor people now – such as the Chinese and the Indians if they were to revert to socialism – in aid of a vague future promise of a better environment, assuming that present technology is all we will ever know about carbon capture or the dynamics of cloud formation.

*Magyar Narancs*: A few months ago Ruchir Sharma has authored a piece in *Foreign Affairs* magazine in which he has argued that the main reason why post-crisis economic growth has failed to return to the rate it averaged before the recession is the global slowdown in the growth of the labor force. In his opinion the working age population needs to grow by 2 percent each year in order to grow the same way it did before. Would you accept this notion, or do you believe that our economy could do more with less, that there could be a future in which less workers (maybe even with less hours spent with work) could drive the economy in a sustainable way?

I've not read the piece you speak of, but on its face it seems strange as economics. What we are concerned with is growth *per person*. How many people there are – that growing working age population – is a secondary matter at best. If he means that the dependency ratio is becoming worse, as population growth slows and (in the transition to a new level) the number of old people increases who are supported by people in work, he's right, though it's hardly a profound observation. But it's not a result of demography. It's a result of social policies about how long people work. The same is true at the other end with children: we prevent children from work (I agree we should); and so they are "dependents" by social policy.

There, at the end, by the way, is the unfortunate word "sustainability." May I suggest, to use some Marxist jargon from my youth, that "sustainability" is a hopelessly bourgeois word? Only very rich people could take it seriously. If you are hungry in Hungary in 1900 or India in 2016, you would be a fool to worry about some bourgeois' worry about sustainability. Your family needs bread, today.

*Magyar Narancs*: You have criticized in one of your articles the idea that happiness could be measured, for example to measure gross national happiness as an index that shows us how are economy is doing. But do you think there could be other alternative measurements that could replace GDP, so that we could better measure how our economy, and our economic growth serves the wellbeing of our people? Or are we stuck with GDP forever?

Yes, we're stuck with GDP forever, dear! GDP measures human material scope. Any economist can think of ways it could be improved, though the improvements would not much change the international league table in which Hungary does pretty well but could do much better. For example, we should include in it the value of housework and child care and elder care. It would not be not very hard to do if we were serious about it – that we are not serious about it, not willing to spend the trivial amounts of research money that would be needed to get the figures right, comes from an anti-feminist bias within economics. As another example, we could measure and include in GDP a measure of health and of life expectancy, instead of using expenditure on medical care alone. Some economists have worked on the matter in interesting ways. But the kind of

proposals that outsiders to economics make, or even leftist insiders such as the amiable and intelligent but misled economic theorist Joseph Stiglitz, are not sensible. We are not trying to measure happiness. Attempting to is a fool's errand. We all know personally some miserable millionaires and some jolly beggars! We are attempting to measure how much goods and services people can get, whether beer or Bartók. GDP is it.

*Magyar Narancs*: You have said before that Hungary's "present illiberalism has been tried before and has failed: fascism (in Hungary), then communism (in Hungary)." But there are many who argue that (neo)liberalism or "predatory liberalism" has also been tested, it failed, and led to the emergence of Orban, Putin and many other illiberal politicians. Or wasn't the post-communistic liberalism of Hungary, Russia and the likes real liberalism?

Yes, it was "real." "Real" has to be measured on a scale along which, say, North Korea is zero and Switzerland is 100 (pick some other countries if you want; but notice that GDP does a good job here of measuring real misery and real prosperity). You need to stop making the perfect the enemy of the good! That Hungary was not after the fall of communism a liberal utopia does not mean that its experiment with liberalism was not "real," nor that its (second) experiment with fascism now is not "real." To say so is French Enlightenment utopianism, and has been responsible for much human misery. The older Hungarians, such as my friend János Kornai, can tell you about it. I realize that young people are natural utopians, and there is some good in it. But not as much as the young think. Follow the Scottish Enlightenment rather than the French!

*Magyar Narancs*: In your critique of Piketty you write that "we are gigantically richer in body and spirit than we were two centuries ago. In the next half century—if we do not kill the goose that laid the golden eggs (...) following the advice of the clerisy that markets and democracy are terribly faulted—we can expect the entire world to match Sweden or France." But isn't that a too optimistic prognosis?

No. Pessimism is always fashionable, because for some reason that I don't understand — perhaps it is hard-wired into humans — people delight in hearing that The End is Near. But since 1800 the pessimism has been a very bad guide. Before, yes, because then we were indeed in a zero-sum world. Not now, not with the ingenuity that is pouring out of new liberal economies, such as Korea and Botswana and Singapore. In 1800, for example, Malthus was pessimistic, and persuaded most people that we were doomed. Then over the next century, in the face of a rise in world population by a factor of 7, the world's real income per head increased, even including still very poor countries, by a factor of 10. In Hungary in the past two centuries real income per head rose, in present-day terms, from about 800 HUF to 14,000 HUF per person per day. Imagine getting along in Budapest on 800 HUF a day and you have some idea of how your ancestors lived.

*Magyar Narancs*: If we look at a country such as Hungary, with endemic corruption and with an economy whose growth rates would be close to zero without permanent contributions from the EU, it doesn't seem like their citizens have a chance to have the same quality of life as those in Sweden and France, unless of course they migrate to Sweden or France. (And Hungary is still way more fortunate than some of the economies of Africa.)

Yes, Hungary is doing about half or a third as well as it could if it adopted entirely liberal economic policies (and the crucially supporting political and social policies, too). It is still protecting favored people, still over-regulating large sectors of the economy. It has recently embarked on a hard-right turn that will kill economic growth, if it doesn't end in actually killing people. And, yes, the Hungarian-origin people who move to what we used to call "the West" (and which some people still call it) do just fine, from John von Neumann and Pollacsek Mihály on down. That implies that it is not being Hungarian that is holding Hungarians back. It is the ill-considered and illiberal policies of governments.

*Magyar Narancs:* The current Hungarian government believes that there is an illiberal way to build a successful economy (taking, among others, China, Singapore and Russia as examples). Wouldn't that be possible, even for the short term?

Russia? You really think that Putin's Russia is a good economic model? You need to look again at Russia's economy in a world of \$50 oil. The reason that China (GDP per capita \$20) looks like a good model is that under communism it was a \$2-per-capita economy, and so even the partial economic liberalism it has adopted caused income to rise by a factor of ten. The Chinese know, and outsiders who look into it know, that the large parts of the Chinese economy that are still under communism work extremely badly, still. That is why its GDP per capita is half to one-third of Hungary's. Singapore I grant you – though of course the policies that Singapore followed were very liberal in the economy (for example they were multicultural in the labor force and open to immigration, even from Syria). But to get to be the Singapore of Europe, first you have to replace Viktor Orban, who admires Donald Trump, with Lee Kuan Yew, who is dead. Actually, I think you'd do better with the corpse.

*Magyar Narancs:* And could you accept an argument that says some countries/continents/regions have, due to their location/history/culture different capabilities than the currently successful western economies, and need to follow therefore a different path to become economically prosperous?

No. That is geographic determinism at best, fascist and eugenic philosophy at worst. It reminds me of the German Historical School's claim that "English" economics would not apply to Germany. The Austrian economists knew better.

The "path" is actually quite simple, and requires no "policy" staffed by hundreds of thousands of dirigiste bureaucrats (such as our friends in Brussels). It is, as the Blessed Adam Smith put it, "allowing every man [and woman, dear] to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice." Liberalism led to the modern world by allowing the idea of electricity or the idea of skyscrapers or the idea of the stock exchange – not by the mere facilitating of property (as conservative economists recommend) or the mere hampering of property (as progressive economists recommend). It let ordinary people free, free from compulsion by lords or by police.

*Magyar Narancs:* The Great Enrichment, you say, has made our societies as a whole richer. But still there are large segments in our societies that feel left behind, people that might not have a chance to go to college, get a proper education, get jobs that help them make a decent living, etc. What chances do they

have in an economy that lets people “have a go”? How can they get the proper chances in life without the government taking some protective, left-wing measures to lift them out of poverty?

Liberal economies have been good for education and not being left behind. Look at the international statistics. The United States led in elementary education in the 19<sup>th</sup> century and higher education in the 20<sup>th</sup>. But it is typical of the guilt-ridden clerisy that your question assumes that the only way to a decent living and a good life is to become a member of the clerisy, by going to university. I recommend university. It’s my business. But much more important is letting people sell sausages on the streets of Debrecen without being bothered by the police or the owners of restaurants. Much more important is letting people build their own house any way they want, instead having to bribe the local building inspector. Much more important is allowing people to practice plumbing or doctoring without being obstructed by the state or by the state’s good friends in the plumbers’ and doctors’ trade unions. The result of having a go has been that people get prosperous. . . and then send their sons and daughters to university, where you and I can instruct them in the higher things.

*Magyar Narancs*: The culture war around the burkini issue has been dominating the press for the last few weeks. The best description of the issue came from Jane Eisner, editor-in-chief of *Forward*, who wrote “Women are being dictated to and squeezed from all sides.” Basically, women are forced to comply with dress codes for two different reasons: the religious conservatives believe that they should cover as much as possible in order to not be immodest, while some secularists have an idea in their mind that makes them think that women are less free if they cover their body (especially because the previous group of people forced them to cover their bodies), therefore they force them to undress. What would be, in your opinion, the right solution in this crazy situation?

*Laissez faire, laissez passer*. That is, leave people alone to do what they want to do. Your rights extend just as far as the tip of my nose. It is particularly idiotic for mayors to argue that they are saving women in France. In France, Muslim women have options. Not in Saudi Arabia, to be sure. But *France*?

*Magyar Narancs*: The French reaction to the burkini is completely irrational and very intrusive. But what can be done in those cases when women in the West are suspected to be forced by their husbands or families to follow certain customs that they would probably not choose to follow if it were up to them (e.g. wearing a burqa)? Can the state intrude here?

Giving state police and bureaucrats the power to intrude is dangerous, I think you will agree. In the burkini case I think it is doubtful that the women felt oppressed by their husbands. But, yes, if he beats her, he should go to jail – although the policy will not work very well if the society hasn’t been persuaded by the clerisy to not tolerate the beating of women. There is a story from the British Raj in South Asia. A British administrator told an Indian man not to participate in *sati*, the custom of burning the widow on her husband’s funeral pyre, or encouraging her to throw herself onto it. The Indian man replied, “But it is our custom, anciently practiced.” To which the administrator replied. “Ah, I see. Quite right. Of course. But in that case I need to inform you that we British have a custom, too. It is that when someone murders a widow, or forcefully encourages her to kill herself, we hang him.”

*Magyar Narancs*: You are a person who cherishes individual autonomy, freedom and liberties, but in the meantime religion also plays a very important role in your life. How can these coexist in your life? What are you looking for in a religion?

I am an Anglican. Religion and liberalism can be perfectly consistent, just as religion and science can. God wants us to have free will, and so she puts us in a world in which real choices between good and evil exist, in which  $F = ma$  and earthquakes happen and, in particular, tyrants prosper. We are not God's pets in a choiceless Eden. If we do not want to be the tyrant's pets, a world in which Jobbik and Fidesz run our lives, we have to make the choice to resist.

*Magyar Narancs*: But currently it looks very much like there is a huge number of people who went to be “tyrant’s pets.” More and more people sympathize with Trump, Le Pen or Orban. How would you explain their appeal?

Most people just want to get along, with Orban or Trump or Hitler. Liberty brings self-responsibility, which many people find terrifying. They want to be pets, not autonomous individuals. To most people liberty is not an important value, especially if it the liberty of the press or of academic life that is so highly valued by the members of the clerisy, such as you and me.

Tzvetan Todorov, the Bulgarian-French critic, quotes the protagonist of *Forever Flowing*, the posthumously published novel of Vasily Grossman (1905–1964), whom he says was the sole example of a successful Stalinist writer who converted wholly to anti-Communism ("The slave in him died, and a free man arose"):

I used to think freedom was freedom of speech, freedom of the press, freedom of conscience. Here is what it amounts to: you have to have the right to sow what you wish to, to make shoes or coats, to bake into bread the flour ground from the grain you have sown, and to sell it or not sell it as you wish; for the lathe-operator, the steelworker, and the artist it's a matter of being able to live as you wish and work as you wish and not as they order you.

Let us encourage people to be free. Let us not assume that they need our dubious “help” and, worse, our regulation.