

How the West (and the Rest) Got Rich

The Great Enrichment of the past two centuries has one primary source: the liberation of ordinary people to pursue their dreams of economic betterment

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A statue of Adam Smith in Edinburgh, Scotland *PHOTO: ALAMY*

By

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Why are we so rich? An American earns, on average, \$130 a day, which puts the U.S. in the highest rank of the league table. China sits at \$20 a day (in real, purchasing-power adjusted income) and India at \$10, even after their emergence in recent decades from a crippling socialism of \$1 a day. After a few more generations of economic betterment, tested in trade, they will be rich, too.

Actually, the “we” of comparative enrichment includes most countries nowadays, with sad exceptions. Two centuries ago, the average world income per human (in present-day prices) was about \$3 a day. It had been so since we lived in caves. Now it is \$33 a day—which is Brazil’s current level and the level of the U.S. in 1940. Over the past 200 years, the average real income per person—including even such present-day tragedies as Chad and North Korea—has grown by a factor of 10. It is stunning. In countries that adopted trade and economic betterment wholeheartedly, like Japan, Sweden and the U.S., it is more like a factor of 30—even more stunning.

And these figures don’t take into account the radical improvement since 1800 in commonly available goods and services. Today’s concerns over the stagnation of real wages in the U.S. and other developed economies are overblown if put in historical perspective. As the economists Donald Boudreaux and Mark Perry have argued in these pages, the official figures don’t take account of the real benefits of our astonishing material progress.

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Look at the magnificent plenty on the shelves of supermarkets and shopping malls. Consider the magical devices for communication and entertainment now available even to people of modest

means. Do you know someone who is clinically depressed? She can find help today with a range of effective drugs, none of which were available to the billionaire Howard Hughes in his despair. Had a hip joint replaced? In 1980, the operation was crudely experimental.

Nothing like the Great Enrichment of the past two centuries had ever happened before. Doublings of income—mere 100% betterments in the human condition—had happened often, during the glory of Greece and the grandeur of Rome, in Song China and Mughal India. But people soon fell back to the miserable routine of Afghanistan’s income nowadays, \$3 or worse. A revolutionary betterment of 10,000%, taking into account everything from canned goods to antidepressants, was out of the question. Until it happened.

What caused it? The usual explanations follow ideology. On the left, from Marx onward, the key is said to be exploitation. Capitalists after 1800 seized surplus value from their workers and invested it in dark, satanic mills. On the right, from the blessed Adam Smith onward, the trick was thought to be savings. The wild Highlanders could become as rich as the Dutch—“the highest degree of opulence,” as Smith put it in 1776—if they would merely save enough to accumulate capital (and stop stealing cattle from one another).

A recent extension of Smith’s claim, put forward by the late economics Nobelist Douglass North (and now embraced as orthodoxy by the World Bank) is that the real elixir is institutions. On this view, if you give a nation’s lawyers fine robes and white wigs, you will get something like English common law. Legislation will follow, corruption will vanish, and the nation will be carried by the accumulation of capital to the highest degree of opulence.

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But none of the explanations gets it quite right.

What enriched the modern world wasn't capital stolen from workers or capital virtuously saved, nor was it institutions for routinely accumulating it. Capital and the rule of law were necessary, of course, but so was a labor force and liquid water and the arrow of time.

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The capital became productive because of ideas for betterment—ideas enacted by a country carpenter or a boy telegrapher or a teenage Seattle computer whiz. As Matt Ridley put it in his book “The Rational Optimist” (2010), what happened over the past two centuries is that “ideas started having sex.” The idea of a railroad was a coupling of high-pressure steam engines with cars running on coal-mining rails. The idea for a lawn mower coupled a miniature gasoline engine with a miniature mechanical reaper. And so on, through every imaginable sort of invention. The coupling of ideas in the heads of the common people yielded an explosion of betterments.

Look around your room and note the hundreds of post-1800 ideas embedded in it: electric lights, central heating and cooling, carpet woven by machine, windows larger than any achievable until the float-glass process. Or consider your own human capital formed at college, or your dog's health from visits to the vet.

The ideas sufficed. Once we had the ideas for railroads or air conditioning or the modern research university, getting the wherewithal to do them was comparatively simple, because they were so obviously profitable.



Storefronts along Hudson Street in New York City, circa 1860 to 1900. PHOTO:FOTORESEARCH/GETTY IMAGES

If capital accumulation or the rule of law had been sufficient, the Great Enrichment would have happened in Mesopotamia in 2000 B.C., or Rome in A.D. 100 or Baghdad in 800. Until 1500, and in many ways until 1700, China was the most technologically advanced country. Hundreds of years before the West, the Chinese invented locks on canals to float up and down hills, and the canals themselves were much longer than any in Europe. China's free-trade area and its rule of law were vastly more extensive than in Europe's quarrelsome fragments, divided by tariffs and tyrannies. Yet it was not in China but in northwestern Europe that the Industrial Revolution and then the more consequential Great Enrichment first happened.

Why did ideas so suddenly start having sex, there and then? Why did it all start at first in Holland about 1600 and then England about 1700 and then the North American colonies and England's impoverished neighbor, Scotland, and then Belgium and northern France and the Rhineland?

The answer, in a word, is "liberty." Liberated people, it turns out, are ingenious. Slaves, serfs, subordinated women, people frozen in a hierarchy of lords or bureaucrats are not. By certain accidents of European politics, having nothing to do with deep European virtue, more and more Europeans were liberated. From Luther's reformation through the Dutch revolt against Spain after 1568 and England's turmoil in the Civil War of the 1640s, down to the American and French revolutions, Europeans came to believe that common people should be liberated to have a go. You might call it: life, liberty and the pursuit of happiness.

To use another big concept, what came—slowly, imperfectly—was equality. It was not an equality of outcome, which might be labeled "French" in honor of Jean-Jacques Rousseau and Thomas Piketty. It was, so to speak, "Scottish," in honor of David Hume and Adam Smith: equality before the law and equality of social dignity. It made people bold to pursue betterments on their own account. It was, as Smith put it, "allowing every man to pursue his own interest his own way, upon the liberal plan of equality, liberty and justice."

And that is the other surprising notion explaining our riches: "liberalism," in its original meaning of "worthy of a free person." Liberalism was a new idea. The English Leveller Richard Rumbold, facing the hangman in 1685, declared, "I am sure there was no man born marked of God above another; for none comes into the world with a saddle on his back, neither any booted and spurred to ride him." Few in the crowd gathered to mock him would have agreed. A century later, advanced thinkers like Tom Paine and Mary Wollstonecraft embraced the idea. Two centuries after that, virtually everyone did. And so the Great Enrichment came.

Not everyone was happy with such developments and the ideas behind them. In the 18th century, liberal thinkers such as Voltaire and Benjamin Franklin courageously advocated liberty in trade. By the 1830s and 1840s, a much enlarged intelligentsia, mostly the sons of bourgeois fathers, commenced sneering loftily at the liberties that had enriched their elders and made possible their

own leisure. The sons advocated the vigorous use of the state's monopoly of violence to achieve one or another utopia, soon.

Intellectuals on the political right, for instance, looked back with nostalgia to an imagined Middle Ages, free from the vulgarity of trade, a nonmarket golden age in which rents and hierarchy ruled. Such a conservative and Romantic vision of olden times fit well with the right's perch in the ruling class. Later in the 19th century, under the influence of a version of science, the right seized upon social Darwinism and eugenics to devalue the liberty and dignity of ordinary people and to elevate the nation's mission above the mere individual person, recommending colonialism and compulsory sterilization and the cleansing power of war.

On the left, meanwhile, a different cadre of intellectuals developed the illiberal idea that ideas don't matter. What matters to progress, the left declared, was the unstoppable tide of history, aided by protest or strike or revolution directed at the evil bourgeoisie—such thrilling actions to be led, naturally, by themselves. Later, in European socialism and American Progressivism, the left proposed to defeat bourgeois monopolies in meat and sugar and steel by gathering under regulation or syndicalism or central planning or collectivization all the monopolies into one supreme monopoly called the state.

While all this deep thinking was roiling the intelligentsia of Europe, the commercial bourgeoisie—despised by the right and the left, and by many in the middle, too—created the Great Enrichment and the modern world. The Enrichment gigantically improved our lives. In doing so, it proved that both social Darwinism and economic Marxism were mistaken. The supposedly inferior races and classes and ethnicities proved not to be so. The exploited proletariat was not driven into misery; it was enriched. It turned out that ordinary men and women didn't need to be directed from above, and when honored and left alone, became immensely creative.

The Great Enrichment is the most important secular event since human beings first domesticated wheat and horses. It has been and will continue to be more important historically than the rise and fall of empires or the class struggle in all hitherto existing societies. Empire did not enrich Britain. America's success did not depend on slavery. Power did not lead to plenty, and exploitation was not plenty's engine. Progress toward French-style equality of outcome was

achieved not by taxation and redistribution but by the Scots' very different notion of equality. The real engine was the expanding ideology of classical liberalism.

The Great Enrichment has restarted history. It will end poverty. For a good part of humankind, it already has. China and India, which have adopted some of economic liberalism, have exploded in growth. Brazil, Russia and South Africa, not to speak of the European Union—all of them fond of planning and protectionism and level playing fields—have stagnated.

Economists and historians from left, right and center cannot explain the Great Enrichment. Perhaps their sciences need revision, toward a “humanomics” that takes ideas seriously. Humanomics doesn't abandon the economics of arbitrage or entry, or the math of elasticities of demand, or the statistics of regression analysis. But it adds the study of words and meaning and their stunning contribution to our enrichment.



Over 200 years, average world income per person has soared from about \$3 a day to a stunning \$33 a day. PHOTO: GETTY IMAGES

What public policy to further this revolution? As little as is prudent. As Adam Smith said, “it is the highest impertinence...in kings and ministers to pretend to watch over the economy of private people.” We certainly can tax ourselves to give a hand up to the poor. Smith himself gave to the poor with a liberal hand. The liberalism of a Christian, or for that matter of a Jew, Muslim or Hindu, recommends it. But note, too, that 95% of the enrichment of the poor since 1800 has come not from charity but from a more productive economy.

Rep. Thomas Massie, a Republican from Kentucky, had the right idea in what he said to Reason magazine last year: “When people ask, ‘Will our children be better off than we are?’ I reply, ‘Yes, but it’s not going to be due to the politicians, but the engineers.’ ”

I would supplement his remark. It will also come from the businessperson who buys low to sell high, the hairdresser who spots an opportunity for a new shop, the oil roughneck who moves to and from North Dakota with alacrity and all the other commoners who agree to the basic bourgeois deal: Let me seize an opportunity for economic betterment, tested in trade, and I’ll make us all rich.

Dr. McCloskey is distinguished professor emerita of economics, history, English and communication at the University of Illinois at Chicago. This essay is adapted from her new book, “Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World,” published by the University of Chicago Press.