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Eastern Economic Association meetings
International Adam Smith Society,
"Adam Smith at 240: Contemporary Views of Smith's Enduring Presence"
Session B1, 9:30-10:50 with other participants
(Jeffrey Young, Sandra Peart, David Levy, and Amos Witztum)
Washington DC, Marriott Wardman Park, 2660 Woodley Rd NW

"Adam Smith Did Humanomics: So Should We"

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Economics ignores persuasion in the economy. The economics of asymmetric "information" or common "knowledge" over the past 40 years speaks of costs and benefits but bypasses persuasion, "sweet talk." Sweet talk accounts for a quarter of national income, and so is not mere "cheap talk." Research should 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, of discovery, and of innovation. The massive innovation leading to the Great Fact of modern economic growth since 1800 is a leading case in point. Economic historians are beginning to find that material causes of the Great Fact do not work, and that changes in rhetoric do work, such as the Enlightenment and the Bourgeois Revaluation and above all Adam Smith "liberal plan of liberty and justice." It is not, however, the new institutional economics, which is Samuelsonian economics redux. 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 in the economy. To put it another way, economics has ignored the humanities such as philosophy and literature, and the related social sciences, too, such as cultural anthropology and much of history—that is, it has ignored the study of human meaning. The Blessed Adam Smith, may his tribe increase, spoke often of "the faculty of speech," and *did* consider meaning in all his writings. "The offering of a shilling," he wrote (or, rather, spoke, since the source is student notes on his lectures), "which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade one to do so and so as it is for his interest" (*Lectures on Jurisprudence, Report of 1762-3*, vi. 56, p. 352). But people do not merely silently offer shillings and silently hand over haircuts. People are not, as Samuelsonian economics supposes, vending machines. They talk, or as Arjo Klamer puts it, they converse. And in conversing they open each other to

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modifications of the price, it may be, and anyway they establish, as we say, the "going" price—which is how the paradoxes of continuous traders and so forth in Arrow-Debreu formulations are solved in practice, and why experimental markets work so amazingly well despite not satisfying the Arrow-Debreu conditions even approximately (McCloskey 2007). The other Smith, Vernon, notes (2007): "The principal findings of experimental economics are that impersonal exchange in markets converges in repeated interaction to the equilibrium states implied by economic theory, under information conditions far weaker than specified in the theory. In personal, social, and economic exchange, as studied in two-person games, cooperation exceeds the prediction of traditional game theory." To put it mildly.

Market participants, Adam Smith continues, "in this manner . . . acquire a certain dexterity and address in managing their affairs, or in other words in managing of men [and of women, my dear Adam, if you please]; and this is altogether the practice of every man in the most ordinary affairs." The ordinary affair of academic economics itself, for example, as I argued in my books in the 1980s and 1990s on the rhetoric of economics. But certainly in the economy itself, as I am now realizing, and am belatedly and clumsily saying in another set of books (The Bourgeois Era: *The Bourgeois Virtues* [2006]; *Bourgeois Dignity* [2010]; and now *Bourgeois Equality* [2016]), and as Adam knew already in 1762-63: "In this manner everyone is practicing oratory on others through the whole of his life." Smith's first book, the one he loved the most, which most economists (like yours truly until about 1990) have never heard of, *The Theory of Moral Sentiments* (1759, 6th ed. 1790, the year of his death), is about how we converse in public or in the councils of our hearts on ethics. And even in his book about the virtue of prudence, which economists have heard of but mostly have not actually read (that too describes your reporter until about 1990), he writes (1776, Bk. I, Chp. ii, para. 2): "whether this propensity [to truck and barter] be one of those original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason [thus Samuelsonian economics] *and speech* [thus Smithian humanomics], it belongs not to our present subject to inquire." Alas: one wishes that he had pushed the inquiry further on that score. In the *Lectures on Jurisprudence*, the editors observe about the passage in *The Wealth of Nations*, he had said "the real foundation of [the division of labor] is that principle to persuade which so much prevails in human nature" (n3 in Smith 1776, p. 25).

But Smith's followers gradually set language and persuasion and meaning 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 early 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" (oddly, however, managing to ignore *linguistic* behavior: in this, too, the school of Vernon Smith and Bart Wilson and others has exceeded the predictions of traditional game theory by *listening* to the cooperating and competing experimental subjects practicing oratory on others).

But what, an economist would ask, of studies by Marschak and Stigler and Akerlof and many others on the transmittal of information? Yes, good: information is linguistically transmitted, and surely one of the main developments in economics since the 1970s has been the acknowledgement of information and signaling. Fine. 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 economy have so far been forced to sleep, such as Rubinstein 2000—is *merely* the transmittal of information or commands: "I offer $4.15 for a bushel of corn"; "I accept your offer"; "You're fired." Vending machines. The trouble is that a large part of economic talk, as Smith said, 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 by lies or trickery always, but mainly by 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, which is a gigantic and economically meaningful sum (Klamer and McCloskey 1995; McCloskey 2016, Chp. 51). 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 activity would drift towards zero: an economic agent would be no more valuable if she were a sweet than a sour conduit 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, perhaps in the hair salon or in the Department of English, but irrelevant to the tough, macho, Scientific matter of The Economy.

That, however, is not the case. Formal maximum-utility economics can*not* explain sweet talk. To be sure, if one wanted to do serious research on the matter one would bring together mathematical economists and rhetorical theorists. Sweet talk can be treated mathematically and especially experimentally by showing that cooperative equilibria cannot be achieved without a trust created by earnest talk. It is an impossibility theorem, then: that Max U doesn't have to talk, but merely follows the "rules of the game" (as the students of the late, great Douglass C. North like to put it). Yet 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.

The main emphasis in a *Smithian* economics (Adam Smithian and Vernon Smithian, I mean), though, which 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 problem is that as a matter of logic an abstract theory can yield *any* conclusion, if permitted to choose any assumptions. Only the facts constrain the conclusions scientifically (McCloskey 1989, 1991, and Chps. 9-13 in 1994). At one level, sweet talk emerges as crucial to experiments and field studies, as Eleanor Ostrom and her colleagues such as Roy Gardner showed (Ostrom et al. 1994). Indeed, experimental economics in the past twenty years has shown that allowing experimental subjects to establish relationships through conversation radically changes the degree of cooperation. Just let the kids talk and they suddenly cooperate. "The bonds of words are too weak," Hobbes declared, "to bridle men's ambitions, avarice, anger, and other passions, without the fear of some coercive power" (1651, Chp. 14, p. 71). Oh, no, fierce Thomas. Business works with trust, "Good old trustworthy Max"—not Max U, the maximizer of utility in a non-cooperative, Samuelsonian way, who cannot be trusted at all except to perform his own sociopathic purpose. 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 (Mehta 1993). The language, the trust, the sweet talk, the conversations, all depend on ethical commitments beyond Max U's "I'm all right, Jack."

The literature bearing on the matter even in economics alone has recently become quite large, ranging from Vernon Smith to Herbert Gintis. In particular the Austrian economists such as Friedrich Hayek and Israel Kirzner long ago recognized the importance of discovery and other human activities beyond maximization. But they stopped short of grasping the role of language, a defect that their students and the students of their students, especially at George Mason University, are bent on overcoming: the late Don Lavoie above all, and Donald Boudreaux, Peter Boettke, Dan Klein, Virgil Storr, and Emily Chamlee-Wright, among others. The New Austrians 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. Real discoveries (Joel Mokyr calls them macro-inventions) 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 calls "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.

Let me be programmatic about it. The best way to persuade you 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, 2016, Goldstone 2009, McCloskey 2010, 2016). Thus: what was the conversational context of invention and the sweet talk entailed by innovation in the era of the Industrial Revolution and especially its follow on, 1800 to the present?

The Great Enrichment by a factor of 20 or 30 or 100 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 historian Joel Mokyr, the historian Margaret Jacob, the historical sociologist Jack Goldstone, the anthropologist Alan MacFarlane. The Great Enrichment 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 especially its 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 (McCloskey 2016). What appears to be needed to explain the Great Enrichment, in other words, is precisely a humanomics, that is, an economics and sociology and history that acknowledges humans as speakers of meaning.

Two things happened 1700 to 1848, and the more so 1848 to the present. For one thing, the material methods of production were transformed. For another, the social position of the Third Estate was raised, starting around 1700 in England, and earlier in Holland. 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 follows: if the social position of the bourgeoisie had not been raised in the way people spoke of it, the 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 genteel 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 (which is in essence Milton Friedman's Thesis). And without modern economic growth, no spoken honor to the bourgeoisie (which is in essence Benjamin Friedman's Thesis.) The Two Friedmans capture the essence of freed men, and women and slaves and colonial people and all the others eventually freed by the development of bourgeois virtues. The causes, one might conclude, 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 one: can a businessperson can be ethical without abandoning her business? What then was the role of ethical change in the Bourgeois Revaluation of 1700-1848 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 (thus McCloskey 2006). 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 Bart Wilson word "humanomics" is again 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 three 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" (1946). His 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, and 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. Business people must be dignified as well as being at liberty. Jews in Europe had expanding liberty from the eighteenth century on, but never full dignity, with dismal outcome. That is, people must think the bourgeoisie capable of virtue. It is this honoring of the bourgeois virtues that Russia lacks, and has since Novgorod fell, whether ruled by boyars or tsars or commissars or former KGB operatives.

(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 well. Actual economic 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 reasons of personal profit. Nor did abolition become a motivating cause of the War because it was good for capitalism. And on and on, back to Achilles and Abraham and Yudhishthira. We do well to watch out for cognitive-moral revolutions shifting the schedules out at lightning speed, and not simply assume every time that Matter Rules and *Natura non facit saltum*. A showing that changing ideas are important is not so unusual nowadays among historians, such as in works by Quentin Skinner or Margaret Jacob, with Our Crowd of Joel Mokyr, Jack Goldstone, and Eric Jones. 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, a killer app, 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 again humanomics. Ignoring the burden of art and literature and philosophy in thinking about the economy is bizarrely unscientific: it throws away, under orders from an unargued and philosophically naïve if fiercely held 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. That is what Richard Posner in one of his numerous books proposed as the relation between law and literature (Posner 1988). 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, and some vices, beyond the Samuelsonian 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 under the scientific thumb an exclusively Max-U economics.

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Doug North spoke highly of the anthropologist Clifford Geertz. It is hard not to. North read Geertz and his coauthors, though, as supporting the economistic notion that in caravan trade, such as in Morocco around 1900, in North's formulation, "informal constraints [on, say, robbing the next caravan to pass by]. . . made trade possible in a world where protection was essential and no organized state existed." North missed the non-instrumental, shame-and-honor, non-Max-U language in which Geertz in fact specialized, and misses therefore the dance between internal motives and external impediments to action, between the dignity of a self-shaping citizen-not-a-slave and the merely utilitarian "constraints." The toll for safe passage in the deserts of Morocco, Geertz and his coauthors actually wrote, in explicit rejection of Max U, was "rather more than a mere payment," that is, a mere monetary constraint, a budget line, a fence, an incentive, an "institution" in the reduced definition of Samuelsonian economics. "It was part of a whole complex," the anthropologists actually wrote, "of *moral rituals*, customs with the force of law and the weight of *sanctity*"(Geertz, Geertz, and Rosen 1979, p. 137; quoted in North 1991, p. 104, italics supplied).

"Sanctity" didn't mean anything to North the economist, who for example in his 2005 book treated religion with contempt worthy of Richard Dawkins or Christopher Hitchens ("Ditchkins," says Terry Eagleton). Religion to North meant just another "institution" in his utilitarian, subject-to-constraints sense, that is, rules for an asylum. He labeled religion repeatedly "nonrational." Religion to him was not about sanctity or the transcendent, not about faithful identity, not about giving lives a meaning through moral rituals. It was certainly not an ongoing intellectual and rational conversation about God's love, not to speak of an ongoing conversation *with* God. Religion to North was just another set of constraints on doing business, whether the business is in the market or in the temple or in the desert. In this North agreed with the astonishing economist Laurence Iannaccone and his followers when they come to study religion. Religion to them is a social club, with costs and benefits, not an identity or a conversation. (Anyone who has actually belonged to a social club, of course, knows that it soon develops into "moral rituals, customs with the force of law and the weight of sanctity." I could instance as such a club the Chicago School of economics during its great days in the 1970s. One of our sanctified rituals was to repeat *De gustibus non est disputandum*, while passionately advocating a very particular intellectual *gustus*.) North asserted, for example, that in a prelegal stage "religious precepts. . . imposed standards of conduct on the [business] players." He spurned the worldview that goes with religious faith. (His own religion of Science, of course, is in fact nothing like a mere constraint. He construed it as his identity, his moral ritual, his sanctity—in short, the meaning of his life, negotiated continuously over its extraordinary course. But ethical consistency is not a strong point of Samuelsonian economics.)

Avner Greif, North's ally in neo-institutionalism, calls culture "informal institutions," and North tried to talk this way as well (Greif 2006). The "informality," however, would make such "institutions" very different from "rules of the game." One does not negotiate the rules of chess. But *in*formality *is* indeed continuously negotiated—that is what the word "*in*formality" means, exactly the degree of setting aside forms that distinguish a backyard barbecue from a state dinner. How to behave at the barbecue? (Hint: do not jump naked into the bushes.) Just how far can a man go in teasing his mates? Just how intimate can a woman be with her girlfriends? The rules are constructed and reconstructed on the spot, which in such cases makes the Samuelsonian metaphor of constraints inapt. One does not have to deny that an ethical persuasion is often influenced by incentives to believe that once it becomes part of a person's identity it has an effect independent of the very incentives. Once someone is corrupted by life in a communist country, for example, it is hard to reset her ethics. She goes on relying on the "bureau" model of human interaction as against the market. Once you are educated in Samuelsonian economics it is hard to reset your intellectual life. You go on thinking of every social situation in terms of Max U's mechanical reaction instead of a socially constructed dance. But the Geertzian metaphor of negotiation and ritual often makes more sense. "O body swayed to music, o brightening glance, / How can we know the dancer from the dance?"

Some economists grasp that institutions have to do with human meaning, not merely Northian "constraints." The Austrians and the old institutionalists managed to escape, Houdini-like, from the straightjacket that Douglass North, Gary Becker, Deepak Lal, Avner Greif, Steven Levitt, Max U, and their friends have so eagerly donned. The Austrian economist Ludwig Lachmann (1906–1990), for example, spoke of "certain superindividual schemes of thought, namely, *institutions*, to which schemes of thought of the first order [notice that to the Austrians the economy *is* in fact thought, all the way down], the plans, must be oriented, and which serve therefore, to some extent, the coordination of individual plans" (Lachmann 1977). Thus a language is a scheme of thought, backed by social approval and conversational implicatures. Thus too is a courtroom of the common law a scheme of thought, backed by bailiffs and law books.

North, like the numerous other economists such as Levitt who have settled into the straightjacket, talked a good deal about meaning-free incentives, because that is what Samuelsonian economics can deal with. The constraints. The budget lines. The relative price. Yet one can agree that when the price of crime goes up (that is, the incentives change in the direction of, say, harsher punishment) less of it will be supplied, sometimes, yet nonetheless affirm that crime is more than a passionless business proposition. If you don't believe it, tune into one of the numerous prison reality shows, and watch the inmates struggling with the guards, with a mad purpose though prudent means; or listen to Ishmael on Captain Ahab: "in his heart, Ahab had some glimpse of this, namely: all my means are sane, my motive and my object mad"(Melville, *Moby Dick*, Chp. 41). If crime is more than utterly passionless calculations by Max U, then changing the ethics of criminals and their acquaintances can affect it—ethics that do change, sometimes quickly. Crime rates fall dramatically during a big war, for example, at any rate on the home front. The metaphors of crime as being like employment as a taxi driver, or of a marriage as being like a trade between husband and wife, or of children being like consumer durables such as refrigerators have been useful. Neat stuff. But they don't do the whole job. Sometimes they are disastrously misleading, as when economists provided ammunition for conservative politicians in the 1990s for increasing punishments for crimes, such as the crime of sitting peacefully smoking a joint.

Prudence is a virtue. It is a virtue characteristic of a human seeking purely monetary profit—but also of a rat seeking cheese and of a blade of grass seeking light. Consider that temperance and courage and love and justice and hope and faith are also virtues, and that they are the ones defining of humans. Unlike prudence, which characterizes every form of life and quasi-life down to bacteria and viruses, the non-prudential virtues are uniquely characteristic of humans, and of human languages and meanings. In no sense is a prudent blade of grass "courageous," or a prudent rat "faithful" (outside of the movie *Ratatouille,* whose humor turns on the irony of the rat hero being more faithful, and less motivated by Prudence Only, than many of the humans). As Hugo de Groot, in Latin "Grotius," put it in 1625, "The saying that every creature is led by nature to seek its own private advantage, expressed thus universally, must not be granted. . . . [The human animal] has received from nature a peculiar instrument, that is, the use of speech; I say that he has besides that a faculty of knowing and acting according to some general principles [called 'virtues']; so that what relates to this faculty is not common to all animals, but properly and peculiarly agrees to mankind" (Grotius 1625, propositions vi and vii). North and company, however, will have none of human speech and meanings and acting according to some general principle aside from one's own private interest. The positivistic talk about "constraints" and "rules of the game" misses what he could have learned from Geertz, Weber, Smith, Aquinas, Cicero, Confucius, Moses, or his mother (North's mother, or Moses's)—that social rules expressed in human languages have human meanings. They are instruments as well as constraints, as Lachmann says, playthings as well as fences, communities as much as asylum rules.

Take for example so trivial an institution for providing incentives as a traffic light. When it turns red it surely does create incentives to stop. For one thing, the rule is self-enforcing, because the cross traffic has the green. (In the old joke a New York City taxi driver drives at high speed through every red light but screeches to a halt at every green. His terrified passenger demands to know why. "Today my brother is driving, too, and he *always* goes through red lights!") For another, the police may be watching, or the automatic camera may capture your license plate. The red light is a fence, a constraint, a rule of the game, or of the asylum. So far did North go, and with him most economists.

Yet the red light has meaning to humans, who are more than rats in a prudence-only experiment facing food incentives. Among other things it means state dominance over drivers. It signals the presence of civilization, and the legitimacy granted to the state that a civilization entails. (Test: you are struggling through a pathless jungle and come upon. . . a traffic light: "Mr. Civilization, I presume.") It signals, too, the rise of mechanical means of regulation, in contrast to a human traffic officer on a raised stand with white gloves. The red light is in Lachmann's terms a system of thought. It is a system that some drivers find comforting and others find irritating, depending on their attitudes toward the state, toward mechanical inventions, toward traffic officers. For a responsible citizen, or an Iowan, or indeed a fascist conformist, the red light means the keeping of rules. She will wait for the green even at 3:00 a.m. at an intersection obviously clear in all directions, an intersection lacking a license-plate camera or police person in attendance, or a reliably irresponsible brother on the road, even when she's in a bit of a hurry. Incentives be damned. But for a principled social rebel, or a Bostonian, or indeed a sociopath, the red light is a challenge to his autonomy, a state-sponsored insult. Again, incentives be damned. If the Broken-Window policy is applied *too* vigorously it could well evoke an angry reaction from potential criminals, and could result in more, not less, crime, or at any rate widespread resentment of the police. The over-policing in Ferguson, Missouri in 2014 is a case in point.

Meaning matters. A cyclist in Chicago writing to the newspaper in 2008 about a fellow cyclist killed when he ran a red light declared that "when the traffic light changes color, the streets of our cities become an every-man-for-himself, anything-goes killing zone, where anyone who dares enter will be caught in a stream of intentionally more-deadly, high-mass projectiles, controlled by operators who are given a license to kill when the light turns green" (Keuhn 2008, p. 20). The motorist who unintentionally hit the cyclist probably gave a different meaning to the event. A good deal of life and politics and exchange takes place in the damning of incentives and the assertion of meaning—the mother's love or the politician's integrity or the economist's enthusiasm, what Keynes (and after him Akerlof and Shiller) called animal spirits and what Sen calls commitment and what I call virtues and corresponding vices other than prudence only.

As Adam Smith the teacher of rhetoric to Scottish fourteen-year old boys would have put it, meaning matters, metaphors matter, stories matter, identity matters, ethics matters. Considering that we are humans, not grass, impartial spectators who sometimes climb up on stage for the moral sentiments and the wealth of nations, they matter a great deal.

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