

Welcome to What Happens Next – 1.10.2021

Islamic Fanaticism, Presidential Power, the Electoral College, and the Myth of the Entrepreneurial State - Deirdre McCloskey

Larry Bernstein:

We're going to invite our next speaker, Deirdre McCloskey, who is a distinguished professor of economics, history, English, communications at the University of Illinois at Chicago. And she will be discussing her book, *The Myth of the Entrepreneurial State*. Deirdre, please go ahead.

Deirdre McCloskey:

Okay. I have a speech defect, so you'll have to grow accustomed to it, but it's only for a few minutes. The argument of the book that I wrote with Alberto Mingardi, which came out in October, is that the idea of industrial policy, which is becoming popular again on both the Democratic and Republican side, is very strange and is very weak. The argument for industrial policy is that the government should be making decisions about innovation in this industry or that, or investment in aircraft or investment in farming. And the counter argument is the very simple one that the government is unlikely to get that kind of choice right. I mean, obviously if the Canadians are invading us, which of course is a tremendous rational fear, then we need the government to act and it's fairly obvious how it should act. But in these very tricky decisions about what products we're going to have favor, or what industry should expand or contract, it seems to me, and to lots of other observers, that it's going to be smarter to leave that decision to the profit and loss in a market economy.

Here's an illustration. How many products, new products do you suppose are introduced every year? Tried it out, one might say, in American grocery stores? Now this is every year. How many? Is it a hundred or a thousand? No, it's 20,000 products. That means in order to decide which one of these to pursue, a central planner in Washington or Springfield, Illinois, or somewhere would have to herself decide whether this kind of beans or that kind of oatmeal is the one that should be put forward. That what an industrial policy means. And the actual way that this massive number of products is sorted out is the ones that sell, the ones that the grocery stores find they can make money on and pay their employees with are the ones that go forward.

Now, in other words, industrial policy, to use a hot term that often gets people over excited, is a version of socialism. I'm not claiming that my friends who are in favor of such policies are communists or something like that, but I am saying that under socialism, one puts political decisions ahead of economic decisions. And there are lots of cases where one should. If you're facing a plague, early in the plague, it's very desirable that the government take charge and stop the plague, if there's an invasion, as I said, or if there's a forest fire. There's no easy way of taking care of a large forest fire with market mechanisms.

But for most of the things that we buy and sell, and including our own labor, it makes a lot more sense to use the information that we all have about what we like, what we're prepared to accept in the way of pay, what sort of careers we think we can do. That information is not in the heads

of someone in Washington or in London, it's in the heads of ordinary people spread out over the economy. And it's been said, and I think it's exactly correct that for most issues, the best way of marshaling this information is through supply and demand through the marketplace. So that's the argument.