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One Quarter of GDP Is Persuasion

By DONALD McCLOSKEY AND ARJO KLAMER*

Economists view talk as cheap and culture as insignificant. Yet humans are talking animals, talking in their markets. The talk probably matters: why else would the human animals bother doing it? The usual economic view of the talk is that it issues orders and conveys information. Workers at GM are ordered to report for work tomorrow; credit ratings are conveyed. Economic analysis takes these parts of the talk into account without fuss. Production theory can be viewed as the theory of one mind issuing orders. Much of game theory is concerned in one way or another with information (though game theory, as Joseph Farrell (1995) and others have found, requires more than bits of information). But issuing the orders and conveying the information does not account for all of the talk. The third part of the economic talk is persuasion.

I. Knowledge Is Information Plus Judgment, from Persuasion

Many distinguished economists have focused on knowing and ignorance: John Maynard Keynes, Frank Knight, Friedrich Hayek, G. L. S. Shackle, Ronald Coase, Leonid Hurwicz, Kenneth Arrow. The knowledge problem can of course also be stated as the uncertainty problem: "It's hard

to predict," said Yogi Berra, "especially about the future." The colleagues of many distinguished economists have reacted with puzzlement, and with a simplification. "Aha," they have replied, as in George Stigler's (1961) classic paper on the economics of information, "I see: you mean that economic actors do not have perfect *information*. All right, introduce information as a mined or manufactured commodity, and we will then be back to economics as usual, uncertainty reduced to risk." The usual model takes knowledge to be analogous to a calculation on a computer, an analogy conspicuous also in linguistics and psychology. Pure information is the input. Information is the part merely conveyed, like a telephone number, acquired by a mechanical procedure of search.

But the "conveying" is socially and economically determined. The computer uses a program and depends on a human purpose served. Without social programming you do not know what to pay attention to in reading the phone book (for example, in what order to take the numbers, or what the numbers mean, or to what uses the number 911 can be put, or what Aunt Hattie's number means to you personally). Information is not simply a natural property. Humans must judge the information relevant or accurate or interesting for it to be "information," selected from the blooming, buzzing confusion of the world. Information, to put it another way, is only part of knowledge. A wise philosopher said, "what we may be said to know will be found to be conjunctions of what is called 'information' and what I shall call 'judgement'" (Michael Oakeshott, 1989 p. 51). Knowledge is information plus judgment. An economics of information alone is going to miss the judgment part and is not going to be a complete economics of knowledge.

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One can see this even in the realm of sheer information. In looking up a telephone number one transforms oneself for the time being into a special, gullible, judgment-free audience. One ordinarily reads with a certain skepticism. But it would be foolish to be skeptical about the judgment of veracity conveyed with the USWest phone directory (though not foolish to doubt a similar collection of phone numbers in, say, Moscow). For the time being, one judges it wise to become machine-like, a mere receiver, a facilitating device, a black box. The purpose in such cases is to do a machine's job well, such as the job of getting from wanting to call Aunt Hattie to actually speaking to her sweet old self. The machine models of information, and the ordinary economics of information, apply to the parts of knowledge where one has on good grounds decided not to be human.

The other, human, part is the judgment part, the matter of persuasion. Persuasion and judgment are related as persuading speaker and judging audience. Note that the human frequently *judges*—gets persuaded—that it is wise to become machine-like and non-judgmental, which is to say that judgment and persuasion are involved even in mere information-gathering. Only in an extended sense of the word is a machine “persuaded” to take a certain bit of information or command at its face value. Information and command are machine languages, which the human reads by making himself, for convenience, into a temporary machine.¹

Persuasion will ordinarily be involved, therefore, in completing one's knowledge. Collecting information is nice but ordinarily insufficient. One of us as a little boy decided to collect social statistics in the streets of Amsterdam, and for this purpose he recorded in neat columns of a notebook one Saturday all the car license numbers he could see. Examining his hard-earned evi-

dence at home in the evening it dawned on him, as Immanuel Kant said, that facts without concepts are blind. The economy, then, is a field of persuasion and judgment, speakers and audiences, in the pitch to the loan officer at the bank, in the comforting talk of the secretary shepherding a document through the bureaucracy, in the supercharged and openly “rhetorical” presentation by the CEO to the crisis meeting in the factory's cafeteria.

II. Persuasion Bulks Large

Two economic historians, John Wallis and Douglass North, have argued that transactions costs, that is, expenditures to negotiate and enforce contracts, rose from a quarter of national income in 1870 to over half of national income in 1970 (Wallis and North, 1986 Table 3.13). Their measurement is suggestive of the importance of talk, but for our purposes it is too broad. Transactions costs include, for example, silent protection of property, such as prison walls and door locks. And in the talk it includes information and commands, the mechanical parts of knowledge. For present purposes we want to narrow the calculation to the persuasive and judgmental part of transactions costs, that is, to *sweet talk*.

One way to measure sweet talk is as follows. Take the categories of employment of the 119.3 million person-years worked in the United States in 1993 and make an educated guess as to the percentage of the time or marginal product in each occupation spent on persuasion—not information providing or command giving, but sweet persuasion. The 100-percent occupations are lawyers and judges (0.815 million in 1993, according to the *1994 Statistical Abstract of the United States* [U.S. Bureau of the Census, 1994, series 637, pp. 407–9]), public relations specialists (0.155 million), actors and directors (0.096 million), and social, recreational, and religious workers (1.10 million). (Observe the modest size of the 100-percent occupations, which attract so much disdain for attempting to persuade us.) The bulk of the employment involving

¹The argument is an adaption of what Harry Collins (1990) said recently in his book about computers and expert systems.

persuasion occurs in the 75-percent occupations: counselors (who also shift paper as information, 0.224 million), editors and reporters (0.266 million), supervisors of four sorts (clerical, 0.778 million; construction trades, 0.735 million; protective services, 0.185 million; and precision production, 0.220 million), and the big battalions of teachers including professors (5.17 million), salespeople except cashiers (11.7 million), and executives, administrators, and managers (15.4 million). Occupations whose marginal product might be viewed as 50 percent earned by persuasion include police and detectives (0.923 million, who persuade with more than commands backed by violence), adjusters and investigators (1.37 million, who seek more than information mechanically reported), teachers' aides (0.508 million), authors and technical writers (0.202 million), social scientists and urban planners (0.399 million, among which 0.116 million economists), and workers in health assessment and treating (such as nurses, who exercise persuasion minute-by-minute, 2.60 million). Even the two 25-percent occupations, natural scientists (0.531 million) and legal assistants (0.254 million), wish to persuade. Adam Smith, in the notes that became *Lectures on Jurisprudence* (1978 pp. vi, 56), puts it this way: "Every one is practicing oratory on others thro the whole of his life." Perhaps not the whole of life, but a good part of it. In 1993 in the United States, then, weighting the employment figures as suggested, it comes to about 26 percent of the person-years employed (and it has been rising: in 1991 the same categories were just over 25 percent of employment, in 1988 just under 25 percent, and in 1983 23 percent).²

²The calculation could be improved. For instance, in accord with marginal-productivity theory the persuasion workers could be weighted by salaries (which would raise their weight in the economy, since many earn above average salaries). The educated guesses about the share of persuasion could be improved, by studying for example the *Occupational Outlook Handbook* (U.S. Department of Labor, 1994), which gives detailed descriptions of what is entailed in 91 percent of the nation's occupations, from Able Seamen to

The same point can be made from the product side of the national accounts. The more obviously "talkie" parts of production are a large part of production for final consumption, and much of it is persuasion rather than information or command. Out of an American domestic product of \$5,720 billion in 1991 (U.S. Bureau of the Census, 1994 [series 685] pp. 447, 783, and 1276) the sum of wholesale trade (\$375 billion), retail trade (\$532 billion), paper and allied products (\$45 billion), producing memoranda for the circular file), printing and publishing (\$73 billion), legal services (\$81.9 billion), educational services (\$42.5 billion), social services (\$64.8 billion), general government (state, Federal, and local, \$629 billion), finance, insurance, and real estate (\$1,040 billion), hotels (\$52 billion), and air transport (\$42 billion, filled with salespeople on the way to persuade) amounted to fully \$3,300 billion, or about 58 percent of domestic product. It would not be hard to see within this a figure of about a quarter devoted to persuasion.

It will be larger in the future. The silent labor required to make a radio, a window pane, or an automobile is disappearing. True, the technology associated with persuasion has improved since classical Greece, as in printing, telegraphs, railway signals, telephones, color advertising, xerox, e-mail, and cheap transport of persuaders. Such developments in modern times have made central planning seem plausible.

The machine-like part can get better and better, yet leave the human part still requiring persuasion. Persuasion is a rank-order tournament, similar to queuing (though in most cases not a social waste like queuing). The technology of queuing has no effect on the effective length of queues. Giving people numbers in bakeries merely cuts down on fights among customers; it does nothing to the marginal amount of inconvenience that must be suffered by the customer who

Zoologists. And these could be refined by close study of behavior on the job. Operationally, "persuasion" is non-machine-like communication, according to a Turing test: would a machine do just as well?

wants a loaf of underpriced bread. Persuasion is similar. Improvements in the technology of persuasion merely arm both sides better. A more educated audience requires more complex commercials. Savvier inventors mean that bankers and patent officials have to be savvier, to distinguish the best from the worst inventions. (There are of course net gains, some of them large. In democracies we are accustomed to arguing that the net gains from “useless” competition for, say, political office are large.)

Is the persuasive talk then empty, mere comforting chatter with no further economic significance? If that were all it was, then the economy would be engaging in an expensive activity to no purpose. A quarter of national income is a lot to pay for economically functionless warm and fuzzies. The fact would not square with economics. By shutting up we could pick up a \$20 bill (or more exactly a \$1,500,000,000,000 bill).

III. Examples: Trust, Entrepreneurship, and the Stock Market

Trust is a familiar part of an economics of talk (see Diego Gambetta, 1988). The persuasion that establishes trust is of course necessary for doing much business, which is why the Rotary Club is not very selective. The Old Believers in Russia during the 18th and 19th centuries refused to adopt the late-17th-century reforms in the Russian church and were in other ways far from progressive. Yet because of their peculiarity they were able to establish a speech community within the larger society. For example, in the early 18th century, Old Believers on the northern River Vyg were able to become major grain merchants to the new St. Petersburg “by utilizing their connections with the other Old Believers’ communities in the southern parts of the country” (Alexander Gerschenkron, 1970 p. 19). Sir William Petty observed at the time that “trade is not fixed to any species of religion as such, but rather to the heterodox part of the whole” (quoted in Gerschenkron [1970 p. 45]). Any distinction will suffice. Thus in the 18th-century the Quakers were great

merchants in England, as were the Mennonites in Holland. In recent times the overseas Chinese, segregated from the rest of the population and therefore able to talk inexpensively with each other about breaches of contract among their own, are more successful in trade than their cousins at home. Yet in the silent world of economic theory since Bentham the economy is supposed to work without such talk. It does not.

The entrepreneur, as argued recently in Metin Cosgel and Klammer (1990), is above all a persuader, in the classical word a “rhetor,” exercising the characteristic faculty of human nature for pay. The egregious Donald Trump is an example. Trump had the power of persuasion to close deals, the art of felicitous speech acts. As he puts it, “You have to convince the other guy it’s in his interest to make the deal” (Trump, 1987 p. 53). Persuasion was the main way he transformed the Commodore Hotel into the Grand Hotel: “First, I had to keep [the owners of the hotel] believing [such and such].... At the same time, I had to convince an experienced hotel operator to [do so and so].... I also had to persuade city officials [thus and such].... That [persuasion]... would make it far easier to prove to the banks that [so and such]” (Trump, 1987 p. 122).

The chatter in the stock market (that ideal of a marketplace) is another example of persuasion in the economy. Portfolio managers talk full-time to decide on buying or selling. Stockbrokers talk to clients and to each other. Technical elves spend their days researching the thoughts the brokers ought to have. Journalists spend their careers reporting the talk on Wall Street, elvish or human. Their reports nourish in turn the talk among stockbrokers, between stockbrokers and their clients, and among the clients themselves. Wall Street buzzes with chatter and is littered with paper reporting the chatter. Efficient markets convey through prices all the information that a trader can expect to get publicly. No need to talk, since any informational advantage is reflected in price changes. Such efficiency would provide few rewards to talking if the

talkless model were the whole story. The best a loquacious trader could hope for would be the quick exploitation of minor information advantages, or a turn of luck. The conventional story conjures up a silent film of people throwing darts or staring at computer screens, and typing (silently) their orders. Turn on the computers and retire to Rye. Something is missing, namely, the judgment part of knowledge, persuasion, as Robert Shiller (1995) has shown in detail.

IV. An Economics that Acknowledged Persuasion

If the economy depends on the faculty of speech, then the economy will require verbal interpretation (cf. Cosgel, 1992; Richard Ebeling, 1990). Economic institutions will look to some degree like religious ceremonies or social gatherings. They will need to be read in terms of human intentions and beliefs. An economy that depends on speech is one that can be listened to and read, like a text.

The average academic economist is going to view such a conclusion with alarm. He has been raised to believe that his tools are epistemologically superior to those of the departments of English or anthropology. But the economist who can adjust will have an additional set of scientific tools, those of interpretation. One cannot ignore a quarter of national income, the human as against the mechanical part of knowledge. The conclusion is not that the present tools are worthless and should be discarded. They are worth a lot and should be kept, for their present uses and for bringing measurement into an interpretive economics. But if the economy needs sometimes to be drilled rather than hammered, or planed rather than sawn, the economist had better have a drill and a plane.

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