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# **NEW PERSPECTIVES ON POLITICAL ECONOMY**

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# A NOMOS APPROACH TO SOCIAL CHANGE: WHERE HUMAN ACTION MEETS CULTURAL THEORY

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**JEL CLASSIFICATION:** B53, O12, P11, Z13

## ABSTRACT

This article outlines an approach to social change that bridges epistemic choice with cultural institutions. It integrates recent incorporations of cognition and belief systems into economics, (North, 2005), with “Cultural Theory” to present specific ideal type strategies of action. The conflict between these cultural biases and actual events provides a mechanism for social change (“surprise”), and this is discussed in contrast to Bayesian updating. Recent empirical papers are discussed in light of the above (particularly in the fields of economic development, theories of the firm, and capital theory).

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# 1. INTRODUCTION

When economists and political scientists analyse social change they tend to focus on observable events – such as the updating of emblems, or the adoption of written constitutions. Whilst important in their own right, it's tempting to neglect the deeper, less observable changes that underpin society. Friedrich Hayek made a distinction between *nomos*, meaning natural law, and *thesis*, meaning legislation. (Hayek, 1973) By separating these two facets of social constraint he pointed to a potential disjoint between the formal and the informal – between that which can be seen from afar, and that which can be seen from up close. Economists have increasingly turned to the study of institutions as the fundamental determinant of economic growth, and the key driver of social change. (North, 1990) But an understanding that institutions such as private property rights, the rule of law, stable monetary system, open trade etc are necessary conditions for economic development has yet to provide a set of instructions that can be easily implemented. On the contrary, the failure of many development plans has highlighted the importance of cultural context, and the fact that proposed reforms must be compatible with the receiving population. The lesson is clear: one can create rational, inductively verified institutions and turn them into law, but unless they're consistent with the day-to-day behaviour of the citizens, they will not stick. (Boettke, Coyne and Leeson, 2008)

The study of culture nestles uneasily within economic literature, partly on account of its inherent immeasurability<sup>1</sup>. Despite earlier calls (Boulding, 1974) it has only begun to be taken seriously by economists fairly recently, (Bowles, 1998) along with the necessary methodological change from quantitative techniques (such as econometrics) toward qualitative methods (such as ethnography (Chamlee-Wright, 1997; Tilly, 2003) and analytic narratives (Bates *et al*, 1998; Rodrik Ed, 2003)). Some studies attempt to use various proxies for culture to establish its causal influence on economic outcomes (Guiso, Sapienza, and Zingales, 2006) but aggregate data can't hope to understand the imbedded, subtle and local knowledge that constitutes society. Cultural issues are complex and will yield emergent phenomena, and must, therefore, be studied as a process, rather than an essence. Despite this, it is now widely acknowledged that culture matters. (Harrison and Huntington, 2000)

This suggests that the incorporation of culture into economic theory will not be straightforward, because it is not merely an extra variable to be added to an existing framework. On the contrary, “culture is not another factor to be considered in addition to rational incentives, it is the underlying meaning of the specific content of any rational choice”. (Lavoie and Chamlee-Wright, 2000) This requires taking a broader view of the subject matter of economics, and focusing on individual cognition and how the interactions of such individuals generate institutional structures. (Axelrod, 1976; Lachmann, 1994) A *nomos* theory of social change, therefore, requires an analysis of human action, as well as a theory of how such individuals interact with their institutional environment. This paper presents an approach that unites

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1 In this essay I use the term culture in the anthropological sense, as “shared values and common meanings”.

George Shackle's insights on epistemics and expectations to provide the former, and Mary Douglas' pioneering work on Cultural Theory to generate the latter.

The second section of this article will discuss recent incorporation of cognition and belief systems into economics, (North, 2005) and then expand on this to overview Shackles' own contribution to how expectations predetermine action. These expectations lead to rules, which are manifested as belief systems, and the interaction of such rules result in institutions. Such institutions can alter the underlying environment to create a non-ergodic feedback system. Section three will present Cultural Theory, but shift the emphasis from alternative cultural biases toward possible strategies (via the use of ideal-types). Rationality will be discussed in relation to whether the chosen strategy is consistent with the original expectation. Section four shows how the surprises created by mistaken expectations differ from Bayesian updating, and how such interactions play out over time. Section five will discuss recent empirical papers in light of the nomos approach, and how future research may specifically apply the claims being made (particularly in the fields of economic development, theories of the firm, and capital theory). Section six concludes.

## 2. BELIEF SYSTEMS AND INSTITUTIONS

*Economics is not about things and tangible material objects; it is about men, their meanings and actions. Goods, commodities, and wealth and all the other notions of conduct are not elements of nature; they are the elements of human meaning and conduct. He who wants to deal with them must not look at the external word; he must search for them in the meaning of acting men.*

*(Mises, 1949)*

Since the patterns of social change (occurring within the cultural foundations of society) are hard to measure, it is hard to generate specific empirical validation. It is possible, however, to produce an abstract model that may be *compared* to observable phenomena. Its predictive capacity will only be modest, (capturing trends rather than events), but as long as the underlying axioms are valid the conclusions should be useful for policy debate. Although neoclassical economics is intentionally a-cultural, we can strip away the troublesome assumptions and retain a theoretical toolkit sufficient for the task. To treat culture seriously we must concentrate on individuals – their preferences, their belief systems, and Action under uncertainty generates institutions

### **ACTION UNDER UNCERTAINTY GENERATES INSTITUTIONS**

By definition, an expectation must precede action, and, therefore, any economic activity (be it one of production, consumption or exchange) implies a prior cognitive act. Indeed “[e]conomics, concerned with thoughts and only secondarily with things, the objects of those thoughts, must be as protean as thought itself”. (Shackle 1972) As Lachmann points out

“action is thought”, (Lachmann, 1976) and, therefore, social behaviour is inconceivable without an accompanying epistemic framework. The classic rejection of optimization (and, therefore, of strict rationality) is Simon (1955) but rather than bounding a pre-existing level of ignorance, we can begin with bewilderment and then conjecture about the means by which such a person would cope. In other words, change focus from the limitations of optimization to the virtues of rule following. According to Hayek:

*[T]he only manner in which we can in fact give our lives some order is to adopt certain abstract rules or principals for guidance, and then strictly adhere to the rules we have adopted in our dealings with new situations as they arise.*  
(Hayek, 1967)

This building block of human behaviour – that man is a rule-follower – rests upon the assumption of pervasive uncertainty and incomplete information. If all events were probabilistic (and such probabilities were knowable to us all), then each situation could be reduced to calculable risk. But if we’re living in a world of Knightian uncertainty then heuristics, mental shortcuts, rules of thumb, tacit behaviour, cognitive biases and other epistemic factors become relevant aspects of social change.<sup>2</sup>

*Mental models gradually evolve during our cognitive development to organize our perceptions and keep track of our memories. As flexible knowledge structures, they are typically formed by an organism in pragmatic response to a problem situation, in order to explain and interpret its environment... When environmental feedback confirms the same mental model many times, it becomes stabilized, in a way. We call this relatively crystallized mental model a “belief”; and we call the interconnection of beliefs (which can be either consistent or inconsistent) a “belief system”.*  
(Mantzavinos, North and Shariq, 2004)

Rule following will, therefore, give rise to beliefs and belief systems, which can be unique to the individual or shared communally. The simplest definition of an institution is “the rules of the game” (North, 1994) and these rules will be the emergent actions of individuals, “the building blocks of institutions are the individual routines, behaviour patterns, rule-guided actions...” (Vanberg, 1994) Hence an expectation is formed by the way in which one’s internal method of epistemic choice projects onto the institutional environment.<sup>3</sup> At any one point in time the status quo is defined as the present structure of rules (Buchanan,

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2 Uncertainty is used in the way in which Knight (1921) distinguished it from risk: whilst risk is part of a probability distribution, uncertainty is not (and is therefore unquantifiable.) It is the same distinction that Mises makes between *class probability* (a single event is an element of a complete set) and *case probability* (there are determining factors of which we’re in complete ignorance). (Mises, 1949)

3 This environment will be composed of the interactions of all other (and all past) belief systems.



1977) meaning that *predictability* is more important than stability. Institutions, therefore, are entirely man-made (though not necessarily man-designed), and are the consequence of pervasive ignorance:

*most of the rules of conduct which govern our actions, and most of the institutions which arise out of this regularity, are adaptations to the impossibility of anyone taking conscious account of all the particular facts which enter into the order of society.*  
(Hayek, 1973)

As outlined in North (2003), the rationality assumption in economic theory fails to illuminate the fundamental drivers of social change on two counts: firstly, “Imperfect information and feedback underlie the ubiquitous character of uncertainty”, (North, 2005) and secondly, it doesn’t “deal adequately with the relationship of the mind to the environment”. (North, 2005)

### **SOCIETY HAS A NON-ERGODIC LANDSCAPE**

Although economic theory is often constructed as if policy makers are playing a game of chess, in real life the pieces talk back.<sup>4</sup> Society is in constant flux, actions have consequences (sometimes unintended), and, therefore, there is little distinction between observer and participant within economic order. (Wagner, 1994) North (2003) stresses that social scientists are studying a non-ergodic landscape: “The changes in the environment we make today create a new and in many cases novel environment tomorrow”. (North, 2005)<sup>5</sup> This point shouldn’t be controversial, since the whole purpose of individual action or collective policy is to alter our environment. Just as the presence of a scientist can alter the results, the action of an individual can change the very nature of the problem. The key point to grasp is that underlying institutions are altered by the belief systems held by individual actors creating reality:

*Finance theory describes a world of human institutions, human beliefs and human actions. To the extent to which that theory is believed and acted on, it becomes part of the world it describes.*  
(Mackenzie, 2000)

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4 I heard this explanation of the Lucas Critique from Peter J. Boettke.

5 This point was nicely summarised in a review of North (2003): “The underlying structure of the human domain shifts (in perhaps unintended ways) as humans attempt to alter it. And as we alter it, it changes how we represent the costs and choices we face, which in turn changes how we attempt to further alter our institutional environment. And so on. The *explanada* of the social sciences are moving targets.” (Wilkinson, 2005 [emphasis in original])

The most straightforward example of this phenomenon is a self-fulfilling prophecy, which is a prediction that comes true solely on account of it having been made. The classic presentation is Keynes' Beauty Contest:

*[P]rofessional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole; so that each competitor has to pick, not the faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of choosing those which, to the best of one's judgement, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects average opinion to be.*  
(Keynes, 1936)

Not only does this example demonstrate a mechanism for coordination, but also shows how the expectations of the individual investors will actually shape the outcome - the institutional investment climate will be determined by the investor's beliefs. This has generated much research on stock market activity generally (De Long, Shleifer, Summers, and Waldmann, 1990; Cherian, and Jarrow, 1998; Shiller, 2000) as well as closer attention to specific phenomena such as bank runs. Having said this, there's a wider point beyond the claim that belief systems affect institutions. The original definition of a self-fulfilling prophecy is when: "a false definition of the situation evokes a new behavior which makes the original false conception come true." (Merton, 1957) implying that the construct of social reality is such that alternative (i.e. conflicting) belief systems will have an unpredictable effect on institutional outcomes. Consequently, the exact nature of the underlying cognitive frames being used by individuals becomes all the more important.

## **VISIONS & ANALYSIS**

Thus far we have seen that the way we interpret the world is a function of how we view it - experience is measured against our prior expectation. This epistemic choice will involve rule following behaviour, and generate shared rules known as institutions. This feedback loop between expectation and experience is worth expanding upon in two ways: it claims that beliefs are separate from reality (i.e. there's an underlying "state of nature" which we cannot see); and also our expectation of this underlying reality (for any given situation) will influence our action.

The first point is considered in depth by Hayek (1952), and stems from the complexity of the social world. We cannot reproduce reality and, therefore, "Perception is thus always an interpretation... all we know about the world is of the nature of theories and all experience

can do is to change those theories” (Hayek, 1952; cited in North, 2005). This interplay creates the possibility of learning, which occurs when expectations and experience diverge.<sup>6</sup> If such underlying belief systems truly influence our methods of interpretation, this brings us to the second point: where such theories stem from and the rationality of their adoption. Heilbroner (1990) makes a distinction between *vision* and *analysis*, stressing evidence of both throughout the history of economic thought: “An awareness of these preconceptions forces us to recognise that the world we analyze is not just unambiguously there, but displays the characteristics that we project into it”. (Heilbroner, 1990)<sup>7</sup> To explain “vision” he utilises Schumpeter’s conception of the preanalytic cognitive act:

*[Visions embody] the picture of things as we see them, and wherever there is any possible motive for wishing to see them in a given rather than another light, the way in which we see things can hardly be distinguished from the way we wish to see them.*  
(Schumpeter, 1954; cited in Heilbroner, 1990)

This undermines the objectivity of scientific enquiry as well as highlighting the crucial role in which visions affect (and potentially prevent) learning. Ultimately, choice itself is inherently subjective since it’s the product of the chooser’s own epistemic framework, as Shackle proclaims: “Your list of choosable things has to be constructed or composed by yourself before you can choose”. (Ebeling, 1983)<sup>8</sup>

As a result we can only ever glimpse a true phenomenon, and our vision is constrained by the lens we use. No single individual can comprehend all possible aspects of a particular situation, and hence belief systems become useful as an approximation. We can conceive of an underlying “state of nature” that is the same faced by everyone, even though in reality it can never be viewed or understood. Conduct is considered rational if it is consistent with a pre-existing expectation, and, therefore, conflicting actions by different people can all be rational. Irrational behaviour is when people repeatedly act in a way that is incompatible with their chosen end, and this is a logical impossibility since we assume ends are revealed in action.

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6 “The ‘model’ of the physical world which is thus formed will give only a very distorted reproduction of the relationships existing in that world; and the classification of these events by our senses will often prove to be false, that is, give rise to expectations that will not be borne out by events”. (Hayek, 1952; cited in North, 2005)

7 That’s not to say, however, that “vision” and “analysis” can be neatly separated. (Boettke, 1992)

8 A fuller quote is worth mentioning: “I do think that what we do in our actions is based on what goes on in our own minds, and one way I have tried to put it is that the things which you can choose amongst have to be made by yourself. You can only choose actions and acts. When people say, I’m choosing a new suit, or I’m choosing a house, what they’re really saying is, I’m choosing which one to buy. It’s the actions they’re choosing. I think that the action must be formulated in one’s own mind—it’s a work of art, it’s a work of imagination. Your list of choosable things has to be constructed or composed by yourself before you can choose”. (Ebeling, 1983)

## AN A-PRIORI THEORY OF BEHAVIOUR

It's a well-known claim that "it is probably no exaggeration to say that every important advance in economic theory during the last hundred years was a further step in the consistent application of subjectivism", (Hayek, 1942) and this can be done inductively or deductively. The former strategy is most prevalent, stemming from Simon (1955) and Tversky and Kahneman (1955) and resulting in the field of Behavioural Economics. (Shleifer, 2000; Shefrin, 2001; Mullainathan and Thaler, 2001) This approach utilises experimental data to build theories upon observations of human behaviour in various scenarios, merging into psychological research into decision-making. It, therefore, dispenses with *homo economicus* to build profiles of how agents actually behave, and often concludes that deviations are evidence of irrationality. Advances are made via increasingly detailed forays into the human mind, resulting in new fields such as neuro-economics. (Camere, Loewenstein and Prelec, 2005) One response to this is a theoretical discussion of the rationality assumption, and to claim that perceived anomalies are *ecologically* rational, despite being inconsistent with the observer's own judgment of what constitutes *constructively* rational behaviour. (Smith, 2003) This demonstrates that although behavioural economics gives attention to human action, it fails to incorporate the basic lesson of subjectivist analysis - that desired ends are subjectively defined and, therefore, not necessarily known to an observer. Rather than shelve the construct of *homo economicus* for a smorgasbord of arbitrary (and perhaps mutually inconsistent) observations, an alternative is to modify yet maintain a deductive approach through the use of imaginary constructs such as ideal-types. The concept of "ideal-types" were created by Max Weber in the early c20th (Weber, 1922, 1949, 1968; Heckman, 1983) in response to the prevailing *methodenstreit* (strife over methods) between the Austrian school of economics and the German Historical school; they were "a specific solution to a very specific problem arising from his methodology theory". (Burger, 1976) The problem was how to form general/universal concepts about human action when such concepts are present to different degrees in each actor - what prevents the assumptions of subjectivism from undermining the object of study? The ideal-type extracts particularities of a class that make it unique, and if we follow the deductive method, this inevitably implies a hypothetical construct (for a survey of ideal types in economics see Morgan, 2006). Isaiah Berlin's classic distinction between a hedgehog and a fox (Berlin, 1953) demonstrates the use of ideal-types to illuminate and explain, providing a way in which subjectivist enquiry can proceed. Weber's notion that "action derives its meaning from the mind of the actor" (Lachmann, 1970) demonstrates compatibility with the subjectivism of the nomos approach, but to determine *which* ideal-types are suitable we require further inputs.

### 3. CULTURAL THEORY

Economising man acts in order to reduce uneasiness, and with the specific attempt to alter his environment. This implies some sort of “need”, and the use of resources to satisfy them. An underlying belief system will determine what those needs are, what resources are available to them, and since people have different belief systems their conceptions of needs and resources will also differ. Needs are entirely subjective and are also influenced by one’s environment, and, therefore, by the needs of other people. And whilst natural resources are (to some extent) finite they are by no means fixed since their availability depends on epistemic recognition (i.e. that the individual understands a causal link between the resource and the need). Resources can alter through space and time and so they too are social constructions that are, depending on the circumstances, malleable.

Following the grid-group method created by Douglas (1978, 1982)<sup>9</sup>, this framework presents two elements (needs and resources), and since each is potentially manageable it yields four logically possible cultural types.

**TABLE 1: THE FOUR CULTURAL TYPES**

	<b>Manage Resources</b>	<b>Don’t Manage Resources</b>
<b>Manage Needs</b>	<i>Individualist</i>	<i>Egalitarian</i>
<b>Don’t Manage Needs</b>	<i>Hierarchist</i>	<i>Fatalist</i>

Here we have the Cultural Theory pioneered by Aaron Wildavsky and Michael Thompson, (Thompson, Ellis and Wildavsky, 1990; Thompson and Schwartz, 1990; Douglas and Wildavsky, 1983) producing the four cultural ideal types: individualist, egalitarian, hierarchist, and fatalist.<sup>10</sup>

These constructs represent four mutually exclusive belief systems, and each offers a proposed action: the individualist would manage their needs and resources (deeming both to be variables); the egalitarian would treat resources as given and attempt to alter their own and others’ needs; the hierarchist takes needs as set and distributes resources accordingly; and the fatalist will abstain from either option.

9 This approach, influenced by Emile Durkheim, uses a two-dimensional axis where “grid” captures *constraint* (the degree to which rules are externally imposed), and “group” refers to *solidarity* (whether the individual feels bound by collective decisions). The individualist is [low grid, low group]; the egalitarian is [low grid, high group]; the hierarchist is [high grid, high group]; and the fatalist is [high grid, low group]. This is compatible with the nomos vs. thesis approach of Hayek (1973), and the informal vs. formal institution approach of Mantzavinos, North and Shariq (2004).

10 There is in fact a fifth cultural type, sometimes referred to and other times ignored: the *hermit*. The hermit has withdrawn from social interaction to seek a self-sufficient autonomy, and, therefore, exists outside the model. This enables analytical egalitarianism. (Peart and Levy, 2005)

As mentioned previously, an action can only be deemed rational if it's consistent with a prior expectation, and, therefore, each cultural type requires an accompanying vision. Thompson and Schwartz (1990) graft the four cultural types onto what they call "myths of nature" to produce a functional belief system with consistent institutional contexts. We shall examine each separate (highly stylised) cultural type in turn.

### **(I) HOMO INDIVIDUALIST**

The individualist is a near-relation to *homo economicus* and believes that choice, action and consequences are all borne solely by the decision maker. He (inevitably) is motivated by self-interest and a ceaseless desire to increase his stock of resources to satisfy his ever-expanding list of needs. Resources are defined beyond the planet's natural stock, (extending to human ingenuity and technical progress). He requires internalised incentive mechanisms, and believes that returns follow effort. Such an attitude is feasible since his vision of society is of a benign and forgiving environment, flexible enough to recover from shocks and disturbances. There's a constant general equilibrium and hence laissez-faire is the optimum attitude. Essentially an optimist, the individualist will only calculate his personal returns to assess whether an action has been successful.

### **(II) HOMO EGALITARIAN**

In stark contrast to the individualist's benign visions, the egalitarian is a pessimist foreseeing impending disaster. She (typically) defines resources solely as "natural resources" which are finite (and therefore depleting), requiring urgent action to manage the needs of society. Her inherent belief in equality, together with the free-rider problem, means that everyone has to abide by the same policy, and this requires enforcement. *Homo egalitarian* can only achieve her desired action by eliciting a change in the behaviour of others, and will, therefore, engage in persuasion (educational campaigning) as well as coercion (mandatory policies). She takes a precautionary attitude toward new technology and the burden of proof is constantly on the innovative to demonstrate the full impact of their creations. Although her expectation is for catastrophe, she believes in her own capacity to alter this scenario. Therefore, projections that do *not* materialise must be analysed with regard to the extent to which the egalitarian's demands were implemented.

### **(III) HOMO HIERARCHIST**

The hierarchist is not in the business of altering behaviour – needs are given and the simple job is to allocate resources fairly. *Homo hierarchist* is a public official who will manage goods and capital because their vision falls in between the individualist and the egalitarian: nature is forgiving within limits. The hierarchist will set those limits using regulation and management. They will acquire information and authoritative advice in order to make social activity accountable and recorded, and expect experts to deliver correct advice.

**(IV) HOMO FATALIST**

If life is essentially random, and our actions have little consequence, there is scant point in managing needs or resources. *Homo fatalist* is poor, and lacks the resources to effectively alter his situation. He is also disenchanting and falls outside collective behaviour. He will, therefore, react to situations rather than create them, and merely try to cope. Since the same actions can yield different results there's little point learning, and so the fatalist does not expect to see trends.

The three other cultural types reject the fatalist: the hierarchist for disobedience; the individualist for lacking the entrance fee; and the egalitarian for lacking commitment. (Thompson, Ellis and Wildavsky, 1990) The classic ethnographic study of *homo fatalist* was Edward Banfield's analysis of Montegrano, a rural Italian village. (Banfield, 1958) He produces evidence of how the people's vision of success was dependent on chance intervention, thereby producing a culture of passivity.

**TABLE 1B: THE RATIONAL SYSTEMS OF THE FOUR CULTURAL TYPES**

<b>Cultural Type</b>	<b>Vision</b>	<b>Behaviour</b>	<b>Latent Strategy<sup>11</sup></b>
<i>Homo Individualist</i>	A robust, benign environment	Manage needs and resources	"Preservation of the individual's freedom of contract"
<i>Homo Egalitarian</i>	Fragility	Manage needs, resources are fixed	"Survival of the collectivity"
<i>Homo Hierarchist</i>	Tolerant within limits	Manage resources, needs are given	"Secure internal structure of authority"
<i>Homo Fatalist</i>	Results will be random	Manage neither	"Survival of the individual"

As previously mentioned, "rationality" means that an action is consistent with an expectation of how such an action will satisfy a particular need. Depending on the situation, therefore, each cultural type can be deemed rational. If an entrepreneur believes that they're operating within a forgiving and flexible environment (as the individualist does), then they will manage both their needs and resources, and it'd be rational to do so. Their vision may well be incorrect though, and they're actually operating within especially delicate surroundings. Regardless, we're defining rationality as being consistent with their own, personal vision, rather than to an objectively defined constructivist rationality.

Thompson and Schwartz (1990) provide a detailed characterisation of the four types including three relevant points of comparison: fairness ideal, methods of consent and commitment to institutions. The individualist stresses equality of opportunity, since this will

11 All quotations in this column are taken from Thompson and Schwartz (1990).

ensure that the fittest and most efficient can survive and prosper. The egalitarian prefers equality of *outcome*, because differences lead to power imbalances. The hierarchist believes in equality *before the law*, and this must be administered to ensure that actions take place within the legal realm. The fatalist has no ideal of fairness, because it's not seen to exist. Regarding consent, the individualist will claim that revealed preferences yields implicit sanction. The egalitarian argues that *implicit sanction* is not enough – direct consent is required and, therefore, preferences must be *expressed*. The hierarchist's model of consent is neither implicit nor direct: it's *hypothetical*. This is because natural standards are applied rather than actual preferences (be they expressed or revealed). The fatalist does not have a consensual framework. Finally, the four types have an alternative vision about commitment to institutions. The individualist chooses institutions depending on whether it'd be profitable to do so, and if it is not he can simply *exit*. The egalitarian will base their decisions on the "Collective moral fervour and affirmation of shared opposition to the outside world. *Voice*". (Thompson and Schwartz, 1990) The hierarchist considers proper procedures to be beneficial for their own sake, and is, therefore, characterised by loyalty. Again, the fatalist will not have an input.

Adams (1995) provides an example of the difference between the hierarchist and the egalitarian, with a discussion of attempts to promote fitness. The former would focus on resource management, perhaps taking the form of investment in an exercise bike or other fitness equipment. The latter would advocate running or forms of behavioural changes that don't require an outlay. Adams (1995) uses this to show the importance of cost-benefit analysis to the hierarchist, and the egalitarians' tendency to eschew trade-offs and campaign for extreme outcomes. Whilst the hierarchist calculates an optimization, the egalitarian will demand either maximization or minimization.

Whilst embodying separate and distinct characteristics, there's nothing to say that the four cultural types cannot cohabit the same environment. If the economy is a pie, the individualist will require as large a slice as possible (they have an expanding appetite and every piece is fully consumed); the fatalist will accept any portion offered to them; the egalitarian will seek to convince all parties that they should make do with smaller slices; and the hierarchist will seek control of the knives and determine the cut of the pie amidst competing recipients.

High gas prices provide evidence of all four cultural types. *Homo individualist* is calling for calm, and refers to the self-regulatory nature of markets to stimulate the discovery of new oil fields. He denies that it's a problem. *Homo egalitarian* believes we're running out of oil, and will, therefore, need to cut back on unessential uses so that price hikes don't increase heating bills for the elderly. They campaign for low-energy alternatives and schemes to reduce consumption immediately. *Homo hierarchist* believes a crisis can be averted providing they can use incentive mechanisms to smooth out any surges in price, and to subsidise the production of substitute technologies such as wind farms or solar power. There is a technical solution and it can be introduced centrally. *Homo fatalist* will continue to fill up their car each week, will grumble about the situation, but sees little point in speaking up to try and change things. There is no need to understand the issue beyond knowing the price at the pump.



## ON THE UNIVERSALITY OF THEORY & FRAMES: CONTROVERSY IN THE HISTORY OF CULTURAL THEORY

As previously mentioned, “rationality” means that an action is consistent with an expectation of how such an action will satisfy a particular need. Depending on the situation, therefore, each cultural type can be deemed rational. If an entrepreneur believes that they’re operating within a forgiving and flexible environment (as the individualist does), then they will manage both their needs and resources, and it’d be rational to do so. Their vision may well be incorrect though, and they’re actually operating within especially delicate surroundings. Regardless, we’re defining rationality as being consistent with their own, personal vision, rather than to an objectively defined constructivist rationality.

In an introduction to Cultural Theory (Mamadouh, 1999) the author distinguishes between two separate “breadths” that have emerged: as a “heuristic device”, and as a “full explanatory theory”. It is important to note that much of the criticism of Cultural Theory attacks the lack of empirical corroboration, (Caulkins, 1999; Coughlin and Lockhart, 1998) and its purported failure to provide a full explanatory theory. Researchers have found it hard to neatly divide a population into the respective categories, thereby questioning the validity of Cultural Theory. This debate is reminiscent of the controversy over Weber’s “ideal-type”, the ambiguity of which stems from their simultaneous use as general concepts *and* empirical statements. (Rudner, 1966) But as Weber himself acknowledges, “the ideal-typical concept will help to develop our skill in imputation in *research*: it is no ‘hypothesis’, but it offers guidance to the construction of hypotheses. It is not a *description* of reality, but it aims to give unambiguous means of expression to such a description”. (Weber, 1922) After all, “a human situation can never be defined exclusively in observable terms because all human action is also concerned with an unknown and unknowable future”. (Lachmann, 1970) Therefore, criticisms of ideal-types and Cultural Theory are confronted by treating these belief systems as imaginary constructs.<sup>12</sup>

Another criticism of Cultural Theory has been the underlying methodology, which implies that the same tools of analysis can apply to different contexts. Although societies are categorised as being fundamentally *different*, the *same* criteria is applied to study each one of them, and this has been challenged. (Moore, 1998) Interestingly, grid/group was developed as a means to move away from universal concepts, (Douglas, 2005) but as a framework of analysis it *should* be seen as being universally applicable, and, therefore, consistent with the prevailing orthodoxy of economic theory from which the nomos approach draws.<sup>13</sup>

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12 The implication is that since Cultural Theory applies to communities it’s also a misapplication to expect empirical validation from studying individuals.

13 In keeping with the intention of Weber, this view should still be seen as a solution to the methodenstreit rather than taking sides. As Lachmann says, “It is noteworthy in this controversy Menger and the Austrians were throughout on the defensive. They did not deny the justification for historical studies in the economic and social field, but strove to uphold the right of, indeed the need for, abstract analysis of economic phenomena.” (Lachmann, 1970)

## CULTURAL TYPES AS STRATEGIES

Having already recast the cultural biases of Cultural Theory as ideal-types (i.e. “cultural types”) one further step is required to make them conceptually compatible with the “art of thought” outlined in section one. Despite being effective means to understand action, “Weber’s ideal type lacks any specific reference to *human* action”, (Lachmann, 1970) [emphasis mine] and, therefore, lacks the epistemic content that is of particular concern: “when men act they carry in their minds an image of what they want to achieve”. (Lachmann, 1970) Lachmann recasts Weber’s ideal-types as *plans*, (which I shall call “strategies”), to accomplish Weber’s own initial aims. Consequently, we have brought Cultural Theory into economics by recasting cultural biases (an anthropological concept) as ideal-types (a sociological one), and then viewing them as strategies (an economic term).

Therefore, the *nomos* approach does not lead to a nihilistic interpretation of social change, where people are culturally bounded by their belief system and unable to interact with alternative institutions. Ultimately, we are all humans and responsive to incentives so behaviour will be altered in light of changes to institutional structures. The four cultural types are not empirical classifications; they’re available strategies. Although divisive in most policies, one of Margaret Thatcher’s few popular reforms demonstrated precisely this point. The “Right to Buy” scheme of the early 1980s allowed council tenants to buy their house from the local council at significantly discounted prices. It proved an attractive opportunity for hundreds of thousands of working class families, and as house prices grew throughout the decade previously powerless citizens became integrated into the economic system. (Garrett, 1992; Field, 1997) By giving people greater rights over their property the intention was to replace a fatalistic attitude with an individualistic one – a strategy elaborated by Peruvian economist Hernando De Soto. (De Soto 1989, 2000)<sup>14</sup> It’s worth repeating that we are *not* dealing with personality groups, but a hypothetical ideal-type used to illuminate available strategies. This allows us to understand individual activity via comparison to the imagined, extreme case. It is a methodological device in keeping with the tradition of thought-experiments, (Aligica and Evans, 2009) but applied to a cultural context.

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14 Thompson et al. (1990) provide a deeper analysis of Thatcherism using Cultural Theory. Since they focus on all of her policies (and not just the “Right to Buy”) their conclusion is more critical – and illuminating – than mine. Briefly, they use her reforms to propose that typical political thinking focuses solely on individualist and hierarchist belief systems. Broadly speaking, we can interpret these to be “capitalism” and “socialism”, or “private” and “public”. This dualism fails to capture the reality of Thatcher’s legacy, however, since her attacks on the public sector created not only a class of self-employed (the individualist), but also of dissent (the egalitarian) and destitution (the fatalist).

## 4. SURPRISE: THE MECHANISM FOR CULTURAL CHANGE

The four distinctive visions of nature: forgiving; unstable; manageable; and random are only rarely applicable to a single event since they all contain seeds of truth and are, therefore, all valid in different circumstances. Although unrealistic, it is possible to conceive of situations where one of the expectations appears clearly “correct”. As an illustration consider various aspects of coaching a youth football team. You have no control over the standard of opposition your team faces, and can only prepare to cope as best you can – it’d be wise to behave like the fatalist. At half time the manager has a bag of oranges and a team of players – some players require more refreshment than others, so you act like the hierarchist and distribute the fruit appropriately. Typically, too many players will be trying to do complicated things, and your role as coach (and egalitarian) is to convince them to reduce their showboating and play as a team. But ultimately, you strive to make each player better and, therefore, the team more capable than before. Since winning is the aim, you are the individualist.

Even within such a stylised setting, it’s possible to conceive of events that may alter the rationality of the existing strategies: you may be in a play-off system where the position you finish determines who you play next; your players may be responsible enough (and their parents may bring more oranges) so that they can eat as they choose; they may improve enough to pull off intricate play; and you may be informed by the league commission that your remit is to maximise playing time, not points. The point is that a change in the environment will produce an unexpected result – the ex post outcome is different from the ex ante expectation, and “surprise” occurs. It seems obvious but is worth pointing out that a surprise can only occur as a response to a prior vision or expectation, and can only occur to the particular person that holds such a vision. One person’s surprise is another’s confirmation. Consistent with our assumption of rationality, a sequence of surprises will yield to a switch in strategy, although this updating of belief systems will differ from Bayesian updating – the traditional way of incorporating learning into political science.

### LEARNING AS DISTINCT FROM BAYESIAN UPDATING

The Bayesian system will take an initial belief (a “prior”), and demonstrate how an agent will move toward or away from this hypothesis (the “posterior”) in light of new evidence (a “conditional”) – corroborating information will strengthen the prior, and conflicting information will weaken it. Such evidence is weighted for reliability and, therefore, we move toward consistency between expectations and experiences. Since the initial starting point is taken as given, the system is similar to the second welfare theorem – the process approaches equilibrium regardless of initial endowments. But despite purporting to incorporate belief systems into economics, the system ignored where the original priors (and, therefore, our methods of interpreting new information) come from. Conflicting belief systems may result in the same pieces of evidence being interpreted differently by two different people, and so how can we call this “learning”? There are two reasons why Bayesian updating is not consistent with the nomos approach, showing that “learning” as defined here is different from what’s typically used in economic analysis.

The first problem is a mathematical issue, and relates to the prior assumptions of the Bayesian system. Since there's a measurable relationship between the prior and the conditional both must be a term greater than 0 (i.e. impossible) and less than 1 (i.e. certain). This presupposes that the information has an objectively definable probability. The nomos approach operates under Knightian uncertainty, and it has already been assumed that some events are not expressible (even potentially) as a probable value. Although it is impossible to empirically verify which view is correct, the Bayesian updating method of learning is analytically incompatible with the nomos approach.

The second reason why our concept of learning is not captured in the Bayesian system regards the inherent subjectivity of non-homogenous agents. The priors cannot be treated as an exogenous factor to the learning mechanism, since the pre-existing belief system will determine what information is seen, how it is analysed, and, therefore, the change in expectations. We have to treat priors as being part of the initial belief system, and for them to be consistent with a particular learning mechanism.

## **MIGRATION**

This creates two conclusions. On the one hand, altering incentives will never be enough to induce changes in behaviour – the method of learning must be “updated” itself. Having said that, the nomos approach used four cultural types that have their own belief systems and learning mechanisms. As long as we can categorise and analyse what those initial belief systems might be, it becomes possible to conjecture about ways to alter them. It is widely accepted that migrant workers exhibit entrepreneurial (i.e. individualistic) characteristics when they join the workforce. (Bonacich, 1973; Kim, 1981; Portes and Bach, 1985; Waldinger, 1986; Light and Bonacich, 1988; Waldinger, Aldrich, and Ward, 1990; Light and Bhachu, 1993) The act of emigration is selection criteria for an individualistic outlook – it suggests a desire for greater material wealth, and, therefore, many migrants possess individualistic tendencies. This often contrasts with the case of asylum seekers who are often denied the right to work, propagating a culture of despondency and state-sponsored survival. This is fertile breeding ground for a fatalistic outlook. It may be true that these two types of migrant possess different belief systems, and simply sort themselves into a conducive environment (the former into self-employment, the latter into unemployment). This presents a bleak picture of society, since these preferences operate independently of the institutional environment. The nomos approach focuses on the effect that the conditions met by the migrant on arrival determines their actions and expectations. Perhaps the “immigrant entrepreneur” was *not* self-employed in their country of origin, and the “asylum seeker” was self-sufficient. This presents a more optimistic view of social change, because results aren't pre-determined. Whether a migrant takes on an individualistic job (such as a self-employed shopkeeper or restaurateur), or a fatalistic one (as a casual labourer), will depend on the opportunities available to them.

## THE FIRM

To demonstrate how the implications of the nomos approach differ from typical methods of enacting change, consider the following example. If we think of a job description in terms of its role, rather than its title, we can broadly classify each one as being consistent with one of the four cultural types, and the firm overall being a mixture. Working in a factory floor would appeal to the fatalist, the legal department and secretarial roles would be the realm of the hierarchist, the egalitarian would perform well as project manager, and finally the individualist would enjoy being an upper-level board members with executive remunerations.

Typically, if management sought to generate a more entrepreneurial culture throughout the firm they might alter the incentive mechanisms to tempt staff to behave more individually. This might involve a contractual scheme (such as a Townsend Bonus Scheme) to internalise their incentives and tie salary more directly with output. It might involve the creation of feedback sessions so that lower level staff can have input into the strategic decisions that affect their immediate workplace. There are two underlying difficulties with any of these measures, however, explaining why they might fail. Firstly, the individual implementing the changes will possess their own underlying visions. They might believe that they're providing the fatalist with the incentives necessary to induce individualistic behaviour, but if the manager already possesses such individualistic tendencies then what seems rational to them may well remain irrational to the fatalist. And secondly, there are no "fatalists" in the firm, just roles that are similar to the fatalist's strategy. Actual individuals will be combinations of different strategies in different circumstances, and exhibit multiple means for achieving multiple ends. As long as the individual holds aspirations beyond the narrow requirements of their employment, it'd be hard to induce a transformation in their belief systems. Even when faced with incentives to become individualistic in work, this may be outweighed by the overriding incentives for fatalism in life more generally. Hence changes to belief systems will be marginal, and not automatic.

The implication is to shift emphasis away from altering the behaviour of existing people (retraining), toward providing an opportunity for self-selection. Rather than trying to convert a group of fatalists into individualists, you're permitting the marginal fatalist to switch into an individualist strategy. The end result will be a company with a more individualistic attitude, but the process of achieving this will focus more on *facilitation* than *stimulation*.

## SWITCHING

Within the nomos approach individuals *are* responsive to changes to their incentives, and if their expectations and experiences diverge they will switch to an alternative strategy. The individualist's vision is that effort leads to profits, and this explains his work ethic. If the effort goes unrewarded, the fatalist outlook would be rational and the individualist would, therefore, switch. If their actions result in a large-scale disaster, the predictions of the egalitarian would have come true and the individualist would switch to join them. If the collapse is only partial, then the hierarchist would have been vindicated. If efforts do indeed lead to profit, then the individualist's expectation is confirmed and he'll continue. But an alternative experience will result in a switching. The egalitarian's expectation is for total collapse

and a zero-sum game. Therefore, if they see other's prospering they will switch to become individualistic, or if there is a collapse (but it's being managed effectively) she'll switch to become like the hierarchist. If the egalitarians' calls for caution are heeded but do no good, then the fatalist holds the rational strategy. The hierarchist acts upon the assumption that experts are correct, so if this faith is shaken they will switch: to the fatalist (if the experts are consistently wrong); to the egalitarian (if the attempts to manage the possible disaster do not work); and to the individualist (if competition works). Finally, the fatalist expects that events will be random, and unrelated to the corresponding action. A run of bad luck will switch to an egalitarian mindset; good luck will switch to individualistic; and repeated runs of either good or bad luck will lead the fatalist to the hierarchist. (Thompson, Ellis and Wildavsky, 1990)

Since such switches are ubiquitous, we can illustrate them a little better by focusing on specific cases (with examples provided from the career decisions of leading economists). The individualist that switches to the hierarchist is what Max Weber referred to as "beaurocratisation", and refers to a previously solitary worker who becomes increasingly organisational - perhaps as a consequence of a growing company (for example, Lawrence Summers replacing his personal research with the Presidency of Harvard University). The opposite of this - the bureaucrat switching to individualism - is "Gamekeeper turned poacher" and best exemplified by a public servant who leaves office to become a consultant (something Stanley Fisher did when he joined Citibank). In contrast, the hierarchist may switch to the egalitarian and act as "whistleblower" (such as Joseph Stiglitz's exposés of the Washington Consensus. (Stiglitz, 2003))

A switch from individualist to egalitarian explains someone who takes pleasure from the notoriety of becoming an activist (Paul Krugman fits this mould, as his academic achievements become increasingly ancient, the more he basks in his position as a prominent critic). Not all activists receive notoriety, and some can find greater pleasure by switching from the egalitarian to the individualist, (commonly known as "a sell out" this explains Bjorn Lomborg's switch from member of Greenpeace to having landed on his feet as an environmental sceptic. (Lomborg, 2001))

The feedback between expectation and experience will, therefore, create learning, and a sufficient number of repeated lessons create a tipping point. This may be down to a steady accumulation of evidence, or the shock of a single large event. Learning also occurs via interpersonal contact, however, and this can occur through nothing more than conversation. Even if the institutional context remains constant, switching can occur if an individual is convinced to adopt an alternative strategy irrespective of their feedback. This is a form of transformation gained from interaction with other people, demonstrating that conversation and dialogue is as much of a factor in instigating change than the construction of new institutions.

## **STOCK MARKET BUBBLES**

Whilst these examples demonstrate how individuals will switch in response to the feedback they receive, we cannot forget that the feedback will be determined by the initial belief

system. We can, therefore, picture a flock of starlings exhibiting constant fluidity *within* the structure, yet providing an overall constancy and coherence of the whole. Since expectations are in constant friction the underlying reality will be in constant flux, and at various stages each of the competing cultural types will be rational. The key is to permit such fluidity to ensure that when the state of nature alters, the population's belief systems can adapt in turn. There can never be a single true vision of nature, and, therefore, there should never be the promotion of a single belief system – it is by their constant dialogue that we respond to and prosper within the inherent instability of a complex (and ever changing) economy. A plausible story might read: Tech stocks rise promising untold riches, and experts declare that fundamentals no longer matter for the 'new economy'. As more and more people act with the individualist's vision of a benign climate the stocks overvalue and the expectations alter the underlying environment. Rising organisation costs and uncertainty creates voices of panic and forewarnings of an imminent crash. (Shiller, 2000) This creates a demand for management, and authorities who claim they can steer the ship so that business can continue (within regulated limits). The central bank can only ever stall the necessary correction, however, and once we realise there's a bubble, it's too late. Investors become fatalists in a lottery, guessing when's best to leave the market. Inevitably, the crash occurs, and the market is unforgiving. However, once the ball's rolled over the rim, a new resting point is found, (albeit at a lower level for now). The market returns to normal, not full circle, but full spiral, because each myth contains the seeds of both destruction and renewal.<sup>15</sup>

#### **PATH DEPENDENCY AND GRAND NARRATIVES**

We can, therefore, view the economy as an essentially dynamic, yet stable amalgamation of the institutions generated by individual behaviour. Since the learning mechanism previously described explains the relationship between the underlying belief systems and the institutional context being faced, we can also hypothesise about how such interactions evolve as systems through a passage of time. The switching that takes place may result from surprise, or it may result from interaction with conflicting belief systems, both of which present the conditions for path dependency since they may well be self-reinforcing.

The most simplistic system to envisage is one with a large concentration of fatalists, since the fatalist's vision is the only one that is self-confirming. As an economy this would yield to stagnancy and give rise to alliances by the other three strategies to utilise the pool of fatalist despondency. The egalitarian and the hierarchist could form to create a modern welfare state, or the individualist and the hierarchist might corroborate to form a mercantilist economy. This view of fatalism claims that they do *not* rise up, and, therefore, revolutions require an alternative strategy (either the egalitarian violence or hierarchist's coup since the individualist will free ride.).

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<sup>15</sup> We mustn't neglect a possible initial stage of this spiral: credit expansion that creates the entire bubble. (Mises, 1912)

If there is a restriction on the flow of belief systems (for example, restrictions on private property rights, quashing of dissent, arbitrary legal system) then the system will collapse, as seen in the Soviet Union. The hierarchist belief system became the dominant response to the fatalist population and became a bureaucratic state that suppressed wealth creators (individualists) and critics (egalitarians). Under such conditions experimentation is prohibited and mistakes not learned upon resulting in an incoherent economy. (Mises, 1922)

The bureaucracy of a country is inherently susceptible to capture from special interest groups (egalitarians) or corporations (individualists), but that doesn't preclude the potential for a sustainable system to develop. This will be characterised by a mixture of all four cultural types, and, crucially, mobility between them. Such mobility acts as an automatic stabiliser for the constantly evolving state of nature, and facilitates the interdependency of the various strategies.

## 5. EMPIRICAL APPLICATIONS

Several excursions throughout this paper have suggested potential empirical work: regarding economic migration (and development more generally), theories of the firm and capital markets. Within these phenomena, specific use of the nomos approach can be made, but we can also point to existing literature that possess similar characteristics, and interpret it in light of the nomos approach. Di Tella, Galiani, and Schargrotsky (2007) investigate land reform in Argentina and find that the distribution of property rights affects the belief systems of those receiving them - making them more likely to favour a free market. In other words, the individualistic institution created a more individualistic attitude, demonstrating that the individuals were responsive to the alteration in their environmental conditions.

Not only do we see evidence of the role of belief systems in development economics, but also of deductively created ones. Easterly (2006) makes a distinction between “planners” and “searchers”, and Greif (1994) uses the distinction between collectivist and individualist societies. One avenue offering great potential is the recent work on “analytic narratives” - where strategic analysis (game theory) is used to substantiate a historical description (case studies). (Bates *et al*, 1998; Rodrik Ed, 2003) This technique is methodologically consistent with the nomos approach because they do not profess to explain all phenomena, but instead to use a simple and universal framework to extract the key features.

### ECONOMIC DEVELOPMENT: FACILITATION NOT STIMULATION

The nomos approach generates scepticism about the grander intentions of institutional tampering, since any proposals must be consistent with the underlying informal behaviour as manifested within cultural belief systems. Altering incentive mechanisms cannot be enough by itself, because interpretation of an event is made in light of the original belief system. In other words, a change in incentives requires a corresponding change in the knowledge of individuals so that they correctly interpret the new feedback. Systems and instructions must



come together. And even this remains too ambitious, since there's a difference between awareness of an alternative belief system and the decision to adopt it.

The communist's mistake was trying to generate a shift in culture that would in turn create an alternative economic system. (Lavoie, 1995; Boettke, 1993; Prychitko, 2002) By contrast, the capitalist's mistake was to think that new institutions would effortlessly change the culture. (Stiglitz, 2003) Nomos suggests that culture tells us what is feasible, and policy makers can only make broad changes within this parameter. Ultimately, effective social change will stem from new institutions that reflect gradually developing belief systems. Recollect that previous criticisms of Cultural Theory centred on its inability to offer a "full explanatory theory", and how attempts to classify populations into the prescribed categories have failed. If we do use it instead as a "heuristic device", then we've replaced the obsession with measurement with a thirst for understanding. The policy proposals will be broader but more meaningful. The nomos approach presents a framework but explicitly rejects the possibility of discovering an optimal concentration of different belief systems. A sustainable system can only emerge when individuals are free to switch between strategies and cannot be superimposed:

*Successful economic performance requires a change in mentality. On this, open door policy allowing actors to assimilate new ideas and phase out old ones is desirable.*  
(Yu, 2001)

To be sure alterations in the institutional environment will create effects – agents respond to incentives – but the inherent knowledge problems that exist necessitates broad reforms that abolish artificial barriers and influence self-fulfilling prophecies. Much of Development Economics is policy driven and focuses on "top down" solutions that directly affect the institutions. (Lal, 1997; Bauer, 2000) The nomos approach points to an alternative, "bottom up" approach that looks at belief systems. Part of the solution is altering incentive mechanisms (to permit individualistic, egalitarian, hierarchical and fatalistic strategies to interact), and part of it is to allow dialogue between cultural types. Economic development, therefore, can only follow cultural development.

Various mechanisms exist that generate such cultural contact: emersion (the experience of having lived abroad); personal contact (knowledge of someone else who's experienced emersion); trade (practice of using alternative institutions for exchange); media; or education (including ideas). All these factors can alter the belief systems of an individual regardless of the imposed institutional order, and will, therefore, generate endogenous institutions more consistent with the underlying culture. (Aligica, 2003) This focuses attention away from the task of rationalist construction, toward the issue of conversation, dialogue and education - the internal debate of conflicting ideologies is as relevant for switching as lowering the costs of various types of choice.

*If individuals share an image of society that that is extremely hierarchical, or egalitarian but cutthroat, reciprocity will be slow to emerge. In such a society, much of the task*

*of development is intellectual or philosophical. It entails the creation and dissemination of ideas capable of transforming the basic conception of social relationships that, for the society in question, establishes the parameters of permissible social change.*  
(Oakerson, 1988)

## 6. CONCLUSION

The central thesis of the nomos approach is that human action is the salient impulse behind all social change, and, therefore, to understand the dynamic process of society we must look at epistemic choice. To do this we cannot separate technical facts and social values, and must instead build a rule-based theory of behaviour to explain socially constructed institutions. According to Mises “This does not mean that every individual draws his valuations from his own mind. The immense majority of people take their valuations from the social environment into which they were born, in which they grew up, that moulded their personality and educated them”, (Mises, 1957) a point Hayek echoes, “mind is as much the product of the social environment in which it has grown up and which it has not made as something that has in turn acted upon and altered these institutions”. (Hayek, 1973) This view emphasises how individual choice is neither isolated from, nor wholly determined by, our social environment, and can be labelled *institutional individualism*, “which steers between both atomistic individualism and holistic individualism”. (Boettke, 1996)<sup>16</sup>

The Russian government’s decision to replace the USSR emblem with the tricolore demonstrates the importance of emblems and symbolic meanings to the order of society. But constructing a new archway is not sufficient to create sustainable change unless it’s mirrored in the minds of those who walk beneath it. This demands that the study of institutions requires a cultural component and methods to understand the compatibility of new institutions to existing belief systems. For new ideas to be incorporated into an existing culture they must be complementary. (North, 2003; Evans, 2009) Culture, “establishes the limits to the acceptance of policy implications of economic logic in an above-ground and transparent setting”, (Boettke, 1996) and since belief systems are inherently tied to local knowledge (and the day-to-day experiences of the individual) there’s an inherent unpredictability of policy reforms. Whereas most solutions to economic development focus on legislative issues, the nomos approach is more concerned with on-the-ground reality. Changes in expectations can follow logical patterns, creating a learning mechanism where belief systems affect institutions and vice versa. The implication is that solutions should be seen as emergent (rather than exported), and permitting a free flow of competing ideas is more optimal than imposing institutions that are rational in the eyes of those who advocate them. Prosperity requires trial and error, and a flexible, *chumsy* system that permits mistakes but is

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<sup>16</sup> The term derives from Agassi (1960, 1975), also see Evans (2010)

responsive to the demands of heterogeneous agents. (Verweij and Thompson, 2006) Policy should, therefore, focus on facilitation of multiple strategies, rather than the stimulation of any in particular. This lesson is consistent with the stylised facts of economic growth – that nowhere has become rich without private property rights (for the individualist); effective channels of information (for the egalitarian); a reliable legal framework (for the hierarchist); and humble workers (the fatalist).<sup>17</sup>

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17 And, finally, no one would be able to interpret that process were it not for the *hermit*.

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# **“NO ONE CAN SERVE TWO MASTERS”: IS THERE A CONFLICT BETWEEN ECONOMICS AND CHRISTIANITY IN THE MINDS OF YOUNG CHRISTIAN ECONOMISTS?**

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**JEL CLASSIFICATION:** A12, Z12

## **ABSTRACT**

Work plays an important role in life of every adult. As a value creating activity, it is also important from the point of view of the social order. It is, therefore, no surprise that attitudes towards work are a subject of various value systems, including religion, that approve or disapprove certain practices. Religious people thus can face an internal conflict when their work-related attitudes and their religious beliefs are not easily reconcilable. This paper looks at the case of economists and Christianity. Economists, compared to the general population, seem to possess certain characteristics that can be in contradiction with Christian teaching (they seem to be more selfish, less cooperative and less interested in the welfare of others, among other things). Moreover, economics is by many seen as containing certain “theological structures” that can attempt to provide a complex world-view and thus crowd-out religious beliefs of economists. In search for the presence of the conflict and strategies of its possible reconciliation, six individual, in-depth interviews with Czech Ph. D. students of economics that labeled themselves as Christians were conducted. The results of this probe support the idea that the “economic way of thinking” does not easily mix with Christianity in some cases, but they also offer insight into various ways the respondents overcome this contradiction.

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## 1. INTRODUCTION

The life of an average adult consists of two basic kinds of activities: work and leisure. If we suppose that the average length of a working time is eight hours a day, then work fills up about a third of the life of each adult.<sup>1</sup> If we add the fact that work as a value creating activity is “central to social order, ... it is not surprising that it should also become the focus of various ideologies, ethics and value systems seeking to define for it a meaningful framework, both cognitive and evaluative” (*Giorgi and Marsh 1990: 499*). One of these “value systems” is religion<sup>2</sup> and the relation between vocation (in the sense of employment, work, occupation or profession) and faith is the focus of this paper. Specifically, I deal with the relation between the vocation of Ph. D. students of economics at the Faculty of Economics and Public Administration of the University of Economics in Prague and the Christian faith.

The rest of the text is structured in the following way: The second part deals with the relation between productive activities and motivations of people at a general level and also in a relation to religion (Christianity in particular). The third part reflects some specifics related to economists, again first in general and in relation to Christianity. The fourth, empirical part contains results of six in-depth interviews with Ph. D. students that labeled themselves as Christians. The final part concludes.

## 2. GENERAL THEORETICAL FOUNDATIONS

At a theoretical level, we can view the relation between an individual and his or her occupation from two perspectives – psychological or sociological, but often it is not easy to define the dividing line clearly. For example *Eccles and Wigfield (2002: 110)* distinguish between “expectancies” that one has in relation to a certain activity, i.e. how he or she expects to perform and values that provide motivations or reasons for doing this activity. Although it would seem that the primary orientation of these theories is psychological, i.e. that they focus mainly on the inner world of an individual, this is perhaps too simplifying. The main reason for this claim is that the structure of expectations and motivations of an individual (or, in economic jargon, the probability of success and the amount of payoffs) is from a large part influenced by his or her social environment, which is studied by sociology (though one could argue that the individual must first internalize these values, or again in

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1 I omit the unemployed and the fact that in many cases, such as the academic work, the border line between work and leisure is not so easily distinguishable.

2 In this text, I understand faith as a personal relation of an individual to a transcendent entity, and by religion a system of social institutions ensuring performance of faith in social groups.

economic terms, they have to enter the individual's utility function, before they can effectively influence the individual's actions).<sup>3</sup>

Therefore, when we take into account also this broader context, the influence of religion on actions of an individual can be seen as both direct and indirect. His or her faith can affect the self-valuation of an individual and his or her values. Faith can, for example, command to undertake certain kind of activities (in the case of Christianity, for example, helping a neighbor), or forbid them (for example, not to eat much during the Lent). Religious rules (internalized through faith) here work *per se*, the believer wants to obey them not because of the threat of an external punishment, but simply because he or she considers them good and worth following. An indirect influence of religion can be imposed on an individual from his social environment through formal or informal social institutions – if a community of puritans, for example, assumes that eating marmalade is a mortal sin, they can pass a law forbidding this kind of activity. The individual is then by an external rule motivated not to undertake this action, in our case eat marmalade, no matter what his opinion on this matter or the degree of his faith are.

One of the key texts dealing with the importance of religious beliefs on work-related motivations of individuals is Max Weber's 1904 article "The Protestant Ethics and the Spirit of Capitalism" (Weber 1998). His main thesis can be simply stated as follows: there is a two-way relation between Protestantism and capitalism – Protestantism, due to its ascetic character and unostentatious character of consumption, can create high level of savings and capital; capitalism then, due to its high productivity, provides Protestants with material proof that they are the chosen ones (esp. in relation to the Calvinist thesis about predestination).

Weber's contribution set off a wave of reactions that are trying to reckon with him in one way or another.<sup>4</sup> For example, Giorgi and Marsh (1990) tried to test Weber's thesis about Protestant work ethics and economic performance on data from West European countries from the 1980's and they came to a conclusion that there is some relation between work ethics and religious denominations at the national level (at the individual level they discovered that most persons identifying themselves as having "Protestant work ethics" label themselves as atheists), but they also say that there are other important influences, such as level of education. Another attempt to find a correlation between religious denominations and work attitudes did not find any significant relation and according to the authors of the study, it seems that this relation is loosening over time (Chusmir and Koberg 1988: 258).

Critics of Weber's argument point mainly to its superficiality – Weber does not reflect certain historical contradictions, for example, the fact that essentially capitalistic institutions such as banks or insurance companies had existed in pre-reformation times in Catholic countries (such as city states of Venice, Genoa or Florence, as even the word "bank" – of Italian origin – still reminds us today), and they despise the "almost sacred status" that

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3 For the problem of internalization of social norms see Coleman (1987) or Becker (1974).

4 See for example the bibliography in Giorgi and Marsh (1990).

Weber's text enjoys among sociologists (Stark 2005). Although there seems to be a positive correlation between the level of religiosity and economic performance at the macroeconomic level,<sup>5</sup> the explanation between Protestantism and growth may be more complicated than Weber thought – it can, for example, be autocorrelated through the quality of institutional environment and stability of ownership rights, as some authors suggest.<sup>6</sup>

### 3. THE SPECIFICS OF ECONOMISTS

Given the body of literature published about the specifics of economists it might seem that economists are at least a special sub-species of *Homo sapiens*. The texts usually share a common concern – here are three titles as an illustration: “Why are economics students more selfish than the rest?” (Bauman and Rose 2009)<sup>7</sup>, “Do Economists Make Bad Citizens?” (Frank et al. 1996), or “Does Studying Economics Inhibit Cooperation?” (Frank et al. 1993). These texts (and many others) obviously look for an answer to the question whether studying economics makes people selfish, individualistic, unable to cooperate and uninterested in the well being of others.

We can find several reasons why economists could be considered “strange” compared to other social scientists or to the general population. The list might include (but probably would not be limited to):

- 1) One of the central concepts of economics is the proverbial “invisible hand” of Adam Smith. Even if Smith “used the phrase ‘invisible hand’ on three dissimilar occasions in his writings and in each case it was employed, not to exemplify the Panglossian conclusion that markets always convert private ‘vices’ like selfishness into public ‘virtues’ like income and employment for all” (Blaug, 2001: 153), it is precisely this meaning, criticized by Blaug, that has become generally familiar. Economic mechanism is today by many (perhaps most?) economists seen as a tool of such a conversion, allowing smooth functioning of the market mechanism, which can also serve as an excuse for selfishness.<sup>8</sup>
- 2) Economics (esp. mainstream, i.e. neoclassical economics) is built solely on methodological individualism. This, until recently, exclusive focus on an individual, the *Homo oeconomicus*, disregarding any social ties he or she might have, led some authors to criticize the “undersocialized” character of economics (Granovetter 1985).

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5 See for example Noland (2005) or Barro and McCleary (2003).

6 See Pipes (2000) or De Soto (2000).

7 I thank Petr Houdek for drawing my attention to this paper.

8 The problem is, as usual, more complicated, because Adam Smith was carefully distinguishing between selfishness and self-interest, while today these two terms are often treated as equal. See, for example, Chalupnick (2009) for more details.

- 3) Economics was born in the environment of the moral philosophy of the Enlightenment. Until today it carries with it some traces of its ethical background – especially many “liberal” (in the classical meaning of the word) streams of economics are under the influence of ethics of John Locke or David Hume. Even if modern economics insists on its value neutrality, it cannot avoid certain kind of value judgments in which this heritage can be clearly seen.<sup>9</sup>
- 4) Economists are well known for their methodological conservatism. While other social sciences have discovered and embraced various kinds of postmodernity decades ago, mainstream economics seems to be well immunized against various postmodern or “heterodox” approaches and seems to be unshakably resting on the foundations laid at the end of the 19th century.<sup>10</sup>

A combination of these (and perhaps also others) factors gives to economists their specific character that has been analyzed and empirically verified by a series of studies, comparing data about attitudes of economists to the rest of the population, or observing their behavior in various experiments. As for the causes of these specific attitudes of economists, the main dispute discussed in the literature lies in the question whether studying economics really leads to “indoctrination” of students, or whether the specific results of economists are more likely caused by a certain “preselection”, in which case economics would be especially attractive to a certain kind of people.

Bauman and Rose (2009) summarize results of a number of studies which support the thesis that economists are more selfish than the rest of the population (for example: they behave as free riders in public good experiments; they offer lower amounts in ultimatum games; they will more probably defect in prisoner’s dilemma situations and in solidarity games; they accept bribes with higher probability; as employers, they prefer maximization of profit before the welfare of their employees; and they consider allocation based on price mechanism as just). To answer the indoctrination/preselection dispute, they used a dataset of voluntary contribution (presumably motivated by altruism) of almost 9000 students of University of Washington and looked for correlations between changes in the level of contributions and passing a microeconomics course. Their results suggest that students who study economics as a non-major tend to decrease their contributions after the microeconomics course (“loss of innocence” effect), probably because they are exposed to certain ideas or certain people (economics majors). In the case of students who have economics as major no such effect was observed, which is explained by the fact they had lost their “in-

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9 For the – often unadmitted – value background of economics see, for example, Waterman (2002: 907): “Yet what Heyne calls ‘the economic way of thinking’ is more than just a science. It is a way of looking at society that rests on certain assumptions about the human condition. Those assumptions are neither innocent nor uncontroversial, for they stir up baffling moral and theological questions. Is there a higher good than economic welfare? ... If individuals actually are as rational and self-interested as we assume, ought they to be?”

10 See Hausman (1994) for description and critique regarding this point.

nocence” at high school or they were “born guilty”. In their case, pre-selection seems to be the mechanism in operation.

Frank et al. (1996) summarize a series of experiments with students of economics in the U.S. They dispute the fact that they would be “bad citizens” (they, for example, participate in a presidential election in proportions comparable to the rest of the population), but they do admit that students of economics are less likely to contribute to charitable causes and if they do, they give smaller amounts than others. They identify three robust conclusions about economists: (a) studying economics supports the opinion that people are mainly motivated by their self-interest, (b) this view leads to higher expectations that other people will be more likely to defect in various social situations and dilemmas, (c) if they expect others to defect, they will defect as well (Frank et al. 1996: 192).

Caplan (2001) compared sociological data about opinions of economists and non-economists on various economic issues and he tries to identify factors that will cause a non-economist to “think as economists”. A person from the general population thinks as an economist if he (a) has a higher level of education, (b) is a man, (c) his income has increased recently, (d) expects increase of his income in the future, and (e) has a stable job (Caplan 2001: 423).

Although none of the research available dealt explicitly with the relation between economists and their religious beliefs, we can derive some indirect conclusions from them. If I follow the structure of the specific features of economics from the beginning of this chapter, I can summarize:

- 1) All big world religions (including Christianity) place a strong emphasis on altruism and love towards others (Neusner and Chilton 2005), which can be – in the case of economists – in contradiction with the (superficially but commonly understood) concept of the “invisible hand”. This contradiction gets even deeper if we realize that economics has a quasi-theological (or quasi-religious) structure and that it to some extent also tries to formulate a comprehensive world view<sup>11</sup> that can be in many important respects in contradiction with various religious teachings. In some cases, this attitude can lead to deification of the market mechanism, when “efficient” becomes synonymous for “just” or “fair”, crowding-out other alternative ethical systems from the mind of an economist.
- 2) Methodological individualism of economics stresses an individual; the Christian tradition on the contrary places a strong emphasis on community. If we suppose that creating and maintaining such a community is connected with various social dilemmas, then we can (according to previously quoted authors) expect lower participation of economists

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11 See, for example, above quoted Waterman (2002); or Cox (1999). Oslington (2000) argues for the presence of various theological structures in the works of “founding fathers” of economics: Smith, Malthus, Marshall or Walras. He also notes that “economists are less able to recognize the theological content of the currently dominant variety of economic theory” (Oslington 2000: Part 4(a)). The attempt of economics to provide a complex explanation of the world can, in my opinion, be seen, for example, in the so-called “economic imperialism”, i.e. economic analysis penetrating into fields outside economics in the narrow sense, such as family, law, religion, politics and others (Lazear 2000).

in such communities, or at least a higher probability that economists will be more passive members, enjoying advantages from membership, but refusing to contribute to the “common good” (free-riding).

- 3) Even if economics has no ambition to speak directly about the (non)existence of God, given the underlying values of the Enlightenment, the economic approach might be perhaps most compatible with agnosticism or even atheism.<sup>12</sup> This can, among others, lead to different views on certain normative issues between economists and Christians (two such topics will be mentioned in the interviews below – trade with human organs and the problem of abortions).
- 4) Positivist approach of (mainstream) economics and its emphasis on rationality can be in contradiction with a religious stance, which operates with such “irrational” concepts as religious experience, revelation, miracle, mystery etc.

Stark et al. (1996) deal with a relation between religion and science at a general level, and they try to disprove certain deep-rooted clichés about the supposedly hostile relation between these two fields – they show data for the U. S. population that there exists not negative, but rather a positive correlation between religious activity and education. Furthermore, they document with data from 1969 sociological research among American academics that economists are approximately as religious as sociologists or political scientists (the least religious are psychologists and anthropologists); only 10 % of economists were explicitly anti-religious (a value comparable with other social scientists, again with the exception of psychologists and anthropologists who are two times more likely to be anti-religious (Stark et al. 1996: 436)). Similar ideas about the compatibility of science and religion are presented by Iannaccone (1998), although in his case he pays more attention to the possibilities of economic study of religion.

Certain, though indirect, proof of the problematic coexistence between economics and religion, is, on the other hand, presented by Ahmed and Salas (2009) who based on data from cooperation experiments between students of economics in India, Mexico and Sweden find support for the conclusion that religious orientation of these students has no significant impact on the willingness to cooperate. This seems to be in the contradiction with theory (predicting a positive correlation between religiousness and willingness to cooperate) and one of the authors’ explanations is that “economic motivations” of the students crowded-out their “religious motivations” (Ahmed and Salas 2009: 77). This would support the thesis about indoctrination and the competitive nature between the worldviews of religion and economics; however, they list this explanation among several others, and it is impossible to find out from this single experiment how big its weight and relevance are.

If we summarize the previous considerations, we can conclude the theoretical part of this paper by stating that at a general level, economists seem to differ from a general popu-

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12 On the uneasy relation between modern economics and religion/theology see texts quoted in the previous footnote, and also Bruce (1993) who disputes the suitability of the “rational choice” approach to the study of religion.

lation in relatively lower levels of altruistic motivations and lower willingness to cooperate in social dilemmas. Because this is in contradiction with attitudes endorsed by various religious traditions (in our case especially by Christianity), we could expect that there is a conflict between religious preferences of an economist and his or her economic education and profession. We could call it a conflict between religious and altruistic Dr. Jekyll and selfish, rationalist economist Mr. Hyde. This expected Jekyll/Hyde conflict can have two clear-cut solutions, as it is impossible to live permanently in an internal conflict: either the person will leave the economic profession and keeps his or her faith (Dr. Jekyll wins), or stops being religious and accepts the world view of economics (Mr. Hyde wins). Both situations would lead to a lower proportion of religious people among economists.

But our discussion above suggests that neither of these two solutions seems to take place in reality – there is no data available that would prove this Jekyll/Hyde hypothesis. Quite the opposite might be true: the sparse data on relation of economists to religion quoted by Stark et al. (1996) show that the religiousness of economists is not significantly lower compared to other social scientists or to the general population. If we omit methodological issues related to these data,<sup>13</sup> there seems to be also a third solution to our Jekyll/Hyde dichotomy: this conflict is rather imaginary and most economists are somehow able to reconcile these two enemies within themselves. It is precisely the presence of this conflict and the strategies of its reconciliation that we look at in the second, empirical part of this paper.

## 4. INTERVIEWS WITH ECONOMISTS

We can postulate a theory about a reciprocal relation between occupation (profession) and faith. Religious preferences of an individual (especially of those who are brought up in a religious tradition since childhood) can determine areas of his or her interests and thus influence the selection of occupation (faith → occupation). But at the same time having and performing a certain occupation can to a large extent influence the world-view of the individual and therefore, also its religious preferences (occupation → faith). The following chapter, therefore, looks at these two directions in two separate parts.

### 4.1 METHOD AND RESPONDENTS

The survey was conducted in the form of individual in-depth interviews<sup>14</sup> that took place in February 2010 and took approximately 45–90 minutes each. The respondents were 5 cur-

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13 For example, the problem of measuring “religiousness” and its unclear relation to personal faith. Another problem could be related to the fact that most of the data comes from the USA, while the situation in Europe can be substantially different (Davie 2009).

14 For a list of general questions see the Appendix. In some cases not all the questions were used (if they were, based on the responses, considered irrelevant for that particular respondent or if the respondent answered



rent Ph.D. students and one recent Ph. D. graduate, all from the Faculty of Economics and Public Administration (“the Faculty”) of the University of Economics in Prague (“UEP”). All six were men, their ages ranged between 24 and 35 years (the average age was 28 years). All of them described themselves as Christians: four said they were Roman Catholics (respondents A, B, C, D), one Lutheran (respondent E) and one without denominational affiliation (respondent F). Four of them were Slovaks (A, B, C, E); two Czechs. Ph.D. students were selected in the first round by addressing them directly, and in the second round through an e-mail message about the survey that was sent to all Ph.D. students at the Faculty (about 100 people), stating two conditions to qualify (being Christian; and a Ph.D. student at the Faculty or a recent graduate). Ph.D. students were chosen because they should have a greater insight into economics and certain interest in it (Ph.D. studies could be seen as an equivalent to a regular job), and at the same time they could have a fresh experience with the conflicts described above (if any such conflicts existed). Half of the respondents (respondents A, C, and E) also studied some of the BA and MA programs at the Faculty, while others came to the Faculty for their Ph.D. studies only.

A note should be made regarding the background of the Faculty. It is one of several faculties in the Czech Republic (and the only one at the UEP) that provides economic education in theoretical economics (while other faculties of the UEP are more business-oriented). Besides general economic theory it also offers more applied programs focusing on economic policy and public administration. While all sorts of economic theories are taught there, the predominant ideological climate could be described as liberal (in the classical sense); the Faculty has some personal connections with two Czech libertarian/conservative think-tanks (Liberal Institute and Center for Economics and Politics) and, as one of the respondents who studied economics at MA level at a different economic faculty noted, “*liberal approaches are given more space here than somewhere else*”<sup>15</sup>. These approaches (from my personal experience) include mainly Chicago School of Economics, Austrian School of Economics or Public Choice Theory.

#### 4.2 RELATION FAITH → OCCUPATION

The question in this part of the interview focused on the presence of a conflict between faith and economics at the time of choosing economics as the field of study.

**Respondent A** graduated from a grammar school<sup>16</sup>, started studying a non-economic program at another Prague university and since he considered himself “*not very occupied*”, he decided to apply for the MA program in economics at the Faculty. Because it was his second university program, his choice was motivated mainly by his interest and not any

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them before they were asked). Before the beginning of the interview, the respondents were told the general structure of the interview and the focus of the research. In one case the interview was conducted via Skype (as the respondent was currently abroad for an extended period of time).

15 Words or sentences in parentheses and italics are direct quotes from the interviews.

16 A general high school, preparing mainly for further studies at a university.

external pressure (parents were supportive, but left the choice to him). However, his idea of economics at that time was very vague; he knew economics mainly as it was presented in the media. He was brought up as a Roman Catholic, and describes his faith at that time as *“more than just going to the church”*.

**Respondent B** graduated from a business academy<sup>17</sup>, so his choice of a university was determined by the type of high school (when he started it, he had had no ambitions to go to a university). The choice of the high school was a pragmatic one – a better chance to find a job than in the case of graduation from a more general grammar school. When he was considering university, he saw economists as those who *“have a lot of money, work in an office and are generally well-off”*. He was also brought up as a Roman Catholic, but he describes his faith at that time as *“rather superficial, pubertal”*.

**Respondent C**, also brought up as a Roman Catholic, graduated from a grammar school, after which he *“did not really know what to do with myself”*, and he saw economics *“as a good choice for those who don’t know what they want to do”* because of its universality. His idea of economics at that time was that an economist is *“the one who sits in a bank behind the counter”*, but he was hoping it was not the case, *“because I could not stand something like that”*. He was partly persuaded by his parents, *“their approach was pragmatic”*. One of the impulses for starting with economics was discovering a book about Christianity and economics by Michael Novak<sup>18</sup>.

**Respondent D**, also a graduate from a grammar school and a Roman Catholic, chose physics (at a different university) as the field of his MA studies. It was an unambiguous choice. He was not considering any other alternatives at that time. Then he started working as an IT specialist for a company providing solutions for public administration and after several years of this work, he decided to apply for a Ph.D. program at the Faculty. His first encounter with economics thus happened at a Ph.D. level. His notion of economics before that was perhaps influenced to some extent by his studies of physics, so he saw economics mainly as microeconomics, about single firms and individuals.

**Respondent E** also graduated from a grammar school. When applying for a university, he was considering only economic faculties for his MA studies. He explains that this was perhaps because also both his parents are economists; but it was his decision; parents were not interfering. At that time he thought he had quite a good idea of what economics is about (he had read Samuelson’s well known textbook already at high school). However, he did not see any relation between his faith and economics, because he was *“somewhere on the boundary between faith and non-faith”* at that time, as he got baptized (in the Lutheran church) only later, when he had been already a student of economics.

Finally, **respondent F** graduated from a grammar school. His relation to Christianity from an external point of view is perhaps the loosest among all the respondents – he has not been baptized and does not feel to belong to any specific denomination (*“I dislike*

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17 A high school focusing mainly on business-related fields (business administration, accounting etc.).

18 Michael Novak (born 1933), American economists and philosopher.

organized religion.”), though he mentioned “*I sort of like protestant ethics*”. He described his religious status (current as well as at the time of choosing his field of study): “*I am a Christian, because one has no other choice*” and added: “*I could try to be a Buddhist, but it wouldn’t work in our environment*”; he also admits there has been some “*new age influence*” in what he believes in. He graduated from a grammar school and already there he read a textbook on economics, describing ideas of Adam Smith, “*how the invisible hand arranges things*”. He found these ideas appealing, as he explicitly said, “*because they corresponded to how I saw the world*”.

### 4.3 RELATION OCCUPATION → FAITH

Questions in this part were focusing on the influence of studying economics on the views of the respondents. After asking about a general influence, the questions were centered on the influence of studying economics on faith and possible a conflict arising from this combination. Finally, three potentially conflicting areas were mentioned: (a) involvement in voluntary activities, (b) perception of the church hierarchy, and (c) perception of charitable activities and non-profit organizations.

Regarding the general influence that their studies of economics had on their world views, the impact ranges from zero to some, but none of the respondents said that economics turned his view of the world upside down. **Respondent A** admits, that he was “*certainly influenced, for example, I look at most social problems as an economist*”. But he also said that this influence was “*rather marginal, compared to other influences related to coming to Prague, meeting new people and so on*”. **Respondent B** said: “*Studying economics made me think more analytically. My view of politics also changed, thanks to the public choice theory - now I think that politics is not based on some general, public interest, but on the self-interest of politicians.*” **Respondent C** also sees the change in his world view as “*not so radical*”, but he admits, that when studying economics, “*I have to reflect its influence [on me], because as Smith<sup>19</sup> or Mandeville<sup>20</sup> tell us that vices can be converted into virtues, one can easily become indifferent to selfishness*” He also stated: “*When I talk to some of my friends, they are often surprised by some my opinions, for example when talking about how economic growth can help the poor.*” **Respondent D** (a former student of physics) claimed: “*At first, I was terrified by some approaches of macroeconomics, mainly when they were treating people as a mass, for example looking at correlations between health or level of education and GDP. Although we do the same in physics with particles, atoms, it is not the same - these are living people! I was also surprised by the attempt of economics to manipulate all these things, a sort of social engineering. But I have got used to it.*” He also acknowledged that thanks to economics, “*I can now better understand some political decisions; it also allowed me to see things in their complexity.*” **Respondent E** claimed: “*Studying economics did not teach me many practical things, but it taught me how to think, so the influence is more at the methodological level.*” **Respondent F** said

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19 Adam Smith (1723-1790), Scottish moral philosopher and political economists.

20 Bernard de Mandeville (1670-1733), Dutch and English philosopher and political economist.

he liked the theoretical framework of economics that helped him to shape his world-views. He also appreciated those teachers who were able to “cast doubts upon what one hears in other classes” and was a big fan of interdisciplinary approaches; he enthusiastically recalled lectures where the teacher “was talking about art and was able to connect it with philosophy and economics”. He repeatedly claimed that economics in many ways confirmed what he thought was true before he started his studies: “theories of spontaneous order”, “that things have a certain purpose”, “that there are some invisible things that cannot be seen at first sight and that could be even more important than visible things, as Bastiat<sup>21</sup> said”, or “that people do what they can do best”.

The next set of questions was about the specific influence of studying economics on the respondents’ faith and about the presence of any resulting conflicts.

**Respondent A** mentioned, that it is not always clear what one means by economics “because there is heterogeneity of approaches in economics and different economists think different things”, but when he focused on conflicts, he mentioned: “For example when some economists argue for abortions, because they - according to them - decrease crime rates. No unwanted children are born and as a result, the crime rates will be lower in fifteen, twenty years. ... My counterargument could be on moral grounds in a Christian environment, but I can also argue in an economic way among economists; they probably wouldn’t buy moral arguments. In this particular case I could look if there is any autocorrelation, some other factors influencing the crime rate.” Besides that he also talked in a similar manner about trade with human organs. Finally, he continued with a general contemplation of the role of values in economics: “Economics pretends that it is value free, but in fact this is not true - it is deeply rooted in the ideas of the Enlightenment. ... But this [moral dimension of economics] does not constitute economics for me; one can be an economist without identifying with it.” He concluded by pointing to what he sees as a hierarchy of values: “Economics deals with what is efficient, what leads to growth. Growth is also a value, and for some it can be even the ultimate value, but for me it is rather a mediating value that points to values above it. In the case of growth - people were created in the image of God, to create good, cultivate land, increase material welfare. But this cannot be without limits - one cannot, for example, kill all old and sick people who are not productive, although it would lead to greater material welfare for everyone else. He cannot do it because of some other, higher values.”

**Respondent B** said that “the influence of my education on my faith is not substantial. To think as an economist and as a Christian are two different things. I would rather put it in the opposite direction - thanks to my faith I can see thing in economics that I wouldn’t realize otherwise. For example, how reputation and trust pay off in economics - that is a confirmation of what one believes in.” When discussing potentially controversial fields, we got to the problem of abortions and he noted: “I know that when one looks at them [abortions] economically, he can come to a conclusion they shouldn’t be prohibited. But that, from my perspective, is not a complex perspective, because it looks only at the results, not the beginning of the problem. If

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21 Frédéric Bastiat (1801-1850), French political economist.

*I use the ethics of economists, the body belongs to the mother, she has a right to choose. The problem is that she had chosen already in the time of the intercourse - we are not talking about rape - and now she must accept the consequences. Economics describes some consequences, but they are not arguments for me; they perhaps only let me understand better those who argue for choice."*

**Respondent C**, when talking about the relation between economics and his faith, returned to Michael Novak and he said: *"My initial enthusiasm for Novak is from a greater part gone today. It was explained by one of my acquaintances to me, he [the acquaintance] is quite conservative, but not a priest, that Novak's ideas are theologically on the margin."* When talking about controversial topics, such as abortions, he said: *"In the discussion, I usually give the economic argument. But then I feel that it describes just a part of reality and I feel I need to add also a moral perspective. But in some cases, in the relation between faith and economics "there is no contradiction for me, for example, in the case of catallactic<sup>22</sup> rules, adhering to contracts, respecting private property. That is in accordance with what the church says. If I see any contradiction, I always console myself with this example, that conciliation between the two is possible. ... But I haven't solved all the questions; I feel I need to become a good economist first, to understand things better. I am still trying to reconcile economics and theology, but I probably leave it more for the future."*

**Respondent D** replied: *"I see no relation between my studies of economics and my faith. People have free will and can decide and that is what economics and other social sciences look at."* Because he mentioned several times parallels between economics and physics, he was asked whether he sees any problem in relation of physics and religion, for example in the case of miracles. He replied: *"I don't think there is any contradiction. Physics can explain, according to some, only four percent of things around us, there is hidden matter and energies that contemporary physics knows nothing about. It describes causes and consequences, but does not ask why things are as they are. I would even say that thanks to physics I was able to fully appreciate the miracle of the creation - I gained deeper understanding how miraculous the world is."*

**Respondent E** also was not aware of any influence of studying economics on his faith, partly, as was mentioned above, that in his case growing understanding of these two things was happening simultaneously. When asked about a specific area where he feels some tension, he mentioned: *"It is probably the sphere of social policy, what the state does there, for example, intergenerational solidarity, and what are Christian values, for example, strong emphasis on family, that children should take care of their parents and so on. I think the church should play a greater role in this field than today."* But he also listed some fields where he sees these two views as harmonious: *"For example in the case of private property protection, there the approaches of religion and economics are similar, or private charity and similar things, but I have never really thought about it in a greater depth."*

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22 Catallactis, or the theory of exchange, concept developed especially by two Austrian economists F. A. von Hayek and L. von Mises.

In the case of respondent F, his economic education and his faith seem to be quite harmonically intertwined and when discussing potentially conflicting fields, none such came to his mind. When asked directly about the impact of economics on his faith, he replied: *“I can better formulate things. Perhaps a sort of formalization of what I believe in. It [economics] helps me define terms, experiences that are hard to be expressed in words. It can easier create coherent concepts out of what is in my mind.”*

Several respondents came to the problem of supervising a student’s thesis on some of the controversial topics, or using arguments they do not agree with because of their faith. The responses were unanimous in this case: **Respondent A:** *“I would try to differentiate between my valuation of the student’s way of argumentation – that is what we are supposed to teach them –, and the opinions of the student, or in other words, the difference between a method and values. ... The case is different if I were asked to write such a text, for example, to defend abortions. Then I would refuse.”* **Respondent B:** *“I probably wouldn’t refuse to supervise a work on such topics, but I would try to act as the devil’s advocate, I would try to argue with such a student. Behaving as an economist does not necessarily imply how one would behave in private life. I take it as a job, I respect their opinions, I would help them in what I can do. I would try to do my job as best as I can.”* When asked if he himself would mind to be an author of such a text, respondent B replied: *“That is something different. In that case I would try to explain to my boss it would contradict my conscience if I had to write something like that.”* **Respondent E:** *“I would accept to supervise such a thesis. In the past, I supervised a thesis on alcohol regulation or gambling. I don’t mind when students have different opinions. The goal of their studies here is to teach them how to think, not to have them memorize some doctrines.”*

Leaving the general sphere, the rest of the interviews dealt with more applied fields, first of them being the involvement of the respondents in some voluntary activities, either in their religious community or anywhere else. One of the aims of this section was to find out if their involvement (if any) has changed in any way since they started their studies of economics. **Respondent A** was active in his parish community, and he still is after coming to Prague, as he says, *“perhaps as much as in the past, just at a different place”*. When asked about motivations, he responded: *“I do it because of what it brings to me – human benefits, social capital from belonging to some community, for example in the past a friend of mine, who is in the same parish and also teaches at our university, helped me with preparation for the class that I was teaching. But there are also some spiritual benefits, a good feeling from doing something good.”* **Respondent B** said: *“I used to spend a lot of time with my friends from the parish, we organized programs for children, sport and so on – my faith was a strong motivation. I took it as a service. I don’t continue with this particular activity anymore. I am older, perhaps more indolent. But I do organize activities in one parish in Prague, although I do not feel to be a stable part of any parish anymore. ... This might be the impact of economics. Perhaps my world-view is today more individualistic.”* **Respondent C** also came to Prague for his studies. He was a member of a parish in his home town and he still is. He returns home often, about once every two weeks. *“I sometimes serve as a ministrant; I sing in the choir, organize meetings, theater performances, or donate money, but still I feel I mainly consume the benefits rather than contribute to them. I was never overly altruistic, and perhaps the school is supporting me*

in this [non-altruistic behavior]. *I don't have much time now, but that is probably a common excuse.* **Respondent D** goes sometimes to his local church and describes his position as being *"on the borderline between those who are active in the parish and those who only benefit"*. He continues: *"My faith is more individualistic. I don't like being a member of large groups. I like to discuss things with my fellow parishioners, but rather in private, not in some organized manner. I do not participate in any parish activities, perhaps with the exception of activities for our children, carnival or so. ... Sometimes I donate some money."* **Respondent E** also does not see participating in a religious community as important: *"Perhaps it is the difference between Catholics and Lutherans - we [Lutherans] don't need to go to church to confess; you can do it in your living room. I have nothing against such communities. Whoever wants to join them should join them. It might have sense for some people."* Finally, **respondent F** does not have any religious affiliation and does not feel to belong in any kind of religious community. When asked if he would contribute in any way to some voluntary activity if somebody asked him to do so, he replied: *"I was taught some kind of business ethics, that when one is good, it pays back somehow. I don't believe this is true. I would personally always look at the costs and benefits for me. For example, I could have a chance to learn something from it. Just giving or helping wouldn't be a sufficient motivation for me."*

The second "applied" set of questions was related to the respondents' perception of church hierarchy and specifically if they see any tension between self-interested motivations of church representatives/hierarchy members and the religious view that the Christian church should also consider other perspectives (or in theological terms, that it should be inspired or led by the Holy Spirit). **Respondent A** does not see these two perspectives in contradiction: *"Economics does not necessarily imply egoistic motivations; it can also work with altruism. I don't think that the representatives of the Church would be worse than the general population. There is an analogy with politicians - they are not worse, just more exposed to temptation. ... People are fallible, but thanks to God's grace, there is a chance in the case of the Church that it will work better and longer than any kind of human community. And I think the long history of the Church proves it."* **Respondent B** admitted, that *"motivations to, for example, become a priest can be also material; one does not burden his family. I used to think that when one decides to become a priest from these material reasons, it is a way to hell, because this priest does not take it seriously, does not have vocation. Then somebody told me that we don't know all the paths of the Spirit - maybe material poverty that brought him to church, is such a path. Even he can become a good priest. It is difficult to judge motivations when we don't know how the Holy Spirit wants it... You cannot really talk in public-choice-theory-terms about the Holy Spirit... God knows people's motivations, not me. I don't know them, I don't judge them."* **Respondent C** goes somehow further: *"I don't see any contradiction in that. I don't think that the Church should be democratic, I think it shouldn't act according to how some majority of people votes... Priests also do have material motivation;, they are also children of our modern age. I have no problem with a priest having a car; he can easier reach his parishioners."* **Respondent D** also has no problem with merging these two perspectives: *"Faith is for me a personal relation, and only after that a matter of a church... I believe everyone should find his way, individual motivations are not so important for me. If you take an example from physics - when you deal with*

large numbers of particles, individual characteristics of these particles become less important. A similar thing applies in any community.” **Respondent E** said: “An economic perspective of a church is no problem for me. Similarly, as any kind of firm, also the Church is considering what it will do and what it will leave to others. Hayek<sup>23</sup> would, for example, say that everything should be only at the level of individuals, while Coase<sup>24</sup> would say that a certain degree of organization is necessary. The latter is probably true for the Church...I see its importance also in keeping the values for the last two thousand years. This long history is what distinguishes us, for example, from the Muslims.” A similar perspective was applied by **respondent F**: “For me, a church is a club. It is a mechanism of enforcing certain rules, lowering transaction costs, a mechanism of keeping certain a system. It creates centers of homogeneity in an otherwise heterogeneous environment.”

The final set of questions was trying to reveal the attitude of the respondents towards charitable activities and the non-profit sector in general (leaving aside involvement in their churches). To make the answers more specific, some questions were related to helping homeless people. **Respondent A** said he contributed (besides his church involvement) with money to charitable causes, not regularly, but, for example, in case of some natural disaster. He was asked if he sees any contradiction between market allocation of resources and the need for nonprofit activities. He said: “Market does not solve all problems. It is just one of the ways. There are also other allocation mechanisms - state, and private nonprofits...I don't give money to people on the streets, I have no guarantee they will not use it to buy alcohol, for example...I think there should be some redistribution in the society; if we have enough, we should share. But we should not allow people on social welfare too high of a living standard.” **Respondent B** provided a similar answer - he gives money to charitable causes, but rather on an irregular basis. He also sees space for nonprofits: “They should have greater room than today, I am for subsidiarity. I like, for example, de Tocqueville's<sup>25</sup> Democracy in America, where he describes how private voluntary organizations were flourishing in the U. S.” As for the beggars in the streets, he noted: “A beggar is where it should be. He should be rewarded by his marginal product. Why should we help him? I think that anyone can contribute to the society, everyone has some comparative advantage. If someone decides to throw it away, let him stay in the ditch.” **Respondent C** said: “I do not condemn nonprofit organizations, but I prefer giving money in my church, even if some say that churches are less efficient. Efficiency is not my main concern when giving. I do sympathize with nonprofits, but I don't give them anything...I used to give money to the homeless sometimes, but I felt it is not right, because I don't know if I am not in fact harming the person, for example if he goes and buys some alcohol for the money. I think that the number of homeless people is greater than it could be, because they rely on getting money from people....” **Respondent D** claims he sometimes supports official fund-raising campaigns or nonprofit activities in the street, but not anonymous individuals. He also said:

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23 Friedrich A. von Hayek (1899-1992), Austrian economist and political philosopher.

24 Ronald H. Coase (born 1910), British economist.

25 Alexis de Tocqueville (1805-1859), French political philosopher.



*"I don't agree with the view that nonprofit organizations must be less efficient than private firms. It depends on the people there. I believe that when they are really trying to do something good, the nonprofits do carefully look in what they put their money, while companies in many cases don't...Nonprofits also have a big advantage over the state, because they know local conditions, but I don't refuse the idea they could be supported from tax money."* **Respondent E** said that besides giving money in the Church "my need for being altruistic is satisfied by paying taxes. If I was asked by some private nonprofit organization, I would consider giving them money. It depends on how much I would have at that time. If I have enough money or time, I would share, if not, then not. I usually don't look how the money I give is spent. I trust the institution; they must know how to spend them. I believe they do it in an efficient way." As for the homeless people, he thinks "it is their decision to live on the street. They should be taken care of by the community that they belong to and that pays taxes on them." **Respondent F** said he had "flashes of altruism sometimes", and he added: "I believe one can help others in the best way by helping himself. For example, a businessman by creating jobs. Or I can help people in Africa if I study, like Easterly<sup>26</sup> did, whether international aid is really helping them or rather causing harm. One of my friends saw on TV something about Africa and wanted to adopt a black baby there. I told her she could do more good by going to the Central Train Station and help several homeless guys there. She was not very pleased with this suggestion. I try not to lie to myself as she did. I am realistic. But I see that this concept of helping others by helping myself does not work in the case of those who are really unable to help themselves. In this respect I am kind of inhuman."

## 5. CONCLUSIONS

The set of respondents proved to be quite varied, regarding both the respondents' relation to economics and also to faith. Despite the diversity, some conclusions can be made.

Summarizing the first part of the interviews, it seems that none of the respondents was aware of any serious conflicts resulting from his religious beliefs and his interest in economics. The reasons they provided, of course, differ: in some cases the reason was they simply did not know precisely what economics was about (respondents A and B). Respondent E on the other hand knew economics, but was only discovering the content of Christianity. The two persons mentioned their views of economics and religion were more or less in harmony (C and F); however, in the case of respondent F, it seems that his relation to Christianity is the loosest (he is also the only one among the respondents who has not been baptized). The case of respondent D is quite unique, because he got to economics through physics, but even in his case no conflict was present (as he was able to reconcile his faith with physics and his view of economics seemed to be partly influenced by it).

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26 William R. Easterly (born 1957), American economist.

As for the second part, the answer is more complicated. There seems to be a certain influence of economics on the general views of the respondents - they all more or less talk about a specific economic way of thinking or looking at the world. Some respondents felt this “indoctrination” – to borrow a term used by Bauman and Rose (2009) – was not smooth: respondent C felt to be tempted by the way it might provide excuses for selfishness, respondent D used quite a strong word, “terrified”, when he was confronted with certain methods of macroeconomics. Others did not talk about any such problems, or they even felt (perhaps most clearly in the case of respondent E) that economics added a deeper sense to what they had thought about the world.

Probably the most interesting (and also most diversified) answers were provided when talking about the core of this part, that is, the influence of economics on faith and possible conflicts. Some areas were seen clearly as problematic, some as complementary. Those who are aware of a certain conflict practice quite strict differentiation between the method of economics and its normative contents. They place emphasis on the method of analysis, while the underlying values are not so important to them, and/or, as explicitly stated in the case of respondent A, they can to some extent integrate them in their hierarchy of values. It seems that the contradiction has been solved at least in the case of the respondents A and B. Respondents D and E probably never felt such conflict (in the case of D given his previous experience with physics; in the case of E thanks to gradual “growing-into” both economics and Christianity, simultaneously). In the case of respondent C, his previous reconciliation has lost its credibility (probably, as he indicated, by being exposed to a more “conservative” interpretation of Catholicism), and today he considers his state as partly unresolved, but even he can see some areas of harmony.

It is also obvious that there is some common ground that economists and Christians share: respondent B mentioned questions regarding trust and reputation, respondents C, E and F talked about general market (or catallactic) rules and spontaneous order, E also about attitude to private property.

As for the first “applied” question about their involvement in voluntary activities, several respondents felt some influence of economics: B mentioned a certain decrease of his activities, but still remains active in some way; two others said explicitly that their faith is individualistic (D, E) and one that he had problems with remaining altruistic under the influence of economics (C). On the other hand, the responses to the second “applied” question about their perception of church hierarchy were unanimous: no conflict in their views as Christians and as economists – partly perhaps because of a relatively loose relation to churches (D, E, F), partly because of allowing for some divine inspiration (A, B, C). The final “applied” question revealed in the case of all respondents certain distrust towards individuals asking for money on the street (in most cases motivated by their inability to control what is done with the money, they give, and partly also because of moral hazard issues). They believe more in private, non-profit organizations. Some of them support them materially (though on an irregular basis – respondents A, B, D, potentially also E), one only verbally and he gives money only to his church (respondent C). Respondent F provided

a negative answer, based on a certain formulation of self-interested ethics, which was not without inconsistencies as he partly admitted in the interview.

Summarizing the responses in the second part it can be said no respondent saw his faith and his economic education as radically irreconcilable at a general level. For one of them the case remains partly open (C), for the rest there are some fields where solution is difficult to be found (while they also see others, where these two views are explicitly in harmony), but still they have been able to find a way by distinguishing between an “economic way of thinking” and a “Christian way of thinking”.

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Given the qualitative nature of the survey, it is impossible to answer quantitative questions - for example, it is not possible to say to what extent the respondents are a representative sample. It might be the case they more likely represent a pre-selected group - for example, because those who are coping with problems in their minds were not willing to go through a personal interview; or they could be more-than-average altruistic, because they had to give up a substantial amount of their time for the interview (without receiving any material reward in return). Further research with greater samples of respondents would be necessary in this respect.

Still I believe this brief survey reveals something interesting both about Christianity and about economics: It can show to Christians that their faith does not exist in a vacuum, but is rather a result of a never ending process of dialogue between them and the world, a dialogue, that can be both uncomfortably puzzling and intellectually enriching. To economists it can show the limits of their science in what they believe to be a “value free” explanation of reality and shed some light on the importance of social institutions shaping human behavior that go beyond the excessively restrictive concept of *Homo oeconomicus*.

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## **APPENDIX – SETS OF GENERAL QUESTIONS USED DURING THE IN-DEPTH INTERVIEWS**

### **PART 0 – PRESCREENING – FINDING CHRISTIANS**

- Are you a Christian?

### **PART 1 – RELATION "FAITH → OCCUPATION"**

- **selection of field of study and future occupation**
  - What high school did you go to?
  - When did you decide to study economics?
  - What did you understand under terms "economist" or "economics" at that time?
  - Why did you decide to study economics?
- **religious status in the time of choosing**
  - How important was your faith for you at that time?
  - Did you belong to any Christian denomination?
  - How did you become a Christian?

- **importance of faith in the selection process**
  - How did your faith influence your selection?
  - Did you consider any other alternatives?
  - Did you see these two fields as conflicting?
  - If so, how were you solving this conflict at that time?

**PART 2 - RELATION "OCCUPATION → FAITH"**

- **the influence of studying economics on general values**
  - How was your world-view changed by studying economics?
  - Can you provide any specific field (an example) where your opinions changed most?
- **the influence of studying economics on faith**
  - How did your faith change during your studies?
  - What caused this change?
  - Are there any fields where your faith gets into conflict with what economics says?
  - If so, how do you solve this conflict?

**PART 3 - POTENTIALLY PROBLEMATIC AREAS (BASED ON THE LITERATURE AND PERSONAL EXPERIENCE)**

- **joining voluntary activities**
  - Had you been active in any voluntary activities before you started your studies of economics?
  - Are you today?
  - How did your activities change?
  - What caused this change (if any)?
  - Can you identify any influence of your studies (other than for example lack of free time)?
  - If you are active in any kind of voluntary activity, what does it bring to you?
- **perception of the church hierarchy**
  - One of the theses of economics (and specifically, public choice theory) is that people are motivated by their self-interest. Did this view change your perception of the church and its representatives?
  - If the church should be inspired or led by the Holy Spirit and not by worldly motivations, as the Christians believe, how are these two views compatible?
- **perception of altruism and related areas**
  - What kind of charitable activities do you contribute to?
  - Why are such activities necessary, if the market is believed to allocate resources in an efficient way?
  - Do you think your money is used efficiently by that particular organization?
  - Are non-profit organizations efficient (in general)?
  - If somebody asks you for money on a street, what is your usual reaction?
  - What do you think about homeless people?
  - Who should take care of them?

## BOOK REVIEW

# **THE INVISIBLE HOOK: THE HIDDEN ECONOMICS OF PIRATES BY PETER T. LEESON. 2009. PRINCETON, NJ: PRINCETON UNIVERSITY PRESS**

Pirates have been called many things, “sea-monsters...hell-hounds...Robbers, Opposers and Violators of all Laws, Humane and Devine... Devils incarnate...children of the wicked one.”, but never before has their keen use of economics been a key characteristic of history’s most notorious criminals. This is where Peter T. Leeson gets involved. A professor in the Department of Economics at George Mason University, Leeson aims to uncover the relationship between his two major academic passions, economics and piracy.

*The Invisible Hook* is broken up into eight manageable chapters, an introduction, six main chapters and a conclusion, which is the first on my long list of praises. It begins by describing the most central idea to economics, the “invisible hand”. Adam Smith, a Scottish moral philosopher, suggested that people are self-interested; they do what is best for them. Yet, for people to do what is best for them, they often must do what is best for others. Leeson argues that the reasoning for this is simple; it is hard to complete our goals alone. This principle applies to everyone, even pirates, in the form of the “invisible hook.” Unlike the invisible hand, pirates did not benefit society by creating wealth, but instead harmed society by stealing existing wealth. Still, cooperation between pirates had to be maintained to fulfill each pirate’s self-interest. “It’s not just that economics *can* be applied to pirates... [it is] the only way to truly understand flamboyant, bizarre, and downright shocking pirate practices. Strange pirate behavior resulted from pirates rationally responding to the unusual economic context they operated in...Peglegs and parrots aside, in the end, piracy was a business.” Leeson argues on page 6.

Leeson goes on to describe the common fiction which portrays seamen as “choosing piracy out of romantic, if misled, ideals about freedom, equality, and fraternity” (p.11) Despite the likely possibility that all of these ideals could be achieved, just about all pirate actions came down to money. Piracy could be (and often was) a profitable business. While there is little information on the average pirate’s wage, available data suggests that while “Anglo-American seaman...were collecting less than twelve pounds sterling a year...pirates could realize a hundred or even a thousand times more” (p. 13) This quote brings up another thing I really enjoyed about this book. Leeson notes early on that he is not a historian, but it is clear that he has done the proper research to view pirate behavior through an economic lens. He does not simply state his opinion, but utilizes secondary sources to

integrate relevant and interesting historical knowledge into the book. One clear example of this occurs in chapter 2, with his explanation of pirate democracy. Pirates, unlike 17th and 18th century governments, elected their leaders democratically and voted on all important matters upon the ship. By constraining captains' ability to benefit themselves at crew members' expense, democratic checks and balances facilitated piratical cooperation.

This book is full of examples of how Leeson's economic focus provides new and unexpected ideas about pirates. While too numerous to mention in detail here, I'll briefly discuss several of the most noteworthy examples. For example, did you know that pirates created "articles of agreement", also known as pirate codes, to create order on pirate ships? Constitutions also created a "rule of law" which put all members on an equal playing field when it came to legal matters. Leeson asserts that these constitutions prevented negative externalities which could weaken the crew members' ability to cooperate.

To me, the unexpected analysis of the pirate flag or "Jolly Roger" in Chapter 4 is one of the most fascinating concepts of the entire book. Pirates capitalized on an idea economists call signaling in which one party conveys some meaningful information about itself to another party to improve their bottom line. The skull and crossbones were much more than an indicator of the pirate life, but also encouraged targets to surrender without a fight. This chapter surprised me because pirates are always portrayed as blood-thirsty, high conflict criminals. In fact, they often tried to completely avoid violence because battles were costly. Leeson suggests that this did not only benefit the pirates, but also the ships they plundered because there was no bloodshed or loss of lives.

Pirates capitalized on the idea of reputation building by torturing those who were captured. This further influenced victims to give in without a fight. Most seamen were not eager to share their booty with pirates; some even destroyed their valuables when faced with an inescapable pirate attack. This behavior jeopardized pirates' revenues. In response pirates began creating a reputation of violence and insanity. They used brutal torture methods to instill fear in merchant ships' passengers. Torture was also used to discourage authorities from pestering them, as well as to create their own justice where government failed. Such brutal acts contributed to an important benefit, the reduction of abuse by merchants since the pirates would torture corrupt merchant captains. Viewed through an economic perspective, pirates did not act out of a personal desire for brutality, but as a way to best profit and benefit themselves in their situation.

Popular culture is once again put into question by Leeson when it comes to the idea that pirates drafted innocent and unwilling seamen into their ranks from ships they overtook. The "pirate press" as it is known was actually an attempt by pirates to exploit a loophole in the eighteenth-century legal system. Rising costs threatened the business of piracy through legal changes, so the businessmen, pirates in this case, found a solution. After reading *The Invisible Hook*, I agree with Leeson that a pirate ship more closely resembles a Fortune 500 company than the society of savage schoolchildren depicted in William Golding's *Lord of the Flies*.

One of the most amazing aspects of life on a pirate ship was the level of tolerance among its passengers. While British merchant ships treated African-Americans as slaves, some pi-



rate ships integrated black seamen as free and equal members of their crews. Unfortunately, not every ship partook in such behavior. Some participated in the slave trade, some offered equal treatment, some did both. Using his economic background, Leeson brings up a good point about this tolerance. A personal sense of equality was not the reason pirates were so accepting, but instead simple cost-benefit considerations. The benefits of enslaving a black sailor were widely dispersed among the crews' free members. The potential costs, mainly the increased chance of being captured was borne by each of the crew members, often making it unprofitable.

*The Invisible Hook* manages to take all that society has told us about pirates and turns it on its head. They were not just scallywags who roamed the seas in search of treasure and treason, but businessmen acting on simple, cost effective means. Leeson has presented information in such a way that it engages the reader with a mix of history and humor. I can only imagine a captain teaching "The Secrets of Pirate Management 101" as he mentions in the last chapter, with such lessons as "Follow the Booty", "An Open Mind is a Full Treasure Chest", and "Look Sharp to the Law and Devil Damn Ye if Ye Don't". I enjoyed this book because of how enthusiastic Leeson is, and how he is not afraid to sound a little silly ["...don't forget to practice reloading your blunderbuss. You'll be tested on this when we return" (p. 186)] No other book I have read offers this sort of entertaining and eye opening content to a subject which is normally labeled as boring. *The Invisible Hook* delivers on its promise to reveal the underlying economic forces propelling history's most curious criminals.

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