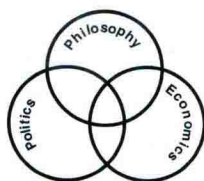


# Culture and Economic Action

Edited by  
**LAURA E. GRUBE and VIRGIL HENRY STORR**



*New Thinking in Political Economy*

# Culture and Economic Action

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## Culture and Economic Action

## NEW THINKING IN POLITICAL ECONOMY

**Series Editor:** Peter J. Boettke, *George Mason University, USA*

New Thinking in Political Economy aims to encourage scholarship in the intersection of the disciplines of politics, philosophy and economics. It has the ambitious purpose of reinvigorating political economy as a progressive force for understanding social and economic change.

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Culture and Economic Action

*Edited by Laura E. Grube and Virgil Henry Storr*

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# 1. Introduction

**Laura E. Grube and Virgil Henry Storr**

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Culture shapes economic behavior and colors economic outcomes. Although we may choose to avoid explicitly discussing culture within the social sciences, it will be implicit in our assumptions.<sup>1</sup> The question, then, becomes how to incorporate culture into economic analysis. Some economists have conceived of culture as a tool or a resource as they have attempted to operationalize a difficult concept. Others have discussed culture as if it were a set of blinders, closing off some opportunities and focusing attention on others. Still others have treated culture as a lens through which we view the world, or perhaps colored glasses that establish a certain hue to our vision.

In order to understand how culture shapes economic behavior, we might ask how culture influences a person's expectations in the market as well as in what may be considered non-market settings. Do they believe that their peers and colleagues are trustworthy? Do they imagine that hard work is rewarded? Do they think that their family is likely to provide emotional and/or financial support? Economic outcomes and economic institutions are intimately tied to our answers to these questions. And the answers to these questions are in part shaped by culture. Moreover, when we discuss challenging topics such as economic development, we can benefit from paying attention to how culture has influenced economic activity in that context. Culture, for instance, plays a role in how markets are organized, whether we rely on small firms or large firms, and whether those firms are vertically or horizontally integrated. Culture plays a role in which opportunities are pursued and which opportunities are overlooked.

Until recently, culture had generally been understudied within economics. Thus culture remains an area that needs further exploration. To many economists, culture is simply a vague concept that is difficult to separate from other variables which impact human behavior. Others avoid topics that might require engagement with or the importation of ideas from other disciplines. The avoidance is closely intertwined with the way that economics has been traditionally defined and, relatedly, beliefs about what constitutes the appropriate methods for exploring economic

subject matter. Moreover, there are economists who deny culture has any real value, emphasizing that relative prices can explain why we select some decisions over others (Stigler and Becker 1977).

In an effort to make culture more concrete, economists have conceived of culture as a form of capital, treating it like a set of tools or a resource that certain groups possess or other groups do not possess. Although there may be reasons to argue that aspects of culture may not be easily understood by analogy to capital (Storr 2008), the culture as capital approach is arguably the most popular. Efforts to identify and quantify culture have relied on survey data, trying to pinpoint several survey questions that can act as proxies for culture.<sup>2</sup>

Still, some economists have chosen another approach. Austrian school economists have contributed a great deal to our understanding of the relationship between culture and economic action.<sup>3</sup> Austrian economics is a science of human beings that is primarily concerned with making sense of meaningful human action. Austrian economists, because they view economics as a science of human beings and a science of meaning, are particularly well suited to inject cultural considerations into economic analysis.

Austrian economists have argued that in order to understand an individual's behavior it is important to look to the meanings that individuals attach to their actions. As Mises explains ([1963] 1966: p.26), 'We cannot approach our subject if we disregard the meaning which acting man attaches to the situation, in other words, the given state of affairs, and to his behavior with regard to this situation.' Similarly, Hayek has said that meaning is at the center of understanding human action. As Hayek writes (1952: p.44), 'so far as human actions are concerned . . . things are what the acting people think they are . . . [and] unless we can understand what the acting people mean by their actions any attempt to explain them . . . is bound to fail.'

Arguably, a focus on culture, which can color and shape meanings, is a natural outgrowth of the Austrian emphasis on meaning. Not surprisingly, Austrian economists have written a great deal about the relationship between culture and economic action. Some of those explorations are reproduced in the chapters that follow alongside original research that attempts to expand or apply Austrian insights about how culture shapes economic activity.

## THIS VOLUME

This volume brings together recent contributions within Austrian economics on the relationship between culture and economic action. Part I

offers more theoretical contributions. Several of these chapters have been published elsewhere. Rather than arrange the chapters chronologically, we assemble them into a conversation. For example, Lavoie's critique of Kirzner's theory of entrepreneurship for apparently closing the door to cultural considerations follows a chapter that was written after the Lavoie piece but offers a broad perspective on why economists should study culture. Still, there is unavoidably some overlap between the chapters, as the authors are attempting to cover similar territory. Part I concludes with Storr's discussion of a Weberian approach to cultural economy. Storr's theoretical contribution and application to the Bahamas serve as a bridge to Part II.

In Part II, we bring together new and previously published applied works that explore how culture impacts economic action in specific contexts. The chapters explore a diversity of contexts and move from post-disaster New Orleans, to Eastern Europe, to the African continent, to a space that operates outside of traditional geographic locations. The methods employed are also quite diverse. Several studies make use of in-depth interviews, while others find common narratives in literature. Together, the applied chapters present a rich collection that aids in our understanding of the relationship between culture and economic action.

Part I begins with Storr's argument for why economists ought to study culture. In Chapter 2, 'Economists should study culture,' Storr argues that, although there are good reasons why economists tend to avoid incorporating culture into the analysis, ultimately they can ignore but cannot avoid culture. The only choice they face is between employing culture implicitly and employing it explicitly.

The next two chapters engage Kirzner's theory of entrepreneurship and the market process. In Chapter 3, 'The discovery and interpretation of profit opportunities: culture and the Kirznerian entrepreneur,' Lavoie critiques Kirzner's theory of entrepreneurship and argues that culture is a neglected and yet critical aspect of a theory of entrepreneurship. Chapter 4, 'The determinants of entrepreneurial alertness and the characteristics of successful entrepreneurs,' by Storr and John, defends Kirzner's theory against claims that it is too simplistic, arguing that by isolating the role of alertness Kirzner is able to locate the essence of entrepreneurship and explain how the market process tends toward equilibrium. The authors then frame their project as *extending* Kirzner's theory of entrepreneurship to develop a theory that incorporates how culture is the missing piece to understanding how some individuals are alert to an opportunity while others are not.

In Chapter 5, 'Markets as an extension of culture,' Chamlee-Wright explores the relationship between markets and culture. According to

Chamlee-Wright, many of the existing market theories do not help us to understand culture and how culture affects economic action. According to Chamlee-Wright, Austrian economics holds the key to cultural economics. In Chapter 6, 'Institutional stickiness and the New Development Economics,' Boettke, Coyne and Leeson outline a framework for exploring the relationship between *mētis* (culture) and institutions. They argue that institutions are more likely to *stick* the more closely they are compatible with *mētis*. The theory of institutional stickiness is utilized in several of the applied chapters in the volume.

Next, Lavoie and Chamlee-Wright ask 'How does culture influence economic development?' in their chapter of the same title (Chapter 7). Lavoie and Chamlee-Wright criticize attempts to identify particular cultural traits that support economic development and perform 'checklist ethnographies' to diagnose cultural deficiencies. Instead, the authors argue that in-depth case studies can help to uncover and improve our understanding of entrepreneurship across various contexts.

Chapter 8, 'Context matters: the importance of time and place in economic narratives,' by Storr, follows Lavoie and Chamlee-Wright's chapter. Storr recommends a 'Weber–Austrian approach' to studying culture and economic action. He also responds to Lavoie and Chamlee-Wright's notion of cultural comparative advantage (Chapter 7) and recommends adopting an alternative metaphor, 'culture as a constitution.' In Chapter 9, 'A critical appraisal of the concept of cultural capital,' Storr more thoroughly argues against the idea of 'culture as capital,' which he suggests must underlie any conception of cultural comparative advantage.

In a new contribution, 'Culture as a constitution' (Chapter 10), John develops Storr's claim in Chapter 8 that culture can be thought of as a constitution. John skillfully decodes 'culture as a constitution' and, in doing so, brings forth ways in which culture enables exchange among individuals with diverse preferences and plans. She engages examples of two countries—the Bahamas and Trinidad and Tobago—to show how a concrete and 'thin' concept of culture as a constitution may frame 'thick' cultural narratives.

The final chapter in Part I, Chapter 11, is Storr's 'Weber's spirit of capitalism and the Bahamas' Junkanoo ethic.' As Storr explains, despite the controversy surrounding Weber's Protestant ethic the book remains a model for performing culturally aware economic analysis. Utilizing Weber's approach, Storr examines the history of the Bahamas and the particular history of slavery on the island, the stories that contribute to the country's culture (including its folklore), and how different metaphors may help us to understand business in the Bahamas.

Part II of the volume begins with Chapter 12, an applied chapter by

Chamlee-Wright entitled 'Pastor response in post-Katrina New Orleans: navigating the cultural economic landscape.' Chamlee-Wright engages her 'cultural economy' framework, which recognizes that economic, political and social entrepreneurs are situated within a particular cultural context, see the world and identify opportunities through a culturally defined lens and draw upon cultural narratives to make sense of the world and carve out strategies of effective action (Chamlee-Wright 2006).

In Chapter 13, 'National cultures, economic action and the homogeneity problem: insights from the case of Romania,' Aligica and Matei focus on the theoretical and methodological problems of cultural nationalism, referring to the view as the 'homogeneity-central tendency' perspective, and posit an alternative view, the 'heterogeneity-variance' perspective. Relying on the European Social Survey and other statistics and using Romania as an example, the authors illustrate that there is an array of factors that would support a heterogeneity-variance perspective. In the Romanian case, some of these are differences in ethnicity, language, religion, the various minority groups, regional attributes, and the characteristics of urban and rural populations. Although the homogeneity-central tendency perspective has its place, they conclude, considerations of culture would gain further explanatory and descriptive power by deconstructing aggregate variables to examine the diversity beneath.

Runst explores differences in attitudes towards market economies, comparing attitudes in East Germany with attitudes in West Germany in Chapter 14, 'Between community and society: political attitudes in transition countries.' Using Tönnies's ([1887] 1957) distinction between community (*Gemeinschaft*) and society (*Gesellschaft*), Runst argues that the prolonged absence of a market economy in East Germany led to attitudes that resemble and are conducive to small-group norms. Runst performs in-depth interviews with individuals from former East and West Germany to examine why these differences in attitude exist.

Storr and Colon argue in Chapter 15, 'Subalternity and entrepreneurship: tales of marginalized but enterprising characters, oppressive settings and haunting plots,' that understanding entrepreneurship in any context requires attention to prevailing cultural beliefs and both formal and informal institutions that affect economic behavior. Understanding entrepreneurship within subaltern or marginalized groups, they argue, is no different even if accessing their beliefs and institutions may be more difficult. Using fiction from the former Soviet bloc and literature from anglophone Africa and the British Caribbean, Storr and Colon access these cultural beliefs and institutions by examining stories or tales of entrepreneurship.

In Chapter 16, 'Indigenous African institutions and economic development,' Chamlee-Wright discusses the role of female entrepreneurs,

or street hawkers, in Accra, Ghana. Chamlee-Wright astutely locates a number of factors that play a role in female entrepreneurship in Ghana, including the role of gender in trading relations as well as how small-group repeated interactions generate knowledge of a trader's character and trustworthiness.

Grube examines the persistence of traditional leadership and communal land in South Africa in Chapter 17, 'The role of culture in the persistence of traditional leadership: evidence from KwaZulu Natal, South Africa.' Although the existing South African constitution was adopted in 1996 with further legislative reform in the years following, many communities are still organized under traditional leadership and/or traditional councils. Similarly, communal land tenure continues in many rural areas. Vested interests and lack of political competition provide some clues as to why these institutions persist. Relying on interview data from KwaZulu Natal Province (South Africa) as well as secondary sources, Grube argues that culture is also an important piece to the puzzle.

Langrill and Storr similarly incorporate ideas of social identity in Chapter 18, 'Network closure, group identity and attitudes toward merchants.' Langrill and Storr explore social identity and group status investments amongst merchants in Edo and Osaka, Japan, during the Tokugawa period. Differences in the closure exhibited by merchant networks in Edo and Osaka, the authors argue, can help to explain differences in social identities as well as in intra-group status investments amongst merchants in the two cities.

O'Donnell's contribution, Chapter 19, discusses, 'The cultural and political economy of drug prohibition.' Prior to prohibition, O'Donnell points out, many drug users were middle-class housewives, lawyers and doctors. In this setting, drug users could more easily share information about drug use and establish norms for how to use drugs more safely. After prohibition, moderate users responded to the increasing cost of drug use (for example, fines and incarceration) and exited the market. The effect is today's association of drug users as 'hard-core users' and the emergence of the culture associated with hard-core drug use.

Finally, in Chapter 20, 'Cultural and institutional co-determination: the case of legitimacy in exchange in Diablo II,' Stein considers the relationship between institutions and culture and argues that the explanation for why a certain culture develops in a particular area may be causally linked to the institutional forms chosen before the distinctive elements of that culture emerge. Stein investigates this hypothesis by studying the in-game behavior of players of Diablo II, a multi-player online game. Stein finds that the initial institutional choice of different communities led to the development of different cultures regarding certain kinds of in-game behavior.

## NOTES

1. Storr elaborates on this in Chapter 2.
2. See, for instance, the World Values Survey and questions related to trust.
3. Hereafter, we refer to simply as 'Austrian economists' or 'Austrian economics.'

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