

The role of ideas in political economy

Vlad Tarko

Published online: 5 November 2013
© Springer Science+Business Media New York 2013

Abstract The Austrian School of economics has gradually developed a coherent and unitary theory of social-political change melding together four elements: (1) praxeology as a universal and culture-invariant account of how a given structure of incentives generates outcomes, (2) ideas as a distinct realm from incentives and subjected to cultural evolution, (3) social and political entrepreneurs as self-interested drivers of institutional change constrained by knowledge problems, and (4) institutions understood as a complex mesh of formal rules and private governance mechanisms. The paper discusses the key elements of this theory and highlights the connections to public choice (especially the Virginia School) and new institutional economics (especially the Bloomington School). Two practical applications are explored: understanding the relative importance of intellectuals, public opinion, and rent-seeking in determining policies in advanced democracies; and the role of social entrepreneurship in development economics.

Keywords Cultural evolution · Group selection · Informal institutions · Robust political economy · Evolutionary contractarianism · Development economics · Social entrepreneurship · Political entrepreneurship

JEL codes D70 · D72 · P16

1 Introduction

The Austrian school has gradually developed a coherent and integrated framework for understanding social-political change, in which ideas play a key role. This paper makes the analytic structure of this framework clearer and more explicit. Due to the emphasis on market process, rather than on the assumption of equilibrium, and on entrepreneurship as the driving force behind this process, the Austrian framework is

V. Tarko (✉)

Economics Department, Mercatus Center, George Mason University, Enterprise Hall, 4400 University Drive, Fairfax, VA 22030, USA
e-mail: vtarko@gmu.edu

better suited to account for the importance of ideas. I illustrate the theory by discussing both the political economy of advanced democracies and of developing countries.

In my restatement, the Austrian framework of social-political change can be understood as the following set of propositions: (1) Culture-invariant economics exists (what Austrians call “praxeology”), and economic theory is useful for filtering out explanations of social phenomena that are not compatible with it. A corollary of this is that purely ideological explanations are always incomplete. (2) Culture is a set of ideas about the expected and desired function of various social arrangements (i.e. a prevailing “pattern of meanings”), and about how to achieve those functions, and it cannot be fully reduced to either notions of capital or to informal rules. (3) Because society is simply too complex for political decision-makers to be able to predict the specific effects of institutional changes, and because in a wide variety of situations people are shielded from the effects of their beliefs (e.g. as in the case of voting), incentive-invariant culture exists: (a) ideas with important social consequences, which people have limited personal ability or incentive to test for validity, exist; (b) people with different social statuses and interests often hold the same beliefs. (4) Because it is incentive-invariant, culture does not evolve by rational profit maximization; it evolves by group selection. (5) Culture and institutions co-evolve: Culture constraints the possible paths of institutional change, thus influencing which institutions are more likely to “stick” in a given cultural context; and existing institutions create differential costs and benefits for holding various ideas, thus influencing which ideas are more likely to spread in a given institutional context.

2 The challenge of ideological explanations of social phenomena

Ideas matter, but they are never the sole ultimate causal factors of social phenomena. At each moment in time, there always exists a *large variety of beliefs*, and which of them spreads most effectively has to depend on other factors. One cannot explain a social phenomenon by noting that a particular idea *happened to be invented*. Ideas (good and bad) are invented all the time, and the key question is why some *have successfully spread*. Purely ideological explanations of social phenomena are always only partial explanations requiring an additional non-ideological explanation about the factors that favored the diffusion. As Boettke (2007: p. 29) put it: “Ideas do ultimately rule the world ... but they must conspire with circumstances for their influence to be felt in the world of public policy.”

For this reason, explanations such as McCloskey’s (2006) are, at best, only proximate explanations. Suppose that “bourgeois virtues” have indeed played a critical role in the emergence of the modern world. The reason why such a belief about what constitutes “virtue” has spread cannot itself be cultural. A change in the costs and benefits of holding such beliefs is also a necessary part of the explanation for why all of the sudden this particular moral belief has had an advantage over other competing beliefs.

Wright (2009) provides a better example of sophisticated cultural explanations. For instance, he explains the spread of Christianity as a cultural phenomenon that solved an economic problem: the social networking necessities of merchants in the Roman Empire in the absence of state capacity to secure property rights. According to

Wright's account, early Christianity worked as a trust-building device among strangers engaged in long-distance trade—long-distance merchants (like St. Paul) needed a signal of trustworthiness that they would not be robbed by their hosts in various places around the Empire. The cultural features of Christianity, especially its universality, evolved under the pressure of the Roman institutional deficiency and this demand for long-distance trade made possible by Roman roads. But the resulting Christian beliefs were not merely the epiphenomenal froth on the wave of an economic phenomenon. As in any signaling model, it was critical for the signal to be hard to fake, hence the often very high costs (even death) associated with being a Christian in the early period, and it was the actual content of the beliefs themselves that secured this high cost. Unlike McCloskey's case, where, at best, we are only given half of the story, in Wright's case, we are given the full culture & institutions & economics explanation.

Institutions matter, but they are also never the sole ultimate causal factor of social phenomena. Institutions don't evolve just by themselves; the direction in which they are changed depends on the beliefs and values of those who change them. Furthermore, formal institutions are always only a rather coarse sieve for filtering out socially harmful behaviors, and social order relies to some extent on morally internalized norms (Stringham 2011). Finally, the ease or difficulty of rule enforcement depends on the types of interferences with other people's lives that are generally accepted as legitimate, i.e. on culturally dependent attitudes about what constitutes a person's "legitimate material interest" (Burnheim 2006).

To illustrate the effects of the institutional structure on the spread of ideas consider the rise of Keynesianism in economics as discussed by authors like Buchanan and Wagner (1977), Boettke (2007, 2012) or White (2012). The ways in which the economist sees himself or herself, as a "savior" (Keynes), "technocrat" (Pigou), "social philosopher" (Buchanan) or "positive scientist" (Friedman), shapes the kinds of intellectual pursuits that they follow (Boettke 2012: p. 53 and p. 331), and "political biases" can play an important role by shaping the kinds of data that one gathers and the types of causal relations that one seeks to find (Buchanan and Wagner 1978). The rise of Keynesianism is more compatible with the "economist as savior" identity, but, as Boettke notes, this idea has always been with the economic profession, it just never was very prominent. The real question is why it has spread within the economics profession at a particular point in time, gaining prominence between 1930 and 1970, and persisting to this day. In broad terms, the explanation Boettke offers is a combination of ideology, institutions and economic outcomes. Progressivism appeared as an idea, but it could really take off only after the Great Depression. This surprising event favored a change in the climate of opinion and gave more credence to the Progressive interpretation that capitalism was inherently unstable and needed a strongly interventionist state. The growth of government, in turn, created a demand for a particular kind of macroeconomic data, as well as for a particular brand of economist and economic theory. The newly created institutional structure of Progressive government thus acted as a selection filter that favored Keynesian economists and their ideas.

One may of course quibble with the details of such examples, and subjects such as the rise of Christianity or of Keynesianism are bound to be controversial. Their purpose here is only to showcase that a proper explanation needs to account for the interactions between ideas, institutions and outcomes. The approach advocated in this paper is summarized in Fig. 1. The key aspect of this framework is that we are dealing with a

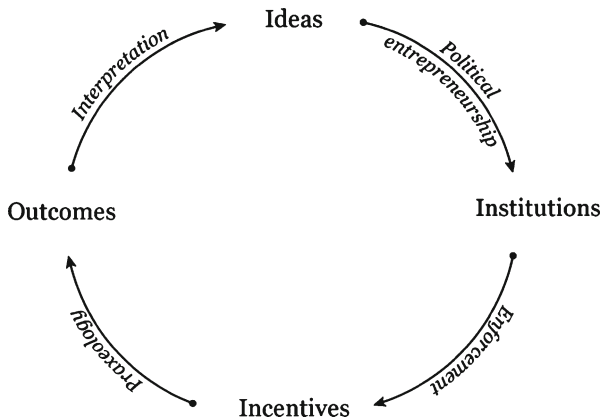


Fig. 1 The Role of Ideas in the Austrian Theory of Social-Political Change.

recurrent circular process of gradual co-adaptation of culture and institutions. All the elements here are endogenous, rather than being part of a linear causal chain in which change happens due to some exogenous shock. The *only* truly exogenous shocks are natural events which, at a given level of technological development, fall outside of human control. As such, a complete theory of social-political change needs to endogenize *all* human-related factors, be they economic, technological, institutional or cultural. I contrast this theory with the simpler rent-seeking model, which tries to explain all institutional change solely in terms of the incentives of those who change the rules.

Ideas influence the change of institutions by shaping the goals and expectations of the “political entrepreneurs” (Wagner 2005 [1966]; Di Lorenzo 1988; Buchanan and Congleton 1998: pp. 72–8; François 2003; Christopoulos 2006; Boettke and Coyne 2009b) or “public entrepreneurs” (Oakerson and Parks 1988) involved in institutional design. Institutions, via the details of their enforcement, generate a certain structure of incentives. The structure of incentives shapes human action and generates a particular emergent outcome out of the interactions of all the agents involved. The surprise regarding this outcome leads to a certain change in ideas and in the overall “climate of opinion” (Evans 2011). The cycle then repeats.

The application of the concept of entrepreneurship outside the market context is somewhat controversial. As a matter of definition, entrepreneurship is a person’s ability to detect opportunities for profit (Kirzner 1973, 1980, 1997). If we take seriously Mises’ point (1949: pp. 252–3) that entrepreneurship is a cognitive function inherent in all human beings, rather than the entrepreneur being some sort of special kind of person, we have to accept that it operates in all settings and can be used to understand a variety of social and political processes, rather than just the market process. As the idea of “two-tier entrepreneurship” illustrates (Leeson and Boettke 2009), one may profit either by playing within the given rules or by changing the rules. The key point emphasized by Kirzner (1985) and Baumol (1996) is that, outside the context of the idealized private property market economy, the innovations created by entrepreneurs may as well be unproductive or destructive. Interestingly, political entrepreneurship in an idealized democracy, as defined by the *Calculus of Consent* (Buchanan and Tullock 1999 [1962]), would also always be productive. In practice however, we have neither

perfect markets nor perfect democracies. Hence, one should not equate entrepreneurship with what is “good”, and keep the concept as a purely descriptive tool of analysis. Understood as such, entrepreneurship is the key dynamic element in the “robust political economy” approach to institutional analysis (Boettke and Leeson 2004; Leeson and Subrick 2006; Pennington 2011a, b).

3 Culture-invariant economics exists

The foundational layer of the Austrian political economy is Carl Menger’s (1883) success in establishing the existence of invariant and universal economic laws—laws that remain the same as one goes from one society to another or from one historical period to another. This was an intellectual battle *against* the importance of culture, as Menger’s main point was that culture was not *constitutive* of economic laws. This layer corresponds to the “praxeology” arrow in Fig. 1, i.e. the idea that incentives translate into outcomes in the same way, according to the same basic rational choice framework, in all human societies, regardless of their culture and history (Boettke 1998). Different cultures might have different informal rules, and, thus, different de facto structures of incentives, but the individuals in those cultures don’t have different decision-making psychologies (Tooby and Cosmides 1992). As such, the universal praxeological framework becomes a key tool for understanding both historical phenomena (Mises 1957) and unusual cultural practices (Leeson 2012, 2013). Economic theory operates as a filter that rules out certain explanations that may be compatible with the data, but are incompatible with basic assumptions about how people respond to incentives.

Furthermore, “economic imperialism” can be seen as a consequence of Menger’s intellectual victory over the German Historical School, as economic “analytical categories—scarcity, cost, preferences, opportunities, etc.—are truly universal in applicability. ... Economics really does constitute the universal grammar of social science.” (Hirshleifer quoted by Storr 2012: p. 22). Public choice theory (Buchanan 1954, 1972, 1980; Olson 1965; Mueller 2003; Ostrom and Ostrom 2004), modern economic history (North 1981, 2005), and a broad set of applications of economics to non-market settings (Tullock 1965, 1966, 1974, Ostrom 1973; Becker 1976; Ostrom 1990, 2005; Hirshleifer 2001) arose from this type of thinking.

4 Incentive-independent culture exists

In contrast to Marx, Mises argued for the independent existence of culture, apart from economic factors (1949: chapter 9). To some extent, this idea is also now part of mainstream economics (Harrison and Huntington 2000; Guiso et al. 2006; Licht et al. 2007; Tabellini 2008a, b; 2010; Mathers and Williamson 2011). The modern version of the claim that culture is derived from incentives is no longer Marxist. It is the simplified rent-seeking and regulatory capture approach.

The rent-seeking model is surprisingly popular. For example, even as late as 1990 Douglass North was still a proponent of this model, albeit a reluctant one who was transparently losing faith in it. He wrote that “[i]ncremental change comes from the perceptions of entrepreneurs in political and economic organizations that they could do

better by altering the existing institutional framework at some margin” (North 1990: p. 8) and that institutions, “or at least the formal rules, are created to serve the interests of those with the bargaining power to devise new rules” (p. 16). He later decided to give more importance to ideas and move further away from this oversimplified model (Denzau and North 1994; North 2005). See also Rubin (2001) for an internal critique of the neglect of ideology in public choice.

There are two main reasons why culture and ideas cannot be reduced to incentives. Rent-seeking and regulatory capture models work only for simple cases when (1) the consequences of changing the rules are relatively easy to predict, and (2) the collective action problems of organizing for the purpose of changing the rules are small.

First of all, the rent-seeking model misses the knowledge problem faced by rent-seekers and political decision-makers: social reality is so complicated that, in most cases, no one can really “devise new rules” such that they would predictably secure their rents. The rent-seeking model works only for simple cases, such as monopoly rights and other simple market restrictions, where the consequences are indeed easy to follow. It does not work as a *general* theory of social change. Even when ruling elites try to devise rules to protect their interests and power, they often fail and are taken by surprise by events (Kuran 1989). Similarly, revolutions are not driven by opportunistic calculations of possible outcomes (Tullock 1974: pp. 175–85), but by values and the contestation of a regime’s legitimacy (Tilly 1993; and even Tullock 1974: pp. 225–57). Moral values and general beliefs enter the picture precisely as heuristics for a complex and largely unpredictable world.

The fact that the world is too complex for anyone to be able to predict the specific outcomes of various changes in rules does not stop people from pushing for such changes, regardless. They are not irrational. They are guided instead by broad social heuristics and moral extrapolations (Cosmides and Tooby 1992, 1994; Dennett 1995: chapter 17). This uncertainty about outcomes puts people behind a “veil”, and rational planning behind the veil leads them to agree on a more general content for the rules (Buchanan and Tullock 1999; Buchanan and Congleton 1998). This diminishes the importance of rent-seeking, and enhances the importance of ideas about how the world works and of normative ideals about the function of social arrangements. The consequence of the fact that changes in rules are often made despite of uncertainty and are thus driven by social and moral heuristics, rather than by a rent-seeking calculus, is that we need a separate model for how changes in ideas occur. This model cannot rely on overly specific incentives because behind the veil of uncertainty incentives are watered down.

Secondly, due to the nature of the most collective choice arrangements, each individual is sheltered from the effects of holding particular beliefs about how the social world works. For instance, given that voting is not an effective means of pursuing one’s interests, people don’t vote according to their interests, and policies often turn out to be highly correlated with voters’ beliefs (Caplan 2007). Policy-relevant beliefs “impinge only on collective choice, not private choice” (Caplan 2003). Due to this sheltering, the policy-relevant ideas change by a different process than the simple incentives-directed one, which is why they have to be understood as a separate theoretical building-block. If people don’t have the private incentive to evaluate some of their beliefs, these beliefs don’t evolve by means of the private benefits they provide, but by some other mechanism.

4.1 Whose ideas matter in a democracy?

To get a better understanding of the details, we need to distinguish between the ideas held by political decision-makers, by intellectuals, and by the general public, and to see how these ideas interact with incentives. I cannot provide here a full-blown theory of this matter, which doesn't exist yet, but I can provide a brief suggestion highlighting the complex nature of the interactions involved (see also Hayek 1962 and López and Leighton 2012).

The key idea is to look first at the proximate determinants of institutional changes, i.e. the political decision-makers, and then elaborate the impacts of indirect factors, such as rent-seeking, voters' attitudes and opinions, intellectuals' beliefs, and the actual effect of policies. The dynamics of intervention theory (Kirzner 1985; Ikeda 1997, 2003, 2005) is useful as a first step, as it explains changes in policies conditional of the beliefs of the political decision-makers. As Ikeda (2003: p. 70) has put it when discussing Mises' example of the effects of price controls, "ideology plays a crucial role, for it is the regulator's *belief* in the workability of interventionism that prompts them to respond to shortage, not by removing the price control, but with further intervention (in the input markets)". However, the democratic selection process leads to politicians' beliefs being correlated to what the public believes, what influential intellectuals think are good policies, and what rent-seekers want.

A politician in a democratic system can be modeled as trying to maximize his or her chances of election.¹ The probability of election depends on (1) the extent to which s/he caters to voters' beliefs (regardless of how well-founded these beliefs are), (2) the extent to which s/he provides credible commitments to rent-seekers in order to attract campaign funds, (3) the extent to which voters attribute responsibility for the actual economic and social outcomes to him or her, and (4) gerrymandering and other rules influencing who gets to vote. With the exception of (4), which can be seen as purely institutional, the other factors involve a role for ideas in one way or another.

A politician is usually in several Catch-22 situations: (a) populism (catering too much to voters' biases) leads to bad economic outcomes for which voters may, nonetheless, blame and punish the politician; (b) speculating a "Baptists and bootleggers" strategy in order to rationalize rent-seeking (Yandle 1983), leads to less rent-seeking; (c) promoting good ideas that lead to growth often alienates rent-seekers and upsets the economically-illiterate public. Furthermore, politicians are interacting and constraining each other; as such, promoting a certain policy depends on logrolling opportunities. Paying attention to the Catch-22 situations can help us better understand both the relative stability of policy and the occurrence of abrupt changes.

Thus, a series of factors (Table 1) combine to determine the nature of the policy advocated by a given politician. The advocated policy, A , can be seen as a weighted combination of factors: the actual efficient policy (E), what voters want (V), what rent-seekers want (R), and what other politicians want (P).

$$A = \alpha E + \beta V + \gamma R + \delta P + \varepsilon$$

¹ For example, the high re-election rate in the U.S. House of Representatives, which is now around 95 % (Friedman and Holden 2009), reveals this preference. Short-term "run with the money" behavior seems quite rare, perhaps because large gains from rent-seeking can actually only be made by developing a long-term trust relation with rent-seekers, which in turn requires winning re-elections. Paradoxically, in order to have substantial gains from rent-seeking a politician needs to satisfy voters as a precondition.

Table 1 Underlining Determinants of a Politician's Advocated Policy

Policies	Mediating factors	Influenced by
Efficient policy, E	(a) Politician's knowledge about the actual effects of policy. (b) Blame assigned by voters for bad economic and social outcomes and recognition for good outcomes.	Experts and intellectuals Media
What voters want, V	Rational ignorance about (a) effectiveness of policy, (b) what politicians actually do.	Education system Media
What rent-seekers want, R	(a) Amount of rent-seeking; (b) ability to rationalize or hide corruption.	Civil society "Baptists" Media
What other politicians want, P	Opportunities for logrolling	Political structures and party organizations

where α , β , γ , δ are the relative weights of each factor in determining the politician's agenda, ϵ is the effect of some other unknown factors. These weights can be seen as *giving structure to the climate of opinion* by influencing whose beliefs tend to have the highest impact on policy. Depending on this structure, the ideas that matter vary. Institutional structures such as party structures and the nature of the electoral system, as well as processes such as gerrymandering, influence this structure of the climate of opinion: the weights α , β , γ , δ should be understood as institution-dependent. As such, whether the ideas of intellectual elites or of the general public matter more, and the extent to which they can balance rent-seeking tendencies, depends on such institutional details. This showcases the difficulty of valid empirical analyses, and the fact that current studies about the impact of culture are probably over-aggregated. We are quite far yet from properly identifying the specific ways in which institutional details interact with the structure of the climate of opinion, and how, in turn, ideas influence changes of the institutional structure.

The emphasis on the role of ideas can also help us get a better insight regarding some public choice dilemmas. Let me mention just two: (a) Tullock's paradox that there seems to be too little rent-seeking considering the benefits (Ansolabehere et al. 2003); and (b) the fact that, despite the phenomenon of concentrated benefits and dispersed costs, democracies still seem to gradually improve policy-wise. A clue to part of the solution to Tullock's paradox is the following. A substitute for rent-seeking is the use of funds for changing public opinion (e.g. with ad campaigns), which in turn constraints the political sector in the desired direction. Thus, there may appear to be too little rent-seeking because one is paying attention only to *part* of the rent-seeking budget, namely the part used for influencing political decision-makers directly, ignoring the sometimes very large part used to try to change public opinion on various margins, e.g. by funding mass media outlets or used to finance the "Baptists" at various think-tanks. The second dilemma brings me to Mises' and Hayek's democratic optimism.

4.2 Democracy as opinion falsification: Mises' and Hayek's democratic optimism

One of the key distinguishing features of Austrian economics is its focus on knowledge problems (Hayek 1937). This approach is widely understood in its application to the

market. What is less well-known is that Mises (1981 [1922], 1985 [1927], 1998 [1940]) and Hayek (1960) have used the same approach to analyze political institutions.

If one is to fully understand Mises' argument about the role of ideas, one must take into consideration two rather special and controversial aspects of his approach: On one hand, Mises counts as probably the most ambitious economic imperialist of all time. He literally describes the *entire social order* as being *nothing but* the division of labor in action (Mises 1949: chapter 8). Compared to Mises, Stigler (1951) looks downright timid. To Mises, comparative advantage ("the law of association" as he called it) is the key process that purportedly structures the *entire* social world. On the other hand, he adopts a radically intellectualist perspective, largely inherited from Menger (1883: Annex 8), according to which the division of labor occurs as a consequence of people *being aware* of the logic of comparative advantage. As a result, he thought that most people are against the free market simply as a result of *intellectual error*. Hence the importance of promoting good ideas (Mises 1949: chapter 9 and part 7).

He explained the existence of this error in a fairly modern fashion (1956: chapter 1), namely by noting the inadequacy of folk psychology to understanding the complex modern economy.² This inadequacy gives rise to envy, to misplaced emphasis on equality etc., and it is the job of the intellectual to counter these misplaced feelings by means of convincing rational explanations. He then explained the obvious failure of most intellectuals to rise up to this challenge by noting that they generally work in an environment that is sheltered from the market. In a very important way, i.e. in regard to their source of income, they never experience the workings of the market. It is thus no wonder that they don't understand it and that the market seems eerily unreal to them. The same line of argument was also famously taken by Schumpeter (1942) who argued that capitalism destroys itself by creating an overproduction of market-sheltered intellectuals, who gradually convince the general public to regulate and ultimately destroy capitalism.

There are two attitudes that one can take toward Misesian intellectualism. The most straightforward approach is to say that he was simply wrong and naïve. *Of course* that's not how the world actually works. The world is filled with social dilemmas and conflict. The more charitable way of reading him is through the lenses of what Caplan and Stringham (2005) have called Mises's "democratic optimism". According to their interpretation, we can basically see Mises as adopting an *approximation*. In the same way as a macroeconomist can say that the price level increases as a result of an increase in the money supply, without concerning himself with the exact details of Cantillon effects, so can Mises have a highly aggregated equilibrium perspective about the role of ideas in the process of social change. Perhaps he was basically an early proponent of Wittman's (1997) and Caplan's (2007) democratic optimism according to which special groups are only weakly capable of distorting the institutional system in a direction that doesn't fit the beliefs of the median voter. According to Caplan (2008), Mises held an extreme version of democratic optimism according to which even authoritarian regimes are ultimately ruled by the ideas of the general population.

As discussed more in the next section, Hayek rejected the Menger-Mises intellectualism, but he had his own version of democratic optimism. Hayek's argument

² Hayek (1962, 1983) adopted a similar view; see Cosmides and Tooby (2006) and López and Leighton (2012: pp. 123–6) for a modern perspective.

for democracy is that the democratic filter selects which ideas are more or less likely to be translated into public policies in a way that tends to be more welfare-enhancing than a dictatorial selection filter (Hayek 1960: chapter 7; Wohlgemuth 2002). Although democracy suffers from rational ignorance problems and biases of the general public (Caplan 2001, 2007), from a comparative institutions perspective, it still fares better than the dictatorial alternatives at discovering and eliminating errors. To some extent, Hayek follows Michael Polanyi's "democracy as science" analogy.³ In essence, Hayek's point about democracy acting as a mechanism for opinion falsification is that people react to the actual effects of policies by sacking the politicians who enacted them—although the public may not actually understand *why* the policies failed. For democratic opinion falsification to work better than the dictatorial alternatives it is not necessary for the public to have a very deep understanding of the actual mechanisms that generate social order. In a dictatorship it is more difficult to sack the leaders, and, as such, the *opinions* that guide policy, and not just the people themselves, are more shielded from falsification.

The following roles for ideas emerge. Ideas are (1) mediators of institutional change and targets of an evolutionary process by imitation (see next section); (2) guiding principles for long-term progressive reforms—although "[t]he institutions of freedom ... were not established because people foresaw the benefits they would bring ... once its advantages were recognized men began to perfect and extend the reign of freedom, and, for that purpose, to inquire how a free society worked" (Hayek 1960: p. 107–8), but also (3) a populist defense against overly-ambitious social engineers who fail to appreciate the "wisdom without reflection" embedded in the existing social order (Hayek 1976; Boettke 1996; next section).

Public opinion is thus significantly ennobled. While intellectuals and social-political entrepreneurs are still considered very important, the general public is no longer described as entirely passive. To a very large extent, society at large is where almost all the action is, both in terms of economic activity *and* of culture. The intellectual is taken from the ivory tower, thrown in the middle of the piazza, and left there to fend for himself or herself. To Hayek, intellectuals have less power than Mises and Schumpeter have believed, but they are still considerably more important than Stigler and Becker believe. As Ortega y Gasset (1984: p. 29) put it, "*public opinion* and *philosophy* are always out of step with each other. Public opinion is always behind the times, while philosophy is always premature." But, in a democratic society, public opinion is always the ultimate arbiter of this tension: "When an academic scribbler comes up with a new idea, it has to resonate well with widely held beliefs, which in turn must overcome the vested interests at the table. Many forces come together to explain political change, even though it may seem like coincidence of time and place." (López and Leighton 2012: p. 121).

5 Culture evolves by group selection

In Hayek's (1960) picture, division of labor happens even if people are intellectually oblivious to its benefits; they may even hate it with a passion and still be guided by

³ See Buchanan (1999 [1967]) for a critique, arguing that democracy should be understood purely from a conflict resolution perspective.

cultural group selection, as if by an invisible hand, to implement it (p. 107): “Though freedom is not a state of nature but an artifact of civilization, it did not arise from design. The institutions of freedom, like everything freedom has created, were not established because people foresaw the benefits they would bring.” Moreover, he was critical of Misesian utilitarianism (Hayek 1983): “The utilitarian theorists believed, and Mises strongly believed, that man had chosen his morals with an intelligent understanding of the good effects. But that is wrong. Most of the effects of the moral we can’t foresee.”

Hayek tried to make more sense of Burke’s concept of “wisdom without reflection” (Sowell 2002: chapter 3). As he put it, “we must completely discard the conception that man was able to develop culture because he was endowed with reason” and focus on his “capacity to imitate and to pass on what he had learned” (Hayek 1979: pp. 156–7). This does not mean that culture is irrational. As O’Driscoll and Rizzo explain (1985: p. 39), in Hayek’s view, “there are two important ways for knowledge to be communicated: through prices and through institutions”. With respect to the second avenue, “[f]irst, if people can rely on others to fulfill certain roles, then their expectations are more likely to be coordinated”, and “[s]econd, institutions also convey knowledge, in the sense that the routine courses of action they embody are efficient adaptations to the environment”.

Given that one can have only a very rough estimate of the consequences of various institutional changes, one cannot assume that rational design (i.e. incentive-driven institutional changes) is the only way by which social change occurs. Even if agents *try* to rationally design institutional changes, the social world too complicated for uncertainty and surprise not to play an important role: “It is not the intelligence of our ancestors that has left us with more efficient morals ... [r]ather, they happened to be right, so their successes multiplied, and they displaced the others who believed in the different morals” (Hayek 1983). In the Hayekian picture, societies that fail to implement good ideas about social-economic-political organization are either conquered by those that do or remain so far behind in terms of development that they eventually abandon their misguided ways and imitate the more successful ones (Andreozzi 2005).

People themselves are not, however, the object of this selection (Hayek 1960: p. 118): “[I]n social evolution, the decisive factor is not the selection of the physical and inheritable properties of the individuals but the selection by imitation of successful institutions and habits”. As Gaus (2007: p. 238–9) explains, when we apply the cultural evolution perspective to the problem of institutions, rules are the “unit of selection”: “in Hayek’s account rules play a role analogous to genes in biological evolution; whereas individual organisms are constituted by following the instructions of genes, a Great Society is constituted by following the instructions of rules. And just as genetic variation can give an advantage to an individual organism in its competition with others, rule variation can perform the same role in competition between social orders of actions.” E. Ostrom (2008) adopts the exact same view, including the analogy between genes and rules.

It is worth noting that Hayek’s group selection argument is often widely misunderstood. The traditional group selection argument in biology was supposed to work for explaining the existence of altruism in the animal world. However, such an explanation fails for the basic reasons provided by Olson (1965) and, since 1960s, it has

been discredited in biology after the works of George Williams, William D. Hamilton and John Maynard-Smith.⁴ So, isn't Hayek just going along with a discredited idea? The answer is "no" as Hayek was hardly a believer in altruism as a basis for social order. His main normative focus was to figure out "a system under which bad men can do least harm" (Hayek 1948: p. 11). His interest in group selection came from an entirely different angle. As Andreozzi (2005) points out, in Hayek's theory, the set of all possible norms is *first* reduced to the set of norms that don't fall prey to free-riders, and, afterwards, group selection *further* reduces the set to those norms that tend to be welfare-enhancing. Hayekian group selection is thus a mechanism for selecting socially beneficial norms out of the set of (non-altruistic) norms capable of not being internally overcome by free-riders. It is not a mechanism for selecting altruistic norms.

Hayek himself did not provide a convincing argument that group selection is indeed welfare enhancing. As critics like Buchanan (1977), Buchanan and Brennan (1985: p. 13), Vanberg (1986) and Kirzner (1992: pp. 163–179) have pointed out, we expect the spontaneous order of the market to have welfare enhancing effects because of its profit-and-loss mechanism, and Hayek has failed to identify a similar mechanism for cultural evolution by group selection. As Buchanan (1977) has put it, although "[i]nterpreted in a strictly positive sense, the principle of spontaneous coordination can do much to add to our understanding of legal institutions", "Hayek seems to have failed to separate properly the positive and normative implications of the principle" (p. 101). Nonetheless, examples such as the evolution of language or the evolution of customary and common law provide empirical reasons to believe that cultural evolution tends to generate somewhat efficient results at least under some conditions. Moreover, as Boettke (1990) points out, these critics have overstated their case against Hayek by relying on the overly-strict criterion of Pareto efficiency, which, strictly speaking, doesn't apply to real markets either. Finally, while Hayek himself has not identified the conditions under which cultural evolution is likely to be welfare enhancing, E. Ostrom and her collaborators have taken the matter much further (Ostrom 2008; Cox et al. 2010; Wilson et al. 2013). Nonetheless, as Wilson et al. (2013) acknowledge, at least in their theoretical framework, it is a bit of a mystery why more societies haven't zeroed-in on Ostrom's "design principles".

The alternative to group selection proposed by Buchanan and collaborators is contractarianism (Buchanan and Tullock 1999; Buchanan and Brennan 1985; Buchanan and Congleton 1998). If the agents devising the rules can be placed behind a veil of uncertainty, their specific interests will be rendered irrelevant, and, thus, they will be forced to devise general rules under which everyone can be expected to benefit in a wide array of circumstances (Buchanan and Tullock 1999: pp. 77–81; Buchanan 1972; Buchanan and Brennan 1985; Ostrom 1997: p. 136; Buchanan and Congleton 1998: pp. 3–16). However, is this really an alternative to Hayek's group selection? Sugden (1993) describes Hayek's normative position as "evolutionary contractarianism" – a view according to which the "justification of any social institution is that it benefits each individual separately, 'benefit' in each case being understood in terms of that individual's own ends. ... *We cannot know in advance that a particular spontaneous order will benefit a particular individual.* This leaves us with the criterion that a social institution has value to the extent that it tends to assist each individual in

⁴ The argument has been famously popularized by Dawkins (1989).

the pursuit of his or her ends, whatever those ends may be.” (p. 413, my emphasis).⁵ In other words, one of Hayek’s main points about the spontaneous order involved in cultural evolution is precisely that it places people behind a veil of uncertainty. Hayek provides the contractarians with the real-world process that puts people behind that veil. Buchanan and collaborators have thus not actually provided an *alternative* to Hayek’s theory—they have spelled out in great detail the very missing element about why group selection would ever be welfare enhancing.

This is a critical juncture where three schools of thought meet. The Bloomington school’s “design principles” and theory of polycentricity (V. Ostrom 1999; E. Ostrom 2010; Aligica and Tarko 2012, 2013) provide the most advanced account of the conditions under which non-market spontaneous orders lead to beneficial and sustainable outcomes. But, by their own admission, they have trouble understanding why those conditions are not more prevalent. It is not an accident that when Vincent Ostrom tries to answer this question, he morphs into Hayek and Buchanan. The Virginia Political Economy emphasis on contractarianism provides the theoretical conditions under which collective action will lead to efficient rules. However, by Buchanan’s own admission, contractarianism is obviously unrealistic. Buchanan’s claim (1972) that contractarianism is just a normative rationalization of a system of rules that emerge through some different process amounts to an unnecessary admission of defeat. When we recognize the veil of uncertainty element involved in the process of cultural evolution, we see that Buchanan’s contractarianism can actually serve a purely scientific purpose as providing the idealized conditions under which group selection is welfare enhancing. As such, Buchanan’s contractarianism itself no longer seems so unrealistic. In fact, when Buchanan describes the actual process by which social order evolves, he unsurprisingly morphs into Hayek. The Bloomington school dilemma also finds resolution, as we recognize that the idealized veil of uncertainty rarely exists. As Ostrom [1997: p. 24] has noted, “[t]he patterns of normal partisan politics involve incentives to diverge from constitutional requirements”. As such, in the same way as we don’t expect perfect efficiency from real markets, we also should not expect perfect results from cultural evolution by group selection.

6 The interaction between culture and institutions in development economics

The framework described by Fig. 1 can be applied not only to democratic societies, but also to developing countries without robust rule of law. In a development context it is critical to understand the interaction between formal institutions and culture (Chamlee-Wright 1997; Lavoie and Chamlee-Wright 2000; Platteau 2000; Roland 2004; Guiso et al. 2006; Licht et al. 2007; Fernández 2008; Tabellini 2008a, b). At the most general level, the basic development model, from Adam Smith to Peter Bauer, can be summarized as in Fig. 2. The elements in curly brackets co-evolve (they are complements), while those in square brackets are substitutes. The elements

⁵ Shermur (1996: p. 110) emphasizes the other side of the “evolutionary contractarianism” coin, namely that rational reform and “the critical appraisal of undesigned institutions” can only be done piecemeal. Hayek has arguably focused more on the Shermur side of the coin, rather than on the Sugden side, because his main target were the socialist “rational constructivists”. But one should be aware that the Shermur and Sugden points imply one another.

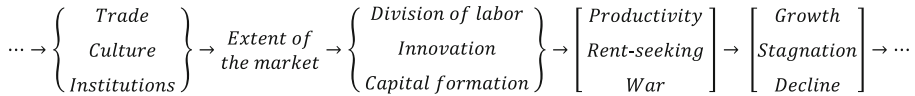


Fig. 2 The Adam Smith Development Model.

“productivity”, “rent-seeking” and “war” correspond to Baumol’s (1996) three forms of entrepreneurship: productive, unproductive, and destructive.

The process of development rests on trade and institutional reform. On one hand, “[c]ontacts through traders and trade are prime agents in the spread of new ideas, modes of behavior, and methods of production”, but also “often first suggest the very possibility of change, including economic improvement”, but also “often first suggest the very possibility of change, including economic improvement” (Bauer 2000: p. 8). Thus trade, culture and institutions influence each other. Depending on institutional arrangements for property protection, the extent of trust, and social norms about property and conflict, a particular extent of the market emerges—an area where trade can be safely conducted. This spurs division of labor among firms (Stigler 1951), and leads to innovation and capital accumulation, as firms specialize. Depending on the institutional opportunities for profit, firms can specialize mainly in productive activities or in rent-seeking and predation. If productive entrepreneurship predominates, development follows. The outcome, especially when people compare it to what they know about other societies, leads back to changes in culture and institutions.

In addressing the problem of development in societies without a robust rule of law, we need to figure out the mechanisms by which secure property rights can emerge. As Rajan has put it, we cannot just assume that “everyone is fully informed; every eventuality is anticipated in contracts; all contracts are enforced by omniscient, incorruptible courts; and governments automatically take care of all the public goods and interfere in none of the private ones” (2004: p. 56). Instead we need to understand how such institutions are created.

Laws are a public good (Buchanan 1975: ch. 7), but consensus about them is next to impossible to achieve in a heterogeneous group. Buchanan and Tullock (1962: p. 81) themselves hint at this when they note that their “analysis of the constitution-making process has little relevance for a society that is characterized by a sharp cleavage of the population into distinguishable social classes or separate racial, religious, or ethnic groupings sufficient to encourage the formation of predictable political coalitions and in which one of these coalitions has a clearly advantageous position at the constitutional stage”. The reason for this restriction is that if groups are distinguishable and form predictable political coalitions, their members cannot be placed behind the veil of uncertainty (1962: p. 78), and one cannot get to that “ultimate stage [where] unanimity holds”. As Ostrom (1997: pp. 18–9) has noted, the question becomes whether it is still “possible to use problem-solving modes of inquiry to achieve a more steady course, by using political processes to craft common knowledge and shared communities of understanding, establish patterns of social accountability, and maintain mutual trust”.

There is a non-violent mechanism for creating agreement, namely social entrepreneurship, which catalyzes a process of “norms cascades” (Finnemore and Sikkink 1998).⁶ We can see social entrepreneurs as creators of focal points for

⁶ The attempt to provide a purely mathematical account of the emergence of common knowledge does not fair very well because the conditions under which Aumann’s theorem holds are not generally fulfilled in practice (Samuelson 2004). Hence, the need to develop the theory of social entrepreneurship.

cooperation (Boettke and Coyne 2009a, b). However, it is unlikely that they can eliminate disagreement entirely. This creates a quasi-natural span for various agreeing-to-disagree domains, i.e. for a polycentric order. If all people were pacifists, this would be the end of the story: people would willingly accept these agreeing-to-disagree domains, and Buchanan's (1975: p. 5–9) or Ostrom's (1997: 271–9) anarchist utopia of a purely contractual and tolerant society would be the happy outcome. But, of course, not all people are pacifists.

Why does conflict exist? Agreement is again the main issue. Not about the mutual spheres of tolerance, but about the predicted outcome of an actual fight. There can be no actual conflict between rational agents under common knowledge because everyone would estimate the costs and benefits of fighting in the same way, and thus bargains would be struck beforehand. Exploitation of the weak by the powerful can still exist under common knowledge, but there would be no waste of resources in actual fighting (Nye 1997). According to the bargaining theory of war (Fearon 1995; Wagner 2000; Hirshleifer 2001; Filson and Werner 2002; Reiter 2003; Smith and Stam 2004; Powell 2006; Arena 2010), conflict exists due to differences in *perceived* power and from the lack of credible information about the other party's true power. As such, "[t]he development of order out of chaos requires that each human being establish a basis for anticipating how others will behave, so that each person can act with an expectation that other persons will act with constraint. Common knowledge and shared communities of understanding are the foundations for shared expectations about how others will behave." (Ostrom 1997: p. 136).

When social entrepreneurship fails to establish such "shared communities of understanding", the actual fight acts as the mechanism for mutually and credibly revealing the information about the true balance of power. Conflict is the ultimate mechanism for creating common knowledge by solving the problem of credible information. For example, this is exactly what we are seeing in places like Somalia, where, following violent conflict, which clarified the true balances of power, local religious leaders are able to finally muster peace even in the absence of formal law. Conflict ends not when everyone's desires reach a state of mutual harmony, but merely when credible mutual information is achieved. This is a much weaker condition than the harmony of interests condition, and it shows us that we can have social peace despite the persistence of diverse values and social goals.

Once common expectations about various conflict outcomes prevail, a *de facto* "social contract" or, to put it differently, a roughly stable structure of power is established. The mutual knowledge creates the premises for peace, allowing social-political entrepreneurs to enshrine this peace in a sustainable, longer term system of trust. This creates predictability over the longer term and the basis for economic calculation to go about in a relatively unfrustrated fashion, although these resulting institutions may as well be "extractive" (Acemoglu and Robinson 2012: pp. 91–95; see also Haber et al. 2002). This, in turn, creates a more or less rapid economic growth and the potential for creative destruction, which feed-back onto the power structure bringing uncertainty back into the picture as "[e]conomic institutions that create incentives for economic progress may simultaneously redistribute income and power" (Acemoglu and Robinson 2012: p. 84). Due to constant changes in technological and organizational conditions, uncertainty can never be completely eliminated, and as such, conflict will continue to exist, both internationally and among groups with distinctive identities within countries.

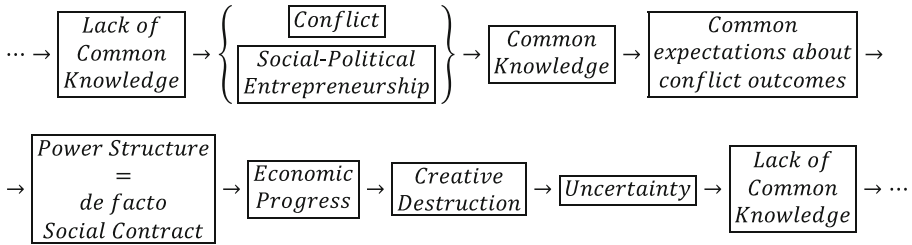


Fig. 3 Shared-Strategies Theory: Social Order Without Rules.

Fig. 3 illustrates this basic narrative (compare to Ostrom 1997: p. 103, Fukuyama 2011: p. 474 or Acemoglu et al. 2005: p. 390). This “shared-strategies theory” presents only a simplified picture as rules don’t appear in it. In Fig. 3 institutions are merely “shared strategies” (Crawford and Ostrom 1995), i.e. social regularities without any normative (moral) force behind them, which emerge in a bottom-up fashion only because of common expectations and because many agents recognize and adopt the same strategy as their utility maximizing strategy for social interaction (Axelrod 1986). To get a more realistic picture we need to add rules to the story. The result of doing this is illustrated in Fig. 4.

The basic idea is that rules play two social functions: (1) they are substitutes for conflict or, to put it differently, they are a hedge against uncertainty allowing conflict to be avoided even if uncertainty persists; (2) they are substitutes for common knowledge, i.e. they create predictability even in a context of heterogeneous belief systems.

The first function of rules can be understood in the following way. Recognizing the cost of perpetual war creates an incentive to create a more lasting peace. With respect to this goal, uncertainty acts as a veil favoring long-term rule utilitarianism over short-term act utilitarianism and leading agents to agree on somewhat more general rules. An example of uncertainty acting as a veil is the fact that borders between countries don’t change all the time, although the simplified version of Fig. 3 predicts they would, as even minor changes in the balance of power would theoretically lead to constant renegotiations (Arena 2010). In fact, the border is more than simply the outcome of the present balance of power. It should be understood as a *rule* that maintains the peace by covering over a wide-ranging uncertainty regarding future events.

Uncertainty is thus both the factor responsible for the existence of conflict in the first place, and the factor responsible for the establishment of relatively general rules designed to avoid conflict, at least as long as the balance of power doesn’t change too much in an uncertain and sudden fashion. This emphasis on the veil of uncertainty also helps us understand why the resulting social contract tends to be more inclusive than in a system of act-utilitarian agents. The veil of uncertainty forces agents to act as if they are empathic to others’ interests, even if they aren’t.

What about the *content* of those rules? Their *function* is to avoid conflict, but in what way do they do it? There are many possibilities. For the present discussion, it is enough to emphasize that this content includes a delineation of the domains in which agents agree to disagree, thus returning us to the idea of polycentricity as a system of agreeing-to-disagree domains, but this time in a context of non-pacifists. The outcome of this process of conflict and rule-creation is precisely to generate a polycentric order, defined

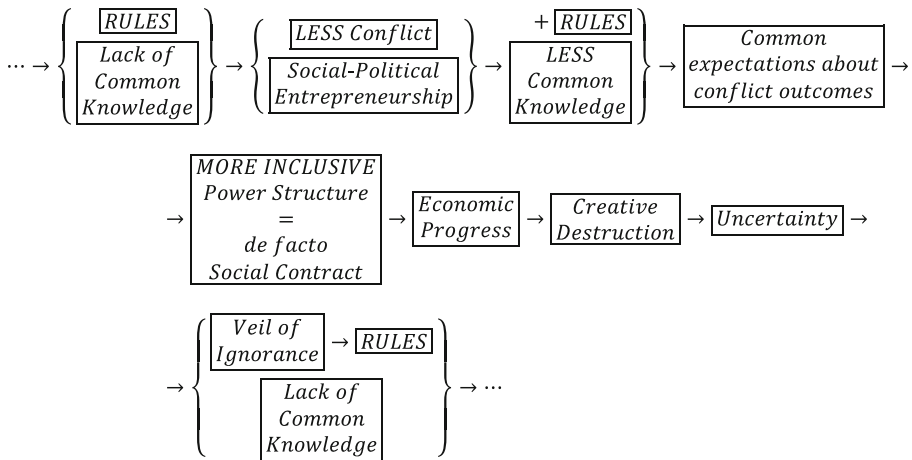


Fig. 4 Institutional Theory: Social Order With Rules.

as “an institutional arrangement involving a multiplicity of decision centers acting independently, but under the constraints of an over-arching set of norms and rules, which restrict externalities and create the conditions for an emergent outcome to occur at the level of the entire system, via a bottom-up competitive process” (Aligica and Tarko 2013). The “over-arching set of norms and rules” correspond to the realm of agreement—they are the values that are considered too important to allow deviations from them —, while the “multiplicity of decision centers acting independently” corresponds to the domains of agreement to disagree.

Bearing in mind Figs. 3 and 4, we can explain why development is such a hard task: (1) it involves creating and enforcing inclusive rules able to create predictability and common expectations; (2) it involves genuine social-political entrepreneurship that can build consensus regarding the legitimacy of those rules and, thus, substitute a prolonged experience of violence with a system of secure property rights and voluntary relations. As such, a history of colonial rule (Leeson 2005) or of dictatorship (Alesina and Fuchs-Schundeln 2007) can have lasting and difficult to overcome effects because the informal social networks generating trust have been severely hampered. Such problems cannot be overcome too quickly.

Costanza et al. (2001) note that the main source of hubris in institutional design is not properly recognizing the multi-scale nature of social systems and failing to properly set the scale of analysis. The provision of different public goods has different optimal scales, and social-political mechanisms available to address them properly differ from place to place and are influenced by history. As Ostrom has noted (2008: p. 57), “[g]iven the logic of combinatorics, it is impossible for public officials or for direct beneficiaries to conduct a complete analysis of the expected personal benefits or broader performance of all of the potential rule changes that could be made”. The only way out of this combinatorial dilemma is that “[r]ule systems can evolve”. Although “human agents frequently try to use reason and persuasion in their efforts to devise better rules (for themselves and their supporters or for a broader community)”, due to the complexity involved, it is unavoidable that “[t]he process of choice ... always involves experimentation” (p 58). The key to development is to actually allow this process of experimentation to take place.

The bottom line is that constitutional and social contracts are not arbitrary constructions that can be created at will by the top-down decisions of benevolent experts. They are complex structures of rules and norms, legitimized by beliefs embedded in a culture that takes time to form, enforced by credible power, and in an ever-changing flux thanks to the work of social-political entrepreneurs. These entrepreneurs are in-tune with the local culture and can speculate about what kinds of changes have real chances of success, and they are apt users of social networks. By contrast, development “experts” have no local legitimacy, little ability to gain prominent and prestigious roles in the local social networks, and their use of power is only intermittent and temporary, rather than providing a reliable long-term enforcement of rules and property rights. It is thus no surprise that they end up more often than not by “doing bad by doing good” (Coyne 2013), and that institutions designed in a top-down fashion, which are not in-tune with local culture, often fail to “stick” (Boettke 1996; Boettke et al. 2008; Krasnozhon 2012).

7 Conclusion

The paper has argued that, going from Menger’s *Methodology* to present day’s developments, the Austrian school has gradually developed a coherent and integrated theory of social-political change. I have also pointed out that the works of Buchanan and collaborators and of the Bloomington school, rather than contradicting this theory, actually provide some of the important missing points in Hayek’s approach to cultural evolution by addressing the question about the conditions under which cultural evolution can be expected to be welfare enhancing. This integrated and expanded Austrian theory, following the research agenda set by Hayek (1937), can now also be seen as an answer to Vincent Ostrom’s call for an “epistemic turn” in public choice (V. Ostrom 1993).

The Austrian approach to political economy melds together basic microeconomic analysis and the sociology of belief systems within a distinct public choice and institutionalist framework in which uncertainty, surprise and rational ignorance play a bigger role. When people change institutions, even in relatively minor fashion, they do so despite substantial uncertainty about the outcome of the change. To understand this process of reform, one needs to understand the ways in which people cope with this uncertainty, i.e. their heuristics, prejudices and their “pretense of knowledge”. This is why culture and the climate of opinion are not marginal intuitions or a merely derivative addendum to the core theoretical corpus focusing on incentives, but a key distinct and necessary element in the theory of social change.

As I have illustrated, this theory can be applied both to rule of law democracies and to the developing countries lacking a rule of law. In democracies we need to pay attention to the different avenues by which the ideas and goals of different groups impact the political sector, while in developing countries we need to pay attention to the role of social-political entrepreneurship in creating what V. Ostrom has called “shared communities of understanding”, i.e. an expanding, large-scale heterogeneous society in which there is a sufficient level of common knowledge and trust such that conflict is muted and trade can happen.

Acknowledgments I thank Paul Dragos Aligica, Peter Boettke, David Levy, Jeremy Shearmur and Virgil Storr for useful discussions about social functionalism, “institutional stickiness”, “comparative cultural advantage”, the meaning of polycentricity, and problems with Hayekian cultural evolution, and to Anthony Evans, Benjamin Powell, Edward Stringham, Richard Wagner, and an anonymous reviewer for feed-back on previous versions of the paper. I am also grateful for the financial support provided by the Mercatus Center.

References

- Acemoglu, D., & Robinson, J. A. (2012). *Why nations fail: The origins of power, prosperity, and poverty*. New York: Crown Publishing.
- Acemoglu, D., Johnson, S., Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. In P. Aghion & S. N. Durlauf (Eds), *Handbook of economic growth, volume 1a*, Elsevier.
- Alesina, A., & Fuchs-Schundeln, N. (2007). Goodbye Lenin (or Not?): the effect of communism on People’s preferences. *The American Economic Review*, 97(4), 1507–1528.
- Aligica, P. D., & Tarko, V. (2012). Polycentricity: from Polanyi to Ostrom, and beyond. *Governance*, 25(2), 237–262.
- Aligica, D. P., & Tarko, V. (2013). Co-production, polycentricity, and value heterogeneity: the Ostroms’ public choice institutionalism revisited. *American Political Science Review*, 107(4).
- Andreozzi, L. (2005). Hayek reads the literature on the emergence of norms. *Constitutional Political Economy*, 16(3), 227–247.
- Ansolabehere, S., deFiguereido, J., & Snyder, J. M., Jr. (2003). Why is there so little money in U. S. politics? *Journal of Economic Perspectives*, 17(1), 105–130.
- Arena, P. (2010). Bargaining models of war. Department of Political Science, University at Buffalo (SUNY).
- Axelrod, R. (1986). An evolutionary approach to norms. *American Political Science Review*, 80(4), 1095–1111.
- Bauer, P. T. (2000). *From subsistence to exchange and other essays*. Princeton and Oxford: Princeton University Press.
- Baumol, W. J. (1996). Entrepreneurship: productive, unproductive, and destructive. *Journal of Business Venturing*, 11(1), 3–22.
- Becker, G. S. (1976). *The economic approach to human behavior*. Chicago: University of Chicago Press.
- Boettke, P. J. (1990). The theory of spontaneous order and cultural evolution in the social theory of FA Hayek. *Cultural Dynamics*, 3(1), 61–83.
- Boettke, P. J. (1998). Rational choice and human agency economics and sociology Exploring the Weber-Austrian Connection. In H. Giersch (Ed), *Merits and limits of markets* (pp. 53–81). Springer.
- Boettke, P. J. (2001 [1996]). Why culture matters: Economics, politics, and the imprint of history. In *Calculation and coordination* (pp. 248–265). New York: Routledge.
- Boettke, P. J. (2007). *The battle of ideas: Economics and the struggle for a better world*. Wellington: New Zealand Business Roundtable.
- Boettke, P. J. (2012). *Living economics: yesterday, today, and tomorrow*. Oakland, CA: The Independent Institute.
- Boettke, P. J., & Coyne, C. J. (2009a). An entrepreneurial theory of social and cultural change. In D. Víctor Pérez (Ed.), *Markets and civil society: The European experience in comparative perspective* (pp. 77–103). New York: Berghahn Books.
- Boettke, P. J., & Coyne, C. J. (2009b). Context matters: institutions and entrepreneurship. *Foundations and Trends in Entrepreneurship*, 5(3), 135–209.
- Boettke, P. J., & Leeson, P. T. (2004). Liberalism, socialism, and robust political economy. *Journal of Markets & Morality*, 7(1), 99–111.
- Boettke, P. J., Coyne, C. J., & Leeson, P. T. (2008). Institutional stickiness and the new development economics. *American Journal of Economics and Sociology*, 67(2), 331–358.
- Buchanan, J. M. (1954). Individual choice in voting and the market. *Journal of Political Economy*, 62(4), 334–343.
- Buchanan, J. M. (1972). Before public choice. In *Explorations in the theory of anarchy*. Center for the Study of Public Choice (also included in Buchanan 1999).
- Buchanan, J. M. (1975). *The limits of liberty: Between anarchy and leviathan*. Indianapolis: Liberty Fund, Inc.
- Buchanan, J. M. (1980). Rent seeking and profit seeking. In J. M. Buchanan, R. D. Tollison, G. Tullock (Eds), *Toward a theory of the rent-seeking society*.
- Buchanan, J. M. (1999 [1967]). Politics and science: Reflections of Knight’s critique of Polanyi. In *The logical foundations of constitutional liberty*. Indianapolis: Liberty Fund.

- Buchanan, J. M. (2001 [1977]). Law and the invisible hand. In *Moral Science and Moral Order* (pp. 96–109). Indianapolis: Liberty Fund.
- Buchanan, J. M., & Brennan, G. (2000 [1985]). *The reason of rules: Constitutional political economy*. Liberty Fund.
- Buchanan, J. M., & Congleton, R. D. (1998). *Politics by principle, not interest: Towards nondiscriminatory democracy*. Cambridge, UK: Cambridge University Press.
- Buchanan, J. M., & Tullock, G. (1999 [1962]). *The calculus of consent: Logical foundations of constitutional democracy*. Liberty Fund.
- Buchanan, J. M., & Wagner, R. E. (1977). *Democracy in deficit: The political legacy of lord keynes*. Indianapolis: Liberty Fund.
- Buchanan, J. M., & Wagner, R. E. (1978). The political biases of keynesian economics. In J. M. Buchanan & R. E. Wagner (Eds), *Fiscal responsibility in constitutional democracy*, Springer.
- Burnheim, J. (2006). *Is democracy possible?* Sydney: Sydney University Press.
- Caplan, B. (2001). Rational ignorance versus rational irrationality. *Kyklos*, 54(1), 3–26.
- Caplan, B. (2003). The idea trap: the political economy of growth divergence. *European Journal of Political Economy*, 19(2), 183–203.
- Caplan, B. (2007). *The myth of the rational voter: Why democracies choose bad policies*. Princeton University Press; New edition.
- Caplan, B. (2008). Mises' democracy–dictatorship equivalence theorem: a critique. *The Review of Austrian Economics*, 21(1), 45–59.
- Caplan, B., & Stringham, E. (2005). Mises, Bastiat, public opinion, and public choice. *Review of Political Economy*, 17(1), 79–105.
- Chamlee-Wright, E. (1997). *Cultural foundations of economic development, urban female entrepreneurship in Ghana*. London: Routledge.
- Christopoulos, D. C. (2006). Relational attributes of political entrepreneurs: a network perspective. *Journal of European Public Policy*, 13(5), 757–778.
- Cosmides, L. & Tooby, J. (1992) Cognitive adaptations for social exchange. In J. Barkow, L. Cosmides, & J. Tooby (Eds), *The adapted mind* (pp. 161–225). Oxford University Press.
- Cosmides, L., & Tooby, J. (1994). Better than rational: evolutionary psychology and the invisible hand. *American Economic Review*, 84(2), 327–332.
- Cosmides, L. & Tooby J. (2006). Evolutionary psychology, moral heuristics, and the law. In G. Gigerenzer & C. Engel (Eds), *Heuristics and the law*. The MIT Press.
- Costanza, R., Low, B., Ostrom, E., Wilson, J. (Eds) (2001). *Institutions, ecosystems, and sustainability*. CRC Press.
- Cox, M., Arnold, G., & Villamayor-Tomás, S. (2010). A review of design principles for community-based natural resource management. *Ecology and Society*, 15(4), 38.
- Coyne, C. J. (2013). *Doing bad by doing good: Why humanitarian action fails*. Stanford: Stanford University Press.
- Crawford, S., & Ostrom, E. (1995). A grammar of institutions. *American Political Science Review*, 89(3), 582–600.
- Dawkins, R. (1989). *The selfish gene*. 2nd ed. Oxford University Press.
- Dennett, D. (1995). *Darwin's dangerous idea*. New York: Simon & Schuster.
- Denzau, A. T., & North, D. C. (1994). Shared mental models: ideologies and institutions. *Kyklos*, 47(1), 3–31.
- Di Lorenzo, T. J. (1988). Competition and political entrepreneurship: Austrian insights into public-choice theory. *The Review of Austrian Economics*, 2(1), 59–71.
- Evans, A. J. (2011). A nomos approach to social change: where human action meets cultural theory. *New Perspectives on Political Economy*, 6(2), 51–77.
- Fearon, J. D. (1995). Rationalist explanations for war. *International Organization*, 49(3), 379–414.
- Fernández, R. (2008). Culture and economics. In S. Durlauf & L. Blume (Eds.), *New palgrave dictionary of economics* (2nd ed.). Basingstoke: Palgrave Macmillan.
- Filson, D., & Werner, S. (2002). A bargaining model of war and peace: anticipating the onset, duration, and outcome of war. *American Journal of Political Science*, 46(4), 819–837.
- Finnemore, M., & Sikkink, K. (1998). International norm dynamics and political change. *International Organization*, 52(4), 887–917.
- François, A. (2003). The political entrepreneur and the coordination of the political process: a market process perspective of the political market. *The Review of Austrian Economics*, 16(2–3), 153–168.
- Friedman, J. N., & Holden, R. T. (2009). The rising incumbent reelection rate: what's gerrymandering got to do with it? *The Journal of Politics*, 71(2), 593–611.
- Fukuyama, F. (2011). *The origins of political order: From prehuman times to the french revolution*. New York: Farrar, Straus and Giroux.

- Gaus, G. F. (2007). Hayek on the evolution of society and mind. In *Cambridge companion to Hayek*. (pp. 232–258). Cambridge: Cambridge University Press.
- Guiso, L., Sapienza, P., & Zingales, L. (2006). Does culture affect economic outcomes? *Journal of Economic Perspectives*, 20(2), 23–48.
- Haber, S., Maurer, N., & Razo, A. (2002). Sustaining economic performance under political instability: Political integration in revolutionary Mexico. In S. Haber (Ed), *Crony capitalism and economic growth in Latin America* (pp. 25–74). Hoover Press.
- Harrison, L. E., & Huntington, S. P. (Eds.). (2000). *Culture matters: How values shape human progress*. New York: Basic Books.
- Hayek, F. (1937). Economics and knowledge. Presidential address delivered before the London Economic Club: Included in Hayek (1948: pp. 33–56).
- Hayek, F. (1948). *Individualism and the economic order*. Chicago: University of Chicago Press.
- Hayek, F. (1960). *The constitution of liberty*. University of Chicago Press.
- Hayek, F. (1976). *Law, legislation and liberty: Vol. 2. The mirage of social justice*. Chicago: University of Chicago Press.
- Hayek, F. (1979). *Law, legislation and liberty, volume 3: The political order of a free people*. Chicago: University of Chicago Press.
- Hayek, F. (1983). Interview with F.A. Hayek. *Cato policy report* (February).
- Hayek, F. (1998 [1962]). *The intellectuals and socialism*. London: Institute of Economic Affairs.
- Hirshleifer, J. (2001). *The dark side of the force: Economic foundations of conflict theory*. Cambridge: Cambridge University Press.
- Ikeda, S. (1997). *Dynamics of the mixed economy*. London: Routledge.
- Ikeda, S. (2003). How compatible are public choice and Austrian political economy? *The Review of Austrian Economics*, 16(1), 63–75.
- Ikeda, S. (2005). The dynamics of interventionism. *Advances in Austrian Economics*, 8, 21–58.
- Kirzner, I. (1973). *Competition and entrepreneurship*. University of Chicago Press.
- Kirzner, I. (1980). *Perception, opportunity and profit: studies in the theory of entrepreneurship*. University of Chicago Press.
- Kirzner, I. M. (1985). *The perils of regulation. in Discovery and the capitalist process*. Chicago: University of Chicago Press.
- Kirzner, I. M. (1992). *The meaning of the market process*. London: Routledge.
- Kirzner, I. M. (1997). Entrepreneurial discovery and the competitive market process: an Austrian approach. *Journal of Economic Literature*, 35(1), 60–85.
- Krasnozhan, L. A. (2012). Institutional stickiness of democracy in post-communist states: can prevailing culture explain it? *The Review of Austrian Economics*. doi:10.1007/s11138-012-0192-6.
- Kuran, T. (1989). Sparks and prairie fires: a theory of unanticipated political revolution. *Public Choice*, 61(1), 41–74.
- Lavoi, D., & Chamlee-Wright, E. (2000). *Culture and enterprise: The development, representation and morality of business*. London: Routledge.
- Leeson, P. T. (2005). Endogenizing fractionalization. *Journal of Institutional Economics*, 1(1), 75–98.
- Leeson, P. T. (2012). Ordeals. *Journal of Law and Economics*, 55(3), 691–714.
- Leeson, P. T. (2013). Gypsy law. *Public Choice*, 155(3), 273–292.
- Leeson, P. T., & Boettke, P. J. (2009). Two-tiered entrepreneurship and economic development. *International Review of Law and Economics*, 29(3), 252–259.
- Leeson, P. T., & Subrick, J. R. (2006). Robust political economy. *The Review of Austrian Economics*, 19(2–3), 107–111.
- Licht, A. N., Goldschmidt, C., & Schwartz, S. H. (2007). Culture rules: the foundations of the rule of law and other norms of governance. *Journal of Comparative Economics*, 35(4), 659–688.
- López, E., & Leighton, W. (2012). *Madmen, intellectuals, and academic scribblers: The economic engine of political change*. Stanford: Stanford University Press.
- Mathers, R. L., & Williamson, C. R. (2011). Cultural context: explaining the productivity of capitalism. *Kyklos*, 64(2), 231–252.
- McCloskey, D. (2006). *The Bourgeois virtues: Ethics for an age of commerce*. University of Chicago Press.
- Menger, C. (1985 [1883]). *Investigations into the method of the social sciences*. New York: New York University Press.
- Mises, L. (1956). *The anti-capitalist mentality*. D. Van Nostrand Company.
- Mises, L. (1957). *Theory and history*. Yale University Press.
- Mises, L. (1981 [1922]). *Socialism: An economic and sociological analysis*. Indianapolis: Liberty Fund.
- Mises, L. (1985 [1927]). *Liberalism*. The Foundation for Economic Education.

- Mises, L. (1996 [1949]). *Human action: A treatise on economics*. 4th ed. San Francisco: Fox & Wilkes.
- Mises, L. (1998 [1940]). *Interventionism: An economic analysis*. New York: Foundation for Economic Education.
- Mueller, D. C. (2003). *Public choice III*. Cambridge University Press.
- North, D. C. (1981). *Structure and change in economic history*. Norton.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press.
- North, D. C. (2005). *Understanding the process of economic change*. Princeton: Princeton University Press.
- Nye, J. V. C. (1997). Thinking about the state: property rights, trade, and changing contractual arrangements in a world with coercion. In J. N. Drobak & J. V.C. Nye (Eds), *Frontiers of the New Institutional Economics*. Academic Press.
- Oakerson, R. J., & Parks, R. B. (1988). Citizen voice and public entrepreneurship: the organizational dynamic of a complex metropolitan county. *Publius: The Journal of Federalism*, 18(4), 91–112.
- O'Driscoll, G. P., Jr., & Rizzo, M. (1985). *The economics of time and ignorance*. Oxford: Blackwell.
- Olson, M. (1965). *Logic of collective action: Public goods and the theory of groups*. Harvard University Press.
- Ortega y Gasset, J. (1984). *Historical reason*. New York: W.W. Norton & Co.
- Ostrom, V. (1973). *The intellectual crisis in american public administration*. University of Alabama Press.
- Ostrom, E. (1990). *Governing the commons: The evolution of institutions for collective action*. Cambridge University Press.
- Ostrom, V. (1993). Epistemic choice and public choice. *Public Choice*, 77(1), 163–176.
- Ostrom, V. (1997). *The meaning of democracy and the vulnerabilities of democracies: A response to Tocqueville's challenge*. University of Michigan Press.
- Ostrom, V. (1999). Polycentricity (part 1 and 2). In M. D. McGinnis (Ed.), *Polycentricity and local public economies* (pp. 52–74). Michigan: University of Michigan Press. 119–138.
- Ostrom, E. (2005). *Understanding institutional diversity*. Princeton: Princeton University Press.
- Ostrom, E. (2008). Developing a method for analyzing institutional change. In S. Batie & N. Mercurio (Eds), *Alternative institutional structures: Evolution and impact*. Routledge.
- Ostrom, E. (2010). Beyond markets and states: polycentric governance of complex economic systems. *American Economic Review*, 100(3), 641–672.
- Ostrom, E., & Ostrom, V. (2004). The quest for meaning in public choice. *American Journal of Economics and Sociology*, 63(1), 105–147.
- Pennington, M. (2011a). Robust political economy. *Policy: A Journal of Public Policy and Ideas*, 27(4), 8–11.
- Pennington, M. (2011b). *Robust political economy: Classical liberalism and the future of public policy*. Edward Elgar.
- Platteau, J. (2000). *Institutions, social norms, and economic development*. Harwood: Academic Publishers & Routledge.
- Powell, R. (2006). War as a commitment problem. *International Organization*, 60(1), 169–203.
- Rajan, R. (2004). Assume anarchy? Why an orthodox economic model may not be the best guide for policy. *Finance & development* (September):56–57.
- Reiter, D. (2003). Exploring the bargaining model of war. *Perspectives on Politics*, 1(1), 27–43.
- Roland, G. (2004). Understanding institutional change: fast-moving and slow-moving institutions. *Studies in Comparative International Development*, 38(4), 109–131.
- Rubin, P. (2001). Ideology. In William F. II Shughart & Laura Razzolini (Eds), *The Elgar companion to public choice*.
- Samuelson, L. (2004). Modeling knowledge in economic analysis. *Journal of Economic Literature*, 42(2), 367–403.
- Schumpeter, J. (1994 [1942]). *Capitalism, socialism, and democracy*. New York and London: Routledge.
- Shearmur, J. (1996). *Hayek and after: Hayekian liberalism as a research programme*. Routledge.
- Smith, A., & Stam, A. C. (2004). Bargaining and the nature of war. *Journal of Conflict Resolution*, 48(6), 783–813.
- Sowell, T. (2002). *A conflict of visions: Ideological origins of political struggles*. Basic Books.
- Stigler, G. J. (1951). The division of labor is limited by the extent of the market. *Journal of Political Economy*, 59(3), 185–193.
- Storr, V. (2012). *Understanding the culture of markets*. New York: Routledge.
- Stringham, E. P. (2011). Embracing morals in economics: the role of internal moral constraints in a market economy. *Journal of Economic Behavior & Organization*, 78(1), 98–109.
- Sugden, R. (1993). Normative judgments and spontaneous order: the contractarian element in Hayek's thought. *Constitutional Political Economy*, 4(3), 393–424.

- Tabellini, G. (2008a). Presidential address: institutions and culture. *Journal of the European Economic Association*, 6(2–3), 255–294.
- Tabellini, G. (2008b). The scope of values: cooperation and incentives. *Quarterly Journal of Economics*, 123(3), 905–950.
- Tabellini, G. (2010). Culture and institutions: economic development in the regions of Europe. *Journal of the European Economic Association*, 8(4), 677–716.
- Tilly, C. (1993). *European revolutions: 1492–1992*. Blackwell.
- Tooby, J., & Cosmides, L. (1992). The psychological foundations of culture. In *The adapted mind: Evolutionary psychology and the generation of culture* (pp. 19–136). New York and Oxford: Oxford University Press.
- Tullock, G. (1966). *The organization of inquiry*. Duke University Press.
- Tullock, G. (2005 [1965]). The politics of bureaucracy. In C. K. Rowley (Eds), *The selected works of Gordon Tullock: Vol. 6. Bureaucracy* (13–235). Indianapolis: Liberty Fund
- Tullock, G. (2005 [1974]). *The social dilemma of autocracy, revolution, Coup D'Etat, and war*. Indianapolis, Indiana: Liberty Fund.
- Vanberg, V. (1986). Spontaneous market order and social rules. *Economics and Philosophy*, 2(1), 75–100.
- Wagner, R. H. (2000). Bargaining and war. *American Journal of Political Science*, 44(3), 469–484.
- Wagner, R. E. (2005 [1966]). Self-governance, polycentrism, and federalism: recurring themes in vincent Ostrom's scholarly oeuvre. *Journal of Economic Behavior & Organization*, 57(2), 173–188.
- White, L. H. (2012). *The clash of economic ideas: the great policy debates and experiments of the last hundred years*. Cambridge University Press.
- Wilson, D. S., Ostrom, E., & Cox, M. (2013). Generalizing the core design principles for the efficacy of groups. *Journal of Economic Behavior & Organization*, 90, S21–S32.
- Wittman, D. A. (1997). *The myth of democratic failure: Why political institutions are efficient*. University of Chicago Press.
- Wohlgemuth, M. (2002). Democracy and opinion falsification: towards a new Austrian political economy. *Constitutional Political Economy*, 13(3), 223–246.
- Wright, R. (2009). *The evolution of God*. New York: Little, Brown and Company.
- Yandle, B. (1983). Bootleggers and baptists: The education of a regulatory economist. *Regulation* 12(May/June):12–16.