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# The Roadblock of Culturalist Economics: Economic Change á la Douglass North

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## ABSTRACT

In his 2005 book, *Understanding the Process of Economic Change*, North offers a rough account of economic change that can be called “culturalist economics.” In his account, he attributes the change of well being of individuals to, besides technology and demographics, cultural heritage or cultural beliefs. Using this basis, he then attributes “the mystery of the unique evolution of western Europe” to a causative view that combines “Christian dogma” and English “individualism.” This combinatory belief assures property rights, and hence explains the success of Western Europe and the US and the failure of Islam and Latin America in terms of their respective economic development. But North’s culturalist economics faces a roadblock: it does not explain the origin of beliefs, and it neglects the role of rational choice in manufacturing beliefs. Specifically, it ignores the roles of agency, revolutionary change, and the dynamics of empire.

**Keywords:** cultural economics vs. culturalist economics, reification of culture, Christian dogma, individualism, mystery of rise of Europe, Islam.

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Two thirds into his *Understanding the Process of Economic Change*, North [2005], states: “By now it should be clear that no dynamic theory of change is advanced in this study and I hope that it is equally clear that no such theory that could be useful is likely to evolve” (pp. 125-126).<sup>2</sup> He then immediately writes that while evolutionary game theory has captured some interesting insights, “generalization would render it so unwieldy as to be of little value.” It is true that in contrast to evolutionary game theory, North produced a book of reflections that is far from a systematic theory of economic change.<sup>3</sup> In fact, the book is highly disjointed and at times frustrating. It is never clear how his digressions into neuroscience are related to his account of the formation of beliefs, and how exactly his account of belief formation differs from Bayesian updating. Also, it is never clear how his account of political order, and the failure to resolve civil strife, is related to his theory of the origin of institutions.

Nonetheless, as the reconstruction here will show, North actually produces a rough account which is sufficiently discernable to call “*culturalist* economics.” Section 1 shows how culturalist economics differ from cultural economics. The rest of paper focuses on showing the conceptual roadblock constructed by culturalist economics, mainly through the method of “what if?” scenarios.

It is important to identify the roadblock given the recent revival of culturalist economics. One would have thought that culturalist economics would have died out with the marginalization of its early proponents, viz., the followers of Thorstein Veblen [see Khalil, 1995b]. However, as Ha-Joon Chang [2007] shows, the upsurge has its roots in the recent revival of culturalist explanations of geopolitical conflicts, as in the work of

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<sup>2</sup> All page references are for North’s 2005 book.

<sup>3</sup> See Khalil [2007a] for a more structured and brief account of the book.

Bernard Lewis [2002] who inspired the “clash of civilization” thesis of Samuel Huntington [1997]. It also has its roots in the explanations of the diversity of economic success stories, as in Francis Fukuyama [2000; see also Berger, 1991] and Paul Krugman [1994]. Furthermore, culturalist economics is also making in-roads into the grand study of civilization [e.g., Landes, 2000, 2006] and recent work in development economics [Bisin & Verdier, 2001; Francois & Zabojnik, 2005]. Such work, which takes the “irrational” cultural tastes for trust as given, has roots that extend to the classic work of evolutionary game theory of David Kreps *et al.* [1982; see Samuelson, 1997; Gintis 2003a,b].

### **1. Cultural vs. Culturalist Economics**

*Cultural economics*” differs from *culturalist economics*. Cultural economics simply notes, without specifying the causal connection, that economic growth (G) has to be accompanied by cultural institutions or beliefs (C) such as a work ethic, social capital, legal systems, property rights and so on. Culturalist economics, on the other hand, specifies a causal relation that ultimately expresses the primary of culture:

$$G = f(C, R, T, P, Z)$$

whereas R expresses resources, T technology, P population, and Z any set of other factors.

What is peculiar about the culturalist proposition is that cultural beliefs stand *almost* independently of scarce resources, technology, and population and many other factors such as division of labor, market power, political parties and political order, states, and tastes. Of course, no reasonable culturalist economist denies that C is also a function of the R, T, P and Z variables. But, at first approximation, C stands prior to these variables. So, societies,

ultimately, either have cultural beliefs that are conducive to growth—such as extensive social capital (trust), a high work ethic, and sufficiently rational belief systems—or they do not.

The culturalist proposition seems, at first examination, innocuous and benign. But it ultimately neglects the role of rational choice in manufacturing cultural norms such as commitments not to steal or act opportunistically [see Khalil, 2006]. If rational choice, in the sense of forward-looking calculations, is pivotal to the formation of cultural norms, culturalist economics will actually be double-counting. In this case, such norms would be the product of arguments such as capital goods and resources. As such, it acts a *method* or the *frame* through which capital goods and resources are presented. Thus, one cannot place the *method* as an argument in the same function that includes capital goods and resources.

## **2. Institutions as External Beliefs**

For North, economic change “consists of a change in the material and physical well-being of humans broadly conceived to include change that can be quantified not only in national and personal income data, in physical measures of human well-being, but also in the less precisely measured but important aspects of human well-being embodied in non-market economic activity” (p.78). With such a definition, he notes that Western Europe and the US have unmistakably achieved positive economic change, while the Muslim world and other societies have achieved negative economic change. But what determines the level of well being so defined and, hence, differences in well being?

For North, well-being is determined by the complex interplay of three variables: “the stock of knowledge, institutions, and demographic factors” (p. 78). North gives some

attention to the growth of knowledge (technology) and demographics in chapter seven. But North is most interested in institutions. For North, institutions are external manifestations of beliefs, while beliefs are the internal representation of institutions. He sums up that the “key to building a foundation to understand the process of economic change is beliefs—both those held by individuals and shared beliefs that form belief systems” (p. 84). For him, the “explanation is straightforward; the world we have constructed and are trying to understand is a construction of the human mind. It has no independent existence outside the human mind” (*Ibid.*).

Therefore, North dedicates chapters 3-4 to discuss the human mind, cognition, consciousness, intentionality, and learning. He highlights how the human mind and belief system is capable of creativity as well as the source of superstitions, savagery, endless wars, Holocaust, and terrorism. He stresses that beliefs are neither mirrors of reality nor based on logical, symbol-based reasoning. Rather, beliefs are the outcome of pattern-based reasoning. This means that the human brain constructs the physical environment and the human environment according to categories, i.e. beliefs, rather than the other way around. Such beliefs, once expressed externally, are recognized as institutions. It is unclear how North, once he adopts such a subjectivist view of beliefs, comes to differentiate between rational beliefs, such as scientific theories, and what he repeatedly calls non-rational beliefs such as religion, superstitions, and fanaticism. Also, it is unclear how each kind of belief differs from the other in the minimization of uncertainty.

### **3. When Religions Go Wrong**

North applies his distinction between rational and non-rational beliefs to explain the success

of Europe and the failure of Islam. North argues that non-rational beliefs are geared to make sense of the physical environment, while rational beliefs are generated to make sense of the human-constructed environment (such as markets and power). He thinks that the development of a society is derailed (as the case of Islam) when it introduces the non-rational beliefs, which should be limited to the physical environment, into the human-constructed environment: “Problems posed by the transition of a belief system from one constructed to deal with the physical environment to one constructed to confront the complex problems of the human environment are at the core of the problems of economic development” (p. 44; see also p. 76).

He further suggests that, in the West, religious beliefs are limited to the domain of dealing with uncertainty regarding the physical environment. In the West, religious beliefs are not allowed to enter the domain of human-constructed environment. Thus, with such limitations, religious norms can be growth-inducive norms, as noted by Max Weber [1958] with regard to the Protestant ethic and Yujiro Hayami [in Hayami & Aoki, 1998] with regard to the Confucianism/Buddhism/Shintoism ethic in relation to the industrial development of the late Tokugawa period (p. 57). However, once religious beliefs are allowed to cross into human environment, the religious beliefs are not growth-inducive. Citing the work of Timur Kuran [2003], North asserts: “The failure of the Muslim world to continue its dynamic expansion after the twelfth century evidently reflected the rigidities that evolved in that culture in contrast to the dynamic changes in western Europe” (p.44). This statement is but one example in North’s book of sweeping and questionable remarks about Islam and fanaticism reminding us of Bernard Lewis’s [2002] short tract of sweeping generalizations of why Islam has "failed."

If North is correct, it means that the *uniformity* of the worldview of Islam is responsible for the stagnation of Islamic societies. This uniformity entails that religious norms are not restricted to the “non-rational” beliefs about the natural world. It also entails that people do not separate their spiritual practices from the public sphere. If so, how could North explain the successes of Islamic culture and the vivacity of Islamic civilization from the seventh to the twelfth centuries?

In North’s story, the success of Western Europe can be traced, aside from technology and demographics, to its “good” cultural belief: “The long run economic success of western economies has induced a widespread belief that economic growth now is built into the system, in contrast to the experience of the previous ten millennia when growth was episodic and frequently non-existent” (p. 77). North calls such good, growth-inducive cultural system “adaptive efficiency.” As he defines it, the Western belief system is efficient because it secures property rights, backed up by formal law, which assures impersonal exchange with low transaction cost. It is adaptive because it does not suffer from rigidities that characterize other belief systems as the ones based on personal exchange and clientelism as described by Philip Keefer [2005].

#### **4. Origin of Beliefs??**

One would suspect that North’s adaptively efficient beliefs (rational and non-rational), corresponding to the worlds of Max Weber and Yujiro Hayami, must have risen from the ashes of adaptively *inefficient* beliefs. So, it is natural to ask how does the *same* society manage to shed away the adaptively inefficient belief in favor of the adaptively efficient one? Actually, North poses the question of what is the origin of good constraints and

informal norms, which lower transaction costs, such as “honesty, integrity and reliability”? What are the “sources of their [informal constraints] change”? (p.75). And why have the West and the Japanese been blessed with such a change while the “Muslim world” (p. 44) and others have not been so blessed? But North does not answer the question.

While he poses the question of the origin of beliefs, he instead discusses the consequences of beliefs. He does not, for instance, discuss revolutionary change in which the same society shifts from a bad to the good cultural belief. For him, the American Revolution did not institute a new adaptively efficient belief because it was *already* inherited from the colonial era. Likewise, the Glorious Revolution simply *continued* the older English tradition. Similarly, when North examines the competition of political entrepreneurs to build a political order in chapter eight, he describes it as a competition among alternative cultural systems and whether a consensual order or an authoritarian order will arise. Likewise, when North discusses, in chapter 11, the rise of Soviet Union and its collapse, he does not discuss political agency and its role in the revolutionary change of institutions. Rather, he forcefully dresses up the political upheavals of Soviet socialism, and the later reform attempts of Gorbachev, as a process of cultural continuity as resulting from belief systems born in the subconscious level of human experience.

When he poses the question about the origin of beliefs, North immediately plunges into a discussion of the work of Avner Greif [1993, 1994a,b] on the Maghribi traders (Jewish traders from Islamic Morocco and North Africa) and the work of Robert Putnam *et al.* [1993] on the underdevelopment of South Italy. Greif compares the cultural values of Genoese traders as opposed to the Maghribi traders from Islamic societies. Greif argues that Islamic traders relied on personal exchange networks because of their collectivist behavioral

beliefs, while the Genoese traders relied on formal legal organizations because of their individualist behavioral beliefs. Since impersonal trade entails wider trade, which in turn lowers the transaction costs of the expensive, formal legal-institution, the belief of the Genoese is more conducive to the expansion of trade than the belief of the Islamic traders. Likewise, Putnam traces the lack of social capital in South Italy, as opposed to North Italy, to a cultural difference arising from eight centuries of history. The South was under hierarchically imposed political control, while the North enjoyed voluntaristic associations to solve everyday problems.

Later, in chapter eight, North discusses his collaborative work with William Summerhill and Barry Weingast [North *et al.*, 2000]. Their work concerns the issues of legitimacy, political order, and political disorder of Latin America after independence from Spain and Portugal. The authoritarian political order is usually preferred to disorder and strife. And political disorder was, and one may argue still, rampant in Latin American because of the deep conflict between the republicans, who resembled the founding fathers of the US, and the landed aristocracy. Such aristocracy was very strong given the Spanish mercantilist system, derived from Castilian centralized bureaucracy. The mercantilist system was used by the Spanish empire to extract resources from its colonies and it awarded huge land concessions to a few individuals to ensure their loyalty. In contrast, the British empire used open trade and free markets which gave the colonies great freedoms to run their affairs. So, Latin America polities, stuck with path-dependent Spanish institutions, relied on personal exchange similar to the Maghribi traders while the US was based more on impersonal exchange like the Genoese.

However, as already suggested, these case studies of the Maghribi traders, South

Italy and Latin America do not answer North's question regarding the source of cultural belief systems. Therefore, he does not explain what, given that Islam failed because of its faulty belief practices, is the origin of these belief practices. Why did the Maghribi traders, for example, fail to develop the same organizational innovation as the Genoese traders? North's answer, borrowed from Greif, is simple: the Maghribi traders, and other participants in failed belief systems, simply got stuck with their path dependent institutions based on family and clan networks. However, why did the Genoese traders did not get stuck with *their* path dependent institutions, which were also originally based on family networks?

## **5. Path Dependency**

Does path dependency explain the origin of beliefs? North, in this book and in his earlier *Institutional Change and Economic Performance* [North, 1990], stresses the non-ergodic (i.e., path dependent) nature of the world. He clarifies that this is not only just a result of the inertia of institutions, which would entail that the choices of today are constrained by the choices made yesterday. For North, path dependency is also caused by the attempts of privileged organizations to suppress changes that undermine their privileges, or, in other words, the entrenchment of vested interests.

So, the idea of path dependency entails that X cultural beliefs and Y vested interests have the tendency to remain within a society over time. This would be true irrespective of whether the cultural beliefs are adaptively efficient (like those of the Genoese, the North Italians, the Protestants and the framers of the US Constitution) or adaptively inefficient (such as those of the traders from Muslim societies and the Latin American aristocracy). The path dependency idea thus explains why institutions and organizations persist,

irrespective of whether they are good or bad.

With this in mind, how could one answer the question asked above, namely why is it the case that the Genoese or European traders did not get stuck with their family-based governance, while traders from Islamic culture got stuck with theirs? There are two options. First, if one takes seriously the view that all humans have stable and similar preferences [Stigler & Becker, 1977], one would argue that both kinds of traders started with the same family-based governance. However, the Genoese were able to break away because of rational decision in light of new opportunities. Second, the Genoese were able to break away because of political revolution, i.e., innovation. They were able to undertake such a revolution because of political fragmentation, warfare among cities, or the lack of hegemonic state. To explain institutional innovation is as difficult to explain as technological innovation and entrepreneurship.

Both answers highlight that it is a mistaken entry point to pose the question about the rise of the Genoese traders as a mystery—so much a unique event in history that one has to search for extra-economic reasons. North seems to have elevated the Genoese new institutions, and later the European ones, to the level of mystery. North suggests that the Western institutions, unlike Islam, had always possessed a cultural “seed” favorable towards impersonal-based governance. This is North’s position, which means that he does not have to offer a theory of the origin of cultural belief: either a culture has the growth-conducive belief system or it does not. The idea of path dependency, as North acknowledges, is not a theory about the origin of belief systems but about the continuity of whatever exists.

## **6. Neo-Darwinism and the Immaculate Conception of Beliefs**

To recapitulate, North's culturalist economics amounts to the following: different societies start, for some unknown reasons, with different cultures. So, beliefs are born with immaculate conception. If a society lacks the cultural heritage of adaptive efficiency, it will remain so lacking:

[P]ath dependency—the way by which institutions and beliefs in the past influence present choices—plays a crucial role in this flexibility. Societies whose past experiences conditioned them to regard innovative change with suspicion and antipathy are in sharp contrast to those whose heritage provided a favorable milieu to such change. Underlying such diverse cultural heritages are the shared mental models of the participants in each case (p. 21).

North appeals to the idea of “fallibility of humans” as an explanation of origin:

“The fallibility of humans in attempting to structure their environment produces outcomes at odds with intentions” (p. 79). This means that the quality of the institutions is the result of a stochastic shock that will induce humans to institute, in some cases, the good belief.

However, in other cases, they will fail. It is in this vain in which North poses the rhetorical question, at the end of a chapter, of how “much of economic growth was a result of shrewd judgment in contrast to just plain luck?” (p. 102).

This position is consistent with the neo-Darwinian notion of the random/blind origin of genes. However, it presents a roadblock: one cannot really investigate the origin of belief systems. They *simply happen*. One can only investigate the consequences of the shocks. In the neo-Darwinian story, competition weeds out the less fit individuals prior to their ability to procreate. In this manner, the population pool tends to consist mostly of the fittest genes

(or, in our case, institutions). Along this neo-Darwinian story, societies with the less successful beliefs will simply die out, meaning that only the more successful systems (i.e., that of Western Europe) will survive. Or, alternatively, alternate societies will only be able to survive if they imitate the successful belief system of Western Europe. Either way, the dominant genes (institutions) would be those belonging to the Western system. That is, to be consistent, the culturalist agenda entails that there is more-or-less only one single route to modernity, namely Western growth-inducive institutions.<sup>4</sup>

## **7. Good Belief Sets: Christian Dogma and English Individualism**

So, what exactly is the Western growth-inducive belief system? North traces the Western belief system to “two sets of experiences”: Christian dogma, which goes deeper than the Protestant ethic, and English individualism. In both cases, North emphasizes the role of informal institutions and how they fostered the eventual legal systems in Western societies responsible for property rights and impersonal exchange.

Concerning Christian dogma, discussed shortly, North alludes correctly to the fact that religions are so broad that they usually lend themselves to conflicting interpretations. For a particular dogma to take effect, North states that people must experience particular conditions such as fundamental demographic/resource constraints that became embodied in religions since they were the dominant organized belief structure of the pre-modern world” (p. 136). But once a religious norm takes hold, such as the Christian one, learning amounts

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<sup>4</sup> This neo-Darwinian story of why some institutions win and others lose is similar to the one offered by Friedrich Hayek [see Khalil, 1996]. It should be noted, however, that the neo-Darwinian story of evolution is structurally unrelated, and should not be conflated with another major idea of Hayek, viz., the notion of spontaneous order [see Khalil, 1997]. The latter notion argues that there is no need for state intervention in order to enhance well being. Prosperity arises *only* spontaneously, meaning that state intervention that professes greater knowledge is conceited. North (p. 79) also seems to subscribe to some version of Hayek’s notion of spontaneous order.

to the filtering of information through the religious norm:

[T]he learning process is a function of the way in which a given belief structure filters the information derived from experiences and the different experiences that confront individuals in different societies at different times. Thus one can argue that the Christian religious framework of the Middle Ages provided a hospitable filter for learning that led to adaptations congenial to economic growth; or alternatively that the specific geographic/economic/institutional context of the medieval western world provided the unique experiences responsible for the resultant adaptations” (*ibid.*).

However, North is never specific: what is so particular about Western European “fundamental demographic/resource constraints” that propels people to interpret the Christian set of beliefs in a way that is conducive to growth? That is, what is missing in other cultures, such as Islamic societies, which prevented them from experiencing the same growth-inducive constraints?

In any case, even if this question was addressed, what part of the Christian set of beliefs that developed in the West was in any way conducive to growth? North is not specific, other than briefly referring to the Christian conception of nature that encourages man to exploit it:

The belief embodied in Christian dogma was, despite some notorious contrary illustrations, amenable to evolving in directions that made it hospitable to economic growth. Both Ernst Benz ... and Lynn White ... maintain that Christian belief gradually evolved the view that nature

should serve mankind and that therefore the universe could and should be controlled for economic purposes. Such an attitude is an essential precondition for technological progress (p. 137).

North then immediately adds:

But it was particularly the unique institutional conditions of parts of medieval/early modern Europe that provided the sort of experiences that served as the catalyst to precipitate such perceptions. From this perspective Weber's protestant ethic is a part of the story of this adaptation but is "downstream" from the original sources (*Ibid.*).

Concerning the second set of experiences, English individualism, North again appeals to Greif's conclusion that the success of the Genoese traders, over their Maghribi counterparts, is due to the individualist belief ethic. He also mentions the work of Alan Macfarlane [1978] who traces the sources of English individualism to the thirteenth century and earlier. Such English individualism secured the institutions of property rights, freedom of contract, and impersonal exchange which came to typify and explain the success of the American colonies and, later, the US.

## **8. Examining Islam and Latin America**

Is the Christian dogma pivotal? North fails to note that many major figures of the Enlightenment, such as Edward Gibbon, blamed the decline of Rome (i.e., Europe) on the Christian dogma—and for an obvious reason. Christianity was associated with the dark ages of Europe. (Incidentally, Islam was associated with the great achievements of the Arabic/Islamic civilization). Of more concern, North cites other scholars about the

supposedly unique feature of the Christian belief, viz., the view of nature as being the servant of man. However, North fails to examine other religions—in particular Islam since he repeatedly refers to it—on whether they conceive nature differently.

It turns out that Islam does not differ from Christianity on this point. In fact, the *Qur'an* accorded less attention to the Garden of Eden story than the attention accorded to it in the Christian Bible. According to the *Qur'an*, Earth is the “resting place” for man, where man can enjoy the fruits of the land as a result of rain [book 2, verse 22]. Before God created man, according to the *Qur'an*, God informed the angels that he wants to place a representative or a successor (“*khalif*”) on Earth [book 2, verse 30]. God, in the *Q'uran*, never intended for Adam and Eve to become permanent tenants in his Garden and, in the Islamic tradition, Earth is not a punishment for man’s weakness of will.

But one may still argue that Islam lacked the emphasis on individualism, which was celebrated in the English culture according to North. Nonetheless, there is a strong tradition in Islam concerning justice and the protection of property rights, especially given that the prophet Muhammad was a merchant. A great portion of Islamic jurisprudence concerns the rights of inheritance, marriage contracts, and commercial dealings. In *The Muqaddimah*, Ibn Khaldûn [1967, vol. 2, pp. 13-111] summed up a long intellectual tradition that shows how justice is the necessary condition of *any* civilization [Khalil, 2007c].

## **9. Examining Latin America**

What about North’s account of the failure of Latin America? While Latin America shared with Europe the Christian dogma, it simply lacked the other good institution, viz., the English/Genoese individualism that ushered in freedoms and beliefs conducive to

impersonal exchange and economic growth. Let us examine this hypothesis by an analysis of the US.

North mentions the horror of the US civil war as being the bloodiest conflict in history. However, it could be interpreted as a compressed episode of the same turmoil that engulfed Latin America and stretched for many decades. The US civil war could thus be seen as a conflict between the adaptively efficient belief of English individualism against the adaptively inefficient aristocracy of the confederate states (which is also interestingly of English heritage). But why did the US turmoil result in a clear victory for one side, which ensured political order, while the Latin American turmoil dragged on throughout the nineteenth century, and even until today, without a clear winner in most countries? The question is complex and cannot be taken here. It could have been the result of accident of how England ruled the North American colonies, as more-or-less a unit, as opposed to how Spain and Portugal, ruled the South American ones.

In any case, North does not mention or even allude to how the Latin American stalemate invited foreign intervention. (Actually, North does not mention colonialism or neocolonialism at all). These interventions did not only come from the neighbor to the north. In one famous episode, not mentioned by North, the Latin American turmoil invited French intervention in Mexico in the 1860s. Napoleon III, taking advantage of the inability of the US to exercise its Monroe Doctrine during its civil war, interfered in the conflict in Mexico on the side of the adaptively inefficient landed aristocracy against the liberal republicans, who had passed laws for land reform.

Let us suppose that the French succeeded in their intervention and that they secured a puppet regime against the wishes of the republican Mexicans and against the wishes of

Abraham Lincoln. It could have succeeded under the following feasible “what if” scenario: assume that the French Emperor was wiser in his choice of puppet ruler and picked a more *realpolitik* European aristocrat than the *obviously* naïve and liberal Maximilian. In 1859, Maximilian’s brother, Habsburg Emperor Franz Josef, dismissed Maximilian as the Austrian regent of Milan because of his liberal policies. Maximilian managed to alienate the Mexican landed aristocracy, his supposed main backers, by supporting liberal land reforms proposed earlier by his nemesis, the deposed Republican president, Benito Juárez [see Ridley, 1992]. With a less naïve puppet, the French would have been more likely to succeed in Mexico even to the point of assisting the beleaguered confederate states in the US civil war. This may not have meant a decisive confederate victory. But it may have led to a stalemate and a compromise. In such a compromise, the US would have also been marred with having no clear winner, which may have led to a history of turmoil, civil strife, political disorder, and further European interventions in US affairs in support of one faction against the other. This would entail a scenario not different from the Latin American one, i.e., that of economic stagnation.

How would North and other culturalist economists approach this scenario? If they were to apply the same culturalist proposition as described earlier, they would offer the following story: North America suffered from economic stagnation because the aristocracy of the confederate states inherited its belief system from the strong mercantilist tradition of English history. North and other culturalists might even cite Adam Smith’s *Wealth of Nations* as a testimonial about the strong mercantilist streak of English tradition.

The point is that North’s culturalist economics lacks the analytical tools to handle

issues related to political leadership, geopolitics, colonialism, and political revolutions that define the cultural norms. The culturalist account cannot handle colonial/political subjugation as an explanation, or as at least a partial one, of the widening gap between rich and poor countries. Many of the European military/political interventions, and later US interventions in the developing world, have encouraged and supported weak, aristocratic classes who uphold, to use North's terms, adaptively inefficient belief systems. So, one has to give a geopolitic account of empire and the dynamics of hegemony if one to explain the persistence of adaptively inefficient beliefs. At first approximation at least, belief systems are readily manufactured in the service of forward-looking calculations. They are manufactured within a few years, if not a few months, under slogans of democracy or national self-determination, under liberty or fraternity, under equality or justice.

## **10. Examining Japan**

Does North's culturalist account fair better with the Japanese success in the nineteenth century? Did Japan's religion embody the pivotal idea of the Christian dogma, namely, the conception of nature as servant of man? It might be the case. Also, it could be argued, along with Yujiro Hayami, that the Confucianism/Buddhism/Shintoism ethic, made up of "frugality, industry, honesty and fidelity," resembles the Christian dogma. However, the similarity with Western belief system stops here. Japan did not embody English individualism. To a great extent, the Japanese exchange system was squarely based on personal exchange and embodied collectivist values. So, Japan resembles Islam—collectivist values with suitable religious ethic. If so, one cannot use the *same* explanatory variables to explain opposite phenomena: the success of Japan and the failure of Islam.

## 11. “Why Europe?”—It is the Wrong Question

The search for the Holy Grail would be easier if we were not living inside the belly of the whale. It is difficult to answer the question “why Europe?” without knowing the end of the story of the European/American success. If North, or anyone who poses the question “why Europe?” happened to write such a book three centuries from now—basking under the sun of African hegemony while European and American polities are in a state of disorder, wars, and civil strife—he would realize that the combinatory belief of Christian dogma and English/Genoese individualism is not the Holy Grail.

Fortunately, we do not need to wait three centuries to have more data as we already have at hand an enormous amount: the successful hegemonies of the Pharos of Egypt; the Roman empire; Islamic civilization; and many other civilizations. Their successes cannot be traced to the combinatory belief of Christian dogma and English/Genoese individualism.

At the root of North’s account, as well at the root of diverse variants of culturalist explanations, is the reification of institutions. A theory commits to the reification of institutions when it explains rational action not in terms of forward-looking calculations, but rather in terms of some abstract norms, beliefs, or in general culture [Khalil, 1995a]. Many anthropological case studies, aside from economic anthropology, amount to the explanation of human choice as the expression of some inherited norms and customs. In North’s account, the reification involves giving an enormous role to *inherited* institutions, while neglecting organizations and their role in manufacturing institutions. To be precise, in his earlier book, North [1990] commenced with his famous distinction between institutions and organizations. But he did not make much of the distinction in that book, as well as in this

book, other than modeling organizations as basically ventriloquist agents, while modeling institutions as the real agents [see Khalil, 1993].

In addition, North's culturalist economics is a self-congratulatory one. It does not have to be. But, as he articulates it, his account arises from a self-centered reading of history as if the most intriguing part of world history started with one's favorite society or one's favorite belief system (in this case, the Western European one). Such self-centered reading of history is not a necessary ingredient of culturalist economics. It is one thing to state that culture  $X_1$  is responsible for action  $X_2$ , while culture  $Y_1$  is responsible for action  $Y_2$ . It is another matter to state that the adaptive efficiency (AE) of one culture is superior to another, e.g.,  $AE(X_1) > AE(X_2)$ .<sup>5</sup>

In any case, North's self-centered reading of history is evident from his repeated reference to Max Weber without noting his Eurocentric approach. For Weber, progress is stadial starting with the pre-modern world and ending with European style modernity: while modern European institutions are rational, the rest of human institutions express imperfect rationality. Such a way of cutting the world automatically accords Europe a mysterious position in the sense of cutting history into two categories: the non- and pre-modern Western history and modern Western history.

As North puts it, he wants to explore "the mystery of the unique evolution of western Europe" and the failures of "China and Islam" (p. 137). But asking the question "why Europe?" [see Landes, 2006] is the wrong question to pose in the first place. It is

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<sup>5</sup> Many of the case studies undertaken by anthropologists fall under the category of "culturalist economics" but do not advocate any ranking of cultures according to some notion of progress. Such cultural relativism has evoked enormous debates, which we do not need to discuss here. However, it basically rejects the ranking of  $X_1$  and  $X_2$ . For instance, Lawrence Rosen [2005] offers a culturalist reading of Arab political culture, which may or may not lead directly to the ranking of cultures as implied in North's account [see Khalil, 2007b].

wrong insofar that it makes the industrial revolution in Europe into what philosophers call a “natural kind” [e.g., Quine, 1994]. It would be a natural kind if one can truly lump all previous innovations in history—from use of fire to the inventions of mathematics, agriculture, and the wheel—in one category and the industrial revolution in another. For instance, one cannot juxtapose “humans” and “nonhuman animals” unless one can show that there is a natural trait that unites apes, fish, ants, and flies, but which humans lack. Likewise, to ask the question “why Europe?” would be a wrong question insofar as “non-Europe” is an artificial category—i.e., it does not exist in nature.

Liah Greenfeld [2001] also asks why European culture was overtaken by Weber’s “spirit of capitalism,” i.e., in-built institutions conducive for economic growth. She upholds the culturalist view as well. Her question assumes that all previous civilizations lacked the drive and impetus for growth. And secondly, her answer, namely, that the spirit of capitalism was unleashed by nationalism, is also culturalist. She views nationalism as a novel phenomenon—a natural kind. She does not see it as another form of tribalism and king-worship.<sup>6</sup>

It is as wrong to ask “why Europe?” as it is to ask “why Arabia?” for the “mysterious” ability of the Arabian tribes to unite and conquer more advanced civilizations than theirs, or “why Mesopotamia?” for the “mysterious” ability of first city states to invent writing and mathematics. Any of these questions assume the unrivalled uniqueness of a region or a country in the flow of human civilization. The revolution of institutions/technology that took place in Europe had already taken place, relative to what had already preceded, in many junctures of human history. If one distinguishes one

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<sup>6</sup> However, if one strips the culturalist connotation of Greenfeld’s notion of nationalism, her account is an antidote to North’s. Greenfeld shows how national power and political will is at the root of economic growth, even in England [Greenfeld, 2001, ch. 1].

development above all other watersheds in history, it would be a pseudo distinction, and thus would bias social science inquiry.

## **10. What If?**

Let us suppose that Europe and the US, two centuries from now, decline and devolve into turmoil and strife, as it is the case in post-Soviet Russia. We would be reifying the culture (the combinatory belief of Christian dogma and individualism) if we blame the decline on the defectiveness of the combinatory belief by arguing, for example, that individualism breeds anti-social preferences and Christianity is, along Nietzsche, the religion of the weak. Such reification is implied in North's text and in the texts of authors (such as Greif and Kuran) whom he cites extensively when they blame the decline of Islamic civilization on the Islamic belief system.

The belief system or culture might not be different from the wax used by Icarus: the belief that explains the success of a civilization may also, paradoxically, lie behind its decline. As Thrainn Eggertsson [1990] insightfully shows, the same institution can explain both the success and failure of collective action. So, to explain the process of economic change, we should avoid the road towards culturalist economics. We need to study material forces, such as resources and entrepreneurship, along with geopolitical dynamics that determine the process of economic change.

North's account, namely, the elevation of the belief system to a crucial role, explicitly assumes that once a society reaches the adaptive efficient culture, it reaches the promised land of guaranteed prosperity. As he puts it, "adaptive efficiency is an ongoing condition in which the society continues to modify or create new institutions as problems

evolve” (p. 169). He continues to assert that such good, adaptive efficiency of continuous trials in the face of ubiquitous uncertainty has “certainly characterized United States’s societal development over the past several centuries.” Only once does he suggest, and only in the last ten lines of his book, the possibility that the adaptive efficiency of the Western belief system may have, as a result of the “ever more complex novel world we are creating,” its limits: “The ubiquity of economic decline of civilizations in the past suggests that adaptive efficiency may have its limits” (*ibid.*).

North’s self-centric reading is not limited to European thinkers. Many culturalist revival movements, such as the current Islamic movements and the Roman/Republican revival during the zenith of European Enlightenment and the American Revolution, suffer greatly from both the reification of institutions and self-congratulation. Regarding the case of Africa rising two centuries from now, some historians, economists, and intellectuals at the University of Mali would furnish the following dismal analysis: Europe has declined because individualism has engendered anti-social institutions, and that the Christian dogma, in comparison to Islamic theology, is marred with excessive irrationalities. They would reify the “mystery” of the rise of Africa as the destined outcome of the cultural belief system that combines “Islamic dogma” with the “collectivist” values of the African village.

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