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

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ABSTRACT

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

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1. INTRODUCTION

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

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

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

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

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

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

2. BELIEF SYSTEMS AND INSTITUTIONS

> *Economics is not about things and tangible material objects; it is about men, their meanings and actions. Goods, commodities, and wealth and all the other notions of conduct are not elements of nature; they are the elements of human meaning and conduct. He who wants to deal with them must not look at the external word; he must search for them in the meaning of acting men.*
> *(Mises, 1949)*

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

ACTION UNDER UNCERTAINTY GENERATES INSTITUTIONS

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

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

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

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

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

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

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

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

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

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

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

SOCIETY HAS A NON-ERGODIC LANDSCAPE

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

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

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

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

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

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

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

VISIONS & ANALYSIS

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

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

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

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

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

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

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

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

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

AN A-PRIORI THEORY OF BEHAVIOUR

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

3. CULTURAL THEORY

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

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

TABLE 1: THE FOUR CULTURAL TYPES

	Manage Resources	**Don't Manage Resources**
Manage Needs	*Individualist*	*Egalitarian*
Don't Manage Needs	*Hierarchist*	*Fatalist*

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

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

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

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

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

(I) HOMO INDIVIDUALIST

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

(II) HOMO EGALITARIAN

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

(III) HOMO HIERARCHIST

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

(IV) HOMO FATALIST

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CULTURAL TYPES AS STRATEGIES

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

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

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

4. SURPRISE: THE MECHANISM FOR CULTURAL CHANGE

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

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

LEARNING AS DISTINCT FROM BAYESIAN UPDATING

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

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

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

MIGRATION

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

THE FIRM

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

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

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

SWITCHING

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

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

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

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

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

STOCK MARKET BUBBLES

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

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

PATH DEPENDENCY AND GRAND NARRATIVES

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

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

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

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

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

5. EMPIRICAL APPLICATIONS

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

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

ECONOMIC DEVELOPMENT: FACILITATION NOT STIMULATION

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

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

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

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

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

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

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

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

6. CONCLUSION

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

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

16 The term derives form Agassi (1960, 1975), also see Evans (2010)

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

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

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