

1 Introduction

The relationship between culture and economic action is an intimate one. Culture is a pattern of shared meaning, a context in which all of life is rendered intelligible, a lens through which we view and make sense of the world. Culture can affect whether or not entrepreneurs identify certain opportunities, how they evaluate those opportunities and the strategies for exploiting those opportunities that entrepreneurs adopt. Culture also likely shapes the way that economic actors understand the formal institutions that constrain their actions and incentivizes or disincentivizes certain behaviors. As such, a greater understanding of the role of culture has the potential to improve our understanding of the most important questions in economics.

Since culture can shape economic action and outcomes, economists should, arguably, reference culture in their analysis. Still, many economists are reticent to do so. Some feel that culture is too murky a concept to be operationalized by economists. Mokyr (2017: 8), for example, while not hesitant to study culture, notes that, for many economists, “[c]ulture is a vague and mushy word,” with a “mind-boggling number of definitions employed.” Others argue that preference-based explanations belong squarely in the domain of anthropology and other social scientists, hence economists are meant to be using ‘economic’ explanations to study economic phenomena and not appealing to culture. Some economists also choose to focus on institutions and incentives in order to explain differences in behavior, and hence see culture as a different type of force not worthy of economic investigation.

There are, of course, exceptions; several of them quite notable.¹ Guiso et al. (2006), for instance, pointed to differences in cultures to explain differences in economic progress across countries. They conclude that culture shapes the beliefs and values people hold regarding their economic decisions, and that those decisions in turn affect economic progress. In particular, the authors argue that people who value thrift save more, and that richer societies are the ones where people save more. They find, for instance, that “an increase of one standard deviation in the share of people who think educating children to thriftiness increases the saving rate by 1.8 percentage point increase in the national saving rate” (2006: 39). Additionally, Guiso et al. (2009) argue that culture influences a group’s trust in and willingness to trade with foreigners. The authors relied on the results of surveys from Europe that were constructed to gauge and compare how much citizens trusted their fellow citizens and how

¹ See also Knack and Keefer (1997), La Porta et al. (1997), Throsby (1999, 2001), Bertrand et al. (2000), Henrich et al. (2001), Bertrand and Schoar (2006), Fisman and Miguel (2007), Algan and Cahuc (2009, 2010), Fehr and Leibbrandt (2011), Gorodnichenko and Roland (2011, 2017), and Alesina and Giuliano (2015).

much they trusted foreigners. The authors further argue that where two societies have high bilateral levels of trust, those countries will have high levels of trade, foreign direct investment, and portfolio investment between each other. As such, since culture influences trust, culture therefore explains economic interdependence, integration, and success.

Similarly, Tabellini (2008, 2010) examined the relationship between culture and morality, and morality and transactions. He compared cultures with “generalized morality,” that is, cultures where people are willing to treat all others in their society according to norms of good conduct and willing to respect their political rights, to cultures with “limited morality,” where opportunistic and selfish behavior toward “outsiders” is rampant, and rights and benefits are extended to just a privileged few, like one’s family members. To get at generalized morality, Tabellini examines and compares how strongly societies value trust, respect for others, teaching obedience in the family, and personal control over one’s life. He finds that societies that value trust, respect, obedience, and personal control highly tend to exhibit higher economic growth and development.

Austrian economists have not been reluctant to highlight the role of culture in shaping economic actions and outcomes. In fact, a concern for culture (albeit sometimes not invoking the term) has long been a consideration among Austrian economists. Menger (1892: 255), for instance, famously pointed out that money, far from something with objective significance and value, “has not been generated by law. In its origin it is a social, and not a state institution.” Which objects come to be viewed and treated as money in a given context depends on culture, among other things. Similarly, Mises stressed the importance of focusing on thymology, which he described as “what a man knows about the way in which people value different conditions, about their wishes and desires and their plans to realize these wishes and desires” (1957: 271–272). Thymology could answer why someone would prefer water to wine, for example, as this was decidedly not an economic matter for Mises.

Hayek, for his part, focused the role of cultural evolution and argued that facts of social science were not statistics or objects per se, but the thoughts and beliefs in people’s mind about the world. For Hayek (1973: 17), much of our ability to navigate the world depends on us having culture,

The cultural heritage into which man is born consists of a complex of practices or rules of conduct which have prevailed because they made a group of men successful but which were not adopted because it was known that they would bring about desired effects. Man acted before he thought and did not understand before he acted. What we call understanding

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is in the last resort simply his capacity to respond to his environment with a pattern of actions that helps him to persist.

Hayek (1973: 22) also believed that cultural anthropology was the intellectual tradition in which the academic understanding of social evolution “has been most fruitfully developed.”

More recently, Lavoie (2011: 107), a strong proponent of cultural explanation in economics, has argued that “when we study human societies the purposes we attribute to the objects of our examination are not metaphorical but real and already meaningful to them. We are able to view them ‘from the inside.’” Stated alternately, studying human societies means studying culture. Lavoie (1991: 36), for instance, has suggested that understanding entrepreneurship means recognizing that “entrepreneurship . . . is primarily a cultural process. The seeing of profit opportunities is a matter of cultural interpretation.” Similarly, Lavoie and Chamlee-Wright (2000: 69) have argued that,

the spirit of enterprise comes in many different flavors. Each culture creates a unique entrepreneurial pattern; each culture articulates its own genre of stories in which economic leaders achieve wealth-generating success within the specific institutional and customary contours of the society in which they live.

Several other Austrians, including Boettke (1998a) and Storr (2004, 2013), have also focused on culture to understand economic phenomena. Given the primacy of institutions for economic development, Boettke (1998a) argues that to understand which institutions will “stick” in a particular society, we first need to understand the culture of the people living there, where culture is defined as “those beliefs and practices which give institutions legitimacy” (Boettke 1998a: 12). As Boettke (1998: 14) states, in pursuing our analysis, “we have to find a way to understand the ideas, beliefs, habits that are indigenous to an area, and then see how the political, legal, and economic institutions that are correlated with economic development fit in the social ecology.” Only by studying a society’s history and culture, Boettke contends, can economists gain insight into the society’s functioning; imposing culturally incompatible rules on those societies will not lead to economic success. Furthermore, Storr (2013) sees culture as thoroughly coloring economic life, and advocates for economists to “make every effort to understand how individuals actually experience markets” (2013: 99). Understanding the spirits that animate markets, Storr explains, involves understanding the meanings that people attribute to the world and the lessons that they learn as they go through life.

The Austrian school of political economy takes economics to be a science of meaning and so a science of culture. In fact, the Austrian methodological

approach, known as praxeology, takes culture seriously and examines it from a unique standpoint. This project explores the uniqueness of the Austrian approach to the study of culture in economic life. We will argue that the Austrian approach to studying culture differs in important respects from non-Austrian efforts. We focus on three differences between Austrian and non-Austrian approaches: the Austrian focus on culture as meaning rather than culture as norms and attitudes, the Austrian emphasis on culture as an interpretive lens rather than as a tool, and the Austrian insistence that cultural analysis be a qualitative exercise rather than as a quantitative effort. In Section 2, we examine the relationship between Gadamer’s approach to hermeneutics, Weberian interpretative sociology, and their connections to the Austrian approach to including cultural considerations into economic analysis, offering examples of what cultural analysis in that vein can look like. Next, Section 3 reviews several studies by non-Austrian economists that explore the relationship between culture and economic action. Section 4 then considers important differences between Austrian and non-Austrian approaches to studying culture and economic action. In Section 5, we review several studies by Austrian economists that explore the relationship between culture and economic action. Finally, Section 6 offers concluding remarks.

2 The Intellectual Roots of the Austrian Approach to Culture

2.1 An Approach Rooted in Hermeneutics

Providing a thoughtful challenge to orthodox economic methodology, Don Lavoie published an essay called “The Interpretive Dimension of Economics: Science, Hermeneutics, and Praxeology” in 1985 (Lavoie 2011). Lavoie wished to achieve two goals with that essay. First, he wanted to emphasize that all scientific endeavors required acts of interpretation, as he believed scientists tended to underestimate or ignore that essential requirement. Second, Lavoie wanted to demonstrate that Austrian economics was the branch of economics that took the interpretive requirement the most seriously. By the “interpretive” requirement, Lavoie meant that part of doing social science was to observe how people interpreted their worlds – to observe the meanings that they read into events and the meanings that they attributed to their own actions and those of others. Lavoie understood that human beings acted with intention. Thus, social scientists did not need to impose intentions onto people or presume motivations for them. Rather, the job of the social scientist was to learn their subjects’ intentions, or rather to interpret their subjects’ “*already* interpreted meanings” (2011: 106). This systematic investigation of people’s interpretations, this science of explaining meanings, was called *hermeneutics*. As Lavoie stated,

when we study human societies the purposes we attribute to the objects of our examination are not metaphorical but real and already meaningful to them. We are able to view them “from the inside.” Richard Zaner (1974, p. 392) noted that “the social world is experienced as already constituted and meaningful by each of us in our daily lives.” Or as Gadamer (1976, p. 15) said, “There is always a world already interpreted, already organized in its basic relations, into which experience steps.” The task of the social scientist is to find and explicate a meaning that is always already there, rather than to invent a merely metaphorical “meaning” which works in predictive tests. (2011: 107)

Lavoie emphasized that scientists possessed no special ability to read others’ minds and to access their intentions. Indeed, Lavoie (2011: 109) argued that hermeneutics as a method was “not fundamentally different from the method by which we understand our fellow man in everyday life, but is simply intended to represent a more careful and systematic effort.” A necessary step for such careful interpretation, he argued was communication or dialogue with subjects or the cultural texts that they authored or embraced. Lavoie, therefore, privileged qualitative methods in social science.

Of course, one concern with this method was that scientists could too easily bring their prejudiced perspectives into conversations with their subjects, sully the data with overly rosy or cynical interpretations of people’s words. Mathematical and statistical tools were seen as providing proper defenses against sloppy subjectivism. Lavoie strongly disagreed with that position. He pointed out that people’s prejudices could only be confronted, never sidestepped with the use of statistical techniques. He insisted that both the subject’s and the researcher’s interpretations were important inputs into the generation of scientific knowledge. As Lavoie (2011: 109) stated, “we can neither ignore our object’s point of view, nor escape our own and adopt his.” Moreover, the only avenue available for a researcher to improve upon their misinterpretations was a process of rigorous and honest dialogue with their subjects, as well as other members of the scientific community.

Finally, Lavoie explained why statistics did not necessarily remove subjectivity and interpretation from science. For one, statistics simply do not capture a subject’s interpretations, which for Lavoie were the primary object to be explored in social science. In addition, statistics do not offer insights into why one scientific explanation might be superior to another. Statistics are only constructed after interpretation takes place, that is, after a scientist has made a judgment call about what things need measuring and how. Quoting Gadamer, Lavoie says (2011: 112),

Gadamer's remarks about statistics underscore the need for the interpretive dimension of even the most quantitative research. 'Statistics provides us with a useful example of how the hermeneutical dimension encompasses the entire procedure of science ... [W]hat is established by statistics seems to be a language of facts, but which questions these facts answer and which facts would begin to speak if other questions were asked are hermeneutical questions (1976, p. 11)'.

In short, for Lavoie, scientists had no choice but to embrace subjectivity in their data, dialogue in their methods, and "storytelling" as a means of persuading their peers (2011: 113).

Lavoie argued that Austrian economics was the most promising strain of neoclassical economics for applying hermeneutics. This was because Austrian economics was mostly free of the "objectivist bias" found in neoclassical economics, a bias that held that the interpretive parts of scientific explanation were subsidiary or inferior to the predictive part. In the extreme objectivist position, what made science "science" was prediction, not interpretation. Scientific explanations had to be grounded in data or "facts" that were objective and unequivocal in order to protect scientific explanations from degenerating into relativism (the acceptance that "anything goes") and "to rid reasoning of all ambiguities, to rid researchers of all biases, to rid scientific disciplines of alternative schools or perspectives" (2011: 99). Neoclassical economists, Lavoie argued, believed that mathematics and statistics empowered them to provide precise predictions and therefore to be scientific. For those economists, to not present a theory using formal math, and to not "test" that theory using econometrics, was to not do science. Lavoie advanced several arguments to demonstrate the error in thinking that facts were sterile phenomena, detached of subjectivity and devoid of human interpretation (2011: 101). For Lavoie,

The only 'test' any theory can receive is in the form of a qualitative judgment of the plausibility of the sequence of events that has been strung together by narrative. Theoretical sciences like economics can supply the principles of explanation but only the historical narrative can put these principles to work and establish their applicability and significance in some specific concrete circumstances under investigation. (2011: 113)

The virtue of Austrian economics for Lavoie was that it avoided the objectivist bias and focused on the interpretive features of economic explanation, namely "the historical (both history proper and history of ideas), linguistic, narrative, dialogical, perspectivist, tacit, and sociological aspects of economic explanation" (1991: 92). For one, Austrians held subjective value to be paramount. They insisted that "value and other economic phenomena are to be explained by

reference to the subjective meaning attached to them by individual human minds” (2011: 116).

Lavoie argued that an endorsement of hermeneutics was consistent with praxeology and could be found within the various epistemological positions of Austrian economist Ludwig von Mises (2011: 117–124). For example, Mises held that the economic significance of various events and objects did not lie in their physical properties (like the round shape and the metallic composition of money, or the numerical representation of a price or quantity of a product) but in people’s subjective assessments of those events and objects, which were the true data to be captured. Mises also believed that various facts of history could not be plucked from “objective” data sets in order to substantiate various theories, but that theories could only be refined through a process of interpretation and scientific dialogue. Lavoie proposed that Austrians more than other economists respected the interpretive aspects of economic explanation, a theme that one could also observe in Hayek’s writings about the role of tradition in the economy. Lavoie further pointed out that Austrian economists tended to do applied work using case studies and narrative history, and that they preferred using words to describe both their theories and their empirics, as opposed to equations and statistics (2011: 116). For all of these reasons, Lavoie concluded that “[t]he methodology Austrian economists call praxeology can be seen in turn as exemplary of a hermeneutical approach to economics” (2011: 92).

As Storr (2011) describes, Lavoie’s essay, comprising “the most extensive statement of Lavoie’s position” on hermeneutics, subsequently triggered a debate on hermeneutics among Austrian economists. According to Storr, while some Austrians welcomed Lavoie’s call for Austrian economics to accept and embrace its interpretive foundations, others rejected the existence of those foundations. On balance, however, Storr suggests, the reaction to Lavoie’s paper was “overwhelmingly negative” (2011: 86). Prominent Austrian economists, including Murray Rothbard, accused the hermeneutical approach of historicism, relativism, and nihilism. They claimed that Lavoie’s position was at best irrelevant and at worst heretical to economics. “For Rothbard,” Storr (2011: 86) pointed out, “embracing hermeneutics means rejecting economics.”

Despite this opposition, Lavoie’s later work clarified why embracing the interpretive dimension of economics, in general, and a focus on culture and cultural processes, in particular, would permit a richer understanding of the entrepreneurial market process, a cornerstone of Austrian economic theory. According to Lavoie (1991), a full appreciation of the role of the entrepreneur and cultural considerations were naturally missing from the neoclassical theory of markets due to several unrealistic foundations of neoclassical economics. For one, Lavoie argued, neoclassical theory began by focusing on a hypothetical

Robinson Crusoe – an isolated individual attempting to apply means to achieve given ends. Although Friday was eventually brought into the analysis, Lavoie argued that the primary focus on an individual absent from society, an individual whose means and ends are determined prior to any social process, was misguided. Secondly, neoclassical economists ascribed to a “static” and “fully mechanistic” vision of the economy (1991: 41). In this vision, culture is simply that which determines what goods people want (hence it is out of the scope of economic theory), while entrepreneurship is mostly an exercise in computing “quantitative facts” relating to profits. Thus, in the neoclassical model, the market works like a “clockwork mechanism” (1991: 35), with no room for culture, and only a barebones theory of entrepreneurship.

Austrian economists filled a critical gap in economic theory by introducing the theory of the entrepreneurial market process. Lavoie notes that Kirzner was correct to elevate the importance of entrepreneurial *discovery* in markets, to demonstrate that important information about the economy (prices offered, quantities demanded, etc.) were not simply objective givens that a robot could calculate but required alertness to the particular economic circumstances in order to be perceived (1991: 40). However, for Lavoie, market process theory was incomplete without an examination of culture and cultural change. Lavoie noted that while Mises and Kirzner did not, like the mainstream neoclassical economists, ignore the role of entrepreneurship, they were not fully embracing of an interpretive economics (1991: 43). Kirzner’s entrepreneur was primarily meant to equilibrate demand and supply. Lavoie rejected this notion of entrepreneurship as an equilibrating mechanism for the economy. He instead tried to show that markets should be more fully considered as an example of “open-ended genuinely creative and evolutionary processes, rather than mechanisms that focus on a predetermined end state” (1991: 43).

For Lavoie, markets are deeply cultural phenomena. Any examination of markets and of entrepreneurship would, thus, be incomplete without an exploration of the culture involved. “Entrepreneurship necessarily takes place within culture,” he insisted, “it is utterly shaped by culture, and it fundamentally consists in interpreting and influencing culture” (1991: 35). Lavoie further maintained that “[m]arkets can be viewed as offshoots of, and complements to, the process of cultural dynamics” (1991: 51).

Relying on Gadamer’s philosophy of hermeneutics and his concept of the close relationship between mind, thought, and language, Lavoie argued that culture should

be understood broadly as the complex of meanings that allows us to comprehend human action: is it the background context that renders purposeful

action intelligible. Culture is the language in which past events are interpreted, future circumstances are anticipated, and plans of action are formulated. Although not a language in the sense of a static sense of a static set of words and grammatical rules, culture is a discourse. (1991: 34)

From this view of culture as a background context that provides a way of interpreting the world, Lavoie explains why the Robinson Crusoe framework associated with neoclassical economics was an erroneous foundation for social theory. People are always first and foremost part of society, Lavoie argued, steeped in a culture, interacting with other minds, and learning how to interpret the world from these interactions. Citing Gadamer, Lavoie points out that “the mind is already social before it is rational” (1991: 48), hence market activity never emerges out of the blue, from the mind of a single person, but through mutual interaction within the context of a culture. Just as Crusoe is not “cultureless,” successful entrepreneurs are not loners (as perhaps the popular conceptions imagine) but are people who are “especially well plugged into the culture” (1991: 49).

Thus, while Lavoie believed Kirzner’s focus on the *discovery* of entrepreneurial opportunities was useful, Kirzner’s theory was incomplete for Lavoie because it did not give sufficient weight to the process of *interpretation* of entrepreneurial opportunities. For Lavoie, people do not mechanically recognize things in the world as profit opportunities in some objective sense. Rather, people subjectively assess what they experience in a multitude of ways. Two people with two different interpretive frameworks may perceive and interpret the world before them differently. As Lavoie stated, “the profit opportunities the entrepreneur discovers are not directly copied off of reality in itself; they are interpreted from a point of view” (1991: 44). Tracing this insight back to Gadamer’s concept on language, Lavoie notes that market interaction is much like linguistic interaction, and hence that interpretation and communication are the linchpins of market activity. As he notes,

Different entrepreneurial acts are the readings of, and contributions to, different conversations. The successful supplier of consumer goods listens to the discourse of the consuming public, senses what they will be likely to find attractive and what they will not, and is thereby more persuasive in getting them to try new products. The successful venture capitalist listens to the concerns of the banking community and thereby enhances his ability to persuade the loan officer to make an investment. The successful supplier of innovative industrial inputs listens to the technology conversations of his potential customers, exploits his skill in anticipating their specific requirements, and thereby gains an ability to persuade them to explore hitherto ignored technological possibilities. The successful employer listens to the discourse of existing and potential employees and tries to shape an attractive

work environment that will persuade new workers to come and old ones to stay. What make entrepreneurs successful is their ability to join conversational processes and nudge them in new directions. (1991: 50)

Furthermore, a focus on cultural processes and cultural evolution can inform our understanding of economic change. For Lavoie, the interpretation of profit opportunities is an active process: “Profit opportunities are not so much like road signs to which we assign an automatic meaning as they are like difficult texts in need of a sustained effort of interpretation. Entrepreneurship is not only a matter of opening one’s eyes, of switching on one’s attentiveness; it requires directing one’s gaze” (1991: 46). People’s interpretive frameworks, their cultures, matter for what they see, what they don’t see, and how they assess what’s in front of them. As people’s interpretative frameworks change (e.g., as their social stock of knowledge grows with new life experiences and new interactions), or as they attempt to change them, they begin to discover and act on different opportunities. In turn, their markets begin look different.

Recalling Lavoie, facts do not speak for themselves, rather, they are interpreted through a cultural lens. By gaining a better understanding of the cultural lens through which research subjects interpret their circumstances, the researcher gains a better understanding of why the actions they observe makes sense to the actors. This in turn allows the researcher to render complex phenomena more intelligible, which, to an Austrian, is the point of economic analysis. Lavoie’s insights on culture and entrepreneurship contributed to the development of much of the applied cultural work in Austrian economics referenced in Section 4.

2.2 An Approach Rooted in Weber

The approach to studying the relationship between culture and economic action adopted by Austrian economists is rooted in the approach advanced by Max Weber. Max Weber’s connections to Austrian economists like Carl Menger, Eugene Bohm-Bahwerk, and Ludwig von Mises are quite deep (Boettke 1998b, Boettke and Storr 2002, Zafirovski 2002, Storr 2004). In addition to his sociological studies, Weber was interested in questions of economic theory and methodology, and his understanding and defense of marginal utility theory clearly derived from the Austrian school (Weber 1975 [1908]).² Further, like the Austrians, Weber was also committed to

² Later, another Austrian economist, Ludwig von Mises would point out that Weber, thanks to his “ingenious intuition,” correctly understood the theory of marginal utility (1949: 126). Mises added that “[i]f Weber had known the term “praxeology,” he probably would have preferred it” (1949: 126).