Economy and Culture: The Importance of Sense-Making

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Abstract and Keywords

Culture matters in the economy. An increasing number of economists acknowledge the role of culture in economic processes, yet they disagree on what that role is. This chapter reviews the most important contributions to the discussion about the interaction between cultural and economic phenomena on the basis of a five-spheres model. The conclusion stands: culture matters. Yet the complexity of the interaction renders causal claims almost impossible. Furthermore, culture is not an instrument to change at will in order to achieve certain results. The outcome of the discussion is rather a reorientation of what economics is about, and a realization that sense-making is part of the economic process. Economists may conclude that they pay better attention to the qualitative aspects of the economy, and adjust their mode of analysis to allow for such attention.

Keywords: cultural economics, culture, values, logics, interpretive science, sense-making

(p. 270) "CULTURE matters in the economy." Such a statement is to be expected in a conversation among anthropologists and sociologists, but it is becoming increasingly current in the company of economists. Deirdre McCloskey, the economic historian, argues in her trilogy on bourgeois virtues (2007, 2011, 2016) that cultural factors, not economic ones, account for the surge of the Dutch economy in the early seventeenth century. For the Nobel Prize-winning economist Amartya Sen (2004), it is not even a question whether culture matters in economic processes, so he focuses on *how* culture matters, which is also the position the economists Beugelsdijk and Maseland (2011) take. The Austrian economist Virgil Storr wants to show in his work that "culture shapes economic behavior and outcomes" (2003: 1). Economists like Alberto Alesina and Paola Giuliano (2015) have surveyed the research on the impact of culture on institutions, including economic ones. And urged by the sociologist Richard Florida (2002), economists such as Andy Pratt (2009) are increasingly interested in exploring the role of creatives in urban regeneration.

In the meantime, cultural economics has become a burgeoning field of its own. In one approach, it encompasses the application of economic methods to the study of the arts and creative industrie (Frey 2003; Throsby 2001; Towse 2013). In another, it refers to the investigation of the economic impact of cultural factors in subjects such as development (Rao and Walton 2004), finance (Karolyi 2016), institutions (Alesina and Giuliano 2015), and organizations (Cameron and Quinn 1999; Hofstede 2003; Magala 2009). When we add all the humanists who approach economic subjects with cultural concepts, and the anthropologists and sociologists who do the same, the academic literature on the interaction between the economy and culture is getting quite crowded (Leemans and Johannes 2013; Woodmansee and Osteen 1999; Walzer 1983; Sandel 2012).

This chapter aims to provide an understanding of the way social scientists, and economists in particular, are making sense of the interaction between "culture" and "economy." The ambition is not to give a complete survey; there are simply too many (p. 271) contributions to cover them all. The intended contribution is to introduce an ordering of all the arguments by way of a model of five spheres that emanates from the so-called *value based approach to the economy* (Klamer 2017).

By way of this model, we will see why the mainstream of economists remains oblivious to the work on the relationship between the economy and culture: the methodological framing of economics stands in the way. If economists were to overcome their mainly methodological objections, they may recognize the potential of adding the cultural dimension. Doing so, however, may affect the practice of economists in fundamental ways. It may, for example, change the dominant methodology of "model building," motivate the relaxation or even abandonment of "rational choice" as the main heuristic, change the definition of the subject of economics, lead to a reappraisal of the notion of "values," and inspire greater recognition of the importance of cultural policies. More importantly, bringing in the cultural dimension highlights *sense-making activity* as a crucial and substantive part of making a life and a society.

13.1 A Model of Five Spheres, Each with a Different Logic

Consider that the subject of economics is how people make a life, not only materially, but also immaterially. Let us assume that people seek a good life and want to be living in a good society. To those ends they have a family, get jobs, start a company, go out shopping, buy things like a mango or a car, have a house (and a home), make friends, join clubs, become politically active, go on trips, play music, paint, have hobbies, and so on. By bringing in the notion of culture, we add the consideration of what makes a meaningful life. Being able to make sense of all they do to make a living, people may be able to realize a meaningful life. That is why they engage in all kinds of sense-making practices, like religion, art, science, like the reading and writing of books, surfing the web, the watching and making of movies, and so on. Thus, we perceive them as trying to realize what is important to them, that is, to valorize their values (Klamer 2017: ch. 4).

The model that I present here suggests that there are basically five spheres in which individuals and groups of people operate to seek a good life and valorize their values. Each sphere has its own logic, that is, a particular way of doing things, its own institutions, characteristic values and rhetoric—a pertinent manner of speaking (Klamer 2017).

The idea that people operate in different spheres is quite common, although not so among economists. Karl Polanyi (1944) distinguishes four spheres: the sphere of exchange, redistribution, reciprocity, and of house holding. The philosopher Jürgen Habermas (1987) developed the distinction between the life world—where we interact socially and informally—and the world of systems—where we act formally in the context of organizations. The sociologist Viviane Zelizer (2005) has analyzed the differences between the payments that people make in the sphere of exchange, in a governmental (p. 272) sphere and in a social or intimate sphere. The economist Albert Hirschman (2007) made the (among economists) famous distinction between the “exit,” “voice,” and “loyalty” options to get things done. The sociologists Boltanski et al. (2006) distinguish six worlds of value regimes (on grounds that are not all that clear).

All these distinctions inform the model of the five spheres, with the added dimension of the cultural sphere. (See Figure 13.1.) People start the making of a life at home (O stands for *oikos*, Greek for home). It is where they grow up, take their first steps, have parents or other elders who feed and shelter them, learn to play, and socialize. Sooner or later they most likely will leave their first home in order to establish another. Usually with a partner they will run a household, sometimes with kids of their own. At home, they generate essentials like companionship (unless they choose to remain single), meals, shelter, relaxation, entertainment, health, education (of themselves and the children), intimacy, perhaps love, and care. At home, people exercise Hirschman’s option of loyalty, and home is part of the lifeworld of Habermas.

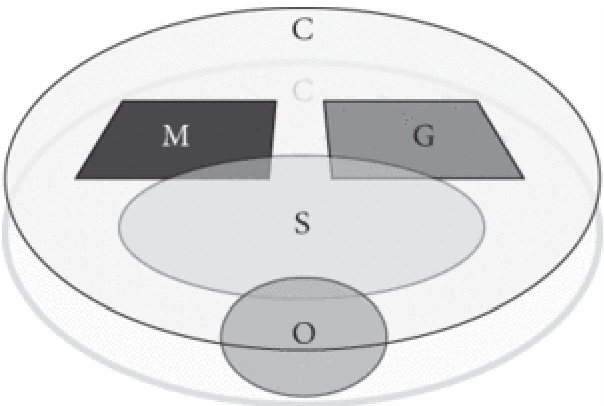

Figure 13.1 The model of five spheres.

When, in his *Politics*, Aristotle began thinking about something like an economy he focused on the household. Economy to him was about *oikos*—home or village—and *nomein* —to distribute or manage, or the running of the household (broadly defined). That starting point still makes sense, at least if we think from the perspective of people seeking a good life. Accordingly, the O is at the bottom of the diagram in Figure 13.1; it is the base as the anthropologist Gudeman (2008) calls it.

When people get outside their *oikos*, they step into the public space. They attend schools for their education, socialize with people in the neighborhood, form friendships, join clubs, become politically active, or other things you do in the social sphere, S, which stands for all social activities that people undertake trying to make a life. In S, people form relationships of all kinds; reputations are made and broken; people have a status, or a social role, such as police officer, teacher, social activist, politician, or parent; form communities; develop collegiality and trust with others (or fight and try to become powerful). Hirschman would say that in the social sphere people exercise the option of voice, although the option of loyalty still applies as well. The social sphere is also part of the life world.

(p. 273) And yes, to make a life, people have to deal with and operate in markets. In the market sphere, M, they exchange with other people and organizations. They go to shops to buy things that they need in their *oikos* or for their social activities. In the so-called labor market they offer their time, knowledge, and talents in exchange for amounts of money that they need, in turn, to purchase things. Here the option of exit applies: when you do not like the offering of one, you go to another. Economists like Milton Friedman, Friedrich von Hayek, and Deirdre McCloskey are eager to herald the amazing results of the market logic, and rightly so. However, it is only one of the five spheres that we need to valorize our values.

Maybe even more important is the sphere of governance (G). Organizations play a large role in the making of a living. When people seek work in exchange for a salary, they need to deal with organizations, with firms in particular. They seek employment in an organization or set up an organization themselves. Within organizations they produce and create a great variety of goods and services for other organizations and for people in need of those for their livelihood. The exchange with people takes place through organizations like shops (both physically and online). They also need to deal with an organization called the government, by respecting its laws and regulations, paying taxes and receiving benefits. Civil servants do their work in the government.

When they work within organizations or deal with organizations, people operate in the sphere of governance in the diagram. In this sphere, they are subject to the rules and laws of organizations and have to deal with bureaucracy with its forms, procedures, criteria, accounting, planning, and budgeting. G stands for the world of systems as Habermas states it. (The question is whether the market sphere also belongs to this world; I would think so as market logic, like that of governmental, is anonymous and impersonal.)

In the cultural sphere C, people make sense of their world and life and weave their "web of significance." In this sphere, they operate on a meta level: they reflect on what they do in all the other spheres, develop frames for thinking about them (by way of the science of economics, for example), figure out what they have in common with other people, and try to add meaning to their life by way of religion, art, literature, movies, television, social media, music, design, stories, rituals, poetry, philosophy, and science. This is also the sphere in which they reflect on what are the right things to do, or what is appropriate and morally just behavior.

One important outcome of this model is the insight that people engage in distinctly different practices when they make a life. Practices are ongoing activities. People do not go to the grocery store once, but do so periodically. Work is practice and so is playing a sport. Some of us practice science, or music, or do things regularly with friends. The notion of practice encourages us to think beyond a mere transaction in the market sphere, or something static like a society. We are made to think of friendship, entrepreneurship, family, bureaucracy, and trade as practices, as ongoing activities in which we participate and to which we contribute. We are led to ask what these practices are good for. When we watch people practice the buying of groceries, we can guess that they are intended to facilitate other practices, such as family or friendship. Why then do people engage in art, or economics?

(p. 274) Note that what is logical in one sphere is not necessarily so in another sphere. You do not ask your partner for money for a service delivered and you do not expect a grocery owner to give you a bottle of wine without paying for it, even if you are friendly with him and you asked him graciously. The logic of M just does not work in the O and S, and the logic of S does not work in M. Likewise, you will not appeal to the love and care of the civil servant when you try to get your unemployment benefit. You could do so, but civil servants would risk losing their job for giving benefits on such grounds. And it would be strange to draw a little economic model to explain what is happening when someone is trying to make a deal with you. Such an action would make sense in a classroom but not on a trading floor. Of course, there are overlaps. In reality, spheres can get mixed up; we operate in several at the same time, like when we socialize with the shopkeeper or gallery owner. Even so, it is important to start the analysis with the distinctiveness of each of these five spheres impressed on our mind.[1]

13.2 The Notion of Culture

The inclusion of the cultural sphere in the model is critical for the examination of the interaction between culture and economy. The convention in economics is to ignore the cultural dimension altogether, the arguments of prominent economists such as Sen, Alesina, and McCloskey notwithstanding. For that matter, the spheres of the *oikos* and the social are not in the conventional economic picture either, as that picture focuses on what happens in the spheres of M and G, and on M in particular.

Because this article focuses on the interaction between culture and economy, or, better, the way economists and other social scientists make sense of this interaction, we need to make sense of what we mean when we speak about "culture" and "economy." Both concepts are problematic, so it turns out.[2]

"Culture" does not appear in standard economic textbooks whereas the concept overwhelms texts in anthropology. The concept is contested and subject to a range of interpretations. Clifford Geertz, a well-known anthropologist, is often cited with his definition:

> The concept of culture I espouse … is essentially a semiotic one. Believing, with Max Weber, that man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental analysis in search of laws but an interpretative one in search of meaning. It is explication I am after. (1974: 4–5)

If we follow Geertz in his focus on culture as webs of significance, we can distinguish three senses of culture (Klamer 2017: 8–9).

(p. 275) C1 is culture in the anthropological sense: it stands for all the values, history, and identities that a group of people share, and with which they distinguish themselves from other people. In this sense, an economics department can have a distinctive culture, just as Sicily has, or Belgium, or people who are into square dancing, or people who make up an organization.

C2 is culture in the sense of civilization. This is the culture that comprises (cultural) heritage of a (usually extensive) group of people, its accumulated works of science, art, literature, architecture, design, and fashion, but also the manners and institutions that such a group heeds (Arnold 1915; Elias 2000; Scruton 2010; Huntington 1996; Hall 1998). Accordingly, we speak of a Western and an Eastern civilization, or the ancient Roman, Greek and Egyptian civilizations. (Civilizations can perish, as these last three showed.)

C3 is culture in the sense of artistic, religious, scientific, or other symbolic practices, that is, cognitive or expressive practices by which people try to make sense of their lives and their world. All these practices have in common that they generate symbolic expressions, including concepts, images, rituals, and icons. We may also consider all sense-making practices that gravitate around products of cultural industries such as music, musicals, movies, television programs, design, and (creative) crafts.

The cultures define more or less the identity that people seek and claim. In C3 people derive an identity from being engaged in certain practices. They are "artists" when practicing art and "scientists" when practicing science. In C2 they can identify themselves with their civilization, claiming to be "European," "modernist," or "a tribal person" (when tribal life is seen as a civilization). And the umbrella of C1 gives people national, regional, city, organizational, or communitarian identities.

By differentiating culture in these three meanings, we are able to distinguish different interactions between culture and economy. Is culture in the anthropological sense (C1) the issue or an artistic practice (C3)? If we are looking at the culture of organizations, then we consider the sphere of governance, G. And it becomes conceivable that identities, certainly of the C1 types, may affect decisions, as they appeared to do when the British voted for Brexit in 2014. Such far-reaching decisions usually expose sharply contrasting ways of sense-making. A large group of British voters wanted to associate themselves with “Europa,” and the values of innovation and international collaboration, whereas the majority put their identification with Britain first. Finally, when the economy is the subject of concern, we most likely look for the interaction between C1 and M, that is, between culture in the anthropological sense and whatever takes place in the sphere of the market.

13.3 Economics as a Cultural Practice: Does It Impact the Economy?

The exploration starts with a consideration of the practice of “us,” the author and the implied readers of this chapter. How would that practice figure in the constellation of (p. 276) the five spheres? And how to make sense of its interactions with and influence on the other spheres? Does economics matter?

In line with the definition of C3, the practice of economics, economic sociology, economic anthropology, or cultural economics as a science, are all a way of making sense of the phenomenon that we call the economy, and therefore is a cultural activity. The accumulated knowledge of economics is part of C2, civilization. (I leave out the consideration that the community of academic economists constitute a culture in the sense of C1, even though that is an interesting topic).

To start with the obvious, the characterization of a set of human activities as constituting “the economy” is a sense-making activity, too. Economists may have a clear sense of what constitutes an economy, but most other people do not. The average Jane and Joe will think of “money” when asked about the economy. Few will think of “the production, distribution, and consumption of commodities,” as economists may articulate their subject; fewer even will think of scarcity and rational choice, as the core of economists will formulate their approach to the economy. Then again, not many economists may realize that their characterizations of economics and the economy are drawn from an essay of Lionel Robbins published in 1932, and a textbook by Paul Samuelson published first in 1947. The point is that the economy is not what it is, but what economists and whoever else make it to be on the metalevel of C3.[3]

Accordingly, with the interaction between culture and economy at issue, we are led to wonder how economics as a sense-making activity (and part of C3) interacts with the activities in M, G, O, C, and S (in Figure 13.1). In what way does the theorizing of economists, all the work they have done during the last century and a half, affect what people do, or how they make sense of what they do? Or is the influence the other way? May the actual economy, such as the material conditions of production, determine what economists think (as is the argument in Marxist sense-making)?

Such questions are barely asked, at least not in the literature. Economists do not seem to worry much about the impact of their work. They hardly ever consider the relevance of their knowledge for the agents whose behavior they study. For economists who believe in the efficiency of free markets, that makes sense. After all, what can scientific knowledge contribute to the functioning in efficient markets? Yet, economists who believe in the effectiveness of economic policies should be concerned. Callon (1998) introduced the notion of *performative economics* to investigate the way economics performs outside of academia (see also MacKenzy et al. 2007). It is a good set-up for a range of case studies of, for example, the application of game theory in the design of auctions, or the impact of finance economics on instruments in the financial market (Faulhaber and Baumol 1988). The relevance of economics for everyday life, or, for that matter, for the design of policy, still needs to be determined, though.

I should also mention the attempt of so-called cultural economists to make sense of the world of the arts (C3) in economic terms (Throsby 2001). They analyze the arts in **(p. 277)** terms of demand and supply, productivity (with one result being the Baumol disease, the observation that productivity gains in the arts lack those in other sectors), labor markets, and public goods. Doubts are increasing whether such a sense-making makes sufficient sense of the art world (Frey 2003; Klamer 1996; Throsby 2001). All this work continues to support the instrumentalist approach of mainstream economics (Taylor 1991; Tinbergen 1975). In such an approach, economic research is supposed to deliver results that can be used as input for rational decisions on actual economic policies. (Should governments subsidize the arts, or not?) Preferences and values are considered to be beyond the reach of economic analysis and are presumed to be given. What is left is the attention to the instruments of policy, such as governmental expenditures, taxes, interest rates, exchange rates, regulations, and laws.

The problem, however, is that the impact of this instrumental approach is far from obvious and direct. In various investigations, the relationship between outcomes of economic research and actual policy was found to be complex and often absent (Coats 2001; Cordes et al. 1993; Klamer and Meehan 1999). Considering that economic research often generates various and at times conflicting outcomes on the same subject, we cannot be too surprised. The question then is what is the impact of economics? Does economics matter? Are things changing because of what economists think?

The lack of research on these questions is remarkable. A good reason is that determining the effect of ideas on action is hard to do. Ideas have the habit to travel in funny ways, sometimes taking years to affect what people do, getting altered in the process. When people cite Marx, Keynes, or Hayek to justify their actions, their students may doubt the accuracy and appropriateness of those citations. Where non-economists invoke economics when they speak of markets and money, economists may be shocked at the lack of understanding and the imprecision of their use of the terms. Moreover, the interaction between ideas and actions is hard to trace. People may believe one thing and do another. Even so, if the point of economics is to influence actions, like policies, the lack of research into its effectiveness remains remarkable, to put it mildly.

One point to make is that economics is rhetorical as McCloskey (1998), Klamer (2007), and Mirowksi (2013) have pointed out. Persuasion is not a mechanical process where inputs of information transform in a predictable and traceable manner into knowledge that, in turn, produces specific actions or decisions. The process is messy and complex, involving time lags, an abundance of signals, miscommunication, and erratic moments of insights. As most readers of this chapter are educators, too, they may be aware of the complexity of learning, of the difficulties of conveying to freshmen the economic way of thinking, including the meanings of concepts (like elasticity, opportunity costs, depreciation, aggregate demand and so on), not to mention the challenge of getting them to make sense of real-life situations with these concepts. Learning is a messy and complex process.

Even so, if economics does not affect policy decisions in a predictable, mechanical way, it may indirectly affect decision-making processes by influencing the sense-making of the economy by policy makers. As Mirowski (2013), Foucault (2008), Zuidhof (2012), and Klamer (2007) have shown, policymakers and especially their advisors may adopt (p. 278) concepts and some of the reasoning—that is, the rhetoric—of economists when they discuss the economy. Neoliberalism is defined by Foucault and Zuidhof as the application of market (M) logic in the governmental (G) sphere. It happens when civil servants stress the importance of competition, efficiency, creative incentives by varying prices and renumerations, demand-oriented programs, and people seeking welfare as customers. Then again, the influence of economic logic and rhetoric showed up already in the 1930s when civil servants began to copy their accounting, differentiating consumption from investment spending and stocks from flows. The impact of national income accounts on policy discourse is probably the best example of the persuasiveness of economists. How that accounting logic came to be so successful up until now is a story that still needs to be told. In another setting, we are led to wonder how and in what ways the writings of Karl Marx and Mao could be so persuasive that they seemed to inform the sense-making of nearly half the world population for almost a century.

13.4 The Methodological Issue

The case of scientific practices illustrates the methodological problems that a researcher interested in the interactions between cultural and economic practices faces. How to determine causal effects as an instrumental approach calls for?[4]

We will see that one way of dealing with the challenge is to insist on the transformation of vague phenomena such as culture into variables that are measurable somehow and so can be inputs in a model. Such an analytical approach fits the methodology of model-building and conducting regression analyses that characterizes mainstream economics.

Cultural factors are viewed as constraints for rational agents or as factors that influence their preferences, or they affect institutions such as norms or laws, which in turn constrain rational decisions (Alesina and Giuliano 2015).

Another approach follows interpretive or hermeneutic methods. Acknowledging that sense-making is part of making a life, researchers want to explore the meanings that certain cultural practices (such as economics) generate and whether such meanings can be detected in other practices. Such work is more about characterizing practices, about searching for patterns, and tracing influences and interactions. It makes use of surveys, ethnographic methods, historical studies, case studies, and thick descriptions, as Geertz (2005) characterized his anthropological method. Such methods prevail in anthropology, history, sociology to some extent, the humanities, and some economics. As we shall see below, Deirdre McCloskey and Virgil Storr are two economists who use historical and interpretive methods.

When the two approaches meet, conflict is imminent. Scientists are most passionate, in my experience, not in their politics but in their methodological commitment (Klamer 1984, 2007). Harsh judgments of "the others" are common. The way to deal with the threat of conflict is to ignore the others. It shows in the remarkable fact that the protagonists of the one approach hardly cite the literature that represents the other approach. Their practices are strictly divided. (DiMaggio 1994: 29).

Another question concerns the objectives of the explorations we are going to discuss. What purposes do they serve? Is it to provide advice to policymakers, as is the (often implicit) objective of standard economics? Is it to inform a (different) world view? Does it want to influence the sense-making by the general public? Or are they merely scientific or intellectual pursuits, aimed at furthering the scientific or intellectual conversation?

13.5 Cultural Practices Influencing or Causing Economic Practices

The reference with which each discussion on the cultural impact on the economy starts is Max Weber. In his *Protestant Ethic and the Spirit of Capitalism* (1905), Weber famously argued that the emergence of Protestantism at the expense of the Roman Catholic church in Northern European countries in the sixteenth and seventeenth century brought about a revolution in values that proved to be conducive for capitalistic practices. Weber is explicit about not claiming to have a cause for the emergence of capitalism; Protestant ethics is a contributing factor. Referring especially to the teachings of Calvin, Weber notes that his values such as parsimony, planning, using your talents, and seeing a "calling" in work began to inform economic life in Northern European countries at that time.

The idea that religious teachings had an effect on daily life, including the practices directed at making a life, makes sense. It is especially plausible for the times that Weber explores, with the majority of people receiving weekly the religious teachings in church.

When the message of the clerisy stresses non-worldy pursuits, such as asceticism, penance, and good deeds, and strenuously warns against profit-seeking and charging interest, it should not come as a surprise that people act accordingly, condemning bankers and commercial types while admiring monks and people working in poor houses. People who engage in Buddhist practices with the mantra of letting go of the ego, being respectful of all life, and practicing compassion, may find it difficult to boast of a pursuit of richness and fame (Brown 2017; Payutto 1998). When the Islamic clergy insists that, according to sharia, charging interest is wrong, it should not come as a surprise that Islamic banking practice differs from other banking practices (Visser 2013). When the Pope issues an encyclical, he hopes that it will affect the practices of his followers. The question is whether and to what extent these religious practices influence or contribute to the cultural environment in which people operate and what the impact is on their actions and practices.

Plausible as the Weber thesis may be, however, it proves to be subject to various criticisms. For example, it has been argued that the spirit of capitalism was first detectable in (p. 280) Italian cities in a Roman Catholic environment a few centuries earlier. And how did the influence actually work? Protestantism was very much in force in seventeenth-century Scotland but did not generate capitalism as it did in the Dutch Republic (Herman 2001), not after Scotland came under English rule.

Just as problematic is the argument that Confucian values account for the emergence of the Japanese economy in the 1970s (Sen 2004). They may have played a role in fostering employee loyalty and the focus on long-term planning in Japanese companies, but why did they not in the preceding century when Confucian values were in force as well? It is the suggestion of a causal connection between religious or philosophical practices and behavior in the market and organizational spheres (M and G) that is problematic.

In her trilogy on bourgeois virtues, Deirdre McCloskey (2007, 2011, 2016) traces the emergence of egalitarian and liberal values in the Dutch Republic and other Northern European countries in the sixteenth and seventeenth centuries, and observes how they brought about a culture of honor for tradespeople and an appreciation of entrepreneurship, risk-taking, and innovation. It was in such a culture, she argues, that new financial and organizational forms became possible that enabled the Dutch to equip ships to sail to territories far away and return with lucrative goods. Based on her exhaustive historical research, McCloskey concludes that ideas, that is, sense-making activities (C3), in a particular cultural setting (C1), account for an unprecedented period of economic growth. She resists using the term of capitalism and prefers to speak of “trade-tested progress” (2016: 3). It is with a culture of betterment that the Northern European economies began to thrive, so she argues. A culture of entrepreneurship, trade, and betterment overtook the culture of aristocracy and clerisy, which promulgated the values of distinction, class, and honor on one side, and those of sacrifice, humility, and charity on the other. The latter culture was anti-commercial whereas the new culture made commerce look good.

McCloskey engages in a sense-making activity, directing her exploration to other scholars to impress on them the importance of virtue ethics. She joins a scholarly movement that is bringing about a revival of the teleological ethics that Aristotle so distinctly articulated in his *Nicomachean Ethics*. She moreover tries to revive interest in and respect for Adam Smith, the moral philosopher and author of *The Theory of Moral Sentiments* (1759). In this respect she is contributing to the scientific conversation (C3), with a faint chance to affect activities in M, G, S, and O. Yet, as she makes painstakingly clear, her historical and philosophical (interpretive) study is also an advocacy for liberalism with the main message that the unleashing of market forces that the moral turnaround made possible is responsible for staggering improvements in economic welfare the world around. To convey that message, she actively seeks interactions in the S by presenting her arguments in public fora and appearing in various media. In this regard she reminds us of the role that Friedrich Hayek played. He, too, recognized the importance of moral beliefs and civilization (Dekker 2015), and he was a main advocate of the value of freedom and markets as its instrument.

Advocacy is also the aim of the contribution of Lawrence Harrison and Samuel Huntington in their edited book *Culture Matters* (2000), but in a different direction. They are especially keen on stressing that if certain cultures facilitate economic progress, other **(p. 281)** cultures stand in its way. When coupled with the conviction that not much can be done about changing cultures, their position is a pessimistic stance towards programs to promote progress in the context of collectivist and traditional cultures. This is also the outcome of an often-cited economic analysis of the collectivistic cultures on economic growth by Avner Greif (1994), who, with a standard economic model and a regression analysis, concluded that individualist cultures do better economically than collectivist cultures. For his data he drew from the numerously cited statistical work of Geert Hofstede (2003), based on surveys among IBM employees across the world in the early 1970s.

In contrast, the work of Virgil Storr and Emily Chamlee-Wright is more interpretive and less political. Their main concern is the lack of recognition of the cultural factor in economics, and they operate mainly in C3. Like McCloskey they stress the positive role of culture, such as when it is conducive for entrepreneurship or plays a constructive role in the reconstruction of New Orleans after Hurricane Katrina, pointing out the role that churches and their pastors had in maintaining social cohesion and communal assistance (Chamlee-Wright 2015). Storr and Chamlee-Wright operate in the Austrian tradition and build on the work of Don Lavoie, who advocated the use of interpretive methods (Lavoie and Chamlee-Wright 2015). In that way they make sense of a complex economy in which people act with limited knowledge and a need to make sense of their actions and the world in which they act. According to them understanding of the cultural context is indispensable for such a sense-making.

Introducing culture in the economic conversation invites attention to values and qualities. As Rao and Walton purport, a “focus on culture is necessary to confront the difficult questions of *what* is valued in terms of well-being, who does the valuing, and why economic and social factors interact with culture to unequally allocate access to a good life” (2004:

4) Whereas standard economics accentuates the values in exchange, equating value with price (as in exchange value or monetary value), the values that a culture fosters are rather answers to the question “what is important?” McCloskey (2007) focuses on what people consider important in behavior, or their virtues. Anthropological and sociological studies as well as the value-based approach to economics (Klamer 2017) explore the values or qualities that people attribute to things, states of affairs, and practices. The argument here is that certain values, such as those expressed in a cultural identity, affect economic behavior.

In an extensive survey of the economic and sociological work done on the interaction between culture and economy, the sociologist Paul DiMaggio (1994) uses the organization of themes according to the standard economic model. In the sphere of production, he discusses the work on corporate culture, where the issue is the influence of C1 on G, the working of organizations. A great deal more work has been done since on the subject. The influence on organizational practices shows in the recognition of the role of values (Cameron and Quinn 1999) and the realization that cultural factors account for the failure of mergers and acquisitions (Weber 1996). In business economics the cultural argument has become generally accepted (Magala 2009); in standard economic studies of industrial organization or public administration it is still virtually non-existent (for reasons noted above). The same outcome applies to cultural studies of consumption. (p. 282) Whereas the importance of the cultural factor in consumptive behavior is obvious to anthropologists and sociologists, economists remain oblivious, wedded as they seem to the assumption of exogenous preferences.

The anthropologist Mary Douglas observed the cultural factor in risk-taking attitudes, a conclusion that we also can draw from the statistical work of Hofstede (2003). MacKenzy (2008) observes the influence of culture in financial markets, and Rao and Walton (2004) collect studies that demonstrate the role of culture in economic development. All these studies fall into the genre “culture matters in economic practices.”

A different approach takes Alesina in his own work and that with Giuliano in a survey of research into the impact of culture (that he defines as a set of informal institutions) on formal institutions (to be identified in the M and G spheres in Figure 13.1). Alesina and Giuliano (2015) focus in their survey on research that uses a standard economic approach, rather than an interpretive one, in which culture is to be defined as a variable somehow, to be expressed in numbers in order to determine a quantifiable (if not causal) relation with other variables. Although DeMaggio also considers some such studies, there is almost no overlap in their surveys.

Alesina and Giuliano find a wide range of relationships in the literature. Shared values affect the attitude of groups of people towards redistribution of income, poverty, work, and female participation in the workforce. When trust is viewed as a cultural factor, research shows its impact on a variety of economic processes, like the effectiveness of regulation, altruistic behavior, and economic development. Trust proves also to be related to the strength of family ties—another cultural factor—with the effect that strong family ties account for low trust in civil society. Family values appear to account for the performance of family business and resistance to external authorities. And cultural factors tend to be responsible for the strength of democratic institutions, as well as adherence to property laws and other regulations.

Alesina and Giuliano add important caveats. Apart from the difficulties of defining and capturing a complex phenomenon like "culture" in a quantifiable variable—a necessary condition for their kind of research—the causality in the relations between cultural and economic factors proves to be highly dubious. The chain of reactions is hard to trace, and reciprocal influence is often likely. Causality, however, is crucial for application of the outcomes in decisions (especially political ones).

The instrumentalist approach poses one even more serious problem. Even if cultural factors are instrumental for, say, economic development, female participation in the labor force, or effectiveness of economic regulation, they are of no use because they cannot be changed, managed, or otherwise governed. Politicians and managers do not have knobs to change cultural factors to their liking as they may do with financial variables or formal institutions. Cultural factors appear to be like geographical or weather conditions: they do affect economic processes yet that is all we can say about them. There is not much to do about them (unless we can move our operation or our life to another place with another, more congenial culture).

What remains is one strand of research that argues quite effectively for an instrumental use of culture in economic policy. The literature on creative cities purports that artistic (p. 283) practices (C3) can regenerate urban areas, stimulate creative industries and boost (local) economies. The sociologist Richard Florida (2002) made a name for himself in local policy circles across the globe with his prediction that an influx of creative workers has a positive impact on local economies. Cultural economists and social geographers followed suit, with arguments on behalf of the formation of creative clusters, investments in cultural institutions (with the museum of Bilbao as the prime example), and the attention of an increasing share of creative industries in local economies (Pratt 2009; Scott 2004). The formula seemed to be too good to be true, though, and so it was. As Florida (2017) himself has come to acknowledge, the formula is far from universally valid, pointing at the relevance of other factors such as culture in the sense of C1, and, more importantly, it engenders increasing inequality and neglected neighborhoods with all kinds of undesirable (social) consequences.

13.6 How Economic Practices May Affect Cultural Practices

When we consider the impact of culture on economic practices, we focus on the effects of shared thoughts, beliefs, and values on the realization of a good life. But the effect may also be in the reverse order. Concerted economic actions (and transactions), mainly in the spheres of M and G, may affect what we share with others in terms of what we think, believe, and value (in the sphere of C). When people join a company, they may assimilate its culture. When financial markets soar, people may become risk-takers. Chinese culture may adjust to the recent take-off of the Chinese economy. The emergence of competitive forces and a stimulating environment can make people appreciate entrepreneurship more.

Here, too, the establishment of causality is treacherous. Did the rise of bourgeois virtues account for the increase in trading by the Dutch in the sixteenth century or was it the other way around? McCloskey (2016) reports the rise of an appreciation for bourgeois virtues but does so with recognition of the complexity of factors at work at that time, and so refrains from making causal claims. Cultures are complex and so are economies. We can distinguish patterns and correlations, and maybe determine influences, but a first mover remains elusive.

Even so, Marxist analyses tend to stress the causal effect of economic practices. Marx already claimed that the mode of production, the base, causes consciousness and with that the superstructure of what we now would call culture: “It is not the consciousness of men that determines their existence, but their social existence that determines their consciousness” (1859: 2). Adorno and Horkheimer, representing the so-called Frankfurt School, argued that culture is profoundly affected and informed by the machinations of cultural industries. In pursuit of profits, those operating in the entertainment industry seek to form ever larger companies to gain ever more control over the content that (p. 284) gets produced (Horkheimer and Adorno 1944). Those companies determine more or less what music people listen to, what media they consult, what movies they watch, and what they read. The sociologist Pierre Bourdieu (1977) argues that financial wealth determines the level and kind of education that people receive, and with that their “cultural capital,” that is, their ability to realize cultural values appropriate for the circles in which they move. One’s financial position supposedly informs one’s social and cultural position. “Consuming” art is, therefore, a way for the highly educated class to distinguish themselves from other people (recalling Veblen’s 1899 analysis of the leisure class.)

Marxist analysis is less in vogue nowadays. Most studies that suggest an economic impact on culture refrain from making causal claims. Robert Lane (1991), for example, analyses a market culture that comes about when markets make inroads in all spheres of life. Richard Titmus (1970) is famous for his study showing that when the market logic gets introduced in the giving of blood, people are less willing to donate. Jacques Olivier et al. (2014) have shown that when trade barriers go down between regions or countries, their cultures converge. Earlier, Emile Durkheim (1893) studied the impact of the increasing division of labor on society; Friedrich Engels (1884) argued that the capitalistic mode of production had a profound influence on family life with the institution of the nuclear family; George Simmel (1900) traced the social and cultural impact of the use of money; and Karl Polanyi (1944) is often cited for his claim that the emergence of markets upset the traditions and institutions of feudal society making for an entirely different society.

In another vein, the economist Bruno Frey (1997) argues that the societal encroachment of the logic of M and G crowds out social arrangements, and with that certain social values; his argument is similar to that of sociologist Viviane Zelizer (2005, 2010). Accordingly, when civil servants get used to buying services in the market (M logic), they may overlook initiatives of citizens (S logic), and when children get used to the care that governments provide for their ageing parents (G logic), they may depreciate the importance of their own responsibility (O logic). Stronger appreciation of M or G logic, therefore, may bring about a change in social values and with that a change in culture (C1) and possibly sense-making activities (C3). Then again, the question remains what brought about the stronger appreciation of markets or governmental control? Was it something that has to do with culture?

13.7 Conclusion: It Is About Sense-Making

There is a great deal to be learned from all this work on the interaction between culture and economy. It generates insights on all kinds of economic processes, makes us aware of the complexity of what we call “the economy,” “culture,” and their interaction. It is tempting, indeed, to admonish economists who ignore and overlook the cultural (p. 285) dimension. Culture does matter. Cultural differences do account for different economic outcomes. Creative practices do contribute to urban regeneration. Introducing market or governmental logic in segments of society may affect the social infrastructure and does change cultural practices.

Yet, there is a nagging doubt that lingers when reviewing all the work on the interaction between culture and economy. Instrumentalists may wonder why bother about culture if the variable does not transform into an instrument with which politicians or organizations can engineer better outcomes. When scholars such as McCloskey conclude that a liberal culture was conducive for economic development, or when others argue that collective cultures are hindering such, politicians may wonder what follows. How should they consider the cultural consequences of their policy of liberalization and privatization? What follows when governments take over the control of elderly care? Such observations do not come with guides on how to promote a liberal culture, to transform a collectivist culture into an individualist one, or how to deal with the loss of social values due to new policies. There are no knobs to turn. It makes for an instrumentalist paralysis.

If instrumentalism, with its focus on quantification, is quite senseless when it comes to cultural processes, there are other means to bring about changes. These tend to be qualitative in kind. Education is one of such means, as academics know all too well. Education affects the knowledge, attitudes, and the values with which graduates enter the “real world.” Social movements can bring about value changes as well, and by spilling over in political movements, they bring about changes in policy. It is conceivable that increasing awareness of cultural factors may lead to a re-evaluation of cultural policy as one of the most important policies for all organizations. After all, that policy is about purpose, or what is most important to the people who have a stake in the organization (such as a social enterprise, a cultural organization, a local or national government).

The impact of sense-making activity on everyday practices does not seem to be on the mind of most researchers. Their work is about truth-finding and is directed at fellow scholars. Typical scholars want to account for processes as they actually happen. To accomplish this, they distance themselves from their subjects and heed a distant and neutral perspective. At least that is the intention. Whether it is the work that follows the standard economic approach, such as Alesina and Giuliano (2015), or the interpretive work of Storr, McCloskey, and Beugelsdijk, it all shows that culture matters in economic processes. It is a matter of truth. Cultural differences are important to reckon with when accounting for economic development, female participation in the labor force, risk-taking, entrepreneurship, savings, renumeration and so many other economic phenomena. Economic outcomes are clearly related to cultural processes (C1 in particular, but also artistic and religious practices, that is, C3). The possible impact of their own sense-making is not part of the discussion, though.

Even so, scholarly work is a cultural activity itself: it is a sense-making practice (C3). The work that we covered turns out to be critical of the kind of sense-making that characterizes standard economics with its focus on market (M) logic and, to a lesser extent, governmental (G) logic. It tries to make people think of the cultural context in which transactions take place, of the values that a certain culture privileges, and how those values (p. 286) affect (economic) behavior. The working with values appears to be especially relevant in social, *oikos*, and cultural practices. Because values and qualities are not quantifiable, and acquire interpretive work when people act upon them, the metaphor of a calculating individual that drives standard economics does not suffice. If so, the modeling strategy becomes dubious as well. Alesina and Giuliano (2015), both standard economists, acknowledge the limitations of such a strategy. The consequence might be that economists have to learn how to investigate qualities of all kinds, take into account values, and develop methods to monitor qualitive outcomes.

With the maturation of cultural sense-making in economics, the possibility of impact on the sense-making by governors of organizations, policymakers, and people at work and home arises. It may affect their web of significance, as Clifford Geertz would put it. Where standard economic sense-making suggests that values are generated by way of market exchange (M logic) and the instrumental logic of G, the sense-making that highlights the cultural dimension turns the attention to the spheres of the *oikos*, the social world, and cultural practices. It makes people aware of the importance of a purpose of one’s actions and of being engaged in good practices, and to contribute to them. Such sense-making makes people consider their values other than monetary quantities, and sensitize them to the conflicting logics of the various spheres in which they need to operate to realize their values. Cultural sense-making gives another meaning to everyday actions by placing the substance of making a good life above the instrumental elements.

Accordingly, where standard economic reasoning is satisfied with registering the amount of money that people spend in stores as consumption, the value-based approach explores what a purchase is good for or what qualities or values it is supposed to help realize. When people attend a theatre to improve their acting skills, they do not "consume" a performance but contribute to their craftsmanship. People who shop may actually buy the means to contribute to family life. Furthermore, where standard economics appears to promote the image of people as egoistic and greedy beings, a value-based framework rather casts them as social and cultural beings, eager to realize social goods and cultural goods that add meaning to their life.

A value-based sense-making may already be reflected in the sense-making by people in organizations. Although neoliberal sense-making, with its emphasis on values of the market logic such as the discipline of the market, probably still prevails, interest in the role of values and, with that, culture appears to be increasing. It shows in the interest for social enterprises, the awareness of corporate social responsibility, the continuing emphasis on sustainable development, and in leadership instead of management (as leadership is about getting one's values clear and management is about the instrumental aspects of organizations).

The consequence of these movements is that the economist John Maynard Keynes may be right after all with his prophesy that he wrote in 1931:

> I see us free, therefore, to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the exaction of usury is a (p. 287) misdemeanor, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful. (371–2)

Keynes foresaw that people would be preoccupied with what is "foul" rather than "fair" for another 100 years. Were "culture" to become the mainstay in the sense-making of economic practices, and were people to acknowledge the substantive relevance of their social and cultural preoccupations, that time might approach sooner than Keynes could have imagined.

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Notes:

([1]) See Klamer (2017: chs 9–10) for a more extensive analysis.

([2]) For an exhaustive discussion of the definitional issues see Beugelsdijk and Maseland (2011). However, they do not recognize artistic, religious, and scientific practices as a separate category as I do here (as C3).

([3]) For a good discussion of the development of economic thinking in relationship to the notion of culture, see Beugelsdijk and Maseland (2011: chs 2–4).

([4]) For further elaboration of the methodological issues see Beugelsdijk and Maseland (2011: ch. 5). Intriguing is the absence of a discussion of causality, which may be related to their ignoring the instrumental issue, that is, how consideration of cultural factors can affect (political) decisions.

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