Introduction

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THE DEMAND FOR ECONOMIC GROWTH—AS MUCH ECONOMIC growth as is possible and sustainable—is nearly universal. Governments practically stand and fall with their success in handling such growth in their countries, and the growth rates of the countries that are moving ahead the fastest—yesterday, Japan and today, China and India—are the envy and worry of all the rest. The idea that modern economic growth is essential for a nation's wealth and power is uncontroversial. Even the critics of capitalism, whether they base their arguments on ecological, distributive, or some other ground, support growth that is sustainable. A century ago Max Weber predicted that the West's emphasis on creating rapid economic growth through capitalist economies would soon be universally adopted, and it now appears he was right.

Max Weber also predicted that only a very special type of capitalism had the actual capacity to uniformly and steadily increase economic growth: what he called rational capitalism, which he characterized as predictable, methodical, and deeply agnostic when it comes to divisions along ethnic, gender, or religious lines. What Weber called traditional capitalism and political capitalism differed on each of these three points (Swedberg 1998). Rational capitalism also has a universal quality that makes it not only suitable to each and every country but also deeply international in spirit. Although capitalist economies thrive in different cultural and institutional settings, the hallmark traits of calculable, predictable, and methodical pursuit of profit define the edges of dynamic growth in global capitalism.

The global economy has expanded dramatically since the end of the Cold War. The integration of Russia, China, and India into global capitalism has doubled the supply of labor available worldwide for capitalist production. In 2005, emerging economies led by China and India surpassed the developed economies in world output, according to the *Economist*, based on computing purchasing-power parity, which provides a more reliable measure of the size of the economy and living standard than does gross domestic product (GDP; January 21, 2006: 69–70). In sum, globalization has resulted in a rapid diffusion of the modern capitalism that emerged first in the West. What Weber termed *rational capitalism,* in other words, is what today in many cases goes under the name of *global capitalism*.

Although agreement that more economic growth is better seems practically universal today, knowledge of how to make a country initiate dynamic economic growth (to "take off") or to ensure a high and steady rate of economic growth still eludes us. There is a huge literature on patterns of growth rates among developed countries as well as on former developing countries that have suddenly taken a qualitative leap ahead, the way that Japan once did and that the Asian Tigers and China are presently doing (e.g., Dowrick and Nguyen 1989; Korpi 1996). Despite massive scholarly work on these issues by economists for a very long time, the key to what launches a country's economy on the course of modern economic growth still evades confirmation. Japan, for example, was moribund in the 1990s in terms of economic growth, and it is not clear why this was the case; inversely, China is currently in a very dynamic stage of development, and the reasons for this are similarly not well understood.

Neoclassical growth theory dominated the economic profession in the 1950s and 1960s, but is generally viewed today as insufficient and lacking on many points. It assumed that economic development was a linear process of capital accumulation to catch up in terms of capital/labor output with the advanced Western economies (Solow 1956). Later development economists criticized the neoclassical growth model for overlooking issues of income distribution and the historical and cultural conditions of underdevelopment (i.e., Meier 1976; Fields 1980; Wilber 1973). However, the development-as-growth approach has regained favor among economists in recent years (Swan 2002). Schumpeter's old idea that economic growth must be seen as endogenous is for example fully accepted today (e.g., Romer 1986; Aghion and Howitt 2005). The idea that economic change can be brought about by import, be it in the

form of technology, capital, or whatnot, has in other words been supplanted with the notion that what you need is a center of inner dynamics.

A number of scholars, including Douglass North, Mancur Olson, and Avner Greif, have also argued that economic growth is intimately connected to institutions and that an analysis of economic growth that does not pay proper attention to institutions is bound to fail (i.e., North 1990; Olson 1982; Greif 2006).

An economic system, it has for example been argued by North, can be likened to a football game in which the rules are represented by the institutions, and the players by organizations. The rules specify the incentive structure for organizational actors; they are the constraints that provide the scaffolding of the economic order. Only if the rules are the right ones—and this is a most important point for our concerns here—will the game result in gains not only for the players but also for society at large. The new institutional approach highlighting the positive effect of political institutions on economic growth has had broad influence in the social sciences and also in international development agencies such as the World Bank (Knack and Keefer 1995; Dollar and Kraay 2003; Rodrik 2003).

The emphasis on institutions as the key to economic development has been challenged by some mainstream economists. Glaeser et al.'s (2004) empirical tests of the "institutions-matter" approach fail to confirm the claim that institutions cause economic growth. Rather, they infer from their empirical analyses, it is economic growth that causes improvement in the quality of institutions. Hence a pro-growth communist reformer like China's Deng Xiaoping first succeeds in launching self-sustaining economic growth; this later is followed by successors' efforts to improve the economic and political institutions. These economists revisit Lipset's (1960) hypothesis positing the importance of human capital in fostering the more benign politics that rely on stable political institutions. Better-educated people tend to promote political orders that are favorable to sustained economic growth. However, if human capital is the deeper cause of economic development, as Glaeser et al. (2004) argue, then the former Soviet Union, with its huge urban scientific and technical workforce, should have been the first post-Communist country to experience economic takeoff. Instead, China, which radically disabled its educational system during the Cultural Revolution, with a per-capita educational spending about the same level as Bangladesh's, has far outstripped Russia in economic growth in recent decades. In other words, the rise of China as the fastest-growing

capitalist economy in the world was due not to high levels of human-capital accumulation prior to economic take off but to other factors that have eluded economists (see Victor Nee and Sonja Opper's chapter in this volume).

Mainstream economists have also during the last few decades started to investigate the role of law and religion in furthering economic growth. It has, for example, been argued that countries with legal systems that draw primarily on the common law tradition will be more supportive of shareholder rights, and thereby also foster economic growth, than will countries that draw on the continental tradition (e.g., La Porta et al. 1998). Similarly, there is empirical support for the idea that countries with stern religions that emphasize beliefs about heaven and hell tend to do better when it comes to economic growth than countries with soft religions (Barro and McCleary 2003). Despite these innovative attempts by mainstream economists to look for the key to economic growth in various new places, what accounts for economic growth is still very much an open question. As Krugman (2004) states, we simply do not know why certain developing countries have been able to take off, while others have not; and why certain countries can maintain high economic growth over long periods, while this has not been possible for others. What is needed in a situation of this type, we argue, is to look very widely for deep—including challenging-to-measure—factors that may help to explain dynamic transformative economic growth. For this reason, this volume contains a variety of articles that are all concerned with solving the mystery of economic growth in one way or another. As we see it, it is only by casting the analytical net very wide that the discussion of dynamic economic growth can be decisively moved forward.

What we are looking for are not so much local descriptions of what has made capitalism function in various places, as the general mechanisms that help to account for dynamic or rational capitalism. Many chapters in this volume were originally presented at a conference organized by the Center for the Study of Economy and Society at Cornell University in October 2004, in celebration of the centenary of Max Weber's *The Protestant Ethic and the Spirit of Capitalism*. Our intention with this conference was not so much to draw attention to the particulars of Weber's famous study but to encourage and try to engage in the kind of the creative and bold theorizing about capitalism that is the hallmark of this work. Weber's Protestant ethic-thesis sought to identify the difficult-to-measure religious spirit that motivated the founding of rational capitalism in Europe. The enduring legacy of Weber's scholar-

ship is perhaps not so much the Protestant ethic-thesis, but the view that the mechanisms motivating and facilitating today's capitalism are rooted not in the materialist domain of incremental capital accumulation, but in the realm of ideas and institutional structures.

Although our need today is for a modern version of Weber's study to address the dynamics of this new era of capitalism, a few words about its qualities and contributions are nonetheless warranted, so that we may convey to the reader a better sense of what we are looking for. Weber's study, first of all, seems exemplary to us in that it attacks the problem of transformative economic growth in both a sociological and an economic manner. As sociologists we focus attention on the centrality of social relations for the analysis of economic phenomena; but we also support the attempt in contemporary economics to join together the sociological with the economic approach (i.e., Mansky 2000; Gibbons 2005; Basu forthcoming). We furthermore agree with Weber that the sociological approach has to be structural in the sense that institutions are central to an understanding of what goes on in the economy.

But there is more to Weber's analysis of what made Western capitalism take the decisive step to become dynamic as well as a model for modern capitalism than attention to social relations and institutions. Whether right or wrong, Weber argued that there was also another factor, a separate force that helped to ignite dynamic capitalism, namely a new type of religion. More precisely, this role was played by ascetic Protestantism, most famously in the form of Calvinism that first spread from continental Europe to England and then took the step over the Atlantic with the Pilgrims. We say *whether* Weber was right or wrong in his argument about the link between Protestantism and Western capitalism, because we want to sidestep the huge debate that has been raging about this issue since the publication of *The Protestant Ethic* in 1904–1905 and instead emphasize the effort from Weber's side to strike out in new theoretical directions to account for the dynamic nature of modern capitalism.

Another contribution of Weber's study that deserves emphasis here has to do with the role that unintended consequences play in his argument, which we find very suggestive for analyses of dynamic capitalism. According to Weber, members of various ascetic Protestant sects inadvertently helped to bring about a new attitude to economic affairs in their efforts to behave as good Christians. He thus viewed Western capitalism primarily as an unintended consequence (Hirschman 1986). Furthermore, Weber's argument that what was an intensely private affair for the religious individual translated into

something very different at the macro-level of the economy is similar to more recent arguments about micro-motives and macro-behavior. According to this type of analysis, which seems very useful in dealing with the problem of dynamic economic growth, micro-motives often have little to do with the macro-behavior that they end up producing (Schelling 1978).

At the very core of Weber's argument is also the interesting idea that under certain circumstances it is simply not enough to only have the "right" kind of institutions; something more is needed for dynamic economic growth to take place. In Weber's particular case, special religious values originated *outside* the main institutions of western European societies, captured the hearts of people, and influenced their actions in a dynamic manner. At first, according to Weber, these novel religious ways of acting emigrated to the existing economic institutions and invested these with a new dynamic. Eventually, the already existing economic institutions in sixteenth- and seventeenth-century Europe (early forms of banking, early forms of the firm, and so on) changed their structure and became anchored in a new type of work ethic ("the Protestant ethic").

We have briefly mentioned above the efforts in mainstream economics to account for economic growth. Something also needs to be said about those of globalization studies, development economics, and economic sociology. In globalization studies no sharp conceptual line is drawn between the economy and the rest of society; the emphasis is instead on ongoing attempts to go beyond the individual nation state, be it in cultural matters, political practices, communication, or something else (e.g., Held and McGrew 2000). We agree with this and find it useful. But we also feel that today's discussion of global capitalism needs to be better connected to the core insights of sociology than it is in globalization studies, in order to move beyond the current impasse when it comes to the analysis of economic growth. The way that this can be done, as we see it, is primarily by forging links to economic sociology, especially the type of economic sociology that is concerned with the dynamics of capitalism.

The field of development economics is generally considered to have been in crisis since many years back, and it is clear that no new and convincing general theory has emerged, even though a number of important insights have been produced (e.g., Sen 1999; Sachs 2005). Several surveys and discussions of the current state of development economics exist (e.g., Evans 2005). The only point we would like to add is that from our perspective with this volume, which is centered on the idea of a dynamic capitalism, the very idea of having

one theory for developed countries and another for underdeveloped countries seems wrong. Most countries, for example, have dynamic as well as nondynamic sectors, and an increasing number of corporations, regardless of where they are located, have to be internationally competitive today.

As a field, economic sociology grew out of an attempt to deal precisely with the new type of capitalism that had developed in the West. We are primarily thinking of the works of Karl Marx, Max Weber, and Joseph Schumpeter (who like Marx and Weber did important work not only in economics but also in economic sociology). Today's economic sociologists, with a few exceptions such as Neil Fligstein and Fred Block, have however shown little interest in capitalism as an economic system in its own right and instead have focused on middle and micro issues. This is a tendency that we have criticized and tried to correct in an earlier volume, entitled *The Economic Sociology of Capitalism* (Nee and Swedberg 2005a), which also originated in a conference arranged by the Center for the Study of Economy and Society.

We suggested that capitalism and its dynamics may be captured with the help of Karl Polanyi's concepts. Economies are traditionally viewed as consisting of three interrelated processes—production, distribution, and exchange—but these three processes, we argue, can only become dynamic under certain circumstances. These circumstances involve production and consumption, but first and foremost it is the way that the *distribution* of what has been produced is organized that is decisive. It is at this point that Polanyi's famous concepts of reciprocity, redistribution, and exchange come into the picture because each constitutes a different way of institutionalizing the process of distribution. An economy where what is produced is being redistributed (say by the state) will have difficulties in being dynamic because the decision of what goods should go where is taken by a political actor. The same is true for an economic system where what has been produced is distributed via institutions of reciprocity, for example in a household-type economy such as the family. It is only when what has been produced is being distributed by the market, in the form of exchange, that the profit motive is released from political and familial constraints and can be used to produce more profit and nothing else. In economic systems where the distribution of what has been produced is organized through a market, there is a feedback loop that makes the system dynamic (see Figure I-1). This view is confirmed by the remarkable economic growth in China, and also in other poststate socialist economies, following transitions to market capitalist economies.

A. The Universal Economic Process

B. The Economic Process where "Redistribution" (Polanyi) is Predominant

C. The Economic Process where "Reciprocity" (Polanyi) is Predominant

D. The Economic Process where "Exchange" (Polanyi) is Predominant

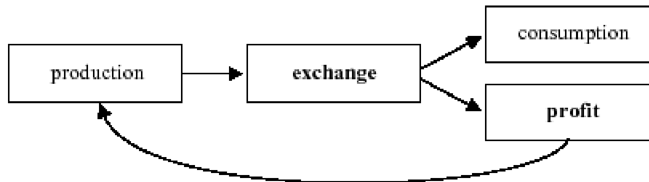

FIGURE I-1 Capitalism and other ways of organizing the economic process
Comment: The economic process in any society is often defined as consisting of *production, distribution,* and *consumption.* The distribution or passing on of what has been produced can be organized in fundamentally three ways, and which of these is chosen will have an enormous impact on the productivity of the economy. Following Polanyi, we may call these *redistribution* (by, e.g., the state), *reciprocity* (in, e.g., a family), and *exchange* (in a market). Exchange characterizes the capitalist organization of the economy, and this type of economy derives its dynamic from the fact that the end goal of the economic process is not exclusively consumption, but also profit. The more that this profit is reinvested into production, the more dynamic the economy will be. The two key mechanisms in capitalism, in other words, are *organized exchange (the market)* and *the feedback loop of profit into production.* It is the use of these two, it should be stressed, that makes the organization of economic interests in the form of capitalism into such effective machinery for transforming economic reality.

Following this model, modern capitalist economies consist of various sectors. There is, first of all, the leading corporate sector, where exchange dominates. There is also a nonprofit sector, which is based, among other things, on redistribution. The state accounts for a huge part of gross national product (30–50%), and what can be called the state economy is primarily based on redistribution. The household economy is based on a mixture of redistribution and reciprocity.

This simple model is international in nature, in the sense that accumulation is not in any important way dependent on national boundaries, and therefore fits today's global capitalism quite well. Nonetheless, one issue that it has difficulties with is *why* profit is continually reinvested. Weber solved

this problem for his era by assuming that capitalists as well as consumers were originally puritanical and adverse to consumption and that these motivations were later translated into a new work ethic. Neither of these, however, is a persuasive explanation today.

What is clear is that without continuous reinvestments, profits will fall; there is also an institutional mandate today that corporations have to make a profit. Nonetheless—and we here have to return to the kind of motive that Weber had in mind when he spoke about "the spirit of capitalism"—it would also seem that the imperative of reinvesting has to be deeply anchored in people and not only in institutions. Institutions, to be effective, have to be grounded in a number of phenomena that we may provisionally refer to as values, attitudes, and norms. Without this anchorage, institutions become empty shells and do not have the capacity to shape the way that society moves.

What we are arguing for, in brief, is a revision of the common view of institutions in sociology and other social science disciplines that institutions are *the* key to what is happening in society in the long run (i.e., North 1990; Hall and Soskice 2001; Höpner 2005; Nee and Swedberg 2005b). We want to rectify this by arguing the Tocquevillian point that if institutions are not properly anchored in the mores of society, they are without much force and power. There is also the fact that under certain circumstances these noninstitutional phenomena may even acquire a certain priority when it comes to society's development and may eventually lead to the creation of new institutions. One way that this can happen is illustrated by Weber in *The Protestant Ethic* with its argument that religious sentiments coming from outside the dominant institutions reanimated these and turned them in a new direction.

This volume is organized into four parts to give emphasis to various thematic areas where new research can contribute to the understanding of capitalism. In Part 1 we group three chapters broadly focused on exploring the dynamics and contradictions of capitalism. In the first of these, "The Systemic Anticulture of Capitalism," Russell Hardin asserts that while Weber's Protestant ethic-thesis may offer a persuasive explanation of the rise of rational capitalism in northern Europe, this does not imply that capitalism requires a religious or cultural motive to sustain its dynamic expansion as a worldwide economic order. Once established, he argues, rational capitalism takes on a systemic quality. Like science and mathematics, rational capitalism as a global economic order is not bound to a particular local culture, but it assumes universality in its dynamics and systemic features as an abstract system. In

essence, rational capitalism is transcultural despite its origins in northern Europe. As an economic system, capitalism thrives not on greed but on calculable and methodical pursuit of profit-making by firms. It is a globe-spanning economic engine dedicated to production and profitability, and there is no country-specific culture of global capitalism per se.

Hardin concurs with James Scott that local knowledge and culture are undermined through globalization. However, he asserts that what he terms the anticulture of global capitalism does not stem from old-fashioned European imperialism, but from its systemic features. Global capitalism may undermine local knowledge by offering a transcultural repertoire of choices, but the choice to participate in the international division of labor offers the best route out of poverty. Hardin argues that the large capitalist enterprise provides the only countervailing force against the state as an organized system of power and authority. The capitalist capacity for greatly improving productivity operates as a constraint on the political choices of states and also on the greed of managers of capitalist enterprises. Runaway greed on the part of corporate managers leads to the downfall of firms as effective competitors in global capitalism, as seen in the bankruptcy of Enron. Hardin concludes that capitalism's dominant message, "be profitable or die," makes the spirit of capitalism culturally undefined in today's global economy.

Richard Swedberg's close reading of Tocqueville's study of economic behavior in early nineteenth-century America offers a counterpoint to Hardin's emphasis on capitalism as an abstract system "unmoored" from the particular cultural boundaries of national societies. In his interpretation of Tocqueville's *Democracy in America*, arguably the most widely read account of the United States, Swedberg examines the spirit of capitalism in America from the ground up, through the lens of a young French aristocrat. What emerges from Tocqueville's ethnographic study of economic behavior is a remarkably astute and insightful account of the spirit of American capitalism in the formative stage of modern economic growth. Tocqueville describes the spirit of enterprise as economic action characterized by excited, impatient restiveness in pursuit of profit, passionate love of material well-being, an all-pervasive work ethic in which every type of work is considered honorable, and a proclivity for audacity and boldness going beyond the realm of rational action in the pursuit of economic gain. Like Weber, Swedberg shows, Tocqueville also sought to establish a positive link between religious belief and the methodical pursuit of economic goals; e.g., "the Americans are a Puritan and a commercial

people." But Tocqueville traces the spirit of capitalism to the ordinary and continuous features of daily life. Thus Tocqueville's sense of the motivating drive in America's dynamic capitalism resonates with Schumpeter's conception of "animal spirit" as the essential motor driving nineteenth-century entrepreneurial capitalism.

Tocqueville's bottom-up ethnography of American capitalism sheds light on the spirit of capitalism that still eludes the efforts of social scientists to measure and analyze. The difficulty of identifying, detecting, and measuring fundamental features of the physical world is widely acknowledged in the natural sciences. In the social sciences, we are still at an early stage of recognizing that mechanisms difficult to identify and observe may have huge causal significance in explaining transformative changes. Causal mechanisms as intangible and difficult to measure as the "spirit of enterprise" or "animal spirit" may explain the sequencing and location of capitalist economic takeoff in the global economy. Yet they are omitted from the development economist's tool kit. If Tocqueville were alive today, and were to travel to China, he would find many similarities between the Chinese "spirit of enterprise" and the excited restiveness, love for material well-being, pervasive work ethic, and the qualities of boldness and audacity in the conduct of business that he observed in America in 1830. By contrast, neither the human-capital nor the institutions-matter approach is persuasive in explaining the rapid pace of economic growth in China over the past quarter century (Glaeser et al. 2004; North 2005; Greif 2006). The problem is reverse causality. China's human-capital stock and political and economic institutions were severely depleted and damaged by the decade-long tumultuous Cultural Revolution that preceded economic takeoff in China after the death of Mao.

In the hedonism of consumer culture in advanced capitalism, the Protestant ethic confronts a deepening cultural contradiction, wrote the sociologist Daniel Bell—a cultural contradiction that he predicted will eventually undermine the ethics and values that made American capitalism so dynamic. In a similar vein, Robert Frank's essay argues that the rapid increase in income inequality during the closing decade of the twentieth century is a social contradiction causing self-destructive tendencies that weaken the viability of American capitalism as a dynamic economic order. The distribution of household income in America previously supported a large and prosperous middle class. However, the post–New Deal trend in the expansion of the middle class ended in the early 1980s. Technological change and globalization fueled the

emergence of a "winner-take-all" market, leading to a rapid increase in the earning power of the top income bracket. Growing income and wealth inequality have reached such an extreme that the sharp increase in relative inequality now poses a deepening threat to the well-being of the middle class. Middle-class Americans find the good life increasingly beyond their financial means, even though by world standards they remain privileged. They feel worse off because they are pressured to compete both in winner-take-all markets and in "expenditure cascades" that have lifted the bar of the good life beyond their reach. Frank concludes that a return to the economic institutions inspired by the Protestant ethic is needed to constrain the effects of these markets.

In Part 2, Victor Nee and Sonja Opper analyze in "On Politicized Capitalism" recent economic developments in China in an effort to assess whether its economic system is in a stable phase or in a stage of transition. They depict China's economy as a hybrid institutional order, with the state not only setting the rules for the firms but also intervening in firms' activities. Many factors account for China's current economic success, such as modernization of the bureaucracy and the introduction of an efficient tax system that operates along the lines of fiscal federalism. The state has also improved education, invested heavily in science and technology, allowed foreign investment, and created special economic zones. Drawing on interviews as well as quantitative data to investigate the state's involvement in firms, both in their market transactions and in their governance structure, Nee and Opper find that firms that are closely tied to the state have incentives to remain so, whereas this is not the case with firms that lack these ties. Although there are sectors that have an interest in the stability of the current economic system, the overall tendency in China's economic system is one of dynamic transition to market capitalism.

In their chapter, "Law, Economy, and Globalization: Max Weber and How International Financial Institutions Understand Law," Bruce Carruthers and Terence Halliday examine how international financial agencies and organizations have implicitly affirmed and extended core propositions of organizational sociology through policies that legitimate and promote the importance of rational-legal institutions in the global economy. Although Adam Smith has received recognition for the continuing significance of his contribution to neoliberal economic policies, there has been virtually no recognition of Weber's intellectual legacy. Yet Weber in his pioneering comparative study of bureaucracy and law provided the first systematic analysis of the impor-

tance of legal calculability, predictability, and transparency in modern capitalism. Carruthers and Halliday argue that taking Weber's intellectual legacy seriously draws attention to the close articulation between law and markets in global capitalism. Rational capital accounting, involving the valuation of assets and liabilities, means that there is the capability for precise assessment of profits (or losses) to guide the firm's strategic decisions and actions. Rational-legal rules allow for precision in calculating *ex ante* transaction costs arising from specific contractual agreements. Carruthers and Halliday focus on modern corporate bankruptcy law as a case study of what they interpret as a neo-Weberian turn in global capitalism. Bankruptcy law provides a useful example of the importance of calculability and predictability of law, because it enables economic actors to liquidate and reorganize bankrupt firms in an orderly and rule-governed manner. Calculable and predictable rules governing the distribution of assets among competing claimants following corporate bankruptcy reduces economic uncertainty.

A sociological analysis of corruption offers a useful counterpoint to the discussion of rational-legal institutions. Mark Granovetter shows in "The Social Construction of Corruption" that corruption is a special type of social network exchange involving the exchange of money or gifts and the discharge of public duties perceived as wrongdoing. As such, corruption typically takes place in political markets in which bribery or extortion lubricates the exchange between economic and political actors. In principle, the "rule of law" and effectiveness of rational-legal institutions are perverted or undermined through corruption. However, the adage "money talks and nobody walks" is not unfamiliar to politicians and entrepreneurs in modern capitalism. In practice, corruption to a greater or lesser extent is an incorrigible feature of all capitalist economies, not only because of the expectation that self-interested actors will seek to benefit from opportunities, but also because both entrepreneurs and capitalist enterprise have an interest in securing favorable government action and policies.

Granovetter shows that the boundaries between legitimate and illegitimate transactions in political markets depend on the social construction of the exchange. In political markets actors often reciprocate gifts in exchange for services rendered in a *quid pro quo*. This norm leaves a large grey area for the determination of what constitutes corruption, defined as the give-and-take between economic and political actors that is proscribed by the law or in violation of local moral standards. It is common for actors to engage in

exchanges of quid pro quo that they believe to be fair and in conformity with norms of reciprocity and distributive justice. However, what may appear to be appropriate or legitimate at the time of the exchange may later be socially constructed by observers as corrupt behavior in the light of public scrutiny.

The main point of the chapters in Part 3 that discuss the relationship between religion and the economy is that moral and spiritual factors must definitely be taken into account in understanding motivating conditions for economic growth. If this is not done, the analysis will be incomplete. Different ways for approaching the link between religion and economy exist. In the first article are suggested, In "Beyond Weber," Michael Novak both praises and criticizes Weber's *Protestant Ethic* argument, which he finds bold and suggestive but also mistaken in the monopoly that it assigns to Protestantism in advancing the modern economy. Catholicism has also played a positive role in this process, according to Novak, not least during the Middle Ages, when asceticism spread from the Catholic monasteries to lay people. The most important factors that have helped Catholicism contribute to modern economic life, he argues, are closely related to its emphasis on joy, creativity, and what Novak calls "the Don Quixote factor." All of these factors, (which Tocqueville describes in *Democracy in America*), are very different from the methodical and ascetic qualities of Protestantism that Weber discusses.

"Political Economy and Religion in the Spirit of Max Weber" by Robert Barro and Rachel McCleary also takes its departure from *The Protestant Ethic*. Whereas Novak bases his argument primarily on theological insight and knowledge, Barro and McCleary analyze aggregate country-level data from cross-national surveys conducted between 1981 and 2003. They look at how economic growth may affect religion and, conversely, how religion may affect economic growth. They find, importanly, that as gross domestic product (GDP) per capita increases, various measures of religiosity decline—which means that the currently popular critique of the secularization thesis is incorrect. An exception from this trend is the United States (as well as Singapore and Poland). In looking at the impact of religion on economic growth, they find that although belief in hell has a significantly positive effect on the GDP, attendance at religious services has a significantly negative effect. This means that Weber was correct in singling out religious beliefs as being more important for economic growth than is attendance at religious services. Their empirical analysis shows some indication that the work ethic of a country is affected by religious beliefs, but not honesty and thrift.

In the next chapter Barnaby Marsh argues that, in order to advance the current discussion of economic growth, one does not so much need more information as to locate and analyze new factors of consequence. One such factor is spiritual capital; for while this factor cannot by itself advance economic growth—other types of capital are needed for this, not least physical capital—neither can economic growth be properly understood without taking spiritual capital into account. As Marsh defines it, spiritual capital includes religious beliefs but is not restricted to these; it consists of "the outlooks, ideals, and beliefs held either individually or collectively" (p. 175). Each of these, Marsh shows, drawing on interdisciplinary literature that includes evolutionary thought, economics, psychology, and sociology, may influence the way that the individual perceives the outer world and also become an important social force when many individuals act upon it.

Part 4 is devoted to methodological and conceptual issues. In "The Collective Dynamics of Belief," Duncan Watts severely criticizes two types of reasoning that are quite common in social science: the historicist (common in history, sociology, and political science) and the rationalist (common in economics). Causality in the former is often constructed by starting with the end result of some event and its context, and then working backwards to the preferences of individuals. In economics, the procedure is nearly the opposite; here you start with a rational individual and then aggregate up to a rational outcome. What is wrong with both of these types of reasoning, according to Watts (a sociologist with a background in physics), is that aggregation between the level of the individual and the level of the collective (assuming only two levels!) is nonlinear as well as stochastic. There are many reasons for this, all related to the elementary fact that the decisions of individuals are dependent not only on what the individual prefers or believes but also on what *other actors* prefer or believe. This last fact is absolutely crucial to the understanding of any social process, be it stock markets, winner-take-all situations, or products in the cultural markets such as bestsellers and popular movies. The complexity of social life, he concludes, is such that it is simply impossible to explain single outcomes; only a little of social reality can actually be explained (44).

In "Analytical Individualism and Explanation of Macrosocial Change: From Weber to Theories of Global Capitalism," Ronald Jepperson and John Meyer argue similarly that popular attempts to analyze economic change at the macro-level are often deeply mistaken and that the reason for this has

to do with the conceptual tools that are used. This goes for the literature on globalization today, just as much as for the literatures on European economic development or religious history yesterday. Like Watts, Jepperson and Meyer criticize the use of the rational actor and argue that a multilevel type of analysis is necessary. However, whereas Watts advocates the use of recent social science methods that explicitly take social interaction into account, with the help of methods that are often inspired by physics and are mathematical in nature, Jepperson and Meyer advocate a cultural and organizational type of analysis. Western culture, they suggest, has over the last few centuries come to glorify the individual in various ways, and this includes Western social science, especially in the United States. Today's social science tends to reproduce this Western cultural logic by depending far too much on the individual in its analyses (*analytical individualism*). The remedy for this is to use a multilevel type of analysis that adds an organizational level, where roles are central, and an institutional level, where more vital and important roles can be found.

If emphasis in this chapter is primarily on the role of culture in better understanding the dynamics of economic growth, it is on institutions in the final chapter, "Bootstrapping Development: Public Intervention in Promoting Growth," by Charles Sabel. Many sociologists and economists argue today that institutions are absolutely central to economic growth and that development will come once you have the right institutions. This ("the endowment view," as he calls it) is not the view of Sabel. The current emphasis on the centrality of institutions to economic growth is quite wrong he asserts, because it is built on the assumption that once a country has the right type of institutions, its economy will takeoff more or less automatically. The experiences of Russia and East Germany contradict this view he argues; and the successes of countries such as India and China suggest a very different "emergent process or bootstrapping view of growth" (4). Institutions do not automatically create their own positive environment for growth, but have to be constantly changed and adjusted to their context in order to be effective. What is at issue is not so much to set a country on the right path through well-designed institutions, but to initiate a process of social learning that presupposes institutions that are adjusted to their specific context and that also are constantly changed. The political authorities also have a positive role to play in this new approach to economic development, and this is to support business by removing constraints to growth.

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