

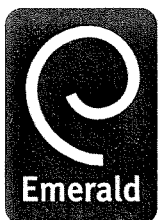
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## **Political implications of cultural evolution**

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*International Journal of Social Economics*

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# Political implications of cultural evolution

Implications of  
cultural  
evolution

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**Abstract** In the course of cultural evolution, certain institutions have emerged and become dominant in the Western world that have led to an unprecedented rise in prosperity and population. This paper first explains the characteristics and significance of cultural evolution. Subsequently, it explains the fundamental role of politics and the scope for political action in cultural evolution, clearing up some fairly widespread misconceptions about this question. Finally, it derives three specific guidelines from the characteristics of cultural evolution that should be followed in politics. First, the principle of individual freedom should be realized as far as possible. Second, the rule of law should be secured. Third, the scope of action of the state should be closely limited and the state should be decentrally organized. The more consistently these guidelines are followed, the better the prospects of the respective society to survive and prosper in the competitive process of cultural evolution.

## 1. Characteristics and significance of cultural evolution

Until some 250 years ago, 90 percent of humankind lived in desperate poverty. For centuries, their standard of living persisted at extremely low levels. Population figures also stayed low for centuries. For example, the total population of Western Europe was only about 25 million in the year 1000 – not more than at the time of Christ's birth. A significant and lasting improvement came about only in the wake of the Industrial Revolution, which started in Great Britain in the mid-eighteenth century and soon spread to the Western European continent and North America[1]. These countries saw a rapid, unprecedented rise in prosperity and population. In Western Europe, for instance, real per capita gross domestic product (GDP) rose 19-fold from 1700 to 2001, while the population expanded to 392 million by 2001 (Maddison, 2003, pp. 256, 262).

The Industrial Revolution and the growing prosperity and expanding population in the Western world since this Revolution were the outcome of the far-reaching establishment of certain institutions: the principle of individual freedom (especially the freedoms of contract, trade and commerce), the predominance and effective protection of private property by the state (also and especially of the means of production), and the rule of law. Taxes were low, and the state largely refrained from putting shackles on the economy by imposing regulations. Feudalism, the guild system and mercantilism were finally overcome. Free private enterprise gained the upper hand in economic life. Markets were open, and hence competition was fierce. For the first time in history, people had a wide scope of freedom to engage in independent and productive economic activity, while at the same time this economic activity was efficiently coordinated.

The institutions that were decisive for the Industrial Revolution and the following rise of the Western world had developed before in the course of cultural evolution in a gradual and unplanned manner[2]. Even though people were consciously changing these institutions all the time, all of the changes – conscious and unconscious – had to



survive the competitive process of cultural evolution under unpredictable, constantly changing conditions. For instance, no one could predict which specific legal norms would eventually prevail, not even those who had consciously invented and introduced such norms. As a matter of fact, those who introduced the abovementioned institutions mostly did not foresee their welfare-enhancing effects. For example, individual freedom and the rule of law emerged in seventeenth-century England only as a by-product of the struggle for power between the king and parliament – a struggle which was decided in the Glorious Revolution of 1688 in favor of parliament and thus in favor of the aforementioned institutions (Hume, 1983-1985; Macaulay, 1979).

The Western societies that developed more productive institutions (by whichever way), prospered and expanded (Reinhard, 1983-1990). In the course of this process, they attracted people from other societies and tended to displace these societies unless these other societies adopted the more productive institutions. Societies that clung to less productive institutions or introduced such institutions fell behind in the competitive process of cultural evolution. They were threatened by decline and some even by extinction. Examples include the native Indian societies of North America, the Aztec empire in Central America and the Inca empire in South America. A further example is imperial China, which had been technologically ahead of Western Europe until the fifteenth century. But the centralist, totalitarian and repressive arbitrary rule of the emperor and his all-powerful mandarins, who, out of fear of losing their power, banned private property, individual freedom, private enterprise and open markets and suppressed all individual initiatives, inevitably led to economic regression and cultural decline (Landes, 1998, pp. 55-7; Weede, 2000, pp. 86-108). A recent example is the socialist countries of the twentieth century. In these countries, the communist rulers abolished all institutions that had spontaneously evolved in the course of cultural evolution and had enabled the rise of the Western world, replacing them by newly constructed institutions. For example, a system of central planning and control of all economic processes replaced the free market, and private ownership of the means of production was replaced by state ownership. Each of the institutions that the communists created as a replacement for the ones they abolished had a number of serious functional deficiencies and thus contributed to the final collapse of socialism (Feldmann, 1997).

From a historical perspective, the collapse of the socialist regimes of the twentieth century came about rather swiftly – indicating that social systems today are under very strong selection pressure. In this context, the much lower transaction and transport costs that have decreased substantially in the course of the nineteenth and twentieth centuries, and the higher mobility of people and capital play a crucial role. Nowadays, in virtually all parts of the world, people are able to inform themselves at comparatively low costs about the conditions prevailing in other countries, e.g. about the standard of living or about the extent to which individual liberties are realized in these countries. Furthermore, today more than ever before, both people and capital tend to migrate much faster and to a larger extent to where they can earn higher income. Less competitive societies inevitably fall behind more and more. Therefore, the (opportunity) costs of a policy that fails to adequately address the competitiveness of society are probably higher today than ever before in the history of humankind.

What are the lessons for politics to be learned from these characteristics of cultural evolution? What guidelines should be followed to ensure that the society concerned

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survives in the competitive process of cultural evolution? Before we can answer these questions, we must clear up two widespread misconceptions about the role of politics and the scope for political action in the process of cultural evolution (section 2). Subsequently, we will derive three specific guidelines from the characteristics of cultural evolution that should be followed in politics (section 3).

## 2. Between Panglossism and constructivism

### 2.1 *The risk of Panglossism*

In Voltaire's 1759 novel *Candide*, the reputed court tutor Master Pangloss claims that we live in the best of all possible worlds: "It is proved", he used to say, "that things cannot be other than they are, for since everything is made for a purpose, it follows that everything is made for the best purpose" (Voltaire, 1947, p. 20). Thus, the notion that we live in the best of all possible worlds, considering all the problems and obstacles that impede conceivable improvements, is referred to as Panglossism today. Critics of a worldview based on cultural evolution contend that this worldview implies such an uncritical Panglossism. According to these critics, from the perspective of cultural evolution everything that survives in the course of cultural evolution is superior. By surviving, it proves its superiority. Thus, the critics claim that the theory lacks an independent benchmark for measuring the results of cultural evolution and for assessing political reform proposals. Neither would the theory allow the deduction of political reform proposals. According to the critics, the advocates of the theory implicitly conclude that "what is" "should be", thus committing a naturalistic fallacy. Consequently, it would be consistent with this worldview to accept even totalitarian regimes that evolved in the course of cultural evolution. The theory of cultural evolution is criticized as fatalistic[3].

In fact, there is no such risk of Panglossism. The advocates of the theory of cultural evolution have not fallen prey to a naturalistic fallacy. They do not claim that the results of cultural evolution are necessarily "good", but rather that humankind cannot continue to exist with today's size and prosperity without the specific institutions mentioned above and their further evolution. If these institutions were to be destroyed, a large part of humankind would be doomed to poverty and famine. Although the benefits of these institutions do not "justify" them, the alternative for many people would be poverty and death (Hayek, 1988, pp. 27, 63).

If one accepts the preservation of humanity and its prosperity as a normative standard, it is very well possible to deduce concrete political recommendations from the theory of cultural evolution. Political reforms are not only possible but necessary because the evolution of institutions time and again is being disrupted by diverse factors, even though these institutions are basically selected in the process of cultural evolution for their contribution to people's survival and prosperity. For instance, many traditional institutions continue to exist even after they are no longer useful and have become more of an obstacle than help, e.g. if they cannot cope with new problems. Moreover, certain institutions, such as the further development of law through the judiciary, may sometimes take a counterproductive turn, making a correction necessary by passing the appropriate legislation. As history has shown, cultural evolution can even lead entire societies into dead-end streets from which they have a hard time getting out.

In addition, it is sometimes necessary to specifically improve on traditional institutions in order to tap their full potential. For example, the institution of private property as it exists today is far from perfect. Ownership of property involves a complex bundle of rights that can take on many different forms and may be allocated to various persons or groups of persons (Feldmann, 1999, pp. 54-80). The various possibilities of defining and allocating property rights have by no means been exhausted yet (for example, in the area of financial instruments or scientific discoveries and inventions). Lawmakers must create the foundation to enable the exploitation of all of these possibilities.

A powerful state is another factor that time and again has disrupted cultural evolution. Powerful governments tend to abuse their power by oppressing their citizens and by attempting to stop or control the process of cultural evolution. The Chinese empire and the socialist regimes of the twentieth century are examples of this. Even today's representative democracies pose a threat to the traditional institutions of rule of law and market economy. Since the power of politicians in today's democracies is not sufficiently limited and since they depend on the support of organized interest groups, interventions in favor of such interest groups occur repeatedly – interventions that violate the principles of rule of law and market economy, thus endangering the order of free society in the West (Olson, 1965, 1982; Zakaria, 2003). The notion of "social justice" also threatens the functioning of this social order today, because very often it is used as the grounds for interventions that contradict the principles of a free society (Hayek, 1976). Therefore, constitutional safeguards are necessary to prevent governments as far as possible from abusing their power and interest groups from wielding harmful influences.

Another disruptive factor for cultural evolution are innate human instincts, which must be kept in check by adequate political measures. For millions of years, humans and their hominid ancestors lived in small hordes in which every group member knew all the others personally. Life in such groups, which were headed by a leader, was characterized by concrete common goals and a similar perception of the environment, an environment recognized by all members chiefly as a potential source of food and danger. Cooperation within the group was narrowly circumscribed. It was during this period that certain instincts evolved and became genetically fixed that guided the behavior of human beings. These instincts were adapted to life in small groups and served to ensure the cohesion and continued existence of the group. Important examples include the instincts of solidarity, altruism and income equality. They did not apply to all human beings but only to the members of the group. In the course of cultural evolution, learnt rules of conduct emerged to increasingly override and replace primordial instincts (Hayek, 1983, 1988). Only this enabled the development of an extended social order. From time to time, however, the suppressed instincts revolt against the discipline of learnt rules of conduct, e.g. against loyalty to agreements or against respect for other people's freedom and property. A good example for this phenomenon are the communist doctrines. They condemned these rules and instead appealed to the primordial instincts of solidarity, altruism and income equality. The revolt of suppressed instincts poses the risk of people falling back on the notions of tribal society, threatening the existence of the extended social order to which they owe not only their prosperity, but even their lives (Hayek, 1976, 1979a).

## 2.2 *The risk of constructivism*

Unlike Panglossism, which only is an ostensible danger, constructivism (or constructivist rationalism) constitutes a real threat. The representatives of this school maintain that social institutions can serve human purposes only if they were deliberately designed for these purposes. Institutions that were not rationally designed could be beneficial only by accident (Descartes, 1996). At some point in the course of evolution, reason emerged, and ever since, people have become increasingly systematic in rationally creating social institutions. The advocates of constructivism believe that it is possible to reconstruct all institutions – including language, morals and law – and therefore the entire social order by reason. In their view, society and its institutions should be reformed in a way to best serve certain defined purposes.

Ever since the Enlightenment, this constructivist belief has been the predominant view, prevailing especially among intellectuals and politicians. Its purest form is found in the communist doctrines. In the twentieth century, communists attempted to build a completely new social order in many countries on the basis of rationally designed institutions and by abolishing all traditional institutions, which in their view only served to exploit the working class anyhow. Thus, they not only introduced central planning to replace the free market, and state ownership of the means of production to replace private property. In addition, the rule of law was replaced by socialist law that did not serve to guarantee individual liberties but to execute the directives of the governing communist party. Even the traditional moral values of Western civilization were to be replaced by a new, socialist morality. Socialism in the twentieth century was a gigantic attempt to design anew the whole of society down to its ultimate ramifications according to an all-encompassing theory. To this end, all major institutions that had evolved spontaneously in the past were abolished and replaced by new institutions constructed to serve specific purposes. This hubris is precisely why the socialist systems finally collapsed (Feldmann, 1997).

Even though constructivism in its pure form, as implemented in the countries of “real socialism”, failed miserably, it is still alive. Time and again human reason revolts against traditional rules of conduct whose purpose is not clearly understood. One example is legal positivism, which developed in the nineteenth century and is still influential today. This theory rejects traditional principles and rules of law that are not rationally explainable and limit the power of legislation. For legal positivism, law by definition consists exclusively of deliberate commands of a human will. Law should be drafted specifically to achieve certain purposes (Kelsen, 1925). According to legal positivism, the power of the legislator may not be subject to any restrictions, and consequently neither to any restrictions that protect individual liberties. Legal positivism not only helped to pave the way for communism and national socialism, it also substantially changed the conception of law in the Western world.

Constructivism is also furthered by the fact that nowadays an increasing number of people work at large organizations that were founded for specific purposes, such as large enterprises or state authorities. The success of the rules consciously created for these organizations was so impressive that people are understanding less and less how important organic evolution of rules and spontaneous order are. The comprehension of people working at such large organizations is basically confined to what is required by the internal structure of such organizations. The spontaneous order of actions of an

extended market society is largely incomprehensible to them. They have never practised the rules on which it rests. Its functioning and distributive effects seem irrational and immoral to them. Therefore, they demand that the entire social order and all of society's institutions should be constructed in the same way as a large organization, and that this should bring about a just distribution of income in particular.

However, contrary to the claims of constructivism, a social order and its institutions cannot be reconstructed from scratch. Cultural evolution as a whole cannot be controlled by reason. Reason itself only emerged in the course of cultural evolution. It did not control the process of cultural evolution but itself rather developed only gradually in the early phase of this process[4]. People did not adopt new rules of conduct because they were intelligent, but rather people grew intelligent by submitting to new rules of conduct. Humans did not invent their most beneficial institutions, ranging from language to morals and law and markets. They were not intelligent enough to do so.

Even today, people cannot fully grasp the significance and interdependence of the institutions that guide their behavior. Often, they do not know why the institutions initially emerged; why they proved to be superior compared to others; how they support the complex order of actions in a Great Society; why and how they change in the course of time; and in which way they depend on each other. Often, people are not even aware of the rules of conduct although they observe them. Even rigorous scientific research cannot completely reveal the emergence, functions, changes and interdependencies of the institutions of a Great Society. Neither is it possible to predict the future conditions to which the institutions will have to adapt. For all these reasons, cultural evolution cannot be steered or controlled. The fallacy of constructivists is their belief that they can gather all of this information to build a completely new social order. But as the example of the socialist regimes in the twentieth century has shown, such an attempt could threaten the prosperity that humankind has achieved, and even the physical existence of parts of today's world population, as traditional institutions would inevitably be destroyed that are indispensable for the preservation of today's prosperity and population.

This, of course, does not mean that traditional institutions cannot be improved. Yet, as we do not fully understand them, we should not readily abolish them. Rather, in the case of clear deficiencies, we should examine how a reform of one institution would probably improve the functioning of the whole institutional structure and foster the preservation of the complex order of human actions in a Great Society. Political reforms could be developed on the basis of such analyses.

### **3. Guidelines for politics**

As explained in section 2, politics play an important role in cultural evolution. In the light of the strong selection pressure that prevails in cultural evolution today, politicians should adopt measures that help the society for which they are responsible to survive and prosper. Although the decision to adopt this objective does imply a value judgment that cannot be proven scientifically, all politics must be orientated towards specific goals that cannot be proven by scientific methods (Weber, 1988). What speaks for the objective stated above is the fact that its attainment is a



prerequisite for achieving practically all other goals that the members of a society may wish to achieve. Moreover, this objective is probably accepted by practically all people.

The characteristics of cultural evolution allow us to derive general guidelines for politics if one accepts the objective mentioned above. Following the guidelines set out below will make it easier to attain this objective. Moreover, the guidelines ensure consistency in politics and prevent inherent contradictions. This helps to avoid expensive frictions that would occur if general guidelines are ignored.

The guidelines set out below are of an abstract nature, as they only define certain aspects of politics. Thus, they allow a wide scope for the concrete definition of political institutions and the structuring and implementation of practical political measures. This scope may be used in a variety of ways from country to country according to their different histories, cultural values, traditions, external conditions and human preferences. The guidelines themselves are not arbitrary, though. They are a logical result derived from the characteristics of cultural evolution. If the existence of the respective society and its prosperity are to be safeguarded, the guidelines must be adhered to and implemented in concrete political measures and institutions. The more consistently this is done, the higher is the likelihood of achieving the objective. The less this is done, the higher is the risk not only for the prosperity, but also for the long-term existence of the society concerned.

### *3.1 Individual freedom*

In the light of the characteristics of cultural evolution, the most important principle of politics must be the far-reaching realization of individual freedom. To the greatest extent possible, individuals must be allowed to live their lives according to their wishes. At the same time, each individual must, of course, bear the consequences of his actions (principle of accountability), as a free society cannot function without individual responsibility (Eucken, 1990, pp. 279-85). Moreover, an individual must not violate the freedom of other human beings in the pursuit of his goals (Mill, 1974, pp. 68-74, 119-20).

Individual freedom is a social condition in which coercion of some by others is reduced as much as is possible in society (Hayek, 1960, p. 11). People must not have the power to force their will on other human beings. For this reason, each individual must be assured of a private sphere in which others may not intrude. Above all, each individual must have the freedom to dispose of his own means. Only this enables him to pursue his own goals. This is why private property is a central element of individual freedom. It is an indispensable prerequisite for the exercise of individual freedom.

Freedom of contract is another part of individual freedom. Only if members of society are basically free to conclude contracts with others, can they actually practice their freedom in society. For example, an individual must in principle be free to conclude purchase contracts for goods he wishes to own.

Another expression of individual freedom is freedom of competition. Basically, all individuals must have the right to offer their goods, services, ideas and factors of production on the market unhindered and thus enter into competition with other suppliers. Markets must be open. This principle does not only apply to the economy, but also to politics, science, religion and other important areas of society. Not only must freedom of profession and trade be guaranteed, but also political elections must be free, and freedom of research and teaching, freedom of speech and the press, and religious

freedom must be guaranteed. Free competition must be assured, also in these areas of society.

The central significance of individual freedom in the process of cultural evolution consists of its prosperity-increasing effects. Every individual has the option and the incentive to use his means to reap the highest possible gains. As Adam Smith (1981, pp. 452-9) emphasized, individuals only have their personal advantage in mind and not the welfare of society as a whole when pursuing their goals, but competition guides them as if led by an invisible hand to contribute to the overall prosperity of society at the same time. The individual entrepreneur will be compelled to produce goods that meet consumers' preferences and apply production processes that guarantee the highest degree of cost efficiency. He also has the incentive to respond to changes in procurement prices and other data by flexibly adjusting production and to develop more efficient production methods or new and improved goods of his own accord. Individual employees have the incentive to work as productively as possible, too, because in this manner they can raise their personal income. Higher productivity leads to higher prosperity for all of society.

The prosperity-increasing effects of individual freedom are also due to the fact that every member of society has an incentive to apply his personal knowledge and skills. In this manner, the knowledge of all people is used to the benefit of the entire society. This applies to knowledge in certain professions, markets, regions, etc. as well as to the diverse talents of individuals. Individual freedom is an incentive and a mechanism for the social use of personal knowledge – knowledge that varies from person to person (Hayek, 1948).

A prerequisite for economic progress are scientific discoveries, technical inventions and economic innovations. However, in this context we often see failures. For this reason it is necessary that a large number of independent, creative individuals, work at making discoveries, inventions and innovations independently from each other. Numerous independent experiments in science, technology and the economy are needed to steadily increase prosperity for humankind. This requires the freedom of the individual. Individuals who are looking for new ways to do things and experiment with new options need freedom because they question conventions and wish to overcome these. The higher the number of individuals involved in this type of decentralized search process, the higher the chances of improving the prosperity of society as a whole (von Humboldt, 1980, pp. 64-5; Mill, 1974, p. 136).

The advantages of individual freedom do not only apply to the economy. They also apply to politics, science and other important areas of social life. For example, the competition among alternative opinions and concepts in politics contributes to the development of superior solutions to political problems. In science, the independence of research and the competition among scientists results in a permanent flow of new findings and the swift dissemination of the most significant of these new findings. The principle of accountability mostly motivates politicians and scientists to act responsibly with the freedom they enjoy, in the same way as entrepreneurs and workers in the economy.

As cultural evolution itself is a continuous competition among diverse values, institutions and groups, the main evolutionary advantage of individual freedom is that it helps to avoid rigidity in society's structures and promotes adaptability. All members of society are induced to rapidly adjust to changes in external conditions and

constantly search for new solutions to problems. As this process practically uses the full body knowledge and skills of all members of society and helps to achieve a higher degree of prosperity, a society that has extensively realized the principle of individual freedom has very good prospects of surviving and prospering in the competitive process of cultural evolution. Members of such a society even actively promote the process of cultural evolution – mostly unconsciously, however – by developing and testing new institutions in this competitive process (e.g. new laws or new forms of enterprise organization).

To benefit the most from the advantages of individual freedom in the process of cultural evolution, this freedom should be realized to the fullest extent possible. It should apply to as many areas of society as possible (especially in business, politics and science) and should allow all members of society the largest possible scope of freedom. A comprehensive realization of individual freedom does not mean that the cultural values and traditions of a country and the preferences of its citizens have to be ignored. On the contrary: first, depending on the cultural values and traditions and the respective historic situation of the country concerned, there are many different measures that can be taken to implement the principle of individual freedom. Second, and above all, individual freedom grants people the largest scope possible to pursue their personal goals – goals that in turn are shaped by the cultural values and traditions as well as the history their country. Individual freedom guarantees a high degree of goal attainment; which concrete goals people wish to attain (which goods they wish to consume, for example) is subject to their freedom of choice.

### 3.2 Rule of law

The second guiding principle states that not men should rule, but the law. The legal rules must, however, possess certain attributes (Hayek, 1960, ch. 10, p. 14):

- *Generality*. The rules must apply in the long term and to a multitude of unknown cases and persons.
- *Abstractness*. The rules may only specify that under certain circumstances the acts of individuals must meet certain requirements. All the many kinds of action that satisfy these requirements must be permissible. The rules may not contain any concrete commands and must apply independently of any of the personal goals pursued by people.
- *Certainty*. The rules must be fixed and announced beforehand to ensure legal certainty. Therefore, they may never apply retroactively.
- *Equality*. The rules must not benefit or harm known persons in a predictable manner. All persons must be treated equally. The law must apply equally to the government and the governed.

If the legal norms possess these attributes, arbitrary coercion by the government will be prevented and individuals will enjoy a great scope of freedom of action (Locke, 1988, pp. 373-81). Individuals can pursue their personal objectives by applying their individual skills and knowledge. The rule of law creates legal certainty; individuals know their rights and duties as well as those of their co-citizens, and are aware of the consequences of behavior that violates said rules. In conjunction with their personal skills and knowledge, individuals can use the legal norms as guidance for their decisions. The legal norms indicate what type of behavior can be expected of others,

and thus enlarge the extent to which they can foresee the consequences of their own actions. The legal rules form a reliable foundation that allows individuals to define their protected sphere and to know what type of behavior to expect of their co-citizens. Thus, the rule of law makes it easier for people to plan, cooperate, and coordinate their actions (Hume, 1992, pp. 293-300). In this manner, law enables the spontaneous emergence and existence of a complex order of human actions that may encompass millions of people. In this kind of order, each individual has the opportunity to pursue his personal objectives and good chances to achieve them. At the same time, the legal norms ensure that individuals pursuing their own interests also contribute to satisfying the needs of other people. Legal norms channel the actions that people take for personal motives in a manner that benefits society. An individual can only achieve his personal objectives if he respects the protected sphere of other individuals and offers them goods that they actually demand. Within the order of actions created by the rule of law, citizens use their personal knowledge for the benefit of the entire society, resources are efficiently allocated, and the plans and actions of people are efficiently coordinated. This creates greater prosperity that makes it possible to feed an ever larger number of people.

The rule of law not only contributes to increasing the prosperity of an entire society, but also helps society to survive the competitive process of cultural evolution. Changes in external conditions often affect only parts of society and become known at first only to a few individuals. To protect prosperity, and even to ensure survival, it is crucial that these individuals adjust as quickly as possible to these changes by using their special knowledge. As long as the legal norms are general, abstract, certain and equally-treating, individuals may rely on these norms and apply their knowledge of the "particular circumstances of time and place" (Hayek, 1948, p. 80) to adjust flexibly to changes in external conditions. At the same time, their actions are channeled by these norms in a manner so as to benefit the whole of society. This helps to decentrally absorb exogenous disruptions early on.

Adjusting to changing external conditions may call for the adaptation not only of people's behavior and society's order of actions, but also for the invention of new "internal" institutions and changes to existing ones, such as the development of new forms of enterprise organization or the modification of existing forms (Lachmann, 1963). This may also help to absorb exogenous changes and secure the prosperity and survival of society. General, abstract legal norms make the evolution of these types of "internal" institutions easier and thus improve the adaptability of society.

As most legal norms developed through evolution (even those that originally were intentionally introduced), they represent the outcome of previous experience that may be used as long as people act according to these norms. This experience may have been gathered over generations, experience of which people are no longer consciously aware. Taking advantage of the knowledge inherent in these legal norms is possible, although people have very limited knowledge of the benefits of applying a certain general rule under varying conditions, especially knowledge that can be articulated. The rules represent the evolutionary adaptation of an entire society to its external conditions and the nature of its members. General legal norms that have evolved in the course of cultural evolution represent knowledge of rules most suitable for social life that have proven feasible over time under different circumstances. They are important manifestations of cultural evolution and facilitate such evolution as long as they

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possess the attributes mentioned above. This is another reason why these norms are important and beneficial for society in order for it to survive in the process of cultural evolution.

Government cannot centrally adjust the complex order of human actions and society's "internal" institutions to changed external conditions. This is because the knowledge needed by a society to uphold its complex, adaptable and prosperity-creating order of actions is partly stored in traditional legal norms and is partly dispersed across all members of society. The knowledge inherent in traditional legal norms is only in part consciously known; and it is impossible to completely centralize the personal knowledge dispersed across all members of society. For these reasons, traditional legal norms must be generally respected and the behavior of people must be restricted only by general, abstract, certain and equally-treating rules. This is the only way an extended society can adapt efficiently to circumstances that are permanently changing in unforeseeable ways. The alternative would be a continuous series of discretionary decisions and interventions by the government into society's spontaneous order of actions. However, this would prevent the legal rules from showing their adapting and prosperity-creating effects. The spontaneous order of actions as well as cultural evolution would be severely disrupted.

Although the state should be bound by the rule of law, within the scope of this principle lawmakers and the judiciary may regulate important areas such as contract law, labor law, tort law and administrative law. Also, the state has a wide scope of action to develop specific legal norms. The requirements to be met by legal norms from the perspective of cultural evolution are of an abstract nature. They may be met by a variety of rules. The concrete content of the rules may, and should, vary from country to country depending on the cultural traditions and people's preferences. As members of society additionally have a wide scope of freedom in applying the rules as instruments for the pursuit of their individual objectives, the rule of law is compatible with a large range of legal norms, personal objectives and forms of action.

In principle, politics should consistently adhere to the legal norms, because people base their behavior on these norms, and therefore the existence and adaptability of the entire spontaneous order of actions depend on the reliability and steadfast nature of the legal framework. Restraint should be exercised in modifying legal norms also because these must be in accord with the historically evolved, deeply-rooted and only gradually changing morals of a society. Nonetheless, legal reforms are needed if traditional law shows deficiencies or the changed external conditions require legal adjustments. As the spontaneous order of every extended society rests on a tradition of legal and moral norms passed down over generations, the meaning of which people are unable to fully grasp, we have to rely on tradition, though. New and amended legal norms must be consistent and compatible with the other rules. Just as these other rules, they must contribute effectively to the maintenance and adaptability of society's overall order of actions (Hayek, 1976, pp. 24-7).

### *3.3 Subsidiarity*

According to the third guiding principle, the scope of action of the state must be closely limited and the state must be decentrally organized. However, the following functions of the state are indispensable:

- The state must recognize and protect the freedom of its citizens, e.g. freedom of speech, freedom of contract, and freedom of trade.
- The state must respect and protect the property of its citizens. It must define rules according to which individuals have the right to own and transfer property. The state must also guarantee that citizens are able to exercise their property rights.
- The state must enforce voluntary contracts, provided that they do not violate the law or morals.

These functions and a few others must be fulfilled by the state primarily with the help of the law. Legal norms must be designed to offer the members of society the best possible conditions for the pursuit of their personal objectives. To this end, the norms must also comply with the requirements stated in section 3.2. In particular, any coercive measures by the state must be in agreement with the rule of law. These types of measures must be limited to the enforcement of legal norms that are general, abstract, known and treat all individuals equally. On the other hand, measures should not be permitted that allow the state to discriminate against or favor specific individuals or groups using its coercive powers, for example, by imposing trade barriers or granting privileges. Also, legal norms should be rejected that curtail the freedom or property rights of citizens, even if these norms are general, abstract, known and guarantee equality, such as tax laws that erode property rights by imposing high taxes.

Apart from enforcing general legal norms that secure liberty, the state should also be responsible for providing specific vital goods that are not offered by private enterprises of their own accord – usually because these are public goods for which it would be too difficult or even impossible to make individual users pay for them. However, the provision of such goods by the state should not be of coercive nature, apart from collecting the taxes needed to finance such goods. Above all, the state should by no means be granted a monopoly. Private enterprises should always have the option of also offering these goods. Generally, the state should be subject to the same legal norms in providing these goods as private enterprises. Moreover, the goods supplied by the state should support the citizens in exercising their individual freedoms. They should create a benign framework for individual actions. Before the state provides a good, it should additionally be ensured that the benefits of the good clearly exceed the costs involved. In this context, one should take into account that public authorities and state-owned enterprises that usually are not at risk of going bankrupt tend to be rather inefficient. For this reason, the state should not produce the goods itself if possible, but rather use the services of private enterprises selected through competitive procedures (such as auctions or calls for tenders) which accept such commissions from the state and deliver at low costs. Finally, the state's activities should be limited to a low number of goods in order to keep the power of the state from extending beyond the necessary scope. Examples of such goods that should be provided by the state are infrastructure, education, social assistance and stable money.

To limit the activities of the state, appropriate provisions should be incorporated into constitutional law. Such constitutional norms may restrict the type of functions that the state should fulfill or the type of goods that the state should provide and/or limit public revenue or expenditure in quantitative terms (such as a defined ceiling expressed as a percentage of GDP)[5].

The state should therefore play a subsidiary role: public authorities should only intervene in those cases in which the possibilities of individuals or small groups (e.g. families) do not suffice to fulfill an essential task. In these cases, assistance for self-help should be given priority over the state directly taking over tasks. The principle of subsidiarity should also apply to the allocation of tasks within the public sector: if the state must take over a task, responsibility for the fulfillment of the task should be assigned to the lowest possible level of the state hierarchy (e.g. municipality).

The strict limitation and decentralized organization of the state's activities should also enable competition among the various institutions. By granting private actors the largest possible scope of action, these should have the option of developing many different forms of enterprise organization or contracts and to test these through competition. The decentralized organization of the state should allow competition among state bodies (e.g. municipalities).

Why is it necessary to concentrate the state's activities on the functions mentioned above and also strictly define their scope? By securing freedom and the property rights of citizens, and enforcing voluntary contracts through general legal norms, the dispersed knowledge of individuals is used to help adjust the extended social order of actions flexibly and inexpensively to constantly changing external conditions. Also, conflicts between individuals are being avoided beforehand or settled at low social costs. Moreover, individuals have the option and the incentive to constantly develop new goods, production processes, institutions, etc. Due to the strict limitations of the state's activities, the government or the ruling majority cannot suppress such new ideas and practices. This is important because new goods, production processes, institutions, etc., are always being introduced in the following manner: A small minority initially deviates from the practices of the majority – often against their resistance. Only after the new proves more efficient than the old, does the majority start to consider taking over such practices (Mises, 1927, p. 48). The limitation of the state's activity thus produces more innovations that help society to improve its standard of living and better adapt to changing circumstances. By contrast, if the state has vast power, if citizens are being shackled by numerous regulations, and if a large portion of their income is being confiscated by high taxes, they will hardly have the opportunity or the incentive to adjust to changed circumstances by applying their knowledge (e.g. by developing new institutions that are better suited to fit into the new circumstances). This diminishes society's capability to function and adapt. Society becomes susceptible to exogenous shocks or a gradual erosion of its competitiveness in the process of cultural evolution. This also lowers people's prosperity, or at least the rate of economic growth.

Coercive state measures that discriminate against or favor specific individuals or groups are also very harmful. Not only do these types of interventions contradict the rule of law, most importantly they restrict and impede the mutual adaptation of individuals on which the spontaneous order of actions and the evolution of social institutions rest. Those individuals subject to the state's coercive measures are hindered from pursuing their personal objectives and from taking advantage of the circumstances they know. Those who are granted privileges by the state are unilaterally relieved from the necessity to adapt to circumstances to which they would be exposed without such interventions. Thus, such interventions can threaten the adaptability, evolution, and even the very existence of the social order concerned.



Although for the reasons given above the scope of the state's activities should basically be strictly limited, it is important that the state be responsible for certain essential, especially public goods that are not offered by private enterprises on their own initiative. These goods can be crucial for the international competitiveness of a society. Examples include infrastructure and an educational system that foster productivity. But also a fundamental good such as stable money is of eminent importance. It secures nominally fixed property rights and ensures that the system of flexible market prices can fulfill its signaling and allocation function. This is not only beneficial to the welfare of a society, but it also increases society's adaptability because information transmitted through price changes prompt people to respond adequately to changing circumstances[6].

Through the consistent application of the principle of subsidiarity and intensive institutional competition, a large number of solutions to problems are constantly being generated, tested and compared decentrally. Inappropriate measures and institutions can be eliminated at an early stage; in this manner they produce only low social costs. The solutions that prove to be superior are in turn generally adopted and become widespread throughout society. This process of experimentation, of constantly producing a large number of alternatives (institutional alternatives, in particular), the selection through competition and the dissemination of the best-suited solutions are of major significance for the adaptability of society in the process of cultural evolution, mainly because developments can always go wrong in the case of intentionally designed solutions and even in the unplanned evolution of institutions. For instance, intentionally designed institutions may prove to be unworkable in practice. In certain areas, unintentional institutional evolution can also develop along the wrong path that reveals itself as unsuitable only after a certain period of time. Moreover, barriers to evolution may arise. The more intensive the institutional competition, the more institutional alternatives are being generated, the stronger is the selection pressure and the higher is the probability that inefficient institutions are being discovered and eliminated at an early stage, and that developments leading to dead-end streets are being reversed or barriers to evolution are being overcome. A prerequisite for the functioning of institutional competition is, of course, a society that is always open to innovation externally and internally.

The realization of the principle of subsidiarity cannot take place arbitrarily. First of all, it must be oriented on the requirements of cultural evolution. For this reason, it must be applied as consistently as possible. For example, the scope of the state's activity must be effectively restrained by appropriate constitutional provisions. Institutional competition should not only be permissible, but the outcome should not be counteracted by other measures taken by politicians. However, as long as the requirements of cultural evolution are met, the scope for action will still be large. This scope may be used in a manner that corresponds to the preferences of the members of society. For example, which public goods are made available, their quality and quantity, who produces them and how they are financed can be decided in accordance with the preferences of the members of society as long as the requirements of cultural evolution are met.

#### **4. Conclusion**

Although democratic competition among different political programs is, as argued above, an important means for a society to survive in the process of cultural evolution, in one



respect the political implications of cultural evolution are fundamentally different from the role that politics are supposed to play in a democracy – at least according to today's prevailing opinion. Today, it is undisputed that politics must solely put into practice the current will of the people. The preferences of citizens should be transformed into politics as far as possible (Waschkuhn, 1997). From the perspective of cultural evolution, however, the primary, overriding goal of politics must be the survival of the respective society for which politics bears responsibility, not the current will of the people[7]. Although people's wishes often match the requirements of cultural evolution, this is by no means always the case. For instance, in order to implement the principle of "social justice" and to satisfy the wishes of influential interest groups, many political measures are demanded and carried out today that are incompatible with the requirements of cultural evolution. However, if a society does not meet these requirements, it is at risk of losing its prosperity and in extreme cases of decline or even extinction. In the light of the crucial role that the institutions mentioned above have played in the rise of the Western world and the strong selection pressure exerted by cultural evolution today, the guidelines set out in this paper should be followed consistently – even if this means going against some of the day-to-day wishes people have. Only if the requirements of cultural evolution are met will there be enough scope to satisfy people's wishes.

#### Notes

1. For more on the Industrial Revolution, see Ashton (1969), Hartwell (1971), North and Thomas (1973), Rosenberg and Birdzell (1986), North and Weingast (1989), Landes (1998).
2. The theory of cultural evolution, on which this paper is based, was developed mainly by F.A. Hayek (1967, 1973, 1976, 1979a, b, 1983, 1988). Important contributions also came from Hume (1992), Smith (1981, 1985), Ferguson (1995), von Humboldt (1994), von Savigny (1840-1851), Maine (1888, 1986), Darwin (1990), Menger (1883), Hobhouse (1951), Carr-Saunders (1922), Alchian (1950), White (1959), Quigley (1979), Campbell (1965, 1975, 1983, 1987), Alland (1967), Popper (1984), Geertz (1973), Service (1975), Wickler and Seibt (1991), Ullmann-Margalit (1977), Eccles (1979, 1989), Pulliam and Dunford (1980), Bonner (1980), Lumsden and Wilson (1981), Cavalli-Sforza and Feldman (1981), Axelrod (1984), Boyd and Richerson (1985), Hallpike (1986), Johnson and Earle (1987), Ostrom (1990), Durham (1991) and Sanderson (1999).
3. See Buchanan (1975, p. 194; 1981, pp. 45-6), Brennan and Buchanan (1985, pp. 9-10), Gray (1986, p. 142), Miller (1989, p. 314), Voigt (1992, p. 465) and De Vlieghe (1994, p. 293). A critical discussion of this and other criticism of the theory of cultural evolution can be found in Feldmann (forthcoming).
4. "It was a repertoire of learnt rules which told him what was the right and what was the wrong way of acting in different circumstances that gave him his increasing capacity to adapt to changing conditions – and particularly to co-operate with the other members of his group. Thus a tradition of rules of conduct, existing apart from any one individual who had learnt them, began to govern human life. It was when these learnt rules, involving classifications of different kinds of objects, began to include a sort of model of the environment that enabled man to predict and anticipate in action external events, that what we call reason appeared. There was then probably much more 'intelligence' incorporated in the system of rules of conduct than in man's thoughts about his surroundings . . . The mind is embedded in a traditional impersonal structure of learnt rules, and its capacity to order experience is an acquired replica of cultural pattern which every individual mind finds given. The brain is an organ enabling us to absorb, but not to design culture" (Hayek, 1979a, p. 157).

5. Constitutional economics analyzes the necessity and possibilities of limiting the scope of the state's activity through constitutional law. An overview and a critical assessment of this approach can be found in Feldmann (1999, pp. 80-94, 230-50). The author of this paper has also developed concrete proposals for the constitutional limitation of tax burdens (Feldmann, 1998a) as well as for the limitation of public borrowing (Feldmann, 2002).
6. The author of this paper has developed a remuneration system for the members of the Governing Council of the European Central Bank, which is designed to encourage said members to effectively and lastingly pursue a strictly stability-oriented monetary policy (Feldmann, 1998b). A system of this type is necessary mainly because in many member states of the European Monetary Union a "stability culture" comparable to Germany's does not yet exist.
7. This by no means implies that some type of authoritarian or totalitarian political rule is being advocated. Such type of political rule would conflict sharply with the guidelines set out in this paper. Rather, it seems worthwhile to consider grounding these guidelines in constitutional law.

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