North’s Underdeveloped Ideological Entrepreneur

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1. Introduction

Professor North has taught us a great deal about how institutions impact human action, about how institutional change occurs, and about which institutional matrices promote economic progress and which can retard it. Institutions, in North’s (1990, 3) schema, are “the rules of the game in a society.” As such, they proscribe certain activities and encourage others, “reduc[ing] uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction” (ibid., 6). Institutions, North explains, have a profound effect on whether or not a society will prosper. If a society’s institutions protect property rights, limit predation and encourage hard work and entrepreneurship, then that society will grow wealthy. If, instead, a society’s institutions fail to protect property and encourage predation, then that society will not grow wealthy. Although establishing a stable structure, institutions that use formal constraints, such as legal statutes and contracts, or institutions that use informal methods, such as social conventions and norms, should not be thought of as static. Both formal and informal constraints can and do change. Understanding how institutional change occurs is critical for understanding if and how it is possible for societies with institutional structures that retard growth to develop

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pro-growth institutional frameworks. Understanding institutional change is also critical for understanding how and why wealthy societies go off-track. More broadly, understanding institutional change is critical for understanding both positive and negative social change.

North has stressed that institutional change is typically piecemeal and path dependent. As he writes (1990, 6), “institutions typically change incrementally rather than in a discontinuous fashion.” Although it is possible to rapidly change formal institutions (e.g., by passing a new law or overturning a previously existing statute), because informal institutions are not so easily changed, rapid shifts in the overall institutional matrix seldom occur. As he writes (2005, 62), institutional change tends to be “incremental because large-scale change will create too many opponents among existing organizations that will be harmed and therefore oppose such change.” Similarly, as North writes (ibid.), “path dependence will occur because the direction of incremental institutional change will be broadly consistent with the existing institutional matrix… and will be governed by the kinds of knowledge … [that] members of organizations have invested in.”

North also frequently highlights the role of entrepreneurs as agents of change whose activities within a given institutional structure can directly and indirectly alter that structure. As he writes (1990, 83), “the agent of change is the individual entrepreneur responding to the incentives embodied in the institutional framework. The sources of change are changing relative prices and preferences.” Motivated by either a change in tastes or relative prices, (political and economic) entrepreneurs, North asserts, sometimes attempt to change the rules of the game in an effort to improve their bargaining position.

North (2005) has also stressed that changing people’s beliefs must accompany any efforts to change the rules of a society since every institutional structure is supported by a more or less developed ideology. He has occasionally described the entrepreneurs who are seeking to change the rules of the game by changing people’s minds as “ideological entrepreneurs.” If ideological entrepreneurs are to successfully change formal or informal institutions, North argues, they must convince others that the ideological underpinnings of the existing institutional structure are unjust. In spite of the key role that ideological entrepreneurs play, however, the ideological entrepreneur remains an underdeveloped concept in North’s work on institutional change. Beyond noting that the ideological entrepreneur works to change minds and, in so doing, changes institutions, North does not really develop the concept of the ideological entrepreneur. He does not
fully describe the mechanism through which his ideological entrepreneur brings about institutional change. At times, in fact, North describes the entrepreneur as if he automatically responds to changes in relative prices and preferences rather than as an innovator or discoverer of “profit” opportunities. Additionally, North does not link his ideological entrepreneur to other forms of entrepreneurship like commercial, social, political, and institutional entrepreneurship.

Such an important concept should not remain underdeveloped. This article pieces together the few but key references to the ideological entrepreneur that can be found in North’s corpus and seeks to augment them with insights about the nature of entrepreneurship found elsewhere in his work. Additionally, I draw on Kirzner and Schumpeter’s work on entrepreneurship and the entrepreneurial process in an effort to develop a richer theory of the ideological entrepreneur than is found in North. Section 2, thus, outlines the role that North’s ideological entrepreneur plays in bringing about institutional change. Section 3, then, discusses how the concept of the ideological entrepreneur might be developed along Kirznerian and/or Schumpeterian lines. Next, Section 4 examines North’s discussions of path dependence and explores whether or not an ideological entrepreneur developed along Kirznerian and Schumpeterian lines can alter the trajectory of institutional change once path dependency has set in. Section 5 offers concluding remarks.

2. Why Did North Need to Invent the Ideological Entrepreneur?

Ideology plays an important role in North’s institutional economics. Ideologies, for North (1981, 48), “are intellectual efforts to rationalize the behavioral pattern of individuals and groups.” Simply put, ideologies are theories of how the world works. They can, however, vary considerably. They can be fatalistic (e.g., “life just happens”) or hopeful (e.g., “hard work can lead to success”). They can be more or less developed and systematized, more or less consciously held (e.g., Marxism or classical liberalism versus the series of beliefs that “natives” use to explain life in their primitive community). They can be a collection of myths or a collection of scientific models. Although they can differ greatly in form, they all serve the same function. An ideology (i.e., a theory of how the world works) “is an economizing device by which individuals come to terms with their environment and are provided with a ‘world view’ so that the decision-
making process is simplified” (ibid., 49). As such, they make action in a complex world possible.

Ideologies are really shared theories of the world. Although it is of course possible to do so, in North’s schema, it is somewhat imprecise to talk about privately held or personal ideologies. “Ideologies,” Denzau and North write (1994, 4), “are the shared framework of mental models that groups of individuals posses that provide both an interpretation of the environment and a prescription as to how that environment should be structured…. The mental models are the internal representations that individual cognitive systems create to interpret the environment.” Because they are theories, neither ideologies nor mental models can be proven to be true. They can prove to be logically incoherent (i.e., parts of the theory are shown to conflict with other parts of the theory), inadequate (i.e., unable to explain the circumstance in which the holders find themselves), or proven false (i.e., new facts emerge which simply invalidate the theory). Consequently, we should never expect beliefs about how the world works to converge around some objectively true understanding about how the world works since it is possible that facts that contradict a person’s theories might never emerge or that a person’s theories might be stubborn in the face of such facts even if they ever were to emerge.

A person’s cultural background and experiences, however, do shape their mental models. As such, people who have had similar life experiences and who share a common cultural background tend to share mental models. Mental models can, similarly, diverge considerably in individuals whose races, ethnicities, nationalities, classes, communities, families, sexual orientations, and/or genders differ. Ideologies (i.e., a shared framework of mental models that an individual adopts) can also influence the mental models that an individual develops. Of course a person’s cultural background and experiences might have something to do with which ideologies she adopts, but two people whose cultural backgrounds and experiences are acutely different but who have adopted the same ideology will still have convergent mental models. The rich European Marxist and the poor African Marxist, for instance, can see and explain the world in broadly similar ways though they may have very little in common beyond their Marxism. Similarly, the classical liberal who embraces free markets because he was oppressed under communism and the classical liberal who embraces laissez faire because he grew wealthy under capitalism see the economy in similar ways even though their experiences differed radically.
That mental models can converge because of shared life experiences and ideologies is important for social stability. Absent a theory of how the world worked, people would not be able to act. Absent shared mental models or a commonly held ideology, it would be difficult to explain how and why people obey rules and choose to respect institutional barriers and prohibitions that are not in their narrow interests to follow. “While we observe people disobeying rules of a society when the benefits exceed the costs,” North writes (1981, 46), “we also observe them obeying the rules when an individualistic calculus would have them do otherwise.” Many people do not litter even though they would be able to get away with it. Many people do not cheat and steal even when it is very unlikely that they will be caught. Many people work hard even though any free riding on their part is unlikely to be detected. If a society’s institutional matrix is to persist, members of that society must share an ideology that supports and justifies its existing structure.

Ideological change must, therefore, accompany institutional change if the new institutional structure is to stick; an ideological shift must follow, co-evolve with, or precipitate institutional change. According to North, people only change their ideology when it no longer seems to be an adequate explanation of the world. As North writes (1981, 49), “individuals alter their ideological perspectives when their experiences are inconsistent with their ideology.” When an individual can no longer make sense of the world using his existing mental models and ideologies, he constructs or adopts new ones. But, as North notes (ibid.), it will take more than one anomaly (one unexplainable event) to get an individual to change his ideological perspective; “inconsistencies between experience and ideologies must accumulate before individuals alter their ideology.” A series of events that run counter to a person’s expectations can, thus, lead them to update their mental models and change their ideology.

Although the occurrence of repeated unexplainable events might explain the “why” of ideological shifts, it does not explain the “how” of ideological change nor does it yield any insight into which of the array of possible ideologies will come to dominate. For North, the “intellectual entrepreneurs of ideology” or “ideological entrepreneurs” can and often do play a key role in ideological change. Repeated inconsistencies between a person’s experiences and her ideology will give the ideological entrepreneur an opportunity to convince her to adopt a new theory of how the world works. As North writes (1981, 65), when the existing ideology proves inadequate, “opportunities will be offered to the ideological entrepreneur
… to construct a counter ideology.” Also, “an ideological entrepreneur who learns of an incoherence or a disturbing implication of the ideology could utilize this in order to help reinterpret that ideology” (Denzau and North 1994). Any would-be institutional entrepreneur must also be an ideological entrepreneur.

Nothing, of course, guarantees that an ideological entrepreneur will be able to convince others to accept his new ideology. North, however, has stressed the importance of an ideology’s ethical implications in determining whether or not it will be adopted. As North writes (1981, 49), “ideology is inextricably interwoven with moral and ethical judgments about the fairness of the world the individual perceives.” For instance, an ideology that points to the negative socio-economic consequences of greed will be paired with an ethos that prohibits greed. Any successful counter ideology must align with an individual’s sense of right and wrong. Moreover, it must “not only provide a convincing image of the link between the specific injustices perceived by various groups and the larger system which the intellectual entrepreneurs desire altered, but,” as North writes (ibid., 54), it must “also offer a Utopia free of these injustices and provide a guide to action.”

North does offer a few historical examples of successful ideological entrepreneurs that might prove telling. Speaking of change in the ancient world, North writes (1981, 121), “the agents of change too were not all kings, emperors, or their agents; they included such persons as Rabbi Akiba ben Joseph and his pupil Rabbi Meier … Jesus of Nazareth; Saul of Tarsus … and Mohammed.” Rabbi Akiba ben Joseph and Rabbi Meier are noted rabbinical scholars who did much to formalize Judaism. Jesus of Nazareth and Mohammed started two of the world’s most popular religions. And Saul of Tarsus played a key role in spreading Christianity throughout the ancient world. Beyond these examples and a few others like Karl Marx and his popularizers and the U.S. Founding Fathers, North leaves us guessing as to who would count as ideological entrepreneurs and who would not.

Although ideological entrepreneurs play such a key role in bringing about ideological and, so, institutional change, North does not devote a lot of attention to them. He never, in fact, presents a systematic treatment of his ideological entrepreneur. We are left to guess if and how far his ideological entrepreneur can break a society out of path dependency. We are left to guess if his entrepreneur is a creative agent who brings about the creative destruction of ideologies, an individual who is alert to opportunities for ideological change and works to exploit
those opportunities, or someone who automatically responds to relative price changes. Unfortunately, North often describes (ideological and other) entrepreneurs as if they are automatons. Arguably, North’s ideological entrepreneur remains underdeveloped because although North’s institutional economics is an improvement over neoclassical economics, particularly its introduction of ideological considerations, it nonetheless does not break free of it. The next section attempts to free the ideological entrepreneur from its neoclassical shortcomings by attempting to develop it along Kirznerian and Schumpeterian lines.

3. A More Austrian Ideological Entrepreneur?

North has become increasingly Austrian in recent years. Although he makes a favorable albeit brief reference to Hayek and Mises in Structure and Change in Economic History (1981), in Understanding the Process of Economic Change (2005), North extensively engages Hayek’s writings on both the structure of the mind, the role of beliefs in shaping human choices and the dynamics of cultural evolution. In fact, North has described Hayek’s The Sensory Order (1952) as a foundational text in cognitive science. That book, North writes (2005, 32–33), “pioneered in developing an understanding of the process of learning and the formation of beliefs long before cognitive scientists had developed connectionist theory.” Similarly, North acknowledges (2005, 51) the similarity and the influence of Hayek’s image of culture as “our inherited stock of knowledge” (Hayek 1960, 27) and his own view of culture as “the cumulative experience of past generations” (North 1994, 364).

North’s ideological entrepreneur would similarly benefit from a greater engagement with Austrian theories of entrepreneurship (particularly Kirzner’s and Schumpeter’s). Kirzner and Schumpeter offer broadly complimentary views of the entrepreneur. Schumpeter stressed that the entrepreneur plays a key role in the development process. Development, for Schumpeter (1997, 68), “consists primarily in employing existing resources in a different way, in doing new things with them, irrespective of whether those resources increase or not.” As such, it is a process of discontinuous change. It is a process of creative destruction where, through the “carrying out of new combinations,” the economic system is consistently revolutionized. Schumpeter (ibid., 65) sees development as consisting of “(1) the introduction of a new good …, (2) the introduction of a new method of production …, (3) the opening of a new market …, (4) the introduction of
Schumpeter sees the entrepreneur as the star of this drama, the catalyst that sets the process of development in motion. His entrepreneur is an innovator who initiates new enterprises (i.e., “the carrying out of new combinations”). As Schumpeter writes (1976, 132), “the function of the entrepreneur is to reform or revolutionize the pattern of production by exploiting an invention.” Because the entrepreneur is a pioneer who challenges (economic and perhaps even social) conventions, Schumpeter’s entrepreneur is a bold, creative, visionary, and, in fact, heroic figure. He must act confidently as he ventures into unknown territory. Schumpeter compares his entrepreneur to the warrior classes of the past. The entrepreneur’s role, Schumpeter writes (1976, 133), “though less glamorous than that of medieval warlords, great and small, also is … just another form of individual leadership acting by virtue of personal force and personal responsibility for success.” Rather than being motivated primarily by a quest for glory and political power like the medieval warlord, however, Schumpeter’s entrepreneur is primarily motivated by a desire for profits and economic power.

Kirzner, similarly, describes an entrepreneur who is at the heart of the market process and is motivated by the possibility of earning extraordinary profits. As Kirzner stresses, human beings possess less than perfect knowledge—that is, all possible means have not already been identified and all possible ends have not already been conceived. Instead, human beings live in a world of radical uncertainty and fundamental ignorance (Mises [1949] 1963; Hayek 1948, 1955; Kirzner 1973, [1979] 1983). There is much out there, as it were, to be discovered. For instance, sellers are often unable to locate the prospective buyers for their goods and services. Similarly, buyers in one area are often unaware that a good or service that they desire is available in a neighboring locality. Kirzner points out that these spheres of ignorance are arbitrage opportunities and that the entrepreneur is an individual who is alert to them. Kirzner’s entrepreneurs look for and recognize these opportunities to buy low in one market and sell high in another. This includes recognizing that a set of raw materials, machinery, and labor can be bought/rented in factor markets and combined to make a product that can be sold at a profit in consumer markets. Kirzner (1994, 107) has described this alertness, for him a “generalized intentness upon noticing the useful opportunities that may be present within one’s field of vision”—that is, an intentness on noticing unexploited profit opportunities as his entrepreneur’s
The entrepreneur thus plays an essential role in getting buyers the goods and services that they want.

Although much has been made of the differences between the pictures of the entrepreneur painted by Schumpeter and Kirzner, there are broad similarities between the two figures. Both are driven by profit opportunities. Both also succeed by creating new products or markets. While Kirzner characterizes this as discovery and Schumpeter describes this as creative destruction, both succeed by seeing some possibility (e.g., to profitably combine factors in a particular way) that no one else has identified and attempted to pursue. Consequently, the Kirznerian and Schumpeterian entrepreneur must have similar personality traits. As Kirzner recently conceded (1999, 12), “entrepreneurial alertness, in [an] essentially uncertain, open-ended, multi-period world must unavoidably express itself in the qualities of boldness, self-confidence, creativity, and innovative ability.” Both Schumpeter and Kirzner conceive of the entrepreneur as someone who must be willing to be a believer in a world of skeptics. That it takes time for some ventures to become profitable makes the entrepreneur’s boldness all the more important.

Not surprisingly, Kirzner and Schumpeter’s conceptions of the entrepreneur have been profitably used to discuss entrepreneurship in markets as well as non-market settings. Shockley et al. (2006) combine Buchanan and Tullock’s public choice insights with Kirzner and Schumpeter’s theories of entrepreneurship to build a theory of “public sector entrepreneurship.” Public sector entrepreneurs, they explain, are politicians or officials who are alert to and work to exploit opportunities to earn political profits (i.e., political and bureaucratic power). Similarly, extending Kirzner’s formulation, Holcombe (2002) has described political entrepreneurs as individuals who observe and act upon the predatory entrepreneurial opportunities that exist in government. And, Swedberg (2006) has developed and extended a Schumpeterian conception of social entrepreneurship, where social entrepreneurs creatively bring about social change through their activities.

Developing a Kirznerian and Schumpeterian ideological entrepreneur should therefore be possible. What, then, would a more Austrian ideological entrepreneur look like? And, how would he differ and what advantages would he have over North’s ideological entrepreneur? A Kirznerian ideological entrepreneur would be alert to opportunities to advance an existing ideology that people in a particular place want but do not yet know about (i.e., to engage in ideological
arbitrage). He would be alert to opportunities to sell a new ideology that better explains the world than existing ideologies. Similarly, a Schumpeterian ideological entrepreneur would be a bold innovator who created new conceptions of how the world works or combined and presented existing models of how the world works in new ways (i.e., to promote ideological development). He would work to capture the ideological marketplace, competing fiercely against other ideological entrepreneurs as well as against the weight of existing public opinion and conventions.

Although a Kirznerian and Schumpeterian ideological entrepreneur, as described above, is broadly consistent with North’s “intellectual entrepreneur of ideology,” there are several important advantages that the formulation above has over North’s conception. First, it assigns to the ideological entrepreneur a specific and primary role in ideological and, so, institutional change. In his writings on institutional change, North has focused much less on the role of the ideological entrepreneur in changing people’s beliefs and much more on the “spontaneous” changes (or lack of changes) in individuals’ perceptions and beliefs that occur as a result of changes in relative prices. Second, North’s ideological entrepreneur is ultimately *homo economicus* responding “automatically” and “mechanically” to opportunities to gain ideological profits. Neither Kirzner nor Schumpeter describes an entrepreneur that can be accounted for so easily within a maximizing neoclassical framework. Kirzner’s entrepreneur makes genuine discoveries, and Schumpeter’s entrepreneur is creative and disruptive. Third, a Kirznerian and Schumpeterian conception of the ideological entrepreneur brings to the fore a number of important questions about ideological change and the limits of the ideological entrepreneur. Most importantly, is the ideological marketplace similar enough to the real market so that we can talk as confidently about the ideological entrepreneur being an engine of ideological development and progress as we talk about the commercial entrepreneur being a source of economic development and progress? Stated another way, is successfully selling an ideology akin to successfully selling a product?

There are strong similarities between ideological and commercial entrepreneurs. It is certainly the case that between two ideologies that offer different but “equally” plausible theories of the world, the ideology that most people prefer to hold (for various reasons) will win a greater share of the ideological market. The ideological entrepreneur peddling an ideology that better satisfies the tastes of his customers will be more successful than a competing entrepreneur that is
selling a less desirable ideology. Markets do a good job at ensuring that members in a society get what they want because the only way that entrepreneurs can earn profits is by satisfying customers’ wants. When they fail to satisfy customers’ wants they earn losses. The feedback of profit and loss is a powerful mechanism for making sure that entrepreneurs meet consumer demands. Winning converts in the ideological marketplace would be akin to winning customers in the commercial sphere. An ideological entrepreneur without any converts must alter either his message or the ideology he is peddling or bear the costs of not having any converts. Notice, however, in both spheres that it is not the “best” products (be they ideologies or economic goods) that win in the market but the products that actors believe “best” satisfies their desires. As such, it is not the theory that best accounts for how the world works that wins out in the ideological marketplace but the plausible explanation of how the world works that best satisfies consumers’ tastes.

Confidence that commercial entrepreneurs will actually work to satisfy consumers’ desires does not only emanate from the robustness of the signals of profit and loss vis-à-vis the signals that entrepreneurs receive to guide their action in non-market contexts but also from a belief in the ability of actors to correctly assess how well a product (even an expensive and complex product) is satisfying their desires. If, instead, it was believed that individuals could be systematically and repeatedly tricked into buying products that did not in fact satisfy their actual wants or were poorer satisfiers of their actual wants, then any faith that markets deliver products that best satisfy our actual demands would be eroded. Although reality and experience places some limit on which ideologies an individual might believe, it is arguably more likely that they will adopt an erroneous theory of how the world works than it is that they would accept an erroneous theory of which drinks satisfy their thirst. Consequently, it is possible for ideological entrepreneurs to successfully peddle erroneous ideologies even when better explanations of how the world works are available.

That it is possible for erroneous but popular ideologies to persist would seem to lend credence to North’s consistent emphasis on path dependence. Worldwide ideological convergence would be highly implausible. But, if ideological entrepreneurs (along the lines developed above) do in fact exist, then they could provide a way out of the lock-in that North emphasizes. They would both be a potential source of ideological innovations and also a potential source of institutional
change away from the current path. Moreover, ideological entrepreneurs would be a source of both positive and negative social change.

4. The Ideological Entrepreneur as a Way of Solving the Problem of Path Dependence

North has relied on the concept of path dependence to explain why it is that some countries fail to progress even though we have known since Adam Smith the path from poverty to prosperity. As Smith (1776) outlined in *An Inquiry into the Nature and Causes of the Wealth of Nations*, “little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism but peace, easy taxes, and a tolerable administration of justice.” Still, many countries have not adopted Smith’s simple formula. As North (1990, 112) writes, “path dependence is the key to an analytical understanding of long-run economic change.” Path dependence, for him, explains how it is that economic activity in some societies failed to “evolve into the impersonal exchange essential to capturing the productivity gains that came from the specialization and division of labor” (North 1994, 364). And, as he writes, path dependence explains how societies can “get ‘stuck’ with belief systems and institutions that fail to confront and solve new problems of societal complexity” (ibid.). “The sources of poor performance,” North explains (2005, 156), “have their origins in path dependence.”

Path dependence, for North, is not simply a claim that the past affects the choices that people make in the present. It is not a modest claim about the influence of a society’s cultural heritage on the beliefs and actions of its members and the institutions that they adopt. Instead, it is a description of how the dead hands of the past reach up from the grave to constrain and direct the living. It is a description of how societies get caught in vicious and virtuous cycles. As North writes (2005, 52), “path dependence is not ‘inertia,’ rather it is the constraints on the choice set in the present that are derived from historical experiences of the past.” And, as he asserts elsewhere (1990, 98), “path dependence is a way to narrow conceptually the choice set and [to] link decision making through time.”

Institutional changes tend to be path dependent (i.e., radical departures from the current trajectory of institutional change tend not to happen), North insists (2005: 59), because individuals find it difficult to radically change their beliefs for several reasons. First, shared mental models make it easier to communicate,
trade, and, so, peacefully coexist with others. Adopting a new mental model could be personally costly unless some number of your fellows also adopt or can be convinced to adopt the new mental models. Stated another way, there are positive network effects related to mental models and ideologies. Second, an institutional matrix encourages the development of certain skills, kinds of knowledge, and ways of understanding the world. An institutional matrix encourages individuals to develop a particular set of lenses (i.e., ways of looking at the world) as well as a particular set of blinders (i.e., certain ways of looking at the world are obscured). Changing how you see the world, adopting an entirely new set of mental models, likely means casting off a lifetime of ideological capital. As North summarizes (ibid.), “the economies of scope, complementarities, and network externalities of an institutional matrix make institutional change overwhelmingly incremental and path dependent.”

North (1990, 98) does stress that stories of path dependence should not be confused with stories of inevitability. Institutional changes do not necessarily continue along the path that previously developed. Still, when North discusses path dependence he appears pessimistic about the possibility of communities that are trapped in vicious cycles breaking free from them. And he does not appear to be terribly concerned about the possibility of communities experiencing virtuous cycles spiraling downward. Such changes are possible in North’s system but are not readily explainable using North’s system. As North confesses (1990, 112), “alterations in the path come from unanticipated consequences of choices, external effects, and sometimes forces exogenous to the analytical framework.” What of the ideological entrepreneur that North employed in *Structure and Change in Economic History* (1981)? Arguably, he is not considered a source of “alternations in the path” because in North’s system (ideological and commercial) entrepreneurs are simply maximizing agents responding more or less automatically to opportunities for ideological changes in hopes of reaping personal gain.

But, expanding people’s perceptions of their choice sets is exactly what Schumpeterian and Kirznerian entrepreneurs do. An ideological entrepreneur developed along Schumpeterian and Kirznerian lines would be able to alter a society’s path. An example from my research on democratization in the Bahamas will help to clarify this key role of ideological entrepreneurs in breaking societies out of path dependence.

Until the middle of the twentieth century, a small group of white businessmen known as the Bay Street Boys exerted almost total economic, political, and social
control over the majority black British colony of Bahamas. They owned almost all of the major businesses in the country. They held an overwhelming majority of the seats in the local Assembly. Several of the businesses that they owned and establishments that they frequented (e.g. the Savoy movie theater, the restaurants in the British Colonial Hotel) were segregated on the basis of race. Additionally, they decided if and when Bahamian blacks would be allowed to celebrate their major cultural festivals, like Junkanoo, in the city center. The institutional matrix that existed in the Bahamas at the time was one that relegated Bahamian blacks to second class status in the colony; a set of institutions that taught Bahamian blacks that with but a few exceptions, and even then within limits, that success for them was unlikely; a set of institutions that most (white and black) Bahamians believed at the time to be legitimate.

In the latter half of the twentieth century, a group of educated black ideological entrepreneurs took over the Progressive Liberal Party (PLP), then a fledgling political party, and began to challenge the legitimacy of the institutional matrix that existed in the colony (Martin and Storr 2009). Alert to an opportunity to bring about an ideological shift amongst blacks in the colony, the rhetoric of the ideological entrepreneurs in the leadership of the PLP grew more radical and divisive and their activities grew more confrontational. They were initially met with some suspicion and a great deal of resistance. Within a few years, however, they had convinced a majority of blacks in the Bahamas that the Bay Street Boys control over the country was neither legitimate nor sustainable. Their ideological victory over Bay Street was crystallized on Black Tuesday. Protesting an attempt by the Bay Street Boys to gerrymander the constituency boundaries and ignoring a very public warning that the government would not countenance any protest, Cecil Wallace Whitfield, others in the PLP leadership, and thousands of their supporters marched to and surrounded the Assembly on April 27, 1965. Inside the Assembly, PLP leader Lynden Pindling railed against the government’s attempts to silence debate, walked to the Speaker’s desk, grabbed the ceremonial mace that is meant to symbolize the power of the people represented in the parliament, and threw the mace out of the window to the waiting crowd below. Less than two years after Black Tuesday, the PLP was the government of the Bahamas. The defeat of the Bay Street Boys at the polls also meant a defeat of colonialism, a defeat of segregation, and a defeat of artificial barriers to Bahamian black achievement. The ideological sea change that had to occur for the Bay Street Boys to lose political control over the colony cannot be overstated.
What is clear though is that the ideological entrepreneurs who controlled the PLP inspired a radical change in the thinking of Bahamian blacks. As a result of their efforts, Bahamian blacks altered their perceptions of their choice sets and began to see their current circumstances and their future prospects much differently than they had previously.

Other examples of these kinds of radical ideological and institutional shifts are not as rare as North suggests. Of course, they do not always lead to what we would consider positive outcomes. Hitler, for instance, was an ideological entrepreneur who was alert to the growing feeling of alienation amongst his countrymen and convinced many of them that in order for their nation to reach its destiny they needed to launch a world war and to begin systematically killing millions of Jews.

Alert ideological entrepreneurs can inspire a process of creative ideological destruction. They can alter paths, transforming virtuous to vicious circles and vice versa. Again, they can initiate positive and negative social change.

5. Conclusion

North’s introduction of ideological considerations into economics is extremely important and should be viewed as a major advance in modern economics. By pushing beyond the neoclassical paradigm, he has developed a rich theoretical framework through which economists and others can make sense of a complex world and get at the most important questions in economics. By focusing on how ideology and institutions impact human action, he has brought to the fore considerations of how institutional change occurs and which set of institutions promote economic development and which stifle it. Complaining that his framework does not pay enough attention to the ideological entrepreneur (that he himself introduced) is nothing like a damning criticism of his approach. Still, it seems clear that further development of the concept of an ideological entrepreneur along Schumpeterian and Kirznerian lines could be an extremely fruitful addition to the theoretical toolkit that North has handed us.

References


