

A Theory of the Ideology

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Abstract

This paper attempts to propose a new theory of ideology by means of the economic approach. We view the ideology as a kind of human capital, which will change when economic conditions shift. Although the ideology, an important informal constraints, may have a substantial effect on a society's development in a period, as far as we concerned, it cannot determine the fortune of a country in the long run. In this sense, the role of ideology is neutral in the process of long-term economic development.

Key words: ideology, institutional change, economic development.

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1. Introduction

Ideology plays an important role in the realm of social science. It has long been a subject of concern for Marxian social scientists (Giddens and Held, 1982). As arising of the New Institutional Economics (NIEs, hereafter), ideology begins to be paid more attentions. In his well-known works, North (1981) views ideology as one of blocks underpinning the theory of institutions and institutional change in economic history.

According to NIEs, ideologies (also named the belief systems) of societies and the way they evolve that is the underlying determinant of institutions and their evolution. For example, North (1990) points that institutions matter because they provide the incentive structure that dictates the kinds of skills and knowledge perceived to have the maximum payoff. The interactions between institutions, the rules of the game and organizations, and the players determine institutional change. Competition forces organizations continually to invest in new skills and knowledge to survive. The kind of skills and knowledge individuals and their organizations acquire will shape evolving perceptions about opportunities and hence choices that will incrementally alter institutions. Perceptions are derived from the mental constructs of the players.

On the other hand, as Denzau and North (1993) pointed out, the key to the choices that individuals make is their ideologies or perceptions, which are a function of the way the mind interprets the information it receives. The mental constructs of individuals form to explain the world around them are partly a result of their cultural heritage, partly a result of the local everyday problems they confront and must solve, and partly a result of non-local learning. In sum, the institutional framework that determine incentive structure thereby influence economic performance is driven to the various belief systems or ideologies reflecting the past - the cultural heritage of a society - and its gradual alternation reflecting the current experiences. That, in essence, is why path dependence exists.

As an important institutional arrangement, the role of ideology is to reduce the costs of providing the services for other institutional arrangements (North, 1981). In the real world, ideology differences clearly do play a role in shaping policies and institutions. For example, Romer (2003) presents a model where voters have different beliefs and shows that if mistakes are correlated, then society can choose a socially

inefficient outcome.

Nevertheless, the NIEs literature based on ideology seems highly limited. On the one hand, ideologies are endogenous to the economic development and economic outcomes (Lin, 1989; Acemoglu et al, 2004); on the other hand, if ideologies or belief systems determine institutions, according to this approach, institutional change hardly takes place because beliefs imbedded culture heritage which change very slowly (Williamson, 2000). If so, can we explain the catch-up of the Asian tigers (e.g. Taiwan, Hongkong, Korea, and Singapore) whose cultures completely differ with the western world? Can we explain the staggering economic difference between before reforms and after reforms in Mainland China whose socialism ideology still keeps unchanged?

In this paper, we attempt to propose a theory of ideology and elucidate the ideology is endogenous and will change in terms of social economic development. The organization of the paper is as follow: in section 2, we will explain the definition and function of the ideology. A model of the ideology is presented in section 3. Some implications will be discussed in section 4. A laconic conclusion remarks will be drawn in section 5.

2. The Definition and Functions of the Ideology

Ideology can be defined as a set of beliefs about the world, including beliefs about the morality of the division of labor, income distribution, and the existing institutional structure of a society². According to North (1981), ideologies have three stylized features:

First of all, ideology 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.

Secondly, ideology is inextricably interwoven with moral and ethical judgements about the fairness of the world the individual perceives...

Finally, individuals alter their ideological perspectives when their experiences are inconsistent with their ideology. In effect, they attempt to develop a new set of rationalizations that are a better “fit” with their experiences. However, it is important to stress... inconsistencies between experience and ideologies must accumulate before individuals alter their ideology. (p. 49)

But what are ideology distinguished from outlooks and creeds, systems and movements of thought, and programs are among the other types of comprehensive patterns. Shils (1968) pointed: ideology are characterized by a high degree of explicitness of formulation over a very wide range of the objects with which they deal;

² There are dozens of different ideology's definitions existing literatures. A good classification is proposed by Hinich and Munger (1993).

for their adherents there is an authoritative and explicit promulgation. As compared with other patterns of beliefs, ideologies are relatively highly systematized or integrated around one or a few pre-eminent values, such as salvation, equality, or ethnic purity.

With respect to a kind of informal institution, the function of ideology is to decrease transaction costs of other institutional arrangements. In other words, its key function is to legitimate the existing institutional structure or solidify a group (Lin, 1989).

One of the most critical functions of institutions or organizations is to muster the benefits of scale of economy and/or externalities which are difficult for individual to collect. Collective actions, however, are inherently plagued by free rider problem because individual rationality is not sufficient condition to collective rationality (Olson, 1965). A successful ideology, therefore, must overcome the free rider problem. On top of that, since an ideology is an economizing device for expressing a *weltanschauung*, to be effective it must conform reasonably to an individual's experience of the world. As the world changes and experiences amass, individuals' awareness of a fair world also alters. Consequently, noted by North (1981, p. 52), "Successful ideologies must be flexible so that they can capture the loyalty of new groups or retain the loyalty of older groups as external conditions change."

3. The Model

Ideology has long been a subject of concern for Marxian social scientists (Giddens and Held, 1982). Perhaps due to this, it has not received much attention from mainstream economists until very recently. For example, Downs (1957, ch. 7) noted, to save voters' information costs parties advocate ideologies in a democratic country. He regards that ideologies are efficacious only in the short run because voters concerns the action of parties, not their statement. But how can we the "loyal ballots"? Downs pay less attention to the ideology due to his focus on the parties in a democratic nation.

Olson (1965) also downplays the ideology in his analysis of collective action. Perhaps he set a narrow utility function, he thinks: "it is for stable, well-ordered, and apathetic societies that have seen the 'end of ideology'." (p. 162) Thereby Olson can account for the low rate of vote under individual rationality in democratic countries, however, he cannot elucidate why most people vote from time to time.

North (1981) correctly perceives that it is necessary to enlarge the neoclassic utility function in order to explain the function of ideology. However, because he is reluctant to accept Becker's (1965) and Stigler and Becker's (1977) reformulation of the utility function, he is still fail to develop a positive theory of ideology. De facto, in his opinions, individuals must act irrationally when ideologies are involved. For instance,

he states that "...any successful ideology must overcome the free rider problem. Its fundamental aim is to energize groups to behave contrary to a simple, hedonic, individual calculus of costs and benefits." (North, 1981, p. 53) He makes this position even more explicit in another article (North, 1983): "People frequently act through conviction about the legitimacy or fairness of the set of rules of the game that surrounds them. That is, if people are convinced the rules are fair, they may obey them even when at times they could be better off not obeying them" (p. 164).

However, as maintained by Becker (1976, pp. 7-8): "The economic approach does not draw conceptual distinctions between major and minor decisions... or between decisions said to involve strong emotions and those with little emotional involvement... or between decisions by persons with different incomes, education, or family backgrounds." How then will a rational individual be a simple hedonic who carefully calculates costs and benefits when ideological considerations are not involved but abstains from doing so when such considerations are present? Although North notices the reason why most people vote due to ideologies, he cannot explain why the number of voters falls greatly if it is inclement weather.³

As an institutional arrangement, ideology dwindles the information costs of decision-making and palliate free rider and moral hazard problems. What mechanism does ideology mollify the opportunistic behaviors and decrease the running costs of other institutional arrangements? According to Lin (1989), it is the supply of selective incentives that makes ideology efficacious.⁴

According to Becker (1965, 1976), Stigler and Becker (1977), individuals use market goods and services, their own time, human capital, and other inputs to produce a set of commodities that are defined over fundamental aspects of life in order to maximize utility.⁵ "Piety or Loyalty", as one of the commodities, enters individual's

³ This case is similar to the culture endowments, such as virtues, norms, code of principles and so on. For example, people usually submit their seats to the older and the pregnant when they take a bus. However, everything is equal, this virtues seldom emerge in a train. Why? I think people by train have a long trip and individuals rational calculating makes their taking seats more favorable. Do want to keep standing in a train from Kaohsiung to Taipei?

⁴ Selective incentives, according to Olson (1965), it is the key factor to finish collective action. The men who cannot contribute to the collective will be excluded the services of the collective. He states "... 'selective' incentive will stimulate a rational individual in a latent group to act in a group-oriented way. In such circumstances group action can be obtained only through an incentive that operates, not indiscriminately, like the collective good, upon the group as a whole, but rather selectively toward the individuals in the group. The incentive must be 'selective' so that those who do not join the organization working for the group's interest, or in other ways contribute to the attainment of the group's interest, can be treated differently from those who do." (Olson, 1965, p. 51) The means of selective incentives makes the organization supply collective services based on members' contributions. These means includes negative punishment or positive awards.

⁵ These commodities that present fundamental aspects of life, according to Jeremy Bentham (1789), include fifteen "simple pleasures". These pleasures, which were supposed to exhaust the list of basic arguments in one's utility function are of senses, riches, address, friendship, good reputation, power, piety, benevolence, malevolence, knowledge, memory, imagination, hope, association and relief of pain.

utility function. “The ability to produce this commodity, among others, depends on an individual’s ideological capital.” (Lin, 1989, p.11) To be followed, we found a simple positive model to explain the implications of ideology⁶.

Individual’s utility function is U , and it is continuous and differential at time j . We assume individual only produce and consume “piety” (P) and other commodities (Z) and maximize his utility. We have

$$U = U(P_j, Z_j) \quad (1)$$

The production of “piety” (P) descended from ideology depends on the allocation of time (T_p) at j and on other human capital (H_p) at j :

$$P_j = P(T_{p_j}, H_{p_j}) \quad (2)$$

meanwhile, $\frac{\partial P}{\partial T_p} > 0$, $\frac{\partial P}{\partial H_p} > 0$, $\frac{\partial^2 P}{\partial T_p \partial H_p} > 0$.

The production of other commodities (Z) depends on market goods (X) and on the Individual’s time input (T_z):

$$Z_j = Z(X_j, T_{z_j}) \quad (3)$$

On the top of that, the production of other human capital (H_p) is related to the former accumulation of ideology and education:

$$H_p = h(P_{j-1}, P_{j-2}, \dots, E_j) \quad (4)$$

because of the amassment of ideology, we assume $\frac{\partial H_{p_j}}{\partial P_{j-k}} > 0$, k indicates former

every time in equation (4). E_j measures the effect of education and human capital

upon ideology at j , we assume $\frac{\partial H_{p_j}}{\partial E_j} > 0$. In addition, individual is constricted by

his budget constraint and time constraint:

$$p_x X_{z_j} = w T_{w_j} + Y \quad (5)$$

Quoted Becker (1976, p.137).

⁶ For simplicity, in this model, we won’t think over the present value.

$$T_{Z_j} + T_{P_j} = T - T_{w_j} \quad (6)$$

X_{Z_j} implies the market goods in order to product and consume other commodities (Z) at j . The market price is p_x , w is wage rate, which is assumed identical. T_{w_j} indicate time that is spent on the job (at wage rate w) at j . At the same time, we assume individual's non-wage income is Y . T_{Z_j} measures the time spending on producing and consuming Z at j , T_{P_j} implies the time that individual spends on the production and consumption of P at j . T is the whole time, such as 24 hours every day. On top of that, according to Becker (1965), we can express the characteristic of the production function:

$$T_z = t_z Z \quad (7)$$

$$X_z = b_z Z \quad (8)$$

$$T_{P_j} = t_p P_j + b_p T_{j+i} \quad (9)$$

Parameter t_z measures the production time of one unit Z , then total time is $t_z Z$; parameter b_z indicates the quantities of market goods X_z to product other commodities Z , then total other commodities is $b_z Z$.

To be noted, the total time of producing P_j is T_{P_j} , it not only influence P_j (total quantities is $t_p P_j$, which t_p measures the unit time of produce P_j), but it also positively influence future ideology (this positive effect indicates $b_p T_{j+i}$, where b_p is parameter and measures the time that there is b_p 's former inputs in each unit future ideology capital.)

According to aforementioned definition, the capital of future ideology can be indicated:

$$P_{j+i} = P(T_{P_{j+i}}, H_{P_{j+i}}) \quad (10)$$

combine (5) with (6), we have:

$$p_x X_{Z_j} + w(T_{Z_j} + T_{P_j}) = wT + Y \quad (11)$$

put (7) (9) into (11), we have:

$$p_x b_z Z + w(t_z Z + t_p P_j + b_p T_{j+i}) = wT + Y \quad (12)$$

meanwhile, according to (1) and (11), we get Lagrange equation:

$$\Gamma = U(P_j, Z_j) + \lambda [wT + Y - (wt_Z + p_x b_Z)Z_j - w(t_p P_j + b_p T_{j+i})]$$

we can get the first order condition of the ideological capital (we omit other commodities:

$$\frac{\partial U}{\partial P_j} = \lambda (wt_p + wb_p \frac{dT_{j+i}}{dP_j}) \quad (13)$$

besides, we have (14) from (10):

$$\frac{dP_{j+i}}{dP_j} = 0 = \frac{\partial P_{j+i}}{\partial T_{P_{j+i}}} \frac{dT_{P_{j+i}}}{dP_j} + \frac{\partial P_{j+i}}{\partial H_{P_{j+i}}} \frac{dH_{P_{j+i}}}{dP_j} \quad (14)$$

we rearrange (14) and combine it with (13):

$$\frac{\partial U}{\partial P_j} = \lambda (wt_p - wb_p \frac{\frac{\partial P_{j+i}}{\partial H_{P_{j+i}}} \frac{dH_{P_{j+i}}}{dP_j}}{\frac{\partial T_{P_{j+i}}}{\partial P_{j+i}}}) \quad (15)$$

in (15), we let

$$\pi_p = wt_p - wb_p \frac{\frac{\partial P_{j+i}}{\partial H_{P_{j+i}}} \frac{dH_{P_{j+i}}}{dP_j}}{\frac{\partial T_{P_{j+i}}}{\partial P_{j+i}}} = wt_p - C_j \quad (16)$$

π_p indicates the shadow price of “piety”. t_p is marginal product $\frac{\partial T_{P_j}}{\partial P_j}$ or $\frac{1}{mp_{t_p}}$

let $C_j = wb_p \frac{\frac{\partial P_{j+i}}{\partial H_{P_{j+i}}} \frac{dH_{P_{j+i}}}{dP_j}}{\frac{\partial T_{P_{j+i}}}{\partial P_{j+i}}}$, which indicates time accumulation and the effect of

other human capital and is more than 0. Therefore, equation (16) can be rewritten:

$$\pi_p = \frac{w}{mp_{t_p}} - C_j \quad (17)$$

equation (17) implies the stronger individual’s ideological capital the more time that he inputs to produce “piety”, which makes C_j increase. At this time, the shadow

price π_p producing “piety” decrease and time marginal utility of allocating “piety” will enlarge. He will distribute much time to consume “piety” due to the increase of marginal utility. In addition, when the time accrue, mp_{t_p} will mitigate and π_p will decrease, individual will consume more “piety” than before.

4. Some Implications

This human capital theory of ideology has the following two implications:

First of all, a larger ideological capital reduces the shadow price of consuming piety. Therefore, an individual is less likely to free ride or violate the rules the higher is his ideological conviction about the legitimacy of the institutional arrangements and the structure hemming him.

Secondly, Ideology produces a significant externality from the authority’s points of view. Because ideological conviction alleviate the opportunistic behavior and intensify the legitimacy of the existing institutions, any government will subsidize the individual’s cumulation of ideological capital by investing in ideological education.

On top of that, we can construe other implications from this model, as Lin (1989) put it:

An individual’s ideology is relatively stable. A change in the distribution of income, the division of labor, or other institutional arrangements will not immediately change an individual’s ideology. This is because an individual cannot tell immediately whether an institutional change is temporary or permanent. If the change is permanent, it will take time for the individual to divest the old ideological capital.

If a permanent change does occur, young people are more apt to invest in acquiring a new ideology than old people, even if the young have the same preferences. This result stems from the fact that, in general, old people have more ideological capital to divest, which takes time and effort. Moreover, old people have less incentive to invest in a new ideology because they have fewer remaining years to collect the returns. (p. 11)

In summary, An ideology is human capital that helps and individual make a moral judgement about his and others’ roles in the division of labor, the distribution of income, and the existing institutional structure. Although ideology is relative stable, it will change when environment metamorphose. In this sense, ideology, like culture endowment, will not determine the fortune of a nation.

5. Concluding Remarks

In this paper we attempt to propose a new theory of ideology with respect to the economic approach. We regard the ideology as a kind of human capital and it will change when economic milieu shifts. Although the ideology, an important informal

constraints, may have a substantial effect on a society's development in a period, as far as we concerned, it cannot determine the fortune of a country in the long run. In this sense, the role of ideology is neutral in the process of long-term economic development. In other words, it cannot determine a country's future.

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