

Popular Perceptions and Political Economy in the Contrived World of Harry Potter*

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Abstract

Economic organization of the imaginary worlds depicted in popular literary works may be viewed as a mirror to public opinion on the economic organization of life. If a book becomes a best-seller, it is because the book conveys messages, feelings, and events the readers can relate to. In other words, the book's readers identify with the set of norms and rules that govern the development of the plot and the actions of its heroes. Therefore, a best seller, as a book that successfully relates to readers of its time, can teach us about the norms and beliefs of its audience. Following this line of thought, we use the method of deconstruction to analyze the highly successful J.K. Rowling's Harry Potter series. Studying the books within their social context allows us to learn about people's norms and attitudes, and their perceptions of issues such as the role of government, the structure of financial markets, poverty and inequality, etc. Thus, by looking at the Potterian economy through magnifying glasses, we obtain a perspective on what people might view as a normal or perhaps as an ideal economic structure. In other words, we argue, that the economic and organizational structure of the imaginary Potterian economy can be viewed as an economic model. By studying the social and the economic structure of the *Potterian model* and its assumptions, we hope to obtain some insights on people's attitudes towards various social and economic issues. The Potterian economic model, we conclude, is not a coherent model that fits neatly one of the standard economic models. Instead, it appears to combine ingredients from various economic models.

“Literature is nobler than history because it reveals general truths about humans, ‘the type of things that may happen,’ in contrast to history that only shows what has happened.”

Aristotle (1998, *Poetics*)¹

“It is the spectator, and not life, that art really mirrors.”

Oscar Wilde (*Lady Windermere’s Fan*, Preface)

“Polonius: ... What do you read, my lord?

Hamlet: Words, words, words.”

Shakespeare (*Hamlet*, II, 2)

1. Introduction

Economists and business practitioners occasionally deal with various issues related to art and literature. Policy makers wonder, for example, whether governments should provide theaters, and at what price (Baumol, 1971). Businessmen look for the secret formula that will guide them in sponsoring the next “blockbuster.” Economists have also used various poetic devices from famous texts and other literary works in order to convey their messages (Thomson, 1999, and Mialon, 2004).² The contents of pieces of art and literature, however, rarely win much attention from economists unless the plot is seen as directly related to a success. Rockoff (1990) is a rare exception.

Our goal in this paper is to offer a scheme for inferring insight on public norms, preferences and attitudes through the study of popular literature by focusing on what Knight (1965) calls the *social organization of economic activity*. To accomplish this, we follow a process of deconstruction of the highly popular Rowling’s (1998, 1999a, 1999b, 2000, 2003, 2005) Harry Potter books in order to understand how readers view and interpret their social and economic environment.³

There is a growing literature on the importance of common attitudes for predicting economic behavior (Kreps, 1997).⁴ It has been suggested, for example, that differences in norms may account for observed differences in various aspects of price setting, supply of public goods, optimal taxation and social welfare programs, etc.⁵

¹ Quoted in Cohen and Mali (1999), p. 7.

² There are even professors of economics who have succeeded in writing detective stories (Jevons, 1985, 1993, and 1995) in which the detective must use his superior skills of marginal analysis to solve murder mysteries.

³ We assume that people buy the books in order to read them and not as a social signal as in Becker (1991).

⁴ The term “attitude” is used in social psychology as a general term to describe such concepts and ideas as personal and social norms, prejudices, and stereotypes (McGuire, 1985). We use the term here in a similar manner to describe the way people perceive and think about the world in which they live, operate and make economic decisions.

⁵ See, for example, Kahneman, et al. (1986), Rose-Ackerman (1996), Amiel, et al. (1999), Fehr and Gächter (2000), Beckman, et al. (2002), and Rotemberg (2004).

Attitude-based theories, however, are often criticized for being empty because any differences in economic decisions and their outcomes can be explained, ex-post, by differences in norms and attitudes (Thaler 1986; Borgers 1996; Kreps 1997). As a consequence, it is sometimes difficult to assess how well economic assumptions and models fit real life behavior they try to explain.⁶ Scholars face inherent difficulties and challenges in separating causes from effects when studying social norms and common attitudes by means of direct observations on people's economic behavior. We believe, therefore, that identifying norms and attitudes through the study of popular literature can usefully complement these more traditional methods.

Indeed, texts are often used in other social sciences to learn how people of different societies and times view the world. As Derrida (1993) convincingly argues in *La Pharmacie de Platon*, neither the spoken nor the written word can be understood properly if the readers fail to take into account the significance of the words used (and those that are not used) in the context they are employed. Because readers have to follow this process automatically in order to infer the meaning, texts act like mirrors reflecting the views of the readerships of their time.

In this paper, we argue that literary works, and in particular best sellers which are read by a large segment of the society, may be considered a *model* of the reality. Like any other model, the books do not provide all the details of the reality. Rather, they focus on the details that are most relevant to the plot. Hence, the author must trust the readers' imagination to complete the gaps and fill in the missing details of the story in a way that is consistent with the plot.⁷ Thus, if the readers of Harry Potter find the books enjoyable and if they all understand the plots of the story in a similar way, then that means that the books' *model* of the world and the attitudes of its heroes towards their world are close enough to the environment that the readers find familiar. That is why most of the readers are able to complete the gaps and fill in the missing details of the model in a similar way.

⁶ For example, Amiel and Cowell (1999) argue that although the Pareto principle is one of the building blocks of welfare economics, using it to construct social welfare functions may generate misleading results.

⁷ There are many studies in which a literature is used to infer about people's attitudes and beliefs. Lévi-Strauss (1970), for example, uses literary texts for comparative analysis of different societies. Tannen (1990) argues that different jargons used by men and women in most societies reflect gender roles. A different example is Friedman's (2002) use of the bible to study perceptions of justice and legal-systems in the ancient Middle East. In fact, there is a long tradition in some areas of economics, e.g., industrial organization, law and economics, and economic history, to study efficiency aspects of various issues by studying and analyzing the biblical text and the events described therein. See, for example, Carlton and Perloff (1994) and the studies cited therein.

We argue, therefore, that by studying what is written and what is not written in a bestseller, we might obtain a glimpse into the books' readers' attitudes and views of the world.

The Harry Potter books are more than just ordinary best-sellers. Rowling (2005) sold almost seven million copies in the US and over two million copies in the UK in just the first weekend after its publication, easily beating the previous sales record in both countries.⁸ Moreover, according to the October 4, 2005 report of the BBC, in total more than 300 million copies of the Harry Potter books have been sold worldwide.⁹ The success of the Harry Potter series is not limited to English speaking countries: the books have been translated into 63 different languages, beginning (alphabetically) with Afrikaans, Albanian, and Arabic, all the way to Vietnamese, Welsh, and Zulu. It has been translated even into Latin. Further, in some countries (e.g., India and Spain) the books have been translated into several local languages.¹⁰ It is hard to think of any other book that has become so popular amongst such a wide range of audiences in such a short period. Moreover, the readership of the book comes from all population groups. The books are read by adults as well as children, by people of all levels of income and education, and by men and women alike.

This remarkable popularity of the books gives us a unique opportunity to draw inferences on attitudes and social “common beliefs” that are relevant to large portions of the population of not only developed, but also developing, and perhaps even underdeveloped countries.¹¹ In order to achieve such a popularity, and among such a diverse audience, we argue, the books must relate to the most basic beliefs and ideals of the society at the turn of the 21st century. We argue that the unparalleled popularity of the Harry Potter books implies that although the books take place in a magical environment, readers find the institutions of the *Potterian economy* and the way they function as similar to what they know or expect from their every day lives.¹² The differences in the

⁸ Source: <http://news.bbc.co.uk/2/hi/entertainment/4692093.stm>.

⁹ Source: http://news.bbc.co.uk/cbbcnews/hi/newsid_4300000/newsid_4308500/4308540.stm.

¹⁰ This list does not even include the numerous pirate and fake translations that exist in many countries. See the web cite, http://en.wikipedia.org/wiki/Harry_Potter_in_translation for more details.

¹¹ We shall note that the translation into local languages and the publication of Harry Potter books were not limited to the developed countries. For example, the books have been published in local languages in such developing countries as Albania, Bulgaria, China, Croatia, Egypt, Georgia, India, Macedonia, Poland, Romania, Thailand, Vietnam, and Pakistan, as well as in several underdeveloped countries including Bangladesh, Lesotho, and Swaziland.

¹² We use the term *Potterian Economy* to describe the economy in the Wizard world depicted in the Harry Potter series.

settings, we argue, serve as a magnifying glass that turns the Harry Potter books into a magic mirror in which one can see the reflection of the norms, hopes, perceptions and opinions of their readers.

To briefly summarize our main findings, we conclude that the Potterian economic model is not a coherent model that fits neatly one of the standard economic models. Instead, the model appears to combine ingredients from various economic models. For example, some aspects of the Potterian model have a heavy Marxian flavor, while others offer free market perspectives. Further, the model often captures the public choice points of view, and contains some assumptions in a New Keynesian spirit.

The paper is organized as follows. In section 2, we briefly discuss the methodology we use in our analysis. In section 3, we discuss the monetary system the Potterian economy focusing on money and banking. In section 4, we discuss the absence of economic growth in the Potterian economy. Section 5 describes the monopolies, oligarchies, and other sources of inefficiency, followed by a discussion of the public sector in Section 6. In section 7, we discuss social (im)mobility in Harry Potter's world. In section 8, we discuss the Potterian perspective on international trade and globalization. Section 9 assesses the effects of war on the Potterian economy. Section 10 studies the role of human capital accumulation—i.e., the role of education, in Harry Potter's economy. In section 11, we summarize the features and the ingredients of the Potterian economic model. We conclude in section 12 by briefly summarizing our findings and by offering some caveats and limitations.

2. Methodology: Harry Potter from the Readers' Point of View

As described in the introduction, readers living at the end of the 20th century and the beginning of the 21st century, seem to find the Harry Potter books highly entertaining. Moreover, millions of readers throughout the world agree to buy these books for themselves and for their children, which implies that they are willing to let their children absorb the attitudes expressed and offered by the books. Indeed, although the books have drawn criticisms from certain parts of the society, this hardly had any effect on the books'

popularity.¹³

In the paper, we analyze the Harry Potter texts to see the relation between the wizards' world and the real world as we know it by focusing on the economic structure of the Wizards' society. We study these texts in search of both similarities as well as differences between the real and imaginary worlds. We find that in many cases, the real and the imaginary worlds are quite similar, which underscores the reality's prominence in the readers' eyes. By using concepts, motivations, and organizational structures that are familiar to the readers, the author avoids the need to explain the behavior in the fantasy world in too much detail. As an example, note that Rowling needs only few sentences to describe a boneless politician. That is because she apparently believes that the readers' imagination will fill in the rest of the details. The tremendous success of the Harry Potter books suggests that she is probably correct in her conjecture.

For some of the analysis, we focus on the differences between the real and the imaginary economic structures and institutions. We take those differences to reflect what readers would have liked to see, and in which ways their norms and sets of beliefs bias their perception of reality. We show that by focusing on the differences while controlling for the similarities, we are able to make some inferences on the way readers might perceive the economic institutions of the real world.

3. Potterian Monetary System

3.1 Money

The monetary system in Harry Potter's wizard world is based on precious metals. The wizards pay with one of three types of coin denominations. These are Gold Galleons, Silver Sickles and Bronze Knuts, and there is just one type of each. This is clearly a breach with reality, where consumers are only familiar with fiduciary money. However, in many ways this difference has few implications for the use or value of the money.

¹³ A prominent example is the condemnation of the Harry Potter books by Pope Benedict XVI, who expressed great concern over the books because "... these are subtle seductions that are barely noticeable, and precisely because of that have a deep effect and corrupt the Christian faith in souls even before it could properly grow." This criticism, however, had little effect on the books' popularity. For example, according to amazon.co.uk, it has received advanced orders for the 6th book in the series from 90 countries, *including* the Vatican. Source: www.timesonline.co.uk/article/0,,1-1692541,00.html. A similar criticism has been expressed by some ultra-orthodox Jews in the Israeli newspaper "Yeted Neeman," which describes Harry Potter as "... a children's book that is all fiction and completely disconnected from the reality." According to the newspaper, the book's huge popularity is an indicator of "... the emptiness of the western culture." Source: www.hofesh.org.il/papers/00/potter/1.html.

As in a modern economy, wizards' money, which is controlled by one central authority, behaves like fiduciary money. Although wizards sometimes use gold and silver for decorations and to make tools, there is no indication that any wizard ever considers using the coins for any other purpose but paying. For example, in Rowling (2005), although Harry Potter needs a silver dagger for his Potions lessons, no one in his class suggests that he use magic to create a silver dagger from some of his silver Sickles.

The wizards seem to have a strict separation between the uses of gold and silver for ornaments on the one hand, and for use in trade on the other. The fact that wizards use commodity money, therefore, underscores how used modern audiences seem to be to fiduciary money. Whereas at the end of the 19th century a US election campaign was fought over the wisdom of using two types of denominations because the mint value of one type was different than the mint value of the other, modern readers seem to view money only as a store of value and a medium of exchange.¹⁴ Indeed, the fact that even during times of scarcity that result from a war, the Harry Potter books measure the value of coins by their purchasing power only, suggests that modern readers cannot imagine an alternative use for money even in fantasy books.

Another interesting feature of the monetary system in the Potterian economy is that although magic does not solve all the problems associated with using money as a medium of exchange, wizards (and the readers of Harry Potter with them) seem to consider money as the only possible means for conducting trade. For example, fake money exists in a Potterian economy as well as in real life economies (as some of the heroes learn in Rowling, 2000, pp. 633–634). This suggests that despite the shortcomings of the monetary system, other forms of exchange do not strike modern readers as feasible.¹⁵ After all, magic could solve most of the technological problems associated with barter such as the problem of double coincidence of wants. However, it seems that the readers can not imagine that even wizards, although they are described as old-fashioned, would prefer barter exchange to monetary exchange.

However, we do not believe that the fact that money in the imaginary world is

¹⁴ For more on the struggle in the US over "free silver," see Rockoff's (1990) interpretation of *The Wizard of Oz*. Tuchman (1996) offers quite a different view from historical perspective.

¹⁵ And this despite the fact that a non-negligible proportion of international trade appears to take place even now days via barter exchange between large corporations (Levy and Bergen, 1993). Perhaps the majority of the public is not aware of this because most of this barter trade is taking place primarily between corporations.

made of gold and silver is insignificant, because if it was, then the author perhaps would have preferred to describe the wizards as using banknotes and not carrying around sacks of coins. It is therefore intriguing why the readers do not find fiat money an optimal solution. Why do readers believe that wizards should prefer heavy and cumbersome money even though they use it in the same way as the paper money? This is especially puzzling considering the fact that it is possible to fake the commodity money the wizards use, and that when this happens, the value of gold money drops in the same way as it would in real economies.¹⁶

This view may be related to the readers' inflation aversion. Indeed, the inflation rate in Potterian economy is extremely low. For example, the price of a newspaper, including delivery, is one Bronze Knut in Rowling (1998) and in Rowling (2003). In other words, the newspaper price remains unchanged for a period of at least five years. Compare that to the average price spell of 2–5 years found in the U.S magazine price data (Cecchetti, 1986). Thus, the prices in Potterian economy are at least as rigid, and perhaps even more rigid, than the prices in real economies. Perhaps the readers believe that when money has a value of its own, this by itself can ensure price stability. In addition, modern readers might view precious metals as something that can somehow guarantee value even in hard times, which can explain the rise in the price of gold during times of economic uncertainty.

The point therefore seems to be that hundreds of years of using fiat money may not have convinced the public in the modern world that fiat money is “real” money. And this is despite the fact that the books offer direct evidence that a gold base does not guarantee the value of money. Indeed, when some items become scarce as a result of a war, their prices rocket "sky high"(Rowling, 2005, p. 65).

3.2 Banking

The role of banks is very limited in the Wizards' economy. Wizards do not invest their money and prefer to keep it safe. Indeed, the main role of banks is to offer the public vaults and not financial services (other than money exchange). The bank has to invest in

¹⁶ In Rowling (2000) some Leprechauns (a type of dwarves from the Irish mythology) introduce fake gold Galleons in the marketplace. The immediate result is that people become extra cautious when handling gold money.

gold-hunting expeditions in order to earn revenues. If a wizard needs a loan, like Mr. Bagman in Rowling (2000, pp. 634–635), he must look for usurers. In this section, therefore, we primarily focus on the differences rather than on the similarities between the real and Potterian world. We find that some of these differences can be explained by the structure and the organization of the wizards' community. Other differences, however, cannot be explained so easily by expectations and perceptions derived from our observations on the real world, and therefore, can be characterized as representing entrenched norms.

We begin with a discussion of the observations that can be explained by standard economic models. For example, the zero rate of interest is not surprising considering the fact that the growth rate of the Wizard population is extremely low, if not zero. In addition, wizards seem to be able to work for almost their entire life. For example, until the war breaks out in Rowling (2005), Professor Slughorn has a very comfortable retirement benefits, and his needs are supplied by his former students (Rowling, 2005, pp. 70–71). In such an environment where the working population remains fixed, the interest rate will be zero, because each sum of money people leave aside at a given time is fully paid back to them by the next generation in a “pay-as-you-go” style inter-generation transfer scheme (Samuelson, 1958). It seems that the readers find such a social security system appealing, and they do not wonder why people choose not to invest in assets other than their children as a safe-guard for the future, despite the recent controversy with social security and pension schemes in Europe and in the US.

The most striking fact about the Potterian Banking system that is harder to explain in terms of economic models, however, is that those who deal with finance, both the bank officers and the usurers, are not human-beings. The banks are run by goblins, creatures that are described as gold loving and unfriendly. The fact that readers pass over the bank scenes without wondering how is it that wizards, who usually have little trust in other creatures, allow goblins to make money out of their financial affairs, suggests that little has changed in the way banks and other financial service providers are perceived by the public since medieval times.¹⁷

¹⁷ These perceptions appear to prevail even these days. For example, according to a recent *New York Times* report, in a Roper poll that was conducted from July 28, 2005 to August 10, 2005 in the US, “...only 9 percent said they had full trust in financial services institutions, down from 14 percent last year.” Source: “New Surveys Show That Big Business

The goblins in the Harry Potter books, like the medieval and modern bankers, suffer from a very low public image. The history of the wars between humans and goblins fulfills a large part of Harry Potter's (boring) history classes. Similar negative sentiments against financial intermediaries were previously reported by Radford (1945) in a POW camp. According to Radford, the prisoners in POW camps looked with great suspicion at those who offered basic financial services.¹⁸

The finding that public opinion did not change much since Aristotle (1998) is indicative of the power and persistence of norms and stereotypes.¹⁹ Lindbeck, et al. (1999) show that entrenched norms that affect people's welfare functions may lead them to act in ways that differ considerably and systematically from profit maximization. Interpreting the books along these lines may point to a possible explanation why people sometimes avoid investing their money in interest yielding bank deposits, and instead choose to invest their money in Christmas clubs and similar non-banking, low-interest saving institutions.²⁰ The observation that readers are not bothered by the fact that bankers are described as a type of monsters may suggest that people may receive disutility from financial transactions and therefore they might prefer to minimize their contact with banking institutions.²¹

4. Stagnation of the Magical Economy

The previous section mentioned the price rigidity in the wizards' economy. When considering the structure of the wizards' economy, it appears that the rigidity of prices is one of the symptoms of the general lack of dynamics in the Potterian economy. Indeed, until the Weasley twins decide to launch their new jocks-shop in Rowling (2003), there is no mention of any new shop opening at Diagon Alley or at Hogsmeade, or anywhere

Has a P.R. Problem," by Claudia H. Deutsch, *The New York Times*, December 9, 2005, Late Edition-Final, Section C, Column 2.

¹⁸ The same sort of public norm that treats financial institutions almost as thieves is expressed in Walt Disney's *Mary Poppins* (1964). There, the bank officers try to convince a boy to invest his Tuppence, whereas the boy only wants to keep the money that he earned and refuses to hand it over for speculative investments (even if they are described as profitable). In *Mary Poppins*, the negative sentiment against banks is expressed when the boy's resistance leads to a bank rush and the collapse of the bank.

¹⁹ As Keynes (1936, p. 383) suggests, "I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas."

²⁰ Thaler and Shefrin (1981) offer a different explanation for the existence of Christmas Clubs.

²¹ The above cited December 9, 2005 *New York Times* article offers the following reasoning: "There is a sense that business is a zero-sum game, that if companies are making a lot of money, it must be coming out of someone else's pocket."

else).^{22, 23}

The zero growth rate should perhaps not be surprising considering the fact that the wizards' economy behaves like a textbook case of the Solow growth model, except that it experiences no growth. Towards the end of this section, however, we discuss the more curious question of why people dream about a world with no economic changes, when our real world is one that enjoys relatively quick advancements and innovations that in general improve the society's standard of living.

A discussion of why the wizards' economy experiences zero growth should start with the incentives to save and invest. As discussed above, wizards have only a modest incentive to save, because they do not receive interest. Moreover, there is no mention in any of the books of old wizards who cannot work.²⁴ Thus, wizards may feel quite safe with a low rate of savings because they can sustain themselves by earning a salary. Because the saving rate is constant, the rate of investment cannot increase. Consequently, the steady state stock of capital in the wizards' economy remains fixed.

The wizards' population is also stable. As in most developed countries, wizards' families have very few children. The Weasley family is the only family that is described as having more than two children. The rate of birth is so low that entire families of wizards completely disappear, as happened to the Black family, and as predicted for the family of Professor Lupin.

In order to avoid having a negative growth rate, the wizards have to rely on a steady stream of young people with magical skills who are born in non-wizard families. Even with this inflow of "immigrants," however, the wizards' population does not grow. Diagon Alley, the main shopping area for wizards has not changed for as long as anybody can remember. The stagnation in the supply side of the economy suggests that the demand side of the economy has also remained fixed.

Because of the lack of growth in the stock of capital and in the work force, growth

²² Hogsmeade and Diagon Alley are the two locations where wizards do most of their shopping.

²³ The novelty of the Twins' shop is demonstrated in Rowling (2005).

²⁴ Professor Slughorn thinks of himself as a retired old man, but this does not stop him from being a highly capable wizard who can come back from retirement whenever he decides to. As indicated in section 2, it seems that wizards count on their ability to work to the end, and stop working only if they feel that somebody else can finance an easy retirement life for them. For example, Neville's grandmother seems to keep on working and being a very powerful character despite the fact that she must be very old. One wizard that is mentioned to have died at an old age seems to be Mr. Malfoy senior who died from a disease, but it does seem that he was active until at least very close to his death (Rowling, 2005, pp. 189–190).

in the wizard economy can only be a result of higher per-capita productivity. To increase productivity, there has to be a growth in the accumulation of human-capital. In Harry Potter economy, the wizards receive excellent state-financed education; all wizards go to the same high quality schools.²⁵ However, the schools for wizards have existed for an extremely long period and their curriculum, ideology and the skills with which they provide their graduates, have remained practically unchanged for hundreds of years. As a consequence, graduates of the wizards' schools are all talented wizards, but young wizards do not accumulate more knowledge than their parents. In other words, the stock of human capital also does not increase.

This implies that the factors of production (physical capital, human capital and labor force) and the technology which could potentially drive economic growth remain unchanged in the Potterian economy. As a consequence, the wizards' economy remains in a steady state without growth.

This raises the question of why people's dream world is one with no economic growth. Perhaps in readers' minds economic development is correlated with unemployment, instability and cultural loss, which they view as the result of the industrialization process. It might, therefore, be that the readers prefer the safety in what is stable and known to what is changing and risky.

There is another possibility. The wizards seem to have little interest in investment goods because they prefer to produce only consumption goods even if the lack of investment limits the frontiers of advancements. The wizards' community seems to be content with the level of life style it has reached, and therefore prefers to rely on the old but extremely reliable solutions already invented rather than advance forward. The only advances wizards seek are modest improvements of the consumption of some "snob" and Veblen style goods.²⁶

5. Monopolies, Oligarchies, and Other Pathologies

The discussion in the previous section suggests that readers might be happy in a

²⁵ The quality of the schools and the similarities in their teaching material are demonstrated by the Three-Wizard-Tournament that takes place in Rowling (2000).

²⁶ This explanation fits well with the wave of retro-products seen at the end of the 20th and the beginning of the 21st century.

world where retailers such as shop-owners do not change the services they offer and their quality over time. In some ways, this might indeed enhance consumers' welfare as it reduces the uncertainty and thus search cost. When a wizard enters a shop he knows exactly what he will find, because this shop has always delivered the same service.

The books, however, also convey the message that there are problems associated with this type of market. The readers of Harry Potter seem to find it natural that the Potterian economy is plagued with monopolies, oligarchies and similar pathologies. The fact that those phenomena need so little explanation in the books reveals how familiar the readers are with this type of economic illnesses from their own experience.

For example, consider the problem of legal regulation thwarting private entrepreneurship. In Rowling (2000, pp. 83–84) an entrepreneur would like to import flying carpets as a convenient means of transportation and as a substitute for the more established flying brooms. To his dismay, however, he is blocked by legal regulations that define carpets as an artifact too similar in appearance to objects used by the non-wizards community. Although the argument appears weak, the regulations are not changed and cannot be changed due to technicalities. It is not surprising, therefore, that prices of new brooms are extremely high.²⁷ Such incidents suggest that readers do not seem to expect that government officials will reconsider their position and increase consumers' welfare by encouraging competition if allowing it may endanger the existing products or conventions.^{28, 29}

A second incident that reveals the inefficiencies of government regulations that leads to the formation of monopolies takes place in Rowling (2000), p. 81. In that scene, a major sporting event takes place. It could have been expected that this sort of an event would draw the attention of many bookies. However, the only bookie around is also the government official in charge of organizing the event. Although it is not mentioned that he stopped any other bookies from offering their service, this seems to be an obvious example of a senior official using his position and reputation to pocket some extra

²⁷ In Rowling (1999, p. 59), the price of a new type of sport model flying-broom—the “Firebolt,” is so high that the shop avoids posting it. Instead, there is a note describing how good the broom is and that anybody interested in buying it should ask the store owner for details.

²⁸ See the remarks of Ludo Bagman, a senior government official in Rowling (2000, p. 84).

²⁹ Indeed, consumers seem to expect that government officials resist changes unless they have personal interest. When one official tries to promote the importation of flying carpets he openly admits that he has a personal interest in obtaining one (Rowling 2000, p. 84).

income. The fact that he acts as a monopoly allows him to take bets before he quotes the odds, fully taking the advantage of his monopoly power to maximize his profits.

However, the worse kind of monopoly in the Potterian economics is the monopoly on information. In our world, people have often criticized the way the media sometimes takes a side and thus provides the public with only partial and one-sided information. In the world of Harry Potter, the monopoly on information is more extreme. The wizards draw almost all their information on daily events from a single source, the daily newspaper, *The Daily Prophet*, and its evening version, *The Evening Prophet*.³⁰ In Rowling (2000), because of the whims of a leading reporter and the need to create scandals in order to sell, this paper starts publishing articles that project the character of Harry Potter and his friends in a negative way. Although the information is biased and in many cases inaccurate, there is very little Harry Potter or anybody else can do in order to stop these publications, because to fight the press one needs to use the press, and the press is controlled by *The Daily Prophet*.

In Rowling (2003), the problem of a one-sided press becomes even worse; in the book, the *Daily Prophet* takes the side of the ministry of magic, which in this case is also the side of the rich and powerful families, and systematically publishes only information that supports the government view. Thus, the press completely fails in its role as a watch dog. As a consequence, the government is allowed to act in a way that puts the whole magical community in a great danger. Those who dare to voice a different opinion are hushed by the combined pressure of the press that ridicules them and the ministry that drives them out of any position of influence.

When it comes to highlighting the economic and informational inefficiencies, the books stay close to what the readers know from the real world. This implies that even in an imaginary world, people expect to see these problems that are associated with government interferences and the power of the ruling elites. This underscores how common and entrenched might be the view that markets do not function in a smooth and efficient way. The books, thus, appear to be suggestive of the extent of the fear people seem to have of the power concentrated in the hands of the press, and those who control

³⁰ There is one additional publication, *The Squibbler*, which is considered as reliable as the modern day tabloids that publish articles such as “I Was Abducted by Extraterrestrial Beings!” “I Was Kidnapped by Aliens!” “I Married a Two-Headed Monster,” “I Saw Bigfoot in My Back Yard,” etc.

it.

6. Inefficient Public Sector

Focusing on the similarities between the real and imaginary worlds in the context of a government and its functioning, the readers cannot imagine a world without a government. At the same time, however, they cannot imagine a government that does not suffer from the familiar illnesses of the public sector. Again, this is very striking, especially when one compares Harry Potter to the Tolkien's (1993) *Lord of the Rings*, for example, where the Hobbits live their lives under an efficient and minimalist government which smoothly supplies the few public services demanded by the public.³¹ Apparently, readers of Harry Potter, living at the end of the 20th century, find such a view as too naïve even in their dreams.

The books seem to agree with the view held by many economists, that the growth of government in the 20th century is the product of rent-seeking actions of civil servants whose main objective is to increase their private benefits. Harry Potter books give a detailed account of the public sector. It is therefore interesting to find out what Harry Potter and his readers think on the subject.

In the wizards' economy, the public sector is by far the largest employer. The government is involved in supplying sports, health, education, legal-system, transportation, communication, and almost any other aspect of life. At the same time, the ministry is not efficient and it is clearly indicated that for climbing up the ranks in the civil-service, connections are more important than talent. Hence, some public-servants, such as Mr. Bagman for example, do very little to justify their salary. At the same time entire departments such as law-enforcement, suffer from insufficient budgets.

In addition to being inefficient, the ministry is also corrupt. The current minister, Mr. Fudge, is suspected of favoring the rich because he needs their money in order to keep his office. Hayek (1972) and Popper (2002) have warned that giving too much power to government institutions, must eventually lead to the situation where the leaders

³¹ The *Lord of the Rings* was written at a time of political instability. Therefore it is perhaps not surprising that the books contrast different types of political regimes. For example, in addition to the benevolent governments the books describe, they also give very vivid descriptions of what happens when political institutions depend too much on individuals (Tolkien, 1993, pp. 501–505).

are those most eager to obtain power, and not those who are most interested in the public good. This is exactly what happened in the wizards' economy. Decent people like Mr. Weasley do not want to go up the ranks because this involves sacrificing their principles. On the other hand, people who climb to the top are people like Percy Weasley, who is so possessed with advancing his status that he is willing to step over the heads of his parents in order to achieve it.

The anger and the frustration that Harry Potter and his friends feel towards the government are a major theme in Harry Potter books. Readers, therefore, cannot escape the negative sentiment the books project towards public bureaucratic institutions and government offices. If the readers were unfamiliar with this kind of sentiment towards the government, then perhaps it would be harder for them to relate to the book.³² The conclusion, therefore, is that these negative sentiments likely reflect the readers' opinion that governments and civil servants act to maximize personal benefit and not the public good, and that large governments leave too much power in the hands of the rich who pull the strings to manipulate senior public figures.

However, the books also reveal why people might find it hard to support public sector budget cuts and a reduction in the influence of governments. In the Potterian world, most people, including many decent people, work in the public sector. In addition, one of the public sector's key obligations is to ensure a minimal level of existence and education to everybody. Acting to reduce the power of government, therefore, is against the short-term interests of the lower and perhaps even the middle class employees of the government. The higher classes benefit as well from the large government because they can manipulate the government-mechanism for their own purposes. Thus, although the growth of the public sector is not in the interest of economic efficiency, no pressure group in the economy has interests in reducing it. The lack of well-developed private enterprise (as discussed below) further underscores this conclusion.

7. Magical (Im)mobility

The ability of wizards to move up and down the social ladder seems to be very

³² The similarities between the Potterian and the real world government inefficiencies are particularly visible when the Minister of Magic meets the English (non-wizard) Prime-Minister to discuss matters with him because: "...I've been having the same week you have, Prime Minister" (Rowling, 2005, p. 4).

limited. If the books convey the way people might view social mobility, then the conclusion is that it is far easier for rich families and individuals to come down than for poorer ones to climb up the ladder. This section, therefore, continues the theme of the last few sections by focusing on similarities rather than on the differences.

In the wizards' world, individuals rarely lose their wealth due to their inabilities, as happened to the house of Gaunt, but in the entire Harry Potter series, there is just one prominent character that made it from the bottom to the top; and this is the evil Lord Voldemort.³³ This seems to be in line with the empirical findings on social mobility in the Western world, where downward mobility is more common than upward mobility (Dearden et al., 1997).

One reason why wizards find it difficult to move up the ladder is because their society leaves very little room for free entrepreneurship. The Weasley family, for example, who are very proud of their honesty and dignity but who are poor, can at most aspire to a respectful job in the public sector or the bank. The idea that the Weasley twins will open a shop is seen as an almost absurd. Indeed, their mother does not even want to hear about it because she has good reasons to believe that such an idea is inconceivable. Potential entrepreneurs like the twins have virtually no chance to secure a loan from financial intermediaries because there are none (except usurers), and the “deep pockets” of the wizards community do not normally invest their money in projects of entrepreneurs from lower classes. It is therefore not surprising that the rich have all the money, and talent can do little to change this fact. For example, the books make it very clear that the wealth of families like those of Crabb and Goyle is unrelated to their talent.³⁴

The lack of finance is, however, only a secondary reason for the lack of mobility. The main reason is the norms and prejudices of the ruling elite. Wealthy families are very concerned with maintaining their status and therefore fight hard to stop any changes. Wizards who come from non-wizard families are viewed as a constant threat to the old structure because—like all immigrants—they bring with them different culture, norms, and notions. Consequently, the “mud blood” wizards are subject to constant harassment,

³³ Lord Voldemort comes from an old and well established family, although one that came off its assets as described in Rowling (2005, pp. 213–214).

³⁴ At the same time, Hermione, the most talented character in the book does not aspire to become more than a professor, a respectful job but not one that involves climbing the ladder too high.

abuse and discrimination from the “pure blood” wizards.³⁵

Indeed, the social struggle in wizards’ community has deteriorated into a civil war between the supporters of Lord Voldemort and the rest of the wizards’ community. Most of Lord Voldemort supporters come from wealthy families, and their main purpose is to enslave the lower classes, especially those wizards who come from non-wizard families. Preserving the existing social structure is so important to the upper classes that they are ready to accept the leadership of Lord Voldemort despite his inferior background.

The fact that the readers can relate to the economic structure of Harry Potter’s world, offers a perspective on popular public attitude towards the issue of social mobility. The readers seem to view the world as a place where only the rich can succeed. Only an exceptional combination of talent and circumstances can propel somebody from the bottom to the top.³⁶

Treating the Harry Potter books as representing the readers’ opinions, two conclusions follow. First, in contrast to Grawe and Mulligan’s (2002) conjecture, it appears that people don't view social status quo as a short-term phenomenon but rather as something that is more fundamental and long lasting. Second, although social mobility is far more limited in developing countries, the public might be viewing it as problematic in developed countries as well, and government investment in education can only partially alter this situation. The institutional and financial forces that work against social mobility are regarded as too powerful to be overcome by education alone (Mulligan, 1999).

Readers of Harry Potter feel empathy to middle and lower class people like Ron Weasley who have a strong sentiment against the rich. If the book is a reflection of social norms, then perhaps ideas such as Pareto optimum would be unpopular amongst the general public. These kinds of attitudes may account for the rejection of the Pareto principle in lab experiments as reported by Amiel and Cowell (1994, 1999) and the harassment of people who seem to fair well (Mui, 1995). If people feel that the rich are using their wealth to limit the mobility of those that are in lower classes, then making the rich better off may be indeed viewed as having adverse effect by these classes even if

³⁵ “Mud-blood” is a common insult in Harry Potter books for wizards who come from non-wizard families.

³⁶ This confirms recent findings in the economic literature on economic mobility (Deardon, et al., 1997) and suggests that the existing estimates of high social mobility (e.g., Becker and Tomas, 1986) may not be reflective of the popular public opinions on the matter.

they do not incur direct losses from the rich becoming richer (Epstein and Nitzan, 2005).

8. Potterian Perspectives on Globalization

In Harry Potter books, no wizard is described as working in manufacturing or in any other job that involves physical effort. One may think that this is understandable in a world of magic, but magic does not seem to free the wizards from performing other unpleasant chores. Mrs. Weasley, for example, does the cooking and cleaning, and her children have to remove parasites from the garden manually.

The fact that wizards do not grow food and do not work in factories, may be a reflection of the readers' reality in most developed and many developing countries, where greater proportion of people are employed in the service sector. Recall that the events in the Harry Potter series take place in what is essentially an urban area inhabited by bourgeois. The readers, therefore, would not expect to see Harry Potter's friends being the sons and daughters of miners or construction workers. This is in sharp contrast to the *Lord of the Rings* (Tolkien, 1993) where most characters work in the fields or in small manufacturing.³⁷ This contrast between the *Lord of the Rings* and *Harry Potter* likely reflects the differences between the readers who grew up in the middle of the 20th century and those who grew up towards the end of the 20th century.³⁸ For example, one can interpret the return of the king in Tolkien (1993), where a benevolent ruler returns to guide the rural population, as reflecting the wish to return to the "dream" world that existed before 1914 that was common in the post-war society.³⁹ Readers of Harry Potter, on the other hand, seem to have their dream world "closer to home."

The fact that menial jobs are not performed by wizards does not imply that they are done by magic alone. Wizards use elves, the wizards' version of *foreign workers*, who do the jobs the wizards find unpleasant. The reason Harry Potter books ignore the elves almost entirely is that elves are almost transparent to their wizard employers. They do their work quietly, at times when nobody is out, and they disappear to continue their work

³⁷ In Tolkien (1993), the Dwarves, for example, are miners and iron-smiths. Many hobbits, like wise-Sam, work in agriculture, and one of the least favorite characters in the book is a son of a miller.

³⁸ Recall that the first part of *The Lords of the Ring* trilogy was first published in 1954 and that the *Lord of the Rings* is based on *The Hobbit* that was first published in 1937.

³⁹ Compare the world featured in the *Lord of the Rings* with Tuchman's (1996) depiction of the way people in the post World War I described the pre-1914 "Golden Age."

in underground rooms before people wake up. If a wizard encounters an elf, most wizards turn and look to the other side. The house-elves are not the paragon of cleanliness, beauty or good smell. Thus, putting shape aside, the elves are the wet dream of a caricature capitalist: they are diligent, they work without breaks, and they are extremely afraid of being sacked, because unemployment is an almost certain death for an elf.

The readers of Harry Potter books probably feel empathy towards Hermione's struggle for improving the elves' social rights. At the same time, however, the book and the readers seem to feel that Hermione should have accepted the wise advice of benevolent adults like Mr. Weasley who try to make her understand that she cannot really change the world. Indeed, Hermione's struggle looks pathetic because most wizards simply do not want to know how or by whom the goods they consume are produced. For most wizards it is good enough that the goods are there, and the rest is unimportant.

This teaches us how the readers might view attempts by benevolent groups in developed countries to improve the situation of the population of developing and underdeveloped countries. Such attempts may generate sympathy in the short run, but in the longer run it is not assured that benevolence will change the situation. People might prefer to believe that the current convenient situation can last forever. This view contrasts Hayek's (1934) prediction, and the predictions of the recent convergence literature, that if poorer countries compete by producing as efficiently as they can, that will eventually lead to improved living conditions in those countries. In contrast, Harry Potter's audience sympathizes with a world where the poor workers accept their inferior status. Goodwill attempts to change this situation fail because of the pressure of those who benefit from the situation and also because of the cultural misunderstandings of the target population.

However, the readers also get the feeling that this situation is not without risks. If the elves decide to rebel and quit their jobs, the results could be catastrophic for the wizards. Analogously, if poorer countries were allowed to develop, then as conditions in these countries improve and their standards of living rise, people there will move to the service-sector and therefore, eventually more people in developed countries might have to return to work in manufacturing. However, if people in the developed countries expect that the gap between the developed and developing countries will persist forever, then

this may eventually lead to conflicts.⁴⁰

9. War Economics

In Rowling (2005) the wizards find themselves fighting a terror war against a group whose members declare that their goal is to achieve a new political and social order where all the power is concentrated in their hands. The members of this group are extremely committed to their goal and are willing to use any form of violence, including suicide attacks, in order to achieve their goal. In the aftermath of September 11 and the terror attacks that followed it, it is of interest to see how terror affects the Potterian economy, because this may reflect readers' beliefs about the way wars against terror are expected to affect people's lives. Potterian war-time economics may also reflect readers' opinions on who gains from terror war and who losses.

Most prominently, the public sector is viewed as a body that reacts too slowly to emerging threats. In the book, the first clear signs of danger appear at least two years before the actual beginning of the war,⁴¹ but the government preferred to ignore them and instead of taking precautions, it busied itself with calming the public and made sure not to disclose any evidence that could contradict the official line. It seems that even in fantasy books people expect the government to fall victim to the classic "march of folly" (Tuchman, 1990) and stick to the one plan they have formed regardless of the evidence against it. Given the government's apparent incompetence in the Potterian economy, people voluntarily contribute their time, money and effort to form "The Order of the Phoenix," and fight the terror organization to the best of their ability.⁴²

However, voluntary organizations cannot act with the same efficiency as governments because of the free-rider problems. When it comes to conducting a war against a ruthless terror organization, the Order of the Phoenix finds it especially difficult to get public support because even people who are privately in support of the Order, they

⁴⁰ For example, Shiff and Ya'ari (1991) report that one of the main reasons for the outbreak of the first Palestinian Intifada in 1987 was that Palestinians felt that the Israelis saw them as nothing more than a cheap labor. A thorough discussion of the role of economic factors in influencing what Huntington (2002) defines as the "clash of civilizations" is offered in Lewis (2002).

⁴¹ The members of the "terror organization" in the Harry Potter books are known as "Death Eaters." The first time they massed in power and showed their mark occurred at the beginning of Rowling (2000), almost two years before the government was forced to acknowledge that a war is imminent.

⁴² The "Order of the Phoenix" is established in Rowling (2003).

usually avoid translating their feelings into actions because of the fear of becoming the terrorists' target. Consequently, most wizards wait for somebody else to take an action, although they doubt that the government will provide them with safety.⁴³ The readers receive another reminder of the government inability to handle the terror when Rowling (2005) describes how natural it is for the terrorists to strike at the heart of the business district and escape unharmed (Rowling, 2006, p. 106). It is not surprising therefore that when it comes to providing personal security the Harry Potter books lead the readers to put their trust in private organization rather than in the government.⁴⁴

Indeed, the government inefficiency is not limited to the speed with which it mobilizes. Once it does try to respond to the threat, the readers discover that the government is poorly equipped to handle the situation. It takes less than one paragraph for the Weasley twins to convey to Harry Potter and his friends how easy it is to sell the government equipment that would be unnecessary if the government ensured a proper training of its stuff (Rowling, 2005, p. 119). This is just one example of how the public pays for the government inability to handle emergency situations; what the government does not buy cheaply in normal times it has to buy at much higher costs in times of emergency. It is also a classic example of who gains from the outbreak of a war: when all other businesses go down, those who are quick enough to respond and supply the government and the public with a sense of security can make a good business. This is also an opportunity for swindlers who can sell the public all sorts of useless stuff if they can make people believe that those could increase their security (Rowling, 2005, p. 84).

The government's sudden need to obtain equipment also leads to inefficiencies in production. For example, the Weasley twin's specialty is producing ingenious toys and amusement tricks, but because they know how to identify good business, they spend much of their time producing shielding equipment for the government (Rowling, 2006, pp. 116–122). In addition, as more resources are dedicated to supplying military needs, common people find it harder to obtain stuff they need for their everyday life. Professor

⁴³ Readers may compare this with the severe criticisms aimed at the performance of modern western governments in their fight against terrorism and in their ability to handle natural disasters. See, for example, <http://msnbc.msn.com/id/4594652/>, <http://www.msnbc.msn.com/id/9614737/> and www.msnbc.msn.com/id/9661312/.

⁴⁴ This does not happen in fiction books only. During the period from the end of 2000 and until the end of 2004 when Israel suffered a wave of terror attacks, about 3 percent of Israeli males aged 22–65 worked as private security guards, compared with about one percent that worked as policemen (Becker and Rubinstein, 2004).

Slughorn is probably not the only one who complains that as a result of the war "prices are sky-high at the moment" (Rowling, 2005, p. 65).

However it is not only the higher prices that make the common people feel the consequences of the war. Terror generates fear, and the fear influences people's decisions. As predicted by Becker and Rubinstein (2004), it is not only the linear effect of the probability of getting hurt that makes people avoid enjoyable activities such as shopping or visiting public places. Fear seems to affect the mood of people as well, thus making everything less enjoyable. This effect on the people's mood is, for example, reflected in the emptiness of the usually crowded "Leaky Cauldron" Bar. The Harry Potter books seem, therefore to, capture Becker and Rubinstein's (2004) notion that the effect of terror might be better modeled through its impact on the utility function rather than through its effect on the probability of falling victim to terror attacks.

In addition, Becker and Rubinstein (2004) assume that people can invest in overcoming fear and thus keep on with their daily routines without suffering much distress as a result of the terror attacks. They predict that those who have most to gain from avoiding the fear are those who are most likely to make such investments. This prediction seems to receive some support in the book. For example, people who have high benefit from visiting pubs, keep on doing so without paying too much attention to the fear that other people associate with being in public places.⁴⁵ Another example is the way some people stop sending their children to schools because of the fear that their children would be harmed. At the same time, Ron Weasley, who faces a high personal risk at all times and must therefore constantly invest in avoiding the fear, completely fails to see why people can even feel fear from sending their children away to school (Rowling, 2006, pp. 221–222).

Although this evidence is only suggestive and can only show correlation and not causal relationship between the type of personality and the ability to enjoy risky activities, it seems that public opinion is generally consistent with the way Becker and Rubinstein (2004) model the effect of terrorism on human behavior and their decision making. The similarity of the ways that the real and the imaginary wars develop and their

⁴⁵ This can be seen in Rowling (2006), pp. 109–110, when the landlord of the "Leaky Cauldron" Bar notices Hagrid who is well known for his fondness of alcohol. From the landlord reaction it is possible to infer that Hagrid is one of his last loyal customers.

similar effect on peoples' behavior supports the hypothesis that the motivation given in the book for the behavior of wizards is quite similar to the factors that motivate the behavior of citizens in countries struck by terror in the real world.

10. Investment in Human Capital

Harry Potter books revolve around the life at the Hogwarts School of Magic. It is perhaps fitting, therefore, to devote the final section of the paper to a discussion of the Potterian education system. Two conclusions follow from studying the role of education in Potterian society. First, the modern society is aware of the great importance of education, and that readers of Harry Potter feel that education should receive a high priority. The importance of education can be seen in Rowling (2003) where Hogwarts becomes the safest place for those who oppose the evil influences of Voldemort. This seems to reflect people's belief in the ideal that learning and understanding are the opposites of hate and blind obedience. Hogwarts is also (almost) the only place where all wizards are treated with (almost) equality, and where people from lower classes can compete (almost) fairly with people from higher classes. Although some teachers prefer various students, the authority of the powerful headmaster ensures a “fair play” inside the school, regardless of what happens outside the school grounds.

The second conclusion is that teaching might still be regarded as a job that earns more than just a salary. In Harry Potter’s world, able people are willing to serve as teachers, although teachers are not described as earning particularly high salaries.⁴⁶ This seems to express the idealistic world view that in a place where schools have a good reputation, a decent compensation should be sufficient for recruiting able teachers.

On the other hand, the books also seem to alert us about what do people fear when it comes to their children’s education. Hogwarts School is under the guidance of the Ministry of Magic, and therefore, it is not free from the influence of politics and politicians. A fear of too much government influence on the teaching curriculum seems to be something that parents are often concerned about. This is not to say that they will always resist when government officials attempt to influence the curriculum. For

⁴⁶ In Rowling (1999a), a media-star agrees to serve as a teacher at Hogwarts (despite his high opportunity cost) because he believes that this could propel his public image.

example, when the government bureaucrats take control over Hogwarts, the parents remain mute. They do not move their children from the school, nor do they protest or organize petitions to fire the minister in charge. Moreover, most parents in the book are content with receiving information from the media and do not try to acquire further information. Even when the question at hand is of special importance, the readers appear to believe that free riding and responsibility diffusion might be enough to prevent parents from acting (Darley and Latane, 1968; Bliss and Nalebuff, 1983; Hirschleifer, 1983).⁴⁷

11. Potterian Economic Model: A Summary

Our interpretation of the Harry Potter texts suggests that the public sector is viewed as too large and that senior government officials are too busy in rent seeking activities. Large governments, however, become almost immune to criticism because a large part of the population is employed by the government, and therefore, acting to limit the government's size and scope is against self-interest of large segments of the society. Moreover, according to the view expressed in the books, large governments also serve the wishes of the upper classes by allowing them to manipulate the country's institutions and establishments to serve their needs by influencing a few selected bureaucrats.

Indeed, the books seem to reflect a double standard towards the structure of the government. On the one hand, the public seems to prefer a large government that ensures the employment of everyone, even if some of them (or perhaps many of them) are inefficient workers. For example, the readers are clearly aware of how inefficient Mr. Bagman is. Nevertheless, they seem to think that his friendly personality makes him worthy of a job in the public sector.⁴⁸ On the other hand, the readers fear the power that such governments have over the life of simple citizens. Indeed, when the Minister of Magic visits the Weasley family, the Weasleys and their guests become extremely

⁴⁷ Earlier this year, the Israel's Ministry of Education tried to force the teachers' organizations to accept a large public education system reform. This led to a struggle between the teachers and the government. Like in Harry Potter, the Israeli parents remained passive bystanders in this conflict even though the reform's effects will likely have serious implications for the future education of their children. Similarly, the German Education Ministry recently tried to implement reforms in the teaching curriculum. Although some of the reforms were controversial and raised objections from the teacher-unions, the general public remained mostly uninvolved. See, for example, <http://www.germnews.de/cgi-bin/show/dn/2005/08/14.html/6>, <http://www.germnews.de/cgi-bin/show/dn/2005/09/12.html/4>, <http://www.germnews.de/cgi-bin/show/dn/2007/07/13.html/7>, and <http://www.germnews.de/cgi-bin/show/dn/2005/07/19.html/6>.

⁴⁸ Indeed, the book's description of the unproductive Mr. Bagman is much more favorable than the description of the extremely efficient but "cold" Mr. Crouch. See Rowling (2000, pp. 80–84).

nervous (Rowling, 2005, pp. 342–348).

The books also convey the message that the problems associated with large governments can not be solved by changes in personnel, or by superficial reforms. Although the government is replaced in the opening chapter of Rowling (2005), and the new minister brings with him new initiatives and promotes very different and much more active line of governance, the new government makes the same types of basic errors as the old government (see, for example, Rowling, 2005, pp. 346–347).

Another problem associated with the leviathan government in the Harry Potter books is that it is an obstacle to the private sector because the government crowds out private activities. Thus, it makes it easier for the upper classes to have and maintain a greater influence and control and limit social mobility. Thus the books reflect a *dualism* in the way people perceive the role of government. These contradictions cannot be reconciled, and hence, the books seem to convey the message that in the eyes of modern readers, the illnesses of real life governments can not be solved even in a magical society.

Another view prominently expressed in the book is the one that considers financial intermediaries as firms that “create money from nothing.” In this sense, the negative attitudes against financial institutions appear to have changed very little since the days of Aristotle. The strength of this negative attitude is intriguing because the bank in the Potterian economy is described as doing a rather efficient job in keeping wizard's money for a low price. Nevertheless, the bankers are described as goblins, i.e. non-human creatures that have a long history of being at war with humans. The books seem to convey the message that society must keep a close watch over bankers' actions to prevent them from usury which is "in their nature." When Mr. Bagman takes the risk and borrows money from some goblins under their terms he finds that he is left with not even "two Galleons to rub together" (Rowling, 2005, p. 634). This perhaps underscores the importance people seem to attach to the need of regulating banks' activities. Indeed, the wizards have a special government agency for constraining goblins and their activities (Rowling, 2000, p. 79). The fact that the bankers are not human-beings may also reflect the long history of relegating the handling of financial affairs to "outsiders." Letting outsiders deal with the financial affairs seems to make it easier to constrain them. It also

results in passing the negative image of those who deal with money onto the outsiders.⁴⁹

With respect to the global world order, the books suggest that people accept the large gaps between rich and poor. The books, however, carry the warning that this gap, although convenient for the developed world, might be hazardous in the long run.

Education is seen as a key for the future, but it is not sufficient to ensure success. From the Potterian point of view, the social status at birth and the initial wealth—or in other words the “initial conditions,” appear to play a decisive role in determining one’s future path. Opportunities for mobility along the social/economic ladder are seen as very limited, if not impossible. Moreover, those who stand at the top of the ladder are seen as evil, and as people who not only try to maintain their status, but also who harass those who stand below them in the social ladder. This leads the books to adopt the view that those who attempt to advance their socio-economic status are either evil like Lord Voldemort or fools like Percy Weasley. Climbing up the ladder is depicted as not only hard, but also as a process that requires stepping on other peoples' feet. Unlike the normative view expressed by Adam Smith that views free-markets as a mechanism that gives everyone what he deserves, the books' readers believe that being rich requires "evilness" in addition to talent. Therefore talented people who also want to remain just should limit their aspirations, as the Weasley twins do in Rowling (2005). This view appears to agree with Amiel and Cowell's (1999) argument that there is a need to reexamine the axioms of welfare economics.

In sum, considering these aspects of the Potterian economic model, it seems to us that it is not a coherent model that fits neatly one of the standard economic models. Instead, the model appears to combine ingredients from various economic models. For example, many aspects of the Potterian model that emphasize the problems of inequality as a shortcoming of the capitalist system have features that remind us of the Marxian model. At the same time, however, the books frequently adopt a public choice point of view by portraying the large Potterian government as infested with rent-seeking bureaucrats who limit the spirit of free entrepreneurship and therefore, the ability of individuals to climb up the social ladder.

⁴⁹ It is interesting to note that in the films' version of Harry Potter, the goblins are depicted as having crooked noses which suggests how strong and stereotypic the negative image of bankers has remained.

As another example, the Potterian economic model is a monetary economy model that uses money as a medium of exchange, unit of account, and store of value. However, unlike the standard modern monetary model which relies on fiat money for conducting trade, the Potterian model uses commodity money. The Harry Potter world is dynamic in the sense that people are born and die. However, the model also has some static features because there is little or no growth in the population, in the stock of capital, or in the output. Finally, the Potterian model has a trivial but nevertheless interesting feature that characterizes a New Keynesian model: the price of the *Daily Prophet* from Rowling (1998) to Rowling (2003) remains rigid at one bronze Knut.⁵⁰ Yet, the Potterian economy enjoys full employment, although this may be the result of the government being the main employer who ensures full employment in the traditional Keynesian spirit.

12. Conclusion and Caveats

We deconstruct the text of the highly popular Harry Potter books in order to learn about the public's attitudes and preferences in modern society by analyzing the social organization of economic life in the Potterian economy. We argue that the analysis of the market institutions and their participants in these books offers a mirror that reflects the readers' perceptions and interpretations of their economic environment and thus provides perspectives on their attitudes, norms, beliefs and preferences. The world-wide success of the Harry Potter books is thus encouraging from the perspectives of those who believe that we might be able to explain the behavior of people from different societies using one economic model without the need to account for local social factors and attitudes (Amiel and Cowell, 1999; Beckman et al. 2002).

We focus on similarities and differences between the Potterian economy and the real economy, and argue that from these similarities and differences one can learn about people's social and economic perceptions and beliefs. To the extent that the Harry Potter books serve the readers as an escape from the troubles of everyday life, this comparison allows us to identify the settings in which people's ability to dream seems to be limited by facts of real life.

⁵⁰ This five-year long price rigidity far exceeds the recent findings of Bills and Klenow (2004), who report that newspaper prices in the US on average change every 29.9 months.

Before concluding some caveats are in order. First, like any other interpretative study of literary texts (e.g., Rockoff, 1990), our interpretation of Harry Potter's economic world may be open to a criticism, as other valid interpretations are possible. For example, it may be argued that our deconstruction of the Harry Potter books reveals more about the ideological predispositions of the books' readers than about their perceptions and attitudes. A particular weakness of the methodology we use for our analysis is our inability to clearly distinguish between assumptions and ideals. For example, if one considers the description of the Harry Potter's economic world as an economic model, then the lack of economic growth of the Potterian economy might merely serve the author as a simplifying assumption rather than a description of an ideal world. To the extent that this is indeed the case, our interpretation of various aspects of the Potterian economy might be questionable. A possible counterargument in favor of our interpretation is that when one uses assumptions that are too far from reality then they often need to elaborate on them and defend them. The fact that the Harry Potter's author skims over these matters without any detailed discussion, suggests that they might not be too far from the readers' perceptions and beliefs.⁵¹

Second, it may be argued that the Harry Potter texts reflect the point of view of the books' author only. A possible counter argument to this criticism is the fact that the books seem to enjoy remarkably universal appeal independent of age, gender or place. As such, the content of the book, the environment it presents, the institutions it employs, and the situations it describes, must have a far wider appeal and thus can be thought of as reflecting the popular opinion of large masses.

Future studies could focus on other aspects of the Potterian economics and on comparing it with texts from other times and/or other parts of the world. For example, a careful reading of Tolkien's *Lord of the Rings* or Asimov's *Foundation* series can yield interesting insights on the changes the modern society has undergone during the post-World War II period.

⁵¹ In this sense, one might think of J.K. Rowling as the "representative agent" who represents the preferences of the average decision maker that has no formal training in economics. A recent study by Rubinstein (2005) finds that students majoring in economics tend to make decisions that are more selfish in comparison to students majoring in other fields. According to J.R. Rowling's official biography (available at www.jkrowling.com/en/index.cfm), her major was French, and thus she has never taken Economics 101 or Price Theory. Having not taken any economics courses, therefore, makes J.K. Rowling a good representative of the way an average individual might think and act.

Other topics in the Harry Potter books that merit further research is the heavy emphasis the Hogwarts School's curriculum puts on more technical and practical subjects while giving little attention to more basic and theoretical training. For example, the school offers classes on numerous types of magic, such as defense, potions, divination, etc., but non on the theory of magic. In addition, the children living in the Potterian world do not read anything but textbooks and comics. Further, the wizards do not seem to have developed a rich cultural life, such as theater, orchestras, philosophical inquiry, etc.

Another interesting feature of the books is what they do not contain. For example, in the entire series, there is no single mention of taxes being collected by either the government or a local authority, and that despite the fact that the government seems to be the largest employer in the Potterian economics. The government also finances many other activities that require public finance, such as offering and holding sport-tournaments (Rowling 2000), maintaining large governmental facilities (Rowling 2003), and maintaining public communication devices, such as the Floo-Network.⁵²

The fact that wizards do not complain about the burden of taxes is a puzzle. Possible answers are that either wizards tacitly accept taxes because they are willing to pay for the quality of services they receive, or that government financing depends on volunteer contributions.⁵³ Alternatively, it might be that the books reflect the type of government people see in their dreams, one that does not require taxes to finance its activities.⁵⁴ A third possibility is that by ignoring taxes, the books reiterate the suspicion that people dislike government interference, even if this government supplies necessary functions without costs.

Further research on these and other issues can yield interesting insights about how readers view other social and economic institutions of the modern world.

⁵² For a discussion of the government's involvement in the Floo-Network, see Rowling (1999b) and Rowling (2003).

⁵³ There are some clues in the text in this direction. It might be that rich families finance various public services in return to favors from public offices. See, for example, how Mr. Malfoy finances a hospital construction in Rowling (2003). It is unlikely, however, that such contributions are enough to finance the entire public sector.

⁵⁴ This, however, seems unlikely, given that the government is seen in the books as inefficient and also the fact that it is certain that the government has to pay its employees and that the services it provides do not come without costs.

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