

## ORIGINAL PAPER

## About Culture in Economics

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**Abstract:** *The formal precision of modern economics, with its theoretical abstraction, its mathematical analytics and its reliance on disinterested scientific method in testing hypotheses about how economic system behave, might suggest that economics as a discipline does not have a cultural context, that it operates within a world that is not considered by, nor conditional upon, any cultural phenomena. But just as the radical critique described of contemporary economics has argued that the sort of economics described above cannot be value-free, so also can it be suggested that economics as an intellectual cannot be culture-free.*

## Introduction

It is striking fact that one of the leading scholarly journals in economics with the economic problems of developing countries bears the title *Economic Development and Cultural Change*. Few of the articles published in this journal deal directly with culture as such. Yet the acknowledgement is there in the title that in some fundamental sense culture, however it is to be interpreted, underlies the development process and will have some important relationships with economic behaviour in poor countries. The implication is that strategies to alleviate poverty in the Third World and to promote economic advancement will need to have regard for the processes of cultural change which may be critical in determining their success or failure.

In the analysis of economic progress in the *industrialised* world, however, a role for culture in influencing or conditioning economic performance is scarcely recognized. Economic growth, measured in terms of rising material standards of living per head of population, remains a central economic policy objective in all developed countries. Yet the growth process as constructed in contemporary economic analysis has been interpreted solely in terms of economic variables.<sup>1</sup>

This may be due in part to the supposition that these variables can capture any cultural influences of importance to economic growth, without need for further specific elaboration of what those influences are. So, for example, it may be thought that the inclusion of human capital as an explanatory variable in economic growth models, allowing technological change to be endogenised, may be sufficient to represent important cultural influences, because those influences will be manifested as characteristics of the individuals making up the labour force.<sup>2</sup>

Alternatively, the neglect of culture in explaining economic performance may simply reflect the fact that, to economists, economic variables are all that matter, in other words that so comprehensive a picture of both the causes and the outcomes of economic growth can be gained by consideration of phenomena such as productivity, technology, industrial transition, factor shares, levels of investment, capital flows, etc. that nothing more is required. Indeed this econocentric position might be seen as a further example of the reification of the economy, where the economy is seen as having a life of its own, determined only by, and responsive only to, economic forces.

This paper considers the role of culture in the process of economic development in both industrialised and developing countries, using 'culture' here in the broad constituent sense of ways of living rather than in the more specific sense of cultural activity. The influence of culture on eco-

conomic performance is considered first by reviewing the relatively small amount of work which attempts to bring cultural factors into an explanation of the relative growth and decline of different economies.

We then discuss recent efforts to think more fundamentally about what constitutes the idea of human development, efforts which place the development process squarely into a cultural milieu, and which have some implications for how economic policy might be reinterpreted in a development environment. Finally this chapter looks again at the issue of sustainability, given that sustainable development has become a key concept in the operational world of development assistance. How does culture fit into such a picture?

If we accept the broadly based definition that culture can be seen as a set of values, beliefs, traditions, customs, etc. which serve to identify and bind a group together - then it is not difficult to propose that culture will affect the way individuals in the group think and act, and will also have a significant effect on the way the group as a whole behaves. Such a proposition can be put forward for a small group such as a corporation, where the group identity is built around a corporate spirit, or for a large group such as a nation, where shared values may include religious beliefs, social customs, inherited traditions and so on. In either case, an economic version of this proposition might be phrased in terms of the ways in which the group's identity and values shape individuals' preference patterns, and hence their economic behaviour.

It is then possible to suggest that culture may affect economic outcomes for the group in three broad directions. First, culture will perhaps affect economic *efficiency*, via the promotion of shared values within the group which condition the ways in which the group's members undertake the economic processes of production. For example, if these cultural values are conducive to more effective decision-making, to more rapid and varied innovation and to more adaptive behaviour in dealing with change, the economic productivity and dynamism of the group will be likely eventually to be reflected in better financial outcomes (in the case of the corporate enterprise) or in higher growth rates (in the case of the economy).

Secondly, culture may affect *equity* - for example, by inculcating shared moral principles of concern for others and hence encouraging the establishment of mechanisms by which that concern can be expressed. In the case of society as a whole, one significant aspect of this might be seen in intergenerational equity, if a moral obligation to provide for future generations is an accepted cultural value. In general, the effect of culture on equity will be seen in resource allocation decisions of the group directed at achieving equitable outcomes for its members.

Thirdly, culture may be seen as influencing or even as determining the economic and social *objectives* that the group decides to pursue. At the small group level, say that of the individual firm, the corporate culture may be one of concern and care for employees and their working conditions, and these values may mitigate the importance of profit-seeking or other economic goals in the firm's objectives. At the societal level, cultural values maybe entirely in tune with, say, the pursuit of material progress, enabling criteria of macroeconomic achievement to be used to distinguish 'successful' from 'unsuccessful' societies.<sup>3</sup>

The culture of other societies, on the other hand, may be such as to temper the pursuit of material reward in favour of non-material goals relating to various qualities of life, thus affecting the pace and direction of economic growth; in such cases the criteria defining 'successful' and 'unsuccessful' will be different from the former case.

By these three avenues, the effect of culture on individual behaviour will be reflected in collective outcomes. Thus, for example, at an aggregate level, we might observe the influence of culture on macroeconomic outcomes in terms of *efficiency indicators* such as the rate of growth of *per capita* GDP, rates of technological change, employment levels, rates and directions of structural

change and so on, and in terms of *equity indicators* such as patterns of income distribution, social welfare programmes (especially care for the aged and sick), the supply of community services and (reflecting concern for intergenerational equity) the willingness to undertake long-term public investment programmes which may not be of much direct benefit to the present generation.

How far has economics come in viewing economic performance as being mediated by cultural influences along the lines sketched out above? Mark Casson has suggested that:

*Economics is making progress in coming to terms with culture. Just a few years ago an economic theorist would typically claim that culture simply does not matter so far as economic performance is concerned; everything that matters is explained by prices - real prices in external markets and shadow prices in internal ones. Today the theorist is more likely to admit that culture matters, but to argue that it is something that economics cannot, or should not, attempt to explain.*<sup>4</sup>

Casson goes on to argue that such defeatism is unwarranted, and that indeed economic analysis can make progress in identifying the influences that culture has on economic performance and in quantifying their effects. His own work attempts to specify cultural variables that affect interfirm relations such as cooperation and competition, and intrafirm relations such as organisational behaviour, and to postulate their effects on economic outcomes in different cultural settings.

Nevertheless scepticism among economists still persists, especially at the macroeconomic level where there remains considerable speculation as to whether and to what extent cultural factors have played a role in determining economic performance in different countries. For example, the sources of post-war growth in Japan, and more recently in South Korea, Taiwan, Hong Kong and Singapore, have been widely contested. It is undeniable that economic factors in these countries have contributed significantly to their rapid growth, including stable macroeconomic management (*getting the fundamentals right*), promotion of competition, strong export orientation, pressure for 'catch-up' technological change, investment in human capital and so on.

Even so there is disagreement among economists as to how far targeted industrial policies and strategic government interventions, which have been markedly contrary to the precepts of neoclassical orthodoxy, have been influential in promoting accelerated economic performance. Yet underlying all this, a more fundamental and pervasive role for culture can be proposed, in which certain cultural principles, derived to a significant extent from Confucianism, have helped to create the conditions for economic success.

These factors include concern for the welfare and mutual esteem of the group, an achievement-oriented work ethic, regard for the importance of the family, a belief in the need for education, a respect for hierarchy and authority and so on.<sup>5</sup> Looking specifically at the Japanese case, we can observe that such factors as religion, family attitudes, patterns of cooperation within a culturally homogeneous society and so on, have shaped the public and corporate institutions of Japan and the manner of their operation; in this way can the cultural foundations of Japanese society be seen to have permeated all aspects of Japanese economic life.<sup>6</sup>

A difficulty besetting the resolution of various theoretical disputes about the effect of culture on economic performance is the availability of appropriate data for the testing of competing theories. Nevertheless, some progress in assembling and interpreting empirical information on culture and the economy is being made. For example, measurement of relevant cultural traits and their inclusion in cross-country models of economic growth is beginning to show more clearly the quantitative importance of the cultural context in which economic activity takes place. Ronald Inglehart, for example, tabulates a wide range of individual attitudes towards religion, work, the family and social issues across a broad sweep of countries and relates them to economic achievement.<sup>7</sup>

In an alternative approach to empirical analysis, Hsin-Huang Michael Hsiao argues that cultural factors should not be interpreted as individual social behaviour *per se*, but should rather be viewed as a set of orderly, institutionalised cultural arrangements at the societal level.<sup>8</sup> Only at that level, he suggests, can one relate cultural behaviour to economic activities. Ultimately, however, whether the approach is micro or macro, neoclassical or institutional, the significant cultural influences do need to be carefully specified and measured if theories about their contribution to economic outcomes are to be properly tested.

### **Culture in Third World development**

Let us turn from the functional role of culture in affecting economic performance to more fundamental issues of what economic development means and how culture, in its broad constituent sense, is implicated in that process. The conceptualisation of economic development as improvement in the material circumstances of the population ('all the necessities and conveniences of life', in Adam Smith's phrase) dates back to the nineteenth century political economists and beyond. In the mid-twentieth century the theory of economic development as understood by economists still clearly equated growth with material progress. Thus Simon Kuznets wrote in 1966 that 'we identify the economic growth of nations as a sustained increase in per capita or per worker product'.<sup>9</sup>

Gradually, however, this restricted view of what comprises progress in the developing world has been replaced with a concept of development reflecting a broader array of society's needs and its aspirations for improved standards of living. 'Development' in this more general sense certainly includes advancement in material wellbeing, measured as increases in *per capita* GDP or disposable incomes, but it also includes changes in an array of social indicators such as nutritional levels of the population, health status, literacy levels, educational participation, standards of public or welfare service provision and a number of non-material characteristics that fall under the heading of 'quality of life', including environmental indicators such as air and water quality.

Furthermore, the fact that simple *per capita* measures taken across the whole population conceal inequities in the distribution of income and wealth has been widely recognised, and the importance of redistribution as an element in the development process acknowledged. By and large the theory of development as it stands in economics today has taken these wider interpretations on board. Nevertheless the focus remains clearly on material progress, especially of the poorest groups, as the principal indicator of advancement in the developing world.

Such a view is readily rationalised by reference to the basic needs of human beings for food, shelter and clothing, needs which it is said can be satisfied only by improvement in material circumstances. Further, it is argued that peoples' desires for enhancement in the various aspects of quality of life, including non-material characteristics such as environmental amenity, can be secured only through economic advance measured in material terms. Within this paradigm there is little or no role for culture, either as a mediating influence on the achievement of material progress or as an element in the structure of needs and wants felt by different societies.

As a result, as Vernon Ruttan has remarked, cultural considerations have been cast into the 'underworld' of development thought and practice; writing in the late 1980s and early 1990s, he suggested that no development economist would agree to the proposition that cultural variables might be important in explaining political and economic development.<sup>10</sup> Since then, little seems to have changed. Mainstream texts in economic development have no time for culture; taking three such texts more or less at random,<sup>11</sup> an inquisitive reader can find no reference to culture in the subject indexes of any of them.

Despite this orthodoxy, however, there are clear signs of a shift underway in thinking about development, associated with a refocusing on human beings themselves as both the object of development and as the agents by which development is brought about. Thus a commodity-centred notion of *economic* development gives way to a people-centred strategy of *human* development. This shift in focus dates from the late 1980s when the United Nations Development Strategy for the 1990s adopted human development as its key focus, and the United Nations Development Program (UNDP) instituted its annual *Human Development Report*, the first of which appeared in 1991. The objective of human development is interpreted as being to expand the capabilities of people to lead the sorts of lives they desire.

Amartya Sen has argued that, although increased output per head may enlarge such capabilities, the ultimate concern of development should not be output as such.<sup>12</sup> Keith Griffin has summarised Sen's argument as suggesting that the focus should be on enhancing the ability of people to lead a long life, to enjoy good health, to have access to the world's stock of knowledge and information, to participate in the cultural life of their community, to have sufficient income to buy food, clothing and shelter, to participate in the decisions that directly affect their lives and their community, and so on. These are the things that matter - increasing the capabilities of people - and the enhancement of capabilities, not the enlargement of domestic (or material) product, should be the objective of development policy.<sup>13</sup>

A reorientation of development thinking along these lines has obvious cultural implications. People as the object and means of development do not exist in isolation. They interact in a variety of ways, and the framework within which this interaction occurs is provided by their culture - their shared beliefs, values, languages, traditions and so on which contextualise their daily lives. As indicated by the UN World Commission on Culture and Development (1995), reconceptualising development in human terms brings culture in from the periphery of development thinking and places it in centre stage. In these circumstances notions of economic development, human development and cultural development might become absorbed into a more comprehensive theory of transformation in the developing world.<sup>14</sup>

The rigorous articulation of such a theory remains to be worked out, but it is possible to discern several likely features of a new development paradigm emerging in contemporary thought.

First, it is unlikely that a new development model will incorporate strictly uni-directional causalities. Rather the interconnectedness of the elements of the model, with influences flowing in many directions at once, is likely to be emphasised. So, for example, the effect of cultural characteristics and aspirations of a given society on traditional economic variables such as output per worker is likely to be counter-balanced by an account of the influence of labour productivity on changing values.

Secondly, and relatedly, it will be acknowledged that neither culture nor economy is a static thing but that each is constantly changing, such that relationships between variables are dynamic processes rather than fixed constants.

Thirdly, no single model of development will be appropriate to all circumstances, but rather the differences in development paths between countries which have brought about different economic, social, cultural and institutional conditions, will determine how development prescriptions should be made in each particular case.<sup>15</sup>

Fourthly, the new paradigm is likely to see pluralism, not uniformity, as an essential component, in particular an acknowledgement that human development begins at a local level where cultural diversity within and between communities is a vital manifestation of civilised human existence.

Finally, a concomitant of pluralism is cultural freedom, both the collective freedom of societies to choose what sort of development they want, and the individual rights which are central to the idea of a free society. These freedoms presuppose an institutional structure, established by collective agreement and operating through the state and civil society, which provides the guarantee that such freedoms will be upheld. Thus attention to institutional arrangements is also likely to figure prominently in this development model.<sup>16</sup>

Within such a broadly based development framework we can suggest, as before, that a means of bringing economic and cultural concerns together is to return to the basic notion of value creation, where the generation of both economic and cultural value can be discerned as outcomes of a development process which balances the desire for material goods and services with the deeper needs and aspirations of human beings for cultural recognition, expression and fulfilment.

### **Culture, development and sustainability**

An invocation of economic and cultural value as components of a development model, together with an acknowledgement of the long-term and evolutionary nature of both economic development and cultural change, render the idea of sustainability a natural frame of reference within which to integrate an analysis of economic and cultural development. Furthermore, given that one of the main connotations of sustainability has to do with the natural environment and its relationship to economic processes, and given the similarities between the natural and the cultural environment and between natural and cultural capital, it can be readily suggested that environmental interpretations of sustainability will have a counterpart in the cultural sphere.

We have noted this already in drawing attention to the parallels between the ways in which the ecosystem supports the biosphere and the cultural infrastructure supports the social universe; both in turn provide essential sustenance for the economic life carried on in their respective domains.

The principles of sustainability provide a basis on which to approach the broader issue of culture in economic development. Indeed it can be suggested that they might be capable of specifying a type or pattern of development that is 'culturally sustainable' in the same way as a somewhat similar set of criteria derived for the natural world provides a formula for defining ecologically and environmentally sustainable development. Thus we might accept the principles of material and non-material advancement, intergenerational and intragenerational equity, the maintenance of cultural diversity, the precautionary principle and the recognition of system interdependence as benchmarks against which to assess a cultural development process, strategy or specific project. In the overall scheme of things, a requirement that development be culturally sustainable would extend and complement an expectation that it should be ecologically sustainable.<sup>17</sup>

These sorts of ideas are beginning to be reflected in approaches to development policy in the international community. For example, at the Intergovernmental Conference on Cultural Policies for Development held in Stockholm in April 1998, the first policy objective agreed to by the 150 governments represented was to make cultural policy one of the key components of development strategy. It was proposed that governments should establish policies which recognise the pervasive importance of culture in development 'in such a way that they [the cultural policies] become one of the key components of endogenous and sustainable development'.<sup>18</sup>

Turning to the operational world of development assistance, we may note that the role of culture in sustainable development now appears to occupy the foreground of development thinking. In the World Bank, for instance, which disburses many millions of dollars annually in development loans to poor countries, the notion of sustainable development was introduced about a

decade ago, opening out the development paradigm to encompass environmental and social concerns. But the further extension to culture is much more recent, responding in part to the broadly based transformation of thinking about economic development to which we referred in the previous section.<sup>19</sup> Let us review how culture is now being seen in the international arena of bilateral and multilateral development assistance. Three aspects can be highlighted:

- if it is true that globalisation transmits materialist values and a standardised form of mass popular culture, it can be seen as a potential threat to local cultural differentiation, leading perhaps to social alienation and dislocation. Because of this, an increasingly important target of development assistance in any sector is the nurturing and build-up of local cultural values.
- in formulating specific programmes and projects, attention is now being paid to tailoring such interventions to local traditions and institutions, making use of local expertise and knowledge and emphasising cultural interactions within and between communities. In practical terms this is evidenced in a search for 'bottom-up' processes of strategy formulation and implementation.
- programmes particularly directed towards the poor can recognise how important cultural legitimisation can be in energising communities and improving their self-esteem. Poverty reduction programmes may therefore be more effective if directed specifically towards cultural targets, promoting cultural expression and awareness as being concomitant with improvement in material circumstances.

These sorts of considerations are beginning to have an influence on the way in which development assistance organisations, aid agencies, NGOs and other players on the field perceive their role and carry out their business. For example, the World Bank has now spelled out the fact that culture can contribute directly to its core development objectives. It sees culture in a development context as helping to:

- *Provide new opportunities for poor communities to generate incomes from their own cultural knowledge and production and to grow out of poverty*
- *Catalyze local-level development* through the diverse social, cultural, economic, and physical resources that communities have to work with
- *Conserve and generate revenues from existing (cultural) assets* by reviving city centers, conserving socially significant natural assets, and generating sustainable, significant tourism revenues
- *Strengthen social capital* - in particular, to provide a basis on which poor, marginalized groups can pursue activities that enhance their self-respect and efficacy and to strengthen respect for diversity and social inclusion so that they can share in the benefits of economic development
- *Diversify strategies of human development and capacity-building* for knowledge-based dynamic societies - for example, through support for local publishing, library services, and museum services, especially those that serve marginalized communities and children.<sup>20</sup>

The Bank is pursuing these lines of action in its operational work through efforts, first, to integrate cultural considerations into its lending strategies in all sectors, especially education; secondly, to promote culture in its grass-roots community development work; and thirdly to engage with specifically cultural projects in borrowing countries, such as heritage projects of various sorts.

In the last-mentioned case, where free-standing projects involve the restoration of historic property or some similar line of investment in borrowing countries, the immediate revenues that the project can generate assume a particular importance, since the loan and its repayment have to be substantiated in financial terms. A major revenue source in many heritage redevelopment projects is likely to be tourism. The Bank is careful in its propaganda to emphasise that tourism to cultural sites in developing countries must not degrade the very culture that attracts it and must be developed in a manner respectful of local traditions and cultural sensitivities.

In short, it must be culturally and environmentally sustainable. Nevertheless, an emphasis on an economic justification for a cultural heritage project, no matter how well the economic appraisal might encompass non-use values and other indicators of levels of cultural esteem, may orientate the project in directions inimical to the generation of cultural value. It is important that the dual values, economic and cultural, be accounted for in decision-making in such projects.

## Conclusions

This text has pointed to a paradigm shift in thinking about the nature of economic growth and development. By no means all development economists, still less all growth theorists, would see the shift as important, and a number would not acknowledge its existence at all. Nevertheless a move towards recognising a role for culture in influencing economic performance in small and large groups, and more particularly in underlying and conditioning processes of economic growth and change in developing countries, is gradually becoming more apparent.

Central to this movement has been a reorientation of development thinking from a uniform commodity-centred model of development towards a pluralistic human-centred one. Oddly enough, the shift in development thinking is more evident in the practical world of development assistance than in the theoretical arenas where paradigm shifts usually originate. In this respect, we have pointed in this chapter to the acceptance by the World Bank and other development agencies of an explicit role for culture in development as some evidence of the paradigm shift that is taking place.

We have suggested, as before, that a distinction between economic and cultural value can help to clarify the nature of the different sorts of value created by the development process.

## Notes

1. See, for example, the pioneering work of Simon Kuznets (1966), who demonstrated uniformities in the patterns of economic growth across a number of countries by reference to an extensive range of economic phenomena. Note that Kuznets did refer briefly to cultural characteristics of different countries (racial and linguistic homogeneity, literacy, adoption of Western values) which he discussed as 'other aspects' of the non-economic characteristics of underdeveloped countries (1966, pp. 454-60). Nevertheless these variables were considered of minor significance and the overwhelming focus was on economic phenomena.
2. For the development of such models, see Lucas (1988); Becker *et al.* (1990); Romer (1994); Barro and Sala-i-Martin (1995).
3. For example, in considering the historical development of the world over the broad sweep of the second millennium, David Landes (1998) characterises nations as successful or unsuccessful on the basis essentially of *per capita* wealth and income. Note, nevertheless, that within this world view Landes recognises the importance of culture in influencing economic performance: 'If we learn anything from the history of economic development, it is that culture makes all the difference' (1998, p. 516).
4. Casson (1993, p. 418).
5. The standard orthodox assessment of the 'Asian miracle' was undertaken under the auspices of the World Bank (1993); for consideration specifically of interventionist interpretations, see Lall (1996) and Masuyama *et al.* (1997). Insightful accounts of the cultural context of Asian economic performance are contained in Berger (1993); Hsiao (1993); Brook and Luong (1997); Sen (1998a); see also Ozawa (1994) and Gray (1996). For dissent-



- ing views see Krugman (1994); Woo-Cumings (1997); Arrow (1998).
6. See further in Munakata (1993); Di Maggio (1994, pp. 33-4); Fukuyama (1995, pp. 161-93); Hayami (1998, pp. 14-17).
  7. See Inglehart (1990).
  8. Hsiao (1993, p. 20).
  9. Kuznets(1966, p. 1).
  10. Ruttan(1988, 1991).
  11. Gillis *et al.* (1996); Ray (1998); Todaro (2000).
  12. Sen (1990).
  13. Griffin (1996, p. 233).
  14. For a contemporary anthropologist's approach to formulating a more comprehensive development theory and practice, see Escobar (1995).
  15. For further discussion of path-dependent and path-independent models of development, see J. Mohan Rao (1998).
  16. For an analysis of the importance of institutional structures as they relate to cultural beliefs and the trajectories of developing economies, see Greif (1994).
  17. A brief reference is made to culturally sustainable development in the World Commission on Culture and Development Report mentioned in the previous section (WCCD, 1995, pp. 24-5; see also pp. 206-7). For a more elaborate treatment see Throsby (1995).
  18. See UNESCO (1998b, p. 14).
  19. Two milestones in this progress for the World Bank were a 1992 conference on culture and development in Africa (see Scrageldin and Taboroff, 1994), and a conference held in Florence in 1999 organised by the Bank, the Government of Italy and UNESCO under the title 'Culture Counts' (see Wolfensohn *et al.*, 2000).
  20. World Bank (1999, p. 15)

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