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Emile Durkheim
Max Weber
Marx
R.H. Tawney,Ernst Troeltsch, and Talcott Parsons
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Robert Bellah
EverettE. Hagen
W.Arthur Lewis
DavidC. McClelland
Douglass North
Oscar Lewis
DanielP. Moynihan
William Julius Wilson
James S. Coleman
Alexis deTocqueville
Edward Banfield

Culture and Economic Development (*Cultural Concern Essay*)

Culture and Economic Development (*Cultural Concern Essay*)

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Abstract
Economic development presupposes not just the existence of formal institutions, but also certain norms or social values that promote exchange, savings, and investment. Thus, there is a cultural dimension to economic behavior. The importance of cultural factors for economic behavior has long been controversial, with some social scientists—particularly economists—arguing that it constitutes a small and difficult-to-measure residual variable, and others asserting that social norms are constitutive of economic life itself. While culturalist explanations of development took a back seat to structural ones in the 1960s and 1970s, they have seen something of a revival in the 1980s and 1990s as result of observing the economic performance of culturally distinctive regions like East Asia and formerly communist countries. Most recently, cultural factors have been discussed under the rubric of 'social capital.' Social capital is a norm promoting social cooperation, which is seen to be productive of wealth as much as physical and human capital. A major research question for the future is how to measure social capital, and more broadly how to incorporate qualitative factors like social relationships and cultural habits into the mathematical models that dominate contemporary economics.

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B13 morality (Austin $\boxed{1954}$, p. 112). The second sense of morality is found to be indicative of changes of state and not part of the basis of law.

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Culture and Economic Development (Cultural Concern Essay) sx0005

Economic development presupposes not just the exist- sx0010
ence of formal institutions like property rights and a rule of law under which buyers and sellers can exchange goods in markets, but also certain norms or social values that promote exchange, savings, and investment. Thus, there is a cultural dimension to economic behavior. Culture has been given a wide variety of definitions, but it will be used here to signify the informal shared values, norms, meanings, and behaviors that characterize human societies. Just how important the cultural component of development is has long been a subject of controversy within the social sciences.

1. The Controversy over Culture sx0015

Modern neoclassical economics tends to downplay the sx0020
importance of culture to development. Economists make the simplifying assumption that human beings are rational utility-maximizing individuals, and that such maximizing behavior is largely invariant across
different human societies. The standard economic sx0025
growth model pioneered by Robert Solow looks only
at inputs of capital and labor; more recent so-called sx0030
'endogenous' growth models emphasize the role of technology. From this perspective, culture constitutes at most a kind of residual factor that one appeals to when other explanations fail.

Sociologists, on the other hand, have tended to
believe that cultural norms pervade economic life and sx0035
that the latter cannot be understood apart from them.
Emile Durkheim, for example, argued that the markets sx0040
described by economists themselves presuppose shared norms (e.g., that people exchange goods rather than trying to rob and murder one another), and that sociology therefore looks to a deeper level of causation
than economics. Max Weber pointed out that the sx0045
economist's assumption that raising the piece-rate would increase output had the opposite effect in
certain peasant societies, since workers, valuing leisure sx0050
over accumulation, would be able to quit work earlier in the day. His life's work centered on showing how the emergence of the modern economic world depended on a prior shift in cultural values having to
do with Protestantism. He in effect stood Marx on his sx0055
head by arguing that what the latter labeled ideological
'superstructure' was in fact a key shaper of the means sx0060
of production.

Today, the impact of culture on development tends sx0065
to be studied more by economic sociologists than by economists. The one important exception to this generalization are development economists, that is, economists who specialize in the problems of growth in less-developed, premodern, or non-Western soc-

ieties. They tend to see that many behaviors that can be taken for granted in the US or Western Europe, e.g., that public officials will not be grossly corrupt or incompetent, are not necessarily prevalent in other societies.

2. *History of the Development of Economic Sociology* sx0070

2.1 *The Weber Hypothesis* sx0075

The *locus classicus* of studies of culture and devel-
opment is Weber's *The Protestant Ethic and the Spirit* sx0080
of Capitalism, first published in 1904. Weber argued that the Calvinist doctrine of predestination, rather than inducing quietism, led believers to seek to demonstrate their status as elect by engaging in commerce and worldly accumulation. According to
Weber, Puritanism created a work ethic—that is, the sx0085
valuing of work for its own sake rather than for its results—and demolished the Aristotelian–Catholic doctrine that one should acquire only as much wealth as one needed to live well. In addition, it enjoined on its believers moral behavior outside the boundaries of the family, which was crucial in creating a more
impersonal system of social trust. sx0090

The Weber thesis was controversial from the moment it was published, with figures like R. H. Tawney, Ernst Troeltsch, and Talcott Parsons weighing in. Various scholars argued that Weber was wrong empirically about the superior economic performance
of Protestants over Catholics; that Catholic societies sx0095
had started to develop modern capitalism long before
the Reformation; that it was the Counterreformation sx0100
rather than Catholicism *per se* that led to economic backwardness; and that the shift towards modern notions of accumulation was a more rational process than Weber believed. In the end, however, most scholars believe that Weber essentially was correct, given the delayed development trajectory of virtually all Catholic countries when compared to their Protestant counterparts.

2.2 *The Decline of Cultural Explanations* sx0105

At the same time, Weber's work gives us reason to be cautious about applying cultural explanations for economic development too readily. The German sociologist's other great work on culture and de-
velopment was his study that was translated as sx0110
Confucianism and Taoism. Weber was seeking to answer the question why capitalism arose first in the Protestant West rather than in other societies. He
argued that Confucianism created an environment sx0115
hostile to capitalist development: while it was a rational ethical system, it emphasized the 'sib' or

kinship as the primary source of social relatedness and
thereby promoted economically inefficient nepotism.
Japan, according to Weber, was even less suited than
China to produce modern capitalism. In light of the
astonishing economic performance of Japan, China,
and other Confucian societies in East Asia after World
War II, one is forced to conclude that the obstacles to
development in that part of the world had much more
to do with politics and inappropriate institutions than
any specific cultural factor. Weber was in fact correct
in pointing to the centrality of kinship as an organizing sx0120
principle in Chinese society—businesses have been
and continue to be family centered—but greatly
overestimated the impact this would have on aggregate
growth.

Following Weber, there were a number of studies up
through the 1950s that emphasized cultural variables
in economic development. Werner Sombart in *The* sx0125
Jews and Modern Capitalism (1911) argued that Jews sx0130
possessed the same cultural characteristics pointed to
by Weber that were conducive to capitalism. A similar
argument was for Japan by Robert Bellah, who argued sx0135
that Buddhist sect founded by Ishida Baigan in the sx0140
sixteenth century supported a functional equivalent of
the Protestant work ethic.

Towards the middle of the century , authors !QA:1 Which century
including Everett E. Hagen, W. Arthur Lewis, and
David C. McClelland all argued in different ways that
certain less-developed societies lacked cultural
characteristics (such as McClelland's 'achievement sx0145
orientation') that constituted obstacles to develop-
ment. The 'modernization theory' popular in sx0150
American social science during the early postwar
period tended to see traditional cultures in a negative
light, and to regard contemporary Western societies as
models to which they needed to aspire.

This kind of argument fell out of favor during the
next generation for a number of reasons. The first was
the charge of ethnocentrism: many culturalist argu- sx0155
ments tended to assume uncritically that social norms
rather than institutions or structural conditions were
responsible for lack of development, and that Western
cultural values were superior to non-Western ones.
This period saw the rise of neo-Marxist doctrines like sx0160
dependencia theory that pointed to the structure of the
world economy as the source of underdevelopment.

But a second strand of criticism came from orthodox
economics. Cultural factors are, methodologically,
very difficult to measure and to disentangle from other
kinds of variables. As the Weber example above
indicates, Asian underdevelopment could be explained sx0165
not just by culture, but also by political conditions,
poor economic policy, weak institutions, global econ-
omic conditions, and a host of other factors. Those
promoting culturalist interpretations usually had no
empirically convincing way of demonstrating that
cultural factors were indeed as important as they
claimed. Given that culture tends to change relatively

slowly, it would seem very implausible that Asia's rapid rise in the second half of the twentieth century should be due primarily to cultural factors.

2.3 The Revival of Cultural Interpretations sx0170

In the 1980s and 1990s there has been something of a revival of culturalist interpretations of development. Part of the impetus for this came from within economics itself, with the rise of the subdiscipline of
the so-called 'new institutional economics' associated sx0175
with economic historian Douglass North. The new sx0180
institutionalists recognized the importance of norms in economic life; according to North, 'institutions' (i.e., formal or informal rules) were critical in reducing transaction costs and thereby promoting economic efficiency. Without agreed rules concerning property rights, for example, there could be no modern economic world as such since innovators would not have the incentive to take risks or make investments. While they often seek to give rational, maximizing accounts of the origins of institutions, institutional economists as a group are much more aware of the importance of
history, culture, tradition, and other so-called 'path sx0185
dependent' factors in shaping economic behavior.

The second reason for the revival of interest in
culture and development was the experience of tran- sx0190
sitional economies in the late 1980s and 1990s, as well
as observation of the so-called 'Asian Miracle.' Fol- sx0195
lowing the collapse of communism, many Eastern European and Soviet successor states set up formal market institutions, along with other institutions associated with developed market democracies such as democratic constitutions and electoral systems. Countries like Poland, Hungary, and the Czech Republic made the transition from centrally-planned to market-oriented economies relatively easily. Others, like Russia and Ukraine, had a much more difficult time; institutions were weak and levels of corruption were high. It seemed to many people unlikely that the difference in transition outcomes was simply the result of differing designs of formal institutions, particularly since the outcomes largely followed what one would
have predicted on the basis of cultural factors (i.e., the sx0200
degree of Westernization of each country prior to communism). As a result, many of the economic policy practitioners in international financial institutions like the World Bank and the IMF began to look towards cultural factors as key variables explaining successful transition strategies.

Similarly, rapid economic growth in Asia spawned many theories of how development there was driven by uniquely Asian cultural characteristics like a work ethic or deference to state authority. As noted above, Asian growth is better explained by institutional factors, and much of this cultural theorizing was
undercut to some extent by the Asian economic crisis sx0205
of 1997–1998.

3. Culture and Economic Behavior sx0210

In the large literature on culture and development, cultural factors are said to affect economic behavior in at least four ways: through its impact on organization sx0215
and production, through attitudes towards consumption and work, through the ability to create and manage institutions, and through the creation of social networks.

3.1 Culture and Production sx0220

There is a large literature on 'organizational culture,' sx0225
which studies norms and behaviors characteristic of individual organizations or even subunits within organizations. Organizational culture varies substantially across national cultures (e.g., the organization of a Japanese factory compared to a British one), but also between regions, sectors, or even companies within a single sector. Firms can be more or less hierarchical, open to outside influences, flexible in decision-making, and the like, for reasons having less to do with their formal organization than the informal norms that characterize them.

Social classes are also characterized by distinct sx0230
social norms that give them differing characteristics with respect to class solidarity, attitudes towards money making and education, and the like. One argument for Britain's relative economic decline in the twentieth century, for example, had to do with the absorption by the English middle class of upper-class values that disdained practical education and technology.

3.2 Attitudes towards Consumption and Work sx0235

In addition to the classic literature on the work ethic, there has been substantial writing on the so-called 'culture of poverty,' a phrase coined by Oscar Lewis in sx0240
the 1960s to characterize the failure of the poor in Latin America to take advantage of work opportunities. This term was used extensively in the debate over poverty and welfare in the US, where observers like Daniel P. Moynihan and William Julius Wilson argued that poverty was the result not just of structural sx0245
problems in the economy, but of dysfunctional social behaviors that had taken on a life of their own among the 'underclass.' Other studies have focused more on the culture of the rich rather than the poor, observing that different elites can place different relative valua- sx0250
tions on work and leisure, leading to conspicuous consumption in some cases and frugality and reinvestment in others.

3.3 Culture and Institutions sx0255

Many economists correctly point out that the differences in economic performance from one society to

another are better explained by differences in institutions and in the policies undertaken by those institutions than by cultural factors. This is not, however, the end of the story, because culture also affects the ability of societies to create and properly manage institutions. For example, in the postwar period Japan, South Korea, and other East Asian countries employed industrial policies, in which the state rather than the market allocated credit to national industries, to encourage economic growth. Not all societies, however, are capable of building East Asian-style econ- sx0260
omic planning bureaucracies. Such institutions are especially vulnerable to rent seeking and capture by narrow societal groups; to make industrial policy work, planning bureaucracies have to be shielded from undue political influence and overt corruption. Similar institutions created in Latin America, Africa, and other parts of the world proved much less effective than their East Asian counterparts. While effective industrial policy is partly a matter of institutional design, it is also heavily influenced by culture—for example, expectations of corrupt behavior on the part of public officials, bureaucratic professionalism and esprit de corps, levels of education, etc.

3.4 Social Networks sx0265

The final broad category of ways in which culture is said to affect economic behavior is in the formation of social networks. In a short essay titled '*The Protestant* sx0270
Sects and the Spirit of Capitalism,' Weber pointed out that in addition to the work ethic proper, sectarian sx0275
Protestantism of the sort found in the US encouraged commerce by promoting networks of trust among the sx0280
members of each sect. Early Protestantism enjoined its members to behave morally not just towards fellow believers, as was the case with many other religions, but towards all human beings. This kind of moral universalism, combined with the propensity of sectarian denominations to organize themselves congregationally (i.e., from the bottom up rather than hierarchically), meant that business could be transacted across a much broader range of people than in other cultural systems. The differing impact of cultural values on networks of social relations is the basis for the concept of social capital, discussed in the following section.

4. Social Capital sx0285

One of the most important headings under which the issue of culture and development has been discussed in the 1980s and 1990s has been that of 'social capital.' Social capital consists of norms or values shared among a group of people that promote cooperation and trust among them; like physical and human capital, social capital is a source of wealth. While the term 'social capital' was put into general circulation by sociologist James S. Coleman in the 1980s, the concept underlying it has a long intellectual history. Alexis de Tocqueville noted in *Democracy in America* that the sx0290 American propensity for civil association was key to sx0295 the success of American democracy, since it permitted the society to organize itself without the help of centralized, hierarchical authority. Edward Banfield in his classic ethnographic study *The Moral Basis of a* sx0300 *Backward Society* coined the term 'amoral familism' sx0305 to connote the pathological condition he found in a small town in southern Italy, where people were only able to trust members of their immediate nuclear family and behaved opportunistically towards everyone else. The case described by Tocqueville was one of abundant social capital outside the family, which created the basis for successful democracy and economic development. Banfield's village, by contrast, was characterized by a dearth of social capital except within a narrow circle of kinship, a situation widely sx0310 held responsible for the underdevelopment and political corruption characteristic of southern Italy.

More recent studies of social capital have shown that it is very important in understanding the flow of sx0315 information in an economy. Social networks propagate information on job opportunities, relative prices, and a host of other economic information, but they can also obstruct the flow as well. In the 1990s the World Bank has experimented with so-called 'micro- sx0320 lending' projects that seek to use social networks to extend very small retail loans to poor customers in Africa and other regions. The success of microlending depends on adequate information about creditworthiness that is best captured through informal rather than formal information channels.

The concept of social capital has been criticized by both economists and sociologists for either being overly vague, or else being simply a repackaging of already-familiar concepts. One of the key weaknesses of the concept of social capital is lack of an agreed-upon method for measuring it, as exists for physical sx0325 and human capital. Absent a good metric, it is difficult to incorporate social capital into econometric models, and therefore to measure the impact of cultural factors relative to other types of variables.

5. Directions for Future Research

As the previous discussion indicated, the biggest challenge in studying culture and development is to find a way to incorporate cultural factors into theoretical and empirical models already in use by economists. Many cultural explanations of economic behavior tend to turn into detailed ethnographic studies, in which causal relationships become so complex that they are not generalizable beyond the particular group being studied. Economists, on the other hand, tend to favor abstract universal models of behavior that fail to take into account many of the complex contextual factors that often prove critical in the real world. It may be the case that these extremes cannot be reconciled, for example, because there is simply no reasonable empirical way to quantify cultural variables, or because causality is too multivariate and complex. On the other hand, the renewed interest in concepts like social capital may lead to the development of new data sources that will permit greater interaction between the ethnographic and model-building sides of the social sciences.

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