The Journal of Socio-Economics 47 (2013) 136–146

Contents lists available at ScienceDirect

The Journal of Socio-Economics

journal homepage: www.elsevier.com/locate/soceco

Cultural impact on national economic growth

J. Haavard Maridal*

2104 Mulberry Blvd, Tallahassee, FL 32303, United States

ARTICLE INFO

Article history:
Received 13 December 2010
Received in revised form 11 July 2012
Accepted 23 August 2012

JEL classification:
O11
O15
O17
O430
O470
O490
O570

Keywords:
Culture
Economic growth
Formal institutions
Informal institutions
Social capital

ABSTRACT

Following Fukuyama's (2001) postulation for future research in economic development, this paper examines the cultural hypothesis regarding national economic prosperity. Culture is found to affect economic performance through two channels; cultural traits that stimulate individual motivation, and traits that develop social capital in the population. Culture is defined as a society's beliefs and value system and operationalized through the use of variables from the World Values Survey (WVS). The analysis controls for factors commonly recognized in the economic growth literature. The results are sustained through a sensitivity analysis using a variant of extreme bounds analysis (EBA). Compared with previous empirical studies, this research deepens the cultural analysis, increases the number of observations, and lengthens the time period studied.

1. Introduction

> "The mode of production of material life conditions the general process of social, political and intellectual life. It is the material forces of production and not the consciousness of men that determines their existence." Karl Marx On Political Economy (1859).

> We are cultural beings, endowed with the capacity and the will to take a deliberate attitude toward the world and to lend it significance. Max Weber Objectivity in Social Science and Social Policy (1904)

> "Lawgivers make the citizen good by inculcating habits in them, and this is the aim of every lawgiver; if he does not succeed in doing that, his legislation is a failure. It is in this that a good constitution differs from a bad one." Aristotle Nicomachean Ethics (350 BC)

In 20th century social sciences, factor allocation, geographic location, historical coincidence, human capital, political systems and economic policies were among the factors advanced as the main causes for national differences in economic prosperity. However, in a summary of the literature on economic development, Fukuyama (2001) called for the development of a method that incorporates cultural factors into modern theoretical and empirical models already in use by economists. This research represents such an attempt. The paper contains six sections. It starts with a short introduction, followed by a review of the literature of cultural influence on the economy, theory and methods, results, discussion and a conclusion.

Classical economists like Adam Smith and institutional economists like Torstein Veblen regarded culture as instrumental in shaping economic outcomes. However, beginning in the late 19th century, cultural research became mostly a domain of sociologists, anthropologists and organization studies as cultural explanations lost esteem in favor of more mechanical approaches in economics. From the 1950s onward sociology and anthropology followed suit. A rejection of any explanation of economic outcomes that invokes a group's cultural attributes, its distinct attitudes, values and predispositions, and the resulting behavior of its members" became the rule in all social sciences according to Patterson (2006: 13). Many economists adopted a Marxist understanding of the causational direction between economics and culture, where the economy is not embedded in the social system, but governs it (Polanyi, 1944).

* Tel.: +1 850 591 1169.
E-mail addresses: ymaridal@fsu.edu, janm888@gmail.com

1053-5357/$ – see front matter
http://dx.doi.org/10.1016/j.socec.2012.08.002

Culture and economic prosperity was therefore rarely linked with economic development. The main exception being the subfields of business administration, like strategy, management, and organization theory where the idea of cultural importance to economic performance become commonly accepted in the late 20th century according to Papamarcos and Watson (2006).

Given that casual observations indicate their importance it is peculiar that 20th century economics not more readily investigated the role of cultural factors. The Italian economy is a good example. While Northern and Southern Italy have had the same formal institutional structures, and have been ruled by the same central governments over the last 150 years, Northern Italy has a GDP per capita that is 25 percent higher than the EU average, while Southern Italy's GDP is 25 percent lower than the EU average. The lower productivity in the South is also evident through the Italian judicial system. Despite the same incentive structure, it takes much longer to complete investigations and rule on civil cases in Southern Italy (Tabellini, 2008: 1). Belgium offers a similar pattern to Italy; the Flemish Protestant areas in the North have traditionally been more productive than the French and Catholic Valonia in the South. India, which inherited its formal institutions and technology from the UK, still has persistently lower productivity levels than the UK sixty years later. Likewise, Argentina and Australia, two countries with comparable climate, colonial history and natural resources has experienced very different paths of economic prosperity over the last century.

However, there also exist geographical differences in prosperity that cannot be explained by culture. North Korea had a similar cultural foundation to South Korea 60 years ago, but their current differences in economic prosperity can better be explained by the quality of formal institutional structures and economic policies.

The substantial constraining element beliefs and values may impose on instrumental rationality can be illustrated through a comparison of traditional African culture with the culture of the early United States. Family and tribe play a substantially more prominent role than the individual and the government in African countries; this causes norms, traditions and conventions to play an even more important part than in developed economies.

A distinct characteristic in traditional African culture is the low level of savings in the economy; surplus income is often consumed immediately.[1] Dia (1991: 5) described the lack of frugality: "there is a social and mystical need for what westerners may call wastefulness. For example, among the Diola of Senegal, L.V. Thomas observed the massacre of 750 head of cattle to celebrate a circumcision ceremony, and it is not uncommon for poor, malnourished farmers to give away vast quantities of foods on the occasion of marriages, circumcisions, or burials." Excess income, according to Dia's research, only serves to extend or widen the circle of beneficiaries.

Economic success achieved outside of the group often leads to ostracism. Economic progress is therefore not related to upward social mobility like it is in the Western World. Dia (1991: 4) again explains the particular African experience very well:

> African economic psychology is generally characterized by powerful connections between objects, humans and the supernatural. Although the emphasis put on each of these elements, and the interrelationships among them, can vary from one ethnic group or tribe to another, the quest for equilibrium with other human beings and with the supernatural is generally the dominant guiding principle. The frontiers separating collective preferences from individual ones are often non-existent or quite vague. Typically, a higher value is placed on interpersonal relations and the timely execution of certain social and religious or mystic activities than on individual achievements. The circumstances, and sometimes the ritual surrounding the economic transactions, are often more important than the principles governing these transactions. The value of economic acts is measured in terms of their capacity to reinforce the bonds of the group.

These African cultural traits that Dia reported, have been supported by the work of French scholar Binet (1970) on economic psychology in fifty-six African tribes.[2]

Differences between the African tribal culture and the Protestant ethic are distinctly embodied by Franklin (1748) almost 300 years ago

> Remember, that time is money. He that can earn ten shillings a day by his labor, and goes abroad, or sits idle, one half of that day, though he spends but sixpence during his diversion or idleness, ought not to reckon that the only expense; he has really spent, or rather thrown away, five shillings besides. . . . Remember, that money is the prolific, generating nature. Money can beget money, and its offspring can beget more, and so on. Five shillings turned is six, turned again is seven and three pence, and so on, till it becomes a hundred pounds. The more there is of it, the more it produces every turning, so that the profits rise quicker and quicker. He that kills a breeding sow, destroys all her offspring to the thousandth generation. He that murders a crown, destroys all that it might have produced, even scores of pounds.

The field of Psychology, exemplified in Maslow's Motivation and Personality (1954: 66), has provided evidence that motivation is important to human action. The cultural traits discussed above must therefore play an important role in the economy as well as social life.

2. Review of the literature of cultural impact on the economy

The dominant paradigm of the 20th century social sciences has been Karl Marx's dialectical process between man and nature which held that technological change determined the institutions, cultural foundation and the religion of a society. In *Socialism – Utopian and Scientific*, Marx and Engels (1880: 54) stated: "The final causes of all social change and political revolution are to be sought, not in men's brains, not in man's insight into eternal truth and justice but in the economies of each epoch." Marx's account has been given the name historical materialism.

However, Classical economists frequently touched upon this topic and their account often diverged from Marx's. In the Theory on Moral Sentiments (1759), Adam Smith emphasized that morality in personal exchanges was the basis for human interaction. Smith reasoned that the natural senses of conscience and sympathy (*empathy*) enable human beings to live as a community in orderly and beneficial social organizations. Smith held that the human conscience is innate but can be molded [1759 (1976: 47)]. By recognizing that the human mind and conscience can be molded, Smith laid a foundation for the modern understanding of virtues, trust, and social capital in terms of their great importance to human prosperity. Like Aristotle, and Smith, the Austrian economist Friedrich Hayek advocated individual moral responsibility as a necessity to the individual's abilities to support themselves and the community. Hayek like Smith, made a case for informal institutions and

[1] These cultural factors have many causes and some may be technological. The stability of the weather and the existence of four planting and harvesting seasons are factors that have been suggested as making saving less precarious.

[2] While African culture values the cohesiveness of the group, it has nearly been eliminated the multicultural Western World.