Science Arena Publications
Specialty Journal of Accounting and Economics
Available online at www.sciarena.com
2015, Vol, 1 (1): 6-10

The role of culture Components in Growth and Economic Development Process of Countries

Mojtaba Ghiasi

Department of Accounting, malayer Branch, Islamic Azad University,Malayer, Iran.
Corresponding author email: M_ghiasi2007 @ yahoo.com

ABSTRACT: The role of culture in the growth and economic development of countries is often overlooked by economists, yet it can significantly affect a country's economic development. In recent years however, the development of culture is the starting point and the main axis of economic activities in the Countries. Modification of ideas, methods of production, distribution, consumption, and moral development in which economic development must be considered. Thus Cultural change plays the role of a compass and a well-informed caption who can direct the facilities and capital of the country toward Growth and economic development. This paper develops a new approach to uncovering the impact of cultural attitudes on Growth and economic development.
Key words: culture, Economic development.

Introduction

Cultural values and beliefs of society, plays a decisive role in their economic behavior and its development process and content. In other words, despite all the work that has been done in the sphere of culture, in every society there is a need to further explore the role of culture in the development process. both on the theoretical level and in its practical application through development activities and projects: starting with the cultural comprehension of the very concept of development, and then clarifying what s understood by culture in development cooperation, in order to generate tools which favor the application of the theory and the mainstreaming of culture in development practice. Also, maintaining the appearance of a system depends on the mobility and independence of political and economic activities, but the activities of other sectors of the economy or policy, influenced by social system. The existence and persistence of populations depends on the type of culture or values and beliefs that have shaped the community.

Although the study of interactions between culture and economic development is not new, many economists have been often overlooked the role of culture in economic development. It is well known that due to its simplifying approach, neoclassical economics approach cultural factors only when all other explanations fall short. Economists use the simplifying approach which states that people are rational and try to maximize utility, and such a maximizing behavior is similar across societies. A parallel approach to the neoclassical one is of sociological nature. Cultural norms are strongly present within economic life and, as such, sociology takes a more profound look at economic causality. The impact on growth tends to be studied more by economic sociologists rather than economists. Thus, In order to answer the interrogation in the title we are tempted to make the following statement: culture is an important factor in economic development. Culture influences society's ability not only to create but also to operate institutions. Culture encompasses what is representative and continuously in the history of a society. Once integrated, they reinforce an already existing trend.

Not lacking objective grounds, the importance of the cultural component for growth has long been a controversial issue for Economic science.

The Role of Culture in Economic Growth

In order to understand how culture may affect economic growth, we must first specify what we mean by culture. We follow Guiso et al. (2006), who characterize culture as "…those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." Starting from this general definition, we focus on several specific indicators of culture that are identified as being relevant for economic interaction and exchange. Therefore, one can think of this subset as 'economic culture.' Porter (2000) defines economic culture as "the beliefs, attitudes, and values that bear on economic activities of individuals, organizations, and other institutions.

We follow Porter's terminology in order to narrow the concept of culture so that we can focus our analysis on how economic cultural traits may affect economic growth. This narrowing process enables us to provide a more in-depth analysis of the connection between culture and economic growth (Patterson 2000).

Our economic culture variable is constructed by identifying four distinct categories of culture that should constrain behavior related to social and economic interaction and, thus, economic development. These four components are trust, respect, individual self-determination, and obedience and serve as rules governing interaction between individuals, including market production and entrepreneurship. In general, trust, respect, and individual self-determination are thought to stimulate social and economic interaction, whereas obedience is thought to limit economic interaction and development by decreasing risk-taking, a trait essential to entrepreneurship.

How might this conception of economic culture impact growth? As Boettke (2009) states, "culture is both a binding and bending constraint on human affairs." Our first component of culture, trust, may influence economic outcomes through its impact on transaction costs. When individuals are more trusting, transactions costs and monitoring costs are lower, and property rights are more secure (C. Williamson and Kerekes 2008). This literature asserts that greater levels of trust are consistent with greater economic growth and development (Fukuyama 1996; Knack and Keefer 1997; La Porta et al. 1997; Woolcock 1998; Zak and Knack 2001; Francois and Zabojnik 2005).

As Coyne and C. Williamson (2009) explain, low levels of trust lead to smaller trading networks between individuals due to high transactions and monitoring costs. Because of this effect, the extent of the market is much smaller than it would be if trust levels were elevated, making anonymous trade a more attractive option given the lower monitoring and transactions costs.

The second cultural measure, self-determination, is a quantitative measure of the amount of control individuals feel they have in determining their actions. In other words, do individuals have control over their choices? If the answer to this is yes, and individuals must claim the results of their actions—whether they are good or bad outcomes—individuals will be more likely to innovate, invest in the future, and work more diligently (Tabellini 2009; Coyne and Williamson 2009). Put another way, if individuals view economic success or failure as a result of their own efforts (i.e. Individuals have high levels of self-determination), they will work harder in order to earn a greater payoff for their productivity and increase their welfare. According to this line of reasoning, the greater an individual's 'locus of control,' the greater the overall level of economic development in their country (Banfield 1958).

The third cultural measure, respect, is important in that a greater level of respect connotes a greater tolerance for others. With greater tolerance comes a more accepting attitude towards trade with outsiders, thus increasing the extent of the market and increasing economic growth and development. Respect is, at its core, a measure of generalized versus limited morality, where generalized morality implies morality both within and between groups based on abstract rules governing behavior. Limited morality implies behavior within groups based on rules but lacks general principles to govern interaction between groups. Thus, economic interaction and exchange can be hindered by a lack of generalized morality. In a country with low levels of respect, limited morality may be the status quo, making opportunistic behavior morally condoned when interacting with those outside of an individual's small group (Platteau 2000). As Coyne and Williamson (2009) explain, "in societies with lower levels of social capital, and hence lower levels of respect, the extent of the market will be limited to close kin and friendship networks." According to this line of reasoning, higher levels of respect should lead to higher levels of economic development.

The inclusion of culture in both theoretical and empirical economic studies is a recent development. Culture, especially in economic growth literature, is largely ignored or assumed away as a constant. However, as Boettke (2009) aptly states, "We cannot assume away cultural influences as economists have often done." Empirically, several studies lend credence to the hypothesis that informal rules and culture play a role in economic outcomes (Chamlee-Wright 1997; Knack and Keefer 1997; Grier 1997; Duffy and Stubben 1998; Barro and McCleary 2003; Guiso et al. 2006; Leeson 2007a, b, c; C. Williamson 2009). In fact, Tabellini (2009) finds a strong causal relationship between culture and economic development across different European countries. C. Williamson and Kerekes (2008) empirically demonstrate that culture can lead to more secure private property rights. Additionally, Grief (1994), Banfield (1958), and Putnam (1993) conclude that cultural concerns and beliefs must be considered when devising strategies for economic development if these policies are to be successful and self-sustaining.

In addition to explaining how culture may impact growth, we also examine how economic freedom affects economic performance, a query that is robustly discussed in previous literature. The theoretical underpinning regarding the link between economic freedom and economic growth is well established. As De Haan and Sturm (2000) note, "since the time of Adam Smith, if not before, economists and economic historians have argued that the freedom to choose and supply resources, competition in business, and trade with others and secure property rights are central ingredients for economic progress."

Given the existing literature illustrating the importance of culture, independently, on growth, the next logical question is how economic growth is impacted by both variables. When culture is included in empirical estimates, the relative impact of each on growth can be deduced.

The Role of Culture on Economic Development

In recent years the idea that the cultural dimension must be included in the development policies and actions has become generally accepted. Due to the prioritization of sustainable human development over other more econometric development models, culture has been studied as a necessary element for the full development of people and communities. Development, as overcoming poverty, has also increasingly opted for a broader concept of the term poverty. Hence a broader approach to poverty includes, amongst others, the cultural sphere.

The relationship between culture and development started to be defended by different experts in the 1970s although it was not until the 1980s or even the 1990s when the international bodies and development cooperation agencies started to promote studies and work to analyze how cultural factors could have an impact on the development processes. Culture, always seen as a complex issue and socially and politically highly sensitive, has nowadays become a cliché, used abundantly in almost all contexts of our reality (political, social, educational, economic, etc.).

Culture is the human endeavor that par excellence produces feelings and imaginaries in society. It also reinforces the feeling of identity and citizenship. From the start, this concept supposes certain specificities in the American continent: the co-existence of cultural manifestations close to, what we can define as, traditional culture, which is product of a multiplicity of ethnic groups and subcultures that has participated in the construction of the identity and history of the region; and the manifestations closer to what we can define as modern culture or, furthermore, as industrial culture, which is also a characteristic of the contemporary continental culture. The sustainability of these cultural manifestations without exception is then, the inevitable guarantee of multiethnic and floricultural society.

Some of the activities related to culture generate, additionally, an analogous economic impact to the one produced by other sectors of the economy. In one word, culture is, besides an indispensable element for social cohesion and the reconstruction of an identity, an economic sector equally or even more important than any other productive sector of society. The economic transactions that take place in the deepest heart of culture generate positive economic effects such as learning and knowledge. That is, the cultural sector contributes to development from the social and identity sectors, such as from the economic ones.

Culture represents a combined reflection of politics and economy in a society. Although the study of interactions between culture and economic development is not new, many economists have often overlooked the fundamental role of culture in economic development. Others economists still base their research on the interaction between formal institutions and culture, which are likely to influence and shape the incentives and the behavior of economic and political agents. Tabellini (2005), Knack and Kefer (1997), Greif (1997, 2005, etc. are some eloquent examples.

According to the study made by Tabellini (2005), culture can be measured using indicators of individual values and beliefs such as trust, respect for other individuals and confidence in individual self-determination. In order to isolate the exogenous variation in culture, the above author relies on two historical variables used as instruments: the first one is the literacy rate in the late nineteenth century and second, the political institutions in place over the past several centuries. In this paper Tabellini shows that the 'exogenous component of culture due to history is strongly correlated with current regional economic development, after controlling for contemporary education, urbanization rates around 1850 and national effects.'14 The study confirms that the two variables used affect regional development through culture, in other words culture is an important determinant of economic development and long-run performance. Following the same pattern studies made by Knack and Kefer (1997), show that culture is an important and constant determinant of economic performance. (Iolanda Voda 2012)

More recently, Yuriy Gorodnichenko and Roland Gerard (2010) construct an endogenous growth model that includes cultural variables along the dimension of individualism and collectivism. The model suggests that a greater share of individualism lead to increased innovation rate and a much higher growth due to social rewards associated with innovation in individualistic culture.

Conclusion

Today has proven that one of the main reasons for the underdevelopment of communities, ignoring the role of culture in the economy. Although the study of interactions between culture and economic development is not new, many economists have been often overlooked the role of culture in economic development. However Culture, cultural values are integral elements of economic development from at least two reasons:

First, culture influences society's ability not only to create but also to operate institutions. Culture encompasses what is representative and continuously in the history of a people. Once integrated, they reinforce an already existing trend.

Second, numerous studies made by the specialists in the field reveal the fundamental importance of different cultures in growth and economic development.

References

Banfield EC. (1958). The Moral Basis of a Backward Society. New York: The Free Press.

Barro, Robert J. and R. McCleary. (2003). "Religion and Economic Growth across Countries," American Sociological Review, 68(5): 760-781.

Boettke, P.J. (2009). "Review of Eric L. Jones Cultures Merging: A Historical and Economic Critique of Culture," Economic Development and Cultural Change, 57(2): 434-437.

Chamlee-Wright, E. (1997). The Cultural Foundations of Economic Development: Urban Female Entrepreneurship in Ghana. New York: Routledge.

Coyne, C.J. and C. Williamson. (2009). "Trade Openness and Culture," Mimeo.

Duffy, D. and J. Stubben. (1998). "An Assessment of Native American Economic Development: Putting Culture and Sovereignty Back in the Models," Studies in Comparative International Development 32(4): 52-78.

Francois, P. and J. Zabojnik. (2005). "Trust, Social Capital and Economic Development," Journal of European Economic Association," 3(1): 51-94.

Fukuyama, F. (1996). Trust: The Social Virtues and the Creation of Prosperity. New York: Simon and Schuster.

G. Mäler, A. Vercelli (eds.), The Economics of Transnational Commons, Oxford University Press, Oxford, pp. 238-296.

Greif A. (1997), Cultural Beliefs as a Common Resource in an Integrating World, Dasgupta, P, K.

Greif A. (2005), Commitment, Coercion, and Markets: The Nature and Dynamics of Institutions Supporting Exchange, in Ménard, C. and Shirley, M. M. (ads) Handbook of New Institutional Economics, Norwell MA: Kluwer Academic Publishers.

Grier, R. (1997). "The Effect of Religion on Economic Development: A Cross-National Study of Sixty-Three Former Colonies," Kyklos, 50(1): 47-62.

Guiso, L., P. Sapienza and L. Zingales. (2006). "Does Culture Affect Economic Outcomes?" Journal of Economic Perspectives, 20(2): 23-48.

Iolanda Voda Ana (2012), Do Cultural Factors Influence Economic Development? Academic Research Journals (India), Volume 1, Number 1, pp. 17-25.

Keefer Philip, Knack Stephen (1997), Why Don't Poor Countries Catch Up? A Cross – National Test of an Institutional Explanation, Economic Inquiry, XXXV, Vol. 35, No. 3, Oxford University Press, Oxford.

Knack, S. and P. Keefer. (1997). "Does Social Capital Have an Economic Payoff?" The Quarterly Journal of Economics, 112(4): 1251-1288.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer, and R. Vishny. (1997). "Trust in Large Organizations," American Economic Review, 87(2): 333-338.

Lawson, R. G. (2006). "On Testing the Connection between Economic Freedom and Growth," Econ Journal Watch, 3(3): 398-406.

Patterson, Orlando. (2000). "Taking Culture Seriously: A Framework and an Afro- American Illustration," in ed. Lawrence Harrison and Samuel Huntington Culture Matters: How Values Shape Human Progress. New York: Basic Books, 202-218.

Platteau, J. (2000). Institutions, Social Norms, and Economic Development. Harwood: Academic Publishers & Routledge.

Porter, Michael E. (2000). "Attitudes, Values, and Beliefs, and the Microeconomics of Prosperity," in ed. Lawrence Harrison and Samuel Huntington Culture Matters: How Values Shape Human Progress. New York: Basic Books, 202-218.

Putnam, R.D. (1993). Making Democracy Work: Civic Traditions in Modern Italy. Princeton, NJ: Princeton University Press.

Sturm, J. and J. De Haan. (2001). "How Robust is the Relationship between Economic Freedom and Economic Growth Really?" Applied Economics, 33: 839–844.

Tabellini Guido (2005), Culture and Institutions: Economic Development in the Regions of Europe, Cesifo Working Paper, and No. 1492.
Tabellini, G. (2009). "Culture and Institutions: Economic Development in the Regions of Europe," Journal of the European Economic Association, forthcoming.
Williamson, C.R. and C.B. Kerekes. (2008). "Securing Private Property: Formal versus Informal Institutions," Mimeo.
Woolcock, M. (1998). "Social Capital and Economic Development: Toward a Theoretical Synthesis and Policy Framework," Theory and Society, 27(2): 151-208.
Yuriy Gorodnichenko, Gerard Roland (2010), Culture, Institutions and the Wealth of Nations, March 2010 at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682575
Zak, P.J., and S. Knack. (2001). "Trust and Growth," The Economic Journal, 111: 295-321.