

# Chapter 14: Culture

**Culture** is a collective term to unite shared values, attributes or beliefs in a society, which makes it distinction-able from other societies.

## The influence of culture on economic growth

Not only are appropriate measurements for culture hard to find, it is also difficult to estimate the exact impact on economic growth. Therefore, we will try to approach the cultural influence by taking a closer look at subtopics of culture:

### 1. *Openness towards Innovations*

The technological level and hence the economic growth are dependent on the willingness of a society to adapt and recognize the value of foreign ideas. The difference in that willingness also determines developing gaps, for example when comparing Japan and the Islamic world. Japan, which is one of the most economically successful nations, was willing to absorb new technologies developed in Europe or the USA. On the other hand, the Islamic world showed the tendency to refuse to incorporate foreign technologies, which hindered economic growth.

### 2. *Hard Work*

The attitude towards labour differs across cultures and might explain the economic development. Even though the literature failed to find empirical proof for the thesis we assume that the valuation of leisure over work (vice versa) influences economic growth. The root of European work ethic is Protestant ethnic reformation, which stressed that "all men were created to busy themselves with labour"(J.Calvin).

### 3. *Saving attitude*

As we saw before the saving rate has a large influence on the economy. Assuming that the cultural attitude towards saving differs, might explain different saving rates and therefore also differences in economic performance

### 4. *Trust*

Even though institutions and government regulations secure many business transactions, some are purely built on trust for both parties to fulfil an agreement. The degree of trustworthiness attributed to the members of a society influence economic growth; there is a strong positive correlation between investment and the percentage of the society that claims that most people can be trusted.

### 5. *Social Capital*

**Social capital** determines the level of interaction among the members of society; therefore, social capital forms the basis for trust. The higher the social capital between persons, interaction/friendship, the higher the trust. Besides trust, there are other attributes of social capital, which enhance the economic performance, e.g. information transfuses easier through social networks, regarding jobs or aid.

In addition, the quality of governance is also determined by social capital; a society with high Social capital is likelier to vote actively because they care more about the community.

### 6. *Social Capability*

The quality of social and cultural attributes and behaviour in a society is referred to with **Social Capability**. High social capability attributes enable the country to take economic

opportunities, including technology transfer, factor flows of trade. First mentioned by Moses Abramovitz, Social Capability includes the elements, which influence economic growth:

- A earth-centred view, which sees life as important motive, rather than the unimportance of life
- The population's experiences with large scale corporations
- Future orientation: future planning based on pragmatic science rather than superstition beliefs.
- The possibility for the population to engage in market mechanism, like trade or through specialisation.

After Abramovitz, an underdeveloped country with a high social capability is able to bridge the economic development gap faster, which is proofed by a high correlation between social capability and the level per income. Social capability is measured with the Adelman-Morris index. But as the governmental structure, different social attitudes are helpful at one economic development stage, and not in another, e.g. the attribute of workforce was, before the industrialisation, mainly focused on strength, which does not hold today anymore.

### **The Determinants of Culture**

After we examined the effects of Culture on economic growth, we shall turn to the question of what determines Culture. The factors of Culture include religion or history to name a few, but we will only consider factors which are exposed to economic influence. That includes the Climate and Natural Resources, Cultural Homogeneity or Population density impact.

#### *1. Climate and Natural Resources*

The direct linkage between economic behaviour and climate and natural resources is the attribute of saving or forward (in the future) looking manner. If the climate allows only seasonal agricultural harvest, people are forced to plan in advance for hard periods, whereas people experiencing all year round agricultural production, do not have to learn to plan forward. The same reasoning holds for the use of Natural Resources, if countries are abundant in resources they may not invest in future technologies, but instead rely on the resources.

#### *2. Cultural Homogeneity and Social Capital*

The level of **Cultural Homogeneity**, i.e. the degree to which a society is solely consistent of only one culture influences economic growth through the channels of social capital, including that social networks might be stronger if people share one culture or the level of trust is higher between people of the same culture.

**The index of ethnic fractionalization** measures the degree of ethnical homogeneity by stating the possibility that two random people of one society meet and do not share the same cultural background. Thus, the index of ethnic fractionalization of "0" illustrates that the society only consist of one ethnic group, because the chance of meeting another ethnical person is equal to zero, whereas the index of "0,5" states that the society hosts two different equal large ethnical groups.

A highly ethnical fractionated society has a negative impact on economic growth, due to a negative correlation between income and the index of ethnic fractionalization. Underlying possible reasons are difficulties of governance or historical reasons, like colonization. Besides ethnical, also linguistic and religious fractionalization tend to have an influence on economic growth. Linguistic fractionalization has, like the ethnical a negative impact for the same reason, that social capital is easier with two people sharing one language.

Contrary, researchers found out that countries with a high religious fractionalization have higher income then with less religious groups. That is because a large amount of religions is

a sign for high tolerance of the government and that political systems have a democratic scope, which includes the protection of minorities.

### *3. Social Capability and population density*

Population density influences social capability through the channel of more institutions and a higher abundance of the factor labour. Areas with a high amount of inhabitants have a greater need for regulations. Like extensive governmental structures or institutions, which are helpful to take advantage of new economic possibilities and therefore enhance Social Capability. The same reasoning holds for labour abundance.

Thus, a strong correlation describes the relationship between income growth and the degree of population density. The density of population itself is subject to geographical circumstances, the quality of government, foreign trade (to import food) and the level of technology (to increase the output used for food).

### **Cultural Change**

We already noted that there is a relationship between cultural attributes and economic performance. However, it is appropriate to believe that economic growth alters culture. Factors of economic growth, like foreign ideas, Urbanization or increases in educational level have a large-scale impact on cultural values.

The government is able, through various channels to determine the facets of culture. Governmental interaction might have the primary aim to target especially cultural change, or cultural change might only be a by-product of certain policies. The reason for government interaction in culture can have a non-economic (like the creation of a national unity) or economic promoting nature (e.g. promoting growth through modernization).