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A Review of the Impact of National Culture on Economic Growth

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Abstract

The issue of what causes some countries to achieve high economic growth while others that enjoy the same nature and natural resources don't, is still controversial and attracts the attention of both academic and non-academic alike. Therefore, the purpose of this paper is to review the literature with respect to the different researches' findings that tackle this debatable issue. Apparently, traditional economic theories link economic growth to various factors like capital, technology and labor markets. In the meantime, there is a clear evidence of the role played by national culture in the economic growth of some nations at a certain period of time, yet such cultures might have not played the same successful role at other different periods; however, the empirical findings of such studies neither support nor ignore such relationship. Therefore, a meta-analysis research would be desirable to integrate results from the existing studies to reveal patterns of causal relationships and to form a theoretical framework for further future studies. In addition, the researcher also suggests that big research institution should work hand in hand to conduct more researches in this field.

Keywords: National culture; Economic growth

Objective

According to Cushrer and Brislin [1] National Culture can be defined as the average common ideas, values and assumptions about life that are widely shared and that guide the behavior of specific nation or people. Economic Growth can be defined as the rate of increase in the value added produced in the economy – GDP growth rate. Alternatively, the rate of increase in the incomes of all factors of production in one year (always calculated in constant prices). According to Guiso et al. [2], Sociologists and anthropologists have accumulated a wealth of field evidence on the impact of culture on economic behavior. In the meantime, if economics as a recognized science began, as most (but not all) economists believe, with the publication in 1776 of Adam Smith's Inquiry into the Nature and Causes of the Wealth of Nations, then economics originated as an attempt to answer the question, What causes economic growth? The volume of a nation's annual production, Smith asserted, will depend primarily on "the skill, dexterity, and judgment" with which people apply their labor to the natural resources available to them, and this in turn will depend primarily upon the extent to which they have carried the division of labor, or what we would call specialization. But specialization requires trade, so that when the division of labor has extended itself sufficiently throughout a society, everyone lives by exchanging. Everyone, Smith wrote, "becomes in some measure a merchant," and the society becomes "a commercial society." Smith set himself the task of explaining how productive activity is coordinated in a commercial society. To this end, Adam Smith viewed his Theory of Moral Sentiments as an integral part to the "Wealth of Nations". In view of that, it is obvious that the very first writings in economics aimed at revealing the causes of economic wealth of some nations and the reasons behind economic growth. On the other hand, knowing such reasons could pave the way for other weak economic nations to try applying them in an attempt to improve their weak economies and increase their growth rate. It is worth mentioning that Adam Smith at that early stage did not consider or mention the role of national culture in the welfare of countries among the factors and reasons he mentioned through his early researches, although that "the skill, dexterity, and judgment" that Adam Smith suggested as the main drivers and reasons that cause economic growth can been seen as behaviors that are stimulated by certain attitudes, beliefs and values, that represent an embedded culture found in certain nations than others. In the meantime, Guiso et al. states the fact that economists have begun recently to apply their analytical frameworks and empirical tools to the issue of culture and economic outcomes. Therefore, the purpose of this research paper is to review the literature with respect to the influence of national culture on economic growth and to discuss the different empirical findings shown by different studies conducted in this field and the debates take place between both culturalists and economists with regard to the causal link between culture on economic growth.

Introduction

Max Weber's thesis

The role of National culture played in economic growth remained unrevealed till 1905, when Max Weber linked in his early studies between the raise of an economic ideology (capitalism), and a certain religious creed (protestant ethic). Despite that Max Weber is widely recognized as one of the founding fathers of the discipline of sociology. Campbell, [3] yet Weber was the first one who suggested that they might be a certain correlation between national culture and economic growth. Therefore, arguments which prioritize culture as a prominent development factor are not new, Max Weber raised awareness of the importance of a set of values to explain the success of industrial capitalism vis-a-vis pre-capitalist agrarian societies across Europe [4]. Weber published in 1904-1905 his book entitled, "The Protestant ethic and the spirit of capitalism" in which stated that Protestantism, more specifically the Calvinist branches, promoted the rise of modern capitalism. Protestantism did this, he stated, by defining and sanctioning the ethic of everyday behavior that conduced to business success [5]. While these values spread widely along with the Protestant Reform

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in Central Europe, traditional values of obedience and religious faith remained in Southern Europe. That explains, according to Rao [6], why decades of poorer economic performance ensued across Southern Europe.

In the meantime, Calvalcanti et al. [7] investigated whether differences between Catholics and Protestants most closely identified with the Protestant Work Ethic can account for long delays in the start of Industrialization observed between various countries and regions. The main finding is that these differences may possibly explain why Northern Europe developed before Southern Europe, but they cannot explain why Europe developed before Latin America. In the meantime, there are thousands of regional economies across the world that are also similarly premised on strong cohesive regional cultures, including ethnic cultures, trade unions cultures or work cultures based on particular sectoral specialization. Moreover, some of the well-known geographical examples of new industrial districts are also based on religious regional cultures. This includes Boston's Route 128, embedded in New England's Protestant culture, which sustains conservative business cultures in local large electronics firms; and the ethnic immigrant networks in Silicon Valley premised on Buddhist, Hindu and Shintoist culture, which connect local firms to dynamic growth regions in South East Asia [8]. In view of the above, although that Weber in the late 19th century did not approve of the divorce between economics and the other social sciences and tried to suggest a rapprochement which he labeled as "Sozialokonomik" or scocioeconomics, unfortunately, the treatment of national culture in economics had been hindered by how economics is integrated with and related to other social sciences. As a result culture in its own right has not been dealt with explicitly as a major issue by economists. Moreover, there has been a lot of debate regarding Weber's theory of the effect of national culture on economic growth and failure.

Different views towards Max Weber's thesis

Some researchers neither approve nor support that approach while others supported his ideas and beliefs through relating some of the economic growth leaps of some countries especially after the Second World War to Weber's theory, to the extent that they attributed such economic success of some nations only to the cultural factor. Banfield in1958 is the first to propose a cultural explanation for underdevelopment. He attributes the underdevelopment of southern Italy to the excessive pursuit of narrow self-interest by its inhabitants, a condition he labels "amoral familism. Cuesta suggested that a critical review of economicist and culturalist paradigms shows that the developmental role attributed to culture in general and to specific values, beliefs and behaviors in particular has fluctuated between two extremes, from complete neglect to claims of explanatory superiority. Fergusons [9] does not deny the role played by Weber to define the role of culture in economic growth in some countries and the economic failure in others, yet he confirms that most academics today regard Weber's argument as having been discredited. Furthermore, Weber intended to claim that a Protestant ethic actually caused the rise of modern capitalism. All of which rather suggests that, of all the accusations that could be leveled against contemporary sociologists, ignoring Weber's essay, or at least failing to appreciate its true significance, could hardly be one of them. Weiss and Hobson [10] remind us that the same revered Confucian ethics, to which culturalist theories attribute the success of East Asian countries, have been associated for centuries with stagnant economies. Peukert [11] asks to what degree can Weber's contributions to the basics of social science analysis and methodology be regarded as a milestone for modern economic sociology and a basis for a heterodox economic paradigm, and if we can get some constructive suggestions for present research from his research agenda. He claims that Weber's outline and research program is not really helpful for present-day economic sociology and heterodox economics because he believes that Weber had a rather narrow understanding of rationality and the economy. However, Parsons [12] disputes Peukert's claim and argues that Weber differentiates between economic and sociological perspectives on the economy through incorporating uncertainty into the latter. Hence, Weber's economic sociology develops the distinction between "before" and "after" perspectives on action, incorporates expectations, and defines capital with reference to time and uncertainty. Furthermore, Weber's analysis of formal rationality presupposes uncertainty. Weber's economic sociology thus assumes a dynamic economy, where uncertainty is prevalent, and formal rationality can reduce uncertainty. In the meantime, there are numerous reasons to exercise great caution in the face of these 'over-grand' culturalist theories, as Cuesta, confirms. He believes that while such theories may explain specific episodes of development, they fail to clearly explain the international development experience following the Second World War. They also reject the implication that Confucianism encompasses a homogeneous ethics, an argument equally applicable to Christianity or Islamism. Instead, they argue that the choice of political arrangements such as strategic industrialization guided by the State is behind the development success of the region. Therefore, national culture has been either neglected as a determinant of economic growth by economicist theories or deemed the main explanation behind international developmental differences by culturalist theses. Empirical evidence supports neither of these arguments. Less ambitious theories connecting concrete cultural aspects, such as trust and associational participation in communities, have more convincingly estimated a significant and positive impact on economic welfare.

A Review of Recent Studies

Moreover, since the 1990s, both the paradigm of human development and passionate discussions on globalization has revived interest in the role of culture in economic development. The myopic approach of many analyses has contributed to a heated debate. 'One-size-fits-all' culturalists (and economicist) analyses attempt to explain development by turning a handful of historical episodes into universal paradigms. Unsurprisingly, empirical evidence does not support such claims. Accordingly, there have been numerous studies in recent years attempting to explain why some countries such as Taiwan, Hong Kong, South Korea and Singapore, have experienced high level of economic growth over the past 2 decades, while other countries' economies have experienced low or even negative real growth [13]. While some statistically significant correlations have been found, others have failed to establish a direct causal link between a nation's culture and its rate of economic growth. The protestant work ethic worked its wonders not just in the western world but also in Asia. Japan has been characterized as a society whose sense of duty and collective obligation, in all realms, set it apart from the individualism cultivated in the west. Along with the government initiatives and a collective commitment to modernization, this work ethic and Japanese personal values made possible the so-called Japanese miracle [14]. Other 'culturalist' explanations have gone much further. Huntington's thesis of clashing civilizations, in which individuals no longer identify themselves along ideological lines but as part of cultural groups, is well known. More recently, the contribution of cultural factors to economic success or failure in different countries or regions of the world has been documented [15]. Huntington [16] predicts that, as a result, economic globalization will lead to a ferocious competition among civilizations and a protracted confrontation among the most prominent cultures. He envisages that economic competition without cultural convergence will dominate future world relations. Confrontation between democratic, communist and fascist regimes has been replaced by Western, Islamic, Confucian (and other) culture clashes. A frequent critique of this thesis, however, is that traditional civilizations are bound to conflict. There are, after all, at least as many examples in history of civilizations collapsing at the hands of others, as there are of successful episodes of cooperation among them. Huntington in his attempt to link national culture with economic growth took an example of two countries that had similar per capita income levels, economic sectors and composition of exports in the early 1960s. Thirty years later, South Korea was an industrial giant and the fourteenth largest world economy, and its per capita income levels were 15 times higher than those of underdeveloped Ghana. Huntington attributes these divergent paths to different values prevalent in each society: South Korea championed values of saving, investment, hard work, discipline, organization and learning, all absent in Ghana. Niall Ferguson [9] asks whether there is any casual connection between the contemporaneous decline in industriousness and religiosity in Europe over the past 25 years. In the United States working hours and levels of religious faith and observance have held steady or even increased over this period. But in most European countries they have declined together. Could this be a posthumous vindication of Max Weber's thesis about the Protestant work ethic and the rise of capitalism? Huntington argues that future international conflicts in global affairs will be determined by the cultural divide between western civilization and the rest of the world. In addition, governments have also grown more sensitive to the role that culture may play in the context of development. Recent poverty reduction strategies of the highly indebted poor countries explicitly link – nominally at least – national development with cultural and moral values. A study by Li et al. [17] applies a resource-based view of the firm to analyze data from a sample of 898 joint-venture firms in China, including both joint ventures established by overseas Chinese and by firms from Western cultures. It is hypothesized that culture could influence the timing of entry of joint ventures, their investment preferences, and performance. ANOVAs and regressions were conducted, and the results suggest the impact of cultural (Confucian Culture) as well as technological resources on firms' performance. Hofstede [18] and others have proven that correlation in one of their studies and stated that "difference in cultural values, rather than in material and structural conditions, are ultimate determinants of human organization and behavior, and thus of economic growth". This view has been rejected by others like Yeh and Lowerence and Fang who argue that Frank, Hofestede and others' study is flawed conceptually and methodologically, since it fails to include other economic growth such as out-word-oriented trade policy and market-oriented reforms. To overcome the above criticism, James P. Johnson, Tomasz Lenartowicz confirms that in order to conduct a research that aimed at reexamining the relationship between national culture and economic growth, we should abide by both Yeh and Lawrence's suggestion that states that for a link to be established between national culture and economic growth, there are at least prerequisites: First, the conceptualization and measurement of culture need to be improved. Second, a framework needs to be developed which includes economic factors that help explain economic growth; account for differing structural, international and historical developments within national economies; and can be shown to be linked to national culture. In any event, the recurrent swing from neglect to over-explanatory connections of culture and economic development seems to be grounded on arguments which fit only specific instances of success. They are systematically disappointing in explaining why the supposedly superior factors had failed to act in previous situations, and why they did not continue to act. Nor do they explain why 'successful' values fail to prevent hiccups along the development process. In other words, culturalist arguments fail to explain the dynamics of economic development. Furthermore, they share with economicist views the same myopia of 'one-size-fits-all' stories of successful development. Neither does the empirical evidence seem to support arguments of superior cultures. To this end, Guiso et al. believe that the main reason that make economists reluctant with respect to role plays of national culture in economic growth is the vague definition of culture that makes it difficult to come up with testable hypotheses; however, an new development has recently introduced cultural-based explanations that make it far easy to conduct empirical studies in this field.

According to Guiso et al. these new approach is based on offering a narrow and sufficient definition of culture that includes different dimensions that can impact economic outcomes" Culture is those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation". In the meantime, this new definition of culture can solve the causal link problem that all work on culture and economics faces with regard to the causality link that goes both ways. The first step in this approach is to show a direct impact of culture on expectations and preferences. The second step is to show that those beliefs and preferences have an impact on economic outcomes.

National culture and economic development in the Middle East

According to Brach [19], there are very limited studies that tackle the contributions on the economic performance of the Middle East and North Africa (MENA) in general and the Arab MENA countries in particular [20-23]. Brach hypothesized that four main barriers hinder the Arab countries in general and Arab Mediterranean in particular to reach the word wide average of economic performance. These four have been derived from the Economic theory and include Innovation, Technology adoption, efficient allocation of resources and political economy. We can consider three of these determinants as part of the national culture of any countries since Innovation, Technology adoption and political economy are part of the embedded culture of any country [24-26]. To this end, Brach's empirical results show that the lack of technological readiness and current political economy systems represent the main barrier for reaching the average growth performance of such countries. In other words, the study findings reveal a relationship between two national culture components and economic growth in Arab countries [27-29].

Conclusion

Arguments which prioritize culture as a prominent development factor are not new. In 1905 Max Weber was the first one to raise awareness of the importance of a set of values to explain the success of industrial capitalism vis-a-vis pre-capitalist agrarian societies across Europe. In the meantime, the researcher believes that, through reviewing the literature, there is a clear evidence of the role played by culture in economic growth of some nations at a certain period of time, yet such cultures might have not played the same successful role at other different periods. Therefore, the researcher thinks that a certain national culture might be latent in some periods and vivid in others, accordingly, there might be certain drivers like the existence of some leaders who can revive and enhance certain attitudes, beliefs and values embedded in a culture and use them as key factors and drivers for economic leaps and success. This culture can remain vivid for a while after the death and disappearance of such leaders and could become latent again if there were no more leaders who believe in the role of culture and use it for driving their nations' capabilities and efforts towards economic welfare. In the meantime, the literature review in this field clearly reveals that some statistically significant correlations have been found, others have failed to establish a direct causal link between a nation's culture and its rate of economic growth. Moreover, although Weber's thesis carries some logical thoughts about such relationship; however, it was not based on a clear research methodology and empirical results, yet we cannot ignore its value. In addition, the different researches' findings reveal a clear controversy with respect to their empirical findings. Therefore, a meta-analysis research would be desirable to integrate results from the existing studies to reveal patterns of causal relationships. In the meantime, since traditional economic theories link economic growth to various factors like capital, technology and labor markets, we can add national culture to this theory and come up with a mathematical regression equation that assumes a causal relationship between capital, technology, labor markets and national culture as independent variables and economic growth as dependent variable and as follows $y_t=\alpha_i+\beta_1 k_t+\beta_2 l_t+\beta_3 c_t+\varepsilon_t$.

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