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The Role of Beliefs and Cultural Attitudes in Economic Development

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Abstract: Does it matter what people within a region think or believe? Human capital has long been recognized as a determinant of economic development. More recently, social capital has been considered. This paper looks at the role of beliefs and cultural attitudes in economic development. The paper concludes that culture establishes the path in the evolution of economic development, but the path is not deterministic.

As regional scientists, we understand regions and the role of locational attributes. Our regions can be defined functionally, geographically, and politically. Functional regions can be found through commuting patterns, input-output linkages, and transportation connections. Geographical regions can be defined by distinct natural features, such as rivers, mountains, oceans, and so on. Political regions are defined by the stretch of a particular law. Some of these are clear, some are vague, and almost all are changing. We also understand boundaries, although these are subject to shifts and are often rather fuzzy.

The role of regional science will become increasingly relevant in the next decade. Recent history has seen competing, but possibly not incompatible, trends. Stallmann (2000) alluded to one—devolution. Devolution, or decentralization, increases the number of regions under consideration. Recall the trends in industry to integrate and conglomerate. The economics at the time seemed to make sense. Then the conglomerate broke up. That too seemed to make economic sense. The economic climate had changed. This pattern can work for regions also. With devolution, the number of regions is increasing. As Stallmann (2000) noted, regional scientists have the tools to analyze these trends. (I particularly liked the title of a newspaper article in Australia referring to an OECD report entitled "Devolution and Globalization": "Devolution—Better than a Revolution" Brown 2001.) At the same time, we see some consolidation of regions such as NAFTA and the European Union, or what can be viewed as "regionalism on purpose" (Foster 2001). The trend towards globalization appears to reduce the importance of region and regional differences. Globalization, to some extent, is simply the breaking down of politically enforced boundaries by removing tariff walls. Newer forms of transportation and communication have helped. I once asked a bond trader from Charlotte, North Carolina, to provide for me a simple explanation of what he does so that I could pass it along to my class. His reply was that he was reallocating the assets of the world. I then watched him buy the high yield bonds (or junk bonds) of a near bankrupt firm in Tampa, Florida, which he promptly sold to a fund in

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Tokyo. In some sense, globalization has simply created larger regions of some kind. Consider Europe: an incredible demonstration of regional dynamics since WW II. Porter (2000) maintains that in today's global environment, there is a certain irony: what differentiates localities becomes more important in being productive and competitive, not less. Rapid flows of capital, information, and products nullify many of the advantages of location. Thus, firms gain competitive advantage from localization, or by developing special customer relationships and acquiring unique insights that can only occur with proximate and regular contact. In short, localization that leads to what may be called inside information about a local market can generate a competitive advantage somewhat similar to the islands of information concept. To the extent that information is localized, competitive advantages can be created.

How much of economic development is the result of historical accident? We talk about location characteristics, but how many those characteristics were created over time because an axle broke on the wagon trail in the 1800s and stranded a group of people near a river and thus a town got started? Regional development is path dependent. Many of the roads in my part of South Carolina wind through the strangest places simply because they follow the road built by an early settler, which followed an Indian trail, which followed the deer trail. In some cases, cities and their associated agglomeration benefits were created by historical accident, and in others by some political artifice, such as moving the capital of South Carolina to Columbia.

We have theories of economic growth, but do we really understand what causes economic collapse? Why do some regions flourish only later to be left behind? When exogenous forces are at work we can identify them: a mine closing in a one-mine town; war; or a natural disaster, such as a volcano eruption on Thera (or Santorini) in the Greek isles, leaving ruins much like Pompeii but with no identifying human remains (the lost civilization here may have spurred the Atlantis myth).

The events of September 11 and the ongoing strife have rekindled my interest in the Middle East. My interests were sparked by visiting the Alhambra in Spain and viewing Moorish history. I have sailed to several African Moslem countries, such as Tunisia, Morocco, and Senegal. After sailing to Rhodes and Malta, I became fascinated by the Knights of St. John and the Templar Knights, who were active during the Crusades and were later expelled from Rhodes and then attacked on Malta. During Europe's Dark Ages, the Moslem world flourished. Rose Wilder Lane, in a delightful book, *The Discovery of Freedom* (1993), recounts how far advanced the Moslem world was at the time in comparison. Lane (1993) attributes this phenomenon to an ideology of freedom, which released creative energies; recall Rees's (2001) "Landscapes of Liberty" lecture. However, by the twentieth century, it became clear in the Middle East that things had gone wrong. Lewis (2002, p. 151), in his short history *What Went Wrong?*, comments that "Compared with its millennial rival, Christendom, the world of Islam had become poor, weak, and ignorant." By all modern standards—economic development and job creation, literacy, and educational and scientific achievement—what was once a flourishing civilization has indeed fallen low. And it is surely a mistake to place the blame on Islam, the religion. For if Islam is the obstacle to growth, then one must ask how is that the world of Islam in the past was the pioneer in developing freedom, science, and economic development. Where do we stand today? Lewis (quoted in Landes 2000, p. 7) once observed that "when people realize that things are going wrong, there are two questions they can ask. One is, 'What did we do wrong?' and the other is 'Who did this to us?' The latter leads to conspiracy theories and paranoia. The first question leads to another line of thinking 'How do we put it right?' In the second half of the twentieth century, Latin America chose conspiracy theories and paranoia. In the second half of the nineteenth century, Japan asked itself, ' How do we put it right?'" Lewis does not explain what went wrong as much as he offers an explanation for why things continue to go wrong. And the explanation is to be found in the questions asked. According to Lewis, it does matter what kinds of questions are asked, what kinds of beliefs are held.

Plane (2000), quoting Hägerstrand, asked, "What about people in regional science?" I have been lead to wonder, does it matter what people think or believe? Does culture matter to regional development? Johnson (2002), in his Fellow's address, alludes to the idea that culture as an explanation is becoming more prominent. The journalist Fareed Zakaria (1999, p. 225) states that "Culture is hot. By culture I don't mean Wagner and Abstract Expressionism—they've always been hot—but rather culture as an explanation for social phenomena...."

Krugman (quoted in Fairbanks 2000, p. 272) observes that economists are "notoriously uninterested in how people actually think or feel." To what extent do ideas and feelings count in the grand scheme of regional development? Casson and Godley (2000) observe that rational behavior is conditional not only upon values but beliefs. Thus people in the same situation with the same information may act differently. As Sowell (1998, p. x) notes, "Cultures are not museum pieces. They are the working machinery of everyday life." Does it matter what people believe in? Imagine the path history would have taken if P.J. O'Rourke rather than Karl Marx had made the famous declaration in the 1800s: "Workers of the world unite, it's Miller time."

Huntington (2000) claims that in the 1960's Ghana and South Korea had very similar economies. Thirty years later, South Korea grew to be known as an Asian Tiger while Ghana languished. What happened? Huntington (2000) believes that the difference can be explained by cultural difference. He notes that the South Koreans valued "thrift, investment, hard work, education, organization, and discipline" (Huntington 2000, p. xiii). Ghanaians, he claims, had different values. Harrison and Huntington (2000) edited a book entitled *Culture Matters*. But does it and to what extent? Landes (2000) answers the question with the title of his paper, "Culture Makes Almost all the Difference." He claims that Max Weber was right. If Weber is right, then how does one explain that some people have been unproductive at home yet are so enterprising away? Rubinstein (2000) notes that the "Weber Thesis" cannot readily come to terms with non-Protestant groups that may exhibit a similar work ethic. He further observes that Island Greeks were renowned for their business prowess while Greece itself remained a semideveloped country until recently. Sowell (1998, p. 330) observes that "In 1994, it was estimated that the 36 million 'overseas Chinese' scattered around the world produced as much wealth as the one billion people living in China itself."

Of course there are a number of unsettling implications when considering the role of culture in economic development. The most glaring implication is that some cultures are better than others, that some religions lead to economic development while others do not. If the Weber thesis is correct, then some regions are doomed to lackluster growth and the policy prescription would be religious conversion. Patterson (2000) explains why academics do not like culture as an explanation: reactionaries use it as an excuse for not doing anything—it's their culture and we can't change their values; liberals don't like it because they see that cultural explanations amount to blaming the victim. This has been in evidence in the welfare reform debates. Treisman's (cited in Lipset and Lenz 2000, p. 116) analysis suggests that two of most important factors associated with low levels of national corruption are the percentage of Protestants in the society and a British colonial history. At the same time, he found that the GNP level was the primary variable associated with corruption. (Here we have a classic chicken or the egg problem. Or, in econometric terms, double Granger causality—does a low level of corruption lead to high GNP, or does high GNP reduce the level of corruption? Probably each is dependent on the other). Sowell (1998) attributes economic development to the degree of "freedom" and the presence of rights. He also observes that the form of government is not the crucial issue. As he notes, "The British people had many rights that were lacking in much of Europe, and in most of the rest of the world, long before they acquired the franchise with which to control the government" (Sowell 1998, p. 91).

We have come to understand that human and social capital are important determinants to economic development. Human capital tends to be identified with educational and skill attainment. A typical inventory of the assets of a region includes human capital considerations. However, Sowell (1998, p. 349) cautions, "Human capital must not be confused with formal education, which is just one facet of it, and still less with the growth of an intelligentsia, which may be either a positive or a negative influence on economic development and political stability, depending on the particular kinds of skills they possess and the particular attitudes they take toward those with the productive capacity to advance the economic level of a country." Social capital is broader—it consists more of the informal linkages that lubricate social interaction, it is value laden. Fukuyama (2000, p. 98) defines it as "a set of informal values or norms shared among members of a group that permits them to cooperate with one another." Social capital is not something that is engineered. Hayek (1988) refers to the "spontaneous order" of human cooperation. Social capital is created all the time by people going about their daily lives. In this sense, social capital, or culture, promotes coordination. Casson and Godley (2000) point to the spatial dimension of culture referring to the spatial agglomeration effects in the formation of social groups. Social networks, when they work, contribute to economic development by lowering transactions and transformation costs. Lavoie and Chamlee-Wright (2000), while proclaiming the importance of culture, or social capital, in economic development, criticize both William Bennett and Lawrence Harrison for primarily trying to promote their own values, rather than trying to understand, which of course is why this line of research can lead to distasteful conclusions (muddled, incorrect, and judgmental). They ask, "why are some societies better able to use their natural endowments of resources? Why do some readily embrace growth-friendly institutions and others resist them?" (Lavoie and Chamlee-Wright 2000, p. 53). Instead of the Weber thesis, they suggest, "If you want to get a sense of whether a community is apt to grow wealthier, we are suggesting you find out what stories they tell, what myths they believe, what heroes they admire, what metaphors they use. Economic development is, at its heart, a cultural process" (Lavoie and Chamlee-Wright 2000, p. 53). Or, as Lewis referred to earlier, what kinds of questions are asked matter. In this sense, social capital is not predetermined, but is an evolving process.

One of the underlying fundamental beliefs of economics is in the efficiency of markets. However, markets alone do not guarantee economic development. As Olson and Kähkönen (2000) note, markets are commonplace in poor as well as in wealthier societies. What is lacking is an institutional framework to generate markets "where the quid is provided at one time and place and the quo at another" (Olson and Kähkönen 2000, p. 3). Further, many governments are kleptocracies—taking reduces the incentive for making. As Sowell (1998, p. 342) notes, "Governments likely to confiscate wealth are unlikely to find much wealth to confiscate in the long run." This creates a large deadweight loss. Of course, there are other types of taking: implicit redistributions of income, lobby efforts, tariff protections, subsidies, or regulation that limits competition. One of the lessons that should have been learned during the Soviet-style centralization process and that applies equally well to lesser-centralized countries is that there is government failure as well as market failure. The consequences of government failure are often much more harmful than any voluntary interaction in the market. In many cases, "the best thing a society can do to increase its prosperity is to wise up" (Olson 2000, p. 58).

Migration provides a method of analysis to determine the effects of culture on economic development. As Olson (2000, p. 52) notes, the migrant who "arrives as an adult comes with the marketable human capital or personal culture of the country of origin; the Latin American who swims the Rio Grande is not thereby instantly baptized with the Protestant ethic," and yet his lifetime income increases. Although the immigrants arrive with their own cultural baggage, the institutions and public policies that determine their range of opportunities belong to their new host country. Culture, as I have already alluded to, is not a static concept—it evolves. And it may not take a long time to change; for example, new migrants seem to adapt quickly.

Hernando de Soto (2000) analyzed the capital structure of underdeveloped countries. He discovered that these countries have sizable holdings of capital, particularly real estate and fixtures. What they typically do not have are the legal institutions that allow for the documentation of title. This prevents collateralization and the unlocking of the economic value of this property. For example, if I decide to become an entrepreneur and no one will back me, I can secure a second mortgage on my house to raise the necessary capital. This is not possible in many parts of the world, especially when the house is built on land that has questionable title. de Soto (2000, p. 225) strongly criticizes the culture-is-everything view: "... many Westerners have been led to believe that what underpins their successful capitalism is the work ethic they have inherited or the existential anguish created by their religions—in spite of the fact that people all over the world work hard when they can and that existential angst or overbearing mothers are not Calvinist or Jewish monopolies."

After my brief foray into the role of culture, I have concluded that culture matters. But I am not sure just how it matters. As Zakaria (1999, p. 225) commented, "Cultural explanations persist because intellectuals like them." de Soto (2000) concludes that all people have specific cultural attributes. The challenge is to determine which attributes are really ingrained and which are determined by legal and economic constraints. As he asks, "Is illegal squatting on real estate in Egypt and Peru the result of ancient, ineradicable nomadic traditions among the Arabs and the Quechuas' back-and-forth custom of cultivating crops at different vertical levels of the Andes? Or does it happen because in both Egypt and Peru it takes more than fifteen years to obtain legal property rights to desert land?" (de Soto 2000, p. 225). Between culture and legal institutions, I have come to believe that the legal environment of a region is more relevant to determining economic growth. Of course, these legal institutions were not created in a vacuum, and in the case of many of us in the U.S., are taken for granted without thought. Sowell (1998) identifies dependable law as one of the most important institutional arrangements that facilitates the production of wealth. For much of history, economic development has been viewed as a zero-sum game (Arndt 1989). We cannot underestimate the importance of the change in this view. The idea that we live in a positive-sum world has led to modern economic growth. According to Carstensen (2000, p. 145), if a people, a society, believe they live in a zero-sum world, "they would almost certainly oppose permitting people discretion in the use of their resources." Echoing Rose Wilder Lane's *Discovery of Freedom* (1993), Carstensen (2000, p. 150) concludes that "The Anglo-American—and especially the American—record of economic growth can then be interpreted within a framework of ideas and institutions that put the release of creative energy at its center."

So where does this put us? The historian Edward Ayers (1999) asks whether we have been thinking of regions in unnecessarily brittle ways. "Maybe we should think of regions less as sheer geographic areas and more as systems of widely varying extent, reach, power, and density. Those networks can be natural; they can be commercial; they can be political....Some of those networks matter more in some times than they do in others and it not always clear which network is going to matter when" (Ayers 1999).

Usually in these kinds of addresses, directions for future research are provided. I would refer you to the Summer 2000 issue of *The Review of Regional Studies*. The papers in that issue suggest many of the concepts I have discussed. Malecki (2000) in particular refers to the "soft variables" of regional science. Malecki (2000) specifically addressed social capital and networks. Pandit (2000) called for an expansion of regional analysis into the dynamics of Third World development. Plane (2000) called for extending our analysis to population and migration issues. I would suggest that the entire issue provides a meaningful and productive research agenda that will last for quite some time. I had hoped to come up with a more definitive notion of how culture matters. I am now convinced that it matters as a historical explanation: culture establishes the path in the evolution of institutions and economic development (see North 1990). But the path is not deterministic. Culture, people, and economic development evolve, they change.

Regional science will be in a state of flux because regions will continue to be in a state of flux and people with their beliefs, attitudes, and social networks (in other words, people-warts and all) will evolve. And this is why regional science, with its typical interdisciplinary approach, will continue to be relevant and exciting.

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