

An Essay on Economic and Cultural Contexts – A Matter of Perspective

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Abstract

Economics and culture – at first glance these two concepts could not be more different and unrelated than chalk and cheese. One is concerned with the economic problem of scarcity and how to allocate limited means among competing ends. Much of what is taught to students today is concerned with the efficiency of the processes of production, consumption and exchange. Culture is a word which is often used without precise definition to refer to the concepts and ideas which occur throughout the humanities or social sciences to narrowly refer to the intellectual endeavours of people and broadly to the entire way of life of people or society. Seen in this fashion the two seem to have nothing in common. However, we can and must view the cultural context of economics as a system of thought to the cultural context of the economy as a system of social organisation.

Keywords: *Economics, Economic growth, Culture, Perspectives, Social organisation.*

Introduction

Introductory courses in economics include a study of production, distribution and consumption of goods and services, economic growth and activity, employment, the market economy, inflation, wealth, and income distribution. The outline of the economic problem emphasises scarcity, and decisions about how to allocate limited means among competing ends. Individual consumers have wants to be satisfied, productive enterprises have the technologies to provide the goods and services to satisfy those wants, and processes of exchange link one side of the market with the other. Students at

universities and colleges are taught about the efficiency of these processes of production, consumption and exchange, much less about questions of equity or fairness within the operation of economic systems.

No doubt economists have contributed much to the understanding of business decision making, efficiency conditions for the success of individual business enterprises, material and institutional conditions conducive to economic prosperity and so on. But, they rarely if ever, pay attention to culture. However, there have been attempts as far back as 1966 (Lavoie and Chamlee - Wright, 2000) to introduce these two scholarly fields to each other. Questions raised

include how does culture matter to the economy? If we look at the economy as a legitimate domain of culture, does it transform our understanding of the nature of business life? Will viewing markets as an integral part of our culture, filled with the drama of human creativity help us to better appreciate their role in the world?

To economists markets are allocation mechanisms. In the traditional neo-classical view markets are institutions which facilitate exchange, and in so doing ensure welfare for all concerned. The market is the place where decentralised information is available to all. The conditions that further the continued existence of markets may be summed up in terms of a mutual commitment to exchange and a formal legal system. Markets are often described and mathematically modelled in dry, inanimate terms, and are seen as objective “forces” or reasonably efficient allocation “mechanisms.” They are definitely not seen as meaningful elements of culture; rather as some sort of inhuman system which forces us to work our lives around it.

Economic scholars pay very little if any attention to the ways in which economic decisions are made in the larger ethical contexts shaped by culture, or for that matter the ways in which culture can shape economic development. At business schools, at

the most we refer to corporate culture. In other social sciences where serious attention is paid to culture –as in sociology, anthropology or history– scant attention is paid to the workings of the business world. This over-separation of the various social science disciplines from one another and from the humanities has suppressed our ability to understand the fundamental nature of business enterprises and the market processes. It might seem strange to ask what culture has to do with business or economics or markets; or for that matter how does understanding the moral values of a culture be relevant to a study of business decision making about prices and output. But it is exactly these kinds of questions that are important to ask.

To ask these questions we need an in-depth understanding of the scholarly traditions of one or more sciences. However, when economists venture into foreign disciplinary terrain they tend to be tourists that dabble at the field's issues at a superficial level, or on the other polar extreme end of behaviour they try to aggressively take over the issues of the field on their own terms; which has come to be called “economic imperialism.” One of the reasons may be that the various fields of study that should have the most to say about issues important to the economy and

society do not speak the same language.

However, they do agree that culture and market processes are utterly distinct kinds of phenomena. The attitudes among non-economists range from those who ignore markets altogether and find economics utterly dry and boring; to those who consider economics important but who find markets an invasive force, corrupting and distorting culture. Economists on the other hand analyse markets as universal causal mechanisms, systems that are presumed to be utterly indifferent to culture. They tend to view markets as positively beneficial, and that these benefits are the result of the equilibrating tendencies caused by the actions of atomistic, acultural individuals. Thus, economists take markets seriously and see culture as irrelevant to economic performance, but other social scientists take culture seriously and see markets as uninteresting or evil. Economists such as the Nobel Prize winning D. C. North (1989, 1990) have acknowledged the important role of social institutions in the economic process, but even they do not focus on the cultural foundations which give rise to and maintain those institutions.

The intellectual imperialism of economics has embraced a continually expanding range of phenomena. The model of rational

utilitarian decision-making operating within competitive markets has in recent years been applied to an ever widening array of areas of human behaviour, including marriage, divorce, crime, religion, philanthropy, politics and law, besides production and consumption of the arts. (Throsby, 2001). However, neoclassical economics is restrictive in its assumptions, constrained in its mechanics and ultimately limited in its explanatory power. It has been subject to a vigorous critique from both within and without the discipline. Thus in common with all great areas of intellectual endeavour, economics does not have a single paradigm, but a number of schools of thought offering alternative contestable ways of analysing the functioning of the economy or actions of the individual. There is even a relatively young field of economics known as cultural economics; as can be evidenced from the presence of a recognised journal – *The Journal of Cultural Economics* first published in 1977.

The word culture is a word employed in a variety of senses in everyday use and at the scholarly level, but without a tangible generally accepted definition within and between disciplines. The original connotation of the word culture, referred to the tillage of the soil. (Throsby, 2001). In the sixteenth century it referred to the

cultivation of the mind and the intellect. Often we refer to someone well versed in the arts and letters as a “cultured or a cultivated person,” and the noun culture is often used without qualification to denote what, under a more restrictive definition, would be referred to as the products and practices of the “high” arts. Since the early nineteenth century the term culture has been used in a broader sense to describe the intellectual and spiritual development of civilization as a whole. In due course this interpretation of culture has been replaced by the understanding that the term culture embraces not just intellectual endeavours but the entire way of life of a people or society.

The Cultural Context of Economics as a System of Thought

The formal precision of modern economics, its theoretical abstraction, its mathematical analytics and its reliance on objective scientific method in testing hypotheses, might suggest that the discipline of economics has no cultural context, and that it operates in a world that is neither conditioned by, nor conditional upon, any cultural phenomena. However, just as normative economics has shown that economics cannot be value-free, it may be suggested that economics as an intellectual endeavour cannot be culture-free. In fact, it may be said that

the many schools of economic thought as it has evolved post Adam Smith, comprise a series of separate cultures or subcultures, each defined as a set of assumptions and beliefs that bind the school together. Just as shared values provide the basis for cultural identity in the world at large, so within the restricted domain of economics we can interpret the various schools of thought, whether they be classical, neo-classical, new classical, Marxist, Austrian, Keynesian, or whatever, as a cultural process. The thinking of economists is clearly impacted by culture because each economist's inherent or learnt cultural values have a deep, though often unacknowledged influence on their perceptions and attitudes.

Cultural Context of the Economy as a System of Social Organisation

Economic agents make decisions within a cultural environment, which influences their preferences and regulates their behaviour. Yet, mainstream economics has tended to disregard these influences, considering market equilibria as being relevant to all circumstances regardless of the historical, social or cultural context. When neoclassical modelling does attempt to account for culture, it interprets culture as a social asset. The characteristics of culture in an economy, remain abstract and remote from the wider issues of

culture and real-world economic life. (Throsby, 2001)

Yet there has long been an interest in examining the role of culture as a significant influence on the course of economic history. Perhaps the most celebrated contribution to the field has been Max Weber's analysis of the influence of the Protestant work ethic on the rise of capitalism. Similarly the spirit of individualism inherent in Anglo-Saxon culture, in Adam Smith's discussion of the division of labour, and later by J.S. Mill, is seen to be the precursor for the spread of the industrial revolution in Britain and in the United States. In recent times, there has been much discussion on what it is that explains the success of the so-called Asian Tigers in the post-world-war II years, beginning with the spectacular industrial dynamism of Japan, followed by the phenomenal growth rates in South Korea, Taiwan, Hong Kong and Singapore.

Just as economic discussions and systems function within a cultural context, the reverse is also true. Cultural relationships and processes can also be seen to exist within an economic environment and can be interpreted in economic terms. If culture can be thought of as a system of beliefs, values, and customs, shared by a group, then cultural interactions among members of the group or between them and members of other

groups can be modelled as transactions or exchanges of symbolic or material goods within an economic framework. Anthropologists have discussed primitive and not-so-primitive societies in these terms and ideas of markets, exchange value, currency, and price take on cultural meanings. It is believed that cultures adapt to, and are explicable through, their material environment. Cultures differ, and their evolution will be determined not so much by the ideas that they embody but by their success in dealing with the challenges of the material world in which they are situated. Such cultural materialism has a clear counterpart in institutional economics, where culture underpins all economic activity. Indeed Jackson (1996) sees cultural materialism as providing the means of reintegrating culture into the same material, natural world as economics. Similarly, the role of culture in the economic development of the Third World cannot be underestimated.

Why do some economies generate tremendous wealth and prosperity, while poverty persists in others? The answer to this question includes objective factors such as resource endowments and climate conditions and an important subjective factor - culture. Nature has endowed some nations with rich oil deposits and others with fertile soil. Similarly,

culture provides some societies with a kinship network conducive to building complex financial markets and other societies with a strong work ethic. Just as markets will develop differently according to the nation's particular natural resources, so too will they develop differently according to the society's cultural resources. e.g., Capital accumulation takes place in different ways according to whether it occurs in the United States or Japan or Africa or Latin America, because cultures differ dramatically.

Institutional policies that succeed in promoting economic growth and prosperity in one society may not work in other cultural contexts. For instance, free trade and private property rights are no guarantee of economic progress. They may be necessary but not sufficient conditions to guarantee prosperity. Culture for economic success must be one that in general supports entrepreneurship and commerce, but the particular manner in which the spirit of entrepreneurship will be encouraged will be culturally specific. An appreciation of culture's role in economics is thus crucial to discerning different culture's likely paths toward economic prosperity. Culture is one of the key factors in determining entrepreneurial activity in a society.

The point of giving concrete expression to differences among various entrepreneurial cultures is not to ask which culture is better; it is not to make a check list of cultural characteristics to determine which societies is growth friendly or growth resistant. The point is to understand the ways in which different cultural contexts offer market participants a means of discovering new opportunities.

Economic development is not the only issue. The economic turbulence of the 1970s and 1980s, the dramatic changes in international relations in the 1990s, the economic turbulence of the latter half of the 1990s and the latter half of the first decade of the 21st century has put big questions back on the agenda of economic research. The rise of Japan or the Asian Tigers, the loss of business confidence within the USA, have all rekindled interest in the question of national economic supremacy. This question was first addressed in a systematic albeit non-mathematical manner by the father of economics Adam Smith (*An Inquiry into the Nature and Causes of the Wealth of Nations*, 1776) at a time when economics was not isolated from other social sciences. Adam Smith was also interested in the nature of moral sentiments (*The Theory of Moral Sentiments*, 1759) and in the growth of scientific knowledge. He

gave social and cultural factors a significant place in his explanation of economic growth. A similar emphasis is necessary today if we want to understand, for instance, the paradox of high economic performance and traditional social structures in Japan. The resolution of such paradoxes calls for a wider vision of the social scientist rather than the very narrow specialisation of the typical economist.

In this context, it is comforting to observe that multilateral bodies such as the World Bank have recognised the need to acknowledge the cultural traditions and aspirations of poor people within the economic framework and that the material circumstances of people can be improved in a manner consistent with cultural integrity. The UN World Commission on Culture and Development has made it abundantly clear, that the concepts of culture and of development are inextricably intertwined in any society. Thus, development projects in poor countries financed by international agencies, NGOs, foreign-aid programmes and so on, are likely to be effective in raising living standards only if they recognise that the target community culture is an expression of their being, and that this culture determines the scope and extent of material progress that is possible.

The Cultural and Economic Connect

Furthermore, with the domestic markets of the developed countries in the depths of stagnation or downturn, companies in those economies are turning to the developing world in search for new clients and new talent. On the other hand companies in the more vibrant developing economies whose ambitions have outgrown their home markets are also seeking to grow via international expansion. Such happenings have combined to create an international market in which it is common for workers and businesses to communicate and collaborate with customers, colleagues and partners in other countries. This has resulted in the need for more harmonious and productive cross-border relationships that transcend cultural differences. The corporate world has recognised this new reality in which the right products and services must also now be allied with cultural sensitivity and communication skills in order for companies to succeed in markets other than the domestic ones. In 2012 The Economist conducted a study which confirms these ideas in their report on the same.

Finally, culture as a concept should not be held up in contrast to economic principles. It is important to recognise

that cultural attitudes, business ethics and manners are important. Conventional economics tends to simplify the decision-maker's environment with assumptions. In reality, most decision making situations are far too complex to be reduced to mathematical models however complex these maybe. One can say that reflects the limited capacity of human minds to handle complexity! Over the years as individual social sciences have developed into distinct specialisations and it is easy to forget that economics, political science, anthropology, sociology, psychology and social psychology all study facets of the same social reality. Disciplines need the products of each other's labour to build on, but the academic system in most universities does not encourage borrowing wisdom from neighbouring departments. (Hofstede, 2002)

Furthermore, economists tend to dismiss emotion as an irrational factor. This is methodologically unsound, reflecting the cultural bias of the economists' profession! Emotion is an element of the preference structure and therefore can be included in conventional analysis. In fact the importance of culture as a core concept can be best understood with the aid of economic logic which can establish necessary

though not sufficient propositions for social theory. Culture on the other hand can establish limits to the acceptance of policy implications of economic logic. At the end of the day however, economics is still largely a science developed by experts trapped in their own silos displaying blinkered thinking often each working in different institutions in their own nations. This is probably one of the reasons why no one saw the 2008-9 crisis coming. Should we break down these silos of specialised development of economics in various fields? Many economists behave as if their discipline is not social at all, but belongs to the exact sciences! Economic theories are built and econometric calculations carried out based on assumptions about human behaviour, both individual and social, which, which look almost incredibly primitive and simplistic to students of other social disciplines. This article concludes by saying that future economists should have an attitude or spirit of curiosity and generosity to know and understand what experts in other silos say. Then perhaps given that understanding with cross pollination of ideas across nations and cultures that we could fix the problem of insulated experts and help further an understanding of the world when there is no crisis, so that we can hopefully prevent crises in the future.

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