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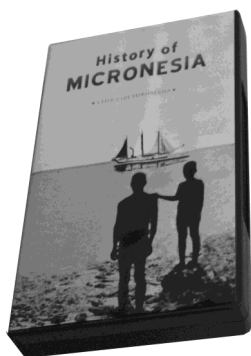
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## THE ROLE OF CULTURE IN ECONOMIC DEVELOPMENT

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### “History of Micronesia” *A five part video series*



Micronesia's landscape is dotted with reminders of the century of colonial rule under four different masters. Then there are the debris of even earlier times: the whalers and the coming of the missionaries and the advent of the copra trade. What does it all mean?

Micronesian Seminar has created this five-part video series to show how the outside forces, over the past 200 years and longer, have contributed to make the island societies of Micronesia what they are today. The trade goods and dress styles, the weapons and words, the religious beliefs and systems of government have all had a profound effect on present day island life.

The series is now available on-line at [www.micsem.org](http://www.micsem.org). The set of five DVDs can also be purchased directly from MicSem.





## *How Flat is the World?*

“The world is flat,” Thomas Friedman has famously declared. His claim is that in this modern age of globalization, when capital can cross national borders so easily, when investment funds can be pulled from one country to another instantaneously to respond to new business opportunities, economic development is attainable in the most surprising of places. Today, as never before in the past, economic growth should be within the reach of any country anywhere in the globe.

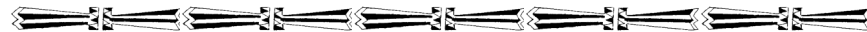
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### **All that is required for the golden fruit to flower, it would seem, is to have the door open to investment and the phone at hand.**

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All that is required for the golden fruit to flower, it would seem, is to have the door open to investment and the phone at hand. Naturally, there are conditions to be met to attract investment dollars (or yuan or yen or Euros or pesos). But given a stable government, the assurance that the rule of law will be upheld, and an investor-friendly climate, any country should be in a position to become the new Singapore—a nation powered by steady economic growth.

The hitch is that not all needy nations are able to meet these conditions. In some parts of the world, in fact, almost none are—as if some toxic substance in the soil makes it impossible for economies to take root there. But even if most of the primary conditions are met—in other words, the government is responsible and the country has the official welcome mat out for foreign businessmen—there may be other factors that make investors shake their heads and walk off with the decision to drop their money somewhere else. Perhaps the world isn’t flat, after all. Possibly there are ingredients for economic development, more far-reaching and subtler than the conditions usually prescribed, that touch



on economic choices, where an island-oriented cost-benefit analysis defies what outsiders would consider “common sense.” Here, too, is where the conversation on economic development must begin.

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### **But what is “trivial” from one cultural viewpoint is not necessarily so from another. Here is where cultural values impact on economic choices, where an island-oriented cost-benefit analysis defies what outsiders would consider “common sense.”**

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But what happens when Micronesians are plucked from their own cultural soil and are transplanted in the US? What is the effect of this relocation on the set of cultural values that tend to inhibit economic development? The tens of thousands of Micronesians who have emigrated to the US to find jobs and a new home there could provide a population sample for research into the speed with which cultural values change. A study of these emigrants could offer insights into the impact of their new cultural surroundings on these islanders, even as it helps us answer the question of whether the cultural changes needed to improve economic development can be accelerated.

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meaningful ends than simply expanding one's financial wealth. In island culture strictly economic considerations are limited by other considerations, ones that individuals often judge to offer them greater personal advantages than multiplying their money. These considerations fall under three headings: security, status and solidarity.

- Security often takes the form of land, regarded throughout the Pacific as the last fallback and possibly the most important currency of wealth. For a person to trade off his own land for the opportunity to make a modest killing in a business venture could present a serious problem for many islanders.
- Status may be the motivation when an individual forgoes a business opportunity to make a large contribution toward a church or community event. The payoff for the individual is an increase in prestige, or a higher position in society.
- Solidarity, or sense of belonging, is the purpose of remitting a portion of one's earnings to a relative in order to strengthen the family cohesion that is so vital to islanders.

None of this is reprehensible, but neither does it reflect the value set that will create millionaires and promote the rapid growth that the islands seek today. Although entirely reasonable to island people, choices like these can be mystifying to consultants in that they seem to flout what should be irresistible economic incentives so as to achieve other trivial gains. But what is "trivial" from one cultural viewpoint is not necessarily so from another. Here is where cultural values impact

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on the national ethos and its traditions. In other words, economic development might well be affected by those intangibles that are collectively known as culture.

### *Flirtation of Economics with Culture*

Economics, once known as "the dismal science," has come a long way since its early days. The discipline, relying on its scientific formulas and precise metrics, has patented a storehouse of remedies for ailing economies. Yet it doesn't seem to know what to do with a concept as untidy as culture.

It wasn't always this way, though. Back in its earliest days, economics had plenty of room for the vagaries of human behavior. Adam Smith, sometimes regarded as the founder of modern economics, argued in his classic work *Wealth of the Nations* (written in 1776) that each individual, motivated by the pursuit of his own interests, contributes to the public interest in a system that is self-regulating. Smith was keen-sighted enough to recognize that the "pursuit of personal interests" involved much more than just making money. Hence, his tract, "Theory of Moral Sentiments", deals with what today we would call cultural values. John Stuart Mill, writing 70 years later, made the same point when he noted that cultural constraints on individuals could have a stronger impact on them than the pursuit of personal financial gain.

Max Weber, the German social scientist writing in the early 20<sup>th</sup> century, offered more specific insights into how cultural or even religious values could impact on economic output. He argued that the Protestant work ethic, supported by Reformation teachings that the pursuit of wealth was a duty, inculcated the virtues needed for maximum economic productivity. For this reason, Protestants were more productive than Catholics throughout Europe—just think of Germany and Great Britain, for instance, compared to Ireland, Spain, Portugal and Italy in his day.

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In the meantime, the worldview of economists was radically changing. Economic progress was now a given, as the discipline shed its grim premise, first enunciated by Thomas Malthus in the 18<sup>th</sup> century, that population growth doomed people to a declining standard of living. Malthus believed that total wealth was a constant—there was only so much land and a strict limit to the resources it could produce, after all—and that most of the world's population would inevitably be reduced to fighting over the scraps from the table. The remarkable growth in the economies of the United States and many European countries during the 19<sup>th</sup> century, however, provided evidence that a different set of assumptions was needed. Economic theory was subsequently guided by a new insight: there was not simply a fixed amount of wealth, but an ever expanding economic pool to draw from. This meant, for one thing, that those nations that had little industrialization and whose people lived a largely subsistence life could join the more highly developed nations at the table. In theory, there would be plenty for everyone to eat.

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After having offered hope to the underdeveloped that they could join the party, economics seems to have narrowed its field of vision since the 1930s and dedicated its energies largely to generating ever more sophisticated formulas relating to such things as markets, rents, income policies, price stability, and inflation control. It has also been busy refining its set of mathematical tools to test the theories that the discipline has been generating. Its principal interest has been in measuring the impact of different strategies on financial and economic crises so as to develop a dependable set of guidelines for predicting and managing these crises.

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Gregory Clark offers evidence to support his conviction that the path to economic development is to increase worker output, whether in a textile mill or a computer lab. He traces the steady rise of Japanese worker output against that of Indian mill employees during the early years of the 20<sup>th</sup> century, showing that by the 1930s Japan had out produced India and had come to dominate the market. The greater efficiency of Japanese workers during this time was a result of their strong discipline, which in turn stemmed from their cultural values.

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A growing number of authors seem to agree that economic growth will take more than an infusion of investment capital, more than an import of the latest technology, even more than dependable political and economic institutions. A constellation of cultural values suited for modern business seems to be a critical ingredient as well, although no one has identified these values with precision, to say nothing of devising a strategy for inculcating these values in developing populations. For now, we can only conclude that in the contest for economic development the playing field is far from level. The world is not nearly as flat as Friedman exuberantly proclaimed. Meanwhile, the small nations of Micronesia are not left hanging in the wind. They enjoy substantial dollar amounts of aid from the US, access to the US for those who can not find employment at home, and a measure of successful business in the islands. What they do not enjoy, however, is the cultural climate that is deemed essential in order to turn the islands into a whirlwind of economic activity and to stimulate the level of growth that outsiders had hoped to witness.

At present in Micronesia, money is viewed as a means to more

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to suggest that these islands suffer from corruption or political instability or some of the other problems that plague less fortunate countries in other parts of the world. Indeed, the traditional Micronesian value cluster was clearly well suited to survival in small islands in the past. Yet, the same value set that allowed islanders to maintain harmony and support one another throughout good times and hard times in the past is not equally well suited to building a modern economy. In other words, Micronesia simply does not enjoy the same cultural advantages that led Britain to prosperity after the Industrial Revolution or which have given Chinese and Lebanese entrepreneurs the competitive edge they enjoy even after leaving their own country to settle in another.

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### *What Would It Take?*

What would it take to develop the set of values that a line of authors, extending from Adam Smith to contemporary economists, see as fundamental conditions for achieving real economic development? Must we wait centuries for this to happen, as Britain and the US did, or can this process be accelerated?

Improved education for the population is an almost automatic response, as Amy Chua points out, but she admits that research on the impact of education does not support the conclusion that this will work. She goes on to point out that much more work needs to be done on the interplay of culture with economic success, and writes that even if the relationship between the two were pinpointed, leveling the playing field between ethnic groups “will be a painfully slow process, taking generations if it is possible at all.”

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But as it has been doing all this, it appears that its interest in culture has been waning. Its presupposition seems to be that *Homo economicus*, no matter where he happens to be dwelling, is subject to the same ineluctable laws of supply and demand, maximization of profit, and pricing. The apparatus it's devised to analyze and manage economic situations are self-contained and have little room for the vagaries of human behavior. Today, ironically enough, with the prophets of globalization proclaiming new hope for nations struggling to pull themselves out of poverty, economics has little to offer them on how this might be done. In short, the discipline's abandonment of its early fascination with culture has rendered it speechless to those who most need its help today.

### *Culture Does Seem to Matter*

Why do some countries do very well, while others fail to develop, even when all the requisite economic factors seem to be in place? How can we explain the repeated failure of African nations, even when aid is given in great supply, to develop their economy? Why are countries like Indonesia and the Philippines, even with a strong resource base and a well educated

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population, so resistant to development? For that matter, what is there to explain the slow economic growth rates of the Pacific nations?

Most development economists might explain these inequalities by appealing to the list of conditions that must be met for an economy to develop. Good governance is seen as a prerequisite of development: the political system should be stable; laws must be clearly promulgated and enforced so that contractual agreements will be honored; and government officials should not be corrupt or inefficient. Moreover, land should be available at a fair rate for business opportunities; foreign investment should be encouraged; and the bureaucratic procedures for applying for a business permit should not be too onerous.

There may be something to be said for this list, but it still doesn't deal with the more fundamental issue of how culture impacts on development. Why do some ethnic groups do so well in business that they leave others in the dust, even when these ethnic groups are minorities in other cultures? Amy Chua raises this question in her much acclaimed book *World on Fire*.

In her work we learn that ethnic Chinese in the Philippines, accounting for less than two percent of the population, control 60% of the nation's private economy, including the country's four major airlines and almost all the country's banks, hotels and shopping malls. But it's not just in the Philippines that Chinese ethnic minorities have made their mark. They have come to dominate business in other parts of Southeast Asia as well-especially Indonesia, Thailand, Burma and Malaysia. Even closer to home, Chinese have distinguished themselves in the Solomons, Tonga, and in Majuro, triggering occasional reactions from the local populations.

Chinese are far from the only group to achieve such success. As Chua points out in her book, no matter where we look around the world, we will find examples of what she calls "dominant minorities"-ethnic groups that have demonstrated a remarkable ability to succeed in business wherever they may live. The Lebanese have become the



- *Thrift*. This was associated with niggardliness, which was perceived as a fault rather than a virtue in island life. Instead, the investment in social capital-in the form of contributions to a community feast or tribute to a chief-demanded lavish generosity.

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Overall, Micronesia, like the rest of the Pacific, probably does not rank very high in those cultural value and attitudes that have been identified as helpful in promoting economic development today. This is not an indictment of Micronesia or the other Pacific Island cultures. Nor is it

• *Trust.* This may range in societies according to how elaborate the suprafamilial institutions were. In groups like Pohnpei, Yap and Palau, political and social institutions were relatively well developed in traditional times. On the other hand, people from smaller, unstratified societies like the atolls of the central Carolines or Chuuk may not have developed trust in broader institutions, much as the Sicilians in Italy did not.

• *Generalized morality.*

By this is meant the application of ethical standards to all, not just those in one's immediate kin group. This may have varied by locality, but was probably not pronounced in traditional times. However, the pressure to develop such a standard intensified everywhere following the advent of Christianity.

**Island life could demand feverish outbursts of hard work, but such an outburst was almost always followed by a long period of relaxation. This reflects the fact that work needed for survival was limited to a few hours a day.**


• *Autonomy.* This has never been especially high on the list of virtues in island society. In fact, island life is slanted in the opposite direction—toward conformity, in keeping with strategies needed for survival in a small isolated community.

• *Ethic of hard work.* Persistent work done for long hours day after day and week after week was not regarded as a value traditionally. Island life could demand feverish outbursts of hard work, but such an outburst was almost always followed by a long period of relaxation. This reflects the fact that work needed for survival was limited to a few hours a day. After all, Pacific Islanders did not have to spend all day in the fields plowing and planting as Asians and others were required to do.

entrepreneurs in Sierra Leone and other parts of West Africa, while Indians have assumed the same reputation in East Africa. In Russia, six of the seven billionaires following the privatization of public resources less than a decade ago were Jewish. For years, Chua points out, the Croats had enjoyed a much higher standard of living than the majority Serbs in what was formerly known as Yugoslavia. In South America, she goes on to point out, those of European descent have long held economic power over their darker-skinned compatriots.

**No matter where we look around the world, we will find examples of what she calls “dominant minorities”—ethnic groups that have demonstrated a remarkable ability to succeed in business wherever they may live.**

Clearly, some ethnic groups seem to be far more successful in business than others. Unfortunately, their financial success can incite violent retaliation against these groups, for they are usually small minorities in their adopted countries. During the last two decades, just as globalization was being trumpeted as the big leveling force through the world, uprisings have occurred in one country after another to strip the dominant business minorities of their economic power. Many of these—in Mugabe's Zimbabwe, in post-Suharto Indonesia, in Rwanda, in Serbia, and in Ethiopia—sought to redress the imbalance by expropriation of holdings, expulsion of ethnic minorities, or worst of all by genocidal wars. Apart from the enormous human suffering generated by the conflicts themselves, further misery followed. The nations that had sought to reclaim what they felt was justly theirs became even more impoverished when the people to whom businesses were handed off could not make them work.



Even so, the summons to a globalization that will offer all ethnic groups equal opportunity continues to ring out. To the extent that it remains a hollow call and a false hope, Chua warns us, it will spur further outbursts of ethnic violence fueled by frustration.

### ***Why the Differences?***

If some cultural groups seem to do better than others, what would explain the differences? The real intent of this question, of course, is to discover what might be done to compensate for these differences and cancel the competitive disadvantages that some cultures seem to bear in this age of globalization.

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### **The Industrial Revolution may have brought about enormous changes in production technology, but it left many nations impoverished just as it made others wealthy.**

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The inequality of cultures is one of the themes explored by Gregory Clark in his recent *Farewell to Alms*, which he subtitles *A Brief Economic History of the World*. It was no accident, he argues, that the Industrial Revolution occurred in Great Britain and not some other nation. Although his book is more concerned with the antecedents of the Industrial Revolution than the transforming impact of this landmark event on subsequent history, he points out that it gave rise to what he calls the “Great Divergence.” The Industrial Revolution may have brought about enormous changes in production technology, but it left many nations impoverished just as it made others wealthy. After the mid-19<sup>th</sup> century, the heyday of the Industrial Revolution, the differences in national income and standard of living around the globe became even greater than they ever had been before, Clark points out, and the differences continue to widen with each passing decade.



view of the world and concomitant values.

This conclusion is not encouraging for less developed parts of the world. At one time, economists felt that sufficient capital, especially through national savings, might catapult nations into a flight path of economic growth. Lately, it has become more fashionable to focus on the institutions, political and economic, to ensure that the ground is prepared for the bountiful economic harvest to come. But a number of recent authors, proponents of the cultural dimension of economic development, are suggesting that the creation of such political and economic institutions may have taken centuries. Even once they are in place, there may be need for still further cultivation of attitudes and values before a country is fertile for economic development.

Where do the island nations of Micronesia stand in all this?

### ***Closer to Home***

Many parts of the world have been written off as resistant to development. We may think of most of Africa, parts of Latin America, the Middle East, and a few of the countries in Southeast Asia. Of course, many of these countries still lack the reliable institutions, beginning with stable government and the rule of law, that are a requisite for development according to today’s canon. Then there is the Pacific, which has shown disappointing economic growth rates over the past decade or two. If the authors we have cited are on the right track in suggesting that historical antecedents of a people produce a cluster of values and beliefs that foster economic development, then it might be enlightening to measure Micronesian island societies against this cluster.

- *Belief in the importance of individual effort.* Island societies have never been distinguished for individualism or the belief system that encourages it. They have been better known for the communalism and the subordination of the individual to group interests that this demands.
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people come to believe in something beyond their own extended family. (I have to admit that when I read this I immediately thought of Chuuk, a cultural area that traditionally had very few civic institutions and so might have been slow in developing the public trust these authors regard as so important.)

In an even more recent book, *The Wealth and Poverty of Nations*, David Landes concludes that the success of national economies is driven by cultural factors more than anything else. Thrift, hard work, tenacity, honesty and tolerance are the cultural factors that make all the difference, he suggests. In his view, Max Weber was right after all in suggesting that social attitudes and values have the decisive say on what economies will succeed and which will fail.

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Guido Tabellini, in a working paper written three years ago, makes an attempt to offer real evidence for the impact of culture on economic development. Using as his cultural constellation a set of four values' trust, belief in the importance of individual effort, generalized morality and autonomy--he finds that yearly economic growth and per capita Gross Domestic Product (GDP) are higher in those regions throughout Europe that exhibit higher levels of these four cultural values.

All of this merely confirms what Amy Chua suggests and Gregory Clark tries to document--namely, that modern technology alone will never be able to turn around an economy and to boost the standard of living among a population. The development of a mindset, with accompanying values and habits, is a big part of the equation. Formal education may contribute to this, but possibly not so much because it imparts new information and hones skills as because it inculcates a new

Why was Britain in a unique position to give birth to the Industrial Revolution? And why did the effects of the Industrial Revolution vary so greatly from one part of the globe to another, from one nation to another? Clark maintains that Britain's development was not a sudden leap forward that was propelled by the invention of a few power-driven machines. It was gradual, he maintains, taking place over the course of several hundred years prior to the 19<sup>th</sup> century. In his way of thinking, the Industrial Revolution would have never occurred had it not been for the changes in values that were happening for centuries before. From the High Middle Ages on, following the Magna Carta in the 13<sup>th</sup> century that limited royal authority, Britain had the stable political, legal and economic institutions so often touted as the preconditions for economic growth.

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But such institutions of themselves do not generate economic progress, Clark maintains. Stable political institutions, a reliable legal system, predictable land values and functioning markets were the necessary but not sufficient conditions for the economic take off Britain experienced when new sources of power were harnessed. They did, however, lead to the gradual development of precisely that set of deep cultural changes, especially a sense of competitiveness and a strong work ethic, that was required if sudden technological breakthroughs were to have any real impact on the society. The data that the author presents to us offers a picture of a society that was losing its taste for violence even as its homicide rate was dropping, a society with high population growth among the well-to-do, one in which people had to work hard and long to gain a competitive advantage over their peers, a society that was increasingly literate and patient. These traits served people so well

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in Britain, Clark adds, that they would have been passed on by means of social Darwinism and possibly even by a genetic selection process as well. This cluster of traits, usually associated with the middle class, gave people the edge in surviving, just as quickness of reaction, strong legs and a good aim might have in a much earlier age and in a very different milieu.

All of this predated the Industrial Revolution, Clark points out, so that when the steam engines and other new means of production were developed in the early 19<sup>th</sup> century, the British could utilize them to expand their economy many times over. By contrast, when India was introduced to the technology later in the 19<sup>th</sup> century, the results were far different. The power-driven cotton mills that had spurred such a startling economic burst in Britain were introduced to India but never offered the country the same competitive advantage. The productivity of British mill workers, thanks to the very traits that Clark has described for us, was so far greater than that of their Indian counterparts that even though hourly rates for Indian employees were merely one-fourth of British labor, British-run mills were far more cost-efficient than Indian mills. Clark notes that to compensate for the greater per-person productivity of British employees and to get the Indian mills operating at maximum output, Indian mills would typically hire many more employees. But this boosted labor costs beyond what they would be in a British mill, making the Indian-run mills non-competitive in the end.

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So, in the end, it was people and the values they had absorbed over the years, not the power-driven mills or any other form of advanced technology, that had made the difference.



### *Values and Attitudes*

“Does Culture Affect Economic Outcomes?” is the title of an intriguing paper written two years ago by Luigi Guiso, Paola Sapienza and Luigi Zingales. The paper offers tantalizing suggestions as to which values matter most when economic development is at stake.

The first writer to propose a cultural explanation for underdevelopment, the authors tell us, was the political scientist Edward Banfield in his 1958 volume *The Moral Basis of a Backward Society*. He attributes the slow economic growth in southern Italy to the excessive pursuit of narrow self-interest by people who have never learned to trust anything outside their family. Following this lead in his own 1993 book, Robert Putnam offers evidence that those areas in Italy that enjoyed free city states centuries earlier have a much better track record today than those places in southern Italy that never had the benefit of such civic institutions. When these institutions are effective, people are prepared to invest in social capital. Development of a sense of trust is critical here, it is suggested, and this occurs over a long period of time as