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Culture Makes the Difference – the Humanistic Approach to the Understanding of Economic Development¹

In the world of decreasing natural resources and room for people on the one hand, and expansion of ideas, politics and economies on the other, the notions of *culture* and *development* have acquired increasing importance. As the world becomes smaller due to economic, political and cultural globalization, people have to bridge the differences in the very same areas to find some common ground and ensure progress to the whole mankind. However, the terms are often falsely counterposed: the former is viewed as a purely intangible asset whereas the latter is associated with the economic sphere. Seemingly distinctive as they are, the two ideas have rarely been placed side by side, which conveyed an overwhelming impression that there was no link whatsoever between each other. However, a closer examination of paths of economic development across the world countries and the emergence socio-economic theories in the 20th century, and its last three decades in particular, shows that both were noted to have increasingly determined the outcome of human activities as well as were recognized to have been mutually linked.

CULTURE – THE FORGOTTEN FACTOR

The story of the mutual relationship between *culture* and *economic development* did not commence in the last decades of the 20th century nor in its beginning – the two domains have always been linked with each other yet the link was largely disregarded. For the predominant part of the 20th century *culture* and *economic development* were perceived as two distinct ideas affecting virtually two non-overlapping domains of the ‘soft’, i.e. largely undefined and implicit, world of customs and morals, and the ‘hard’ and explicitly defined world of money and business. The principal reason for the theoretical exclusion

¹ The main framework and idea for this article is based on Pyrkosz [2008]; the following article is both a continuation and an extension of the main concepts contained in the above cited one.

of culture from economic interpretations of different patterns of civilizational development and wealth accumulation among societies was the *economic imperialism* and *mathematical sophistication* [Guiso *et al.*, 2006, p. 27], which cut the sociological roots of the economics, weakened its intrinsic and mutual links with sociology, politics, history and anthropology, and eventually culminated in the science's alienation. The process was initiated in the early 19th century by Jeremy Bentham who formed the hypothesis that culture, custom and tradition were not relevant to economic analysis [Chartrand, 1990]. Bentham was ... *inclined to think that the influence of custom and sentiment in business affairs was harmful, that in England at least it had diminished, was diminishing, and would soon vanish away: and the disciples of Bentham were not slow to conclude that they need not concern themselves much about custom* [Marshall, 1890, pp. 628–629]. This premise, however, verified by other economists of the day and of the days to come, flew in the face of the economic founding fathers. In this respect Adam Smith emphasized the duality of human nature: it is self-regarding and other-regarding at the same time. In either case it is propelled by self-interest: not only does it further the public good in the marketplace (*The Wealth of Nations*) but it makes people more civil and polite towards each other as well (*The Theory of Moral Sentiments*). Also John S. Mill (*System of Logic*) and Karl Marx (*A Contribution to the Critique of Political Economy*) placed cultural constituents in the very heart of their economic theories, however different they were.

In the course of development of economics, culture was hence removed from the economic analysis despite quite the contrary wishes of the founding fathers of economics. A good expression of this disquieting discrepancy was the question asked by Kenneth Boulding [1972, p. 267]: *The founding father of economics, Adam Smith, had a strong sense of the cultural matrix of economic phenomena. One of the most interesting of the unasked questions of intellectual history is how the science of economics should have lost this sense and become an abstract discipline void of almost any cultural context.* Under these circumstances, the predominant part of the 20th century saw the increasing concentration of the mainstream economics² on *discovery of universal and timeless principles which were independent of human will and society* [Wilkin, 1997, p. 24, translation mine]. As a result, economics was fundamentally de-

² Institutional economics, which rose in the end of the 19th century, was a notable exception to this overwhelming trend. It significantly changed the perspective of economic analysis to account for institutions, i.e. routine acts caused by facts embedded in culture, politics and law, as critical determinants of social development. However, the branch has never entered the mainstream economics and was heavily criticized and its position was undermined by the economic community [*cf. inter alia* Blaug, 1996].

socialized and it adopted an approach characteristic of physics, mathematics and other sciences.

AT THE CROSSROADS OF CULTURE AND ECONOMIC DEVELOPMENT

One of the earliest 20th century attempts to recognize the critical role of culture for economic development was made by Max Weber who went on to construe a coherent sociological theory in his seminal work *The Protestant Ethic and the Spirit of Capitalism* [1904]. In his view, capitalism was not only a system of market exchange of goods and services between individual entrepreneurs prompted by price incentives but a bureaucratic organization whose intrinsic hierarchies make business entities' actions more predictable as well. Thus, both economic and non-economic factors determined the market economy and so did the rise of capitalism. Predictable law, non-dualistic economic ethics (generated by the spirit of Protestantism and the concept of predestination), the presence of the bureaucratic state and civil rights were all key cultural factors conducive to the rise of capitalism. Moreover, Weber used the religious factor (the Protestant ethos) as a determinant of differences between various types of capitalism across time and space, particularly these in Western Europe and America, and the rest of the world [Weber, 1904].

Recognition of the culture-oriented interpretation of economic development became gradually more popular in the middle of the 20th century. Among the precursors was Antonio Gramsci [1949] who regarded both economic interests and the dominant culture as indispensable elements of political outcomes analysis. Edward Banfield [1958] identified specific patterns of human behavior (i.e. excessive and narrow self-interest) as primary causes of underdevelopment in the south of Italy. An important contribution was made by Karl Polanyi, who saw a human being primarily as a social construct pursuing cooperation, prestige and enhancement of social resources: culture was thus an indispensable element of economy and ensured its stability. *The human economy is embedded and enmeshed in institutions, economic and non-economic. The inclusion of the noneconomic is vital. For religion or government may be as important to the structure and functioning of the economy as monetary institutions or the availability of tools and machines themselves that lighten the toil of labor* [Polanyi, 1957, p. 250]. According to Polanyi, the pervasiveness and excessive reliance on of the free market and price mechanism throughout the 20th century severed social ties, endangered civilizational development, atomized societies and left people virtually defenseless in the face of lack of guidance of cultural institutions.

The last decade of the 20th century saw a true revival of interest in the area of mutual influence between culture and economic development. One of the authors was Douglas C. North and his numerous writings. He sought to identify the reasons for which some countries had developed successful economies, whereas others had experienced underdevelopment and were deprived of the benefits of thriving economy, though they seemed to be conditioned otherwise. His conclusion was that the main determinant was the presence of culture-based institutions. Among those most conducive to development were establishment of property rights as well as civil rights that guarded citizens' civil, political and religious liberties. He proved his thesis with the contrasting examples of England and Spain: the former went through a process commenced by the passage of the *Magna Carta Libertatum* in 1215 and concluded with the 1688 Glorious Revolution and the rise of constitutional democracy which incorporated fundamental civil rights and liberties into the state law – however lengthy and painstaking the process was, its effectiveness was verified by the major social and economic development of England in the following centuries; in the latter, the Cortes parliament was gradually dominated by the monarch, which adversely affected the political position of the legislative branch, whereas the real political power was vested in the bureaucracy which was more and more burdensome to control – altogether, the institutional structure of Spain lacked sufficient stimuli to generate civilizational development and economic change.

Other aspects of the cultural dimension of economic development were also observed. Robert D. Putman's [1993] observation was that regions with established tradition of free city states tended to accumulate much higher social capital which in turn facilitated their political and economic development, contrary to those that lacked such tradition. Meanwhile, Francis Fukuyama [1995] emphasized trust as a crucial element of economic development. No longer are profit or quantity sufficient and sole criteria of economic development as organizations are also made accountable for the quality of environment (both human and natural). That situation perpetuates a fundamental change in the employee's attitude who not only has to faithfully perform its duties but display unswerving loyalty to their employers as well³. On the other hand, David Landes [1998] in his analysis of development and underdevelopment emphasizes the fundamental role of the national culture and culture-based attitudes. Hence thrift, diligence, persistence, honesty, tolerance can all effectively oppose adverse government policy, e.g. in the economic or social contexts, particularly when it is aimed at specific groups in society.

³ As Guiso *et al.* [2006, p. 29] observed, the notion of trust proved to be a groundbreaking approach and effectively offered an opportunity for culture to enter the economic analysis of development.

Landes [1998, pp. 516–517] concludes on the role of culture in economic development of nations and highlights its values and problems:

If we learn anything from the history of economic development, it is that culture makes all the difference. (Here Max Weber was right on.) ... Yet culture, in the sense of the inner values and attitudes that guide a population, frighten scholars. The technicians would rather ... change interest and exchange rates, free up trade, alter political institutions, manage. Besides, criticisms of culture cut close to the ego, injure identity and self-esteem... [Furthermore], if culture does so much, why does it not work consistently? ... On the other hand, culture does not stand alone... [and] the determinants of complex processes are invariably plural and interrelated. Monocausal explanations will not work.

Landes' conclusion concurs with another seminal work, a collection of essays edited by Lawrence E. Harrison and Samuel P. Huntington [2000] under the telling title *Culture Matters. How Values Shape Human Progress*. The authors point out that culture is a determinant of a wide range of processes including economic but also social and political development, i.e. democratization. The main message the book conveys is that free market and democratic institutions themselves do not warrant stability of a country's democratic system or economic development. It is its culture that has a potential of becoming either a catalyst or an inhibitor of prosperity and democracy. Among the cultural values having the greatest impact the authors point out those related to work ethos, education, freedom of expression and trust. The above considerations are further developed to form the specific manifesto of culture-induced civilizational progress: although culture so profoundly determines social, political and economic development, culture can also be changed to stimulate development – after all, it is neither the given geographical location, natural resource base, nor even production structure, but the social resources, i.e. people, their values and attitudes, that guide people in their way to development of their economy, society and democratization of political life.

Having recognized the fact that culture has had a huge impact on the economic development of nations, other authors adopted a *management* approach to the role of culture in business. Fons Trompenaars and Charles Hampden-Turner [1998] illustrated how diverse cultures respond to different types of management and ways to overcome the differences. In this respect they constructed a matrix of seven cultural factors to account for the discrepancies which were determined along the criteria of universalism vs. particularism, analyzing vs. integrating, individualism vs. communitarianism, inner- vs. outer-directedness, time as sequence vs. time as synchronization, achieved vs. ascribed status, and equality vs. hierarchy. An alternative model was proposed by Geert Hofstede [1991] who distinguished and analyzed cultures along five dimensions: power distance, individualism vs. collectivism, masculinity vs.

femininity, uncertainty avoidance, and long- vs. short-term orientation. Although the two frameworks differed, they shared the same basic logic, i.e. to understand how different people in other cultures behave and make decisions concerning business. This very issue becomes of primary significance with regard to the advances of modern technology and the gradual removal of barriers to international trade, which in effect make the world become more and more of a *global village*.

CULTURE IN TIMES OF GLOBALIZATION AND SUSTAINABLE DEVELOPMENT

Globalization is one of the main forces driving the world development today. It is most generally referred to as integration of cultural, economic, political and social systems across the whole world. The main thesis that is widely assumed to be a direct consequence of globalization is the notion of *convergence*, i.e. homogenization of patterns of social and economic development as well as culture. The major factor in the process of convergence is market globalization, which is further enhanced by the international competition, regional integration, and deregulation of national economies [Morawski, 2001, p. 320]. Altogether, as the theory holds, convergence diminishes or even erases differences between nations and generates similar institutional solutions in all the aforementioned areas of life. In general, supporters [*cf. inter alia* Ohmae, 1990] of the convergence theory hold that over time the impact of culture, politics and history will diminish and give way to the logic of the market mechanism. However, an alternative view holds that globalization produces a gradual, yet increasing, separation and disparity of patterns of civilizational development, i.e. *divergence*. Advocates of this view of globalization claim that convergence does take place but is confined to a small group of the developed countries, the *convergence club* [Baumol and Wolff, 1988]. In fact, if we have a closer look at the pace of civilizational development across the world's countries in the 20th century – glaring discrepancies in the living standards and productivity levels – we conclude that the prevailing pattern of economic development is one of conspicuous divergence. Today the very usage of the terms *developed* and *developing countries* might imply that the disparities are disappearing and countries are converging. In fact, for the predominant part of the post-World War II decades, a majority of the Third World countries did not [Dowrick and DeLong, 2001].

The two competing views and processes coexist and both are in fact inseparable. To get a full picture of the processes ongoing in the world of today, frequently referred to as the *global village* to denote the direction of changes, we should rather go on to form a comprehensive thesis of complementarity of

convergence and divergence of development patterns. Taking that into consideration, Ralf Dahrendorf [1999] proposed an alternative notion of *selective convergence*, stressing the fact that globalism does not limit but encourages various institutional approaches, which in turn induce various paths of development.

In an open world, there are not just two or three ways but an indefinite number. The question – how to create wealth and social cohesion in free societies – may be the same everywhere, since it results from largely global conditions. The answers, however, are manifold. There are many capitalisms, not just that of the Chicago school of economics; there are many democracies, not just that of Westminster. Diversity is not an optional byproduct of high culture; it is at the very heart of a world that has abandoned the need for closed, encompassing systems [Dahrendorf, 1999, p. 15].

In the light of the above statement, we shall conclude that the role of culture in development of nations is momentous for two reasons. First, its impact is of immense importance for the economic development of countries as verified by the above cited theories of development. Secondly, from the economic point of view, the logic of the market is built on gaining comparative advantage which inevitably necessitates use of all available resources—economic but also cultural, social or political. Hence, the culture-induced coexistence of convergence and divergence in the process of economic development of nations is the very feature that accounts for the very diversity of development patterns worldwide. This fact becomes even more critical as not only cultural considerations have been placed in the center of development strategies of nations.

The recognition of the cultural element in economic development of countries in the last decade of the 20th century coincided with the rise of the idea of *sustainable development*. The new paradigm of development was forged in response to the growing dissatisfaction with the enormous yet unequal distribution (e.g. the widening gap between the developed and undeveloped Third World countries) of development patterns. It became more and more evident that *development* had rather come to mean excessive reliance on maximization of profit, economic indexes and statistical data shook the delicate balance required for all countries to experience civilizational progress. The above pattern of development happened at the cost of the natural environment whose pollution had reached an unprecedented degree, and increasing social inequalities worldwide and ... in the most developed countries, too.

The theory of sustainable development cast a new light onto the role of a human being in shaping the face of the Earth and its own fortune. Not only for the first time did it group together apparently unlike concepts of economic prosperity, social well-being (with culture being its intrinsic element) and environmental protection but it also drew attention to the interdependence

between all the three elements⁴. The central element of the concept is a three-pronged holistic approach that emphasizes the mutual dependence between various facts that either influence human well-being or are caused by human activities. Culture, physical well-being and material success of people were linked directly to the state of the environment and ability to manage the natural resources and coexist with other species. Recognition of such interdependence between various aspects of human activities was truly revolutionary. It was particularly important in those areas of economic activity which stress the relationship between the human and the environment.

Recognition of culture for economic analysis is notable not only for the fact that it has influenced the economic development of nations but also because economic policies provide for development/preservation of culture and culture-related elements on the primarily economic grounds⁵. In this respect, a typically *cultural* element of the new development policy with regards to American rural areas is preservation of cultural heritage. It aims at protection of the distinctive character of the multitude of local, also rural, places viewed as products of the intricate cultural context involving the place's history, traditions, land-use patterns, material heritage, and economic development. The trend has been referred to as *cultural landscape preservation*. In a more general sense, it offers a chance to restore the original value of traditional rural lifestyle, heritage of the specific human attitudes towards the surrounding environment and events as well as the material one.

Another example of this approach is protection of the cultural and historic resources. Although this policy promotes historic and cultural projects, they in turn affect economies of the localities where the resources are situated, e.g. rural areas. Seemingly devoid of any market or economic implications, these programs often have a strong economic incentive. Walker *et al.* [2003, p. 10] identify three major areas of harmonization of cultural and economic effects:

- 1) active cultural participation is capable of building strong communities and fosters community spirit;
- 2) strengthening cultural communities creates economic value;
- 3) the value created by cultural production can be channeled for regional growth through exporting unique traditional products, i.e. *making locally and distributing globally*.

Culture-oriented activity can provide notable economic benefits. The role of external demand for cultural products (e.g. a piece of handmade craftwork,

⁴ The interdependence between culture (society) and the natural environment has become a well explored area of study verified by the abundant literature on the subject [*cf. inter alia* Goldenweiser, 1916; Wallis, 1926; Bernard, 1930].

⁵ The former approach is referred to as *cultural economics*, and has been the focus of the proceeding part of the paper, and the latter *the economics of culture*, to be discussed in the remaining part.

scenic or historic view, or a rehabilitated historic rural building) is of vital importance for regional development. It has the potential to generate new employment and expand business opportunities which are always considered viable economic development strategies. Hence, cultural production becomes the key element of local development strategy. It proves a real window of opportunity for development for the most economically disadvantaged areas. This happens due to expansion of markets for traditional arts and travel which attract special value to cultural uniqueness, counteracting the cultural convergence (or unification) trend of globalization [Walker *et al.*, 2003]. Under these conditions, values attributed to family traditions and the community's cultural heritage can render a direct market value and let hitherto geographically underprivileged regions capture their share of national economic growth.

CONCLUSIONS

Culture and economic development separated by the decades of economic imperialism finally have come together to generate harmony between the human, economic and environmental elements through the notion of sustainable development. The past strong reliance on economic indicators alone have brought degradation of the human and natural environment. The concurrent occurrence of culture as a relevant element of economic analysis has helped to identify new opportunities of solving our global problems and understand their causes. Once again it has turned out that our problems are more complicated than they seem. Above all it seems that recognition of culture, society, environment as intrinsic elements of development has drawn attention to a broad range of cultural, social and environmental implications of economic activities. Not only does this approach restore balance between those spheres of human life but it is also more likely to help design policies better suited to the needs of humanity and the world at the beginning of the third millennium and offers a promise of less disturbed and more equitable development for all. To achieve that we must acknowledge the fact that culture does not contradict economic development – nor does it oppose ecological preservation or social progress – rather, it is actually an intrinsic element of development in the economic, social and ecological spheres of human life.

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Abstract

In the world of decreasing natural resources and room for people on the one hand and expansion of ideas, politics and economies on the other, the notions of *culture* and *development* have acquired increasing importance. As the world becomes 'smaller' due to economic, political and cultural globalization, people have to bridge the differences in the very same areas to find some common ground and ensure progress to the whole mankind. The terms are often falsely counterposed: development is associated mainly with economic sphere whereas culture is predominantly viewed as an intangible traditional asset. In this sense, the paper seeks to identify the overlap between the ideas of culture and economic development, note the conspicuous rise in significance of the former for the latter and trace the role of culture in economic development of nations with special emphasis on the evolution of the relationship in the last decade of the 20th century specifically.

Kultura przesądza o różnicach – humanistyczne podejście do rozumienia rozwoju gospodarczego

Streszczenie

W świecie malejących zasobów naturalnych i przestrzeni ludzkiej oraz ekspansji idei, polityk i gospodarek, pojęcia kultury i rozwoju nabierają coraz większego znaczenia. Podczas gdy świat się 'zmniejsza' w wyniku ekonomicznej, politycznej i kulturowej globalizacji, ludzie stoją przed wyzwaniem pokonania różnic w tych samych dziedzinach życia, aby móc zapewnić rozwój całemu gatunkowi ludzkiemu. Pojęcia kultury i rozwoju są często fałszywie zestawiane ze sobą: rozwój jest głównie kojarzony ze sferą gospodarczą, a kultura jest postrzegana wyłącznie jako zbiór niematerialnych tradycyjnych wartości. W tym kontekście, artykuł jest próbą odnalezienia wspólnych sfer oddziaływania pomiędzy kulturą i rozwojem ekonomicznym. Jednocześnie artykuł zwraca uwagę na znaczący wzrost znaczenia kultury dla kwestii rozwoju gospodarczego narodów ze szczególnym uwzględnieniem ewolucji, jaka dokonana się w postrzeganiu powyższego związku w ostatniej dekadzie XX wieku.