



Economic growth and cultural change

Panagiotis Petrakis*, Pantelis Kostis¹

University of Athens, 5 Stadiou Street, PC 10562, Athens, Greece

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ABSTRACT

The paper contributes to the interpretation of annual growth rates based on the effect of the basic growth factors (capital, labour, human capital) and the cultural background as part of the “remaining factors”. It uses a series of variables to express these effects, which are analysed with a principal component analysis and a regression analysis, in the context of a Solow–Romer augmented growth framework. Cultural background variables are divided in two main groups: “Efficiency Orientation” and “Social Orientation” variables. We formulate the hypothesis that within the well-known growth framework “Efficiency Orientation” variables significantly affect economic growth, while “Social Orientation” influences are unpredicted in principle. The results confirm that cultural background positively affects annual growth rates. However, “Social Orientation” plays the main (positive) role. Furthermore, performing a sensitivity analysis on the cultural background, the conclusions confirm that cultural background has a strong interpretive role in annual growth rates. The deterioration of the “Social Orientation” cultural background negatively affects annual GDP growth. The paper points the crucial explanatory power of the “Social Orientation” cultural background for annual growth rates.

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1. Introduction

The purpose of this paper is to contribute to the interpretation of gross domestic product (GDP) annual growth rates, with specific reference to the basic growth factors (capital, labour and human capital) and the cultural background as part of the remaining factors.

The topic, of course, is quite old. As [Acemoglu \(2009\)](#) remarks, references to the general circumstances of the environment that possibly have an impact on attitude and human conventions can be found in [Montesquieu \(1989\)](#), [Machiavelli \(1987\)](#) and [Marshall \(1997\)](#). The role of religion was stressed by [Weber \(1958\)](#) and more recently by [Harrison and Huntington \(2000\)](#), while [Putnam \(1993\)](#) broadened the meaning of cultural factors and trust as they relate to the concept of social capital. Culture and economics can be seen as two of the more powerful forces shaping human behaviour ([Throsby, 2001](#)).

The present paper contributes to the literature above mainly regarding the fact that it extends the basic growth function by

adding the cultural background of societies and interpreting its effect on annual GDP growth rates, tackling the old topic. Doing so, it contributes towards the quantification of naturally qualitative forces – and thus less manageable and measurable – responsible for the growth process. Furthermore, it tests for possible endogeneity between the variables used, in order to take position on controversial issues in the literature about the direction of the relationships between the variables used. In addition, the paper divides cultural background variables in two main groups – as far as we know, for the first time in the literature: the first covers the variables that represent the “Efficiency Orientation” and the second covers the variables that represent the “Social Orientation” of societies. Lastly, through a sensitivity analysis, it examines eight different cases of change in the structure of the cultural background of societies and the new conditions shaped for annual GDP growth rates.

The order of the paper is as follows: Section 2 presents the theoretical work on growth and the cultural background and describes the variables used. Section 3 describes the methodology employed, the empirical model and measurements, while Section 4 presents the empirical work and the discussion of the results. Finally, Section 5 presents the conclusions.

2. The theoretical background and the variables used

2.1. The contribution and theoretical construction of the “remaining factors”

In the neoclassical theoretical substratum of Solow and Romer, the uninterpreted part of growth – the rate of change of the

Abbreviations: GDP, gross domestic product; CAP, capital; L, labour; HC, human capital; PCA, principal component analysis; PC, principal component; OLS, ordinary least squares; PEOC, pro-efficiency oriented component; PSOC1, pro-social oriented component 1; PSOC2, pro-social oriented component 2; MESOC, mixed pro-efficiency and social oriented component.

* Corresponding author. Tel.: +30 2103689353; fax: +30 2103689352.

E-mail addresses: ppetrak@econ.uoa.gr (P. Petrakis), pkostis@econ.uoa.gr (P. Kostis).

¹ Tel.: +30 2103689368.

“remaining contributing factors to growth” – is the so-called Solow residual (Solow, 1957). It constitutes the part of growth that cannot be interpreted by the contribution of capital, labour, human capital and technology. Usually, it is attributed to factors such as the cultural and institutional background of the growth process that characterises a society.

It has been argued that the unexplainable part of development, excepting the contribution of capital and labour, can be attributed to technological change (Aghion and Howitt, 1998; Romer, 1990), the conditions of acceptance of new technologies or the role of endogenous forces of growth or external economies through the accumulation of human capital (Lucas, 1988; Romer, 1986). Furthermore, economic policy (Easterly, 2001), the degree of economic extroversion (Frankel and Romer, 1999), the role of the financial system (Levine et al., 2000) and the effects of macroeconomic policies and inflation (Fischer, 1993) can all have significant influences.

According to growth accounting literature and following the Cobb–Douglas hypothesis of constant returns to scale, the exponents (capital and labour elasticities) sum to one. Because we know the amount by which the GDP has grown and the extent of this growth that is due to capital, labour and human capital, we can interpret what remains as an effect of the “remaining contributing factors” to growth. This is the increase of total productivity (total factor productivity).

In this paper, we focus on cultural background as an influential element of growth, which can be considered a “remaining factor”. Whether directly or indirectly, culture influences the outcome of economic process. Culture may be considered as the sum of the values, and perceptions dominating a group of people. The formed views of the people and the grid of values influence the organization and the operation of the institutions and, hence, the way the available resources of the society are directed. Furthermore, economic growth of a society is unbreakably linked to the materialization of personal achievements and the mutual trust among its members. Determination, absorption in targets, hard work and the tendency of the members of the society to be independent, are some of the values that can interpret the high growth rates of certain countries over some others.

Although we intuitively comprehend the importance of culture, its quantification and formal analysis can prove challenging.

2.2. The formation of cultural background

The exact impact of culture on growth, a question posed across the disciplines of economics (Schumpeter, 1934), sociology (Weber, 1958) and psychology (McClelland, 1961), concerns several complex issues attributable to several social characteristics, which consequently constitute what we understand as “culture”. “Culture is defined as a set of shared values, beliefs and expected behaviours” (Hayton et al., 2002). Throsby (2001) introduces the concept of cultural capital, which includes cultural expressions that are intangible (set of ideas, practices, beliefs, traditions and values) or tangible (buildings, structures, sites, locations, paintings, sculptures and other objects with cultural significance).

The cultural characteristics of societies reflect psychological social stereotypes that have been created in over time and are prior human constructs to the current transactions and institutions. These characteristics remain stable over time. In general, cultural stereotypes present great resistance to change and to their own redefinition (Johnston, 1996). As Jones (2006) remarks, culture often appears fixed to the observer at any one point in time because cultural mutations occur incrementally.

The long-lasting character of social stereotypes that form the cultural background is based on two alternative hypotheses. The first is connected with the exogenous character (climate, environment, etc.) of the forces that shaped the construction

of the stereotypes (Schwartz, 2009). This view contains references to the external environment (McClelland, 1961; Triandis, 1995) that address the interrelationship of the physical condition of human and external environment through “homeostasis” (Tavassoli, 2009). The second hypothesis states that cultural background is an endogenous creation of human civilisation (Hong, 2009; Oyserman, 2009). Cultural background is conceptualised as a total of “shared knowledge” consisting of (a) taught thought procedures, (b) belief, behaviour and value constructs and (c) underlying theories of the physical and social world. Thus, the cultural background is constituted by cultural syndromes that can be considered intermediate mental constructions that originate from the distant past and connect it with the present (Hong, 2009). Even so, these constructions are generated endogenously – particularly from the point of view of the present – and should be considered constant and endogenously generated through the present time. Whichever of the two hypotheses we choose to adopt, we have to accept that cultural background is a variable exogenous to the present, and it changes in the long term.

The basic process that shapes cultural background, is the process of its activation. Cultural background activation borrows its terms from shared knowledge activation which are availability, accessibility and applicability (Wyer and Srull, 1986; Higgins, 1996). Availability refers to the situation, in which some particular knowledge is available to the individual’s cognition system. It should be noted that accessibility to shared knowledge is considered as a given fact, given that there are knowledge sums that may be temporarily available. Applicability refers to the individual’s ability to apply shared knowledge in every undertaking.

Individuals are not passive receivers of their cultural environment. They use cultural background as a tool for understanding their experiences (Hong, 2009). Any matching of geographical boundaries and uniqueness in cultural background characteristics is not scientifically acceptable, since this would reduce the likelihood of the appearance of the same syndromes at the same periods of time in different societies.

The “portfolio” of syndromes” within a society and the specific weight each of them carries within such portfolio is of particular importance. Thus, the extent to which a society cultivates the various syndromes in its population during the process of socialization is significant. Furthermore, the significance of the process of adding syndromes is stressed out. Therefore, a big road of intervention in the “adding” processes of such syndromes opens and, hence, of a dynamic shaping of the cultural map of a society.

Cultural syndromes constitute the link between the distant factors that created such syndromes and today’s cultural conditions. Nevertheless, different distant factors shaping cultural syndromes (history, language traditions, philosophical and religious beliefs – Protestantism, Confucianism) create similar cultural syndromes. Therefore, while societies often do not share common origins, cultural syndromes may have exceptional similarities.

The distant past and modern cultural consequences are interconnected through the immediate external realities and the immediate internal realities. Immediate external realities are social structures, which reflect invoked cultural syndromes. Hence, we can claim that societies do not differ because they include different dominant cultural syndromes, but because there are institutional reflections of them in abundance. On the contrary, immediate internal realities are subjective psycho-structural circumstances.

Hence, when cultural syndromes are used, then cultural background can offer different notions, according to everyday situations and consequently, cultural syndromes may create different current real situations. The procedure described above is presented in Fig. 1.

However, cultural capital does not overlap social capital. Bourdieu (1986), one of the founders of research on social capital,

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