

Culture at the Center of Economic Development, Stability and Growth

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Abstract

This paper stresses the importance of culture in understanding and, perhaps more accurately, predicting economic development. It's intended to initiate, or re-initiate, the discussion of culture as the core of economic development, stability and growth.

My interest in the discussion of the economy is from a behavioral perspective, taking behavior as an outcome of culture, a factor that remains neglected in most economic literature explaining or forecasting the economy. It seems to me that because the existent literature in economics remains incomplete in terms of culture, predicting the success or failure of any economic model, applied within different cultural settings, may be inaccurate. Hence, the fundamental assumption presented in this document is that different regions in the world develop different economic levels due to cultural differences. I take example in East Asia in general and China in particular to explain cultural factors that have contributed to the economic development in the region.

The following discussion has been divided into five parts, as follows: First, an introduction to the main arguments. Second, a short discussion of the definition of culture developed by several scholars in the past. Elaborating on those earlier definitions, I propose a definition that may best suit the economic issue at hand. Third, a review of some of the most important economists and their key arguments, upon which I elaborate from a cultural perspective. Fourth, a discussion of East-Asian countries and China's economic development from a cultural perspective. Fifth, my conclusions and a proposed model that includes culture as a factor in the decision-making process when choosing an economic strategy and its corresponding models.

Keywords: culture, economic models, cross-cultural economics, cultural economics

1. Introduction

My standpoint in the following discussion is that regardless of the angle from which economy (as a social phenomenon) is discussed, economic agents (people) are born, grow and make decisions within a cultural environment, which influences their preferences and regulate their behavior at micro and macro levels. How economic ideas are generated, discussed, accepted and transmitted is cultural dependent, the philosophies supporting economic thoughts and their interpretations have, necessarily, cultural connotations.

The dynamics of behavior, attitudes and values are all rooted in culture, hence a discussion attempting to explain the consequence of behavior upon economic development, stability and growth should not be as simple as to observe and analyze behavior alone but go further to the depth of culture, which is the source of behavior. Elaborating on Pressman's (2007), I propose that *if human behavior (HB) is one force driving the economy (E), and culture (C) one force driving human behavior, then, culture is one force driving the economy.*

The key argument in this paper is that culture must be the core to estimate, with more accuracy, the success of an economic model, or any model, especially if such a model was developed within different cultural settings and timeframe. I also point out that, to be successful, such model should undergo modifications to fit local cultural factors. I don't deny the crucial role of policy makers in creating the scenarios and setting the rules that allow economies grow; rather I agree that their role is of paramount importance in the formation and changes of culture. One of the issues that may have greatly affected the low success of economic models implemented in Latin America as well as their greater economic disparity may be the lesser rather than a greater degree of state intervention—that is, a model of economic organization in which private enterprise continued to have a major role (Ocampo and Ros, 2011).

As I mention elsewhere in this paper, for culture to change (and it changes or must change), someone has to bring, and most of the times impose, new practices (behavior). This new practices will promote the attitudes toward the object of action, which in turn become the new values that later form or reform culture.

I should point out that the easiness or speed with which a population accepts and starts using the new practices will depend upon certain existing cultural factors. For example, experience living in East Asia and Latin America shows the easiness with which people follow the government's dictations without questioning in the former region while the opposite would occur in the later. Change takes a much shorter time in East Asia than in Latin America because in East Asia people follow without questioning, while in Latin America the opposite is the norm.

Several researchers have already stated that to understand, explain and predict economic development one has to include a region's cultural factors (Huntington, 1996; Landes, 1999; & Inglehart, R., 2000). I maintain that an economic model functions, because the social conditions, time and culture within which it develops allow for its functionality and success. In the same line of thought, I argue that when economic models do not deliver the expected results, this is because they do not suit the conditions mentioned above, and most important, the cultural factors of that specific society.

To set the framework of the topic at hand, I would like to start with a discussion of both culture and economy, which are the terms upon which this paper has been developed. All along the paper, I include arguments intended to illustrate how culture may have influenced the different economic perspectives under discussion.

2. Literature Review

2.1 Culture

Hofstede and Bond (1988) define culture as "the collective programming of the mind that distinguishes the members of one *category of people* from those of another", adding that "culture is composed of certain values, which shape behavior as well as one's perception of the world".

As cited in Cerna (2013), definitions of culture started to develop over a hundred years ago within various disciplines such as cultural anthropology and in a wide range of academic areas ranging from cross-cultural business management to psychology. Tylor's Primitive Culture (1871) defined culture as "that complex whole which includes knowledge, beliefs, art, morals, laws, customs and any other capabilities and habits acquired by a man as a member of society". Kroeber and Kluckhohn's early review of cultural definitions (1952) found over 160 different definitions of the term.

Definitions in the 1950's focused on perspectives that establish distinctions and etiological aspects of the term. Parsons and Shils (1951) stated that "culture is composed of a set of values, norms, and symbols that guide individual behavior". Kroeber (1952) defined culture as "the historically differentiated and variable mass of customary ways of functioning of human societies". Herskovits (1955) later argued that "there is a general agreement that culture is learned; that it allows man to adapt himself to his natural and social setting; that it is greatly variable and that it is manifested in institutions, thought patterns, and material objects".

Definitions of culture have varied from those stressing shared values (*what people within a specific geography hold as important), problem solving (*the departing point people take to solve a specific problem) and general all-encompassing definitions. (Straub et al. 2002; Kluckhohn, 1951). (* *Parenthesis added.*)

For the purpose of this investigation, and with the hope that it would serve as the basis to understanding the concepts and logic that explain the phenomenon discussed below, I propose the following definition of culture:

"Culture is the set of semi-fixed aspects that define people's values, attitude and behavior, make the mindset of people's from one region different from those in other regions, and that are acquired through long-lasting informal and formal education processes within a specific social group at a specific geographic location and time".

The above definition is based on several aspects worth to explain. First, it describes the person as the combination of three fundamental elements: values, attitude and behavior. Second, it considers the changeability of these three elements depending on the environment and time. It is important to note that the degree or speed at which those elements change is not pertinent to this investigation, so I will not elaborate in that respect, but it's important to notice that culture changes along time and that some elements change faster than others. I would assert that regardless how fixed we think those three elements are, they always change as a consequence of individual's experience, environment and time. For example, experience in global communities informs us that behavior, attitudes and value, are indeed affected and inevitably change when the individual moves from local to global settings. Third, this definition stresses the difference in mindset among people from different regions, that is: *culture is a mind issue that develops through long-term practices.* To this last statement, I should add that this "mind issue" is reinforced (in the mind) by visual and verbal stimuli along life. Formal and informal education plays an important role in this respect. A fourth aspect of my proposed definition of culture is that it implies the influence of social groups, time and geographical location in the process of culture formation and change.

2.2 *Economy*

In its most basic form, economy deals with how to allocate limited resources among competing ends. According to Throsby (2001), it is concerned with processes of production, consumption and exchange of the operation of the economic systems. For Kahn et al. (2010) economic growth is concerned with raising the level of productivity and employment, in the prospect that this will increase human welfare and reduce the level of poverty. Others favor human development as key for economic growth, emphasizing on increasing individuals' capabilities, widening choice, and expanding freedom.

Other scholars argue that Economics refer to a rational utilitarian decision making process that provides evidence on the importance of human behavior upon economic development such as marriage, crime, religion, family dynamics, divorce, philanthropy, politics, law and production/consumption of the arts. Some others maintain that economics is the discipline that deals with the broad issue of resources allocation.

We can start noticing that whenever behavior arises in the discussion of economy, it seems to be stated as one of the reasons for economic development. I should argue that economy and behavior are indeed directly related, but that behavior is a consequence of culture, and hence, the leading aspect of any economic discussion should be culture rather than behavior. The key question to ask is: What cultural characteristics foster or hinder economic development?

2.3 *Economists on Economy*

The following economic references come mainly from *Fifty Major Economists*, by Steven Pressman, a very comprehensive summary of the contributions by fifty of the world most important economists. I include just a few to support my reasoning regarding the influence of culture on economic development.

2.3.1 Thomas Mun (16th-17th Century)

Thomas Mun (16th-17th Century), an English merchant, discusses the economy based on the benefits that foreign trade brings to a country. He was an advocate of trade surplus as key to wealth accumulation. His argument was that when the country sold more goods abroad than it bought from foreign countries, it would result in precious metals coming into the country, thereby increasing national wealth. To him, people have to produce, and sell, more than they consume. An important aspect to notice from Mun's arguments is his support to government interventions, where price policies, regulation of manufacturing and trade and tax policies play an important role in creating a culture focused on wealth accumulation. We can see his recognition that, at the national level, transformations or new practices requires the highest authorities to set the rules that would in turn "create" culture. China, Japan, the Four Tigers of East Asia have done that so far.

2.3.2 William Petty (17th Century)

William Petty (17th Century), an English physician and land surveyor interested in measuring things (e.g. National economic activity – modern GDP), reasoned that wealthier nations had more people living in cities than in the countryside. He saw economic agents (people) as numbers, and utilized quantitative methods to analyze economic and social phenomena. He used his numeric approach (Political Arithmetic) to explain people's economic behavior, and considered that trade surplus should be a mechanism to increase employment rather than to wealth accumulation. With the use of observation and experimentation, he attempted to study the natural world and society. For him national wealth depends on the size of the population of a nation.

However numeric in nature, Petty's economic analysis concentrated on the function of people as key to developing favorable economic conditions. In line with this document, an important contribution of Petty was the inclusion of society as part of his studies on economic development. We may assume that his economic analysis included specific observations of group behavior, one of the building blocks of my approach to the economic phenomena. Again, behavior is treated here as a consequence of culture.

2.3.3 Richard Cantillon (Late 17th Century)

Richard Cantillon (Late 17th century), entrepreneur; and Francois Quesnay (Physician) speak of economy as a set of interrelated parts that interact in a rather fixed and reliable manner, going from manufacturing cities to agricultural workers and land owners in rural areas and then back to the manufacturing cities. Taking under consideration the changing nature of culture, the element of fixation may apply only to local settings and within a certain period of time. If we could identify fixed cultural elements at certain point in time, we could better predict what models fit a social group better, and hence lower the risk of failure.

2.3.4 John Locke (Late 17th Century)

John Locke (late 17th century), philosopher, spoke and justified private property, an important philosophical contribution to economics. In justifying his advocacy for private property, he went against the religious believes that land had been given by God and hence it belonged to all. He also argued that it was the worked done what produce money or capital, so

ownership of money (and other forms of wealth purchased with the money earned from work) could be justified because people had to work to acquire it. His economic rationale is that people is rational and self-interested in their daily behavior, and maintain that there was an economic explanation of individual behavior; that is, people respond to economic incentives.

I would suggest that the opposite also applies. One important aspect to mention is that behavior may be also determined by social pressure upon individual decision-making. The individual may be rational, but his ultimate decision may be based on social pressure rather than on economic incentives. A not wealthy person buying expensive cars for the sake of social status is a good example of social influence upon and person's economic decision-making. For the last twenty-two years I have observed this to be a fixed element in China and Taiwan. In this society people spend large amount of money in items that can be observed by others, this is because social scrutiny is paramount to their sense of self-value; and it seems that people's value is measured by the price of the products they purchase and show publicly.

With Lock, Economics became scientific. Lock also pointed out the relationship between groups of individuals and the State, arguing that the State could exist only after a group of individuals agreed upon who would govern them. As it is now, I would suggest that the promotion campaigns of any government utilize current values (culture) to gain people's approval, with which they gain the power to implement actions towards social continuity or change. Things offered by regulators at the time of Lock's economic observations mattered for people of his time, and it was those "things" upon which Lock based his observations and thought process.

2.3.5 David Hume (18th Century)

David Hume (18th century), philosopher, contributed with a philosophical justification for the business activities carried out by merchants. His economic rationale went into the concept of trade surplus, arguing that with higher domestic prices, countries would buy more from abroad, thereby eliminating trade surplus.

This argument makes sense, but at the consumer level, buying foreign goods may also be a response to purchase trends within a specific society. Here, I'd like to include the element of commercial promotion campaigns as perhaps the most important tool to shape culture and accelerate cultural change. We can see a trend of hunger for foreign goods in every society. From Shanghai (China) to Lagos (Nigeria), younger generations are prone to give up their long-standing cultural traits for new less rooted practices based on consumption. In this sense, and based on this "new culture" we may say that trade unbalance is the most possible picture to emerge. If we want to reverse the process, we would have to look into the local culture, find the elements of pride (if still available) and use them to encourage different purchase practices. The economic logic alone may not be successful in this regard.

2.3.6 Jeremy Bentham (Early 19th Century)

Jeremy Bentham (early 19th century) a philosopher, help make economics into a discipline that studied how to increase utility, in part, by charging interest on loans. While Adam Smith (Philosopher, known as the father of Economics), was interested in understanding why economies grow. He explains that capitalism frees the entrepreneurial spirit and that, given economic incentives, entrepreneurs would figure out how to produce goods more efficiently, which would help economies to grow and raise the living standards for most people in the nation. This is true for some nations, however, leaving macro environments aside, some capitalistic nations are more layback as a result of culture and hence the entrepreneur spirit is not as alive.

The argument here is that capitalism alone is not enough to trigger entrepreneurship; there should be some cultural characteristics encouraging such attitude, for example, wealth accumulation at East Asian countries, or the lack of such tendency in Latin American countries. Protestantism as opposed to Catholicism, is another example of cultural traits, the former encouraging the creation of material wealth, while the later promoting guilt and acceptance of fate as decided by God.

2.3.7 Thomas Roberto Malthus (1766 – 1834)

Thomas Roberto Malthus (1766 – 1834), pastor, maintained that economies move towards starvation as population growth exceeded the growth of the food supply. He was also of the opinion that capitalism leads to unemployment or "gluts". Mathus' statements couldn't be more accurate, the more the people the less the amount of available resources each individual can get if production of food does not grow accordingly. The great famine in China is an excellent example, not because it was a consequence of population, but because of its large population created an even larger disaster where 16.5 to 45 million individuals died, most of who were living in rural areas (Meng, Qian and Yared, 2015). The following question arises: How is it possible that such a large population couldn't control its own destiny in regards to food supply? The answer may reside in some sort of passivity, fear or unconditional dependence upon a single breadwinner.

2.3.8 David Ricardo (1772 – 1823)

David Ricardo (1772 – 1823), businessman, developed the theory of comparative advantage. His arguments included free international trade as being beneficial to all nations, the value of goods being determined by their cost of production – mainly their labor cost – so, the price of a product is determined mainly by the amount of labor used to produce it. Here again culture matters. For example, a diligent society may reduce the production cost because production processes may be done in a diligent manner, which may reduce errors, hence affecting less production quantity per time-unit. A negligent society may face the opposite.

2.3.9 John Stuart Mill (1806 – 1873)

John Stuart Mill (1806 – 1873), philosopher, interested in what makes a discipline scientific. Economics, he said, was a deductive science. To him, economics starts with definition and axioms that are supposedly self-evident, and then derives theorems about how the economy works. Besides, he explained how the gains from international trade would be divided between two countries; and provided an economic analysis of the factors that determine whether a country would prosper or decline in the long term. Among his arguments, Mill argues that society should restrict the individual freedom only to avoid harm among individuals, but not to stop individual development. The social influence upon decision-making is here remarked.

Moving further from this view would be to explain how culture sets the parameters for those limitations society would place on the individual. Mill also touched upon the influence of pleasure in shaping economic decisions. I agreed with the point that “although people attempt to maximize the pleasure they received, pleasure is constrained by nature”. However, I would argue that, through cultural norms that encourage or discourage pursuing pleasure, the influence of nature is surpassed by the influence of society.

2.3.10 Karl Marx (1818 – 1883)

Another important person shaping the economy of several nations is Karl Marx (1818 – 83), philosopher. He argued that although there is a promise of economic growth and higher living standards thanks to capitalism, it leads to the impoverishment of workers, pollutes cities, firms grow to become monopolies, creates the tedium of most work, which might create revolts against business owners.

I have spoken of the changes that, at some point in time, must happen in any society. Change agents such as new political systems enter as a response to crisis, which use either positive or negative motivation strategies to encourage new practices, which in turn may become the new cultural norms. Perhaps we should speak of the endurance of culture rather than just culture, and identify what factors of culture remain untouched along a period of time.

One important aspect of classical economists is that they tended to represent people with numbers and use perhaps too much mathematical analysis to explain a clearly behavioral phenomenon. I would argue that people are people no numbers, and that what numbers represent about people is too limited to generate accurate conclusions, unless cultural factors are included in the economic equation.

I should at this point mention that economic thought evolved as a consequence of economic states that demanded change. Hence, the logic leading to theories, models and systems appear as a necessity to solve or explain those current issues. Since economic thought served immediate needs that required hard calculations, mathematical approaches were preferred to those abstracts such as discovering the origins of economic behavior based on culture. The validity of those systems is undeniable, but observing the disparity in economic development around the world led me to question the global applicability of such mathematical approach, which in turn led me to the conclusion that is due to cultural differences, among other factors, that economic models may fail.

2.3.11 William Stanley Jevons (1835 – 1882) and Carl Menger (1840 – 1921)

William Stanley Jevons (1835 – 1882) and Carl Menger (1840 – 1921), argued that consumers would buy whatever they enjoy the most (*hopefully not expending beyond their means) and free consumer choice would lead to the best result for individuals and for the nation. This argument is also valid, as all economic thoughts studied so far are, but I should stress that enjoyment, is culture dependent. What is enjoyable in one country may not be enjoyable in another; also, the amount of enjoyment allowed to the individual may differ among countries. Here again, the aspect of social influence must be taken under consideration. Those so-called social elements are necessarily culture dependent. (*parenthesis added).

2.3.12 Knut Wicksell (1851 – 1926)

Knut Wicksell (1851 – 1926), maintained that marginalism could explain how the revenue received from selling something gets divided among all the factors that contribute to its production. From an organizational perspective, how managers and owners divide the revenue may be also influenced by cultural factors. For example, a society with a high level of power distance (Hofstede, 2001) would accept a less balance distribution of wealth than a country low in this

dimension. Another example could be made from whether a society prices effort more than results.

2.3.13 Arthur Cecil Pigou (1877 – 1959)

Arthur Cecil Pigou (1877 – 1959), known as the father of modern welfare economics, dealt with externalities, situations where businesses impose cost on society rather than on just the people who buy the goods (e.g. pollution). He was an advocate of government policies to make the externality a cost for the firm (rather than of the general public). Here we encounter again support for government interventions, and again, I would suggest that, in order for those policies to be accepted, effective and sustainable, they should be devised based on the cultural background of the economy for which they are intended. Very unlikely would a system that functioned in England during Pigou's time (early 20th century) be successful in China nowadays, unless the English model is modified to fit China's local culture today.

2.3.14 John Maynard Keynes (1883 – 1946)

John Maynard Keynes (1883 – 1946), together with Adam Smith and Karl Marx, is one of the main figures in the history of economic theory and practice. Different from Adam Smith, who saw Capitalism as the perfect system for economic growth, and Marx, who saw it as causing too many problems and finally leading to social unrest and poverty, Keynes took no side and listed both pros and cons of the systems. His major contribution is the development of macroeconomics, which became the main reference for government policy to end Depression in the 1930's. Keynes also pointed out that people and businesses have different determinants to spend money. People, he says, use subjective factors (e.g. psychological such as uncertainty) and objective factors (e.g. income and wealth), while businesses based their investment decision on objective factors only (expected return on investment and interest rate) that were affected by how they perceive market trends. Here, the individual's psychological state enters the economic discussion. This is important, especially because aside from factors within the individual, psychological states develop from social aspects that influence and shape the psychology of a person.

2.3.15 John von Neumann (1903 – 1957)

John von Neumann (1903 – 1957), developed the Game theory, which looks at individual decision-making when outcomes depend not just on individual decisions but also on what others decide. e.g. the prisoner's dilemma. The social influences upon individual decision making become a more obvious part of the literature, yet, Game theory does not deepen into the cultural phenomenon. For example, what a person from a collective society would think of other people, the action he or she would take and its consequences upon the individual and the society at large would be different from a person from an individualistic society. Competition is more prone to happen within an individualistic society, or when a person from a collectivistic society faces someone from an out-group. In this case both the individualistic and the collectivistic person may take a more aggressive approach. From my observation in Taiwan in China, I would expect that the Chinese person (collectivistic) would be more aggressive than someone from an individualistic country; this is due to the pervasiveness of clan-orientation that is characteristic of collectivistic societies where people from in-groups and out-groups are treated in literally opposite ways; complete conformity as compared to aggressive competition respectively.

2.3.16 Joseph Stiglitz (1943-)

Joseph Stiglitz (1943-), attempted to explain unemployment arguing that information problems are the culprit, and that rational individuals must always make decisions about how much information they need before making a choice. I agree with this assertion, and it's my personal belief that all human problems arise or increase due to problems in communication. I would suggest that information as well as communication habits are cultural dependent. In a culture low in certainty avoidance less information would be needed or requested than in a society high in this dimension.

2.3.17 Daniel Kahneman (1934 -)

Daniel Kahneman (1934 -), the last contributor to economics literature I'd like to include in this short review of economic thoughts. He was a psychologist interested in explaining how real economic agents actually behave. He questioned the rationality of people, as assumed in contemporary economic literature. For example, he reasons that instead of thinking utility maximization, most people tend to use shortcuts when making economic decisions. His work brought up some behavioral anomalies that question the rationality factor of decision-making and identify errors of judgment that lead people to make "the wrong" decision. Among those errors, Kahneman includes faulty memory, capacity of estimate probability depending on the source of information they seek or receive before making a decision, the endowment effect and status quo bias, a last error called framing. His psychological perspective of economic agents is indeed important, and must be considered as part of any economic analysis.

As important as Kahneman's psychological perspective, in which he takes psychological process as the basis of behavior, is the culture behind that psychology. I would argue that there is no psychology of the individual that is not shaped by the society (culture) within which that individual grows up. The cultural aspects of the individual's psychological states cannot be ignored

when discussing issues related to human action. All the aspects mentioned by Kahneman and all other scholars above reflect the influence of culture, which is still neglected in the economic literature. This paper attempts to fill up that gap.

2.4 The Economic Phenomenon within the Framework of Culture

Pressman (2007) stated, “*Human behavior is one force driving the economy*”. In agreement with this statement, I propose that an explanation of the relationship between behavior and economy shouldn't be as simple. Hence, elaborating on Pressman's (2007), I propose that *if human behavior (HB) is one force driving the economy (E), and culture (C) one force driving human behavior, then, culture is one force driving economy, E = BH (as a function of) C*.

My Argument in this document is that economies don't flourish or do but are not sustainable because people's mentality does not provide a fertile ground for the intended economic model to be successful. Several other factors may contribute to the “disfunctionality” of a model including the time and context it was developed and the issues it was intending to explain within that specific time and context. Current economic models use systems developed in the past, within cultural settings that are too far apart from current social realities. Hence their success rate in modern times may be doubtful.

Most popular literature in economics concentrates on numerical models to analyze, explain and predict economic phenomena and just briefly include human behavior as key to economic development; when including behavior, it is placed as the cause rather than a consequence of culture, as I suggest it should be. I'd like to also point out that I recognize the limitations of culture alone to explain economic phenomena; yet, it is a factor that should not be ignored.

What I think is important to understand in the discussion of culture as core to economic phenomena is that the focus is on cultural elements that may have a direct impact on the economy activities such as saving, investment, risk, resources allocation, openness to international trade and technological advances. And that these activities may be affected by cultural factors such as competitiveness, dedication to work as oppose to procrastination, cooperation, uncertainty avoidance, willingness to learn, willingness to cooperate, work attitude, effort and the belief of a God setting the individual's fate among others.

Khan et al. (2010), mention that culture is a vast and complex concept that involves many elements and is too general to be captured by a single trait. I would suggest that Khan's statement also applies to economics, but regardless of the doubts place upon the ability of culture to explain the economic phenomena, the literature calling for attention to culture exist and it has its value. Greif (1994) stated that a region's culture has an extreme impact on that region's economy. Borg and Russo (2005) also contribute to this perspective; they mentioned that culture is a full-fledged economic sector that – as any other – generates impacts on the environment, ranging from direct and indirect expenditure to employment generation.

North (1990) suggested that on a societal scale, mass culture impacts economic development by expressing popular preferences through formal institutions. Altman (2001) and other scholars take a step further and bring specific cultural aspects into the economic discussion. He states that a cultural environment that encourages cooperation will maximize labor productivity (Altman 2001); while León-Ledesma and Piracha (2004) hold that a diligent society enjoys greater labor supply. Cozzi (1998) explored the effects of culture on technological innovation, concluding that a risk-prone society that tolerates economic bubble cycles actually promotes increased investment and technological innovation; and Johnson and Lenartowicz (1998) investigated the positive effects of uncertainty avoidance on economic freedom and growth. Malthus (1798) suggested that ‘self-control’ affects saving behavior and that fertility choice consequently impact the investment in physical capital and the population growth rate. According to Azariadis and Drazen (1990), the desire for self-improvement influences the decision to invest in education, which in turn, enables people to acquire skills and build human capital.

Further supporting the notion that culture is core to economic development, Khan et al. (2010) mention that moral commitment of one's own culture induces work ethics and is one of the main determinants of work effort and thus of labor productivity. They also include trust and the willingness to cooperate as to impact the subjective cost of cooperating with strangers and can have a profound effect on trading networks, which help shape the size and the expansion of markets. Mutual respect and honesty are also consider important, which, according to Khan et al. are the foundations of business ethics and property rights, influence the costs of contracts and minimize distortions such as corruption, theft, coercive acts and deceptive information.

Putnam's (1993) and Fukuyama's (1995) also identified that cultural values play a very vital role in explaining economic growth all around the world. Evidence from the Four Tigers of Asia and China as compare to Africa and Latin America, may also suggest that economic development, growth and stability are not only a matter of institutions and policies but also, and perhaps more accurately a matter of cultural norms. Some other resources in this regard as listed by Khan et al. include Barro and McCleary (2003), Casson (1993), Chamlee Wright (1997), Duffy and Stubben (1998),

Gray (1996), Greif (1994), Grier (1997), Guiso, et al. (2006), Hofstede (1980), Knack and Keefer (1977), Leeson (2007), Licht *et al.* (2007), Putnam (1993), Sowell (1994), Tabellini (2009), Williamson (2009).

Hence, however economists point out that the differences in economic performance from one society to another are better explained by differences in institutions and in the policies undertaken by those institutions than by cultural factors, I would argue that the missing piece in this assertion is that the cultural background of people who build those institutions influences the kind of institutions they build, how they build them and what policies they set to regulate their societies.

2.5 Regional Examples of Economic Development

Taking example from European nations, Tabellini (2010) places this question: Given the similar economic systems and the same formal institutions within a country, what explains the vast developmental differentials within European nations? His answer is that regardless of similarities of today, contemporary cultural differences have been inherited from very different political institutions in the distant past; hence those differences can be viewed as an important factor accounting for the different levels of development within the region. There is an important implication in Tabellini's statement: that economic models and systems change to a faster pace than culture, which adds to the miss-match problem between the system or model and culture.

The above observations are important for the discussion at hand since they stress that difference in the mindsets of people from different geographical regions may influence not only the level of economic growth but also the economic activities that may suit local cultures better. Observations into China, where even close geographical regions inhabited by different sub-cultures, show different economic development may confirm this statement. Perhaps we should speak of variations of the economic models that best fit the different regions and subcultures. This is, however, not the focus of this paper.

I would suggest that economic models that arise from philosophical thoughts of the 16th and 17th century England, such as those of Tomas Mun, William Petty and John Locke, won't work in any society now days, not even in the regions from where those economic thoughts emerged because the mindset of people at present is different (if not totally different) from those who live four centuries ago, and their mindset is different because physical environments, education contents and processes, and the modern mix of people within those regions are different. Those differences that emerge as a result of economic changes, present people with different realities that question their previous beliefs, changing their mindset, which in turn modifies their values, attitudes and behavior.

2.6 Cultural Factors Fostering East Asia's and China's Economic Growth

For pure economic reasons, The Four Tigers of Asia (Hong Kong, Korea, Singapore and Taiwan), Japan, China have some lessons to teach us. For the same reasons, it's hard to deny that China has become the most influential country in the world. Some scholars have questioned whether or not China's economic growth is a country fact or it refers only to certain cities, which may negatively influenced economic development in other undeveloped cities within the country (Chen & Partridge, 2013). This may be the case so far, but regardless of how many cities have developed or not high economic levels, I still consider useful to examine their strategies and the cultural factors that help for such development.

Some scholars, such as Shi, Huang, Ye, and Yu (2014), attribute China's economic development to Protestantism, a western religion that encourages the creation of material wealth. I agree with them, but I would argue that even though Protestantism influence China's economic growth through the cultural values it brought into the country, the influence of Confucianism also helped. Besides its preference for agricultural patterns of economic growth (Shi, Huang, Ye, and Yu, 2014), Confucianism also encourages competition, by encouraging people to find a place higher in society, a still existing cultural factor that helps to accelerate any new social practice in China. The impressiveness of China's economy is not that it grew, but that it grew fast and much larger than any other country in the west in such short period of time. I maintain that competition has been the key factor in this regard. Confucianism calls for proactively developing the self in order to find a place in society (Weber, 1951; Tang, 1991; Fang, 2001).

As mentioned by Shi, Huang, Ye, and Yu (2014), the literature regarding China's economic development have been broadly classified into two main streams: one explains China's economic growth within the framework of classical, neoclassical and endogenous growth theories, while the other stream emphasizes the determinants that drove China's economic growth from the perspective of development economics. The first stream of literature examines *population and human resource, capital accumulation and technological progress*. The second stream focuses on the determinants that are associated with developing or emerging economies, such as *trade, financial development, infrastructure* (e.g., Démurger 2001), *institutional environment and geography*. These two streams barely touch upon culture, which is the gap this paper attempts to fill out.

Cultures such as China, the four tigers of Asia and The South-East Asian countries share some cultural characteristics arising from their main philosophies, which are Buddhism, Taoism and Confucianism. In general we may say that people in all these countries are *interdependent, focus on the context, have a collective agency and a notion of resonance, believed in share rights, practice social harmony instead of liberty, give face to others (especially in public), avoid debate and minimize friction*. People in these countries are *members of several collectives, take a combination of roles, practice self-control, obey a hierarchical system, base their evaluation of situations on the relationship among substances, lack wonder, find the Tao (path), accept contradiction, are reasonable as opposed to rational and believe that events do not occur in isolation*.

Some economists explain the economic miracle of China and other East Asian countries from a fundamentalist or mystic rationale. According to Page (1994), fundamentalists focus on the factors of *wealth accumulation, the efficient allocation of resources, getting the basics right and on policies that increased physical and human capital per worker*. Fundamentalists maintain that the *macroeconomic environment in these societies was favorable since it was reliable and provided for fair competition*. One important factor mentioned by Page (1994) is that these countries put much investment in education and health. The Mystics, on the other hand, stress *the role of mastery of technology, the adoption of [proven] best practices, investment in industries that generate the highest growth at the time, mixed of diverse and flexible policies, the governmental control of the market and the role of government intervention to promote industrial development*. Page (1994) concludes that the East Asian success story is a fundamentalist one since the output growth (60% and 120%) of the countries under study derives from accumulation of physical and human capital and labor force growth. However, my observations in China and Taiwan lead me to the conclusion that both fundamentalist as well as mystic principles apply, not at the same time but rather in combinations that changed along the development process. I would suggest that China's economic development started with a fundamentalist approach and move towards mystic as capital grew, the same as they seem to be moving from collectivism to individualism as economy growth and the macro environment appears to be safer and more stable.

With the exceptions or more collectivistic countries in Latin America, in general, people in western countries have an *individual identity and individual agency, control of their personal life, believe to have individually unique characteristics, practice liberty instead of harmony, give great importance to aesthetic enjoyment, they are autocratic societies, have a tradition of debate, are curious about the world, strive to find the truth, focus on the object and its characteristics rather than on the environment where the object exists, and procrastinate*. These cultural characteristics are clearly opposite to those in the East-Asian countries mentioned above.

Let's take the fundamentalists approach to support even further the cultural arguments in this paper. If wealth accumulation was a major factor fostering economic development of the eight high performing Asian economies (HPAEs) the Four Tigers of East-Asia, Japan and China, the key to really understand their economic miracles is to unveil the factors that allowed, for example, wealth accumulation. I maintain that it is thanks to several cultural characteristics and practices. One key practice is thrift, but such practice is accompanied by Chinese people's capacity to just accept and adapt to the circumstance, whatever they are, or to sacrifice pleasure in order to save money because money allows for the material possessions (e.g. expensive cars), through which they show their value in society.

The mystic view of economic development in the East-Asian region also has its value, and can also be explained from a cultural perspective. It was not without government intervention that thrift became a practice and later a cultural characteristic in Japan. I have mentioned elsewhere the importance of government interventions for the successful economic development of China. Garon (2012) shows how government and other social reformers in countries from Great Britain to Japan intentionally inculcated the habit of saving, often for ideological and political ends. However Garon does not agree with economic development being a consequence of culture, his analysis leads us to *the formation or culture*, which occurs when some practices are set into people's software of the mind (Hofstede, 2003) through persuasion or enforcement until they become part of their culture. In this case, enforced behavior leads to attitudes, which further develop into values. These three aspects, behavior (the actual doing), attitudes and values are the core of culture.

In his book *Beyond Our Means: Why America Spends While the World Saves*, Garon (2012) speaks of the promotion of thrift to originate in the thought and customs prevailing at the time the Tokugawa shoguns that rule Japan from around 1192 to 1867. Some economists may disagree as to when and where thrift originated, but regardless of their arguments, experience in interacting with people from these countries will show that they tend to save more than westerners. My experience in Taiwan and China shows that individual wealth accumulation, through saving, is a common practice. By the time of this publication, with its goal to becoming the largest consuming market in the world, China may be drifting away from such practice, but its current economic power has much to do with thrift and wealth accumulation.

Other two important factors for the economic miracle of countries in the East-Asian region are a high *entrepreneurship*

spirit and their *assimilation of tested best practices*. Two cultural aspects may play important roles here: First, *competitive attitude* and second *fear to social scrutiny*. As a highly competitive society, they tend to look for having their own business and move forward against the many competitors, local and foreign. As fearing social scrutiny, failure is not welcome in China, hence the use of well-tested methods is preferred. Chinese people tend to get informed of best practices in most developed countries and bring them home. This does not only make them feel safe from social criticism due to failure but also from losing money. However, much failure has been seen in this regard, mainly due to cultural factors that affect the proper use of the foreign practice.

People are perhaps the most significant factor for China's economic development. People are the carriers and the doers of culture. They are the engine to spark and keep the economy running. Human capital has always been China's key factor for economic growth. But for this engine of 1.3 billion people to function well, all its parts must move in the same direction, the direction set by the entity that holds control; in the case of nations, that entity is the government. The cultural characteristics that makes Chinese people move in the same direction are *harmony* and *respect for hierarchy*. Influenced by these two characteristics, Chinese people follow the leading figures and accept the roles authorities give them without questioning. The paternalistic leading style contributes further to create obedience, under the promise that the father figure will take care of everybody in the family. I would suggest that these cultural factors have been utilized to shape politics and economic development, especially in China and the Four Tigers of East-Asia. This culture awareness has allowed much of the economic miracle of these countries.

Xuwen, (1997) stated that politics, economics and culture are the three gears of any society and only when they move harmoniously can the whole society develop rapidly. In China, harmony is promoted everywhere, to the extent that their China's most modern bullet train is named Harmony. Addressing the UNESCO in 2014, China's President Xi Jinping says: The Chinese have long come to appreciate the wisdom of "harmony without uniformity". This mentality, according to President Xi, is part of China's culture from about 2,500 years ago; which tells us that modern Chinese people still hold dearly to their ancient culture. Knowing how much of this ancient culture remains untouched in China nowadays should help in devising suitable strategies to sustain China's economic development.

I maintain that it is thanks to long-standing cultural factors that China's government has been able to implement trial-and-error programs, and develop long-term plans without much obstruction caused by social sectors blocking progress. This is a much missing factor in Latin America and other western regions, where questioning is the norm and social division is a very obvious social characteristic. It may be for this reason, among others, such as unsafe macro environments, traditional corruption and high criminality, that models of social and economic development see little success in regions such as Latin America.

A final factor for the success of China's economic miracle is *face*, expressed in strong nationalism. Dr. Kishore Mahbubani (2015), Dean and Professor in the Practice of Public Policy at the National University of Singapore mentioned that "China's goal is to revive the Chinese civilization, not to promote communism or conquer the world, but give back to its people the pride once they enjoy".

The above was confirmed by President Xi in his speech at the UNESCO in 2014, as follows: "The Chinese people are striving to fulfill the Chinese dream of the great renewal of the Chinese nation. The Chinese dream is about prosperity of the country, rejuvenation of the nation, and happiness of the people. It reflects both the ideal of the Chinese people today and our time-honored tradition to seek constant progress. The Chinese dream will be realized through balanced development and mutual reinforcement of material and cultural progress. Without the continuation and development of civilization or the promotion and prosperity of culture, the Chinese dream will not come true."

With some local variations, the cultural characteristics mentioned above are shared by the Four Tigers of East-Asia, Japan and China, perhaps not as much by the HPAEs countries, which may explain the lower economic development of these countries. I support the argument based on the study conducted by Page (1994), where he found out that of forty economies included in the study, the eight with the highest-growth and lower-inequality are all located in East Asia. However more research should be conducted in this regard before committing.

3. Conclusions

The literature and arguments presented above suggest a positive relationship between local cultural traits and economic growth. For example, an economic model showing how immediate input from the population at large can boost economic growth may fit a society high in competitive attitude and entrepreneurship spirit. A society that follows leadership without questioning may accelerate taking action. This society would also require valuing money more than pleasure as well as having a long-term orientation. The promise of increasing wealth for the individual or in-group members would be of great incentive; the long-term orientation may assist for keeping the individual's effort for longer periods of time. If this society accepts economic bubbles, this would allow for less migration when drops or slowdowns appear, and they will necessarily appear. Short-term oriented societies may give up the process if numbers don't rise

quickly. On the same token, cultures that procrastinate more may not be willing to make the effort in order to get money sometime in the future, and may chose expending in immediate pleasure instead.

To be more specific, I will use the Supply and Demand Model to make an example. Among others, this model explains the process towards an equilibrium state facing expected inflation. How such expectation would affect people in a specific economy may be a function of its culture. For example, in fatalistic societies such as Latin America and lower classes elsewhere (Cockerham et al. 1983), the aforementioned expectation may cause people to restrain from consuming or investing much earlier since they may picture more drastic scenarios than they may actually be. Another possible scenario is that of people buying more things quicker because they will foresee the upcoming inflation as a limitation to acquisition power in the future, which in turn will lower their immediate economic solvency. So, to restate my argument: this model helps us to foresee or estimate the consequence of inflation upon demand in an ideal situation; knowing the local culture would help us to predict in a more accurate manner the reaction of the population, such knowledge may be useful in formulating strategies that are more suitable for a specific economy.

4. A Suggested Model

4.1 Culture-dependent Economic Model (CdEM)

Facing economic decisions at national levels requires actions that cannot be random. Several factors must be taken under consideration before deciding on a strategy. In turn, this strategy should follow models that direct the decision-making process. I propose that such model must include culture as a necessary step in the decision-making process.

The Culture-dependent Economic Model presented in figure 1 below is intended to force cultural factors into a decision-making process. It allows for choosing a strategy before or after conducting necessary cultural analyses. In this model, I present both economic drops and growth as equally important. This model recognizes that growth sustainability should be carefully estimated. Such estimation would in turn allow for taking preventing actions toward possible future drops leading to crisis. The model also includes key management factors such as control, supervision and feedback as well as communication and training. I divide this model into 8 stages, as follows:

Stage 1 calls for a compilation of factors that may have affected the current decline or growth of the economy. These factors are updated statistical data from the country's database, which would be the basis to estimate the speed of change and average decline or growth of the economy within a fixed period of time from past to present. Such measurements may help in deciding how quick and aggressive the strategy should be in order to overcome the decline, accelerate growth or ensure sustainability.

Stage 2 is an in-depth analysis of the macro environment. The East Asian countries included in this study prove that the macro environment may foster or hinder prosperity. A safe macro environment influences people's peace of mind and enhances trust in the system, further encouraging willingness to invest. Entrepreneurship spirit seems to be higher in countries with safe macro environments. Factors such as current criminality rate, corruption and infrastructure, among others, should be carefully considered at this stage.

Stage 3 calls for a cultural analysis prior to selecting or developing a strategy (*Stage 4*). The background of the current cultural characteristics, the cultural changes along time, and the existing sub cultures should be included in the analysis. The acquired knowledge will allow for a more accurate list of values, attitudes and behavior that may have affected the current economic state and that may interfere with the success of a new strategy. At this stage, it is crucial to find out the connection between the elements in the macro environment and the cultural characteristics; such connection would be the basis to foresee in a more accurate manner upcoming people's reactions.

Stage 4 is where we chose the strategy. The findings of the cross analysis between the macro environment and cultural characteristics conducted in Stage 3 educates this stage. If a strategy is chosen before conducting a cultural analysis, then this stage calls for matching the strategy with cultural and macro economic factors.

Stage 5 calls for modifications to the strategy and its corresponding models. Such modifications should be based on the match or mismatch between the chosen strategy and the findings on stages 3 and 4.

Stage 6 calls for the development of a control system, which in turn requires taking under consideration the country's culture as well as sub-cultures in microenvironments. This is important because even though we speak of *one culture* when referring to *one country*, in reality there is no a fully culture-homogenous country. Every country shows different practices among states and between majorities and minorities; hence, a consideration of the sub-cultural characteristics within a country is critical to develop an effective control system.

Stage 7 calls for internal and external communication and training. This implies that all relevant individuals must be informed of the strategy. Information should also be provided to the public, especially those who will directly execute tasks pertinent to the chosen strategy and those who will be directly affected. This will reduce the possibility of failure.

Stage 8 involves the cycle from implementing, monitoring, controlling, measuring, revising to re-implementing the process. This cycle must be decided in advance (e.g. two years) and the time to completion kept constant until the desired results have been achieved, or the achievements by the end of the cycle’s deadline are within the range of tolerance. During this first cycle, we are de-freezing and shaking the current state to ignite change. Unless obvious negative effects, which may call for an early revision of the strategy, after the first cycle, a deadline for a longer cycle may be necessary. Depending on the level of success, this second cycle is where we re-freeze the economy and let its new practices to become the norm.

It is important to mention that this process from stage 1 to 8 is not static; economies should constantly monitor changes in macro and microenvironments in order to adapt the current strategies accordingly. Constantly monitoring social changes allows for identifying gaps in the system, and act accordingly in a timely manner, with less effort and less social disruption.

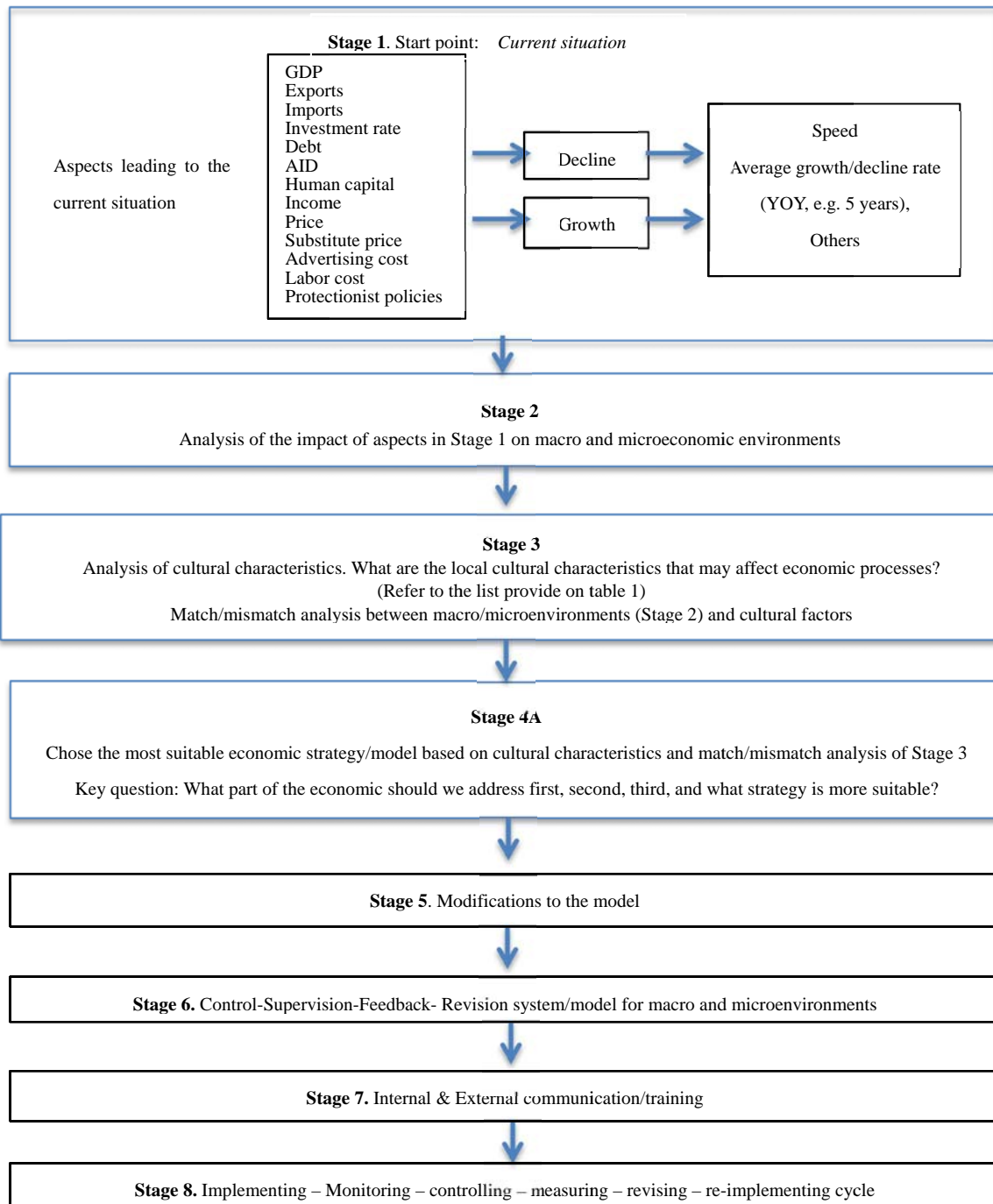


Figure 1. Culture-dependent Economic Model (CdEM)

4.2 Cultural Factors Affecting Economic Development

To complement the formation of a suitable strategy, Table 1 (below) shows some cultural factors that may directly affect the success of a chosen economic strategy.

Table 1. Cultural characteristics that may have a direct impact on the economy

Cultural characteristic affecting economic growth	Positive correlation to economic growth	The China case
Cooperation as opposed to individual effort	Maximize labor productivity	China's clan-oriented society ensures that at least within their inner circles (in-groups) cooperation exist and hence individual efforts and growth extent to all those within.
Diligence as opposed to negligence and procrastination.	Enjoys greater labor supply and ensures achieving goals in due time.	My observations in China and Taiwan show this to be the case, regardless the reasons for which they work longer and perhaps harder than many western counterparts. Those reasons may include fear to social criticism, obedience, money, etc.
Risk-prone as opposed to risk-avoiding	Tolerates economic bubble cycles and promotes increased investment and technological innovation. Permits advances and mastery of technology, which in turn allows for more efficient and cost-effective systems that are key to industrialization.	China, Taiwan, Japan and Korea are among the most advanced technological savvy thanks to their manufacturing capabilities, from which they learnt best practices, and which allow the necessary infrastructure.
Self-control / thrift as opposed to spending and waste.	Encourages saving behavior and the fertility choice, which in turn impact the investment in physical capital and the population growth rate. Increases capital accumulation thanks to savings. Lowers impact of economic crisis.	This may be case in Taiwan, and may have been the case in China previous Millennia generation, which is increasingly in the practices of consumption especially of luxury goods and entertainment. In both countries I observe people spending large amounts of money for social gatherings, which for a western person represent a waste of time and money, but for Chinese people it is a necessary investment in building social networks that ensure their survival.
Desire for self-improvement as opposed to conformity with current states.	Influences the decision to invest in education, which in turn, enables people to acquire skills and build human capital.	Finding a higher place in society is encouraged by Confucian philosophy. Experience of interacting with Chinese people in China and elsewhere shows that indeed the Chinese person wants to be his or her own boss. To achieve this goal they are constantly learning both from school, taking different employments, and networking with people from whom they can acquire know knowledge and skills.
Moral commitment to one's own Culture as oppose to desire to leave.	Induces work ethics and is one of the main determinants of work effort and thus of labor productivity, trust and the willingness to cooperate as to impact the subjective cost of cooperating with strangers and can have a profound effect on trading networks, which help shape the size and the expansion of markets. Enhance national pride and ensures that people will promote the positive in their countries, and work for the nation's welfare.	There is no public disagreement of China's policies in China or elsewhere by Chinese citizens. Locally, and within locals, they disagree with the government as it happens in all cultures, but as to preserve individual good face, they publicly promote a good face of the country towards the outside world.
Adoption of best practices as opposed creating new ones when there are proven available.	Lower the risk of failure and investment size since proven practices do not require the cost of trial and errors.	The Four Tigers of Asia and China have been intelligent in not trying to re-invent the wheel, rather, they have reuse it, adapting it to their own local purpose and for their own benefit.
Investment in Industries that generate the highest growth as oppose to random investments based on international trends.	Allows for quicker capital growth that provides the funds to move faster and in a more stable manner towards industrialization.	At the beginning, China's growth strategy concentrated in agriculture because it was already a mature industry; it produced the capital for industrialization. As their economy advances, they identify other high growth industry and move resources to support their development.
Mixed of diverse and flexible policies as opposed to fixed ones.	It provides the environment to adapt to inevitable changes in the market and allows for quick response to market demands.	The buzzword in China is that <i>the only stable thing in the country is change</i> . Rather than pondering around fix policies, Chinese people have the

		capacity to immediately move to a different practice without questioning. Normally they don't follow act upon fixed standards; rather they concentrate on solving immediate problems.
Governmental control of the market and the role of government intervention to promote industrial development as opposed to complete liberal market practices.	Allows for the legal framework within which economic forces compete, and provides policies supporting the different stages towards industrialization and economic growth.	China has experience gradual market liberation, but it has been the case after a number of steps in changing culture and after wealth has been spread somehow more even among its societies, at least within coastal cities.
Interdependence and collective agency as opposed to individual agency.	Ensures mutual support, not based on good will but rather on the understanding that by supporting others in the group, the individual is supported as well, hence ensuring survival of the individual and continuity of the society.	Being members of several collectives and having a strong clan orientation allows for more people to benefit thanks to each individual's success.
Focus on the context as opposed to focus on the subject.	Allows the mental capability to see the different factors creating the problems at hand.	In most cases the context in China refers to the social context, which is the main resource available to all as long as they have the "right" relationships.
Believed in share rights and duties as oppose to believing in individual rights and duties.	Allows the mindset to welcome shared responsibilities. The members of the in-groups share those responsibilities, allowing group dynamics in which all members of the group contribute to solve the issues at hand.	The in-group culture is an obvious cultural characteristic. From verbal to economic means, members of the in-group support each other and show such support as publicly as possible; with this, the supporter ensures reciprocity.
Practice social harmony instead of liberty. Avoid debate and minimize friction.	Ensures conformity with the norms, which allows for less social opposition and increases cooperation to a national level.	Here again, cooperation is seen within in-groups and among them. Their belonging to several social circles allows harmony and cooperation to extent.
Obey a hierarchical system as oppose to questioning hierarchy or practicing anarchy.	Allows for quick actions since decisions are followed without questioning.	This is a clear case in China, regardless of personal opinions, subordinates will follow orders.
Accept contradictions and combination of roles as opposed to stress out when facing contradictions and not willing to take different roles.	Influence adaptability and quick response in the face of sudden changes as well as willingness to accept different tasks.	Until recently, Chinese organizations value adaptability, and willingness to take different roles more than expertise, which is still a new aspect in business organizations. However, given their capacity to take in new practices and policies, more organizations and individuals are taking this advancement very seriously.

5. Limitations

Time, place, data availability and accuracy among many other aspects limit any research project. Besides, since culture is such an abstract, subjective and ever changing phenomenon, the validity of my arguments and conclusion may be less applicable in the future. It is also worth to mention that, although every effort has been made to avoid bias, my arguments are necessarily tinted with my own cultural blueprint. Also, in order to support the validity of my arguments and conclusions, it is necessary to apply the proposed model and see whether or not the model success in its purpose, which at the macro level may take a long time.

It is my hope that this document may serve as a reference for institutions and individuals engaged in economic decision-making on a macro or micro levels, and that the arguments in support of culture as key to wiser economic decisions may be of some value delivering better results in the short and long-terms.

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