

# Culture and Economics

*The question of how far it is necessary to include cultural factors in the analysis of economic processes has become topical again in recent years. The first contribution to this Forum introduces a cultural approach to economics. This is followed by an article that examines the transition processes in central and eastern Europe from an econocultural perspective. The next article deals with the concept of a country-specific national tax culture and its implications for tax policy, especially in the context of transformation processes. The final paper discusses Turkey's economic culture and its possible impact on the country's integration into the European Union.*

Nils Goldschmidt\*

## A Cultural Approach to Economics

A cultural approach to economics deals with the interplay between informal and formal institutions and its cultural as well as cognitive perception. Thus, a cultural approach to economics can be connected to three different, recent developments in economics:

- institutional economics as a theory of institutional change as established by Douglass C. North
- the evolutionary approach to economics and social philosophy in the tradition of Friedrich A. von Hayek
- the behavioural economic theory related to sociobiology, evolutionary anthropology and evolutionary psychology as discussed in the literature, for example, in the "continuity hypothesis", in the ideas of a "universal Darwinism" and in the concept of "program-based behaviour".

In what follows, I will present the central insights that a cultural approach to economics can add to modern economic theory as related to the above-mentioned developments. Insisting on the very "cultural dimension" of economic phenomena will surely neither shake the fundamentals of traditional economics nor will it establish another distinctive approach in the heterodox field of economics, but it might re-direct our attention again to some insights and crucial points that were still in the focus of a "*verstehende Nationalökonomie*" (understanding economics) as developed by Max Weber.

That such an understanding will have consequences for the theory and practice of economic policy will be mentioned here only briefly.

### Institutions and Social Interaction

It is one of the numerous merits of Douglass C. North to have clarified the notion of institutions and how to operationalise institutions as a tool for economic analysis. Following North, "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interactions".<sup>1</sup> The idea that "rules of the game" are "guiding" human, i.e. social, interaction has a long tradition in the history of economic thought. As Hayek pointed out,<sup>2</sup> it was Adam Smith who introduced the notion of "rules of the game" to economics, relating it to the Stoic philosophy:

"Human life the Stoics appear to have considered as a game of great skill; in which, however, there was a mixture of chance, or of what is vulgarly understood to be chance. In such games the stake is commonly a trifle, and the whole pleasure of the game arises from playing well, from playing fairly, and playing skillfully ... From ignorance of the rules of the game, fear and doubt and hesitation are the disagreeable sentiments that precede almost every stroke which he plays; ...

\* Research Associate, Walter Eucken Institut, Freiburg, Germany; Research Associate, Research Programme "Integration Area Europe", Hamburg Institute of International Economics (HWWA), Germany. This outline is in its main parts the result of cooperation with Bernd Remele and Joachim Zweyner. The author wishes to express his indebtedness to Inga Fuchs for central insights on this subject, and to Michael Wohlgenuth, who helped to finish this paper in a short period of time.

<sup>1</sup> Douglass C. North: *Institutions, Institutional Change and Economic Performance*, Cambridge et al. 1990, Cambridge University Press, p. 3.

<sup>2</sup> Cf. Friedrich A. Hayek: *Law, Legislation and Liberty. A New Statement of the Liberal Principles of Justice and Political Economy*, London 1982, Routledge, p. 71.

Our only anxious concern ought to be, not about the stake, but about the proper method of playing.”<sup>3</sup>

The central point of such an understanding is, however, that a framework of institutions structures the human “playing field” and results in a “proper method of playing.” Accordingly, institutions are the “key” to altering human behaviour. In addition, a “fair” structure of the rules of the game also provides a just outcome. Thus, institutions and therefore incentives should be in the focus of an economist for two reasons.

- At least in modern, i.e. anonymously structured societies it will be not very promising to hope to alter economic policy by altering human behaviour. Instead, “rules make better politics”<sup>4</sup> – a line of thought that can be found in several different approaches such as new institutional economics, German “*Ordnungsökonomik*” and constitutional political economy.
- Especially in times of rapid economic change, as we can observe in the transformation processes in eastern Europe, institutions are crucial to structuring successful economic processes. Or to put it the other way round: contrary to production processes to which the specific “set of data” (law, natural and cultural circumstances etc.) can be assumed to be exogenous, economic policy and its institutions will be successful only if one takes into account specific historical and cultural development paths as endogenous elements. Without going into details here: the transition processes in central and eastern Europe have shown the necessity of such an understanding painfully enough – something the World Bank and the IMF had to learn in the last decade.

However, it was Douglass C. North who also established the difference between formal and informal rules as a central differentiation to characterise institutions. Even though this differentiation can also be found in other approaches – like Hayek’s differentiation between planned and unplanned, i.e. spontaneous order – North especially deals with this differentiation in an analytical and “easy to manage” way. The idea in a nutshell: formal rules are positive codified laws; informal rules are unwritten, long-lasting social norms. Yet although North’s theory allows numerous clarifications and applications in the field of institutional change, at least three issues remain unanswered.

- How can the interplay between informal and formal rules be explained? In detail: how do formal rules

<sup>3</sup> Adam Smith: *The Theory of Moral Sentiments*, 1759, Indianapolis 1976, Oxford University Press, p. 278-279.

<sup>4</sup> James M. Buchanan: *Same Players, Different Game: How Better Rules Make Better Politics*, Freiburg Discussion Papers on Constitutional Economics 09, 2003.

evolve out of informal ones and vice versa? Do formal institutions support (complement) or do they undermine (substitute for) the contributions of informal institutions?<sup>5</sup> And, how could formal institutions be enforced in different (informal) environments? Even though North addresses these questions – “formal rules can complement and increase the effectiveness of informal constraints. They may lower information, monitoring, and enforcement costs and hence make informal constraints possible solutions to more complex exchange”<sup>6</sup> – the statements are mostly general ones and the actual processes and dynamics remain unclear.

- The same is true of the very notion of informal rules. North defines them as “a part of the heritage that we call culture”<sup>7</sup> and thus they are the main reasons for “path dependency.” In a similar manner, Avnar Greif for example states, “past behavior, cultural beliefs, social structures, and organizations impact the development of values and social enforcement mechanisms that inhibit flexibility in departing from past patterns of behavior.”<sup>8</sup> Recently, North clarified his approach to culture and informal rules / constraints / norms (terms all of which can be found in North’s writings) affirming that prominent approaches like Dawkins’ idea of “memes” (a sort of genes that transport culture)<sup>9</sup> are odd – a statement one cannot but agree with: “Culture traits do not possess attributes parallel to those of genes and indeed the growing literature of the new institutional economics makes abundantly clear that institutions must be explained in terms of the intentionality of humans.”<sup>10</sup> Nevertheless, the understanding of “intentionality” again remains vague. Are intentionality and culture bound together by something like a “Lamarckian” process<sup>11</sup> – an idea that was already favoured by Popper and Hayek?<sup>12</sup> Or are informal norms a mixture of genetic origins and the intentional aims of humans?<sup>13</sup> Or, a

<sup>5</sup> Cf. Todd R. Zenger, Sérgio G. Lazzarini, Laura Poppo: *Informal and Formal Organization in New Institutional Economics*, in: *Advances in Strategic Management*, Vol. 19, 2002, pp. 277-306.

<sup>6</sup> Douglass C. North, op. cit., pp. 46-47.

<sup>7</sup> Ibid., p. 37.

<sup>8</sup> Avnar Greif: *On the Interrelations and Economic Implications of Economic, Social, Political, and Normative Factors: Reflection from two Late Medieval Societies*, in: John N. Drobak, John Vincent C. Nye (eds.): *The Frontiers of the New Institutional Economics*, San Diego 1997, Academic Press, p. 89.

<sup>9</sup> Cf. Richard Dawkins: *The Selfish Gene*, Oxford 1989, Oxford University Press.

<sup>10</sup> Douglass C. North: *Understanding the Process of Economic Change*, Princeton and Oxford 2005, Princeton University Press, p. 42.

<sup>11</sup> Cf. Douglass C. North: *Understanding the Process ...*, op. cit., p. 30.

third alternative, is culture the result of “the cumulative experiences of past generations ... embodied in language, human memory, and symbol storage systems [that] includes beliefs, myths, ways of doing things.”<sup>14</sup> Clearly, it is a little unfair to isolate these quotations and, without doubt, North draws connection lines between these different interpretations, but one is left with the impression that cultural and informal rules are something exogenous to human action, something that belongs to their environment.

- Although North emphasises the importance of “mental models”,<sup>15</sup> built up from earliest childhood, as classifications to explain and interpret the environment, the process is understood as a somehow isolated process of individual learning. The cultural heritage, then, is nothing more than a means of “reducing the divergent mental models that people in a society possess”.<sup>16</sup> But how do these belief systems evolve? Do formal institutions influence informal norms? Once more, in “Understanding the Process of Economic Change” North clarifies many of the questions at issue and provides some convincing answers. In regard to the relation between the social and institutional environment and individual cognition he raises the crucial point: “At stake in such contexts are two issues about which we know all too little: how humans make decisions in face of strong uncertainty, and how humans learn.”<sup>17</sup>

To conclude this section: North’s essays of the last 15 years have mainly focused on the processes of economic change as processes that cannot be explained without taking into account (the interplay of) history, institutional environment, path dependency and mental models as belief systems. Thanks to his contributions it is undeniable that an institutional theory of economics must be a theory that relies on formal *and* informal institutions. Furthermore, North sees clearly that institutions and social interaction is the issue to be addressed in further research. The fuzziness of some of his explanations is due to the issues at stake. Thus,

<sup>12</sup> Cf. Karl R. Popper: *Objective Knowledge. An Evolutionary Approach*, Oxford 1972, The Clarendon Press, esp. pp. 265 ff.; Friedrich A. Hayek: *The Fatal Conceit. The Errors of Socialism*, London 1988, Routledge, p. 25.

<sup>13</sup> Cf. Douglass C. North: *Understanding the Process ...*, op. cit., p. 42.

<sup>14</sup> *Ibid.*, p. viii.

<sup>15</sup> Cf. Arthur T. Denzau, Douglass C. North: *Shared Mental Models. Ideologies and Institutions*, in: *Kyklos*, Vol. 47, No. 1, 1994, pp. 3-31; Douglass C. North: *Economic Performance Through Time*, in: *American Economic Review*, Vol. 84, No. 3, 1994, pp. 359-368.

<sup>16</sup> Cf. Douglass C. North: *Understanding the Process ...*, op. cit., p. 27.

<sup>17</sup> *Ibid.*, p. 117.

the open questions which remain after reading North are not meant as a criticism but these are the crucial questions which should worry economists in general. That answers to these questions have to aim at a proper understanding of “culture” should have been made clear in the above.

### Paradise Lost

A good starting-point to get closer to an enhanced understanding of culture is the social philosophy of F. A. Hayek. Hayek begins his Epilogue to “Law, Legislation and Liberty” with a paragraph entitled “The Errors of Sociobiology”, followed by the section “The Progress of Cultural Evolution.” These parts are of value for our considerations of the relationship of economics and culture, because here Hayek clarifies what, to him, is meant by “cultural evolution”, or – to be more precise – what cultural evolution is not: “Culture is neither natural nor artificial, neither genetically transmitted nor rationally designed.”<sup>18</sup> And a few lines later he adds: “That cultural evolution is not the result of human reason consciously building institutions, but of a process in which culture and reason developed concurrently is, perhaps, beginning to be more widely understood. It is probably no more justified to claim that thinking man has created his culture than that culture created his reason.”<sup>19</sup> Hayek clarifies in this way two main points:

- nature and culture are different;
- culture and human reasoning developed concurrently;

i.e. culture is a human phenomenon, and *only* a human phenomenon as a process that runs parallel to the evolution of mankind.

The consequences of these insights are essential: culture is nothing to “add on” to the hard facts of human life, it is nothing that belongs “somehow” to the environment, but it is constitutive to understanding human nature. Culture divides men from animals. Hayek describes this convincingly with a quotation from the art historian Ernest Gombrich: “The history of civilization and of culture was the history of man’s rise from a near animal state to polite society, the cultivation of arts, the adoption of civilized values and the free exercise of reason.”<sup>20</sup> Or to put it differently; If we want to understand what human life is about, we have to understand what culture is about. To illustrate it in an admittedly simplified way: even though human beings

<sup>18</sup> *Ibid.*

<sup>19</sup> *Ibid.*, p. 155.

<sup>20</sup> *Ibid.*, p. 156.

share about 50% of their genetic material with that of a banana we would never examine bananas as an example in order to better understand economic exchange processes. Thus, sociobiology and *prima facie* similarities with animals alone will lead to nothing with regard to a better understanding of the specificity of human society. Even if mankind's genetic code differs only by less than 1% from that of apes, we have to focus on the differences and not on the genetic similarities in order to understand humanity. These differences can explain why human beings developed within this specific potential and why culture is the main key to understanding the differences from other creatures. Only a proper understanding of culture will help us to understand human development as it can be found in history. Culture is the key variable to elucidating human behaviour as distinctly *human* behaviour. Consequently, if economic phenomena are phenomena that evolved dynamically via the activities of man through time (as opposed to a natural constant) then it becomes clear why the examination of economic processes has to be understood as a cultural phenomenon as well. I shall return to this later.

However, and going back to Hayek, one puzzle remains. If man and culture developed in a parallel process and if within this process rules and structures evolved that built self-maintaining complex structures – generated by human action but independent of a purposeful human design – that led to our modern, open society as a product of civilisation and the market economy, why then does man deal, or try to deal, with society in a constructive, i.e. discretionary way: “We have never designed our economic system. We were not intelligent enough for that. We have stumbled into it and it has carried us to unforeseen heights and given rise to ambitions which may yet lead us to destroy it.”<sup>21</sup> This human ambition to construct and to shape society's institutions – beyond individual market-based reasoning and action – seems for Hayek to be something not unlike the “original sin.” In “Kinds of Order in Society” he states, “There thus seems to be some truth in the alleged original state of goodness in which everybody spontaneously did right and could not do otherwise, and to the idea that only with increased knowledge came wrongdoing. It is only with the knowledge of other possibilities that the individual becomes able to deviate from the established rules; without such knowledge, no sin.”<sup>22</sup> Hayek's statement is based on his deeply routed (justified) concern regarding collectivist planning. Because no-one will be

<sup>21</sup> *Ibid.*, p. 164.

<sup>22</sup> Friedrich A. Hayek: *Kinds of Order in Society*, in: *New Individualist Review*, Vol. 3, No. 2, 1964, p. 7.

able to collect all the individual, local and widespread information necessary to shape society (or to plan an economy) in the way the information-generating process of a spontaneous order (the market) can, central planning will lead to bondage and to a decrease in welfare. Even though his analysis is convincing and central on an economic policy level, it leads to some methodological problems on a higher level. If culture is the prime component of human evolution, why, then, should we have reservations against any form of human constructive rationalism? Is the ability to reconstruct the world not the main result of human evolution? Is the world not a modern world because we can (at least in significant, institutional, parts) design it? Thus, the emphasis Hayek puts on the importance of culture and the development of the human, self-conscious mind on the one hand and on the importance of an evolutionary rationalism and of self-generating or spontaneous orders respectively, on the other hand, lead him into a dilemma: how should we describe and judge human, i.e. cultural evolution?

I cannot deal here in any length with this rather philosophical question. First and foremost I again wish to stress that even Hayek's philosophy of economics leads us now to the point where North already brought us: culture, human evolution and economic development are closely interrelated. Only if we understand what is meant by culture shall we arrive at a well built fundament for a modern social science. However, before I go on to deal with this question using some newer insights of evolutionary anthropology I shall nevertheless point out what in my opinion might be a “key” to solving Hayek's dilemma. We have to give up the idea that there was a time in human development when man dealt to the benefit of all by only pursuing his own interests, not aware of the possibility of designing society. Misery and conceit did not come to the world because of the knowledge (consciousness) of the possibility of designing the world and its institutions. It is the other way round: man differs from other species because he can deal with the world and its institutions consciously and because he can design (construct) the world. Man is not a dull animal which only reacts to the environment, but – on the contrary – his evolutionary success is based on his ability to design and to behave intentionally.<sup>23</sup>

### The Ratchet Effect

So far, I have primarily focused on culture as a central component in the evolution of mankind. To understand the (historical) path towards modern society means understanding cultural development over time. However, and this might be the whole point of a

cultural approach to economics, culture not only has significance for the systematical examination of human evolution in retrospective, but it is also of importance for the conception of every individual in his/her relationship to society. Thus, culture is also the key to explaining the socialisation process during the ontogeny of every individual and to analyse how he or she constructs, i.e. understands, his or her world. Consequently, culture is not only a historical product that has evolved over time; culture is only comprehensible if its evolution and structure is viewed in direct connection with the autonomous, structural development of the individual's reception and construction processes. Only by taking into account the relevance of a cultural understanding of the world as the basis of individual development can culture be understood as a *lived* framework of rules.

Without going into details here,<sup>24</sup> it is the prime achievement of evolutionary anthropology to show this crucial point based on empirical research. Michael Tomasello, co-director at the Max Planck Institute of Evolutionary Anthropology in Leipzig, speaks in this context of a "ratchet effect". In his book "The Cultural Origins of Human Cognition", published in 1999, he convincingly shows that cultural tradition accumulates modifications over time and that this specific cultural tradition is learnt by the individual in his or her ontogeny. Accordingly, ontogeny establishes the relation between biological and cultural evolution: "The complete sequence of hypothesized evolutionary events is thus: human beings evolved a new form of social cognition, which enabled some new forms of cultural learning, which enabled some new processes of socio-genesis and cumulative cultural evolution."<sup>25</sup> Through the possibility of building on the cultural achievements of our (late) conspecifics (the "ratchet effect") we are interweaved in a specific form of social learning. The specific human form of social learning is the crucial mechanism of cultural development. Whereas apes use "emulation learning", which relies on the repro-

duction of certain events or results in the environment, human children learn (and have to learn) imitatively, i.e. by focusing on the strategy of the adult.<sup>26</sup> In doing so, every individual catches up with the human, i.e. cultural traditions (as far as they are relevant to building competence in action for a specific environment), which then become the fundament for further modifications and developments. Consequently, culture is not only the "mechanism" that made possible mankind in general, but it is also essential to every individual development. To illustrate it in Tomasello's words, "Fish are designed to function in water, ants are designed to function in anthills. Human beings are designed to work in a certain kind of social environment, and without it developing youngsters (assuming some way to keep them alive) would not develop normally either socially or cognitively. The certain kind of social environment is what we call culture, and it is simply the species-typical and species-unique 'ontogenetic niche' for human development."<sup>27</sup>

These findings have considerable consequences for the methodology of the social sciences. If, and this seems to be the unquestionable result of evolutionary anthropology research, every member of society learns in its ontogeny again and again how to act and think through interaction with society and its culture, culture is an integral part of socio-scientific explanation. This does not mean that the individual disappears into the "grey mass" of an anonymous society, but it does mean that the very process of individualisation is to be understood as a process of "enculturation" at the same time. The individual becomes only an individual because of his social learning. The individual is situated "within the boundaries of society"<sup>28</sup> and hence is always inescapably bound by the social context. The "social genesis of the subject's structure"<sup>29</sup> also helps to better define the behaviour of subject and society: "The subject forms in a society under the conditions of this society. Society, however, does not build this process; it is the subject itself that does it."<sup>30</sup> Accordingly, culture is not a residuum of vague traditions; it is the ongoing interplay between formal and informal institutions that emerge in the historical development of every society and must be learned (and reflected)

<sup>23</sup> In this context, it is still one of the striking insights of Werner Sombart's work on "Modern Capitalism" to show that capitalism is not merely the result of the interaction of individual businessmen (looking for potential gains from trade) but to a not insignificant extent a result of the constructive, power-oriented action of the state. Cf. Werner Sombart: *Der moderne Kapitalismus. Historisch-systematische Darstellung des gesamteuropäischen Wirtschaftslebens von seinen Anfängen bis zur Gegenwart*, Vol. 2/II, Munich and Leipzig 1919, Duncker & Humblot, pp. 847 ff.

<sup>24</sup> See on this and the following – including a more critical assessment of Tomasello's approach – Nils Goldschmidt, Bernd Remmele: *Anthropology as the basic science of economic theory. Towards a cultural theory of economics*, in: *Journal of Economic Methodology*, Vol. 12, No. 3, 2005, pp. 455-469.

<sup>25</sup> Michael Tomasello: *The Cultural Origins of Human Cognition*, Cambridge and London 1999, Harvard University Press, p. 7.

<sup>26</sup> See Michael Tomasello, op. cit., pp. 28 ff.

<sup>27</sup> Michael Tomasello, op. cit., pp. 78-79.

<sup>28</sup> Cf. Günter Dux: *Das Subjekt in der Grenze der Gesellschaft*, in: Nikos Psarros, Pirmin Stekeler-Weithofer, Georg Vobruba (eds.): *Die Entwicklung sozialer Wirklichkeit. Auseinandersetzungen mit der historisch-genetischen Theorie der Gesellschaft*, Weilerswist 2003, Velbrück Wissenschaft, pp. 233-267.

<sup>29</sup> Günter Dux, op. cit., p. 252, author's translation.

<sup>30</sup> *Ibid.*, p. 255, author's translation.

by every individual in the course of his or her socialisation.

These insights of evolutionary anthropology gain more and more prominence even within economic approaches. Especially Ulrich Witt's "continuity hypothesis" draws close connecting lines to the ideas summarised above.<sup>31</sup> Following this hypothesis, for Witt human evolution is a result of, and in continuation with, natural evolution. But, even though there is a sort of "ontological" continuity between biological and cultural evolution, the mechanisms and regularities of cultural evolution differ from those of natural evolution.<sup>32</sup> Similarly to evolutionary anthropology, Viktor Vanberg focuses in his approach on "program-based behavior", i.e. sets of rules which individuals acquired in (evolutionary) history and during their own individual life history.<sup>33</sup> In a different fashion, Geoffrey M. Hodgson postulates the validity of common characteristics of the biological and cultural spheres, both involving the general Darwinian principles of variation, inheritance, and selection.<sup>34</sup> Hodgson describes this concept as "universal Darwinism."

Although – due to space limitation – I cannot analyse the strengths and weaknesses of these newer approaches here, two aspects seem to me to be common to all of these recent works.

- They show that economic theory again finds itself in a methodological discussion about its fundamentals and especially in a discussion about a broader understanding of individual action that takes place within the tension between biological and cultural explanations.

- It still seems to be a threatening idea to economists that culture (subsequent to natural evolution) generates a "realm" of its own that should be the prime focus for explaining individual action in society and for describing economic phenomena.

### Conclusion

Accepting the cultural constitution of mankind could yield high revenues for economic theory. Accepting that modern society is the product of a specific process of cultural evolution and that every human is "doomed" to reconstruct these cultural origins in his ontogeny may alter the perspective: instead of polishing economic models and models of human behaviour, a cultural approach aims at a better *understanding* of human behaviour and economic phenomena in a historic-genetic way. In particular, in the field of economic transformation processes and the theory of institutional transplantation, this approach has already shown its merits.<sup>35</sup> But there will be more applications in a variety of sub-disciplines, e.g. constitutional economic policy (what are the culturally and socially transmitted conditions that make an agreement between citizens possible?), the history of economic thought (are the origins and the relevance of economic theories only explainable within a specific cultural and historical setting?), economic methodology (how does methodological individualism cope with the necessity of social learning?), economic ethics (are moral norms subject to economic analysis?), social policy (if economic and societal phenomena evolve in a parallel process in history, social policy might be an indispensable element of capitalism) and so on.

However, even if the relevance of culture seems to be so obvious even for the explanation of economic phenomena, the broad ignorance of a cultural approach in economics is not that difficult to explain: in bringing culture into the spotlight of economic debates, explanations will become less clear-cut than they seem to be in the world of economic models. To mention just one example: if a cultural approach makes it inevitable to look at historical developments and path-dependencies, economic policy proposals and reforms are not only subject to the individual and rational capacity to understand them, but their effectiveness will also be bound by a cultural setting and thus by the people's trust in reforms. Thus, the insight of what ought to be good economic policy will not directly lead to its realisation.

<sup>31</sup> Cf. e.g. Ulrich Witt: *The Evolving Economy – Essays on the Evolutionary Approach to Economics*, Cheltenham 2003, Edward Elgar, pp. 15-16; and Ulrich Witt: *On the Proper Interpretation of 'Evolution' in Economics and its Implications for Production Theory*, in: *Journal of Economic Methodology*, Vol. 11, No. 2, 2004, pp. 125-146.

<sup>32</sup> For a comprehensive overview of Witt's approach cf. Christian Cordes: *Darwinism in Economics: From Analogy to Continuity*, Papers on Economics and Evolution #0415, Max Planck Institute for Research into Economic Systems, Evolutionary Economics Group, Jena 2004. Because Witt states in a way a discontinuity between social and biological evolution his term 'continuity hypothesis' is somewhat misleading.

<sup>33</sup> See Viktor J. Vanberg: *Rational choice vs. program-based behavior*, in: *Rationality and Society*, Vol. 14, No. 1, 2002, pp. 7-54; and Viktor J. Vanberg: *The rationality postulate in economics: its ambiguity, its deficiency and its evolutionary alternative*, in: *Journal of Economic Methodology*, Vol. 11, No. 1, 2004, pp. 1-29.

<sup>34</sup> See Geoffrey M. Hodgson: *Darwinism in Economics: From Analogy to Ontology*, in: *Journal of Evolutionary Economics*, Vol. 12, No. 3, 2002, pp. 259-281; and Geoffrey M. Hodgson: *Generalizing Darwinism to Social Evolution: Some Early Attempts*, in: *Journal of Economic Issues*, Vol. 39, No. 4, 2005, pp. 899-914. For a discussion, cf. Christian Cordes, op. cit.; and Viktor J. Vanberg: *Human intentionality and design in cultural evolution*, in: Christian Schubert, Georg von Wangenheim (eds.): *Evolution and Design of Institutions*, London and New York 2006, Routledge, pp. 197-212.

<sup>35</sup> For an overview cf. e.g. Joachim Zweynert, Nils Goldschmidt: *The Two Transitions in Central and Eastern Europe as Processes of Institutional Transplantation*, in: *Journal of Economic Issues*, Vol. 60, No. 4, 2006 (forthcoming).

Again, such an approach will not and cannot replace other economic approaches. It only assumes that, especially in times of economic and social changes, a cultural approach might help to focus on those aspects which are the main causes of the problems observed.

As stated at the beginning of the text, the interplay (or the distortion of this interplay) between informal and formal institutions and the perception of this interplay is the essence of a cultural approach to economics. A

cultural approach tries to *understand* economic phenomena not only as the results of supply and demand but also as results of the human, i.e. cultural process of evolution. Thus, even for economic theory an insight by Goethe might be inevitable and lead to an understanding of economic development as a “*geprägte Form, die lebend sich entwickelt*” (“molded form that develops as a living force”).<sup>36</sup>

<sup>36</sup> See Edgar Salin: *Geschichte der Volkswirtschaftslehre*, 3rd ed., Bern 1944, Francke, p. 220.

Joachim Zweynert\*

## Economic Culture and Transition

The question of how far it is necessary to include cultural factors in the analysis of economic processes is not new. Around 200 years ago it was already the subject of heated debate between the Germano-Russian classic Heinrich von Storch (1766-1835) and his contemporary Heinrich Rau (1792-1870). In his major opus “*Cours d'économie politique*” (1815), Storch had accused Adam Smith of materialism<sup>1</sup> and attempted to complement classical economics with an “economic theory of civilisation”. His intention was clearly prompted by the problem of Russia's economic backwardness compared to Western Europe. He wanted to demonstrate that, in the long run, the welfare of nations is not determined purely on the stock of material capital, but also on that of “internal goods” such as “a sense of the beautiful, morals, faith”. Karl Heinrich Rau, who had translated the “*Cours d'économie politique*” into German<sup>2</sup>, rejected this charge. He argued that the inclusion of immaterial factors dilutes the object of political economy and so harbours the danger of its becoming absorbed by the general state sciences (or, as we would say, the social sciences).<sup>3</sup> In the second half of the 19th and in the early 20th century, the German Historical Schools and the (older) American Institutionalists intensely dealt with the interaction between economic and cultural change – and were subjected to repeated criticism for their pains.

\* Senior economist, Department of European Integration, Hamburg Institute of International Economics, Germany. This article originates in a research project on the historical and cultural path dependence of the transition processes in Central and Eastern Europe (with special focus on the Baltic Sea region). The project is carried out jointly by the Hamburg Institute of International Economics and the University of Hamburg and funded by the VolkswagenStiftung.

The fact that they were unable to develop a consistent theory was one of the reasons for the triumph of the neoclassical doctrine after World War II. Neoclassicism's constitutive concept of the *homo oeconomicus* means that economic life is abstracted from its social and cultural environment. As a consequence, any interaction between economy and society is ignored if it cannot be traced back to the utility calculations made by completely or bounded rational agents.

Following several decades of neoclassical dominance in the field of economic theory, criticism of the same has increased substantially in recent years – and not from heterodox quarters only, but also increasingly from within the mainstream itself. The decisive reason for this development as far as I see it is that the strict differentiation between economics and the other social sciences does not do justice to economic realities in the age of so-called “globalisation”.<sup>4</sup> From today's perspective it is not by chance that the glory days of neoclassical economics coincided with the political age of the Cold War. For the momentous changes that have taken place since the end of the 1980s have revealed the extent to which the division

<sup>1</sup> This reproach hardly seems justified from today's point of view. Kenneth E. Boulding for example has convincingly demonstrated the importance of the “cultural matrix” in Smith's work. Cf. K. E. Boulding: *Toward the Development of a Cultural Economics*, in: *Social Science Quarterly*, Vol. 53, No. 2, 1972, pp. 267-284.

<sup>2</sup> H. Storch: *Handbuch der National-Wirtschaftslehre*. From the French, with additions, by Karl Heinrich Rau, 3 Vols., Hamburg 1819-20.

<sup>3</sup> Cf. K.H. Rau: *Grundsätze der Volkswirtschaftslehre*, first published in 1826, here 6th edition, Leipzig, Heidelberg 1855, Vol. 1, p. 58.

of the planet into two hostile blocs restrained the momentum of global development – not only in economic terms. As long as no far-reaching processes of change can be observed in the reality around us, it is relatively unproblematic to ignore the relationship between the economy and other aspects of society or to accept it as given. In contrast, periods of economic upheaval or transformation are characterised by shifting relationships between the various areas of society. While neo-classical theory has a blind spot with respect to this issue,<sup>5</sup> the interplay between economy and society was at the heart of older institutionalist approaches, which explains the renewed relevance of the questions they raised.

Thus, for example, Historicism in German economics is a clear reflection of a *transformation problem*, namely the transition from a feudal to a capitalist economic order. As far as the founder of the younger Historical School, Gustav Schmoller, was concerned, the key issue was how to re-establish social cohesion in a society whose patriarchal connections had been undone without their having yet been replaced by other (e.g. monetary) bonds.<sup>6</sup> In the wake of Germany's rapid economic development in the second half of the 19th century it could be observed how neighbouring areas that had enjoyed similar economic starting conditions then developed at different speeds. This observation led Max Weber to deliberate upon the Christian denominations and economic development, the results of which are documented in his famous study "The Protestant Ethic and the 'Spirit' of Capitalism".<sup>7</sup>

### Methodical Foundations

Such questions are topical once more. In the age of "globalisation" many people have the impression – whether rightly or wrongly is not at issue here – that the increasing "economisation" of various areas of

their lives is threatening traditions that have evolved over generations and is undermining social cohesion. And today, both in certain regions of Asia as well as in Eastern Europe, we can once again observe how neighbouring areas with similar points of departure with regard to the reformation of their political and economic systems are developing at different speeds or even strike out along opposite paths of development. Both observations are to do with problems that (1) concern the interaction of economy and culture, and (2) reflect far-reaching processes of social change.

A third crucial problem for econocultural transformation research<sup>8</sup> relates to the *nonsimultaneity* of social development. When we deal with the connection between economy and culture, it is always about the relationship between economic reality on the one hand and the ideas, values and conceptions that people have in their minds on the other. Without having to make any statement about possible causalities between material and notional developments one can assume that in the long term, given an absence of "disturbing" exogenous influences in societies, a rough correlation will emerge between social reality and the patterns of thought pertaining to this reality. These patterns shall be referred to here in the terms of Arthur T. Denzau and Douglass C. North as "shared mental models"<sup>9</sup>. In economic history, "catching up" in development terms represents the norm rather than the exception. It means that countries tend to imitate the economic behaviour of more advanced countries and – if they want to reduce the gap – have to do so at a rapid pace. Under the plausible assumption that patterns of thought as an integral part of informal institutions change more slowly than formal institutions,<sup>10</sup> a discrepancy between the two is likely to arise within a "catching up" development scenario. If this rift cannot be closed within a foreseeable time period, then there is not only a danger of welfare losses, but also political instability can ensue. However, since economic reality has repercussions on prevailing *shared mental models*

<sup>4</sup> The popular use of this term is problematical inasmuch as economic historians repeatedly point out that the international interwovenness of capital and markets is not a new phenomenon. Some even argue that it is questionable as to whether the degree of globalisation today is greater than that reached on the eve of World War I. Cf. for example: P. Hirst, G. Thompson: *Globalization in Question. The International Economy and the Possibilities of Governance*, 2nd ed., Cambridge 2005.

<sup>5</sup> This is, incidentally, utterly unproblematic for a great number of economic questions. As a result I am not at all in favour of the fundamental criticism of the neoclassical paradigm that has been fashionable in certain circles for a number of years now.

<sup>6</sup> Cf. on Schmoller's ideas in the context of the contemporary wave of globalisation: H. Rieter, J. Zweynert: *Gustav Schmoller and Globalisation*, forthcoming in: *Schmollers Jahrbuch*, Vol. 126, No. 2, 2006.

<sup>7</sup> M. Weber: *Die protestantische Ethik und der "Geist" des Kapitalismus*, Textausgabe auf der Grundlage der ersten Fassung von 1904/05 mit einem Verzeichnis der wichtigsten Zusätze und Veränderungen aus der zweiten Fassung von 1920, Munich 2006.

<sup>8</sup> As far as I know, this term was introduced into the scientific debate by Hans-Hermann Höhmann in the context of the transformation processes in Central and Eastern Europe. Cf. H.-H. Höhmann: *Prologue*, in: idem. (editor): *Eine unterschätzte Dimension? Zur Rolle wirtschaftskultureller Faktoren in der osteuropäischen Transformation*, Bremen 1999. In my opinion, the interaction of economy and culture is of decisive importance wherever there is a fundamental change in the relationship between economy and society. This is not only true of the former Eastern Bloc countries, but also for many emerging economies and developing countries worldwide.

<sup>9</sup> A.T. Denzau, D.C. North: *Shared Mental Models: Ideologies and Institutions*, in: *Kyklos*, Vol. 47, Fasc. 1, 1994, pp. 3-31.

<sup>10</sup> Cf. essentially G. Roland: *Understanding Institutional Change: Fast-Moving and Slow-Moving Institutions*, in: *Studies in Comparative International Development*, Vol. 38, No. 4, 2004, pp. 109-131.

one can assume that a tendency towards equilibrium exists in the medium to long term.

On the one hand, countries or cultural regions have their own setting of informal institutions and develop according to their own developmental path. On the other hand, they have to survive in the context of international economic (but also political and military) competition. Between these two determinants of institutional change there exists a potential conflict which is seldom considered in the relevant literature. The majority of economists still fail to include cultural factors in their analyses and axiomatically assume that economically "reasonable" reform concepts are effective at all times and in all places as a matter of principle. Unfortunately, those authors who attempt to do justice to the cultural dimension of economic behaviour often go to the opposite extreme. Two currents can be identified within this literature. A number of authors, mostly from the New Growth Theory, have in recent years presented econometrical studies on the influence of cultural factors – especially religion and trust – on growth and development.<sup>11</sup> Supporters of the New Institutional Economics, who have recently rediscovered the theme of "culture", represent a completely different approach.<sup>12</sup> They invoke the idea of path dependency<sup>13</sup> when they argue that "history matters", because certain cultural traditions and moral values provide the tracks along which institutional change takes place in certain countries or cultural regions.

Despite all the differences between these two directions (which will not be considered in any more detail here) they have two things in common. Firstly, the political level is excluded, which necessarily means that the problem of nonsimultaneity is ignored. Secondly, the connection between culture and economy is presented as a one-sided causality. Culture here is an exogenous and unchanging factor that has to serve as an explanation for anything that cannot be explained by traditional means.<sup>14</sup> This harbours the

danger of culturalistic fatalism, according to which the prosperity of nations is determined not so much by economic policy but more by cultural moulds which are practically impossible to recast in the short to medium term. Certainly, the notion of path dependency is well suited to explain the persistency of economic and social arrangements as may be observed in many countries around the world. However, economic history also includes examples of highly successful reform processes in countries of which one would not have expected it from a culturalistic point of view,<sup>15</sup> and this clearly contradicts the idea of path dependency. Another argument challenges the idea of path dependency: processes of reform and modernisation in "backward" economies are frequently prompted by external shocks such as global economic crises or wars; in other words exogenously determined disruptions often make it necessary (and possible) to diverge from one particular path of development and to chart a new course.

In "catching up" economies, the measures introduced in such periods of reform usually imitate foreign role models. In these cases, the decisive problem from the point of view of econocultural transformation research is how the imported formal institutions interact with the local *shared mental models*. It is precisely this question which is at the centre of the transfer of institutions or institutional transplantation theory that was originally developed by social scientists and was particularly intensively absorbed – probably not by chance – by Russian economists.<sup>16</sup> Among these, two currents can be roughly differentiated, namely an "actors pulling-in" and a "goodness of the fit" approach.<sup>17</sup> The former emphasises the role of political actors on whose skill it depends as to whether new institutions can become firmly anchored. The proponents of the "goodness of the fit" approach on the other hand tend towards the relativistic view that the only institutions that can be transplanted at all are those which are compatible with the culture of the country they are being transferred to.

<sup>11</sup> Cf. as representative for this literature: L. Guiso, P. Sapienza, L. Zingales: Does Culture Affect Economic Outcomes?, Centre for Economic Policy Research, London 2006; S. Knack, P. Keefer: Does Social Capital Have an Economic Payoff? A Cross-Country Investigation, in: S. Knack (ed.): Democracy, Governance, and Growth, Ann Arbor, Michigan 2003, pp. 252-288.

<sup>12</sup> Of note here are above all the more recent works of D.C. North, which he has compiled in his most recent book "Understanding the Process of Institutional Change" (Princeton 2005) and, in the German-speaking region, those of Helmut Leipold, who has been researching in this field for a long time and has just presented a volume entitled "Kulturvergleichende Institutionenökonomik" (Stuttgart 2006).

<sup>13</sup> Cf. for a thorough view R. Ackermann: Pfadabhängigkeit, Institutionen und Regelreform, Tübingen 2001.

<sup>14</sup> Cf. for criticism thereof: N. Goldschmidt, B. Remmele: Anthropology as the basic science of economic theory: towards a cultural theory of economics, in: Journal of Economic Methodology, Vol. 12, No. 3, 2005, pp. 455-469, here p. 456.

<sup>15</sup> Japan after World War II is probably the most frequently cited example.

<sup>16</sup> Cf. for example: B. Badie: The Imported State. The Westernization of the Political Order, Stanford, California 2000; V.M. Polterovich: Transplantsia ekonomicheskikh institutov, in: Ekonomicheskaja nauka sovremennoi Rossii, No. 3, 2001, pp. 24-50; M. de Jong et al. (eds): The Theory and Practice of Institutional Transplantation. Experiences with the Transfer of Policy Institutions, Dordrecht et al. 2002. A. Oleinik: Transfer of Institutions. Actors and Constraints – the Russian Case in a Global Context, HWWA Discussion Paper No. 320, 2005, forthcoming in the Journal of Economic Issues.

<sup>17</sup> Cf. M. de Jong, V. Mamadouh: Two Contrasting Perspectives on Institutional Transplantation, in: idem. (eds.): The Theory and Practice of Institutional Transplantation, op. cit., pp. 19-32.

The concept of institutional transplantation opens up a kind of “third way” between the naïve belief in the fundamental transferability of political and economic institutions to other countries on the one hand and a cultural fatalism on the other that, taken to extremes, misguidedly implies that certain countries or entire cultural regions are essentially incapable of reform. It by no means contradicts economic explanations of institutional change, but complements them by adding a further important dimension. The connection between economic and cultural determinants of institutional change was succinctly expressed by Max Weber as early as 1920: “Not ideas, but material and ideal interests directly govern men’s conduct. Yet very frequently the ‘world images’ that have been created by ‘ideas’ have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest.”<sup>18</sup>

### The Transition Processes in Central and Eastern Europe from an Econocultural Perspective

In the following, with reference to the example of Central and Eastern Europe, I will demonstrate the interaction of economic, political and cultural factors during the transitions these countries underwent in the course of the 19th and 20th centuries.<sup>19</sup> Earlier I established that, from the point of view of econocultural transformation research, institutional change in “catching up” economies is crucially determined by three factors, i.e. firstly, the cultural legacies that, in accordance with the notion of path dependency, determine the course along which, ignoring exogenous influences, change will take place; secondly, the external pressure triggered by competition between the various economies (or, increasingly, between economic blocs); and thirdly and decisively, the interaction between imported formal institutions and local informal rules during the periods in which a massive transfer of institutions takes place.

In concurrence with Alfred Müller-Armack<sup>20</sup> I assume that religious legacies represent a particularly deep-seated stratum of the cultural mould and even

in largely secularised societies are of substantial influence on prevailing values and world views. What is immediately apparent when looking at the former “Eastern Bloc” with regard to religious backgrounds is the cultural borderline that runs between the predominantly orthodox countries on the one hand and the predominantly protestant and catholic countries on the other. This borderline is not only virtually identical with the eastern border of today’s EU,<sup>21</sup> it also marks the division between a group of highly successful transformation economies and a group of such countries that are at least up to now less successful.<sup>22</sup> As I see it, the decisive characteristic of the orthodox world view, both with regard to the economic and the political development of the orthodox countries, is its pronounced holism.<sup>23</sup> Whether this holism should be primarily attributed to the fact that the orthodox cultural region missed out on ancient Greek heritage or that there was never any true separation of the state from the church is a question that cannot be dealt with here.<sup>24</sup> What is important to note is just that the concept of an institutionally differentiated world in which the spheres of religion, law, economics and politics can be clearly separated from each other stood in contradiction to the prevailing religious mould.<sup>25</sup>

This was of crucial importance for the interaction of the orthodox countries with Western Europe, in relation to which all the countries of Central and Eastern Europe were undergoing a process of catching up. Ever since the Middle Ages, the Western European path of development has been characterised by increasing functional differentiation, i.e. an increasing “division of labour” among the various individual sectors of society. The differentiation of an economic sub-system and thus the fundamental institutional separation of state and economy is a relatively recent development that did not begin to take place until the first half of the 19th century. In order to prevent any misconceptions at this juncture: when I state that the European path of

<sup>18</sup> M. Weber: From Max Weber: Essays in Sociology, edited by Hans Heinrich Gerth and C. Wright Mills, New York 1958, p. 280.

<sup>19</sup> The following draws on a more comprehensive presentation in a joint contribution made by myself and Nils Goldschmidt (Walter Eucken Institute, Freiburg im Breisgau): J. Zweynert, N. Goldschmidt: The Two Transitions in Central and Eastern Europe and the Relation between Path Dependent and Politically Implemented Institutional Change, HWWA Discussion Paper 314, Hamburg 2005 (a revised version is to appear as “The Two Transitions in Central and Eastern Europe as Processes of Institutional Transplantation”, probably next year in the Journal of Economic Issues).

<sup>20</sup> A. Müller-Armack: Genealogie der Wirtschaftsstile. Die geistesgeschichtlichen Ursprünge der Staats- und Wirtschaftsformen bis zum Ausgang des 18. Jahrhunderts, Stuttgart 1941, p. 104.

<sup>21</sup> The course of this borderline is only “wrong” in the case of the Ukraine, because western Ukraine, from whence the “orange revolution” began, is Greek-Catholic in character and is thus part of the “Latin” cultural region.

<sup>22</sup> Cf. S. Panther: Cultural Factors in the Transition Process: Latin Center, Orthodox Periphery?, in: J. Backhaus (ed.): Issues in Transformation Theory, Marburg 1997, pp. 95-122.

<sup>23</sup> Cf. also J. Zweynert: Die “ganzheitliche Gesellschaft” und die Transformation Russlands, in: H.-H. Höhmann (ed.): Wirtschaft und Kultur im Transformationsprozeß. Wirkungen, Interdependenzen, Konflikte, Bremen 2002, pp. 10-35.

<sup>24</sup> Cf. for example A. Müller-Armack: Zur Religionssoziologie des europäischen Ostens, in: Weltwirtschaftliches Archiv, Vol. 61, 1945, pp. 163-192; Andreas E. Buss: The Russian-Orthodox Tradition and Modernity, Leiden 2003.

<sup>25</sup> Cf. H. Leipold: Kulturvergleichende Institutionenökonomik, opcit., pp. 226-7.

development was and is characterised by an increasing functional differentiation, this does not imply that I consider this to be a “natural” (however one may care to define the term) and irreversible development. It is, however, a historical fact that the economic success of Western Europe and the USA is prompting more and more countries to imitate their pattern of development. Since this pattern is largely founded on the principle of functional differentiation, one can say that Western Europe and the USA exercise a *pressure to differentiate* on other countries. From the point of view of the “catching up” economies, “globalisation” primarily means that this external pressure can no longer be parried by political means, as was the case during the Cold War, for example, but that they must now face the challenge emanating from the more developed countries. In this sense, the nations at the eastern periphery of Western Europe were the first countries to be confronted with the problem of globalisation, and hence we can learn a lot from their history about today’s globalisation processes.

Once again: successful “catching up” means closing the development gap and thus implies the necessity of doing things at speed. The resulting tension between *shared mental models* and economic reality is heightened by the fact that reform processes are not usually continuous, but take place in a series of thrusts. The reason for this is to be found in the fact that, as Douglass C. North emphasises, from the point of view of those in power, there is frequently a conflict between economic modernisation and the maintenance and/or extension of their own power base.<sup>26</sup> This is also the main reason why external shocks are often necessary to initiate reform processes. One example found particularly often in history is that of military defeats leading those in power to recognise that reforms are unavoidable if the country is to hold its own in competition with other nations.

Once reform processes have begun to take place, societies typically split into two groups, namely “Westerners” (proponents of reform) and “Romantics” (those opposed to reforms). What separates these factions is not only the evaluation of economic modernisation. It is also a question of the functional differentiation of society. While “Westerners” welcome the expansion (= functional differentiation) of the economic and social order, “Romantics” demand that social unity be preserved and that its “fragmentation” into clearly separated areas of life be prevented. The period of reform in Russia under Tsar Alexander II in the 1850s

and 1860s that was triggered off by the devastating defeat suffered in the Crimean War (1853-1855) can be regarded as a prime example of a wave of modernisation that was prompted by an exogenous shock and that resulted in the ideological division of society. There are similar examples in German history too. One only has to think of the defeat of Prussia/Germany at the hands of Napoleon, which not only prompted the Stein-Hardenberg reforms, but also resulted in an acrimonious debate between classically schooled economic liberals and a romantic faction grouped around Adam Müller that was committed to preserving social “unity”.

However, the strength of the protest and the speed at which *shared mental models* adapt do not only depend on the degree of economic backwardness and the pace of reform. It is here that specific cultural factors come into play, for the very reason that the prevailing patterns of thought in a particular society are never determined by social reality alone, but always by specific cultural legacies as well. If “catching up” development is primarily understood as catching up in terms of differentiation, then the extent to which the predominant cultural legacies have been formed by holistic patterns is of the utmost importance, because the more this is the case, the more difficult it will be, *ceteris paribus*, to overcome the chasm between patterns of thought and economic reality during periods of reform.<sup>27</sup> In my opinion, this is a partial explanation for why the orthodox post-socialist societies have far greater difficulties establishing democracy and a market economy on a sustainable basis than their catholic and protestant neighbours.

Yet the aim of the approach advocated here is precisely not to resort one-sidedly to cultural factors, but – with the help of the idea of institutional transplantation – to focus on their interaction with politics. This relationship can again be demonstrated very well using the example of Central and Eastern Europe. Nowhere did the adaptation – partly voluntary and partly forced by military means – to Western European patterns caused by the permanent pressure to differentiate take place smoothly. However, even in the 18th and 19th centuries it was apparent that the Latin countries had fewer problems importing Western institutions than the orthodox ones. The example of Russia is particularly well suited to demonstrate how the state

<sup>26</sup> Cf. D.C. North: *Structure and Change in Economic History*, Norton et al. 1981, chap. 3.

<sup>27</sup> This statement, incidentally, does not require the explicit or implicit assumption of cultural homogeneity. Even if holistic cultural traditions are predominant, there will usually be a split along pro-Western and romantic lines – but in otherwise identical circumstances the romantic camp will tend to be stronger than in regions in which the world view has not been shaped by holistic cultural legacies.

endeavoured – though only ever for relatively short periods – to establish Western institutions which were, however, only able to gain a partial foothold, and in many cases led to strange hybrids of imported patterns and local traditions or were even rejected completely. Despite all the resistance and obstacles it is still fair to say that a gradual process of “Westernisation” took place also in Russia’s case, and on the eve of World War I Russia had grown closer to Western Europe in cultural and economic terms than ever before.<sup>28</sup> World War I – i.e. an external political event – then brought a decisive breach: after 1918 the countries of Central Europe were to participate in the thrust of modernisation that enveloped Western Europe at the time. In the years between the Wars democratic constitutions were implemented in all these countries. In Russia on the other hand, the shock of World War I was instrumental in clearing the way to power for the Bolsheviks. Their successful putsch was certainly not a preordained result of Russian history, but primarily due to the efforts of a group of political entrepreneurs (and/or criminals) to gain power. Yet it is difficult to imagine that the Russian Communists could have held on to power for 70 years if the “world views” prevailing in Russia had not provided fertile ground for their ideology, since the quintessence of the Soviet economic and social order was to partially reverse the differentiation of the various sectors of society by subjecting everything to the dictate of the state and its ideology. In this sense, the Soviet model can be characterised as holistic. And even today – as opinion polls repeatedly demonstrate – it is the ideal of a unity of state and economy that hampers the implementation of liberal reforms in the post-Soviet area (with the exception of the Baltic states).

Following World War II, the USSR succeeded in imposing the Soviet political and economic order on the countries of Central Europe. Political coercion led to an East-West transfer of institutions. The crucial point here is that the institutions imported from the Soviet Union were all the more compatible with the informal institutions of the “receiving countries” the stronger these countries were shaped by holistic traditions. This was the case to a far greater extent in the orthodox countries than in the Latin ones. Although the institutions imported from the Soviet Union had a demodernising effect in all the countries concerned – if the standard of modern Western Europe is applied

– this effect was much stronger in the group of orthodox countries than in the Latin societies due to the greater degree of cultural compatibility found there. Following the collapse of the Soviet Union, a West-East transfer of institutions again set in, the intensity of which peaked in a number of countries of Central Europe with their preparations for EU accession.<sup>29</sup> If the compatibility of their own culture with the imported Western institutions had always been greater in the Latin countries than in the orthodox societies, then this disparity was reinforced significantly by the fact that Soviet demodernisation had struck deeper roots in orthodox Europe. If this thesis is correct, then we have extended the purely culturalistic view of things by adding the dimensions of the utility calculations of political entrepreneurs and of the competitive struggle between nation states (or economic blocs). In doing so, we have arrived at a more comprehensive (but not complete) explanation of the divergence between the orthodox and the Latin countries of Central and Eastern Europe that we can observe today.

#### Implications for Policy-Making

Traditionally, the science of economics intends not only to explain, but regards itself as a practical discipline. So what contribution can econocultural transformation research make to shaping economic policy? Earlier I said that, from the point of view of the paradigm of institutional transplantation, the historical-cultural path dependency of institutional change and the ability to steer such change by political means are by no means mutually exclusive. As a rule, real phases of reform during which adjustments are made to fundamental elements of the economic order are of short duration. Only during such phases is it possible to alter the course of institutional change. However, any such course alteration will only be successful if a minimum of cultural connectivity is established. This is all the more a problem given that in “catching up” development – as I have already mentioned – periods of reform generally involve importing formal institutions from abroad. The “actors pulling in” and the “goodness of the fit” perspectives of institutional transfer mentioned above both provide important insights into how such cultural compatibility can be established.

The actor-based approach refers to the fact that cultural compatibility is not exclusively something that is objectively given, but can sometimes be created by political means. For the success of institutional trans-

<sup>28</sup> The theory that Russian history has been one of gradual “Westernisation” ever since the 18th century has recently been forcefully argued by the outstanding Russian economic and social historian Boris Mironov. Cf. B.N. Mironov: *The Social History of Imperial Russia, 1700 – 1917*, 2 Vols., Boulder, Colorado 2000.

<sup>29</sup> On the influence of the “benevolent dictator” EU on reforms in the accession countries cf. E. Berglöf, G. Roland: *The EU as an “Outside Anchor” for Transition Reforms*, SITE Working Paper 132, Stockholm 1997.

plantation it is crucial that the political actors manage to get the population “on board” on the way to reforms. To do so it is not only necessary to explain the reform plans convincingly, these plans must also be communicated and “packaged” in such a way that what would normally be perceived as being “foreign” appears “familiar”. In the sense of a good marketing strategy it is important to address in detail both historically determined cultural legacies and ongoing public discussions in which the citizens express their preferences. Alfred Müller-Armack’s idea of “social irenics”, which formed the basis for his concept of a social market economy, can act as a model for such a strategy,<sup>30</sup> because it aimed to find a compromise between the opposing ideological factions in post-war Germany. And the success of the concept of the “social market economy” was at least to a certain degree founded on the fact that Müller-Armack placed an adjective at the front of the term that within the context of German political debate had until then always been fielded in opposition to capitalism.

What is crucial from the point of view of the “goodness of the fit” position is the right choice of institutions. This means that only such institutions can be imported and implemented that have or can be expected to have a high degree of cultural compatibility. In addition, it is necessary to assess whether and to what extent generally compatible arrangements may require adjustments to fit regional conditions. For if the gap that emerges between formal and informal rules is too wide, an institutional vacuum could develop which may then be stabilised by criminal structures. These considerations lead – and here too there is a proximity to Historism and older Institutionalism – to a relativistic assessment of economic policy measures: an institutional arrangement that is exceedingly efficient in one place at one particular time could prove to be highly inefficient in a different cultural environment. Taking this into account when selecting the institutions to be imported can often lead to second-best solutions being preferred if their expected chances of lasting implementation are greater.

To be more specific: one topical question regarding the European integration process is the following. Earlier I pointed out that the “Latin” (i.e. protestant and catholic based) transformation countries demonstrate a significantly better transition performance than their

orthodox neighbours. And indeed, only Latin countries have acceded to the EU so far. Now, however, the accession of two orthodox countries – Bulgaria and Romania – is imminent. Up to now, the fact that they have a different cultural background than the other new member states has hardly been touched upon in the debate on their assimilation. This should not be interpreted as implying – in the sense of culturalistic fatalism – that it would be inappropriate to accept these countries as members of the EU as a result of their orthodox mould. Indeed, the considerable successes they have achieved since they were offered the prospect of EU membership is evidence of what external political pressure is capable of accomplishing. At the same time, however, it should not be overlooked that Bulgaria and Romania still display problems that are typical of the orthodox countries. From an econocultural research perspective this is not surprising, and the current disappointment on the part of many European decision-makers could have been avoided if the cultural dimension had been recognised in time and strategies had been developed to improve the connectivity between imported EU institutions and the prevailing informal sets of rules.

Although I have based my arguments primarily on the example of Central and Eastern Europe, let me conclude by emphasising once more that econocultural transformation research is capable of contributing towards a better understanding of modernisation processes in emerging economies and developing countries in general. Essentially – in the apposite words of Volker Nienhaus – it is a question of “recognising what has shaped the attitude of people towards institutions ... in a certain region in order to identify the conditions for the enduring acceptance and sustainable success of the institutions that foster development, along with a policy aimed at achieving the same”.<sup>31</sup> In order to be able to achieve this, quantitative economic research – which is very successful in its own right – needs to be complemented by qualitative methods. Certainly, this harbours the danger expressed very early on by Karl Heinrich Rau that the borders between economics and social sciences may become blurred, indeed that the age of “economic imperialism” may be followed by a partial “sociologising” of economics. However, I consider this risk to be small in view of the danger that economists would otherwise be able to say very little on the subject of the problems associated with so-called “globalisation”.

<sup>30</sup> Cf. for example N. Goldschmidt: *Vertraute Marktwirtschaft*, in: *Wirtschaftsdienst*, Vol. 84, No. 8, 2004, pp. 487-491; J. Zweynert: *Shared Mental Models, Catch-Up Development and Economic Policy-Making. The Case of Germany after World War II and its Significance for Contemporary Russia*, HWWA Discussion Paper No. 288, Hamburg 2004 (appears in *Eastern Economic Journal*, No. 3, 2006).

<sup>31</sup> V. Nienhaus: *Kultur und Wirtschaftsstil – Erklärungsansätze für die Systemdynamik und Systemeffizienz in Entwicklungsländern?*, in: D. Cassel (ed.): *Perspektiven der Systemforschung*, Berlin 1999, pp. 89-118, p. 93.

Birger Nerré\*

## The Concept of Tax Culture

In view of today's progressive globalisation, international coordination and the clash of different cultures and divergent tax systems caused thereby, one would think national "tax culture" to be a very fashionable topic of economics and public finance (particularly of taxation). Contrary to all expectations, this is (still) not the case at all. While business administration makes extensive use of the latest findings from e.g. sociology and psychology, it has not been easy for the "time-honored" economics to follow suit in this trend. The topic of "tax culture" introduced in the paper in hand appears precisely at the intersection of the disciplines economics, sociology and history. So, as one might expect, the term "tax culture" is rarely found in economic literature.<sup>1</sup> To fill this research gap, a working definition of "tax culture" is strived for. Furthermore, possible disturbances of tax culture are subject to discussion.

### Working Definition of Tax Culture

The "classical" understanding of a country's "tax culture"<sup>2</sup> was almost entirely restricted to the creators of the tax system. Taxpayers were not considered to be part of the "tax culture". More recent interpretations of the term "tax culture", though, place controversially either exclusively the taxpayers or the communication between the latter and the tax authorities at the centre of their argumentation.<sup>3</sup> However, the exclusive and limited look at the interface of the two (groups of) actors also seems to be too restricted, because the evolutionary process of the tax system as well as the national culture remain unconsidered. The concept of tax culture presented here can best be explained by its conceptual dismantling in the individual terms "tax" and "culture".

From the viewpoint of the "taxes" not only the tax system and the actual tax practice form part of a country's "tax culture", but the relationship between the tax authorities and the taxpayers<sup>4</sup> also accounts for its uniqueness. As regards the tax authorities, the structure of the individual levels' competencies must be taken into account – how are the tax revenues to be distributed between local and central bodies? How

explicit and precise is the tax law on that account and how consequently are violations sanctioned? Which (rival) interest groups exist?<sup>5</sup>

However, the component of "culture" is far more important. Although there is, according to Geert Hofstede,<sup>6</sup> no scientific language to define "culture", in the course of this work reference is made exclusively to the national culture<sup>7</sup> as such. In the style of the "shared mental models" à la Denzau and North<sup>8</sup> "culture" should be understood as "the collective programming of the mind".<sup>9</sup> The evolutionary character of "culture" cannot be overemphasised: the cultural factors are continuously in an ongoing modification process stimulated by external and internal inputs. Consequently, culture itself is a dynamic phenomenon of interaction, not a fixed equipment of the actors.<sup>10</sup>

<sup>1</sup> In any case, it should be emphasised that in Latin America the "*cultura tributaria*", i.e. "tax culture", is part of academic discussion. Its understanding focuses on voluntary compliance and on public methods to increase the propensity to be honest in the taxation process; cf. e.g. Juan Carlos Cortázar Velarde: Estrategias educativas para el desarrollo de una "cultura tributaria" en América Latina. Experiencias y líneas de acción, in: Reforma y Democracia, No. 17, June 2000.

<sup>2</sup> E.g. Joseph A. Schumpeter: Ökonomie und Soziologie der Einkommensteuer, in: Der Deutsche Volkswirt, Vol. 4, 1929, pp. 380-385. Reprinted in Wolfgang F. Stolper and Christian Seidel (eds.): Joseph A. Schumpeter: Aufsätze zur Wirtschaftspolitik, Tübingen 1985, J.C.B. Mohr, pp. 123-133.

<sup>3</sup> Cf. address by Michel Camdessus, Managing Director of the International Monetary Fund, at the Moscow Institute of International Affairs, 2 April 1997, <http://www.imf.org/external/np/speeches/1997/mds9705.htm>. Camdessus' interpretation – as well as that of most transformation economists – seems to aim at Schmolders' "tax mentality" (cf. e.g. Burkhard Strümpel: The Contribution of Survey Research to Public Finance, in: Alan T. Peacock (ed. with the assistance of Dieter Biehl): Quantitative Analysis in Public Finance, New York 1969, Praeger Publishers, pp. 13-32, or Günter Schmolders: Survey Research in Public Finance – A Behavioral Approach to Fiscal Theory, in: Public Finance/Finances Publiques, Vol. 25, No. 2, 1970, pp. 300-306.). Nevertheless, the formation of the "tax-paying culture" should be accompanied by substantial improvements on the part of the tax authorities, even though their role is not seen in connection with the prevailing tax culture. This view is shared by Jorge Martínez-Vazquez, Robert M. McNab: The Tax Reform Experiment in Transitional Countries, in: National Tax Journal, Vol. 53, No. 2, 2000, pp. 273-298; Jorge Martínez-Vazquez, Sally Wallace: The Ups and Downs of Comprehensive Tax Reform in Russia, in: Daphne A. Kenyon (ed.): National Tax Association Proceedings, 92nd Annual Conference on Taxation, 2000, pp. 5-14; and James Alm, Jorge Martínez-Vazquez: Institutions, Stakeholders, and Tax Evasion in Developing and Transition Countries, paper prepared for "Public Finance in Developing and Transition Countries: A Conference in Honor of Richard Bird", International Studies Program, Andrew Young School of Policy Studies, Georgia State University, Stone Mountain, Georgia, 5-6 April 2001.

\* Research Associate, Department of Urban Economics, The Halle Institute for Economic Research, Halle, Germany.

The synthesis of the two terms “tax” and “culture” succeeds via the just mentioned evolutionary process: history is the linking or embedding variable. Namely, both subject areas are embedded in the national historical events (in the sense of Granovetter’s “historical embeddedness”<sup>11</sup>). In this regard, Schumpeter already found that “every tax ideal has got its historical, economic and sociological boundaries”.<sup>12</sup> In this way, the existence or creation of a universal and “objectively good” system of taxation becomes implicitly impossible.<sup>13</sup> Thus, a “tax culture” specific to a particular country emerges – coined by the tradition of taxation (e.g. an accentuation of [in-]direct taxes) on the one hand, and by the interaction of the actors and cultural values<sup>14</sup> like “honesty”, “justice” or also “sense of duty” on the other hand.

The latter resembles the – by definition taken more narrowly – tax *mentality* that consists of the two components of tax *morale* and tax *discipline* and solely aims at the relationship of the taxpayer to the tax state. Above all, the German Cologne school around Guenther Schmolders and his students treated this subject

comprehensively during the fifties and the sixties. A passable overview in this regard is given by Tretter, who gives the following definition: “Tax mentality includes all attitudes and also all patterns of behaviour which the tax-paying citizens hold against (or with?) the tax and the state”.<sup>15</sup> In general tax *morale* is used as a term connected with a certain “willingness-to-pay taxes”, a feeling of obligation to the state (according to the benefit principle) or the obligation to the general public or community (with tax *morale* according to the ability-to-pay principle), respectively. Tax *discipline* then reflects the attitudes of the taxpayer in his or her actions.

We use the following working definition of tax culture: a country-specific tax culture is the entirety of all relevant formal and informal institutions connected with the national tax system and its practical execution which are historically embedded within the country’s culture, including the dependencies and ties caused by their ongoing interaction.

Accordingly, tax culture contains even more than “culture of *taxation*” and “*tax-paying culture*”. A simplified overview – which could easily be enhanced by

<sup>4</sup> For a (partially game theoretical) overview concerning the interaction of tax authority and taxpayer see e.g. Bruno S. Frey, Manfred J. Höller: Tax Compliance Policy Reconsidered, in: *Homo oeconomicus*, Vol. 15, No. 1, 1998, pp. 27-44.

<sup>5</sup> This (incomplete) list of questions is a particularly important part of national tax culture, especially in transformation economies. Cf. Daniel Berkowitz, Wei Li: Tax Rights in Transition Economies: A Tragedy of the Commons? (previously titled: Decentralization in Transition Economies: A Tragedy of the Commons?), <http://www.pitt.edu/~dberk/pdube4.pdf>; Olivier Blanchard, Andrei Shleifer: Federalism with and without political centralization. China versus Russia, NBER Working Paper No. W7616, Cambridge, Mass. 2000; Andrei Shleifer, Daniel Treisman: Without a Map. Political Tactics and Economic Reform in Russia, Cambridge, Mass. and London 2000, MIT Press. For the Russian context of these questions cf. Daniel Treisman: Russia’s federal system of public finance: trends, politics, and pressing issues, in: Jean-Jacques Dethier (ed.): *Governance, Decentralization and Reform in China, India and Russia*. Dordrecht, Netherlands 2000, Kluwer Academic Publishers, pp. 65-98.

<sup>6</sup> Cf. Geert Hofstede: The Cultural Relativity of Organizational Practices and Theories, in: *Journal of International Business Studies*, Vol. 14, No. 2, 1983, pp. 75-89, here p. 77.

<sup>7</sup> A more detailed explication of the “national” culture might possibly implicate a closer look at the different local subcultures and their inclusion in the analysis; cf. Birger Nerré: Tax Culture Shock in Japan, in: Walter Ötsch, Stephan Panther (eds.): *Economics as a Social Science* (tentative title), Cheltenham, UK, Edward Elgar, forthcoming, chapter 4. For the idea of “tax culture”, this would be of importance if local differences in taxation were supposed to be explained and/or analysed e.g. in a federal state, such as the USA. Concerning these problems Cnossen remarks: “Actual tax practices ... show that subnational tax systems can differ widely one from another ... A substantial degree of economic integration seems perfectly compatible with a high degree of tax diversity”. Cf. Sijbren Cnossen: The Case for Tax Diversity in the European Community, in: *European Economic Review*, Vol. 34, 1990, pp. 471-479, here p. 475.

<sup>8</sup> “Mental models are the internal presentations that individual cognitive systems create to interpret the environment.” Arthur T. Denzau, Douglass C. North: Shared Mental Models: Ideologies and Institutions, in: *Kyklos*, Vol. 47, No. 1, 1994, pp. 3-31.

<sup>9</sup> Geert Hofstede, op. cit.; Geert Hofstede: *Cultures and Organizations – Software of the mind*, London 1991, McGraw-Hill.

<sup>10</sup> Similarly Granovetter notes that “culture is not a once-for-all influence but an ongoing process”. Mark Granovetter: Economic Action and Social Structure: The Problem of Embeddedness, in: *American Journal of Sociology*, Vol. 91, No. 3, 1985, pp. 481-510, here p. 486.

<sup>11</sup> *Ibid.*, p. 486. The general idea of embeddedness can already be found in Schumpeter (Joseph A. Schumpeter: *Capitalism, Socialism and Democracy*, New York 1950, Harper Collins). Other forms of embeddedness are e.g. structural, cognitive, cultural, political (cf. Sharon Zukin, Paul DiMaggio: Introduction, in: Sharon Zukin, Paul DiMaggio (eds.): *Structures of Capital: The Social Organization of the Economy*, New York 1990, Cambridge University Press, pp. 1-36, here pp. 14 ff.; and Neil Smelser, Richard Swedberg: Introduction, in: Neil Smelser, Richard Swedberg (eds.): *The Handbook of Economic Sociology*, Princeton 1994, Princeton University Press, pp. 3-26), and regional embeddedness (cf. Birger Nerré: *Die Bedeutung regionaler Netzwerkstrukturen in High-Tech Industrien – Eine einführende Studie am Beispiel der Biotechnologie*, Aachen 2001, Shaker, pp. 107 ff.).

<sup>12</sup> Joseph A. Schumpeter: *Ökonomie und Soziologie der Einkommensteuer*, op. cit., p. 383 (author’s translation). In the context of taxation guidelines, Christian Scheer (*Steuerpolitische Ideale – gestern und morgen*, in: Gerold Krause-Junk (ed.): *Steuersysteme der Zukunft*, Berlin 1996, Duncker & Humblot, pp. 155-198, here p. 156) points out unmistakably: “One surely cannot expect that the guidelines for a ‘right’ taxation are independent of time and location” (author’s translation).

<sup>13</sup> An opposing position is taken by, for example, Manfred Rose, who scientifically supervised the introduction of a consumption-oriented income tax in Croatia and holds the opinion that solely economic factors are to be considered for the design of any tax system; cf. Manfred Rose: Tax Reform in Transition Economies: Experiences from the Croatian Tax Reform Process of the 1990s, in: Peter B. Sørensen (ed.): *Public Finance in a Changing World*, Basingstoke, Hampshire et al. 1998, Macmillan, pp. 257-278. This is in contradiction to the observation of a gap within economics between pure fiction and cultural reality, and as well to the above mentioned “embeddedness” argument.

more details – is presented in Figure 1. It shows the embeddedness of the actors into the national culture with its subset of tax culture. Cultural norms and historically developed institutions both determine the tax code. The latter sets the environment and the constraints, i.e. the rules for the tax game. Players include (among others) taxpayers, politicians, tax officials, experts (e.g. tax advisors) and academics. The arrows indicate interaction between the different groups of players as well as between the members of one and the same group (e.g. academics meet at academic conferences). Through the ongoing interaction, social ties and dependencies are developed over time.<sup>16</sup>

### Disturbances of Tax Culture

What tax culture is about is often only realised when changes to the tax system cause more or less serious problems. During transformation processes, for example, any country's *political* culture is subject to more or less dramatic changes. Being a part of political culture,<sup>17</sup> the tax culture suffers from certain problems as well. The most crucial role is often played by foreign advisers who might not be tax-culturally conditioned in the same way as the advised country's society. Therefore, institutional conflicts are inevitable during the attempted transfer of a particular tax system into a different tax culture following a "big-bang" approach. In such cases "tax culture shocks"<sup>18</sup> are inevitably caused. With smoother "gradualist approaches", serious shocks might be avoided. Nevertheless, the phenomena which I have named "tax culture lags" might be observed due to adaptation processes.

### Tax Culture Shocks

The term "culture shock" was coined about forty years ago by the anthropologist Kalervo Oberg,<sup>19</sup> who published the results of observations of American expatriates. Following him, other authors placed their emphasis on "*language shock*"<sup>20</sup> or "*role shock*",<sup>21</sup> but in principle described only facets of the same phe-

nomenon describing the negative reactions of individuals to (unexpected) patterns of behaviour in a foreign culture, which result in a feeling of insecurity, lack of understanding or uneasiness.

Shocks in the field of *tax culture* can emerge during an encounter with an unknown or foreign tax culture. A distinction should be made, though: shocks may be observed on the individual or micro level, or on the collective or macro level.

Above all, *individual* tax culture shocks have become more and more common in the course of today's globalisation: they are part of the overall "culture shock" if taxes are to be paid in another country (host country). In the case of a certain "strangeness" of the prevailing local tax culture, where the values reflected possibly differ from those of one's own inherent tax culture, this may well lead to a feeling of unfair processing,<sup>22</sup> helplessness in view of the prevailing tax practice, insecurity etc. In this case of a shock on the micro level, there are two ways of solving it: the individual either returns to his home country (Hirschman's "costs of exit"<sup>23</sup> in that case must be lower than the costs of remaining in the foreign tax culture), or undergoes a process of adaptation,<sup>24</sup> which (hopefully) leads to a better understanding of the host country's (tax) culture.

*Collective* tax culture shocks are to be observed far more rarely. They are characterised by the fact that both the taxpayers (in their entirety) and the tax administration suffer considerably from them. While the first aspect might be quite obvious (in the sense of massively occurring individual shocks), the second aspect perhaps needs a further explanation. A perfect example for a shock on the macro level occurs if changes in the national tax system are made against the will of the voters (and without democratic legitimisation). The tax administration sees itself confronted with new, obscure and above all unwanted changes in the system of taxation and taxation practice. Moreover, the administration is possibly put under pressure by the con-

<sup>14</sup> Buchanan states appropriately: "Differences in cultural history must exert behavioral consequences"; James M. Buchanan: *Economic Science and Cultural Diversity*, in: *Kyklos*, Vol. 48, No. 2, 1995, pp. 193-200, here p. 195.

<sup>15</sup> Bertram Tretter: *Die Steuermentalität – Ein internationaler Vergleich*, Berlin 1974, Duncker & Humblot, p. 39 (author's translation).

<sup>16</sup> I have left out an interaction arrow between academics and taxpayers, because I am not sure about the relationship between both groups (academics tend to model taxpayers far differently than they act in reality, and taxpayers seem to know that and thus do not care about the propositions academics make).

<sup>17</sup> Cf. Burkhard Strümpel, op. cit., p. 28.

<sup>18</sup> Cf. Birger Nerré: *Tax Culture Shock in Japan*, op. cit.

<sup>19</sup> Kalervo Oberg: *Cultural shock: adjustment to new cultural environments*, in: *Practicing Anthropology*, Vol. 7, 1960, pp. 177-182.

<sup>20</sup> W. A. Smalley: *Culture shock, language shock, and the shock of self-discovery*, in: *Practicing Anthropology*, Vol. 10, 1963, pp. 49-56.

<sup>21</sup> F.C. Byrnes: *Role Shock: an occupational hazard of American technical assistants abroad*, in: *Annals of the American Academy of Political and Social Science*, Vol. 368, 1996, pp. 95-108.

<sup>22</sup> One could theoretically think of a positive surprise as well if the individual got the feeling of paying fewer taxes in the host country and getting a fairer treatment than would have been the case at home.

<sup>23</sup> Cf. Albert O. Hirschman: *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organisations, and States*, Cambridge, Mass. et al. 1970, Harvard University Press.

<sup>24</sup> The duration and the inconveniences of this process depend on different factors, e.g. on the degree of difference between the tax culture of the host country and the individual's home country, on the individual's cultural adaptability etc.

trolling forces that would like to observe the intended “success” as soon as possible. In connection with this one scenario might be imagined: the violent occupation of one country by another one in the course of belligerent activities.<sup>25</sup>

A tax culture shock on the macro level – as well as one on the micro level – causes a feeling of insecurity concerning the new rules of taxation, of dissatisfaction, of being insulted and similar feelings, found equally among the mass of the taxpayers and in the tax administration. Furthermore, tax morale and tax discipline in the country is to be expected to decline, and tax resistance on the part of the taxpayers, on the contrary, to rise. Also, on the part of the tax administration a decline in *working* morale will occur because the tax officials see themselves confronted with new tax laws and external pressure for success. The course of the shock and its long-term effects depend on the methods chosen<sup>26</sup> as well as on the duration and the degree of strictness of the (enforced) patronage. Should the latter be of a continuous nature and of a high degree, a laborious and painful adaptation process will be triggered, which will probably lead to a slow modification of the prevailing tax culture of the patronised country. In the case of a short-termed patronage of relatively lax character, soon re-reforms and/or adaptations to the well-known tax culture might be expected.<sup>27</sup>

### Tax Culture Lags

Even if – by using a gradualist approach to tax reform – tax culture shocks may (and should!) be avoided, troubles in the sphere of taxation are inevitable in the majority of tax reform projects. One has to keep in mind that a tax reform means changing one part of a nation’s tax culture first: namely, the tax code, i.e. the formal institution of law. The remaining parts of the tax culture stay unchanged for the time being and lag behind in the tax culture’s evolution. Thus, a phenomenon might occur which I have named “tax culture lag”.<sup>28</sup> It has been borrowed from the concept of culture lag which was developed by the economist Thorstein Veblen<sup>29</sup> and the American sociologist William F. Ogburn.<sup>30</sup>

<sup>25</sup> Cf. Birger Nerré: Tax Culture Shock in Japan, op. cit., for a case study of the events in Japan in the aftermath of World War II.

<sup>26</sup> In the case of a hostile occupation a big-leap approach has to be expected.

<sup>27</sup> This could be observed e.g. in Japan after World War II (cf. Birger Nerré: Tax Culture Shock in Japan, op. cit.), and resembles the situation in evolutionary game theory, where a mutant (here: the occupier) enters a (foreign) population and plays a formerly unknown strategy. If the mutant leaves the population again after a certain time (either exit or death), the continued existence of his strategy (here: the “strange” tax system) depends on the question whether or not its fitness outperforms that of the old-established players’ strategies.

Ogburn offers the following definition of culture lag phenomena: “A cultural lag occurs when one of two parts of culture which are correlated changes before or in greater degree than the other part does, thereby causing less adjustment between the two parts than existed previously”.<sup>31</sup> The 1922 definition in his “Social Change” is even more comprehensive – especially for the transfer of the concept to the field of tax culture: “[T]he various parts of modern culture are not changing at the same rate, some parts are changing much more rapidly than others; and that since there is a correlation and interdependence of parts, a rapid change in one part of our culture requires readjustments through other changes in the various correlated parts of culture [...] Where one part of culture changes first, through some discovery or invention [...] there frequently is a delay in the changes occasioned in the dependent part of culture. The extent of this lag will vary according to the nature of the cultural material, but may exist for a considerable number of years, during which time there may be said to be a maladjustment”.<sup>32</sup> The time of maladjustment or imbalance within a culture is marked by social unrest and adjustment problems in society. This is exactly what can be observed in the sphere of tax culture during transformation or reform processes.<sup>33</sup>

The different elements of a national tax culture – like the tax code, the tax authorities, tax experts or the

<sup>28</sup> Sociologists use the expressions “culture lag” and “cultural lag” synonymously. In earlier contributions I have used the term “tax-cultural lag”, but to relate the lag phenomena more closely and more obviously to the concept of tax culture shocks I have decided to use the expression “tax culture lag” from now on.

<sup>29</sup> Thorstein Veblen: The Theory of the Leisure Class, New York 1899, Macmillan.

<sup>30</sup> While Veblen published his “Theory of the Leisure Class” already in 1899, Ogburn coined the expression “cultural lag” only in 1914, when holding a chair in economics and sociology at Reed College. In 1915 the theory was improved until in 1922 his “Social Change” was published (cf. William F. Ogburn: Social Change, New York 1922, Dell). The accusation of stealing the theory from Veblen is strictly rejected by Ogburn: “I have been accused of taking the theory from Thorstein Veblen [...] but] I am quite sure ... I had never read him on this point”; cf. William F. Ogburn: Cultural lag as a theory, in: Sociology and Social Research, Vol. 41, January-February 1957, pp. 167-174, here p. 168, reprinted in Otis Dudley Duncan (ed.): William F. Ogburn: On Culture and Social Change, Chicago, Illinois 1964, The University of Chicago Press, pp. 86-95, here p. 87.

<sup>31</sup> Ibid.

<sup>32</sup> Ibid., p. 200. Ogburn explains culture lag with the maladjustment between the development of the automobile and the highways in America. While in 1910 both parts were functioning properly together (cars were slow, highways were narrow) the development of stronger motors enabled speeds of 60, 70 and even 80 mph – but only in theory. *In praxi*, the narrow and curvy streets just did not allow driving at that speed – they lagged behind and slowed down traffic’s development (in the truest sense of the word!). It took the government some time to adjust the highways’ quality to the new innovations in the automobile sector and thus to enable car owners to extract a maximum of utility from their cars (in terms of speed); cf. William F. Ogburn, op. cit.

taxpayers – have already been identified above. Tax culture lags may occur – similar to cultural lag effects – when the different elements of a nation's tax culture develop at different speeds, i.e. if for some reason the relationship between some parts is no longer in cultural/evolutionary equilibrium.

This might be due to, for example, a democratically legitimised tax reform. First, tax authorities will have to cope with the new guidelines and tax laws. Then, it is taxpayers who have to adjust their behavior to the latest changes in the tax law. During this period of multi-level adjustment tax-cultural distortions are inevitable – especially in the case of a prevailing (tax) cultural conservatism or inertia. On the part of the tax officials a decrease in *working* morale might be expected, followed by a decrease in *tax* morale on the part of the taxpayers.

In Western societies most tax reforms consist of marginal changes to the tax system only, e.g. broadening some tax base, changing some tax rate by a percentage point, and so forth. In those cases, tax culture lags are neither very obvious nor serious, even though they do appear. For example, the introduction of the possibility of deducting certain expenses from personal income tax liability will change taxpayers' behaviour in the medium term. Getting used to it takes some time for adjustment, with both taxpayers and tax officials.

More serious are tax culture lags in the case of far-reaching tax reform measures as can be observed in many transformation economies. There, grave tax culture lags have occurred.<sup>34</sup> Sometimes people had to get accustomed to the reality of democracy, i.e. that having democratic rights means obligations, too. The most important obligation is – especially in the case of scarcity of public funds – paying taxes to finance the democratic institutions and keep the state in a position to fulfil its task of supplying certain (public) goods to its citizens appropriately. Thus, the gains from democratisation and transformation can only be achieved in the long run if people obey and comply with the tax law. But, in fact, the majority of the people were of the opinion that they had never paid taxes before (due to the hidden methods of taxation e.g. in socialist countries). Changing the “programming of the mind” in transformation economies will take strong educational efforts<sup>35</sup> and – above all – a long time. During the time of adjustment to the new (tax) reality the tax systems

in these countries will generally not yield the necessary amount of revenue.

Thus, changing a tax code without taking into consideration its embeddedness in the national tax culture might cause serious revenue problems and frustration of the actors, which might initiate a vicious cycle of non-compliance. On the one hand, the economic and political situation may not put the governments of transition countries in a position to fulfil their tasks satisfactorily. On the other hand, taxpayers do therefore not feel the moral obligation to fulfil their part of the institutional contract between the state and its citizens. Accordingly, as taxpayers receive public assistance only on an insignificant level, they think it legitimate to delay payments or entirely evade taxes.

It has to be emphasised that it might be hard to distinguish the negative effects of a tax culture lag from those caused by a tax culture shock. It is of importance to note, though, that lags can hardly be avoided, even if a gradualist approach has been chosen as the method of reform.

### Concluding Remarks

The concept of a country-specific national tax culture has been disregarded by both economic scientists and politicians for a long time. When using the expression in public discussion, a useful and understandable definition has not been strived for. For further research I propose that a national tax culture should be defined comprehensively as the entirety of all interacting formal and informal institutions connected with the national tax system and its practical execution which are historically embedded within the country's culture, including the dependencies and ties caused by their ongoing interaction. From this working definition it becomes evident that to understand a specific country's tax culture requires a lot of research effort, because a

<sup>33</sup> Compare Jorge Martínez-Vázquez, Sally Wallace, op. cit., p. 12: “Reforming a tax code is a difficult and complex procedure, and it requires support and compatibility with other laws and institutions in the system”.

<sup>34</sup> Russia might serve as an example (of a “tax developing country”) in this case; cf. Birger Nerré: The Role of Tax Culture in Transformation Processes – The Case of Russia, ASPE Working Paper No. 03/2001, St. Petersburg 2001, <http://www.aspe.spb.ru/WP103Abstract.htm>; Birger Nerré: The Emergence of a Tax Culture in Russia, paper presented at “The 57th Congress of the International Institute of Public Finance: The Role of Political Economy in the Theory and Practice of Public Finance”, 27-30 August 2001, Linz, Austria.. For example, in 1996, 1997 and 1998 the IMF was only willing to provide further funds if tax revenues would increase significantly in the nearest future (thus, in this example there is no direct patronage concerning the tax system); cf. Jennifer L. Franklin: Tax Avoidance by Citizens of the Russian Federation: Will the Draft Tax Code Provide a Solution? in: Duke Journal of Comparative and International Law, Vol. 8, No. 1, 1997, pp. 135-174, here p. 137; and Andrei Shleifer, Daniel Treisman: Without a Map. Political Tactics and Economic Reform in Russia, pp.148, 176. The IMF demand led to very brutal methods of tax collection in Russia (by elite soldiers), which did not seem very stimulating for Russia's emerging tax culture. Far-reaching tax reforms take place in Western societies as well, but are by far rarer than gradual reforms.

<sup>35</sup> Cf. Juan Carlos Cortázar Velarde, op. cit.

lot of actors and institutions have to be studied as well as the procedures and processes when they interact.

Good policy advice should not disregard the national tax-cultural constraints. Thus, the prevention of collective tax culture shocks should become a *normative* criterion for a “good” international and national tax policy. Furthermore, one should be aware that during transformation processes the appearance of tax culture lags is almost inevitable. But still, the degree of

the negative effects caused by the lag effects will vary with the extent of tax-cultural conformity of the new and reformed tax measures.

Hopefully, the theory of tax culture will be able to reduce the above-mentioned gap between pure theoretical economic fiction and cultural reality, particularly in the sphere of taxation. Furthermore, tax political recommendations can be derived from it, especially in the context of transformation processes.

Heiko Schuß\*

## The Economic Culture of Turkey – an Impediment to its Integration into the EU?

There are good reasons to spend some time on the economic culture of Turkey. In the wake of the “cultural turn”<sup>1</sup> in the social sciences there is renewed interest in the question how cultural factors influence economic development in different countries and regions. Problems of intercultural management have become prominent, too. The beginning of negotiations on full membership between Turkey and the EU stresses the importance of evaluating the possible impact of Turkish economic culture on its integration into the EU. Critics of a possible future membership of Turkey in the EU argue that Turkey belongs to a totally different cultural area and that this fundamental cultural difference makes full membership impossible.<sup>2</sup> This view is in contrast with the firm conviction of the founders of the Turkish Republic, who envisioned a fast and complete westernisation of their country. Although economic culture could possibly have an important influence on integration into the EU, the heated political discussions have avoided this topic. Studying the economic culture of Turkey could therefore perhaps help to evaluate without bias the cultural differences between Turkey and the countries of the EU. In the following some research results concerning Turkey’s economic culture will be presented and discussed.

### Achievement Motivation

A starting-point for the scientific research into the relation between culture and economy is Max Weber’s Protestantism thesis. Weber showed the importance

of the popular version of the Calvinist faith for the economic success of Protestant regions.<sup>3</sup> Later on, David C. McClelland simplified and generalised Weber’s analysis. In his view, it is the high need for achievement (n-Achievement) which can be detected in different cultures that promotes economic growth.<sup>4</sup> In his study “The Achieving Society” he used the occurrence of the achievement motive in a random sample of children’s stories as an indicator for n-Achievement in a country. He found a significant correlation between this indicator and the economic growth of the countries studied. For the year 1950 Turkey reached the highest value of n-Achievement of all countries. But these findings have to be interpreted cautiously. The prominence of the achievement motive in the Turkish children’s stories could be the expression of the Kemalist impetus for modernising the country, but schools and books had at that time not reached the whole rural population. Thus, it is doubtful if the written stories reflect the values of the illiterate population.

Ronald Inglehart has further developed the concepts of Weber and McClelland and his achievement

<sup>1</sup> Şefik Alp Bahadır: Kultur und Region im Zeichen der Globalisierung, Erlangen 1998, pp. 7-9.

<sup>2</sup> Stephan Haseleberger: Die Türkei wird Thema im Europawahlkampf. CSU will gegen EU-Vollmitgliedschaft mobilisieren – SPD und Grüne reagieren mit heftiger Kritik, in: Die Welt, 01.09.2003, <http://www.welt.de/data/2003/09/01/162294.html>.

<sup>3</sup> Max Weber: Gesammelte Aufsätze zur Religionssoziologie, Vol. 1, Tübingen 1920, pp. 17-30, 84-106 and 189-193.

<sup>4</sup> David C. McClelland: The Achieving Society, New York, London 1967, pp. 70-79 and 89-103.

\* Friedrich-Alexander University, Erlangen-Nuremberg, Germany.

motivation index is more complex. In the World Values Surveys respondents are asked which of eleven qualities that children can be encouraged to learn at home do they consider to be especially important. The index represents the percentage of choices emphasizing the two qualities "thrift, saving money and things" and "determination and perseverance", minus the percentage of choices emphasizing the two qualities "religious faith" and "obedience". While in theory the index ranges from -200 to +200 the societies examined with the highest achievement motivation reach about +100 and those with the lowest scores are somewhat under -100. According to Inglehart the achievement motivation index for the year 1990 shows a 66% correlation with the economic growth rates from 1960 to 1990 in the 43 countries studied. The correlation is especially impressive for countries with very high scores for achievement motivation like Japan, South Korea and China and for countries with extremely low scores like Nigeria. But there is also a big cluster of countries which obtain medium scores of achievement motivation with a range from -50 to +50 combined with a medium rate of economic growth.<sup>5</sup> Within this cluster the correlation between these two variables is not so clear. With respect to the achievement motivation index Turkey finds itself in this big medium cluster with scores that fall toward the low end of the cluster. In the year 1990 Turkey reached a score of -19, which was higher than the scores of some Catholic countries like Spain (-35) or Ireland (-44) and in 2001 Turkey obtained a somewhat lower score of -39 which now places it directly behind Ireland (-36).<sup>6</sup>

"Performance Orientation", a construct related to achievement motivation, has been one of the points studied within the Global Leadership and Organizational Behavior Effectiveness (GLOBE) Research Project which contains 61 studies in 58 countries. In Turkey 323 members of the middle management participated in the survey. "Performance Orientation" was defined as "... degree to which society encourages people to continuously improve performance effectiveness and achievements". Turkey reached an average value of 3.83 within a scale from 1 to 7 and rank 45 out of 61 countries and regions for the cultural dimension "performance orientation" as it was perceived in their society by the respondents. The average value of all

countries was 4.1. In the European context there were a lot of countries and regions with higher scores for "performance orientation", for example Austria (4.4), Western Germany (4.25) or France (4.1). But there were also some Mediterranean countries with lower scores like Portugal (3.6), Italy (3.58) or Greece (3.2). Some of the new Eastern European members of the EU had scores which were similar to, or lower than, the Turkish one, for example Poland (3.89), Slovenia (3.66) and Hungary (3.43).<sup>7</sup>

There could be the impression that achievement motivation in Turkey has decreased since McClelland's study in 1950 to the present time. While this conclusion cannot be ruled out completely it has to be considered that McClelland's study measured the n-Achievement in an indirect and maybe biased way and that the achievement motivation in the whole population was perhaps lower and similar to the present situation. To sum up these different results one should underline that Turkey has neither extremely low scores for achievement motivation nor extremely high scores. Thus, this cultural factor cannot be considered a serious impediment for economic growth. But it is also not an additional positive factor that accelerates growth like in some East Asian countries. In comparison to the member countries of the EU Turkey does not belong to the countries with the strongest achievement motivation or performance motivation, but is close to some Catholic, Mediterranean and Eastern European countries.

### Collectivism

The degree of collectivism and of its counterpart, individualism, also influences the economic life of a country. In Geert Hofstede's study, which used data from the years 1968 and 1972, Turkey's score on the individualism index was 37 points, while the countries with the highest scores were the USA (91), Australia (90), and Great Britain (89) and the countries with the lowest values were Guatemala (6), Ecuador (8) and Panama (11). Among 53 countries and regions Turkey attained rank 28, which can be interpreted as the ex-

<sup>5</sup> Ronald Inglehart: *Modernization and postmodernization: cultural, economic, and political change in 43 societies*, Princeton, New Jersey 1997, pp. 216-223.

<sup>6</sup> Ronald Inglehart, Miguel Basáñez, Jaime Díez-Medrano, Loek Halman, Ruud Luijkx (eds.): *Human beliefs and values: A cross-cultural sourcebook based on the 1999-2002 values surveys*, 1st edition, México, Buenos Aires 2004, tables A038, A039, A040 and A042.

<sup>7</sup> Hayat Kabasakal, Muzaffer Bodur: *Leadership and Culture in Turkey: A Multi-Faceted Phenomenon*, in: J. Chhokkar, F. Brodbeck, R.J. House (eds.): *Managerial Cultures of the World: GLOBE In-Depth Studies of the Cultures of 25 Countries*, Vol. 2, Thousand Oaks, Ca., Sage; Hayat Kabasakal, Muzaffer Bodur: *Arabic cluster: a bridge between East and West*, in: *Journal of World Business*, Vol. 37, No 1, 2002, pp. 40-54, here p. 47; Erna Szabo, Felix C. Brodbeck et al.: *The Germanic Europe cluster: where employees have a voice*, in: *Journal of World Business*, Vol. 37, No. 1, 2002, pp. 55-68, here p. 63; Jorge Correia Jesuino: *Latin Europe cluster: from South to North*, in: *Journal of World Business* Vol. 37, No. 1, 2002, pp. 81-89, here p. 86; and Bakacsi Gyula, Sandor Takacs et al.: *Eastern European cluster: tradition and transition*, in: *Journal of World Business*, Vol. 37, No. 1, 2002, pp. 69-80, here p. 76.

pression of a moderate collectivism. It is remarkable that within the countries of the later EU there is a wide range, from individualist countries like Great Britain (89), the Netherlands (80) and Italy (76), to moderately collectivist countries, like Greece (35) and Portugal (27). Turkey fits well into this spectrum.<sup>8</sup>

In the GLOBE study Hofstede's dimension of collectivism has been divided into two value dimensions: "Collectivism I measures the extent to which society encourages and rewards collective work and group solidarity in societal and institutional settings" and "Collectivism II describes the degree of collectivism and solidarity among in-group members, particularly in families or organizations". When participants were asked how strong certain values and societal practices are in their society, Turkey reached a medium level for "Collectivism I" (average value of 4.03 on a scale from 1 to 7; rank 41 out of 61). This is also true in comparison with the EU countries, where Ireland had the highest average value (4.63) and Greece the lowest one (3.25).<sup>9</sup>

Collectivism is closely connected with the question of trust in a society. A high level of societal trust enhances the ability to build up social networks and social capital. It helps to reduce transaction costs, to spread new ideas. This way it has a positive impact on economic development.<sup>10</sup> When asked in the World Values Surveys, "Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people" in the year 1990 only 10% and in the year 2001 only 16% of the Turks answered that people can be trusted, which means that societal trust is very weak in Turkey. Among European countries societal trust in the year 1999 was lower only in Portugal (10%) and Romania (10%).<sup>11</sup>

Whereas a stranger is not trusted in societies with low societal trust, people emphasise the trust within in-groups. In the GLOBE study Turkey reached high absolute and relative values (average value 5.88 within a scale from 1 to 7; rank 5 of 61) for the cultural dimension of "Collectivism II" as it was perceived by the re-

spondents in their society. This is a little higher than in some Mediterranean and East European countries, for example Greece (5.27), Slovenia (5.43), Spain (5.45), Poland (5.52) and Portugal (5.55). But the real difference occurs between these countries and Western Europe where group and family collectivism is substantially lower, e.g. Western Germany (4.02), England (4.08), or France (4.32).<sup>12</sup>

It is not clear what impact collectivism has on economic growth. There is a strong positive correlation between the individualism index of Hofstede and per capita growth, but Hofstede himself sees economic growth as the cause of individualism and not vice versa.<sup>13</sup> The concepts of need for achievement and achievement motivation developed by McClelland and Inglehart imply a negative relation between collectivism and economic growth. Obedience as a child-rearing value has a negative impact in Inglehart's achievement motivation index. But it is advisable to differentiate between different kinds of collectivism. Robert D. Putnam has shown in his study of enterprises in Northern and Middle Italy that norms of generalised reciprocity which transcend the family or narrow in-groups encourage spontaneous cooperation and the building of horizontal networks. These help to reduce transaction costs and have a positive impact on economic development.<sup>14</sup> Hierarchical and vertical networks which are supported by strong in-group collectivism and low societal trust as in Turkey do not have these positive effects.

Societal values like a strong group and family collectivism also have an influence on the communication style, the management style and the structure of enterprises. Turkey can be called a high-context culture which is characterised by an indirect and intuitive communication style. To know each other personally and to talk about personal matters is a prerequisite for developing the trust necessary to conduct business. When this personal context is known, polite hints can be understood in an indirect and intuitive communication. The importance of the family in Turkey can be shown by the fact that the big Turkish private enterprises are family owned and family controlled holding companies. Low societal trust is reflected by the prob-

<sup>8</sup> Geert Hofstede: *Interkulturelle Zusammenarbeit. Kulturen – Organisationen – Management*, Wiesbaden 1993, pp. 67-70.

<sup>9</sup> Hayat Kabasakal, Muzaffer Bodur: *Leadership and Culture in Turkey: A Multi-Faceted Phenomenon*, op. cit.; Hayat Kabasakal, Muzaffer Bodur: *Arabic cluster: a bridge between East and West*, op. cit., p. 47; Neal M. Ashkanasy et al.: *The Anglo Cluster: legacy of the British empire*, in: *Journal of World Business*, Vol. 37, No. 1, 2002, pp. 28-39, here p. 34; Bakacsi Gyula, Sandor Takacs et al., op. cit., p. 76.

<sup>10</sup> Francis Fukuyama: *Konfuzius und Marktwirtschaft: der Konflikt der Kulturen*, Munich 1995, pp. 43-51.

<sup>11</sup> Ronald Inglehart et al. (eds.): *Human beliefs and values ...*, op. cit., table A165.

<sup>12</sup> Hayat Kabasakal, Muzaffer Bodur: *Arabic cluster: a bridge between East and West*, op. cit. p. 47; Neal M. Ashkanasy et al., op. cit., p. 34; Jorge Correia Jesuino, op. cit., p. 86; Bakacsi Gyula, Sandor Takacs et al., op. cit., p. 76; Erna Szabo, Felix C. Brodbeck et al., op. cit., p. 63.

<sup>13</sup> Geert Hofstede, op. cit., pp. 91-95.

<sup>14</sup> Robert D. Putnam, Robert Leonardi, Raffaella Nanetti: *Making democracy work: Civic traditions in modern Italy*, Princeton 1993, pp. 152-176; Ronald Inglehart: *Modernization and postmodernization ...*, op. cit., pp. 224-228.

lems of distrust between the family of the founder and professional managers.<sup>15</sup>

### Authoritarianism

A high respect for authority can be observed in Turkish society. This begins with the respect for the father and the eldest brother which is taught in the families. In order to evaluate the strength of authoritarianism in Turkey we can refer to Hofstede's cultural dimension of "power distance". With regard to Hofstede's power distance index Turkey reached a value of 66 points and rank 20 out of 53 countries and regions. This implies that in the late 1960s there was a fairly high acceptance of unequal distribution of power in Turkey. Some European countries like France (68 points) or Belgium (65 points) produced similar results while other countries like Denmark (18 points) or Austria (11 points) show a very low acceptance of power differences.<sup>16</sup> These results are confirmed by the GLOBE study. The respondents perceived the "power distance" in Turkish society as high in absolute and relative terms (average value 5.57 within a scale from 1 to 7; rank 10 out of 61). But there are countries and regions in the European context with similar high average values of "power distance", like Hungary (5.56), Eastern Germany (5.54), Portugal (5.44), Italy (5.43), and Greece (5.4).<sup>17</sup> Both authoritarianism and in-group collectivism encourage the development of vertical networks and patron-client relationships. As mentioned above it is likely that these vertical networks have a negative impact on economic development.

### Etatism

Etatism, being one of the Kemalist principles, has influenced Turkish economic policy over decades. Collectivist attitudes and respect for authority are reflected in the acceptance of the state's regulating the economy. 42% of the Turkish respondents in the World Values Survey in 1990 thought that government ownership of business and industry should be increased. This shows that even ten years after turning towards an export-oriented economic policy etatist values

were still strong among Turks. But these values have eroded over time as a result of the liberalisation and privatisation policy. In 2001 only 33% of the respondents voted for more government ownership, which is lower than in Poland (38%) or Spain (34%).<sup>18</sup> Stronger acceptance of private property goes hand in hand with a higher acceptance of competition. While in 1990 58% of the respondents approved competition, this percentage increased in 2001 to 65%, a percentage substantially higher than in a lot of EU countries, e.g. Spain (52%), the Netherlands (50%), Portugal (49%), Belgium (48%) and France (46%).<sup>19</sup> The major private enterprises gain advantage from this change of attitudes towards private property and competition. While in 1990 only 29% of the respondents had confidence in major companies, in 2001 this percentage reached 51%, which is higher than in most of the European countries studied.<sup>20</sup> These results show that some etatist values are still strong in Turkey and that this might provide a lure for politicians to give an etatist answer to the economic and social problems of the country. But they also prove that a value change towards more acceptance of private property and competition is on its way and that Turkey's etatist values today are no stronger than in some other European countries.

### Uncertainty Avoidance

Uncertainty avoidance is a value dimension which influences the business culture in a country. It refers to anxiety regarding unknown situations, whereas risk aversion deals with predictable risks. For Hofstede's uncertainty avoidance index Turkey attained 85 points and together with South Korea rank 16/17 out of 53 countries and regions. This implies rather strong uncertainty avoidance among the respondents. Among European countries the whole spectrum of uncertainty avoidance can be observed, from Greece (112 points, rank 1) and Portugal (104 points, rank 2) to Sweden (29 points, rank 49/50) and Denmark (23 points, rank 51).<sup>21</sup> In the GLOBE study the Turkish respondents perceived the uncertainty avoidance in their society as relatively low (average value 3.63 within a scale from 1 to 7; rank 49 out of 61). While some Southern European and Eastern European countries produced similar average values, like in Italy (3.79), Poland (3.62), Greece (3.39), and Hungary (3.12), they were higher in

<sup>15</sup> Asker Kartari: *Deutsch-türkische Kommunikation am Arbeitsplatz. Ein Beitrag zur interkulturellen Kommunikation zwischen türkischen Mitarbeitern und deutschen Vorgesetzten in einem deutschen Industriebetrieb*, Munich 1995, pp. 14-16 and 117-135; Ayşe Buğra: *State and business in modern Turkey: a comparative study*, Albany, N.Y. 1994, p. 175; Jochen Böhm: *Zwischen Exportboom und Re-Islamisierung: Stabilisierungs- und Strukturanpassungspolitik in der Türkei*, Berlin 1989, p. 183 f.

<sup>16</sup> Geert Hofstede, *op. cit.*, pp. 38-42.

<sup>17</sup> Hayat Kabasakal, Muzaffer Bodur: *Arabic cluster: a bridge between East and West*, *op. cit.*, p. 47; Jorge Correia Jesuino, *op. cit.*, p. 86; Bakacs Gyula, Sandor Takacs et al., *op. cit.*, p. 76; Erna Szabo, Felix C. Brodbeck et al., *op. cit.*, p. 63.

<sup>18</sup> Ronald Inglehart et al. (eds.): *Human beliefs and values ...*, *op. cit.*, table E036.

<sup>19</sup> Ronald Inglehart et al. (eds.): *Human beliefs and values ...*, *op. cit.*, table E039A.

<sup>20</sup> Ronald Inglehart et al. (eds.): *Human beliefs and values ...*, *op. cit.*, table E081.

<sup>21</sup> Geert Hofstede, *op. cit.*, pp. 131-137.

France (4.43), England (4.65), and Western Germany (5.22). In the time between the two studies the Turkish population may have developed lower uncertainty avoidance in response to the political and economic instability of the period.<sup>22</sup> This instability could also have increased the risk aversion of the Turkish population. While in the World Values Survey of 1990 41% of the respondents preferred a risk aversive attitude, in 1996 it had been 61%.<sup>23</sup> In spite of this risk aversive attitude many Turks are in favour of new ideas. In 1990 44% of the respondents preferred new ideas and 36% old and tested ideas. In 1996 40% were in favour of new ideas and 42% in favour of the old ones, which also might be a reaction to the instability of the nineties.<sup>24</sup> The Turkish respondents were more polarised about this issue, but in comparison to other countries Turkey had more supporters of new ideas. In this paradox situation a lot of Turks seem to be receptive to new ideas but are afraid of taking risks. It is probable that a more stable economic and political environment would reduce the risk aversion among the population and thereby encourage the implementation of new and innovative ideas.

#### Future Orientation

Hard work, thrift and long-term planning are hardly conceivable without a future oriented attitude. Thus, it can be assumed that there is a positive relation between future orientation and economic growth. In the GLOBE study future orientation has been defined as the "... extent to which society values and practices planning and investment, as opposed to focusing on current problems and the present."<sup>25</sup> For future orientation as perceived by the respondents in their society Turkey reached an average value of 3.74 (and rank 36 out of 61), which is a little bit lower than the average of all countries (3.85). This fits well into the range of European countries, where there are countries and regions like the Netherlands (4.61), Western Germany (4.22) and England (4.28) with stronger future orientation and countries like Spain (3.51), France (3.48), Greece

(3.4), Italy (3.25), Hungary (3.21) and Poland (3.11) with weaker future orientation.<sup>26</sup>

#### Religiousness

According to Inglehart's achievement motivation index religious faith has a negative impact on achievement motivation and thereby on economic growth. This assumption has to be examined in more detail. The influence of religion on economic development also depends on the content and form of religious faith. Weber's Protestantism thesis might be cited as an outstanding example of a positive relation between them. In Turkey religious faith mainly refers to the different forms of Islam. In the World Value Survey 81% of the Turkish respondents in the year 2001 answered that religion is very important in their life and 40% said that they attend religious services once a month or more.<sup>27</sup> In a survey among Turkish youth 90% of the respondents called themselves religious, but only 20% mentioned religion and faith among the three most important values in their life. Thus, Islam dominates only the lives of a minority of young Turks.<sup>28</sup>

Islamic values have an impact on economic behaviour. In a survey in Izmir, one of the modern, western cities of Turkey, 57.2 % of the respondents had more trust in a religious than in a non-religious businessman and 49.5% would prefer to buy products from a religious merchant. Only 3.1% showed a preference for a non-religious merchant. 52.8% thought that the state should prohibit alcohol and gambling. Only 10.6% considered interest as a legitimate source of income.<sup>29</sup> These results show that many Turks are still aware of the Islamic rules and prohibitions. But what effect has this religious faith on economic development?

It is assumed that religious faith has a negative impact when it fosters a fatalistic attitude towards life and discourages social mobility. Fatalism is not a general characteristic of Turkish Islam, but nevertheless in the World Value Survey of 1990 half of the respondents showed a more or less fatalistic attitude.<sup>30</sup> But proponents of an Islamic economy try to spread an interpretation of Islam which rejects fatalistic attitudes

<sup>22</sup> Hayat Kabasakal, Muzaffer Bodur: Leadership and Culture in Turkey: A Multi-Faceted Phenomenon, op. cit.; Hayat Kabasakal, Muzaffer Bodur: Arabic cluster: a bridge between East and West, op. cit., p. 47; Neal M. Ashkanasy et al., op. cit., p. 34; Jorge Correia Jesuino, op. cit., p. 86; Bakacsi Gyula, Sandor Takacs et al., op. cit., p. 76; Erna Szabo, Felix C. Brodbeck et al., op. cit., p. 63.

<sup>23</sup> Üstün Ergüder, Yılmaz Esmer, Ersin Kalaycıoğlu: Türk Toplumunun Değerleri, TÜSIAD, İstanbul 1991, p. 42; Yılmaz Esmer: Devrim, Evrim, Statüko: Türkiye'de Sosyal, Siyasal, Ekonomik Değerler, İstanbul 1999, pp. 112-115.

<sup>24</sup> Üstün Ergüder, Yılmaz Esmer, Ersin Kalaycıoğlu, op. cit., pp. 41 f.; Yılmaz Esmer, op. cit., pp. 114 f.

<sup>25</sup> Hayat Kabasakal, Muzaffer Bodur: Leadership and Culture in Turkey ..., op. cit.

<sup>26</sup> Hayat Kabasakal, Muzaffer Bodur: Arabic cluster: a bridge between East and West, op. cit., p. 47; Neal M. Ashkanasy et al., op. cit., p. 34; Jorge Correia Jesuino, op. cit., p. 86; Bakacsi Gyula, Sandor Takacs et al., op. cit., p. 76; Erna Szabo, Felix C. Brodbeck et al., op. cit., p. 63.

<sup>27</sup> Ronald Inglehart et al. (eds.): Human beliefs and values ..., tables A006 and F028.

<sup>28</sup> Wulf Schönbohm: Türkische Jugend 98 – realistisch und idealistisch, in: Zeitschrift für Türkeistudien, Vol. 12, No. 1, 1999, pp. 31-50, here pp. 37 f. and 42.

<sup>29</sup> Emin Köktaş: Türkiye'de Dinî Hayat. İzmir Örneği, İstanbul 1993, pp. 194-206.

<sup>30</sup> Üstün Ergüder, Yılmaz Esmer, Ersin Kalaycıoğlu, op. cit, pp. 15 ff. and 35 ff.

and encourages hard work and economic activity. For this view the prophet Muhammad, who had worked as a merchant, and the market of Medina are taken as examples.<sup>31</sup> Even if it might be questioned how strong these positive incentives are in real life, this kind of interpretation shows how religious businessmen and scientists try to reinterpret Islam according to the necessities of modern life.

Most widespread among firm believers is a ritual and legalist interpretation of Islam. In this view everything which is not forbidden by Islamic law is allowed. If a believer observes the few rules relevant for business life – for example the prohibition of interest and the paying of the alms tax (*zekât*) – he can accumulate and enjoy potentially unlimited wealth.<sup>32</sup> One can conclude that this legalist interpretation of Islam is no impediment to economic success, but it also does not provide an additional incentive.

Furthermore, it has to be considered that conservative Islamic businessmen who put stress on harmonic, but patriarchal, relations between employer and employee reproduce the collectivist values in Turkish society, which might be seen as a negative factor. But religious faith also encourages people to participate in charitable organisations and build up horizontal networks which transcend their families and narrow in-groups.<sup>33</sup> The positive effects of this social capital might offset the negative effects mentioned before.

### Summary

The results presented above have shown that cultural factors influence the economy in various ways. In this article the landscape of values in Turkey could only be sketched. A detailed study of the values of the different confessions, ethnic groups and social strata is beyond its scope. But the data presented are a useful first step to analyse the impact of cultural factors at the national level and to compare the economic culture of different countries.

It is very probable that achievement motivation and a strong future orientation have a positive influence on economic growth. Furthermore, the acceptance of risk, private property, competition and innovations are essential values for a market economy. The influence of other cultural factors like collectivism, authoritarianism and uncertainty avoidance on economic growth needs

further discussion, but they have at least an impact on the communication style and management style, the structure of business enterprises and therefore on the economic structure of a country.

Comparing the economic culture of Turkey and of the EU countries it has first to be mentioned that the EU already embraces countries with a wide spectrum of different values and that Turkey might fit into this spectrum. Only the group and family collectivism is somewhat stronger than in all other EU countries. But it would be hard to deduce from this point that Turkey will experience a worse economic development than other EU countries which possess a weaker group and family collectivism, as Turkey has a stronger future orientation than some of these countries. The strong religiosity which refers to Islam is a difference between Turkey and the EU countries. But it is a difference which does not present an impediment to economic development.

From the point of view of economic culture Turkey differs from the countries of Western and Northern Europe, but it is similar to the economic cultures in Southern and Eastern Europe. Thus, this important part of culture cannot be conceived as an impediment to a further integration of Turkey into the EU. From this perspective the chances for successful integration are similar to those of the Southern and Eastern European countries.

Furthermore, the results presented show that Turkey's economic culture will change in the medium or long run. Even if this change cannot be politically planned or determined, economic policy and the reform of formal institutions has in the long run an impact on the values within the population. The relatively strong trust of the Turkish population in the state could be explained as a product of the statist policy which dominated Turkey for decades. But the export-oriented policy since 1980 has also left its marks. The acceptance of private property, competition and private business enterprises has grown during the 1990s. That the Turks have become more risk averse in that decade might be the result of the economic and political instability of this period. It is therefore probable that a credible prospect of EU membership which stabilises the economic and political development and accelerates the institutional reforms in Turkey could also have a positive impact on Turkish economic culture, for example strengthening the achievement motivation, future orientation, the acceptance of risks, private property and competition, and weakening authoritarianism and group and family collectivism.

<sup>31</sup> Ayşe Buğra: *Class, Culture and State: An Analysis of Interest Representation by two Turkish Business Associations*, Istanbul 1997, pp. 17-26.

<sup>32</sup> Yael Navaro-Yashin: *Entrapped Between Categories: "East", "West" and the Practices of Consumption of Turkish Islamists*, in: *Sociologus*, Vol. 48, No. 1, 1998, pp. 1-16.

<sup>33</sup> Ayşe Buğra, *op. cit.*, pp. 23-28; Yael Navaro-Yashin, *op. cit.*, p. 10.