Reconciling Culture and Tradition in Market Economies[1]

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Abstract

This paper examines the relationship between culture and market economies amidst the challenges posed by globalisation. The paper makes reference to Pacific island societies, drawing upon the similarities, tensions and potential contradictions between development and culture. In the Pacific Island societies like Fiji, where a large segment of the population is rural and tradition based, increasing the role of traditional authorities in governmental structures in rural areas may well be necessary for achieving improved government performance, despite the fact that traditional authority structures may not meet expectations of non-discriminatory community participation in political decisions.

Introduction

The Pacific Island economies have always had their share of problems relative to their global counterparts. Since independence in late 1960s to the 1980s, economic performances have been poor and fell below the expectations of newly independent economies. There was significant protection and government intervention in the operation of the market, justified initially from the perspective that government was the provider of public goods and later, to deal with market imperfections such as absence of competitive markets, externalities and information asymmetries.

By the 1980's, with the insistence, guidance and support from the

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International Monetary Fund (IMF) and the World Bank, the Pacific Island countries started to embrace open market policies based on what some term as the 'new Washington consensus'. The IMF seeks to summarize the state of play at both regional and global level by arguing that:

> A key lesson seems to be that the pressures of globalization, especially in the past decade or so, have served to accentuate the benefits of good policies and the costs of bad policies. Countries that align themselves with the forces of globalization and embrace the reforms needed to do so, liberalizing markets and pursuing disciplined macroeconomic policies, are likely to put themselves on a path of convergence with the advanced economies, following the successful Asian newly industrialized economies. These countries may expect to benefit from trade, gain global market share, and be increasingly rewarded with larger private capital flows. Countries that do not adopt such polices are likely to face declining shares of world trade and private capital flows, and to find themselves behind relative terms (IMF, 1997: 72).

Despite most of the countries adopting the broader approach of the Washington consensus in other parts of the globe, Pacific island countries (PICs) were reluctant to embrace reforms and liberalization of their economies and so, critics argued, remained depressed in their growth performance. Over time, much has been written on this slow approach towards reform by PICs. In a recent study, Duncan and Nakagawa (2006: 23) argued that there are certain common binding and limiting constraints to growth that is prevalent in the Pacific Island countries. They identify these as:

(a) Inadequate returns to investment, due to geographical factors that raise the cost of investment, poor human capital, poor infrastructure and high cost of essential services, high costs of labour market interventions, and high business risks;

(b) Poor private appropriability as a result of government failure in several of its core businesses. For example, inability to secure property rights, poor contract enforcement, prevalence of corruption, inefficient tax structures with an expected high expropriation risk; macro-economic risks such as unsustainable fiscal and current account deficits, unsustainable public debt, unsustainable monetary policy and political instability or sovereignty risk. In additions, several aspects of market failure (large externalities, coordination failure, too little technology adoption or 'self discovery', and weak public incentives for entrepreneurship) were prevalent.

(c) High cost of finances due to high costs of access to domestic finance (low domestic savings, poor availability of collateral, controls over bank lending, risk of banking crisis), and high cost of access to international finance (high country risk, restrictions on foreign investment, regulations on the capital account).

A close perusal of these binding constraints indicates that all of these are common in several of the PICs, although the magnitude of these may differ for different countries.

This paper proposes that the constraints listed alone do not constitute the totality of the binding constraints and as such, are not sufficient to explain the variation in the growth rates between the PICs over the last three decades. The continuing traditionalism poses one of the most significant binding constraints in Fiji and the Pacific Island countries.

Neo Classical economics proposes that an economy left to the market with minimum intervention will allocate resources efficiently and generate growth. The neoclassical theory of growth assumes that markets are working perfectly and that economies are functioning in line with their comparative advantage (Solow, 1956; Swan, 1956). Therefore, the theory essentially assumes that all the appropriate institutions for markets to function efficiently are in place and that there are no price distortions and there is no resource misallocation. Thus, the theory assumes away the need to ensure that an appropriate set of institutions is in place and that these institutions are operating as they should.

Social scientists and institutional economists, however, argue that in reality societies do not function as neatly as advocated by the theory. This is particularly true for developing countries and agrarian communities where social capital, trust, culture and ethnic diversity play a very important role in decision making. Social theorists argue that New Classical economists ignore these factors and their role in ensuring that the basic factors of production mentioned in the neo-classical model are able to work together to ensure growth. The resilience of traditional small island economies in sustaining a growing population despite a number of constraints lends validity to this proposition.

Sociologists and political scientists have also tried to explain the differences in growth rates between countries with similar economic policies and resource endowments. There have been arguments put forward that the performance of economies can be better explained by taking into account local differences in culture, institutions, resource endowment and

state of governance.

While an economist has often left researching the topic of culture to sociologists, anthropologists and geographers, recently, in search of the ultimate cause, an obvious role has been suggested for culture and tradition, including religion, in explaining the growth differential amongst countries.

This paper examines the relationship between culture and the market economies amidst the challenges the Fijian and the Pacific societies face as members of the global community. In doing so, we call for further attention to the similarities, tensions and potential contradictions between economies and culture. The second point is particularly directed at those who consider themselves with cultural issues and matters and are apt to dismiss or criticize economics too readily. The latter raises questions about the relationship of the 'parts of a society' to each other and to the whole, contingent upon the different assumptions that are made about individual character or personality.

Culture and the Economy: A Theoretical Framework

Culture has been described as an elusive concept that is 'a fuzzy, difficult-to-define construct' (Triandis, et. al., 1986). It is said to be the collective programming of the mind that distinguishes the members of one category of people from those of another (Hofsteds and Bond, 1988). Ralston, et. al (1993) state that culture could be viewed as those beliefs and values that are widely shared in a specific society at a particular point in time. Harris (1979), and Ronen and Shenkar (1985) argue that religion, proximity, history and education are factors that have been identified as important in defining a culture.

There is hardly any aspect of a society's life that is not affected by culture and religion. Culture is important to human life as any other factor. Since economies are (or should be) about human life, it would seem logical that culture ought to be a topic to which economists ought to devote attention; indeed, culture should be one of the factors, like markets, resources, and technology, that relate to human life. In reality, there are local and traditional peculiarities of dress, diet and social habits, plus pronouncements concerning faith and values, which taken all together may be supposed to amount to a category of behaviour, which taken together may comprise culture, and which is powerful enough to influence economic behaviour or even to control it. As Scott (1997:323) points out:

> …capitalism itself is moving into a phase in which the cultural forms and meanings of its outputs become critical if not domi-

nating elements of productive strategy and in which the realm of human culture as a whole is increasingly subject to commodification, i.e. supplied through profit-making institutions in decentralized markets. In other words, an ever-widening range of economic activity is concerned with producing and marketing goods and services that are infused in one way or another with broadly aesthetic or semiotic attributes.

Adam Smith, the father of economics best known for his discussion of self interest, supply and demand and above all, the invisible hand[2], also referred to music as a part of the indicators of happiness. In *Of the Nature of that Imitation which Takes Place in What are called the Imitative Arts*, for example, Smith discusses painting tapestry, needlework, music, dancing, singing and poetry. Commenting on 'musical imitation', he wrote:

> What Plato said of Virtue, that it was of all beauties the brightest, may with some sort of truth be said of the proper and natural objects of musical imitation. They are either the sentiments and passions, in the exercise of which consist both the glory and the happiness of human life, or they are those from which it derives its most delicious pleasures and most enliving joys; or, at the worst and the lowest, they are those by which it calls upon our indulgence and compassionate assistance to its unavoidable weakness, its distresses and its misfortunes(1982:176-213).

It was Max Weber (1905), however, who was the first to identify the significant role religion and culture play in social change. He went as far as to state that the Protestant Reformation triggered a mental revolution that made possible the advent of modern capitalism.

Almost a century after Weber's seminal work, the importance of religion, culture and tradition in a country's growth and development have re-surfaced with considerable seriousness. While scholars have had great difficulty in finding a direct causality between religion and culture to economic growth, they have related it to issues of social capital and institutions which in turn affect growth. Putnam (1993), in his study of development across Italy, for instance, attributes the prevailing lack of trust toward others in the South to the strong Catholic tradition which emphasizes the vertical bond with the Church and tends to undermine the horizontal bond with fellow citizens. In cross country studies, both La Porta et al. (1997) and Inglehart (1999) found some evidence for this theory. On a similar note, Landes (1998) attributed the failure of Spain to develop in the 16th and 17th Centuries to the culture of intolerance diffused by the Catholic Church, which forced some of the most skilful people out of the country. Stulz and Williamson (2001) attributed the low level of creditors protection present in Catholic countries to the anti-usury culture pervasive in the Catholic tradition.

[2] The 'invisible hand' is the process by which there is convergence in the market between buyers and sellers.

A long tradition of microeconomic research on economic activity in poor countries where formal rules are weak and poorly enforced, has lately received a strong re-emphasis under the terms 'social capital', trust and networks. A number of research indicates that even where informal economic activity is extensive, informal institutions may achieve only limited contract and property rights. Without formal institutions, transformation costs and transaction costs of exchange are significantly raised (e.g. Fafchamps, 1996; Fafchamps and Minten, 2001).

Culture and Economy: Some Opportunities

Cultural Capital: A Basis for Networking and Sourcing of Resources

Individuals in a society are embedded in complex networks of affiliations and loyalties. Individuals are members of nuclear and extended families; they belong to religious and linguistic grouping; they have ethnic and racial identities, and they are attached to particular localities. These affiliations may provide priorities which may not be explained in simple economic terms. Each individual is socially situated, and ones location within the network of social affiliations substantially affects one's access to various resources. Opportunity travels along these social networks. The networks also serve as fall back option for resource accessibility and policy advantages.

Cultural Networks and Trust: a Basis for Exchange

There is a plethora of research providing an exposition into how cultural and religious networks enable exchange to take place. Networks have common rules, norms and sanctions that are either mutually agreed or handed down, that place group interests above those of individuals. Trust in these networks or in the society, even between people who do not know each other, ensures that most contracts—which is an essential element of all market transactions—will be honoured. Otherwise, either far fewer contracts would be entered into, or the courts will be filled with contractual disputes. Therefore, for transactions to take place, there must be trust, and this can be possible if social capital is nurtured via cultural and religious groupings. It reduces the transaction costs between people and so liberates resources. Conversely, if economies are to develop as market-based economies, there must be widespread trust developed. Pacific societies, including the Fiji society, are known to have a relatively higher level of trust within the in-group, as against the out-group.

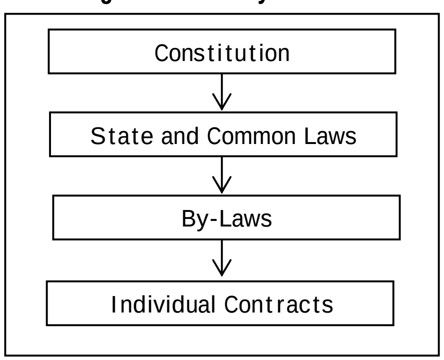
Culture, Networks and Social Protection

In the absence of the state and of formal rules, a dense social network leads to the development of fairly stable informal structures and informal groups based on belief structures. Belief structures are ideas, ideologies, myths, dogmas and prejudices that form the basis of a society. In turn, belief structures — 'the cumulative experience of past generations that is embodied in culture' (Duncan, 2008) — are transformed into the institutions of society. These informal institutions not only provide for organizing activities, but also are important as insurance protection and in law enforcement.

Culture, Weak Institutions and State of Order during Conflicts

Formalization of rules is required given that with economic development, economic exchange will take place. Formal rules include political and judicial rules, as well as economic rules such as contracts. There is a hierarchy of such rules. Usually the higher the rules lie in the hierarchy, the more costly they are to alter. Figure 1 shows the hierarchy.

Figure 1: Hierarchy of Rules



Conflicts tend to challenge these rules; serious conflicts may even destroy some of them. The larger the nature of the conflict, the greater the possibility of destruction of the rules higher in the hierarchy. During conflicts, and during periods when rules are destroyed, what tends to remain are informal institutions, rules and networks, all based on particular cultural or cross-cultural foundations. These are referred to as 'weak' institutions, where formal hierarchical rules are absent and informal rules guide exchange thus providing sub-optimal solutions. In the absence of these informal rule based cultural and other groupings, chaos and societal disorder can emerge.

Cultural Community Failure

We have often examined issues of market failures (for example, due to externalities) or government failures (for example, due to bad governance). However, like markets and governments, communities and cultural groupings also fail to address key issues that these are supposed to address.

Size, Homogeneity and Diseconomies of Scale

The personal and durable contacts that characterize communities require them to be of relatively small scale. A preference for dealing with fellow members often limits their capacity to exploit gains from trade on a wider basis. Moreover, the tendency for community dealings to be relatively homogenous, may make it impossible to reap the benefits of economic diversity associated with strong complementarities among differing skills and other inputs. Similarly, co-operation in the local business networks along with their associated local governments, allow otherwise small firms to benefit from economies of scale in marketing, research and training, allowing their survival in competition with corporate giants. But compared to bureaucracies and markets which specialize in dealing with strangers, the limited scope of communities, which deal with insiders, often imposes inescapable costs.

Culture and Path Dependence

A very relevant point of North's (1990) argument is that the beliefs and institutions of a society will not necessarily evolve to provide a basis for economic growth. North argues that

> most societies throughout history got "stuck" in an institutional matrix that did not evolve into the impersonal exchange essential to capturing the productivity gains that came from the specialization and division of labour that have produced the Wealth of Nations (1990: 46).

It can be further argued that culture may be the key to 'path dependence' in institutional development, i.e., the influence of the past upon the present and future. While institutions may be changed relatively easily, the informal norms and other enforcement mechanisms that should underpin them may change only gradually. Societies that adopt the formal rules of another could have very different outcomes because of differences in belief systems, informal norms, and enforcement mechanisms. North's emphasis on the importance of beliefs, informal norms, and other enforcement mechanisms can be seen as similar to Putnam's (1993) socio-cultural factors, or 'norms and networks of civic engagement', in explaining differences in government performance in a situation where the basic institutions are similar.

Cultural Orientation and Economic Ideology

Market economies based on surplus creation requires individual oriented culture. However, Fiji and Pacific Island communities' cultural orientation and ideology are quite mixed.

Figure 2 provides the 4 possible combinations of economic ideology and cultural orientation. For market economies to function the best, it requires individual oriented culture as well as individual oriented ideology. This is only possible if the population falls in cell C1.

However, there are three other cells which are not pro-market economy. In fact, most of the PIC societies falls in quadrant C2 and C4. Those falling in these two cells find it difficult to create surplus because of the prevalence of communal interest rather than individual interest. C3 does not apply to PIC economies.

The policy implication of this is that if the objective were to establish market oriented growth and development outcomes, then the major challenge for PICs societies would be to move from C2 and C4, to C1. Policies ought to be directed towards this transition.

Figure 2: Economic Ideology and Cultural Orientation

	Individual Culture	Communal Culture
Capitalism	**C1** Individual Oriented Culture Individual-oriented ideology	**C2** Communal Culture Individual oriented ideology
Socialism	**C3** Individual oriented culture Group oriented ideology	**C4** Communal Culture Group oriented ideology

Multinational Firms and Divergent Culture

The convergence or divergence of work values has caused an important debate during the past several decades as Multinational Corporations (MNCs) have struggled to understand the diverse value systems of their multi operations; the issue revolves around whether the cross-societal values of their workforces are becoming more alike or less (Abegglen 1957; Cole 1973; Dunphy, 1987; England & Lee (1974; Kelley & Reeser 1973; Kelley, Whatley & Worthley 1987; Negandhi 1975; Pascale and Maguire 1980; Ralstong, Gustafson, Cheung & Terpstra 1993; Ricks, Toyne & Martinex 1990; Webber 1969).

MNCs are trying to become global organizations in the sense of having a seamless or borderless approach to organization. In essence, being a global organization implies having a universal corporate culture. Since corporate culture grows out of the values held by organizational members, especially the influential members of the organization, a universal corporate culture is one where all members of the organization-regardless of where in the world these individuals grew up or now work, have similar views and beliefs that guide their behaviour when in the world transacting business with members from other societies, as well as with members from their own society (Boeker, 1989; Chatman and Jehn, 1994). Therefore, for companies who wish to expand their activities and presence, the issue of whether work values and ethics borne out of a particular culture and tradition are divergent or convergent, becomes an important one. If it is divergent, then one of the major challenges of the multinational is in ways of converging the divergent values into a single universal corporate culture. MNCs attempting to set up in the PICs are often confronted with this dilemma. In some cases, they find this divergent culture a major cost item and cause of possible closure of their operations.

Weak Institutions, Conflicts and Discriminatory Resource Allocation

In small developing countries like Fiji which tend to have conflicts, formal institutions tend to be weak. Economic activity can be concentrated in the hands of select cultural or ethnic groupings with limited inter-cultural or inter-ethnic exchange between them. Ethnic tension of an institutional kind may also arise where there are few safeguards for minorities, and where the judiciary or the state is seen to favour one group over another in allocating resources. In some instances, the source of conflict may not be the paucity of formal institutions, but the effect of a number of ethnically-biased institutions in distributing resources only to particular cultural groupings.

When culture and tradition becomes the established way of doing things or the basis of resource allocation, they may produce potential benefit, advantage and preferential treatment for persons or groups of persons within the network. Furthermore, it could be the salient basis of discrimination and favouritism. Most individuals seek membership in a group of familiar associates and feel isolated without it. But the baggage of belonging often includes poor treatment of those who do not.

The problem is exacerbated by group homogeneity. When insider-outsider distinctions are made on divisive and morally repugnant bases such as race, religion, nationality or sex, community governance may contribute more to fostering parochial narrow-mindedness and ethnic hostility than to addressing the failures of markets and states. This downside of community becomes particularly troubling when insiders are wealthy and powerful and outsiders are exploited as a result.

Culture of Silence and Governance Issues

The strong traditional chiefly system prevalent particularly in Melanesian societies also poses a threat to issues of governance. This system, prevalent in most PICs, establishes an unwritten culture of silence which prevents most people from questioning the chiefs or leaders even if the latter are wrong. This prevalent culture poses a serious threat in the public sector as there have been numerous cases of bad governance, only to be picked up by the Auditor General, by when the matter becomes stale..

Communal Culture and Big Governments

The communal culture of the PICs is comfortable with the extent and form of government involvement in the economy that the ‘big government, import-substitution’ development paradigm involves. This belief system is reinforced by the existing education systems and the monopoly positions established within the economies. The traditional authority structure of the PICs remains important, with village or clan chiefs or *big men* playing a major role in the governance of the people. Often, there is considerable tension between the national governments established following independence and the then existing traditional authorities. These tensions create loyalty conflicts within the minds of the people. The traditional authority structures are less participatory than what is seen as desirable in a market economy. However, there is an acceptance of the authoritarian nature of the traditional governance structures and this acceptance appears to fit comfortably with acceptance of the predominant role of central governments in economic life.

The acceptance of the ‘big government’ paradigm of development is promoted by education systems within the region. Open markets and movement away from the communal system are seen as undesirable by social scientists who rail against the imperialist behaviour of the advanced economies and the perceived disadvantages that the PICs will suffer as the result of globalization.

The communal system, with its strong clan loyalties, does present difficulties for the establishment of a market economy because markets depend heavily upon transactions between parties that do not know each other, or where transactions are not affected by the personal knowledge of one another. The close clan ties on the one hand and the long-standing distrust of other groups on the other hand, mean that there is little of the kind of trust (social capital) that is needed in a market economy.

As North (1990) argued, established monopoly positions support the existing belief system and inhibit learning about different belief systems. Many of those who have become well off in the PICs have largely acquired their wealth due to government-created monopoly positions through, for example, restricting trade and investment, or from privileged positions in parastatal organizations. Therefore, in the Pacific there is a virtual absence of vested interests in open markets. As most of the relatively small private sectors have been established behind trade barriers, existing private sector interests are generally antagonistic towards opening the economy to trade and investment as this would mean increased competition for them. The frequent too-close relationships between the private sector interests and politicians in these small economies increase the difficulty of achieving micro-economic reform.

Culture in Ethnically Divided Societies

How does the issue of trust factor in the development process in an ethnically divided society like Fiji? Ethnic diversity can have a detrimental effect on economic growth particularly when ethnic groups stick together along ethnic and cultural lines. This is because in ethnically diverse societies, it will be difficult and costly to reach co-operative solutions. In political economy literature, this is termed as dysfunctional politics. Furthermore, in these societies, powerful individuals or groups manipulate and subvert ethnic loyalties for resource grabs, thus promoting their own interests rather then their ethnic group's interest. This distorts resource allocation. State resources get allocated along ethnic or cultural/religious lines rather than on merit, thus keeping growth below its maximum potential. Such allocations also affect growth negatively because discontented people tend to hold on from full investment.

Summary and Conclusion

This paper has proposed that, logically, their seems to exist a robust correlation between a country's culture and economic growth. Economic growth founded on the market mechanism rests on the foundation of an individualistic culture. In such a situation, culture supports economic growth. A culture that encourages group ideology, however, would affect growth based on market economies negatively. At the national level, governments must examine the possibility of developing cultural economic policies with the view of exploiting cultural resources for economic development, while at the same time, removing any distortion culture may have on government's development agenda.

The role of traditional authorities in governmental structures is something that has to receive substantial consideration. As noted above, traditional structures with their usually heavy emphasis on respect for traditional authority, do not necessarily reflect the kind of community participation in government that is suggested by most definitions of good governance. However, increasingly there is healthy questioning of the deference expected for traditional leaders' decisions, as well as of the manner in which elected political leaders hide behind 'tradition' in response to criticisms of their actions.

In Melanesian countries, where large majorities are rural dwellers,

increasing the role of traditional authorities in governmental structures in rural areas may well be necessary for achieving improved government performance, despite the fact that traditional authority structures may not meet expectations of non-discriminatory community participation in political decisions.

The highly interventionist role of national governments appears to sit comfortably with the authoritarian nature of traditional village governance structures. This belief system is reinforced by the education systems in the Pacific, wherein social sciences stress on exploitation of the countries by the developed countries and argue against open markets and for retention of the communal village system. These tendencies are supported by the fact that most of those who have become wealthy have not done so through trade in open markets but through the benefits of monopoly positions. The provision of government assistance to domestic industries in the form of import restrictions or subsidies creates vested interests that strongly resist trade and investment liberalization. Moreover, the tendency for close relationships between businesses and politicians in these small countries enforces the power of these vested interests.

Changing the institutional status in these situations will clearly take considerable time and involve considerable research, education, and discussion in order to establish the necessary domestic ownership of change. It has to be done from within.

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