

# Economics and Culture: Is the Context Considered?\*

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## Abstract

This paper reviews the recent literature on economics and culture to investigate whether and how it considers the context. It first describes how culture reentered the economic literature from 1990s onwards. It then presents empirical studies on the relation between culture, institutions and economic performance. Thereafter, the role of culture for economic change as well as the historical roots of cultural differences are investigated. Finally, the question whether these approaches are contextual is answered, and recommendations are made for enhancing a cultural / contextual view on economics when appropriate.

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## 1. Introduction

In the period after the Second World War, economics as a science became very formal (see Weintraub 2002, for an extensive description). Mathematical models became increasingly important and scholars wanted to find universally valid behavioral laws. Since the end of the 1970s, criticisms about this way of approaching economics arose. A reason for this criticism is that the theories did not deliver what was expected or hoped. One had expected to be able to find a unique equilibrium in general equilibrium models. However, that appeared to be impossible. In addition, some models need far-reaching and unrealistic assumptions in order to find a solution. Rational expectations models, for example, only have a solution if one assumes that

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the agents know the model's parameters and foresee all future paths. They then select the only stable path from the set of all possible future paths. The gap between economic models and reality also came to the fore in so-called biases: the home bias of trade, the home bias of portfolio investments, and others (see Obstfeld and Rogoff 2000).

This unease with these models triggered an interest in alternative explanations. First, a renewed interest in behavioral economics arose. The 1950s had witnessed behavioral economics as an alternative for mainstream economics. It wanted to find general rules by observing actual behavior instead of mathematical models. The new behavioral economics, initiated by Kahneman and Tversky, presented itself as way of solving the puzzles resulting from the dominating views in economics. Probably that is a reason why it was accepted more easily than the old behavioral school.

Triggers for reversing the course of economics also came from outside of economics. Important events were the rise of the Asian Tigers in the 1990s and the fall of the Iron Curtain in 1989. The latter event drew attention to the importance of institutions for economic development. Both events illustrated the possible importance of people's attitude and values for economic performance. The success of the Asian Tigers was ascribed by many to Asian values, such as hard work and being thrifty (World Bank 1993). Whether the transition from a centrally planned economy to a market economy would be successful was thought by some to depend on implementing the right formal institutions (see the contribution in Blanchard *et al.* 1994), written laws, etc., but others (Murrell 1995) considered people's attitude as crucial. The latter strand of literature expected that it would be hard for people who had lived under a regime that determined their lives from the cradle to the grave to deal with the freedom and responsibilities associated with a market economy (Pejovich 2003). People's attitudes and values went under the heading of culture, so that a branch Culture and Economics emerged (De Jong 2009 for surveys; Beugelsdijk and Maseland 2011; Alesina and Giuliano 2015).

A cultural approach to economics proved to be useful for explaining persistence in cross-country differences in institutions and economic performance. In this manner, it complemented the Varieties of Capitalism literature (Hall and Soskice 2001). Cultural differences are also important for the quality of international cooperation, for example in handling the difficulties associated with the European sovereign debt crisis (Bohn and De Jong 2011; Van Esch and De Jong 2019). Finally, culture is an important factor in determining the success of change (Zweynert and Goldschmidt 2006; Graafland and De Jong 2020).

The term culture is used in many disciplines and has many definitions. These definitions range from broad conceptions, referring to all aspects of society to relatively narrow ones (see De Jong 2009, 5–7). Anthropology often uses broad definitions, whereas narrow definitions are common within economics. This narrow definition refers to the set of values that a group has in common. The group can be a nation, a profession, an organization, etc. Linking culture with economics is not new

in the history of economic thought. The German Historical School also emphasized the relevance of “the nature of customs and of law, the power of customary feelings and cultural ideas which also govern whole economies” (Schmoller 1874, 264). From this perspective, one cannot study individual parts of an economy but should take the context, which includes culture, into account. Hence, it is interesting to investigate whether and how the contributions in the recently developed branch of Culture and Economics indeed takes account of the context within which economic processes operate. The aim of this paper is therefore to investigate whether and how the Economics and Culture literature that started from about 2000, considers the context and thus can be regarded as a version of contextual economics.

The setup of this paper is as follows. The next section describes the way culture has re-entered economics. Section 3 is devoted to several empirical studies that show the importance of culture for explaining differences between countries. One could argue that these studies focus on the situation as is. In many instances, however, policy-makers want to change the situation. Then culture can act as a barrier for implementing new policies. Section 4 summarizes studies that investigate the role of culture for policies aimed at transforming an economy and those that investigate the change of culture itself. Section 5 is devoted to the role of history and historical events as explanatory variables of culture. In all these sections, the academic researcher is treated as an impartial observer. Section 6 discusses two recent projects that incorporate the vision of the researcher into the analysis. The question whether the literature in the field of Culture and Economics can be considered contextual is treated in Section 7. Section 8 presents some personal experiences in promoting cultural approaches in economics. Section 9 concludes.

## 2. The Re-Emergence of Culture in Economics

After the Second World War, many economists operated according to Robbins’ definition that “economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses” (1932, 16). In this view economics is an optimization problem, which consists of an objective function, constraints, and an optimization procedure, which then delivers an outcome. Using this framework as a starting point, culture has entered into economics as: 1) influencing the objective function which contains the agent’s preferences, 2) being a constraint, or as 3) that part which is not explained by the optimization process. Some have argued that large parts of the Asian Values debate of the 1990s belongs to the third category. Since we do not regard such an explanation of any academic value, we disregard that approach.

The culture as constraints approach originates from New Institutional Economics (NIE). This school emphasizes the role of institutions for a well-functioning economy. The NIE encompasses different approaches. An important distinction is between a

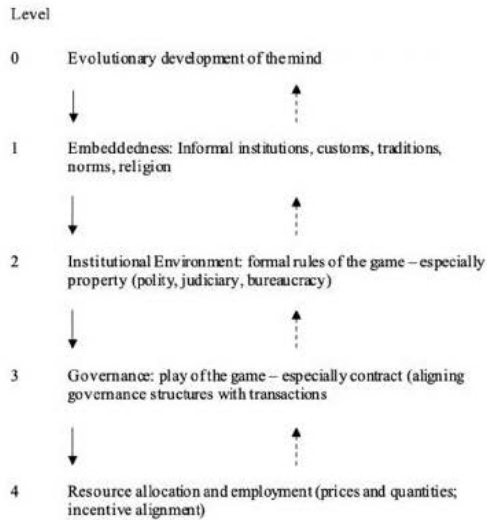


Figure 1: Culture as Constraints.

neoclassical inspired approach, which often uses game theory and the institutions-as-an-equilibrium-of-a-game concept (Furubotn and Richter [1997] 2005) and a more argumentative and descriptive approach which is represented by Douglass North among others. North defines institutions as “the humanly devised constraints that shape human interaction” (North 1990, 3). These institutions can be grouped in formal institutions, such as laws and other written rules, and informal institutions, which refer to value systems, customs, traditions norms and religions. In Denzau and North (1994) institutions are regarded as the external (to the mind) mechanisms individuals create to structure and order the environment and culture; mental models are the internal representations individuals create. The latter are also grouped under the heading embeddedness or cultural system. In general, “any stable economic system has a compatible and supportive cultural system that legitimates that system” (Inglehart 1997, 15). The authors in the culture as constraints approach emphasize that actual activities are constrained by formal institutions, which at their turn are constrained by culture. So the dominant causal chain runs from culture through formal institutions to actual behavior. The bold arrows in Figure 1 represent this chain. The dashed arrows indicate that a reverse causality is possible but less dominant. Moreover, culture is expected to change less frequently than the other levels (institutions, actual behavior). In Williamson’s (2000, 598) view, a change in culture takes 100 to 1000 years, whereas formal institutions can change within 10 to 100 years.<sup>1</sup>

<sup>1</sup> Denzau and North (1994, 22–6) think that culture – ideology in their language – changes rapidly during a short period.

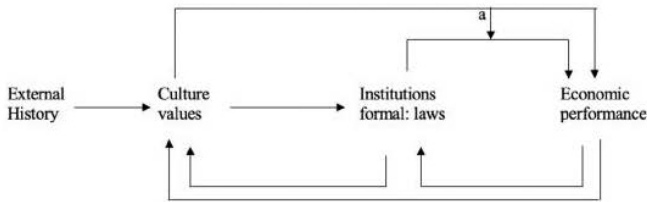


Figure 2: Relations between Culture, Institutions and Economic Performance.

The culture as preferences approach emphasizes that preferences are endogenous (Bowles 1998). Culture is defined as “systematic differences in preferences or beliefs” (Fernández and Fogli 2009, 147), “the collective programming of mind, which distinguishes the members of one group or category of people from another” (Hofstede 2001, 9), and “a system of attitudes, values, and knowledge that is widely shared within a society and transmitted from generation to generation” (Inglehart 1997, 15). Common to these definitions are preferences or values as “broad tendencies to prefer certain states of affairs over others” (Hofstede, Hofstede and Minkov [1991] 2005, 8). Another characteristic is that these values are transmitted from generation to generation: intergenerational transmission. This approach does not assume a dominant causal order. Values (culture) can change rapidly, for example due to large shocks, such as wars or natural disasters. Figure 2 summarizes the relations between culture, institutions in the sense of written rules and laws, and economic performance. The fact that the arrows run both ways from culture (at the top) and to culture (at the bottom) reflects the idea that the culture as preferences approach has no dominant causal order. Consequently, all three categories – culture, institutions and performance – can be determined simultaneously. The one-way arrow at the far left represents those studies that investigate the influence of history and historical events on present day economies. This effect is assumed to be exogenous. Figure 2 is a useful presentation of many studies in the field of Culture and Economics.

### 3. Culture Explaining Differences Between Countries

Many empirical studies in the field of culture and economics explain differences between groups, mostly countries, by means of differences in culture. In fact, in one way or another they argue that the different blocks in Figure 2, culture, institutions and economic performance are related. Many studies make use of survey data for measuring culture. Increasingly experiments, in both the lab and the field, are used to measure culture (see *e.g.* Henrich *et al.* 2001). Except for the answers on the experimental based questions of the Global Preference Surveys (Falk *et al.* 2016 and 2018; Wang, Rieger, and Hens 2016 and 2017), the results of experiments are only

available for a few countries, which preclude their use for cross-country comparison. The studies that use survey data contain regression analyses including at least as many countries as needed for a reasonable statistical fit. Country specific details are only discussed superfluously.

The majority of studies use survey data (Alesina and Giuliano 2015; De Jong 2009, 65–91 for an overview of cross-country studies). These studies are enabled by the availability of large datasets, such as the European Values Survey, the World Values Survey, and more recently the European Social Survey and the Global Preferences Survey. These surveys contain different questions, which researchers can select for measuring an aspect of culture. The best known question is the one on trust, which reads, “Generally speaking, would you say that most people can be trusted or that you can’t be too careful in dealing with people?”<sup>2</sup>

Slightly different from these surveys are the studies which develop and apply cultural dimensions. These studies assume that “all cultures constitute so many somewhat distinct answers to essentially the same questions posed by human biology and by generalities of the human situation” (Kluckhohn 1962, 317; quoted in Hofstede 2001, 28). Cultural dimensions summarize these different answers to essentially the same questions. An important dimension, found in almost all studies, is the relation between the individual and the group. Are the interests of the individual dominating those of the group, or are priorities set in a reverse order? The cultural dimensions “Individualism” versus “Collectivism” reflects the dominant answer of inhabitants of a nation to this question. Each country obtains a score on this dimension. A high score on the individualism side reflects a country where the interests of the individual trumps those of the group. The number of dimensions found by each researcher varies from two (Inglehart 1997) to nine (the GLOBE project, see House *et al.* 2004). The studies also differ in that they are data driven (Hofstede 1980) or based on theoretical constructs (Schwartz 1992 and 1994). The differences between these two types is smaller than the terminology suggests as the theory-based approaches often make extensive use of the results found in the explorative, data driven studies such as Hofstede (1980).

The reception of the first study with cultural dimensions, Hofstede (1980), illustrates our point in the introduction about the high degree of mathematical inclination of economics after the Second World War. Researchers in the field of international business very quickly used the dimensions developed by Hofstede as an explanatory factor for different phenomena, such as the success of entry modes and the failure of international mergers. Consequently, from the beginning of the 1980s, almost each volume of its leading journal, *The Journal of International Business Studies*, contains at least one article dealing with a topic that includes culture. The field of international

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<sup>2</sup> This question has been criticized for the fact that it implicitly refers to two opposite things; the text before and after “or”. Beugelsdijk (2006) finds that the average per country is highly correlated with the nation’s quality of institutions, which suggests that it implicitly refers to trust in institutions and not to interpersonal trust, which many researchers are interested in.

economics, however, disregarded cultural factors for a long period. Its leading journal, the *Journal of International Economics*, often only accepted articles with mathematical models and during some time empirical studies, but such a vague concept as culture was not considered. It was only at the end of the 1990s that mainstream economics paid attention to the role of trust. The broader concept of culture entered economics during the first decade of this century.

In particular, the trust variable derived from the World Values Survey and the cultural dimensions developed by Hofstede are frequently used in cross-country studies explaining the relation between culture, institutions and economic performance (see Figure 2). Knack and Keefer (1997) were the first who relate economic growth to trust. They conclude that income per capita is higher in countries with higher levels of trust. Tabellini (2010) finds similar results for subnational levels of income per capita in the period 1995 to 2000. Beugelsdijk and Van Schaik (2005) do not find a significant relation between trust and economic growth over the period 1950–1990.

The studies using Hofstede's different cultural dimensions reveal that within the group of industrialized countries the attitude towards uncertainty or ambiguity, measured by scores on Hofstede's Uncertainty Avoidance and related measures of ambiguity, explains a great proportion of the cross-country differences in institutions and economic functioning. For example, the amount of venture capital available in a country is negatively related with the score on Uncertainty Avoidance. The same holds for the importance of financial markets for financing companies, and the flexibility of labour markets (Kwok and Tadessa 2006; De Jong 2009, 65–91). Inhabitants of countries dominated by markets accept uncertainty more easily than those of countries dominated by the state (De Jong 2020).

A subgroup of empirical studies takes as a starting point the idea that values are determined during a person's first 10–20 years, the formative years. This implies that immigrants who enter a country when they are an adult have already formed their values. Consequently, they will teach their children the values they have acquired when they still lived in their country of origin. In this way, their children might attach value to items that are important in their parents' country of origin but not in the country in which they were born and raised. The studies belonging to the epidemiological approach use these second-generation immigrants to test whether their values or attitudes still reflect dominant preferences or habits of their parents' country of origin. Essentially these studies test whether values have an effect on economic behaviour. It appears that indeed the behaviour and values of immigrants' children still reveal traces of their parents' country of origin. Costa-Font, Giuliano, and Ozcan (2018) find that for savings this influence declines across generations. Since the source of the values lies outside the country of investigation, this method also reveals the relevance of values independent from a country's institutions because the values are developed independent from these institutions.

The epidemiological approach has also been used to derive a proxy of cultural values in the countries of origin at the time people emigrated from these countries; an

inversed version of the epidemiological approach. Algan and Cahuc use the trust “that US descendants have inherited from their forebears who immigrated from different countries at different dates to detect changes in inherited trust in the countries of origin” (Algan and Cahuc 2010, 2061). In this study, the trust of second-generation immigrants is used to detect the level of trust in their parents’ country of origin at the time their parents left the country. Algan and Cahuc include descendants of immigrants who entered the United States during different decades, which enables them to derive a time varying measure of trust in the countries of origin. They relate this measure of trust to economic growth of the different countries of origin.

Differences between countries’ cultures and institutions can affect international transactions. The success of cross-border mergers and acquisitions and the amount of bilateral trade are higher if the countries’ cultures are more similar. The multinational’s entry mode has a higher level of commitment (direct ownership for example) when the culture of the foreign country is similar to the culture of the country from which the multinational originates. This literature frequently uses the Kogut-Singh measure of cultural distance (Kogut and Singh 1988). The use of this measure has been criticized (Shenkar 2001) as well as the measure of distance as such and the lack of theoretical foundations (Maseland, Dow, and Steel 2018). The score on Hofstede’s Uncertainty Avoidance is another way of measuring the willingness to enter relationships with foreigners and to accept what is different. Countries scoring high on Uncertainty Avoidance were slower in liberalizing international trade and capital flows after the Second World War (De Jong, Smeets, and Smits 2006), importing less goods (Wang, Yang, and Yasar 2020), and having a larger share of their equity portfolio in domestic assets (Anderson *et al.* 2011; Beugelsdijk and Frijns 2010). Within Europe, a higher level of bilateral trust enhances bilateral trade (Guiso, Sapienza, and Zingales 2009). The effect of bilateral trust depends on the quality of institutions measured by rule of law. The influence of trust is greater if the score on rule of law is lower in the importing country (Yu, Beugelsdijk, and de Haan 2015).

Finally, some studies describe the history of a country (Spranz, Lenger, and Goldschmidt 2012; Webb 2015),<sup>3</sup> a group of countries (Zweynert and Goldschmidt 2006; North, Wallis, and Weingast 2009 and 2013) or great parts of the world (Acemoglu and Robinson 2012; Landes 1998; Mokyr 2017; Richerson and Boyd 2005). Such broad studies offer a lot of freedom to the authors with respect to their focus; the story they want to tell. How important is culture in the sense of norms and beliefs for economic development? Of no interest at all, according to Acemoglu and Robinson. Only formal institutions are relevant. In successful, in their words inclusive, states these institutions “allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish” (Acemoglu and Robinson 2012, 74). The opposite are extractive societies in which elites misuse societal resources for

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<sup>3</sup> The article by Webb is one of a special issue on of the Constitutional Political Economy on The emergence of Open Access Orders: The case of Germany.



their own benefit. North and co-authors develop a framework in which institutions – both formal and informal – play a central role. Beliefs are part of these informal institutions. Nevertheless, in practice North and co-authors focus on formal institutions, rule of law, impartial organizations. Landes on the other hand writes that “[i]f we learn anything from the history of economic development, it is that culture makes all the difference” (Landes 1998, 516). Mokyr (2017) devotes an entire book to the role of culture in terms of attitudes for explaining the Industrial Revolution in Europe. Finally, Richerson and Boyd (2005) represent a literature that stresses the importance of culture for the evolution of humans. This type of research is not limited to a certain dataset, as those using cultural dimensions and survey data are, so that it can describe its evolution over a long period and pay more attention to its dynamism.

#### 4. Culture and Change

As indicated in the introduction, one motive for including culture into economic analysis has been that some believed that culture would hamper the successful implementation of market oriented regulation and policy in formerly centrally planned economies (Murrell 1995). After a few decades, it has become clear that the degree of successful implementation of pro-market regulation differs between countries. Zweynert and Goldschmidt (2006) distinguish two groups of countries. The first group consists of countries in which a holistic order is dominant. The inhabitants of these societies believe in a religious or political ideology, which claims an absolute truth for all kinds of actions and thought. There is no functional differentiation between the different spheres of society and no separation between economic and political circles. Finally, personal relations and personal networks are of dominant importance. The second group of countries represent an extended order. In these societies, people can have a multitude of possible interpretations of reality. There is a clear differentiation between the different spheres of society and a clear boundary between politics and economics. Relations are depersonalized. They argue that countries with such an extended order are more successful in implementing pro-market regulation. This does not come as a surprise as market relations are also known as arm’s length relations. Consequently, market institutions have a better fit with the mentality dominant in an extended order society than in one with a holistic order.

Graafland and De Jong (2020) relate the successful implementation of pro-market relations to Hofstede’s cultural dimensions. This study uses the Human Development Index as a measure for success and the Economic Freedom Index as a measure of pro market regulation. They find that pro-market regulation enhances human development more if national culture encourages the country’s inhabitants to take initiative and act with a view to long-term consequences. In their study, these attitudes are represented by the cultural dimensions Individualism, and Long-term Orientation (positive sign) and sometimes by Uncertainty Avoidance (negative sign).

A dominant culture will influence each individual's mindset. Such a mindset can help or hinder persons' activities and hence a country's development. The World Bank (2015) and Coutinho (2018) analyze the relevance of stories about individuals' ability for the development of countries. Coutinho argues that the inhabitants of many developing countries have an image of themselves which results from the colonial period. According to this image, they are incompetent. Coutinho and The World Bank offer methods for changing this mindset in order to promote development in less developed countries.

Until now, I have assumed that culture is given and does not change over time. In this case, culture can influence institutions and economic performance (the arrows at the top of Figure 2). However, the culture as preferences approach also considers the possibility that culture can change, which the arrows at the bottom of Figure 2 represent. Several studies model the change in values. Two mechanisms are important: vertical transmission and horizontal transmission of values (Bisin and Verdier 2011). Vertical or intergenerational transmission of values refers to the fact that parents and other adults teach children what they think is important for life. Horizontal transmission is the transmission of values by interaction between people of the same generation and events happening during a person's formative years. These formative years constitute the period a person is younger than about 20. Economic reasons can influence the speed with which people adapt their values. Immigrants, for example, are likely to change those values that are important for being successful in economic sense. Giavazzi, Petkov, and Schiantarelli (2019) confirm these mechanisms. They study the change of values of different generations of immigrants in the United States and find that the values of second generation immigrants are still significantly related to those dominant in the country of their parents' origin. Attitudes related to cooperation, such as trust and views of others being helpful and fair, provide more economic gain and change more and quicker than those related to ethical issues, such as abortion, and political views. The latter includes the view that the government should help the poor and equalize the difference between rich and poor people. The convergence to the values of the country of residence takes more than two generations.

Hofstede already noticed the influence of economic development on values. He collected data in two waves that were a few years apart. Hofstede observed that for countries included in both waves, the scores on individualism were higher in the second wave than in the first. He suggested that this increase is related to the growth of income per capita (wealth, as he calls it) (Hofstede 2001, 254–5). Hofstede expects that countries' relative scores will remain intact. Beugelsdijk, Maseland, and van Hoorn (2015) confirm this hypothesis. They construct scores on indices for two cohorts: those born between 1902 and 1958 (cohort 1) and those born after 1958 (cohort 2). The main result is that the scores can change but that each country's relative position remains almost the same as is reflected by the high correlation (larger than 0.96) between the scores of cohort 1 and cohort 2. A study of the scores on the European Values Study for the 1981, 1990, and 1999/2000 waves reveals that, "cohort differences are more important than period effects. In most cases the differences

between observation years are smaller than the differences of two consecutive cohorts” (Hagenaars, Halman, and Moors 2003, 40). These results suggest that national scores on cultural values are relatively stable over the post-1990 period.

Until now, I have implicitly refrained from considering power structures. However, in many cases those in power actively try to influence the dominant view of people and actively try to change people’s opinion so that the latter support the existing distribution of power and wealth (Piketty 2020, 7). Because politicians are often the ones who actively try to influence opinion, we have labelled this culture as politicized culture (De Jong 2009, 101–3). An example is the use of Asian and later Islamic values by the Malaysian Prime Minister Mahathir. Another is the African Renaissance movement in South Africa after the fall of the Apartheid regime. In the Netherlands, some politicians refer to the VOC mentality,<sup>4</sup> which is thought to be entrepreneurial. Often these politicians refer to a bright and prosperous past.<sup>5</sup> Survey evidence indicates that the impact on the population’s opinion is often less than that on the view of an inner circle around the leader (Bernstein 2006, 28).<sup>6</sup>

## 5. The Influence of Institutions and History on Culture

Institutions can also influence values (arrow at the bottom of Figure 2). Individuals will change their values if they are exposed to certain institutions for a long time. This process is assumed to operate when immigrants assimilate to the culture of their host country. Grosjean (2014) provides a nice example. In the 18<sup>th</sup> century, immigrants from the Scottish Highlands and Ulster, the so-called Scots-Irish, settled in both the North and the South of the United States. These immigrants came from traditionally pastoral and lawless areas which have a culture of honour. In the absence of law enforcement, aggression and the willingness to kill are important for protecting one’s property, among which one’s cattle. These immigrants brought this culture of honour with them when they emigrated into the United States. Those who settled in the South of the United States kept this culture of honour, which is still reflected in the high homicide rates in the South of the US. Those who settled in the North of the US changed their culture. According to Grosjean, this change is because in the North formal and impersonal institutions became important. The presence of a third-party enforcement of law reduced the necessity of personal actions and thus reduced the attitude towards it. In the South of the US, formal institutions remained weak, so that a culture of honour prevailed. This case illustrates the effects of long-lasting exposure to certain institutions.

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<sup>4</sup> The acronym VOC stands for the Verenigde Oostindische Compagnie, the private company that exploited the islands of present day Indonesia.

<sup>5</sup> Kuran (1995) extensively studies the processes of preference falsification.

<sup>6</sup> See Coutinho (2018) for the effect of the colonizers on the perceptions of the colonized.

The literature on the deep determinants of economic growth investigates the effects of historical events on today's institutions and preferences (see Nunn 2020; Spolaore and Wacziarg 2013 for surveys). This literature started with Acemoglu, Johnson, and Robinson (2001) who argued that the probability of colonizers to die from malaria determined whether they would settle in the country. If chances were high that they would die, they chose to develop an extractive regime with a low quality of institutions. If these chances were low, they chose to settle and the institutions would have high quality. They argue that this historical difference in quality of institutions is still relevant today. In a similar manner, one can argue that differences in historical paths can result in different cultural characteristics. For example, Galor and Özak (2016) find that areas which had a higher crop yield before the Columbian Exchange (around 1500) nowadays have inhabitants with a higher level of future orientation. The reason for this is that in these areas people chose to invest in raising food instead of hunting or gathering food. The nurturing of food requires patience because one has to wait until the harvest before one can reap the benefits of the investment. This requires a higher level of patience or future orientation than collecting food every day. Later generations acquire these values via intergenerational transmission of values, so that it is still relevant today.

Others argue that having been part of an empire, such as the Ottoman and Habsburg empires, is still felt today. Inhabitants of areas that have been part of the 19<sup>th</sup> century Habsburg Empire appear to have a higher level of trust in the judicial system than areas just outside the area of the Empire (Falk *et al.* 2016). Similarly, Hofstede (2001, 119–21) points to traces of the Roman Empire on values in Europe. Inhabitants of countries that formerly belonged to the Roman Empire accept differences in power more easily than inhabitants of areas that were not part of it. According to Hofstede this difference exists because in the Roman Empire the emperor had “absolute authority and stood above the law” (*ibid.*, 119). “In the Germanic tradition, in contrast, the power of the king was subordinate to the assembly of free men” (*ibid.*, 120). These differences are still felt today and summarized in Hofstede's cultural dimension Power Distance.

This discussion about the historical roots of differences in Power Distance illustrates the attempts by the authors of the most frequently used cultural dimensions, Hofstede and GLOBE, to relate their findings to relevant aspects of other disciplines and to historical events. Hofstede, the pioneer in this field, in particular, had to make sense of his findings. He obtained his cultural dimensions by applying factor analyses and correlations on country averages of answers to questions. Since these questions were not asked with the intention to measure cultural dimensions he had to find studies which he could use to make sense of the results obtained. GLOBE and other researchers in the field of cultural dimensions could build on Hofstede's findings. GLOBE has published two studies. Their main book, House *et al.* (2004), explains the method used and the cultural dimensions found. The other, Chhokar, Brodbeck, and House (2007), contains in-depth studies of 25 societies. Each of these studies contains a brief overview of the country's history and political system and relate these to the scores on the cultural dimensions.

## 6. Academic Researchers as Part of the Analysis

Until now researchers have been considered as objective investigators of economic events; impartial observers. This is a questionable assumption as researchers are human beings and hence subject to the same cognitive biases and cultural constraints and preferences as other people. Many books explain the ideas of economists by referring to the context in which these economists lived. However, as far as I know, studies are scarce which link the dominant national view of economists with the policy measures taken by the governments in the country they live. Studies investigating the relation between the views of the economists, those of the public at large and the policy measures taken are almost non-existent. As such, this is surprising as in other, often more qualitative, disciplines an awareness of the researcher's influence on the research topic and results is problematized (see *e. g.* Pitard 2017). Brunnermeier, James, and Landau (2016) and De Jong (forthcoming) are two projects that investigate the link between economists' views, the countries' culture and policy measures.

Brunnermeier, James, and Landau (2016) link the German and French reaction to the Euro crisis of 2010 with the dominant views of economists in the two countries. Differences relate to whether rules have to be adhered to very strictly (Germany) or whether one should treat them flexibly. Another important issue is whether actors are responsible for their own actions (Germany) or whether the government, the president, is in charge of providing a solution (France). Others (Bohn and De Jong 2011) had already pointed at the link between national culture and differences in attitudes to this crisis. Van Esch and De Jong (2019) show by means of cognitive mapping that the presidents of European national central banks share these differences in views.

The connection between the views of academic economists, the population at large and the policymakers on markets is provided in De Jong (forthcoming). In this study, we compare free market, coordinated market and hierarchical market traditions. After the Second World War, France and Germany switched position with respect to the importance of markets. Before the Second World War, France was more inclined to have free markets whereas under the Nazi-regime the German economy was highly centralized. After the war, the opposite applied. The state dominated the French economy. It owned and still owns large companies and banks, and every institution within the financial system had a specific role. At the beginning of the 1980s, this system appeared to be overregulated and the government first nationalized all banks and then restructured them. In Germany, local authorities own the *Sparkassen* and the government of the *Land* the *Landesbanken*. The responsibilities are clearly delineated; the federal government will not interfere in and take responsibilities of local banks. The inhabitants of the United States have for long favoured small banks, which compete with each other. Ideally, a bank has only one branch in one city: unit banking.

The authors in De Jong (forthcoming) illustrate that in each of the countries the thoughts of the dominant economic schools about markets and competition are in accordance with the practices. For French economic engineers, the market was a

theoretical construct to model competition. The resulting theoretical models of competition were used to help the state in setting prices in such a way that the economy fulfilled the criteria of efficiency. Ordo-liberals in Germany see the market as an ordering principle to limit the power of the state and that of large private agents. Consequently, balancing the powers and responsibilities of different institutions is important. For the free market school in the United States, competition under the rule of law liberates individuals from being confined to their natural self, which is race, ethnicity, etc. Consequently, competition between small units is intrinsically good.

The studies of values among inhabitants of the three countries confirm the pattern described above. The individuals in all three countries are individualistic, but the USA shows the highest score. The inhabitants of the USA and Germany think that power and wealth should be distributed more or less equally among the inhabitants. The French easily accept a concentration of power. They are also the only ones who rate “graciousness” among the ten most important virtues. This could reflect that in their opinion those in power have to be gracious towards others. It is remarkable that the inhabitants of the USA regard an equal distribution of power and wealth as being desirable, whereas within the USA the distribution of income and wealth is skewed towards the top. This reflects that Americans are more concerned about equality of opportunity than equality of outcome.

The three last paragraphs illustrate in which way De Jong and co-authors contextualize economics. They argue that views by economists, the population at large and policy makers are predominantly formed within a national context. They also show that this national context interacts with foreign influences, so that during certain periods the three countries concerned deal with similar trends in economic conditions (high inflation, for example) and opinion (towards more liberal free markets in the 1990s). The way the authorities in the countries react illustrates the national tradition or culture.

## 7. How Contextual are These Studies?

After this brief exposé of current trends in Economics and Culture, we now face the question: How contextual are these studies? To answer this question, we first have to define when an approach is contextual. The Oxford English Dictionary defines context as “the circumstances that form the setting of an event, statement or idea.” A problem with this definition is that it refers to a specific event, idea or statement, whereas the subject of many economic studies is not restricted to a certain event but describes a pattern. Hence, we need a broader definition of context. In their statement on the purpose and aims of the *Journal of Contextual Economics*, Goldschmidt, Grimmer-Solem and Zweynert define contextual economics as economics which “is mostly interested in the relationship between the economic sphere and the wider social system” (2016, 2). They contrast this view on economics with isolating approaches that are only interested in “the laws operating within the economic system” (*ibid.*, 2).

These authors then discuss the historical roots of contextual economics and conclude that contextual economics can go too far in that it neglects basic economic theories. However, an advantage of contextual economics is that it has an open eye for different methodologies. It is in particular applicable if the economy changes as it does after the fall of the Iron Curtain. In case economies are in more stable situations, an isolating approach might suffice. This leads to their description of contextual economics as the approach that assumes “that the economic system is a social subsystem that cannot properly be understood dynamically by excluding habits of thought, cognitive constraints, webs of meanings, values and ‘knowledge regimes’” (*ibid.*, 9). They affirmatively quote Neva Goodwin “that a starting premise of Contextual Economics is that an economic system is embedded within a social context that includes ethics, norms and human motivation, and culture that expresses them. It also includes politics ... as well as institutions and history” (2010, 3).

These descriptions of contextual economics illustrate the relevance of a plurality of indicators that might be relevant to judge whether an approach can be considered contextual. In the following, I will compare the main characteristics of the different approaches of economics and culture with the parts of the descriptions of contextual economics provided in this paragraph.

All studies discussed in this article emphasize that economics cannot be restricted to an internal isolated approach to economic phenomena. One has to consider the value system, the culture, of the group involved. Therefore, in that sense all studies in Economics and Culture are contextual. Some studies only describe the relation between the economic variables and culture, whereas others also pay attention to the dynamics and the historical path. Finally, the two recent studies discussed in Section 6, explicitly take into account that the academic researcher is part of a national culture. In that sense, one could argue that these studies have the highest degree of contextualization of economic analysis.

## 8. Teaching Economics and Culture – Some Personal Notes

If we think that Contextual Economics can contribute to a better understanding of economic reality, then the question arises: how can we spread the word of the importance of culture and context for understanding economic activities? Here I share some personal experiences. Since 2000, I teach a course on “Culture and Economics” in the Economics Master’s program at Radboud University. I always start this course by discussing some recent events, which one cannot explain by rational choice alone. An example is the different attitudes of the French and German government with respect to the Greek announcement in late 2009 that they did not adhere to the rules of the Growth and Stability Pact. Both German and French banks had invested in Greek government bonds. Hence, from the perspective of economic incentives, one would expect that both countries would react similarly. This did not appear to be the case,

because they reacted from different traditions and cultures. The Germans reacted from the idea that everyone is responsible for his or her own misconduct, and thus the Greeks had to seek a solution via the International Monetary Fund. The French reacted from the view that the government has to solve problems, and thus that at the European level the governments had to reach a European solution for the Greek problem. My experience is that students attending the course appreciate such an approach. During numerous iterations of teaching the course, students responded that they had learned a lot.

Besides university lectures, one can also inform the public at large about the role culture plays in economics by presentations at different type of meetings and articles in newspapers. During these presentations, I now and then encountered an audience that saw culture as carved in stone. The Germans and The French always behave as .... My aim is not to teach people stereotypes but to inform them that economic phenomena cannot be explained by incentives and the behaviour of rational agents alone. Emotions and differences in worldview play a role. It is important to know that and to act on these differences. Preferably, by trying to reconcile the differences between the different views, much as is done in international business (Hampden-Turner and Trompenaars 2000). Both students and lay people have to be made aware of the fact that economic processes develop within a particular context. Soft and intangible aspects such as worldviews and culture are part of this context and thus of contextual economics.

## 9. Conclusions

This article gave a brief overview of the literature in the field of Culture and Economics. It showed how from the end of the 1990s onwards culture re-entered economics. Given the prominence of econometrics and mathematics in mainstream economics, it is no surprise that culture mainly entered economics via large surveys of values. This enabled those who were used to econometric analyses to extend their skills to include the relevance of values for economic analyses. Consequently, the bulk of the literature is empirical. A few studies use mathematical models. The majority of these studies model a mechanism by which values evolve over time and the economy can end in different equilibria. A minority of the studies are descriptive and in-depth studies of certain countries.

This literature is contextual in the sense that it does not confine itself to the inner economic sphere. It extends the economic sphere with that of formal institutions, written rules and laws, and culture in the sense of norms and values. Part of this literature is only comparative, showing that certain institutions and economic organizations are logically related. For example, institutions (rules) in countries in which firms extensively use bonds traded on financial markets to finance their activities support financial markets, and inhabitants accept uncertainty more easily than in countries in which bank loans dominate corporate finance. A few studies investigate



the dynamics of economic processes. A reason why only a minority of the publications investigate economic dynamics can be that the data on values and cultural dimensions have only been available for a few years. At most, these data span a few decades. Many regard such a period too short to observe changes in values and institutions. The few studies that investigate the stability of values and cultural dimensions over time confirm that these do not change much over the period concerned.

Although culture and related concepts are increasingly accepted in economics, many researchers are still sceptical. Moreover, culture is a vague concept so that chances of misuse are high. Hence, a successful and reasonable use of culture in economics is crucial for this field to become accepted. I therefore suggest investigating the relation between economics and culture by starting with the economic phenomena at hand (the right hand side of Figure 2). What do we know from the economic literature? Which formal institutions are important for this phenomenon? What kind of values might be relevant? Then one can come with empirical measures to investigate whether the hypotheses developed are valid. I recommend this procedure in order to circumvent the pitfall of connecting everything with anything else. I hope that following this procedure enhances the acceptance of cultural economics, and hence contextual economics, by a wider group, of researchers and the population at large.

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