

Culture, Politics and Economic Development

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Abstract

For a generation political science has been dominated by the analysis of interests within the framework of rational choice. While this has enabled major advances, it struggles to provide a plausible analysis of many instances of socio-political dysfunction. This paper reviews recent innovations in economics, psychology and economic history that are converging to rehabilitate culture as a legitimate element of analysis. Culture matters and its evolution is amenable to formal scientific analysis. But these processes need not be benign: there is no equivalent to the hidden hand of the market, guiding a culture towards social optimality. An organizational culture can trap a vital public agency such as a tax administration into severe dysfunction. A societal culture can trap an entire country into autocracy or poverty.

Table of Contents

1. Introduction.....	4.
2. The DNA of Culture.....	7.
2.1. Culture as Social Interaction.....	7.
2.2. Formal models incorporating culture.....	8.
2.3. Networks and Identities.....	14.
3. Some Consequences of Cultures.....	16.
3.1. Identities and state legitimacy.....	16.
3.2. Motivation and state capacities.....	20.
3.3. Coordination: expectations of the behavior of others.....	25.
3.4. Network-derived social misunderstanding.....	29.
4. Conclusion.....	30.
5. References.....	32.

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1. Introduction

Parts of the world have achieved unprecedented economic prosperity, while others have remained in mass poverty. Accounting for these disparities has become a central task of social science. Initially, two radically different approaches were followed. An economic analysis explained poverty as due to an initial lack of capital. A socio-political analysis explained it in terms of culture: acceptance of 'fate' that reduced aspirations (Polyani, 1944); rejection of democracy (Lipset, 1959); or perception of interaction as zero-sum (Foster, 1965).

These explanations were discredited. As capital became globally mobile, endowments became endogenous, yet capital flowed out of poor regions, not into them. By the 1980s, economists were attributing divergence predominantly to policy choices. Similarly, the cultural 'explanations' were abandoned in the face of explosive take-off in the region supposedly mired in Confucianism, the apparently universal enthusiasm for democracy exemplified by the collapse of the Soviet Union (Fukuyama, 1994), and the rational expectations critique of theories that relied upon people holding persistently false priors.

During the 1990s economic and political analyses fused into a powerful new explanation. As pioneered by Robert Bates (1981), the differences in policy choices

¹ I would like to thank Margaret Levi for helpful suggestions from the initiation of this paper to its final form. I would also like to thank George Akerlof and the Identity Economics Network for the intellectual impetus.

that economists saw as causes of divergence were explained as reflecting differences in structures of political power. Nationally damaging policies were not mistakes but rational strategies serving the elite interests. This fertile marriage between economics and political science is exemplified by Besley and Persson (2011) and Acemoglu and Robinson (2012). Such policies are 'redistributive' in the terminology of the former, and 'extractive' in that of the latter.

The shock to power structures in poor countries following the fall of the Soviet Union yielded a clear prediction: policies would become more inclusive, enabling convergence on richer countries. Burgess et al. (2016), provide a rigorous test for Kenya, showing that the switch to multiparty democracy led to a more equal spatial distribution of public spending. But such successes were relatively modest. Partly, this can be accounted for by the scope for the powerful to pervert the democratic process. Ballot fraud, intimidation and bribery have become electoral strategies that undermine the incentives for inclusive policies: only in clean elections is poor economic performance penalized (Collier and Hoeffler, 2015).

But even honest elections have ensured neither social peace nor good economic management. In the Middle East, democratic elections yielded President Maliki in Iraq and President Morsi in Egypt, each heralding social collapse. In Africa, the two best-established electoral alternations of power, Ghana and Zambia, have both generated economic crisis. Policy formation in a democracy can not only be hijacked by special interests, it can be misled by false narratives perpetrated by those who genuinely believe them. Further, the outcomes of many policies depend upon effective implementation by public organizations. In many poor societies critical public services such as the courts, the police, schools, and clinics are

undermined by the corruption of their workforce. The work of Akerlof and Kranton (2011) on organizational performance as a function of the internalization of mental constructs provides a psychologically compelling framework for the analysis of organizational dysfunction. The 'culture' of public organizations can serve as a shorthand.

While the political economy analysis based on interests and abuses of power is important, culture is cautiously being readmitted as a legitimate explanation.² A milestone is the massive reevaluation of the European economic take off during 'the Bourgeois Era' by Deidre McCloskey (2006, 2010, 2016). Her thesis explicitly counters the conventional account in terms of the primacy of institutions, emphasizing the emergent values of a middle class. She sees these new values as functional foundations for economic transformation.

However, while culture is no longer dismissed as a viable explanation of economic performance, given past embarrassments such as the diagnosis of stagnation in China, it is evident that cultural explanations cannot be free standing, but must be grafted onto the rational choice analysis. Recent interchanges between economics and social psychology are broadening what is accepted as rational behavior. As yet, these developments lack an overarching intellectual framework. Behavioral economics, though well-established, has primarily explored generic biases in decisions that could have arisen from evolutionary processes, such as 'fast thinking' (Kahneman, 2011), or in values such as group favoritism (Greene, 2014). Being universal they have little to contribute to the analysis of differences in economic performance. The foundation for a further stage in behavioral

² For recent surveys of the economic literature on culture see Zingales et al. (2006), Bisin and Verdier (2011), and Gorodnichenko and Roland, (2011).

economics, focusing on decision processes that are ‘soft-wired’ by culture, is the work of George Akerlof and Rachel Kranton (2011) on ‘identity economics’. From this foundation, in Section 2 I discuss the building blocks of a culture, how they are transmitted, how they evolve, and present some recent formal models in which values are primary in determining institutions and policies. In Section 3 I turn to some political consequences: how the introduction of identity can call into question the primacy of institutions in establishing state legitimacy; how other-regarding motivations can provide a fresh approach to state capacity; how culture can coordinate expected behavior on functional or dysfunctional equilibria, and how misleading narratives can frustrate social learning.

2. The DNA of Culture

2.1 Culture as Social Interaction

Social networks powerfully transmit behavior, as demonstrated by Christakis (200X). Social interactions are also crucial to the emergence of organizations because they enable the coordination that reaps the gains from reciprocity (Padgett and Powell, 2012). Two key mechanisms for influence and coordination are changes in motivations and changes in knowledge. People are motivated not only by the individualism of material wellbeing, but by being socialized into other-regarding values; they learn about the world not only through individual direct observation, but from narratives related by others. These two aspects of behavior are being accommodated into a revised rational choice framework.

Other-regarding values include such feelings as esteem, fairness and hatred. Peer esteem is generated by performance of actions that are well-regarded by others because they conform to their norms. Self-esteem is generated when actions that conform to norms that are internalized: a moral ought, not a private want. That process of internalization is intrinsically social: other people's values are the 'external' that is being internalized. Similarly, the narratives that purport to describe how the world works, depend upon which interactions happen. Children learn from their parents; everyone learns from their peer groups. Different people learn different things, some of which is false.

People may still behave rationally, maximizing utility subject to perceived constraints, but other-regarding values will be part of the utility that they are maximizing, and the perceived constraints to which the maximization problem is subject, may have been postulated by narratives that are mistaken. A culture manifests the behavior generated by its specific values and narratives, and that behavior may be dysfunctional. It also transmits itself to new members, and so may be highly persistent. I now introduce formal models that demonstrate how culture can affect outcomes in ways not envisaged by elite interest models.

2.2. Formal models incorporating culture

An early and influential formal model that demonstrated the importance of cultural values for outcomes was that of Greif (1997), contrasting two groups of 11th Century Mediterranean traders. One group, Genoese merchants, had individualistic values that Greif traced back to Christian concepts of the direct relationship of the individual to God. The other group, Jewish Maghribi

merchants, had collectivist values that he traced back to Islam. Using detailed historical evidence, he showed that the Maghribi had a material advantage, being protected from defaults by agents in remote trading locations. Through formal modeling, he derived this outcome from the difference in values. In an extension important for political science, he suggested that this cultural advantage became a cul-de-sac. Their collectivist, trust-based solution to the difficulties of long-distance trade locked the businesses of Magribi merchants into single-family, single-generation, organizations. In contrast, the greater difficulties faced by Genovese merchants gave them an incentive to build multi-family, multi-generation organizations that relied upon state-provided contract enforcement. Ultimately, these reaped scale economies that out-competed the Magribi merchants. This illustrates the thesis of Cook, Hardin and Levi (2005): formal institutions may be a superior alternative to trust, but may not develop if informal networks reduce the need for them.

In the Greif model values are exogenous. I now turn to two new models in which they are endogenous. They capture both the importance of other-regarding values for political outcomes, and how these values can themselves be endogenized through an explicit process of cultural transmission.

Besley and Persson (2016), hereafter B-P, revisit the proposition advanced by Lipset (1959) that democracy is only sustainable within a culture that has already accepted democratic values. This proposition is evidently pertinent to the quantum extensions of democracy in 1991 and the Arab Spring.

B-P make a minimalist modification to the conventional specification of motivation: some people in the society value democratic rights. This is not derived from material self-interest, but is an other-regarding value for those human rights intrinsic to democracy. It has one consequence for behavior: should the government breach democratic rights, the person participates in public protest.³ This is not because demonstrating is enjoyable, but because failing to protest would reduce self-esteem.

B-P suppose that different societies 'start' with exogenously different proportions of people who hold such values. Hence, should the government breach democratic rights, the scale of protest will differ between societies. Since the probability that protest succeeds depends upon its scale, (Kuran, 19XX), in societies which 'start' well-endowed with democratic values, protest is more likely to succeed. This generates a feedback from the political outcome to the utility of the protester. Valuing democratic rights, if they are upheld the protester feels 'happier' than if they are undermined.

The most innovative aspect of the B-P model is a process of cultural transmission that generates societal evolution. That process, drawn from models of genetic transmission (Boyd and Richerson, 1984), is that children get their values from their parents. The society includes adults both with and without democratic values. When both parents share the same values the child is assumed to be raised with those values. However, unless all mating is assortative, some parents will be mismatched. Then, the values of the child are assumed to depend upon which parent is 'happier'. In societies where protest is sufficiently potent to maintain

³ This is analogous to the introduction of anger as the motivation for the punishment of norm infringements in Akerlof (2015).

democratic values, the democracy-valuing parent gets a happiness boost; in those where protest fails he is unhappy. Hence, the child of a mixed marriage grows up with democratic values only where protest is sufficiently potent to be successful.

While the appeal to 'happiness' is psychologically crude, a more sophisticated analysis would generate an equivalent outcome. Experiments demonstrate that people want to identify with success and to distance themselves from failure. If a football team wins, a supporter will report it as 'we won', whereas a loss will be reported as 'they lost': the adoption of identity is dependent upon whether it is associated with success.⁴ In effect, in a society with insufficient adults who value democracy, the children of a mixed marriage have a choice as to whether to self-identify with failure. B-P assume that when the demonstration fails, they opt for 'Dad's team lost' rather than 'my team lost'.

This dynamic gradually changes the composition of the society towards, or away from, the intrinsic valuation of democratic rights. From slightly different cultural starting points societies can evolve to radically different but stable cultures of democracy and autocracy. Lipset's proposition has acquired rigorous micro-foundations.⁵

Besley (2016) uses the same mechanism of cultural transmission but a different modification to motivation to derive another major political divide. Now what varies in the initial cultures of societies is the proportion of people who are

⁴ Indeed, the consequences of precisely this process for identity are currently being explored by Emilio Depetris-Chauvin and Ruben Durante of Sciences Po using data on African football matches. They are finding that following a victory by the national team, the salience of ethnic identity, and social violence are both reduced.

⁵ An early formal argument along these lines is the epistemology of trust, (Hardin, 1993) showing how racial differences in attitudes to government evolve.

aspirational. Research on skills has found that the critical ones are non-cognitive: attitudes such as aspirations and ambition really matter (Cunha and Heckman, 2009). Fieldwork in poor countries has established that aspirations important for development, and that they are socially transmitted. Dercon et al (2015XXX) report results from an experiment in rural Ethiopia. Children were randomly exposed to 20 minute videos. One narrated a story of how a child struggled through education and acquired a good job. The other had no narrative of behavioral significance. Six months later, those children who had viewed the aspirational video had improved their relative performance significantly. Similarly, Wantcheckon (2015), uses a natural experiment in Benin to study the generation of aspirational values. At the onset of colonialism, missionaries went inland and established schools in random locations. The first generation of school leavers became role models for a second generation of households. Aspirations are economically significant and socially transmitted.

These are the key assumptions of Besley's model: people who are aspirational are defined to place a high value upon success. Besley infers that being aspirational they choose to work hard. Finally, the link to politics is that people who work hard vote for low taxes on the returns to effort. Conversely, non-aspirational people do not work hard and so prefer high taxes on effort. Hence, in a democratic society where taxes reflect majority preferences, there is a critical proportion of aspirational people above which the society adopts low taxes and below which it adopts high taxes: the USA versus Europe, perhaps.

Again, the mixed marriages provide the cultural dynamics. Where the initial proportion of aspirational people is low, aspirational people are less happy than

where it is high: were they to put in high effort it would be frustrated by high taxes. The set up permits various possibilities, but Besley sets parameters such that in these circumstances aspirational people prefer not to work hard. They are nevertheless unhappy because they have not achieved their aspirations. Where the initial proportion of aspirational people is high, taxes are low and so aspirational people work hard, achieve their aspirations, and are happy. In consequence, in the former the children of mixed marriages grow up without aspirational values, ('Dad had a frustrated life'), while in the latter they adopt them. Gradually, each society approaches a political equilibrium. Depending on the parameters, the low-aspiration equilibrium can be inferior even for the non-aspirational, because the lack of effort implies that too little tax revenue is raised, so that the non-aspirational get fewer public goods. On slightly different parameters, the high-aspirations society is dysfunctional.

These models demonstrate an important general feature of social behavior once culture is endogenized: there is no equivalent mechanism to the hidden hand. While economists recognize the limitations of the hidden hand, it has rightly constituted a presumption: if material self-interest is the only motivation, markets can usually bring a society close to social efficiency, political interests permitting. Even when elites set policies in their own interest, they will choose policies that are the least socially damaging subject to meeting that interest.⁶ But when culture matters for outcomes, there is no equivalent to the market process that guides the culture to a configuration that delivers a socially desirable outcome. The transmission of culture may lock an organization, or an entire society, into a

⁶ Hence, the rational choice critique of donor policy conditionality: when the elite-preferred policy is made sub-optimal, the elite may simply achieve the same distributional outcome with other policies that are socially more costly.

locally stable equilibrium that is dysfunctional. Cultures matter; they evolve through processes amenable to scientific study; but these processes need not be benign.

2.3. Networks and Identities

In the examples above, one value is transmitted through the family. This economy of specification permits analytic rigor. In broadening the specification, we are on softer ground. Evidently, the family is just one of many mechanisms for value transmission, the more general form being the social network. Behavior that is normal within the network defines its norms: conforming to these norms generates peer esteem. If a participant in a network internalizes a norm it becomes a value: conforming to it generates self-esteem. Many networks also transmit narratives that purport to describe some aspect of how the world works: their credibility comes not just from their content, but from their source.

Norms, values and narratives can reinforce each other by validating the same choice through different motivations (Collier, 2016). The same action may generate peer esteem and self-esteem, and appear to be in the actor's material self-interest. Since holding incompatible mental constructs gives rise to cognitive dissonance, narratives, norms and values will tend to adjust to each other. As Haidt (2012) shows, people weight evidence selectively so as to conform to values. Values may also accommodate to self-interest.⁷ Once this shuffling has reached a configuration

⁷ For example, arguments can be made for the ownership of natural resources to be either local or national. Political support for these positions tends to follow self-interest but to become imbued with the passion of self-righteousness, an example being the prolonged campaign of the Scottish Nationalist Party around the slogan 'it's Scotland's oil' (Collier, 2016a).

where the three mental constructs are mutually compatible, behavior will be locally stable in the face of dysfunctional outcomes. Hence, a network can be thought of as a cultural 'quantum': a discrete package of compatible norms, values and narratives.

As implied by the Dunbar constant, people can only participate in a limited number of networks. People are born into a network and have path dependent opportunities to join others. Hence, different people will be exposed to different cultural quanta, implying different rational behaviors for the same objective incentives and constraints. These differences scale up to the level of the polity: societies have different endowments of networks.

Just as networks package norms, values and narratives, so do identities. Akerlof and Kranton (2011) argue that values are often internalized by means of an identity. A plumber who has adopted the identity 'I am a good plumber' will tend to do a good job, because that is what it means to be 'a good plumber'. He gets self-esteem from enacting an adopted role. A smart organization will adopt selection and training strategies that assist this process. Benabou and Tirole (2011) suggest that people invest in an identity and, having done so, rationally protect it by shielding it from potentially disruptive information. They use this to explain the otherwise irrational practice of taboos. Erecting a taboo is analogous to the biased evaluation of information discussed by Haidt (2012). Each depends upon the notion that values and narratives are interdependent: challenging a false narrative could threaten a value, which in turn is bound up with an identity. The same process of filtering out or countering potentially disruptive information can

occur at the level of the network as well as the individual, with nodal actors in a privileged position to do so.

3. Some Consequences of Cultures

Just as values, rather than institutions, may be primary for democracy and tax rates, so the packages of norms, values and narratives constituted by identities and networks may be primary for political outcomes. Here I consider their role in state legitimacy, the effective functioning of state organizations, the coordination of expectations, and social learning.

3.1. Identities and state legitimacy

Where power is seen as legitimate the cost of citizen compliance with government is reduced. In the absence of legitimacy three outcomes are possible. In repression, the state incurs the high costs necessary to enforce its decisions on citizens. In conflict, the state attempts this process but is not strong enough to prevent violent opposition. In theatre, the state abandons the attempt to impose its will, merely mimicking the actions of a functional government.

The supposition that legitimacy is directly generated by the institutions of democratic accountability has been the bedrock of recent international policies towards post-conflict states. But an alternative hypothesis is that legitimacy depends upon a correspondence between the spatial structure of identities and the spatial structure of power. Mismatches, as when identities are spatially

fragmented while power is centralized, can be resolved either by devolving power to identities or by amalgamating identities towards power.

There are many successful examples of the former such as Belgium, Canada and Switzerland. The latter is also possible. Miguel (2004) uses a natural experiment to investigate whether public policy can amalgamate identities. The context is Kenya and Tanzania where an arbitrary border creates two areas with the same tribal composition that were subject to different state policies. President Nyerere of Tanzania prioritized building national identity, through a common language, a common education system, and by placing public officials outside their birth region. In contrast, President Kenyatta of Kenya favored his own tribe, a policy followed by his successors, so that politics became organized on tribal lines. Forty years later, Miguel studied whether villages could maintain a public good: a well. In Kenya, they were better maintained in tribally homogenous villages, but in Tanzania they were well-maintained irrespective of tribal composition: Nyerere had succeeded.⁸

Evidently, in Kenya tribal identities impaired cooperation. But the difference in behavior generated by the contrast between trust and its absence does not exhaust the range of 'other regarding values'. The adverse effects of hostility towards others were illustrated dramatically by Hjorst (2014). The setting was no longer a village but the ultimate melting pot: a flower-packing factory where workers from different tribes lived together in a modern, gated community. Hjorst was able to demonstrate rigorously that other-regarding values were sufficiently strong that workers used opportunities of interdependence to sabotage the income of workers

⁸ An analogous cultural comparison between Zambia and Malawi is Posner (2004).

from rival tribes even though this reduced their own income. Following the political violence of 2008, sabotage worsened and persisted. This is a stark demonstration of what Cunha and Heckman refer to as 'anti-social capital'.

What both these studies imply is that tribal identity came packaged with norms, values and narratives. In the village there must have been some group norm such as 'don't trust other tribes'; perhaps supported by narratives of grievance. Evidently, in the flower-packing factory, enough of this had been internalized as a value that individual workers chose to sacrifice their material interest for the pleasures of antipathy.

Identity defines the boundaries of homophily. Just as Nyerere succeeded in building shared identity in an initially highly fragmented society, so religious differentiation and immigration both potentially reduce homophily with political consequences. In their study of religions in America, Putnam and Campbell (2012) find that religion is the most stable self-described component of identity, virtually impervious to the major shock of the Great Recession. They analyze how the potential for religious identities to become oppositional has been avoided in America by the high incidence of social mixing. ISIS shows the other extreme: a differentiated religious belief supporting an intensely oppositional identity (McCant, 2015). Immigration shows the same wide range of political consequence. The American tradition of social interaction and intermarriage, combined with modest expectations of social support from the state, has limited concern about immigration. In contrast, in Europe immigration accounts for the rise of a new group of nationalist political parties (Pardos-Pardo, forthcoming). This may partly be because of Europe's much larger welfare programs. Rueda (2014) shows that

across Europe the higher the proportion of immigrants the lower is the willingness of those voters above-median income to support fiscal transfers to those below-median income. This implies that those on below-median incomes have a rational reason to oppose immigration unrelated to racism or misperceptions about threats to employment. Pardo and Munoz (2016) provide the psychological foundations for Rueda's result from lab experiments: when subjects are primed with the concept of immigration they are less willing to contribute taxes to public goods.

The institutional versus identity theories of legitimacy have been central to application of social choice theory to the European Union. As set out by Schofield (2006), the likelihood of political chaos, such as violent disorder, is increasing systematically in 'factionalism' and so in the fragmentation of political identities. The European Union with its multiplicity of national identities, is predicted to be at risk of chaotic outcomes. However, this has been offset by both informal and formal mechanisms. The informal mechanism has been through a social network of epistemic communities which tend to produce consensus. Sabel and Zeitlin (2010) describe several of these specialist networks. This style of governance has a precedent in the Holy Roman Empire, which can be seen as the precursor to the European Union. Wilson (2016), argues that far from being a failed conventional empire based on formal power relations between a core and a periphery, it was based on a myth of shared identity, Christian and Roman, and organized through face-to-face informal networks. The purpose of these networks was to forge day-by-day consensus, most notably through respect for the privileges of local groups such as cities and guilds. It was gradually killed by the rise of formalized, written power relations. Schofield focuses on the formal: voting rules of varying power can constrain the range of options and the EU has opted for extreme conservatism

in voting rules through veto power on many decisions. Hence, chaos is prevented by extreme risk avoidance.

As of 2016, extreme risk avoidance would certainly not characterize the European Union. In an attempt to forge shared identity through symbols, the Union adopted a common currency and open internal borders. Both were not just symbols but policy instruments with real consequences for which the Union was unprepared. As these played out as escalating youth unemployment in Southern Europe and escalating movements of asylum seekers, Chancellor Merkel briefly acquired de facto autocratic power, becoming a 'risk-taking autocrat' in the terminology of Schofield. Dealing directly both with the Greek government during its macroeconomic crisis, and President Erdogan during the asylum crisis, she took unilateral decisions subsequently imposed on the Union. A crucial example in terms of Schofield's analysis was the unprecedented suspension of the veto power of individual governments to introduce a requirement that each state should take a quota of refugees. At this point the Commission's power dissolved into theatre, with its directives ignored.

3.2. Motivation and state capacities

Interest-dominated analysis of the state has detracted from differences in state capacities. State effectiveness depends upon the functioning of key organizations: historically, armies, tax authorities and courts. How such organizations function depends upon their culture. Even in the private sector there are decisive differences in organizational cultures (Gibbons and Henderson, 2013), but in the public sector the lack of competition suggests that differences are likely to be

wider. Where cultures of corruption are pervasive public services may be severely impaired: teachers may see it as reasonable not to show up for class; nurses may steal drugs; judges may sell justice. Even core state services such as the military and tax administration may not work. The state becomes locked into dysfunction not due to elite interests, but to the norms, values and narratives that circulate in the social networks associated with these public organizations. A well-researched example is health care. Reinikka and Svensson (2011) show that in Uganda church-run health clinics are significantly more productive than government clinics, despite lower levels of pay.

I focus on a core state function. Building on Tilly's work on the origin of European states, modern analyses emphasize the critical role of the capacity to tax. Hence, the failure to build an effective tax system, which is a feature of many weak states, is central to political analysis. Currently, the explanation for this failure is interest-based. Leaders choose not to invest in building state capacity if they have short horizons, or fear of a transfer of power to another group (Besley and Persson, 2011). An analysis of dysfunctional organizational cultures can provide an alternative explanation: in some societies building an effective tax system would be infeasible. This is illustrated by the attempt of the IMF to get African governments to adopt value added taxation (VAT). Most African governments have agreed to implement VAT, so the failure to raise tax here is not attributable to a direct choice of government. However, once adopted, in several countries the outcome has been a net loss of revenue: tax inspectors are using VAT as a new opportunity for embezzlement, selling receipts for payment of VAT on purchases

that entitle firms to rebates. To understand the constraints on state capacity requires understanding the psychology of tax inspectors.⁹¹⁰

A tax inspector can choose to enforce the VAT legislation, thereby raising money for government revenue, or to sell fake VAT receipts. The conventional explanation for why VAT usually works well is that inspectors are subject to effective scrutiny and penalties. But in OECD societies a more credible explanation is that inspectors have internalized a norm of integrity. Consider now an African tax inspector who participates in two social networks: workplace and family.

The norm generated by the typical African family network is, let us suppose, 'help the family'. The narrative circulating in the family is: 'if you help the family, they will help you'. Finally, through getting his job as a tax inspector in a context in which jobs are scarce, he is able to adopt a respected, but conditional, identity: 'the breadwinner'. The condition is simply that the inspector enacts the role by bringing home the bread.

These three specific mental constructs: 'help the family', 'if you help the family, they will help you', and 'the breadwinner', are mutually reinforcing, conditional upon the new inspector meeting the expectation. The inspector gets self-esteem from fulfilling his identity as the breadwinner. He gets peer esteem from adhering to the norm promoted by his family. The narrative makes the rewards consistent with self-interest: by functioning as the breadwinner, the inspector creates an obligation that may subsequently be useful.

⁹ The beliefs that legitimate taxation are analysed empirically in Levi *et al.* (2009).

¹⁰ This section is based on Collier (2016)

Now consider the workplace network. Following Akerlof and Kranton, suppose that in order to get self-esteem the inspector must enact the role of 'a good tax inspector'. Similarly, the inspector will get peer esteem if his behavior conforms to what his colleagues regard as constituting 'a good tax collector'. Narratives can be generated both by the management and by fellow workers. The narrative of the manager is presumably that conventional to OECD tax departments: 'by raising taxes you are enabling the government to finance valuable public services'. The inspectors can either accept this narrative as true and circulate it ('insider' identity in the terminology of Akerlof and Kranton), or introduce an alternative. The alternative narrative is 'the revenue we pass up the system is stolen by our manager' ('outsider' identity). These narratives are rival in the sense that they are cognitively incompatible. Inspectors may adopt the latter narrative either due to what they observe (the Bayesian account) or weighting according to self-interest (Haidt). In that case they reinterpret the narrative articulated by their manager as self-serving rather than public-spirited and so discount it. The crucial step is the meaning of the workplace norm: what is a 'good' inspector? In an OECD tax authority, the norm is 'a good tax inspector is one who applies the law consistently'. A rival norm, which might apply in contexts of corruption, is 'a good tax inspector is one who exploits opportunities for personal gain to the full'. The two are incompatible in the same way as the two narratives: holding them together would give rise to cognitive dissonance. However, unlike narratives, conflicting normative propositions cannot generally be resolved by objective evidence.

We thus have two rival possible narratives and two rival possible norms. Each narrative is compatible with only a single norm. Each of the compatible pairings of

narrative and norm is fully compatible with the identity 'I am a good tax inspector'. As long as most tax inspectors adopt the same norms and identities, either pairing is compatible with peer esteem. Bringing the two cultures together, we have one set of compatible mental constructs circulating in the family network, and two potentially compatible sets of mental constructs circulating in the workplace network. Clearly, in the OECD the two cultures do not normally generate any tensions. Tax inspectors are sufficiently well paid to meet whatever expectations may be placed on them as the family breadwinner, and expectations of support are likely to be modest because there are many other sources of finance. However, in the stressed economic circumstances of Africa, if the culture of the workplace generates the conventional OECD mental constructs there will be tension between it and the culture of the family. The inspector will lose self-esteem and to the esteem of others whichever choice he makes. If, however, the culture of the workplace is corrupt, then there is no incompatibility: the tax inspector is able to enact both identities and so enjoys both self-esteem and the esteem of others in both networks.

Evidently, in the above set-up, if most tax inspectors hold the pairing of narrative and norm that supports corrupt behavior, the outcome is a dysfunctional but stable equilibrium. Recognizing this, a political leader may decide not to build a tax system but to rely on other means of raising revenue, such as the sale of privileges.

3.3. Coordination: expectations of the behavior of others

Because people are engaged in strategic interactions, their expectations of the consequences of a chosen action will depend not just on their knowledge of the material world, but on their knowledge of the behavior of others. As with all knowledge, this can be generated both by direct observation and by narratives. However, since the most memorable narratives are about behavior, narratives may be a particularly important vehicle for knowledge of how others behave. In an emblematic vignette, Gambetta (19XX), describes the transmission of culture father-to-son in Sicily. The father stands his young son on a high wall and tells him to jump off, waiting with his arms raised ready to catch him. The son jumps, and the father stands aside, leaving his son to injure himself. As the boy gets up, his father delivers the norm which the episode is meant to illustrate: 'never trust anyone'.

Trust, cheating, adherence to weakly enforced law, and recourse to violence are examples of strategic interactions. Such games can have multiple equilibria depending on whether actors can solve their coordination problem. Both the default option of the prisoners' dilemma outcome of reciprocal bad behavior, and the mutually beneficial outcome of reciprocated good behavior are locally stable equilibria, with misplaced presumptions of reciprocated good behavior an unstable outcome. We should therefore expect both wide differences between cultures and infrequent but far-reaching shifts between equilibria.

Differences in trust exemplify coexistent differences in locally stable equilibria.

A study of trust by Charron et al. (2013) uses large-sample survey evidence, enabling estimates for 200 distinct sub-regions of Europe. Even within this area of supposedly common 'European values' they find massive differences. At the extremes, the people of Copenhagen are ten times more likely to trust their neighbors as the people of Slovakia. Northern and Southern Italy still reveal the massive cleavage first identified by Putnam (1993), and which he traced back into the distant past. Either such differences in expectations of trust are without foundation, or they reflect differences in the probability of cheating. In some professions forecasting of trustworthiness is essential and so we would expect efficient usage of observable information. Gambetta and Hamill (2005), provide a fascinating study of how taxi drivers in different societies make such judgments through screening hard-to-fake signals such as facial expressions, their evidence strongly supporting rationality. The implication is that large differences in levels of trust are likely to reflect corresponding differences in cheating. Direct measures of cheating are understandably less common than measures of trust. However, Gächter et al. have recently conducted an ingenious study of cheating using laboratory experiments to a standard design among students in various countries. They find large differences in the propensity to cheat, with Germans the least prone, and Moroccans the most. Analogous to Gächter's study of cheating, Fisman and Miguel (2007) use an ingenious natural experiment to study compliance with unenforceable law: in this case, the payment of parking fines by diplomats in New York. They found both large differences between nationalities that were systematically related to the extent to which the home country was rated as adhering to the rule of law, and also evidence that continued participation in the social network of New York-based diplomats gradually led to a greater

convergence of behavior. Evidently, people became torn between adhering to their culture of origin, and that of their new group norm.

In a different context, Barr et al (2016) studied the behavior of wives in polygamous marriages. Consistent with the above studies of coordination, behavior clustered around two equilibria, in one of which the two wives revealed reciprocal cooperation, while in the other they revealed reciprocated self-interest. As with trust, both equilibria involve reciprocity, but only one is functional.

While common individual behavior presumably matters in shaping expectations, Charron et al. argue that key professions, such as the judiciary are distinctively influential. If professional behavior is untrustworthy, this sets the norms for ordinary people. In effect, in respect of trust, a few professions are nodal actors in social networks.

As to transitions in cultures, an aspect of the European cultural transition celebrated by McCloskey, the decline in violence, has been analyzed from a psychological perspective by Pinker (2011). One such transition was from codes of honor, exemplified by dueling, to codes of justice. In this transition in norms, the obligation to avenge a harm passed from the aggrieved family, with the potential to generate vendettas, to the state. In some societies this transition has yet to occur. A second European transition was the demise of public hangings. Around Europe this occurred shortly after the rise in literacy rates. Pinker regards this as causal. The rise in literacy created a new mass market for novels, and this in turn exposed ordinary people to a new psychological experience. Nineteenth Century novels were typically constructed around a narrative in which a hero with whom the

reader is invited to identify undergoes a struggle. There are good neurological reasons for this format: the neuroscientist Paul Zak (2014) establishes that the brain finds that such a format is particularly memorable. Pinker suggests that reading novels was an inadvertent training in empathy: the ability to see a situation from the perspective of another person. This may well account for why the spectacle of a person being hanged was regarded as prime entertainment in the early Nineteenth Century, but by the later part of it was unacceptable. People were still being hanged: the supposed disincentive for crime was not changed. But, it was no longer fit entertainment. The cultural explanation for this change in public policy is arguably more plausible than one constructed in terms of rational interests.

A similar contest between rational interest and cultural explanations of violence is provided by the striking shift from endemic inter-state violence in Europe prior to the Second World War to sustained peace. The familiar institutional account, as reflected in the award of the Nobel Peace Prize, attributes this to the institutions of the European Union. But an alternative cultural account is possible in terms of the profound psychological shift towards pacifism among the post-war generation of Germans. On this account, European institutions are a consequence of a cultural shift which produced sustained peace, rather than being the cause of peace. The Netherlands is in the European Union and the Euro, Norway is in neither. Prior to the great peace Germany invaded both of them: is Norway now more at risk than the Netherlands?

3.4. Network-derived social misunderstanding

According to rationalist analysis, people understand the causal processes subject to which they maximize by direct observations of the world assimilated through Bayesian updating. The cultural counter hypothesis is that people acquire much of their understanding from narratives circulated in social networks. False narratives may be sustained despite persistent conflict with observable reality.

The anthropologist George Foster (1965) provided an early cultural hypothesis: development was being frustrated by belief that inter-personal relations were zero-sum. Such hypotheses became marginalized due to the rational expectations revolution, but are belatedly being subjected to empirical testing. Currently Nathaniel Nunn and James Robinson are engaged in fieldwork that tests Foster's hypothesis in a remote region of DRC: their preliminary findings suggest that a substantial proportion of the population views inter-personal relationships in such terms, privileging witchcraft over effort and luck as the explanation for success. A more dramatic current example of destructive beliefs sustained through networks is recruitment to ISIS. McCant (2015) argues that this is driven by networked circulation of apocalyptic predictions from the Hadith and the proposition that the Caliphate prepares the way for the Mahdi.

Rationalist and cultural analyses of development also diverge on the role of the IMF in the management of macroeconomic crisis. The IMF has consciously played the role of 'scapegoat' for adjustment policies, justified on the rationalist theory that by taking the immediate blame the costs to governments would be reduced, enabling easier implementation. Inadvertently, this disseminated a false narrative:

pain was due to the IMF, not prior mismanagement. This narrative has proved persistent. Across Africa parts of the population look back fondly upon the disastrous domestic policies of the early 1980s as generators of a golden period.

Finally, the nodal structure of social networks suggests a way to integrate cultural and rational choice analyses of persistently elite-serving policies. By controlling the nodes, elites can control the narrative. They can filter out or neutralize the potentially disruptive information that is continuously being generated by dysfunctional outcomes. Seabright (2016) analyzes the strategic use of the narrative of heavenly rewards by church leaders in Ghana to encourage donations. Extractive elites may find it efficient to rely upon such misinformation.

4. Conclusion

Returning to our starting point, a politically salient organization such as a tax administration that is dysfunctional, or a society that is impoverished, may be trapped not only by the self-interest of a powerful elite, but by the behavioral consequences of its norms, values and narratives. In turn, people acquire these packages of mental constructs through the identities they acquire in social networks. Culture is endogenous, but often stable. Networks, as well as interests, become focal points for political analysis.

For the analysis of most organizations and societies the rational choice framework may be sufficient. But it may fail to account for the tail of the distribution characterized by extreme and persistent dysfunction. Yet these may be a majority of the situations that require public policy responses. An analogy is with

dysfunctional families. The Troubled Families Program, launched by the British Government in 2011, targets a mere 120,000 households that are collectively estimated to have generated £9bn of public costs. Forcing the analysis of the behavior of such households into the conventional rational choice framework of incentives and interests, while denying the influence of distinctive values and misunderstandings, may sacrifice explanatory power for disciplinary purity. It is time to recognize that cultures matter; they evolve through processes that are amenable to scientific study; but there is no compelling reason to expect these processes to be benign.

5. References

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