1 of 1 DOCUMENT

Financial Times (London,England)

April 15, 1992, Wednesday

Personal View: Culture is not to blame

BYLINE: By LAWRENCE H SUMMERS and WILLIAM R **EASTERLY**

SECTION: Pg. 16

LENGTH: 846 words

The world's poor nations have made enormous progress over the past 25 years. They have grown more rapidly than the US did during its spurt to economic maturity, and have cut infant mortality rates in half. Much of the reason for growth is that governments have increasingly allowed market incentives to work. Regulations have been removed, businesses privatised, and trade barriers reduced on every continent.

Will this progress continue? Can the formerly communist nations share in it? Many are sceptical and cite cultural barriers as an obstacle to growth. They say that people in the former Soviet Union lack the capitalist spirit. One recent newspaper article on Latin America was headlined: 'Some find the roots of the region's malaise in colonial-based cultural values.' Even the lagging growth of the US relative to Japan is often ascribed to culture.

The idea that an inappropriate culture is primarily to blame for low growth is a dangerous myth. The record shows that culture cannot be an important hindrance to prosperity, for a simple reason: culture changes slowly, but economic performance changes rapidly. Today's basket cases are tomorrow's successes, and vice versa.

Even the most pessimistic reappraisals of Soviet growth, for example, show income per person rising at historically impressive rates of more than 3 per cent a year in the 1940s, 1950s and 1960s. Although communism has since collapsed under its own weight, the achievement of such growth with a bad system speaks well of the productive potential of the Soviet people. Enterprise managers who could cope with the administrative chaos of a planned economy are likely to cope with a market economy.

In Latin America, the disasters of the 1980s make it easy to forget how well the region was doing previously. Today's basket case of Haiti had faster export growth than Japan in 1968-80. Over the same period, three Latin American countries - Brazil, Ecuador and the Dominican Republic - grew faster than any industrialised country, and 15 (including much maligned Argentina) grew faster than the US. The collapse of Latin American growth in the 1980s had nothing to do with cultural attitudes and everything to do with government deficits and mismanaged foreign borrowing. Countries like Chile and Mexico that have solved those problems have bright futures, if huge inflows of capital and stock market booms are any indication.

The case for cultural obstacles to growth would seem to be stronger in Africa, where many countries' per capita incomes have declined since independence. But Africa also has the country with the world's highest per capita growth rate over the past 25 years: Botswana. A reform wave is now sweeping across the continent.

The idea of cultural barriers to prosperity has often been wrong in the past. Max Weber, who formed the 'Protestant ethic' explanation for western prosperity, derided Confucianism as anti-capitalist. The achievement by Japan and Korea of two of the highest long-run growth rates on record now leads some to argue that a 'Confucian ethic' has replaced the

'Protestant ethic' as the cultural secret to success.

In 1952 an economist named Hubertus Van Mook wrote of south-east Asia: 'The age-long influence of the west . . . failed, with only few exceptions, to instil its economic activity and enterprise into the minds and habits of these peoples . . . The social solidarity, the public spirit, and the economic energy necessary for a vigorous resurgence were lacking.' Since then, south-east Asian nations like Thailand, Malaysia, Singapore and Indonesia have tripled their per capita incomes.

Similarly, Nobel Laureate James Meade wrote of the economy of the African island of Mauritius in 1967 that the 'outlook for peaceful developments is poor . . . The history of the island has led to an association in the mind of the underdog between manual work and slavery . . . Outside (producing) sugar, to which there is a traditional devotion, enterprise and good management are sadly lacking in Mauritius.' In 1970, the government of Mauritius established an export-processing zone that was successful in diversifying exports away from sugar and generating growth in manufacturing employment of 12 per cent per year. In the 1980s, Mauritius had one of the highest per capita growth rates in the world.

Culture cannot be too important when similar cultures perform differently in response to different incentives. Divided countries like North and South Korea and, formerly, East and West Germany are good examples of same cultures, different outcomes. Russian workers' legendary sloth disappears as they cross the border into free-market Poland, where they are reputed to be the hardest workers.

The primacy of economic incentives over culture is good news for courageous reformers. They face great obstacles, but cultural inertia is not one. Peoples of even the most depressed economy have potential for future prosperity.

Lawrence Summers is chief economist and William Easterly senior economist at the World Bank.

LOAD-DATE: April 15, 1992

LANGUAGE: ENGLISH