CHAPTER 4

Culture in Development Theory

During the early- and mid-twentieth century, strong nationalist struggles in the colonial territories of the European powers gained increasing strength. By the 1960s, as a result, most former colonies of Africa and Asia had gained official independence (Chamberlain 1999). Amidst the hopeful energy of the postcolonial world, intellectuals, primarily in the former colonial powers, took on the task of designing plans which would assist the newly emergent nations to achieve the levels of affluence that had been attained in Europe and the United States. A worldview that consisted of colonies and colonizers was replaced by a worldview that was based on the premise that there existed "developed" nations and correspondingly "underdeveloped" ones. In the mid-twentieth century, it became increasingly the task of the great technocratic minds in the governments and universities of the former colonial powers to help the "underdeveloped" to become "developed" (Escobar 1994; Tucker 1999). The purpose of this chapter is to locate the idea of culture in the development theory that emerged in this period, and that which followed it into the twenty-first century.

The overall purpose of this undertaking, you will remember, was to search for the source of the uncomfortable silence I experienced when trying to communicate with a professor of neoclassical development economics about the idea of culture. I suggested that this silence was but a singular example of the many such silences that pervade, and impede, development thinking in general. Proposing that this silence had something to do with

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the evolution of disciplinary thinking regarding development and its relation to culture, I set out to explore this thought as it evolved in from the late eighteenth to early twentieth centuries. The story began with classical political economy and its holistic treatment of questions regarding wealth creation in national economies. We then saw what I suggested to be a splitting of this great discipline into three schools—neoclassical economics, critical political economy, and sociology. This taxonomic classification will be retained in the work of the current chapter with the exception of the last school of thought in the list.

The category of sociology will no longer be useful in creating the distinctions necessary for discussing post-WWII development theory. There are two reasons for this. First, the field of sociology had changed so much by the postwar period that any general characterization would be futile. Some sociologists, instead of being sceptical of neoclassical economic methods, conspired with neoclassical economists in the postwar period in the creation of modernization theory (Parsons 1937, 1935a, b), or, later, through the adoption of rational action theory (Coleman 1973). Furthermore, after the fall of classical political economy, Marxian theory was incorporated into sociological thought to the extent that Marx is now considered one of the three classical sociologists along with Durkheim and Weber.

Although postwar development thinking, as we will see, fluctuated from being interdisciplinary to disciplinary, it did move roughly around three axes. *Neoclassical Economics* would prove to be the most powerful of these (in the hegemonic sense). *Critical Political Economy* would maintain a Marxian scepticism of the liberal view. Finally, *Cultural Approaches* arose from multiple disciplines, asserting the importance, if not the primacy, of culture in human existence. I will use these headings as classificatory tools throughout the following two chapters. It should be noted, however, that due to the range, complexity, and quantity of work in the field of development studies in the latter half of the twentieth and early twenty-first centuries, no classification could be perfect. Nonetheless, these categories are useful in emphasizing the place of culture in development theory, and therefore serve the present undertaking particularly well.

That undertaking, of course, is to pinpoint the source of the uncomfortable silence that arose between myself and my neoclassically trained professor, as I attempted to hand him a culture-based critique of an economic study. Part of the answer is apparent if we consider the work of the previous chapter. The splitting of the holistic study of classical political

economy into the three relatively insulated fields of *Neoclassical Economics*, *Critical Political Economy*, and *Sociology* could have curtailed conversation. But it is also possible that such a division of labour could have yielded a Durkheimian organic solidarity amongst the social sciences—one in which economies of scale, due to specialization, were made accessible via cross-disciplinary communication and cooperation. I will suggest that the latter did not occur, and that the gap in conversation between myself and my professor stands as a symptom of the inability of these Durkheimian disciplinary organs to speak effectively to one another.

What I hope to show in this chapter is that although a great deal of communication and interaction has been possible—especially of late—between Cultural Theory and Critical Political Economy approaches to development, the neoclassical school remains relatively insular. Critical Marxian approaches tend to bleed into cultural approaches, for example, making any clear distinction between the two somewhat arbitrary. Ontological, epistemological, and methodological differences between neoclassical economics and the other two fields, on the other hand, have pre-empted meaningful conversation. These differences stem from the rigidity of the enduring Newtonian method in neoclassical economics on one side, and the inability of the other approaches to accept such a simplistic depiction of human life on the other. In conversation with other social scientists, the methodological individualism of the neoclassical economist meets a "big intangible something" that does not optimize properly. The "big intangible something" meets, in the methodological individualism of the neoclassical economist, a straightjacket that it just can't quite fit into. Conversation stops.

Neoclassical Approaches

Modernization Theory

Economists, of course, have not always had such a difficult time conversing with other social scientists. As we saw in the first chapter, the classical political economists combined cultural, ethical, and political insights with their economic analyses while retaining a linear Newtonian-Cartesian method. They did this, however, by holding the social apart from the economic. Smith, for example, allowed his *Theory of Moral Sentiments* to sneak into his *Wealth of Nations* only in a vague footnote. A similar uneasy interaction of methods occurred in the postwar period in development

thinking, within the surprisingly interdisciplinary approach of *modernization theory*. This stream of thought—the most prominent in the postwar era—combined skillfully the sociological approaches of Durkheim and Weber with Keynesian and Austrian economics.

The thinking behind modernization theory is fairly straightforward: Keynesian neoclassical economists had shown that markets inhabited by rational individuals can achieve allocative optimality when these markets are guided properly by governments. Durkheimian and Weberian sociologists, on the other hand, had discovered the sociological secrets by which humans had shed their traditional ways and become rational and entrepreneurial. Effective development policy would therefore seek to install market systems in developing countries while helping their citizens to become rational and business-like, that is, to become a mixture of the homo economicus of the mainstream neoclassicalists and the entrepreneur of the Austrian school. In this concept, we see cooperation between neoclassical and sociological approaches. It was as if the Weberian and Durkheimian sociologists were embarking on the task of creating rational economic actors out of traditional peoples in the former colonies so that they could deliver them, fully formed, to the neoclassical economists. The latter would then submit these properly behaving actors to the invisible hand of the market, intervening from time-to-time with the benevolent hand of the state. The result would be development—defined as increased economic output. The only thing missing in this mixture was critical thought (in the Marxian sense).

One of the prominent features of modernization theory was a claim that human societies tend to pass through a number of stages as they evolve historically. Parsons (1964) had suggested, for example, that this involved a passage from the traditional, to the archaic, to the modern—the latter representing the apex of human social achievement. Following Durkheim's lead, Parsons implied that the modernization of human society was an extension of evolutionary tendencies in the biological world. The physiological innovations of the human brain and human hands, Parsons argued, endowed the species with a "biological potential for social and cultural evolution" (p. 84). This capacity, he continues, improves the "mastery, or the ability to change the environment to meet the needs of the [social] system" (p. 85).

Once endowed with the physical ability to make culture and to manipulate its own environment, Parsons (1964) argues, societies pass through a number of "evolutionary universals" on their road to modernity. The first

of these is "social stratification" which "tends to exert a pressure to generalized hierarchization" (pp. 89–90). This propensity, combined with its "cultural legitimation," stimulates the existence of "prestige" positions which are the "prerequisite for responsible concentration of leadership" (ibid.). These advents, for Parsons, "are closely related to the "breaking out" of what might be called the "primitive" stage of societal evolution (p. 87). Next, the evolutionary universal of "bureaucratic organization" is developed "in societies that have moved considerably past the primitive stage" (p. 92). This "authority of office" is found primarily in government, but also "within money and markets" (ibid.). The "system of money and markets," another evolutionary universal, provides a similar organizational function as a bureaucratic system, but is more adaptable. It follows for Parsons that "those who restrict [the market] too drastically are likely to suffer from severe adaptive disadvantages in the long run" (p. 95). Excessive state control of economies, then, will impede evolution.

The next evolutionary universal that Parsons (1964) proposes is a ubiquity of "generalized universalistic norms"—the erasure of cultural difference, which was a "distinctive" step that "more than the industrial revolution itself, ushered in the modern era of social evolution" in Europe (p. 95). Parsons argues that such cultural homogeneity allows a legal order to be established on universally held principles and clears the ways for the institution of the final evolutionary universal of "democratic association" (p. 96). This generalized universality and democratic association, along with the advent of markets and bureaucracies, exerts a social pressure on the human actor that stimulates a "formal rationality" (ibid.). That is, a type of rationality in which human actors are endowed with more or less homogenous beliefs and tastes, and go about pursuing the satisfaction of these within a "general type of legal order" typified by bureaucratic governments, markets, and democratic association (pp. 96–97). In this stage, homo economicus is at long last fully evolved and may present himself to the neoclassical economist—perfectly amenable to his calculus.

The most commonly noted articulation of modernization theory, following Parsons' general framework, is to be found in economic historian W.W. Rostow's (1960/2000) *The Stages of Growth: A Non-Communist Manifesto*. Rostow suggested that societies pass through five stages on their journey to maturity. First, "traditional society" develops "within limited production functions, based on pre-Newtonian science and technology, and on pre-Newtonian attitudes towards the physical world" (p. 100). Rostow uses Newton "as a symbol for that watershed in history when men

came widely to believe that the external world was subject to a few knowable laws, and was systematically capable of productive manipulation" (ibid.). In the traditional period, productivity was greatly limited due to technology and the "value system … was generally geared to what might be called a long-run fatalism," typified by the belief that "the range of possibilities open to one's grandchildren would be just about what it had been for one's grandparents" (p. 101).

In the second phase, "the Preconditions for Take-Off," Rostow (1960/2000) argues that "the insights of modern science began to be translated into new production functions both in agriculture and industry" and that these processes are "given dynamism by the lateral expansion of world markets" (p. 102). In this environment, "the idea spreads not merely that economic progress is possible, but that economic progress is a necessary condition" (ibid.). We see the emergence of the entrepreneur as "new types of enterprising men come forward … willing to mobilize savings and to take risks in the pursuit of profit" (ibid.). Quite often, the emergence of this epoch was motivated externally, "from some external intrusion by more advanced societies," such as colonial intrusions, which "shocked the traditional society [and] set in motion ideas and sentiments which initiated the process" (ibid.). Even so, Rostow argues that this period is often finalized by "the building of an effective centralized nation state" and sentiments of nationalism in opposition to colonial powers (p. 103).

According to Rostow's argument, the seeds for the transformations in the last three phases were planted in the first two. It is in the period of "Take-Off" that,

> the old blocks and resistances of steady growth are finally overcome. The forces making for economic progress, which yielded limited bursts and enclaves of modern activity, expand and come to dominate the society. Growth becomes its normal condition. (p. 103)

Following this period, the "Drive to Maturity" is epitomized by "a long interval of sustained if fluctuating progress" (p. 104). Finally, in the "Age of High Mass Consumption," the "leading sectors shift towards durable consumers' goods and services" (p. 105). This is the age that Rostow believed the American people were at his time emerging into. The consumerist ethic of this period, Rostow argued further, was accompanied by

the emergence of the welfare state—a symbiosis of modern democratic state and capitalist market.

Rostow's model and the work of Parsons stand as typical examples of modernization theory. There also have been more economistic versions of the theory, based on neoclassical theory—focusing on moves from traditional agriculture to modern manufacturing as a source of growth (Lewis 1955). Some studies have focused more on political aspects, regarding the formation of modern institutions and cultures of political participation (Huntington 1968). Some have stressed the importance of the dissemination of knowledge, creation of new imaginations, and consequently entrepreneurial and politically active subjects via the increased communication and understanding that come first with urbanization, then with literacy, then with mass media (Lerner 1958). There have also been attempts to designate exact behavioural traits that are typical of modernity, and therefore conducive to development (Inkeles and Smith 1974).

There are important commonalities in these works. Each tends to define underdevelopment as a lack of productive capacity. Each of these works represents an attempt to locate the source of underdevelopment in a set of "primitive" institutions, cultural, economic, or social practices. Each of these tends to cast the solution to the problem of underdevelopment as the adoption of European or North American-style norms, institutions, and technologies. Consequently, each of these various modernization theories tends to blame the poor for their own poverty and prescribe more contact with, and diffusion of, the culture and technical knowledge of Western civilization as the remedy. Rational homo economicus looms in the background of each theory as the ideal type of human actor towards the creation of which policy should be directed—perhaps with a bit of the entrepreneur sprinkled in for good measure.

Modernization theory undergirded the development policy that emanated from the United Nations institutions—especially UNESCO and the World Bank—as well as all the official aid agencies of the Western powers in the postwar period. Policies encouraged the proliferation of global markets under the Bretton Woods system—presided over by the IMF, World Bank, and GATT. National democratic governments based on a Western-style state, active political participation, and strong national identities were encouraged in the former colonies (Martinelli 2005; Thussu 2000). Large infrastructure projects were initiated, typically funded through international loans and encouraged by the World Bank (McMichael 1996, p. 31).

Finally, the diffusion of Western ideas, culture, and technologies was encouraged via the expansion of open markets, the imposition of development projects that were designed by the Western powers, and the insertion of organizations such as the US Peace Corp into the former colonies (Webster 1984, pp. 53–56; Dube 1988, p. 4; Thussu 2000). This was a deliberate homogenizing process which was bolstered greatly by the international expansion of American and European mass media conglomerates. This mass communication system was to be used, as Thussu (2000) explains, "to spread the message of modernity and transfer the economic and political models of the West to the newly independent countries of the South" (p. 56). The largely American-produced content of these mass media networks "championed the Western way of life and its values of capitalism and individualism," in an attempt not only to incite cultural change for development, but also to create foreign consumers for Western-made goods and services. All of this—the building of markets, dissemination of knowledge, and creation of national identities—would be guided nationally by states, and internationally by the Bretton Woods system. All of this was accompanied by Keynes' general theory which advocated state intervention in market-based societies towards the universal institution of modern welfare states (ibid.).

New Classical Economics and the Washington Consensus

In 1947, Friedrich von Hayek organized a meeting of thirty-six of the top free-market scholars in the world—mostly economists—at Mont Pélerin, Switzerland. Hayek and the other attendees had great misgivings about the Keynesian turn towards the state-led economic development that accompanied modernization theory. They also lamented the persistence of planned economies in the Soviet Union and elsewhere. The purpose of the Mont Pélerin meeting was to begin work on an intellectual counter to these ideas, as participant Milton Friedman (2000) explains:

> The point of the meeting was very clear. It was Hayek's belief, and the belief of other people who joined him there, that freedom was in serious danger. During the war, every country had relied heavily on government to organize the economy, to shift all production toward armaments and military purposes. And you came out of the war with the widespread belief that the war had demonstrated that central planning would work.… Hayek and others felt that freedom was very much imperilled, that the world was turning

> toward planning and that somehow we had to develop an intellectual current that would offset that movement. … Essentially, the Mont Pelerin Society was an attempt … to start a movement, a road to freedom as it were. (para. #3)

This project more or less involved a cooperation of neoclassical economists from the Austrian tradition and those, such as Friedman, George Stigler, and Frank Knight, from the Chicago school of economics to forward the cause of a free-market-based opposition to the state-led model (ibid.). Hayek ended this meeting with a plea for all those involved to work towards this end, warning that it may take twenty years or more, but that the ideal would eventually prevail (Harris 2000). Hayek and his work would remain greatly involved in this process until his death—his (1944) *Road to Serfdom* served as a great inspiration to both Margret Thatcher and Ronald Reagan in their push for market deregulation in the 1980s (Harris 2000). The bulk of the heavy-lifting in this project, however, would be carried out by Chicago school economists—primarily by Milton Friedman.

"Friedman," writes Van Overtveldt (2007), was "probably one of the most enthusiastic and articulate supporters of a free-market economy that has ever lived" (p. 91). One could only imagine, then, that he was more than willing to take up the challenge posed by Hayek. Keynes' *General Theory*, as Hazlitt (1977) explains, "constitutes the most subtle and mischievous assault on orthodox capitalism and free enterprise that has appeared in the English language" (345). To dismantle the prevailing ideology of state-led economy, then, Friedman would have to directly attack Keynes' ideas. Since Keynes' *General Theory* was an integral part of modernization theory, this meant as substantial attack on mainstream development theory as well.

Friedman chose first to challenge the core Keynesian (and Marxian) idea that the propensity to save increased with income. This, we should remember, was used by Keynes to predict crises of underconsumption that would occur in the event that free markets produced high degrees of income inequality. Keynes had used this assertion to justify government intervention both to redistribute income and to undertake spending to offset the lack of private expenditure. Marxian theorists, as was discussed in Chap. 2, used a similar assumption in their theories of imperialism. Friedman forcefully dislodged the Keynesian claim regarding the propensity to consume by arguing that it did not fit historical data. He then

presented his own *permanent income hypothesis* that entrenched in mainstream economics the idea that savings rates remain constant regardless of income levels, and therefore that there is simply no such thing as a crisis of overproduction. Friedman's seemingly small technical refutation about savings rates, in effect, denied the Keynesian claim that fiscal policy could be used by governments to any positive effect—and, he believed, showed that this market interference could in fact harm economic performance.

Key to the Keynesian advocacy for fiscal policy was a claim that the other economic policy choice available to governments—monetary policy—was not effective. Basing their argument on empirical data, Friedman and Schwartz (1963) showed that monetary policy can have a devastating impact. In fact, they claimed their data to show that monetary mismanagement in the early twentieth century, leading to a monetary contraction, had caused the Great Depression. This would lead Friedman (1998) to comment later that, "far from the great depression being a failure of the free-enterprise system, it was a tragic failure of government" (p. 233). Expansionary monetary policy was similarly dissuaded by Friedman (1968), as he insisted that an increase in the money supply would cause inflation, which would, in turn, cause unemployment and recession. As a result of these insights, Friedman (1962/1982) proposed the *Monetarist Rule*—that the money supply should be expanded only at a rate equal to long-run growth. Through his arguments, then, Friedman made the case for a severe curtailment of government activity in both monetary policy and fiscal policy.

Other Chicago school economists attacked interventionist policy just as vehemently. Stigler (1988) used empirical testing to show that competition existed amongst large companies, and that prices were flexible to market conditions. Implying that markets function competitively even under oligopolistic conditions, he maintained that "competition is a tough weed, not a delicate flower" (p. 104). Lucas (1997) used the idea of rational expectations to argue that government policy is often ineffective anyway, and that tax cuts are the best way to induce economic growth. The effort of both these economists worked to dissuade the government intervention in markets, the restriction of monopoly power, and progressive taxation.

Finally, in Friedman's (1962/1982) *Capitalism and Freedom*, these economic theorems were linked with an ideal of political freedom. In the text, Friedman argued that economic freedom is important in its own right—regardless of impact on economic growth. He also argued,

however, that economic freedom is a necessary condition for the existence of political freedom. Economic control, he insisted, is always accompanied by political repression, and free markets are more difficult to coerce than are government production and distribution systems.

These neoclassical economic arguments had an incredibly strong impact on economic development policy. The first experiment in extreme free-market economics was orchestrated by Chicago-trained economists in Chile in the early 1970s, then other Latin American countries, and later former Soviet Bloc nations. In all instances, these policies were instituted with the help of severe political repression (Klein 2007). The height of Chicago School's impact on development policy would be achieved later, in the 1980s and 1990s, with the reformulation of development policy as enacted by the World Bank, IMF, and bilateral agencies. During this period, policy measures in these institutions were changed from modernization-theory inspired state-mediated-market-based strategies to state-minimizing market-centric ones. The institution of these policies was forced through conditionalities that were attached to World Bank and IMF loans. These structural adjustment programs (SAPs), as they were called, contained measures to reduce budget deficits and government subsidies, cut marginal tax rates, deregulate interest rates, devalue currencies, reduce tariffs, encourage foreign direct investment through the deregulation of the national economy, privatize state-owned enterprises, and establish and reinforce private property rights (Van Waeyenberge 2006). Resultantly, by the end of the 1990s, most of the world was arguably embedded in a neoliberal world system that relied on Chicago School's neoclassical economics for scientific justification.

Culture has little place in neoliberal economic analysis. Since, as with all neoclassical method, stable preferences are prefigured, there is no room for social action to have an impact on these preferences. Tyler Cowen (2002) has presented what is probably the most complete new classical treatment of culture available. Cowen argues that a diversity of choice in cultural products is encouraged by the proliferation of free markets across the globe. Gains from trade encourage niche markets to form for "marginal" cultural expressions such as Inuit art. Specialization and economies of scale allow high-cost, high-quality productions to be made available cheaply to all—as he argues is the case with Hollywood film. The global free-market production of culture, Cowen argues, expands the "menu of choices" available to all. On final analysis, he claims, "just as trade typically makes countries richer in material terms, it tends to make them culturally

richer as well" (pp. 12–13). Cowen purposely restricts his analysis to markets for cultural products here, however, leaving no room for discussion of the impact that this or other forms of human communicative interaction may have on preference sets. Culture, in the hands of New Classical economics, has become just another commodity.

New Institutional Economics

Old institutional economics, as we discussed in Chap. 2, presumed human behaviour and tastes to be conditioned and formed by social institutions such as culture. New institutional economics, however, emerged largely out of the new classical school. It begins, therefore, with the assumption of individuals endowed with pre-existing and stable preference sets. Institutions are assumed to be constructed as rational actors seek to correct for market failures that they encounter in their attempts to maximize utility. These market failures are generally associated with incomplete information, transaction costs, or spillover effects from the action of others (Hodgson 1998).

Although not always explicitly associated with new institutionalism, much of the work of Gary Becker exhibits the main qualities of the school. I will focus here on the parts of Becker's work that are consistent with New Institutionalism. His analysis begins almost fanatically with the assumption of a pre-formed rational individual and explains idiosyncrasies in human behaviour as a result of incomplete information and spillover effects. George Stigler (1982) had distilled the Chicago School's credo down to one simple statement: "people act efficiently in their own interests" (pp. 11–12). Gary Becker ran with this idea, attempting to apply it to nearly any imaginable human phenomenon. As Nobel laureate George Akerlof (1990) would describe it, it was as if Becker had learned how to spell the word "banana," but didn't know when to stop. Knowledge of this approach is important for the purpose of this book, since Becker's method at once represents the most purified and far-reaching form of neoclassical economics and perhaps a vehicle within which that discipline could begin to engage with the idea of culture.

Beckers (1976) approach begins with four major assumptions:

1. Human agents always engage in utility maximizing behaviour
2. Human agents are rational, in that they choose one action over another by calculating costs of each option and weighing them against benefits. This may be done consciously or subconsciously.

3. Markets are ubiquitous in all facets of human life.
4. All human agents have a stable set of tastes (preferences), which are "assumed not to change substantially over time, nor to be very different between wealthy and poor persons, or even between persons in different societies and cultures" (p. 5).

The definition of "preference" is important here. The preferences to which Becker refers are "underlying objects of choice that are produced by each household [or individual] using market goods and services, their own time, and other inputs" (ibid.). These "underlying preferences" are biologically determined and "are defined over aspects of life such as health, prestige, sensual pleasure, benevolence, or envy" (ibid.).

If I were to consider telephoning my mother, for example, I would consider rapidly and subconsciously all the benefits—potential bequests of money and emotional benefits of familial contact. The emotional benefits may contribute directly to an underlying preference for social contact with others, but financial bequests may only serve as an input in a production process within which I use my time and mental capacity with the financial bequest to produce goods corresponding to underlying preferences such as prestige and health. In deciding to call my mother, I would weigh these benefits against costs—energy required to remember her number and find the telephone, opportunity costs of the time spent on the phone call, and of course the long-distance charges involved, would be some of the costs implied. With this information, I make my final decision. According to the Beckerian approach, a similar set of preferences, prices, and cost constraints exists for every choice or action undertaken by a human being.

Becker's (1964) concept of *human capital* provides an important augmentation to this framework. Human capital is a stock of skills and knowledge that assists in the efficiency of a person or household in producing the commodities that satisfy underlying preferences. Human capital is also knowledge gained in order to increase the efficiency of a person's or household's internal production function—their ability to use goods in the satisfaction of underlying preferences. If I learn to speak English, for example, it could increase the value of the social interaction I have with my mother—especially if this interaction occurs over the telephone. My language education increases my efficiency in producing the fundamental commodity "social interaction." Similarly, if I had decided to sacrifice time earlier to memorize her telephone number, the time-related costs of telephoning my mother would be reduced because I do not have to search for

the number. Knowing how to use a telephone allows me to utilize the technology to deliver my mother's voice to my home and to export mine to hers. In Becker's terms, my acquisition of human capital by learning a language, remembering my mother's phone number, and learning to operate a telephone have decreased the *shadow prices* associated with the satiation of my underlying preferences.

The exact delineation of underlying preferences is never clearly undertaken in this school of thought. Since Becker insists that a universal stable set of underlying preferences must exist, it may have made sense for him to present the contents of this set when he established his theory. This was not done, and as a result, underlying preferences are assumed in an ad hoc manner in Beckerian-style studies. Even in Becker's (1976) authoritative book on his own method, he, seemingly without question, includes power-steering, inter-city visits, higher education, wheel-base, altruism, income, profits, power, prestige, genetic transfer, acceptance, and distinction in a universal preference set. Obviously, tautology is the great risk of the economic approach to human behaviour, unless a universal set of underlying preferences may one day be delineated.

It could be conceived that culture enters into this formulation through the idea of human capital. If the act of creating and learning languages in order to satisfy underlying preferences can be called culture, then we have a cultural argument here. Indeed, this is the purpose of language in Becker's (1990) opinion—a classification system that is a public good in that it must be shared in order to allow self-interested actors to coordinate actions. This, however, does not fit with our broad guiding definition of culture as an extra-individual social force that is presumed to impact the preferences, habits, motives, values, and valuations of actors. Underlying human preferences are assumed to be fixed in Becker's framework; language and other forms of human capital are used instrumentally to achieve the maximization of pre-figured utility functions. Culture, then, is far from fundamental in Beckerian economics—it is a secondary phenomenon which has no impact on underlying preferences. As we will see later, all institutions are treated in a similar manner in new institutional economics.

Another important feature that emerges from Becker's (1976, 1996a, b) work is the claim that human action is path-dependent. Since information is limited, and substantial costs must be incurred in gathering it, it is less costly for individuals to utilize information they already have, than to acquire new information. If I have an underlying preference for music, for

example, and I have spent a great deal of time learning to appreciate jazz—thus lowering the shadow price for appreciation of that form of music—it is more efficient for me to satisfy my need for music by listening to more jazz than to expend energy in acquiring the knowledge required to appreciate hip-hop. As I listen to jazz subsequent times, it only serves to increase my understanding of the form—locking me further into my penchant for that style of music. Note that my underlying preference for music has not changed here. What has changed is my ability to produce that underlying commodity "intelligible music," which satiates my demand.

In his later work, Becker (1996a) substantially revises his definitions in a way that allows for the greater inclusion of the social in analysis. *Personal capital* replaces human capital in the consumption function. The former comes to include "the relevant past consumption and other personal experiences that affect current and future utilities" (p. 4). The concept of *social capital* is also introduced. This "incorporates the influence of past actions by peers and others in an individual's social network and control system" (ibid.). Human capital comes to signify a person's "stock of personal and social capital" as well as a person's stock of knowledge and skills. The overarching component human capital, then, has been broken down into three constituent parts—personal, social, and (confusingly) human capital. For Becker, "the utility function at any moment depends not only on the different goods consumed but also on the stock of personal and social capital at that moment" (p. 5), as well as human capital (meaning knowledge and skills).

Because the idea of social capital is central to both development and cultural theory, it is important to understand Becker's (1996b) use of the term. "The effects of the social milieu," he argues, are synonymous with "an individual's stock of social capital" (pp. 49–50). And this stock "depends not primarily on [a person's] own choices, but on the choices of peers in the relevant network of interactions" (ibid.), although a person can take actions to impact their own social capital (p. 165). As Fine (2001) has argued, the term "social capital" has become for Becker, "a catch-all for anything that improves life but that has not already been covered by those elements of personal capital" (p. 41). For example, a reduction in racial discrimination can be seen as an increase in social capital for the victim of discrimination, and this reduction will increase opportunities, such as acquiring education and work, to increase overall utility (Becker 1996a, pp. 140–145). Further, Becker (1996b) argues that people have an underlying preference for sociality, and this can mix with underlying preferences

for other goods, making some restaurants and types of music more popular, just because they are more popular (pp. 195–202). Individuals who act particular ways are rewarded with social capital and may invest in it themselves. For example, Becker argues that a person,

> can avoid social opprobrium and perhaps ostracism by not engaging in criminal activities; achieve distinction by working diligently at his occupation, giving to charities, or having a beautiful house; or relieve his envy and jealousy by talking meanly about or even physically harming his neighbours. (p. 165)

The concept of social capital is integral to the new institutional economics of development. Although the term has an embattled meaning, it is usually defined more precisely than it is in Becker's catch-all depiction. New institutionalists generally see social capital as a communal resource that is mobilized in the solving of social dilemmas—especially in the presence of market failures. As Bates (1995) explains,

> A social dilemma arises when radical individualism becomes inconsistent with social welfare, namely when choices made by rational individuals yield outcomes that are socially irrational. The core argument of new institutionalism is that institutions provide the mechanisms whereby rational individuals can transcend social dilemmas… Market failures yield social dilemmas and thereby elicit the innovation of institutions. (p. 29)

The classic example of a social dilemma is the common pool resource. When private property rights are not assigned to a stand of trees, for example, each individual in a community has an incentive to cut as much timber as possible without replenishing the stock. Left to itself, this dynamic would result in the total depletion of the resource. Communities may develop means to abate this problem such as the evolution of a norm that regulates tree-cutting practices—perhaps via a religious reverence to the forest. This norm represents a form of social capital. Such institutions can arise in a variety of other situations. To compensate for failing or non-existing capital markets, for example, Bates argues that people,

> Mobilize family ties, religious groups or ethnic associations in support of commerce and trade; the richness of information in such environments facilitates calculations of the appropriate level of trust and the density of social ties increases the cost of the loss of reputation, rendering probity of greater value than opportunism in economic transactions. (p. 36)

It is argued that market failures exist in all economies, but that "the economies of the developing world are characterized by pervasive market failure" (Bates 1995, p. 36). Since incomplete information and common pool resource problems (and similar public goods provision problems) exist in all countries, an enormous literature has emerged with the intent of scouring both micro- and macro-level data for indicators of trust, social cohesion, civic participation, and other informal institutions that are presumed to constitute social capital. In such studies, a lack of any of these key indicators is assumed to be a deficiency in social capital, and therefore to contribute to the problem of underdevelopment in any given locale (Munshi 2006; Morduch 1991; Dayton-Johnson 2001).

Path-dependency provides a complicating factor for these arguments, however. Since human behaviour and institutional evolution are presumed to be path-dependent, outmoded institutions may remain when external technological and political situations have changed. As a result, enduring institutions may be inefficient in that they block the maximization of total productive output. According to North (1995), for example, human actors create "mental models" of the world in order to cope with limits to knowledge and mental capacity for processing information about the actual nature of things. These mental models are "used to interpret the world" and are "in part, culturally derived" (p. 18). They are cultural institutions. North explains the rise of these institutions as follows:

> As tribes evolved in different physical environments they developed different languages and, with different experiences, different mental models to explain the world around them. To the extent that experiences were common to different tribes the mental models provided common explanations. The language and mental models formed the informal constraints that defined the institutional framework of the tribe and were passed down intergenerationally as the customs, taboos, myths that provided the continuity of culture and forms part of the key to path dependence. (p. 20)

With new technological advances, however, "human beings became increasingly interdependent, and more complex institutional structures were necessary to capture potential gains from trade" (pp. 2–21). North continues,

> to the extent that 'local experience' had produced diverse mental models and institutions with respect to the gains from such cooperation, the likelihood of creating the necessary institutions to capture the gains from trade of more complex contracting varied. (p. 21)

Some cultures, this implies, were just not designed to be successful in generating income in a modern global economy. Just as with modernization theory, traditional culture is thought to impede development.

For North and others, it was not simply the path-dependent nature of culture that prevented institutional change. Internal power structures also have their determining impacts, as local elites were perceived to be preventing positive evolution in poor societies due to their stake in the current state of affairs. This, combined with cultural path-dependent arguments, has spurred an alignment of new institutional economics with a brand of social science that has been dubbed "hypermodernism" by Rao and Walton (2004). Key hypermodernist theorists include Francis Fukuyama (2000), who labels some cultures deficient in trust and social capital in general; Robert Putnam (1993), who has produced a number of studies, placing the blame for underdevelopment on a lacking of civic culture; and Harrison and Huntington (2000), who published the principal anthology in the school. In the Harrison and Huntington text, one finds a taxonomy of good and bad cultures, all measured according to their alleged ability to facilitate a tacitly assumed underlying social preference for increased productivity and therefore income—aggregated to gross national product. The new institutional economics, it seems, is a return to modernization theory. This is all built on the presumption of homo economicus endowed with one universal preference set, and the apparent assumption that the universal preference that matters is for something called "income" and is measurable by gross national product.

An extension of this approach appears in cultural economics literature; the most prominent of which appears in the work of Throsby (2001). Here, the new institutionalist idea is clearly adhered to. Throsby claims that, in an economy, "collective action may occur," and that if "markets fail or do not exist, voluntary or coercive collective action may be required in order for optimal social outcomes to be achieved" (p. 13). But Throsby insists that there is another type of human impulse that is distinct from the economic—the cultural impulse—and that this "desire for group experience" mixes with the economic only where strictly defined cultural goods are concerned (ibid.). Such goods may be musical, artistic, or even related to sports, and the behaviour around their production and consumption "reflects collective as distinct from individualistic goals, and derives from the nature of culture as expressing beliefs, aspirations and identification of a *group*" (ibid.). As a result, it seems that cultural economists are at once new institutionalists and old institutionalists. They are the former when

discussing the bulk of economic activity; they are the latter when they discuss a strictly quarantined set of 'cultural' goods—such as sound recordings or works of art.

This is not entirely an accurate description, however. Cultural goods are treated by Throsby (2001) as normal economic goods that happen to have a particular penchant for causing market failures. This is a thoroughly new institutional approach which sets cultural goods aside as a brand of misbehaving commodities—a curious exception that must be treated delicately and requires institutional intervention to sustain properly functioning markets. At other times, however, Throsby treats preferences as mutable. This mutability, unaccompanied by a tiering of levels of preferences as appears in Becker's work, violates core neoclassical presumptions (p. 68). This methodological inconsistency is a direct by-product of Throsby's dichotomization of culture and economy. It allows for useful insights, such as the insistence that culture may change "what economic development means" from place to place, culture to culture (p. 66). But Throsby's dichotomy implies that such insights must be only applied to cultural goods which are confined to one part of the total economy. It is likely for this reason that cultural economics has not impacted economic analysis outside of the treatment of strictly defined cultural goods. The remainder of Throsby's analysis, such as the claim that consideration of cultural factors may imply that there are different paths to development (p. 67), is decidedly new institutional since it treats culture as a resource to produce income.

An important insight that emerges from the work of cultural economist such as Throsby's (2001) is that tastes themselves can be path-dependent. A similar argument is integral to Becker's (1996b) analyses of tastes. The argument here suggests that a certain amount of knowledge is required in the consumption of cultural goods. The act of consumption is therefore at once an act of learning. The more jazz we listen too, the more we tend to appreciate the genre. Our tastes seem to have changed, but really we have simply made the consumption of jazz easier by acquiring skills that facilitate its consumption. Our enjoyment of a particular good becomes dependent on the amount of that good that we have consumed in the past. For Throsby, this tendency is noted only in relation to strictly delineated cultural goods. Becker allows this path-dependency to apply to a broader range of goods.

Generally, new institutionalism has provided some welcome theoretical relief from the market utopianism of the new classical school. Work by new

institutionalists has allowed for substantial a reinvigoration of interventionist arguments. This has resulted in a post-Washington Consensus regarding policy prescriptions of the major development institutions. As Stiglitz (1998) has suggested, this new development economics is much more holistic as it concentrates more on state–society–economy partnerships as opposed to casting these spheres as oppositional. But if new institutionalism has ejected one form of economic reductionism, it has replaced it with another. New classical economics may have concentrated its effort too much on the economic aspects of development. New institutionalists have corrected for this by suggesting that all action is economic. The social, political, and cultural may be combined in the new institutional approach because they are all presumed to be economic phenomena. These three spheres of human activity are furthermore cast as subservient and epiphenomenal vis-à-vis the economic. Furthermore, the presumed objective-scientific technicians of the new development economics are given extraordinary power to define and adjudicate between social capital and bad tradition—or, in more technical terms, between rational collective corrections for failing markets, and path-dependent suboptimal equilibria. An unqualified trust in markets has been replaced with an unsubstantiated trust in technocrats. And these technocrats, more often than not, presume the measure of the quality on an institution to be its impact on productivity or income. Culture, by definition, is in service of the market.

Another powerful mode of thought exists, which is related to new institutionalism. This *capabilities approach* is usually associated with Nobel laureate Amartya Sen (1993, 1999), but substantial contributions have also been made by Nussbaum (2000), Alkire (2004), and Max-Neef (1993). The model starts with the assertion that there exists a set of core human functionings which are deemed valuable for human existence. Sen has resisted an explicit delineation of these functionings because he feels that they should be prioritized and named only through deliberative participatory discussion amongst the group of people in question. Others have attempted to create lists of core funtionings. Nussbaum (2000), for example, includes "life" and "bodily health," amongst the most fundamental of human functionings. It is argued that humans have differing capabilities in the production of these functionings, and that this depends on material and non-material resources (including things like knowledge and community standing) that they have access to. The similarities to Becker's approach are striking, but the main difference lies in the meaning Sen and others apply to "functionings" compared to "preferences" as used

in the Beckerian approach. Whereas preferences stand for a stable set of likes and dislikes internal to each human actor—the satiation of which attributes utility to the individual, functionings are a set of socially held goals that are agreed to contribute to a good life. Where development in the Beckerian tradition comes to mean the expansion of utilities through the consumption of material and non-material goods, in the capabilities approach, it implies the expansion of capabilities to produce functionings, and the removal of "non-freedoms" that impede that production process for the most marginalized groups.

Culture sits in the capability approach in three ways. First, as with other new institutionalist approaches, culture can impact the ability of actors to perform development goals—in this case, the achievement of functionings. Secondly, culture in the form of arts or participation in religious rituals may be a valuable functioning in its own right. Third—and this is where the approach breaks most dramatically with most new institutionalism—culture is assumed to frame what counts as a valuable functioning (Nussbaum 2000; Sen 1999).

In this third respect, however, the capability approach is underdeveloped, and this leads to ambiguities and internal inconsistencies. It also seems to contradict the new institutional claim that human agents have stable preference sets. Sen, for example, asserts that deliberative democracy is important in that it allows communities to not only discover their priorities, but critically reflect on their values in the creation of new priorities in a way that seems to impact preferences themselves:

> [A] proper understanding of what economic needs are—their content and their force—requires discussion and exchange. Political and civil rights, especially those related to the guaranteeing of open discussion, debate, criticism, and dissent, are central to the processes of generating informed and reflected choices. These processes are crucial to the formation of values and priorities, and we cannot, in general, take preferences as given independently of public discussion, that is, irrespective of whether open debates and interchanges are permitted or not. (1999, p. 153)

Although it might appear that Sen considers preferences to be culturally determined and malleable through communication, in reality, he has implied otherwise—that culture simply acts to augment the weight attached to particular preferences, as if a social set of preferences were interacting with an individual one (1977). Resultantly, the way in which

the economic actor is constituted is left up in the air for capability theorists. They never seem to address this issue directly. Although deliberative democracy is advocated, and power imbalances related to participation in discussion are noted, the exact nature of participation or the space in which it is to be carried out is not delineated. Finally, although Sen consistently refuses to explicitly create a list of functionings, he often asserts that markets tend to expand capabilities and that “freedom of exchange and transaction is itself part and parcel of the basic liberties that people have reason to value” (1999, p. 6)—that, in other words, market participation is a valuable functioning in itself.

Such diverse and divergent assertions have led many to critique the approach for tending towards both ambiguity and uncritical liberalism. The virtues of the model should not, however, be overlooked. The capability theorists have delicately placed issues of participation and decentralized, non-technocratic policy analysis within the peripheral vision of neoclassical development economists. Perhaps due to its unclear relation to neoclassical method, however, the model has been adopted most enthusiastically by heterodox economists and other social scientists instead of neoclassical economists. Resultantly, the glimmer of hope that a meaningful incorporation of culture into neoclassical thought might be brought by the capability school has yet to intensify into a measurable quantity of light. Often mainstream new institutional-based policy tends to ignore material and structural inequalities and blame the poor for their own poverty by pointing to a lack of civic organization in impoverished communities as the root cause of their poverty.

This is apparent in a fairly recent and ambitious attempt by the World Bank to bring economists and anthropologists together to formulate culture and development policy under a broad capability approach. The result was a plea to theorists and practitioners to focus on a “capacity to aspire” which could be diminished by undue cultural disruption, and a related insistence to pursue a policy trajectory guided by the principle of “equality of agency,” which is thought of as a cultural capacity (Rao & Walton 2004). On close reading, this sits uncomfortably close to the standard “hypermodernist” approach that the contributors sought to displace. Some cultural arrangements are maintained as being more conducive to development, with the caveat that unduly rapid cultural disruption could induce a stagnancy that is “beyond poverty” (Douglas 2004, p. 108), and that participatory methods might help to quell this tendency. The

theorization of culture is as haphazard and contradictory as it is generally with the capability approach, and only one neoclassical economist was inspired by the concepts introduced by the conference and book to work on one conceptual model, published years later in an abbreviated form (Ray 2006). The Rao and Walton (2004) publication and its singular spin-off do represent a useful incursion into the murky territory of culture and development economics. Its limited impact, especially amongst neoclassical economists, may, however, be testimony to the lack of theoretical coherence endemic to the capability approach.

Conclusion

Culture is not used in any consistent way in mainstream development theory. Some, such as the new classical economists, tended to ignore it outright. When not being ignored, culture was sometimes contorted to fit within neoclassical economic models. New institutional economics allows for this contortion by treating culture as a rational social corrective for market failures based on information imperfections or externalities.

The ethnocentric biases of early modernization theory and its later iterations of hypermodernism have not been successfully avoided via the capability approach. Modernization theory in its early and hyper forms features culture as a traditional curse that subsumes the rationality that is assumed to be necessary for individuals and communities to transcend development problems. These concepts cannot be expected to sit well with indigenous peoples that insist that culture is valuable for its own sake and that it constitutes the human ontological relation with the world—and that it creates ideas of the good life that are the end-point of development.

The capability approach does go some way towards remedying this. Despite notable attempts to reconcile the ideas of culture and development through that approach, however, the combination remains underdeveloped. The concept of “capacity to aspire” is illustrative of this. Within this framework, culture is said to define individual goals, and therefore concepts of development. Culture also provides an ontological roadmap of the world—providing actors with the understandings necessary to navigate from underdeveloped to developed states (both of which can be culturally defined). There is an admission that things such as top-down development projects and natural disasters can disrupt the “capacity to aspire” by creating a mismatch between culturally defined modes of behaviour and knowledge-systems on one side, and the goals of development on

the other. The model is unable, however, to distinguish between contentment and apathy, however. In its current form, this mode of thinking, therefore, asks the development expert to mediate between the two states. This brings the idea perilously close to the kind of ethnocentric judgement that was indicative of modernization theory.

There may be a way in which indigenous thought can be expressed in terms of the capabilities approach and capacities to aspire, but this fusion has not yet been achieved. Three things are likely important if this fusion is to ever be successful. First, the habit of presuming economic growth to be essential for development must be abandoned. Second, the habit of assuming markets to be natural and ubiquitous, albeit sometimes malfunctioning, entities must be replaced with ideas that view markets as sometimes useful but non-essential. Third, the capabilities approach must meaningfully incorporate critical ideas that examine multiple forms of inequity.

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