HUMAN CAPITAL, CULTURE AND ECONOMIC GROWTH

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ABSTRACT

Social scientists have developed theories and conducted empirical research on both the economic and non-economic determinants of economic growth to explain the differential economic growth performance across countries. Among the non-economic determinants, cultural values have been found to matter for economic development. Another study found that human capital is one of the possible sources of economic growth and plays a central role within the new growth theory. Culture is defined as “those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation”. Economic culture is defined as “the beliefs, attitudes, and values that bear on the economic activities of individuals, organizations, and other institutions. In other words, cultural values represent the implicitly and/or explicitly shared abstract ideas about what is good, right, and desirable in a society. Therefore, cultural values refer to a shared system of values that influence and shape an individual’s behaviour within the society and considered as one of the possible outcomes of personal wealth. One possible channel through which culture may positively affect economic growth is through complementary relationship between culture and human capital development. This study analyses the complementary relationship and shows how important is culture in understanding the economic inequalities across nations.

Field of Research: Public finance, Macroeconomics, Islamic economics, Islamic public finance.

1. Introduction

Classical economists like Adam Smith and institutional economist like Torstein Veblen regarded culture as instrumental in shaping economic outcomes (Maridal 2013). Cultural differences are important to explain the cross-national variation in economic growth rates. Decades ago, the Confucian influenced economies of East Asia outperformed the rest of the world by a wide margin. This holds true despite the fact that they are shaped by a wide variety of economic and political institutions. Conversely, during the same period most African economies experienced low growth rates. Both societal-level and individual-level evidence suggests that a society's economic and political institutions are not the only factors determining economic development; cultural factors are also important (Granato 1996). Cultural values represent the implicitly and/or explicitly shared abstract ideas about what is good, right and desirable in a society (Williams, 1970). Therefore, cultural values refer to a shared system of values that influence and shape an individual’s behavior within the society. Cultural beliefs also influence societal organization and hence lead to diverse social pattern of economic interactions. In this regards, some beliefs and norms have been found to be inhospitable to markets or to engender mistrust, preventing them from building institutions that encourage trade and investment (Prosper et al. 2011). However, beginning in the late 19th century, cultural research became mostly domain of sociologists, anthropologists and organization studies as cultural explanation lost esteem in favor of more mechanical approaches in economics (Maridal 2013). A rejection of any explanation of economic outcomes that invokes a group’s cultural attributes, its distinct attitudes, values and predispositions, and the resulting behavior of its members became the rule in all social sciences (Patterson, 2006 cited in Maridal 2013). Many economists adopted a Marxist understanding of the causational direction between economics and
culture, where the economy governs the social system but is not embedded in it. Culture and economic prosperity was therefore rarely linked with economic development. Culture is often considered just as one of the possible outcomes of personal wealth and/or political power (Bucci and Segre 2011). However, recent development in the field of cultural economics highlight that there is a relationship between culture and economic growth and point out that the investment in culture may represent another important engine of long-run economic growth. This paper will be organized as follows, part two the definition of culture, part three will presents the review of literature on the relationship between social capital and human capital, part four will presents the review of literature on the relationship between culture and macroeconomic performance, part five theoretical framework and part six concludes.

2. Definition of culture

Guiso et al (2006) defined culture as “those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation”. Culture can be viewed as beliefs, values and attitudes shared and perpetuated by members of a social group. Culture is a complex whole that also includes shared traditions, customs, language and norms that must be learned from families and social communications (Francis 2009). Human beings, individually and collectively, interact in many ways. They cooperate and compete with one another, engage in conflict, build harmonious relationships, and borrow and adapt attributes of others. This collective aspect of life is called culture (Muhammad et al. 2006). Economic culture is defined as “the beliefs, attitudes, and values that bear on the economic activities of individuals, organizations, and other institutions (Williamson and Mathers, n.d). Grief (1994) defined culture as the social norms and individual beliefs that sustain Nash equilibrium as focal points in recurrent social exchange. This definition identifies culture as the sum of the norms that results from the preferred individual strategies in long term social exchanges.

Cultural capital is something that one acquires for equipping oneself and is reproduced by economic capital. In other words what things help to equip a person as a better person in society, for example, qualification, knowledge, skills, ability to speak different languages etc. All of them are cultural capital which can help a person obtain a higher social status in society. Bourdieu’s concept of cultural capital is an attempt to expand the category of capital to something more than just the economic and to identify culture as a form of capital. He sees the concept of cultural capital as breaking with the received wisdom that attributes academic success or failure to natural aptitudes, such as intelligence and giftedness. For him, ability is socially constructed and is the result of individuals having access to large amounts of cultural capital.

According to Bourdieu, when a person possesses more economic capital, it is likely for their children to obtain more cultural capital. According to him, the two capitals are in direct proportion. As one’s parents afford to pay the fee for their children language class, their children are therefore able to speak different languages. By acquiring those languages, their children are likely to get a well-paid job in the future. Parent’s economic capital “buys” cultural capital which can exchange to a higher social status in a society. This explanation shows cultural capital comes together with social capital.

Social capital is concerned with specific types of social bonds that sustain a sense of connection among individuals. According to Bourdieu, social capital is developed not only in social network but in an overall system of network. Whom we know depends upon who we are. Thus social networks may be ubiquitous, but the social capital resources they generate will be unequal in their social effects. Social capital is a durable network of more or less institutionalized relationships of mutual acquaintance and recognition (Gamarnikov 2011).
Cultural values are transmitted within and between generations and societies through technologies of communications, trading and immigration (Prosper et al. 2011). Formal education, a form of communication which involves the exchange of ideas, represents one such transmission mechanism that is often associated with growth-promoting values. Education is view as a private, positional good (which enhances competitiveness in the market) possessed by individuals. This suggests that education can be used as a catalyst to shape cultural values.

3. Social capital and human capital

For economists, human capital refers to the opportunity cost of individuals’ or states’ investing in education. In other words, it refers to forgone earnings plus the cost of education set against expectations of future (higher) earnings and economic productivity. At the other extreme, the term human capital is often as used merely as popular shorthand for education in general (Gamarnikov 2011). In popular conception, the link between social and human capital is straightforward. According to Gamarnikov (2011), strong, supportive parent-child relations in the family and parent-school relations in the community (social capital) contribute significantly to children’s learning outcomes (human capital). The classical statement of the argument that social capital contributes to human capital is found in Coleman (1988). Coleman (1988) identified the social capital inherent in parent-child relations and in the strong family-school-community links among those who sent their children to parochial schools as conducive to better educational outcomes.

Formal education is offered mainly through school. School can be viewed as social institutions with specific social goals. Schools not only impart skills but also impart an image of ideal students in terms of characteristics and behavior. Every educational system wants to produce certain types of human beings. In this regards, schools might undertake policies and create learning environments that either promote a student ideal closer to the students’ social backgrounds or an ideal closer to economically useful cultural norms and skills and thus alienate students from different social backgrounds. This implies that school types and the quality of education impacts the relative importance an individual places on economic achievement vis-à-vis traditional social norms. Furthermore, the process of education attainment enhances an individual’s cognitive and non-cognitive skills, i.e. personality traits such as persistence, motivation, self-regulation and charm matter for determining labor market outcomes and success in life (Heckman and Rubinstein, 2001; Heckman et al. 2006). Prosper et al. (2011) found that formal education matter significantly for perceptions of cultural values. As people become more educated there is increased likelihood of placing more emphasis on achievement motivation, as opposed to conforming to traditional social norms. The positive effect of media confirms the importance of informal educational channels in shaping cultural values. More an individual is exposed to other cultures through media the more likely the individual is to place more emphasis on achievement motivation than on traditional norms.

In addition to formal education, informal education plays a role in shaping an individual’s cultural attitudes, contributing to the dynamism associated with such attitudes. Informal education can be broadly defined as education that takes place outside a standard school setting. Hence, it is often viewed as learning that happens in daily life. Informal education can be accumulated via for example mass media (i.e. television, radio, magazines, newspapers, internet etc), conversations with friends and relatives, home-schooling, self-teaching, participation in social networks such as youth, community-based and cultural organizations (Gamarnikov 2011).

In economics, capital refers to resources whether financial or physical those are used for the production of goods; it can refer to all resources that bring in income. In recent economic studies, human capital is defined as intangible collective resources possessed by individuals and groups within a given population. These resources include all the knowledge, talents, skills, abilities,
experience, intelligence, training, judgment and wisdom possessed individually and collectively. The cumulative total represents a form of wealth available to nations and organizations to accomplish their goals (Encyclopedia Britannica). The definition of human capital applied by historians of pre-modern economies has remained very broad. For example Nakamura (1981) for pre-modern Japan, defined human capital broadly as ‘labour skills, managerial skills, and entrepreneurial and innovative abilities plus such physical attributes as health and strength’. Newland and San Segundo (1996) also used several measures as indicators of human capital with respect to the slaves in Peru and La Plata in the eighteenth century such as physical strength and skills. They defined human capital as the ability and education of an individual and on the other hand, as the costs of physically raising a child and his/her health. The concept of human capital refers to the abilities and skills of human resources of a country (Ohwofasa, Atumah and Obeh 2012). Sapuan and Sanusi (2013) define human capital as a broad concept that identifies human characteristics which can be acquired and can increase a worker’s income and productivity level. It is commonly understood to include the knowledge and skills of the workers that can be obtained partly through education, and also their physical capacities such as strength and vitality, which are dependent on their health and nutrition.

The relationship between health care expenditure and gross domestic product (GDP) has been the focus of a large body of research. Research within health economics that concentrates on what determines the quantity of resources a country devotes to medical care has shown that there is a strong and positive relationship between health care spending and GDP (Erdil and Yetkiner 2009, Devlin and Hansen 2001, Rivera and Currais 1999, Bloom et al. 2004, Mayor 2001, Narayan et al.2010).

4. Culture and macroeconomic performance

There is no general consensus among researchers on the exact causal relationship between cultural values and economic progress. Karl Marx argued that technology and forces of production mold a society’s economic system which in turn affects socio-political features and cultural values. Max Weber argued that cultural attitudes and beliefs facilitate economic progress. Dynamic capitalist development in northern Europe is explained by protestant attitudes toward work, thrift and accumulation. McClelland (1961) suggested that high concentrations of values emphasizing the need for achievement are the engines that drive economic growth. While some theorists argue that economic development changes cultural values. However, some research in health economics has shown that culture affect income growth positively and significantly (Erdil and Yetkiner 2009, Devlin and Hansen 2001, Rivera and Currais 1999, Bloom et al. 2004, Mayor 2001, Narayan et al.2010).

There are some forces that influence economic growth through their impact on the core variables of growth. For example, “self-control” that affect saving behavior and the fertility choice that consequently impact the investment in physical capital (Lewis 1955). The desire for self-improvement, which influences the decision to invest in education, which in turn, enables people to acquire skills and build human capital (Azariadis et al. 1990) also one of the forces.

Numerous studies empirically provide the credence to hypothesis that culture plays a vital role in economic growth. Granato et al. (1996), Altman (2001), and Muhammad et al. (2010) relate the elements of culture that affect production and investment decision. Bucci and Segre (2011), Prosper et al. (2011), Panagiotis and Pantelis (2013) relate the elements of culture that affect human capital accumulation. De Jong (2009), Casper (2013) relate the elements of culture that affect institutions. Maridal (2013) relate the element of culture that affects individual motivation and social capital.

Granato et al. (1996) explored how cultural measures – in terms of values that reflect emphasis on autonomy and economic achievement vis-à-vis values that reflect emphasis on conformity to
traditional social norms – can be used to examine the effect of cultural values on growth. Their results suggest that countries that put more emphasis on thrift and hard work rather than obedience and religious faith tend to enjoy high economic growth as compared to countries that emphasize obedience and religious faith. They conclude that cultural values matter for economic growth and specifically, values that emphasize economic achievement are conducive to economic growth as they encourage relatively high rates of savings and investments. Altman (2001) models the impact of culture on economic growth by arguing that work effort is maximized when the cultural environment stimulates cooperative work, which is positively correlated with labor productivity. Muhammad et al. (2010) relate culture with the economic growth using neoclassical growth model. The cultural variable of trust, respect, self-determination and obedience are tested. The results indicate that trust, respect and self-determination are significant predictors of economic growth. The variable obedience is accompanied with a negative sign, which is indicative of its inverse impact on growth.

Bucci and Segre (2011) investigate the role of cultural capital in fostering economic growth by modeling human capital investment as an economic activity being not only relatively intensive in human capital as an input, but also driven by the presence of complementarities with cultural capital accumulation which is measured by cultural participation (the proportion of people participating in some artistic activity). They analyse data from OECD countries and found that there is positive correlation between culture and economic growth. The result is usually interpreted as the effect of a supposed luxury-good nature of culture. The richer the country is, the higher the percentage of people involved in cultural and artistic activities. Or we can say it in another way round, the more people participating in artistic activities, the more GDP per capita in OECD countries. In other words, investment in culture can affect economic growth in the long run only through the complementarities between cultural capital and human capital.

Prosper et al. (2011) test the impact of both formal and informal education on individual economic achievement vis-a-vis traditional social norms. Informal education is proxied by access to mass media (internet, daily newspapers, radio or television, printed magazine and books) and social networks an individual participates in. They found that individual with higher education levels and better access to media attach higher importance to values related to autonomy and economic achievement as compared to conformity to traditional social norms.

Panagiotis and Pantelis (2013) analyses cultural background as part of the “remaining factors” in the growth process that cooperate with the capital, labor and human capital factors in the framework of a complete growth theory, beyond the Romer-Lucas augmented growth factors. They divide the cultural background into two main groups of variables, the “efficiency orientation” and the “social orientation” aspects of cultural background of societies. They found that culture is important in interpreting GDP growth rates within the basic Solow-Romer augmented growth function.

De Jong (2009) explains how culture affects institutions and economic activity. He considers culture as the sum of the values and attitudes that pervades a group of people, which directly or indirectly affects the outcome of the economic process. The opinions of the individuals and the value grid affect the organization and functioning of institutions and therefore the way in which the available resources of a society are directed.

Casper (2013) pursues the epidemiological approach to study the cultural heritage across second generation US immigrants. The analysis finds that immigrants from cultures that are oriented toward more on individualistic values have higher annual earnings. The evidence suggest that second generation immigrants living in the US, who originate from more individualistically oriented cultures are economically more successful. The result shows the significant role of informal institutions (in the form of individualism) on economic growth.
Some other factors that have relatively less clear link with the core variables of growth, but can be arguably and convincingly regarded as important are the moral commitment of one’s own, that induce work ethics and the main determinants of work effort and thus of labor productivity, trust and willingness to cooperate, that impact the subjective cost of cooperating with strangers and can have a profound effect on trading networks which help shape the size and the expansion of markets. Mutual respect and honesty, which are the foundations of business ethics and property rights, influence the costs of contracts and minimize distortions such as corruption, theft, coercive acts and deceptive information also can be considered as the factors that have a link to variables of growth. Some of the mentioned factors and forces like self determination, honesty, cooperation, trust, mutual respect, self-improvement, freedom of thought are depend on individual attitudes, which in turn, are based on a set of beliefs, values and norms that change very slowly. It may, therefore, be argued that one can devise a series of factors that are defined or influenced by the customary beliefs, values and norms of the society, which have important real economic roles, and include them in the typical neoclassical growth models whose empirical estimation can show their probable effects on economic growth. Muhammad et al. 2010 relate cultural variable of trust, respect, self-determination and obedience with economic growth using neoclassical growth model. The result indicates that trust, respect and self-determination are significant predictors of economic growth. The variable obedience is accompanied with a negative sign, which is indicative of its inverse impact on growth.

Maridal (2013) examines the cultural hypothesis that affects economic performance through two channels, cultural traits that stimulate individual motivation and traits that develop social capital in the population. Culture traits are divided into two groups, the first group contains variables categorized as achievement oriented and the second group is categorized as community oriented. Achievement-related values induce increased individual productivity. The community-oriented values creates trust, which again leads to a reduction in transaction costs, enlarged markets, and surrogates for the missing markets that appear in a purely self-regarding environment. Achievement orientation contains values that parents teach their children, like thrift and independence. Independence is a strong trait in individualistic cultures. It cultivates the ability and the acceptance of “thinking outside the box” and challenging the status quo. From the supply side, this cultural trait is important to the rate of innovation and invention. From the demand side, independent thinking increases the acceptance in the population for new different solutions. The result suggests that motivation for human action provided by intrinsic beliefs is a driver of economic growth. Honesty creates trusts and trust contributes positively but not significantly to economic growth.

5. Theoretical Framework

There are two mechanisms that can explain the positive relationship between health expenditure and human capital accumulation. Firstly, it is natural to expect a positive impact of health expenditure on human capital accumulation because it complements and enhances education (Erdil and Yetkiner 2009). This linkage was first pointed out by Mushkin (1962). Child health and/or parent health have substantial effects on school participation rates. Secondly, health care expenditure have a positive effects on labour productivity, as higher curative and preventive health care expenditures improve labour participation in production activity. A healthier workforce should be related to the human capital accumulation process (Rivera and Currais 1999). According to World Bank (1993) improved health contributes to economic growth in four ways: it reduces production losses caused by worker illness; it permits the use of natural resources that had been totally or nearly inaccessible because of disease; it increases the enrolment of children in school and makes them better able to learn; and it frees alternatives uses of resources that would otherwise have to be spent on treating illness. Healthier workers are physically and
mentally more energetic and earn higher wages. They are also less likely to be absent from work because of illness or illness in their family (Bloom et al. 2004).

6. Conclusion

There is a direct relationship between culture and health practices. In fact, of many factors and behaviors, culture is the most influential (Josepha 2003). A number of factors lead to disparities in health and health care among racial and ethnic groups, including social determinants (e.g. low socioeconomic status or poor education) and lack of health insurance (Betancourt 2002). Religious affiliation, language, physical size, gender, sexual orientation, age, disability (both physical and mental), political orientation, socio-economic status, occupational status and geographical location are but a few of the faces of diversity (Josepha 2003). Cultural values give an individual a sense of direction as well as meaning to life. These values are held on an unconscious level. There is a direct relationship between culture and health practices. In fact, of the many factors that are known to determine health beliefs and behaviors, culture is the most influential (Josepha 2003). The above literature has shown that culture plays a vital role in economic growth. Various aspect of culture has been studied but they ignored the relationship between culture and health care practice that generate human capital and its importance to explain economic growth. This study will examine the complementary relationship between culture and human capital and show how important is culture in understanding the economic inequalities across nations focusing on health care culture.

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References


