



## The Relationship between Cultural Changes and Economic Development

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### Abstract

Cultural, social, and economic changes are closely correlated, however, understanding such a relationship requires a theoretical model. The current paper has provided a conceptual model for explaining the relationship between culture and economy. Some economists consider culture as resistant to change and some others consider it very flexible. Moreover, some consider cultural values as universal and some as specific to societies. The purpose of this paper is to outline the relationship between these theories and provide a model for the complicated relationship between culture and economic development and understand cultural stabilization and changes. The main question is why some societies are incapable of expanding universal values. We applied conceptual discourse analysis. The analyses are performed in the "new institutional economics" framework. Three issues were discussed: First of all the speed and orientation of cultural changes, then the process of socialization and cultural transfer. The relation between culture and formal institutions and **also** the Hobbesian problem are the last issues covered in this paper to build a model of cultural stabilization and change in a developing economy.

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### Highlights

- Extraction of different new institutionalists' viewpoints about the relationship between culture and economics.
- Solving the conflict between the two groups: some consider culture resistant to change and some others very flexible, some believe culture must change first and some believe culture does not matter for development, and the development itself creates the appropriate culture.
- Drawing a conceptual model, using economists' and socialists' viewpoints.
- To include informal institutions into the model.
- Considering different aspects of the relationship between culture and economics, especially different types of cultural changes.
- A response to Hobbesian problem and when it works.
- Describing the model for an underdeveloped society.

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## 1. Introduction

The current paper is about the relationship between culture – as informal institutions – and economic development. The cultural and social structure in the context of the new institutional economics is of great importance in explaining economics (Ostrom, 2000) and economic changes. Culture as an informal institution has entered this framework to increase its explanatory power. The dynamics of culture, other institutions, and economics are complex and nonlinear. However, as Alesina (2015) asserts, most of the studies examine a dimension of culture isolation from other dimensions or just one orientation of causality. This paper deals with the complexities of these relationships and presents a conceptual model.

In this way, various studies have already addressed the association of culture with the economy. Maridal (2013), Petrakis (2014), Ashraf and Galor (2007, 2011), Galor & Michalopoulos (2012), Zilibotti & Doepke (2013), Gorodnichenko & Roland (2010) have shown the importance of cultural values in achieving economic growth. Some studies such as Thurik and Dejardin (2012), and Dheer (2017) have proved the effect of culture on innovation and entrepreneurship. The effect of culture on Labor supply (Fernandez, 2007; Gay et al., 2018), work and leisure preferences (Mannell, 2005; Mocan, 2019), financial literacy, and money attitudes (Brown et al., 2018; Reino et al., 2020), efficiency (Bakas et al., 2020; Cox et al., 2011; Fang et al., 2016; Ramos & Paiva, 2017), poverty and inequality (Massey et al., 2014; Small & Harding, 2010), learning economy (Abdi & Khodadad Hosseini, 2019) and innovation (Khodadad Kashi & Afsari, 2014) are some other studies about culture and economics. These studies examine just one aspect of culture.

Regarding culture as informal institutions, Capoccia (2015, 2016); Capoccia and Kelemen (2007); Mahoney, (2000); Pierson (2000) as” historical institutionalists “assert that institutions have long periods of continuity that are periodically interrupted by critical junctures. Some other economists such as Mahoney and Thelen (2010); Streeck and Thelen (2005); Thelen (2004); DeJong (2013); Johnston (1996); Schwartz (2009) claim that changes in culture can only be slow-moving and minor changes occur continually that add up to radical transformation over a longer period. New institutional economists such as Williamson (2000), Shirley (2005), Roland (2004), Kwok and Tadesse (2006) consider culture as slow-moving; while others such as Acemoglu and Robinson (2012) and Chang (2007) consider it as a rapidly changing entity that is less important than influencing economic development. They believe that the part of culture relating to development is rapidly changing. These studies show just one orientation of cultural change.

However, these studies are not enough. It is necessary to combine different theories and see the relationship between them so that each can be used in its right place. The purpose of this paper is to outline the relationship between these theories and provide a model for understanding cultural stabilization and changes. The main question is why some societies are incapable of expanding universal

values such as trust, cooperation, and honesty, lack of bribes, corruption, and rent-seeking that are relevant to production, distribution, and other economic outcomes. How can we suggest a way to make such a change? Some other questions are that “should culture change to achieve economic development, or does economic development itself bring about the right culture?” The second question raised regarding the first is “whether culture changes rapidly or slowly”.

In this paper, we consider the above-said issues and present some complexities of the relationship between culture and economics to extract a conceptual model. To this aim, we applied conceptual discourse analysis. The analyses are performed in the "new institutional economics" framework. Then, considering the wide range of issues in relation to culture and economics, we limited the issue to the study of cultural values and economics. We extracted the relationship between culture and economics from various institutionalists' papers. We extracted the categories they presented in relation to cultural values and economics and came up with four categories, and drew a line between them. Then, in order to deepen the research, we dealt with the relationship between culture and formal institutions (laws), cultural and institutional change, and finally we presented a conceptual model to explain the process of cultural stabilization and changes.

The rest of the sections of this paper are as follows: Section 2 defines the concepts discussed in this research. Section 3 is the context of drawing a model. In this section, we discuss various opinions about the causality orientation and speed of cultural change concerning economic development, the processes of creating and stabilizing culture, the relationship between culture and formal institutions. Section 4 describes a model for an underdeveloped society and the requirements for cultural change, using all the information included in Section 3. The final section summarizes and concludes the paper.

## **2. Definitions of Concepts**

### **2.1 Culture**

North divides culture into two embodies being moral codes, which have common characteristics across cultures and norms particular to individual societies (North, 2005). We used this definition and expanded it. This research defines culture as customs, traditions, norms, values, and ethics. The focus of this paper is mostly on the dimension of values and ethics.

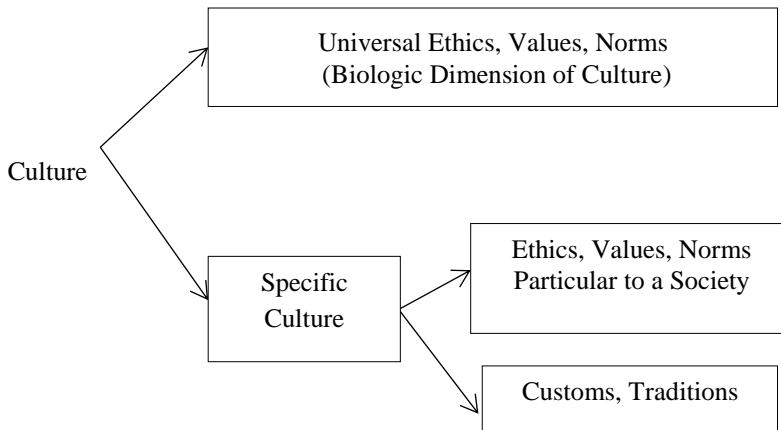
Some scholars consider cultural values common among communities, for example, Immanuel Kant speaks about “categorical imperatives” or “fundamental principles of morality” that give and obey universal moral laws (Wood, 2007). Henrich et al. (2005) and Dahlsgaard et al. (2005) are placed in this category.

But, there are also some scholars showing significant differences between communities. For example, the amount of trust or honesty varies among communities. On the other hand, there are communities with different views on philosophical basics. For example, communities have different definitions of freedom and justice that are common among them. Particular culture of societies

also includes customs, clothing style, types of food, and so on. We reached an idea of these facts to define culture and beliefs.

Another issue we used in defining culture is cultural transmission. Transmission of behaviors and characteristics is sometimes biologically (via genetic or epigenetic transmission) and sometimes culturally (via behavioral or symbolic transmission) set. Behavioral transmission depends on learning through direct observation and imitation. In symbolic transmission, learning takes place through systems of symbols (such as language, art, writing, religion, and teaching). Of course, there is a third type of transmission that focuses on the interaction between biological and cultural inheritance systems, that is, dual inheritance theory or gene-culture coevolution (Spolaore & Wacziarg, 2013). Another point is that cultural transmission takes place not only from one generation to the next but also within a generation. Finally, we define culture as follows:

Culture is a set of customs, traditions, norms, values, and ethics that divide it into two categories: The first category includes universal ethics, values, and norms among societies and humanity (such as trust, cooperation, truthfulness, honesty, work, and production, lawfulness, and order). This aspect of culture is transmitted biologically<sup>1</sup> and the second are the values, ethics, and norms specified to one society (such as individualism versus collectivism, family ties, etc.). However, traditions and customs as part of the human identity are usually specific to individual societies and come from history, geography, religion, etc. This aspect is transmitted culturally in Figure (1).



**Figure 1. Components in cultural definition**

*Source: research findings*

<sup>1</sup> Wilson (1998), Chomsky (1975), and Pinker (1994) assert that features as the universal taboo against incest and the propensity for cooperative behavior are viewed as genetic features (North, 2005).

In the first category, we can distinguish between direct effects and barrier effects of culture (Spolaore & Wacziarg, 2013). The direct effect of culture includes trust, cooperation, truthfulness, honesty, work and production, lawfulness, and order that is a common culture among the developed countries and necessitates for development. Barrier effects of culture include distrust, lack of cooperation, lying, robbery, bribery, laziness, misconduct, etc. that is common among developing or underdeveloped countries.

## 2.2 Institution

According to North (1991), institutions are the rules of the game in a society. In other words, institutions are the constraints imposed by humankind and construct the reaction of human beings. Institutions consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights). Therefore, culture is informal constraints or informal Institutions.

## 2.3 Belief

Another point is about beliefs and how they associate with culture. "Belief" is a mental model, which becomes stabilized through being confirmed many times by environmental feedbacks (Mantzavinos et al., 2004). According to North, people have an understanding of human reality or environment that forms their "beliefs" and determines their choices (North, 2005).

We divide the beliefs of society into two categories: transcendental and present beliefs. The transcendental beliefs of society are those that introduce the moral ideals of society. For example, telling a lie or betraying (bringing about distrust) is not good. Some transcendental beliefs are universal, however, some are specific to a community. The present beliefs of society may be different from transcendental ones. That is, while people know that telling a lie is evil, they believe it is effective in the present situation. North states: "Beliefs define the goals of human beings and the way to achieve them" (Ibid, 2005). In our definition, transcendental beliefs of society determine the optimal shape of the future. The present beliefs of society represent the current institutions (the culture and the current laws and regulations). The Current institutions determine what organizations to create and what knowledge to store, indeed the shape of the future of society. In fact, the present beliefs of society represent the future of society.

## 3. The Context of Drawing a Model

### 3.1 The Speed and Causality Orientation of Cultural Change

On the subject of the speed and orientation of cultural change, we can distinguish between two general groups. The first group considers slow movement and the second, fast movement for culture. In the first group, Williamson (2000) considered the "Four Levels of Social Analysis" as follows:

He believes that the causal effect of cultural structure (the socially regulated level of norms, customs of morals, traditions, and religion) is much stronger on

the economy, and changes at this level occur very slowly (from 100 to 1000 years). Acknowledging that culture considerably influences the economy, he believes in the weaker influence of the economy on culture.

Shirley (2005) also believes that informal institutions are long-standing. There are norms in the common history and culture of societies that cannot be easily transmitted. Roland (2004) also classifies culture, including values, beliefs, and social norms as slow-moving institutions. Kwok and Tadesse (2006) also assert that “because informal institutions are constantly reinforced by a central value system, they are exceptionally stable, and thus, difficult to change”.

According to Acemoglu and Robinson (2012), Chang (2007), and Landes (2015) in another group, economics has more effect on culture than culture on economics. In other words, economic changes themselves make cultural changes. Acemoglu and Robinson recall culture under the title, "Theories that Don't Work". Their answer to this question: "Is culture hypothesis useful to understand world inequality?" is: "yes and no. Yes, in the sense that social norms related to culture are important and hardly change, and they also sometimes support institutional differences, however, the answer mostly is no, because those aspects of culture often – emphasizing religion, national ethics, African or Latin values—are not important just for understanding how and why inequalities in the world persist. Other aspects, such as how much people trust each other or able to work together is important not as an independent reason but as the result of institutions” (Acemoglu & Robinson, 2012).

Chang (2007) says: “Culture is both the result and cause of economic development. It would be far more accurate to say that economic development makes countries become ‘hardworking’ and ‘disciplined’ (and acquire other ‘good’ cultural traits), rather than the other way around. Since culture changes far more quickly, there is no need for cultural change before economic development. With economic progress, people's behavior, and even their underlying beliefs (culture) are changing in a way that contributes to economic development. It is possible to create a ‘virtuous circle of economic development and cultural values...’ He cites Japan and Germany as two examples whose cultures have changed with economic development (Chang, 2007; Landes, 2015) also has the same view regarding Portugal, Netherlands, and Thailand (Landes, 2015). Table 1 shows the result.

**Table 1. The speed and orientation of cultural change**

Studies	Categories
Williamson, 2000 Roland, 2004 Shirley, 2005	Culture is a slowly moving institution
Acemoglu & Robinson, 2012 Chang, 2007	Culture is a rapidly moving institution
Landes (2015) Acemoglu & Robinson, 2012 Chang, 2007	The causal effect of development on culture is higher.
Williamson, 2000	The causal effect of culture on development is higher.

*Source: research findings*

### 3.2 Resolving the Conflict

As discussed above, there is a conflict between the viewpoints of two groups of new institutionalists. Williamson (2000), Shirley (2005), and Roland (2004) identify culture as a longstanding institution. Williamson (2000) believes the causal effect of culture on the economy is more important, while Acemoglu, Robinson (2012), and Chang (2007) consider the impact of economic development on culture as more important than that of culture on development. They believe the part of culture linked to development is changing rapidly.

We have separated the two universal and specific categories of culture. Now it could be said that Williamson's definition of cultural structure (embedded culture) is placed in the second category that includes the customs and traditions of a particular society. This part of the culture is the foundation of the institutional environment. That is, formal institutions (such as property rights) should be developed and implemented under the culture of any country. We shall discuss this issue in the subsequent sections.

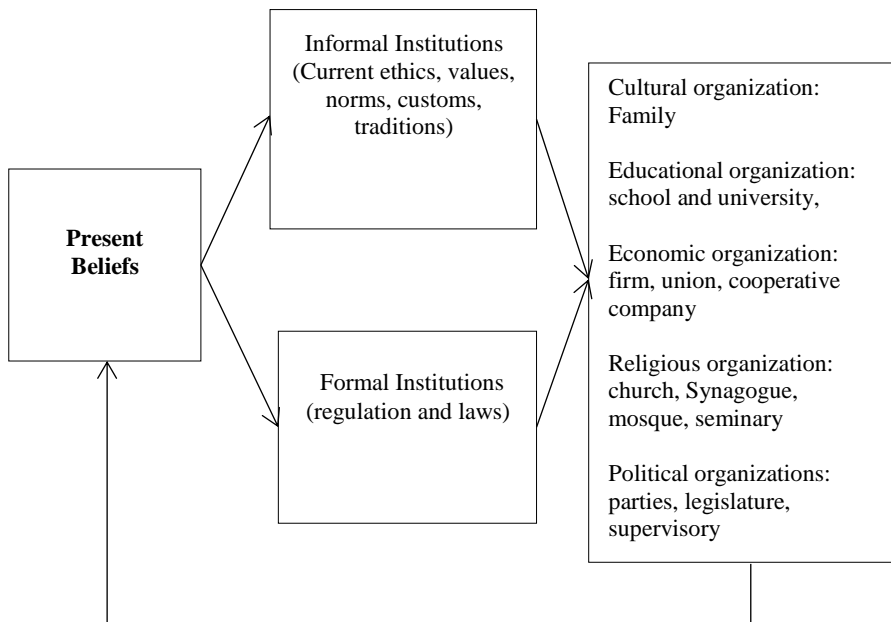
Setting institutional structures on a cultural ground will make formal and informal institutions mutually reinforced and bring about economic development, creating the cultural values of the first category. The definition of Acemoglu, Robinson, and Chang sets the culture in the first category. Of course, there is a gradual process that leads to institutional and cultural reform in the first category in a reinforcing circle. Culture in the first category is not easily affected by development; however, there is a more complex model. According to North (2005), this part of culture is related to the system of beliefs leading to productive or nonproductive motives. We can state that culture in the first category, having a close relationship with economic development, is changed more easily. On the other hand, there are conditions under which culture in the second group may change more rapidly, the details of which will be discussed in the next section.

### 3.3 Culture Establishment and Stabilization Process

According to North, present belief systems are the internal representation and institutions of the external manifestation of that representation (North, 2005).

Institutions create organizations and beliefs are created in organizations (Mantazavinos et al., 2004).

On the other hand, cultural transmission through socialization and social learning has three general forms: horizontal (between peers), vertical (parent to children), and diagonal (non-parent to younger) (Bowles & Gintis, 2011) that are found in different organizations such as cultural organizations (family), educational organizations (school and university), economic organizations (firm, union, cooperative company), religious organizations (boards and religious places such as church, synagogue, mosque, seminary), Political organizations (parties, legislature, supervisory). The organizations consolidating the laws of any society are expected to continue based on the same values; meaning there is a positive circle between them.



**Figure 2. Stabilization process of culture**

*Source: research findings*

The current culture is a collectively accepted subject, meaning it has been confirmed through repeated games (Searel, 2005), acquired a symbolic or linguistic manifestation, and become common knowledge among the people in a society. Moreover, its laws and beliefs are continually being implemented and reproduced based on the game strategies of the players. Norms and values no longer emerge as they once did, but there is an ongoing process that needs to be



shaped regularly and rebuilt through human interactions (Aoki, 2007). In short, when culture is combined with other institutions and creates normative and legal supplements for itself when it pervades in various social, religious, economic, and political organizations, and when it has also developed self-sustaining complement institutions to itself and become self-reinforcing (Fig.2), the institutions created in each area will be interdependent.

Therefore, when a norm is rooted in different organizations, its associated behavior will be more frequently implemented, and the quasi-parameters<sup>2</sup> increase the self-reinforcing<sup>3</sup> scope of that norm. In that case, we can say that the norms in that community become institutionalized as shared knowledge among the agents. Individuals having recently entered a population will likely have preferences for those who have recently gained more material rewards (Boyd & Richerson, 1985). Those who have just entered this environment will gradually endow themselves with the prevailing conditions.

All of these will form a path dependency on each other. That is, in the context with fixed culture, if the function of the result parameters (formal rules, technologies, game environment, etc.) is changed, agents only marginally adjust their action choices in the belief that the overall characteristics of the ways in which the game is being played will remain the same and their experiences do not refute their beliefs. The changed players get out of equilibrium, but equilibrium characteristics remain intact until they are near equilibrium (Aoki, 2007). In this section, we discussed how culture is stabilized. In the future, we will talk about the stabilization of culture in a developing society.

### 3.4 The Relationship Between Culture, Formal Institutions, and Economic Development

Another important point is the relationship between culture and formal institutions (regulations and laws). It follows from the first and second "law and development movement" and "modernity" that just as law, by itself, cannot maintain order and reduce transaction costs, culture cannot do so in complicated and advanced environments, by itself. We will first talk about the effect of culture on laws and then the effect of the law on culture.

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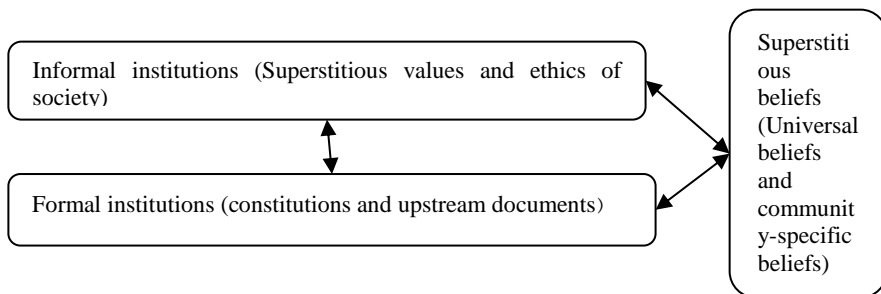
<sup>2</sup> **Parameters** are exogenous to the institution under consideration. If parameters change, therefore, there is a need to study the implied new equilibrium set and, hence, new possible institutions.

**Quasi-Parameters** are the parameters endogenously changed in long-run are quasi-parameters because they are neither parameters (as they are endogenously changed) nor variables (as they do not directly condition behavior); their marginal change will not necessarily cause the behavior associated with that institution to change. They do not cause the behavior associated with that institution to change because the changes of these features and their ramifications on the institution are not ex ante recognized, anticipated, directly observed, and appropriately understood, pay attention to (Greif & Laitin, 2004).

<sup>3</sup> **Reinforcing Institution:** An institution is reinforcing when the behavior and processes it entails, through their impact on quasi-parameters, increase the range of parameter values (and thus "conditions") in which the institution is self-enforcing, if an institution reinforces itself, more individuals in more situations will find it best to adhere to the behavior associated with it (Greif & Laitin, 2004).

### 3.4.1 The Effect of Culture on Formal Institutions

According to legal books, culture is one of the elements of legislation (although not the main one) and its interpreter (David & Brierley, 1978). In this regard, it can be concluded by studying Fischer (1989) and Todd (1983) that a country's formal institutions (constitutions, statutes, and upstream documents) derive from the transcendent beliefs of that society (universal and particular). Beliefs also represent the ethical ideals of society, because as we said before, both formal and informal institutions are influenced by community beliefs. Beliefs also represent the ethical ideals of society, because as we said before, both formal and informal institutions are influenced by community beliefs (Fig 3). Furthermore, the companionship of culture is a necessity for the success of the law. If the law does not have a root in the culture of the society, it will not be taken into consideration and acted upon. Berkowitz et al. (2003) call that "transplant effect" and Levy and Spiller (1994) "good fitting"(in Shirley, 2005).



*Figure 3. Simultaneous evolution of cultures and formal institutions*

*Source: research findings*

### 3.4.2 The Effect of the Law on Culture

As mentioned before, culture does not usually change as laws change. Here are some conditions under which laws make the cultural changes. And more importantly, if there are no sufficient legal grounds to support culture, the cultural decline will more possibly occur.

#### • Culture legal origins

Cultural changes occur for a variety of reasons; one is the change in rules and regulations. Policymakers employ legal reform as a means for gently stimulating social change (Licht et al., 2005). The "Hobbesian problem" suggests that changes in the rules increase the cost of error and the likelihood of transgressor detection in which case the misbehavior in society will gradually decrease, and the culture in question will find its place. Indeed, from this perspective, a change in relative prices leads to a change in culture (Ellis, 1971). However, we believe that this is not a general rule and occurs only under certain conditions.

#### • Decline of culture if not accompanied by formal institutions

There is little possibility that culture will change, resulting from formal institutions. The general rule is the relationship between different institutions. Therefore, it seems that in the case of enacting laws in the areas irrelevant to other areas, they will. Therefore, culture must be established with formal institutions to survive.

We considered two factors causing cultural sustainability. One is the specific culture of society - versus universal cultural values - And second, how deep-rooted culture is in the sense of being reinforced by other components of informal and formal institutions. Now, we can say that if culture is not established with formal and other informal institutions, it will change if it faces external shocks. This conclusion could explain the two categories of studies. On the one hand, the studies that show culture have changed rapidly under the influence of external shocks; on the other hand, various studies that have shown cultural adaptation slowly occurs despite external shocks. Change is more about responding to real-life change than to formal reform or indoctrination. Therefore, the impact of shocks and the reaction of human beings to them depend on three factors: the novelty of shocks<sup>4</sup>, how deep-rooted is the culture, and the complementary relationship of the components of informal institutions with each other and with formal institutions. On the other hand, if all the cultural aspects change together, it will be more sustainable. Avner Greif's research (1993) is done in the same way. The culture of "trust" not associated with formal institutions has disappeared; however, the adoption and implementation of the right laws have created and maintained a culture of trust on a large scale.

#### 4. A Model for Cultural Balance and Changes

This section deals with the institutional model of the relationship between culture and economics in an underdeveloped society and the process of cultural and economic transformation.

##### 4.1 Equilibrium in an Under-Development Theme

We discussed the process of stabilizing culture in Section 2-3. Here we evaluate the stabilization of culture in a developing society and what happens in its process of socialization and its organizations. Underdeveloped countries have norms incompatible with modern markets and create a distrust that makes institutions encouraging trade and investment fall in trouble. Such institutions encourage people to trade with others who have no family, business, or other relationship (Keefer & Knack, 2005). Social capital or a network of associations that build trust between strangers (Putnam, 1993) is weak. In an underdeveloped

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<sup>4</sup> North argues that human response to novel situations depends on how innovative they are and the cultural heritage of the actors (North, 2005).

society, culture and anti-development values such as lying and bribery become stable.

There appears to be a balance of distrust, meaning that the drafted and implemented laws are too weak to identify wrongdoers that result in distrust reducing the trading level. Increasing the number of errors makes cognition processes difficult, increasing distrust again. There may be two balances, one with limited morality (limited trust) and the other with generalized immorality (general distrust) in this society. [Tabellini \(2008a, 2008b, 2010\)](#) used “limited morality” to explain the concept considered by [Platteau \(2000\)](#). In a society with limited morality, people's cooperation and trust are limited to their relatives and acquaintances. Limited morality is in contrast with public morality in which all members of society can put trust in each other ([Alsina et al., 2015](#)).

[Guiso et al. \(2008a\)](#) show it in multi-balance. In the no-trust-no-trade balance, there is a transfer of belief in distrust from parents to children that eventually stops the trade, so that children do not learn trustworthiness from the population. In a society with a trade balance and high trustworthiness, it is the belief in trust passed on from parents to children that encourages trade and trustworthiness in people. In some societies with low trustworthiness, there would be a group of families who teach children the concept of trust. In the following, we will discuss more what is going on in the organizations of such societies.

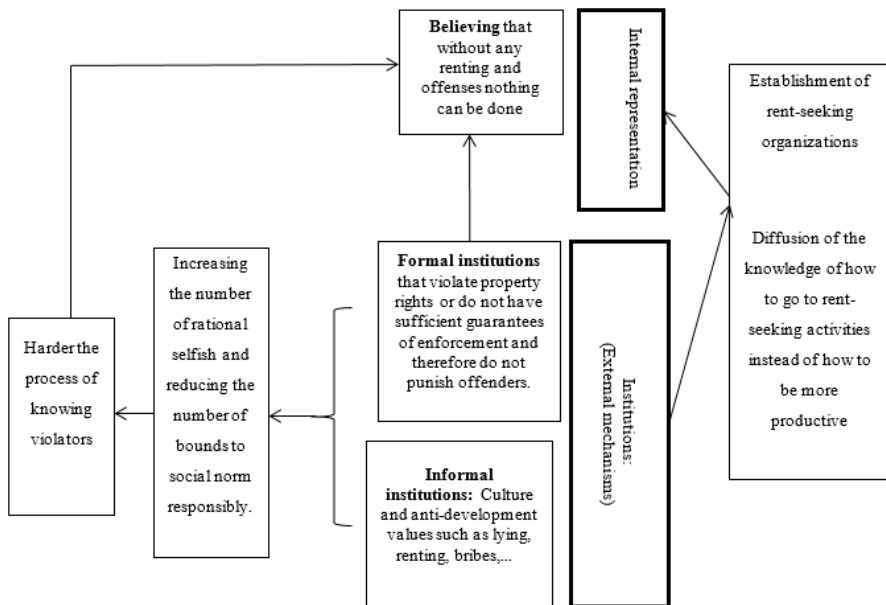
The superstitious beliefs of this society deprecate lying and rent-seeking, and the laws regard theft, offense, and bribery as illegal; however, both lack of adequate enforcement and incomplete laws prevent the formation of social norms ([Ostrom, 2000](#)). In other words, the people of the community test laws to understand their objectivity and find that there is little chance of detecting errors and fines ([Aoki, 2007](#)). The lower is the efficiency of the honesty, the higher will be the efficiency of the offense and bribe, so more people gradually join rational selfishness. Different organizations and parameters are formed to keep this process going and become a self-enforcing institution ([Greif & Laitin, 2004](#)). Here is a glance at what is happening in various organizations in this society: In the most important social organization – the family – parents should make costly efforts to cooperate for the vertical transition of culture. In such a community, families have little incentive to spend on their children's social capital and probably they consider cooperation and trust for their children as a weakness.

Some families may continue to teach their children about morality, which is likely to be costly. Although religious and educational organizations may teach and remind honesty, education alone is not enough. Education can create true beliefs in people, but the beliefs in the community are examined. If people see that honesty is costly and dishonesty is profitable, many of them accept dominant patterns. Therefore, it is achievable to exit this equilibrium and move from limited to general ethics.

In political organizations, the process of bribery and corruption has led to the emergence of non-civilians. Therefore, legislation and enforcement are difficult to achieve. In the institutional environment of bribery, there are still righteous and

normative people, but the efforts of truthful lawmakers or honest and righteous people will be tedious and useless (Aoki, 2007) and may have little returns (Ostrom, 2000). Moreover, government officials want bribes for enforcement if they are not civilians. Therefore, in this society, rent-based activities increase due to a lack of sufficient laws and regulations.

When productive organizations stand in direction of bribes and rents..., production knowledge is replaced by that of renting activities. Innovation and technology are used for rent-seeking. Production decreases, entrepreneurial activities move towards negative activities, and rents and corruption spread (Fig.4).



**Figure 4. Formation and self-reinforcement of culture in an underdeveloped society**  
*Source: research findings*

No one - even renters - is satisfied with the current situation, since uncertainty in society is rampant, the flow of capital is towards abroad. Transactions lead people towards physical goods such as land, automobile, gold, and so on. In addition, distrust, lies, and hypocrisy create a fragile culture in the community resulting in the elimination of social solidarity. In this society, the culture in the second category, which we said earlier- identifies a slowly changing society unable to resist changes and shocks. Such a culture will easily face outbreaks, crisis, chaos, and tension. Even when culture needs to adapt to new technologies and other cultures, there will be cultural decency. People in this society face confusion and identity crises. These changes in themselves impose huge costs to society and make the development process slower than before.

## 4.2 Cultural Changes

Change is the result of moving from the present condition to that in the future. The transcendental beliefs system makes the future situation desirable; However, current beliefs show the true path to society to move on. In a developing society in which corruption, lies, fraud, and rent-seeking is dominant culture, the path of the social transformation will be towards unproductive economic activities, high transaction costs, cultural confusion, chaos, and tension, which was already mentioned as undesirable cultural changes.

An evolving society with ample factors such as internal processes, shocks or external factors, or a combination of them, is affecting cultural change (Greif & Laitin, 2004). North also mentions the factors of cultural change in, for example, knowledge, quantity, and quality of human society, and so on. These factors together bring about some cultural elements to evolve (the evolutionism paradigm), and some others to lose their old functions (Functionalism Paradigm), needing new cultural factors. As mentioned earlier in this section, if such changes are not accompanied by sufficient requirements, which is usually so in a developing society, the result would be that culture falls into the process of self-affirmation decline cultural tension, delay, and crisis or cultural change and disintegration, cultural evolution, and cultural plurality.

However, the only tool policymakers have at hand is to change the rules (Shirley, 2005). But, culture is path-dependent and, as stated in the previous section, in the case of strong complementarity relationships, changes in law act as the change in quasi-parameters and will not affect the equilibrium status. Existing organizations will also resist in response to changing conditions.

Given the importance of political elites' beliefs in changing institutions, windows of opportunity for changes in the formal rules occur when the organizations supporting the status quo have become weak under poor performance, exposure to corruption, or radical reduction in information about better performance elsewhere (North, 2005), or resoluteness of political elite to make a difference is created. The goal of making changes is economic progress and to achieve such equilibrium that will increase the reward for cooperative activity, the returns on investing in human capital, reduce transaction costs (well-informed of property rights and ensure adequate warranty for the execution of contracts), increase incentives for technological innovation and production. Change in material well-being is the most important goal of economic transformation and knowledge storage should be in the direction of productivity and competition through price and quality rather than unproductive profit margins. Finally, the culture adapted in encountering shocks, chaos, and pervasive uncertainty characterizes any society over time. All this requires a culture of cooperation, contentment, activity, seriousness, honesty, loyalty, integrity, trustworthiness, and so on. Achieving these changes requires the following:

The culture of the society should be well recognized and changes should make universal beliefs reformed. Changing the rules is not an importing process but the transplant effect of formal institutions with culture in manners that laws

are accepted. Otherwise, the changes in conflict with culture will exacerbate the existing disorder.

Define more rigorous external rules and increase their enforcement. We should also keep in mind that external rules are self-debilitating unless supported by complementary institutions.

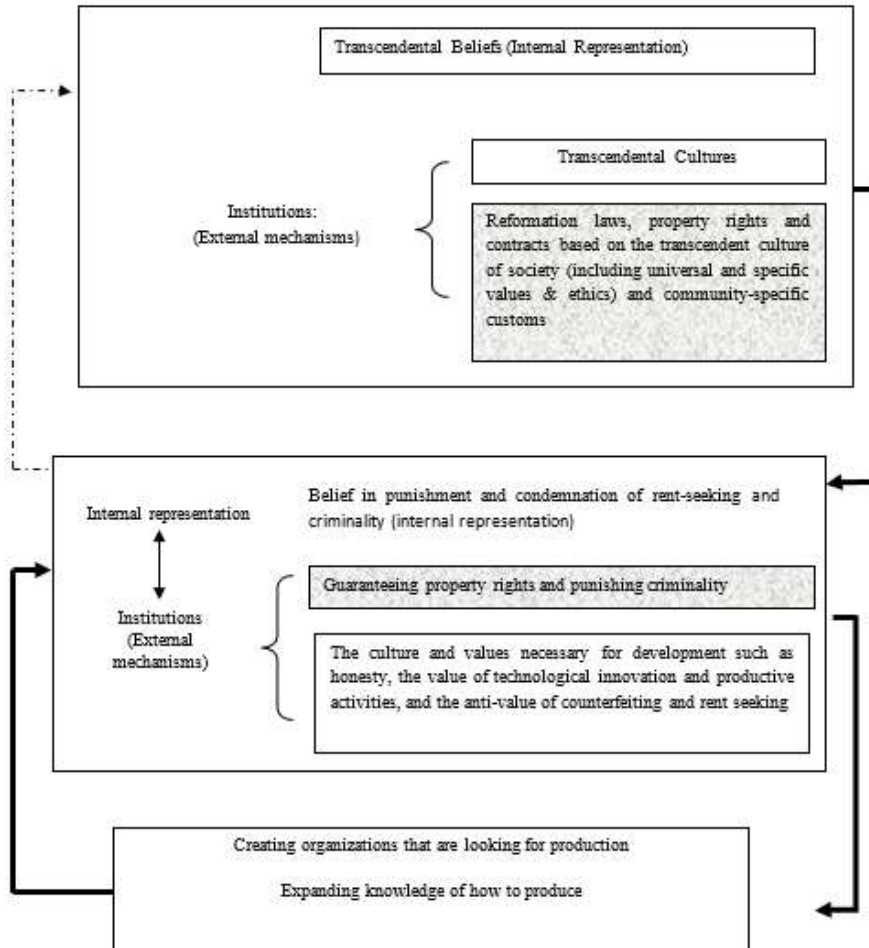
Changing the relevant beliefs requires comprehensive and sustainable reforms and sufficient change. That is because cultural evolution occurs when the self-undermining process reaches a critical level and the previous patterns of behavior are no longer self-enforcing. As the self-enforcing process changes, beliefs and related behaviors change as well (Greif & Laitin, 2004). Therefore, institutional change must have a multistage equilibrium quality (Krasner, 1984).

Reforms must multiply power, distribute positions according to competencies, amend property rights and contract enforcement mechanisms, strengthen enforcement, facilitate trade rules for strangers, establish transparency for different players, develop norms of obedience to the law, and create norms of trust, cooperation, honesty, belief in national identity, and so on.

Cultural change is a major change in the shared knowledge of agents. Evolution needs knowledge. Knowledge growth is a fundamental factor in changing, considering knowledge's complex relationship with institutions and beliefs. The growth of knowledge depends on the existence of complementary institutions that facilitate and encourage such growth, which does not happen automatically. Motivations influencing knowledge acquisition should aim at generating productive knowledge rather than rent-seeking (North, 2005). Therefore, in addition to formal education, the gradual process of learning is important as well (Shirley, 2005).

Changes must take place around the production axis. Production is a good indicator of the success of both changes and reforms.

Reforms make belief in work and effort to replace rent-seeking and theft. In this case, "manufacturing" organizations will gradually emerge, and knowledge of increasing productivity and efficiency will substitute that of rent-seeking and theft. This fact reinforces the beliefs of the community about the importance of technological innovation and productive activities and makes the culture of production and innovation more easily strengthened and reforms formal institutions. Therefore, according to Chang, Acemoglu, Robinson, and Chang, the culture of the second group more easily changes in the process of cultural development. On the other hand, according to Williamson, the effect of these developments on the transcendental culture and beliefs of society is not strong, as illustrated in Figure 5 by the dotted line.



**Figure 5. The impact of culture on the evolution of a society**

*Source: research findings*

## 5. Concluding Remarks

Institutions matter and knowing how institutions affect the economy is important for economic development. Most of the studies still tend to examine only one dimension of culture and the complexities of this relationship are not considered. There are also contradictions between ideas that have been expressed about the relationship between culture and economics. We discussed what cultural change is, and whether the different components of culture change in the same way and at the same speed, how complicated the relationship between culture and economic development is and, how cultural change is possible in an underdeveloped society. In this regard, we studied the viewpoints of various sociologists and economists. After defining the culture and its details, for example



how fast culture changes concerning economic development, three issues were discussed: First of all the speed and orientation of cultural changes, then the process of socialization and cultural transfer through various organizations, self-enforcing, and self-reinforcing of culture in the issue of cultural establishment and stabilization process, third, the relation between culture and formal institutions and different angles of this relation and also the Hobbesian problem. We used this information to understand the conditions for cultural stabilization in a developing society and the requirements of cultural change concerning the economy.

What, in reality, takes place in developing countries is that the culture in some dimensions is a barrier effect and in some dimensions is affected by the rapid changes in population quantity and quality, communication technology, rising immigration rates, increasing trade among countries, and is rapidly changing without following the necessary laws or evolving with economic development. Therefore, cultural changes in these societies in the first category are into lying, rent-seeking, lawlessness, mistrust, and so on. Cultural changes in the second category are into the cultural delay, chaos, tension, identity crisis, disintegration which makes this society move away from the path of development.

Cultural and economic development in this society must take place simultaneously in order for economic development to happen. There are some main points in this paper, which policymakers should consider for cultural changes:

It is required to seek the appropriate cultural change of development in the light of the value and cultural ideals of the society and the coinciding evolution of formal and informal institutions. Policy-makers should consider that:

There should be a serious purpose to cause legal and lasting reforms to change the current conditions, meaning the culture of the first category, and move towards technological innovation and productive activities instead of rent-seeking. Reforms must be such to increase implementation and enforcement of laws, multiply power, distribute positions based on competencies, amend ownership laws and contract enforcement mechanisms, guarantee strong enforcement, facilitate trade rules among strangers, and create transparency for different players.

Constitution and upstream documents should be written based on the ideal values of a society. Other laws and regulations should be gradually completed according to the needs of one society, the culture in the second category, and to change the culture of the first category. The association of laws and the economy with culture will preserve the particular culture (the second category) and integration of society and will ensure their success.

If laws are not based upon culture, they will have little chance of being implemented. Furthermore, incomplete enforcement of laws, forming a new path dependency, will bind the society to inefficient institutions. Due to the linkage and quasi-parametric nature of laws, legal reforms will not be successful.

It is a must to stabilize the culture with formal institutions. If the culture is not reinforced by laws, it will become non-resistant to shocks and other changes.

Economic policies are not universal nor neutral and must be founded on the values and philosophy of the society under consideration. Every economic policy is based on a value system, and if implemented in countries with different cultures, will be culturally conflicting among domestic forces and economically unsuccessful. Structural adjustment policy based on the values of neoliberalism is one of the most remarkable examples in this regard, the successful implementation of which requires a proper culture as well as formal institutions. This issue will be addressed in future research.

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