



ANNUAL
REVIEWS **Further**

Click [here](#) to view this article's online features:

- Download figures as PPT slides
- Navigate linked references
- Download citations
- Explore related articles
- Search keywords

Culture, Politics, and Economic Development

Paul Collier

Blavatnik School of Government, Oxford University, Oxford OX2 6GG, United Kingdom;
email: paul.collier@bsg.ox.ac.uk

Annu. Rev. Polit. Sci. 2017. 20:111–25

First published online as a Review in Advance on January 25, 2017

The *Annual Review of Political Science* is online at polisci.annualreviews.org

<https://doi.org/10.1146/annurev-polisci-051215-024720>

Copyright © 2017 by Annual Reviews.
All rights reserved

Keywords

institutions, beliefs, values, social networks, democracy, narratives

Abstract

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

1. INTRODUCTION

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

These explanations were discredited. As capital became globally mobile, endowments became endogenous, yet capital flowed out of poor regions and not into them. By the 1980s, economists were predominantly attributing this divergence to policy choices. Similarly, the cultural explanations were abandoned in the face of an explosive takeoff in a region supposedly mired in Confucianism, the apparently universal enthusiasm for democracy exemplified by the collapse of the Soviet Union (Fukuyama 1992), and the rational expectations critique of theories that relied on people holding persistently false priors.

During the 1990s, economic and political analyses fused into a powerful new explanation. As pioneered by Bates (1981), the differences in policy choices that economists saw as causes of divergence were explained as reflecting differences in structures of political power. Nationally damaging policies were not mistakes but rational strategies serving the elite interests. This fertile marriage between economics and political science is exemplified by Besley & Persson (2011) and Acemoglu & Robinson (2012). Such policies are redistributive in the terminology of the former, and extractive in that of the latter.

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

But even honest elections have ensured neither social peace nor good economic management. In the Middle East, democratic elections yielded President Maliki in Iraq and President Morsi in Egypt, each heralding social collapse. In Africa, the two best-established electoral alternations of power, Ghana and Zambia, have both generated economic crisis. Policy formation in a democracy can not only be hijacked by special interests, it can also be misled by false narratives perpetrated by those who genuinely believe them. Furthermore, the outcomes of many policies depend on effective implementation by public organizations. In many poor societies, critical public services, such as the courts, the police, schools, and clinics, are undermined by the corruption of their workforce. The work of Akerlof & Kranton (2011) on organizational performance as a function of the internalization of mental constructs provides a psychologically compelling framework for the analysis of organizational dysfunction. The culture of public organizations can serve as a form of shorthand.

Although the political economy analysis based on interests and abuses of power is important, culture is cautiously being readmitted as a legitimate explanation. Recent surveys of the economic literature on culture include Guiso et al. (2006), Bisin & Verdier (2011), Alesina & Giuliano (2015), and Gorodnichenko & Roland (2011). A milestone is the massive reevaluation of the European economic takeoff during “the Bourgeois Era” by McCloskey (2006, 2010, 2016). Her thesis explicitly counters the conventional account in terms of the primacy of institutions, emphasizing the

emergent values of a middle class. She sees these new values as functional foundations for economic transformation.

However, even though culture is no longer dismissed as a viable explanation of economic performance, given past embarrassments such as the diagnosis of stagnation in China, it is evident that cultural explanations cannot be freestanding but must be grafted onto rational choice analysis. Recent interchanges between economics and social psychology are broadening what is accepted as rational behavior. As yet, these developments lack an overarching intellectual framework. Behavioral economics, although well established, has primarily explored generic biases in decisions that could have arisen from evolutionary processes, such as fast thinking (Kahneman 2011), or in values, such as group favoritism (Greene 2013). Being universal, these biases have little to contribute to the analysis of differences in economic performance. The foundation for a further stage in behavioral economics, focusing on decision processes that are soft-wired by culture, is the work of Akerlof & Kranton (2011) on “identity economics.” From this foundation, in Section 2, I discuss the building blocks of a culture, how they are transmitted, and how they evolve, and I present some recent formal models in which values are primary in determining institutions and policies. In Section 3, I turn to some political consequences: how the introduction of identity can call into question the primacy of institutions in establishing state legitimacy, how other-regarding motivations can provide a fresh approach to state capacity, how culture can coordinate the expected behavior on functional or dysfunctional equilibria, and how misleading narratives can frustrate social learning.

2. THE DNA OF CULTURE

2.1. Culture as Social Interaction

Social networks powerfully transmit behavior, as demonstrated by Christakis & Fowler (2009). Social interactions are also crucial to the emergence of organizations because they enable the coordination that reaps gains from reciprocity (Padgett & Powell 2012). Two key mechanisms for influence and coordination are changes in motivations and changes in knowledge. People are motivated not only by the individualism of material well-being but also by being socialized into other-regarding values; they learn about the world through individual direct observation and from narratives related by others. These two aspects of behavior are included in a revised rational choice framework.

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

People may still behave rationally, maximizing utility within perceived constraints. However, other-regarding values are part of the utility that they are maximizing, and the perceived constraints to which the maximization problem is subject may have been postulated by narratives that are mistaken. A culture manifests the behavior generated by its specific values and narratives, and that behavior may be dysfunctional. It also transmits itself to new members and thus may be highly persistent. In Section 2.2, I introduce formal models that demonstrate how culture can affect outcomes in ways not envisaged by elite interest models.

2.2. Formal Models Incorporating Culture

An early and influential formal model that demonstrated the importance of cultural values for outcomes was that of Greif (1994), contrasting two groups of eleventh-century Mediterranean traders. One group, Genovese merchants, had individualistic values that Greif traced back to Christian concepts of the direct relationship of the individual to God. The other group, Jewish Maghrebi merchants, had collectivist values that he traced back to Islam. Using detailed historical evidence, he showed that the Maghrebi had a material advantage, protection from defaults by agents in remote trading locations. Through formal modeling, he derived this outcome from the difference in values. In an extension important for political science, he suggested that this cultural advantage became a *cul-de-sac*. Their collectivist, trust-based solution to the difficulties of long-distance trade locked the businesses of Maghrebi merchants into single-family, single-generation organizations. By contrast, the greater difficulties faced by Genovese merchants gave them an incentive to build multifamily, multigeneration organizations that relied on state-provided contract enforcement. Ultimately, these reaped larger-scale economies that outcompeted the Maghrebi merchants. This illustrates the thesis of Cook et al. (2005): Formal institutions may be a superior alternative to trust but may not develop if informal networks reduce the need for them.

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

Besley & Persson (2016) revisit the proposition advanced by Lipset (1959) that democracy is only sustainable within a culture that has already accepted democratic values. This proposition is evidently pertinent to the quantum extensions of democracy in 1991 and the Arab Spring. Besley & Persson make a minimalist modification to the conventional specification of motivation: Some people in the society value democratic rights. This is not derived from material self-interest but is an other-regarding value for those human rights intrinsic to democracy. It has one consequence for behavior: If the government breaches democratic rights, the person participates in public protest. This is not because demonstrating is enjoyable but because failing to protest would reduce self-esteem. This aspect of the model is analogous to the introduction of anger as the motivation for the punishment of norm infringements in Akerlof (2016).

Besley & Persson (2016) suppose that different societies have exogenously different initial proportions of people who hold such values. Hence, should the government breach democratic rights, the scale of protest would differ between societies. Because the probability that a protest succeeds depends on its scale (Kuran 1989), in societies that are initially well-endowed with democratic values, protest is more likely to succeed. This generates a feedback from the political outcome to the utility of the protester. The protester who values democratic rights feels happier if they are upheld than if they are undermined.

The most innovative aspect of the Besley & Persson (2016) model is a process of cultural transmission that generates societal evolution. In that process, drawn from models of genetic transmission (Boyd & Richerson 1985), children get their values from their parents. The society includes adults both with and without democratic values. When both parents share the same values, the child is assumed to be raised with those values. However, unless all mating is assortative, some parents are mismatched. Then, the values of the child are assumed to depend on which parent is happier. In societies where protest is sufficiently potent to maintain democratic values, the democracy-valuing parent gets a happiness boost; in those where protest fails, he is unhappy. Hence, the child of a mixed marriage grows up with democratic values only where protest is sufficiently potent to be successful.

Although the appeal to “happiness” is psychologically crude, a more sophisticated analysis would generate an equivalent outcome. Experiments demonstrate that people want to identify with success and to distance themselves from failure. If a football team wins, a supporter reports it as “we won,” whereas a loss is reported as “they lost”; the adoption of identity is dependent on whether it is associated with success.¹ In effect, in a society with insufficient adults who value democracy, the children of a mixed marriage have a choice as to whether to self-identify with failure. Besley & Persson (2016) assume that when the demonstration fails, they opt for “Dad’s team lost” rather than “my team lost.”

This dynamic gradually changes the composition of the society toward or away from the intrinsic valuation of democratic rights. From slightly different cultural starting points, societies can evolve to radically different but stable cultures of democracy and autocracy. Lipset’s (1959) proposition has acquired rigorous microfoundations.²

Besley (2016) uses the same mechanism of cultural transmission but a different modification to motivation to derive another major political divide. Now what varies in the initial cultures of societies is the proportion of people who are aspirational. Research on skills has found that the critical ones are noncognitive: Attitudes such as aspirations and ambition really matter (Cunha & Heckman 2009). Fieldwork in poor countries has established that aspirations are important for development and that they are socially transmitted. Tanguy et al. (2014) report results from an experiment in rural Ethiopia. Children were randomly exposed to 20-minute videos. One narrated a story of how a child struggled through education and acquired a good job. The other had no narrative of behavioral significance. Six months later, those children who had viewed the aspirational video had improved their relative performance significantly. Similarly, Wantchekon et al. (2015) use a natural experiment in Benin to study the generation of aspirational values. At the onset of colonialism, missionaries went inland and established schools in random locations. The first generation of school graduates became role models for a second generation of households. Aspirations are economically significant and socially transmitted.

These are the key assumptions of Besley’s (2016) model. People who are aspirational are defined as placing a high value on success. Besley infers that aspirational people choose to work hard. The link to politics is that people who work hard vote for low taxes on the returns to effort. Conversely, nonaspirational people do not work hard and so prefer high taxes on effort. Hence, in a democratic society where taxes reflect majority preferences, there is a critical proportion of aspirational people above which the society adopts low taxes and below which it adopts high taxes—for example, the United States versus Europe, perhaps.

Again, the mixed marriages drive the cultural dynamics. Where the initial proportion of aspirational people is low, aspirational people are less happy than where it is high: If they were to put in high effort, it would be frustrated by high taxes. The setup permits various possibilities, but Besley (2016) sets parameters such that in these circumstances, aspirational people prefer not to work hard. They are nevertheless unhappy because they have not achieved their aspirations. Where the initial proportion of aspirational people is high, taxes are low, and so aspirational people work hard, achieve their aspirations, and are happy. In consequence, in the former, the children of mixed marriages grow up without aspirational values (“Dad had a frustrated life”), whereas in the latter, they adopt them. Gradually, each society approaches a political equilibrium. Depending

¹Indeed, the consequences of precisely this process for identity are currently being explored using data on African football matches. E. Depetris-Chauvin & R. Durante (unpublished manuscript) found that following a victory by the national team, the salience of ethnic identity and social violence are both reduced.

²An early formal argument along these lines is the epistemology of trust (Hardin 1993), showing how racial differences in attitudes toward government evolve.

on the parameters, the low-aspiration equilibrium can be inferior even for nonaspirational people because the lack of effort implies that too little tax revenue is raised, so that the nonaspirational get fewer public goods. On slightly different parameters, the high-aspirations society is dysfunctional.

These models demonstrate an important general feature of social behavior once culture is endogenized: There is no equivalent mechanism to the invisible hand. Although economists recognize the limitations of the invisible hand, it has rightly constituted a presumption: If material self-interest is the only motivation, markets can usually bring a society close to social efficiency, political interests permitting. Even when elites set policies in their own interest, they choose policies that are the least socially damaging subject to meeting that interest.³ But when culture matters for outcomes, there is no equivalent to the market process that guides the culture to a configuration that delivers a socially desirable outcome. The transmission of culture may lock an organization, or an entire society, into a locally stable equilibrium that is dysfunctional. Cultures matter. They evolve through processes amenable to scientific study, but these processes need not be benign.

2.3. Networks and Identities

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

Norms, values, and narratives can reinforce each other by validating the same choice through different motivations (Collier 2016). The same action may generate peer esteem and self-esteem, and the action may appear to be in the actor's material self-interest. Because holding incompatible mental constructs gives rise to cognitive dissonance, narratives, norms, and values tend to adjust to each other. As Haidt (2012) shows, people weight evidence selectively so as to conform to their values. Values may also accommodate to self-interest.⁴ Once this shuffling has reached a configuration where the three mental constructs are mutually compatible, behavior is locally stable in the face of dysfunctional outcomes. Hence, a network can be thought of as a cultural quantum, a discrete package of compatible norms, values, and narratives.

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

Just as networks package norms, values, and narratives, so do identities. Akerlof & Kranton (2011) argue that values are often internalized by means of an identity. A plumber who has adopted the identity of being a good plumber tends to do a good job because that is what it means to be a good

³Hence, the rational choice critique of donor policy conditionality is as follows: When the elite-preferred policy is suboptimal, the elite may simply achieve the same distributional outcome with other policies that are socially more costly.

⁴For example, arguments can be made for the ownership of natural resources to be either local or national. Political support for these positions tends to follow self-interest but also to become imbued with the passion of self-righteousness, for example, the prolonged campaign of the Scottish Nationalist Party around the slogan "it's Scotland's oil" (Collier 2017).

plumber. He gets self-esteem from enacting an adopted role. A smart organization uses selection and training strategies that assist this process. Benabou & Tirole (2011) suggest that people invest in an identity and, having done so, rationally protect it by shielding it from potentially disruptive information. They use this to explain the otherwise irrational practice of taboos. Erecting a taboo is analogous to the biased evaluation of information discussed by Haidt (2012). Each depends on the notion that values and narratives are interdependent: Challenging a false narrative could threaten a value, which in turn is bound up with an identity. The same process of filtering out or countering potentially disruptive information can occur at the level of the network as well as the individual, with nodal actors in a privileged position to do so.

3. SOME CONSEQUENCES OF CULTURES

Just as values, rather than institutions, may be primary for democracy and tax rates, so the packages of norms, values, and narratives constituted by identities and networks may be primary for political outcomes. Section 3 considers their role in state legitimacy, the effective functioning of state organizations, the coordination of expectations, and social learning.

3.1. Identities and State Legitimacy

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

The supposition that legitimacy is directly generated by the institutions of democratic accountability has been the bedrock of recent international policies toward postconflict states. But an alternative hypothesis is that legitimacy depends on a correspondence between the spatial structure of identities and the spatial structure of power. Mismatches, as when identities are spatially fragmented while power is centralized, can be resolved either by devolving power to identities or by amalgamating identities toward power.

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

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

this reduced their own income. Following the political violence of 2008, sabotage worsened and persisted. This is a stark demonstration of what Cunha & Heckman (2009) refer to as antisocial capital.

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

Identity defines the boundaries of homophily. Just as Nyerere succeeded in building shared identity in an initially highly fragmented society, so religious differentiation and immigration both potentially reduce homophily with political consequences. In their study of religions in America, Putnam & Campbell (2012) find that religion is the most stable self-described component of identity, virtually impervious to the major shock of the Great Recession. They analyze how the potential for religious identities to become oppositional has been avoided in America by the high incidence of social mixing. The Islamic State in Iraq and Syria (ISIS) shows the other extreme, a differentiated religious belief supporting an intensely oppositional identity (McCants 2015). Immigration shows the same wide range of political consequence. The American tradition of social interaction and intermarriage, combined with modest expectations of social support from the state, has limited concern about immigration. In contrast, in Europe, immigration accounts for the rise of a new group of nationalist political parties (Pardos-Prado 2015). This may be partly because of Europe’s much larger welfare programs. Rueda (2017) shows that, across Europe, the higher the proportion of immigrants the lower is the willingness of voters with above-median income to support fiscal transfers to those with below-median income. This implies that voters with below-median incomes have a rational reason to oppose immigration unrelated to racism or misperceptions about threats to employment. Muñoz & Pardos-Prado (2017) provide the psychological foundations for Rueda’s result from lab experiments: When subjects are primed with the concept of immigration, they are less willing to contribute taxes to public goods.

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

As of 2016, extreme risk avoidance would certainly not characterize the European Union. In an attempt to forge a shared identity through symbols, the European Union adopted a common currency and open internal borders. Both were not just symbols but policy instruments with real consequences for which the European Union was unprepared. As youth unemployment in

southern Europe and movements of asylum seekers escalated, Chancellor Merkel briefly acquired de facto autocratic power, becoming a “risk-taking autocrat” in the terminology of Schofield. Dealing directly both with the Greek government during its macro-economic crisis and with President Erdogan during the asylum crisis, she made unilateral decisions subsequently imposed on the European Union. A crucial example in terms of Schofield’s analysis was the unprecedented suspension of the veto power of individual governments to introduce a requirement that each state should take a quota of refugees. At this point the EU Commission’s power dissolved into theater, with its directives ignored.

3.2. Motivation and State Capacities

Interest-dominated analysis of the state has diverted attention from differences in state capacities. State effectiveness depends on the functioning of key organizations—historically armies, tax authorities, and courts. How such organizations function depends on their culture. Even in the private sector, there are decisive differences in organizational cultures (Gibbons & Henderson 2012), but in the public sector, the lack of competition suggests that differences are likely to be wider. Where cultures of corruption are pervasive, public services may be severely impaired. Teachers may see it as reasonable not to show up for class, nurses may steal drugs, and judges may sell justice. Even core state services, such as the military and tax administration, may not work. The state becomes locked into dysfunction not because of elite interests but owing to the norms, values, and narratives that circulate in the social networks associated with these public organizations. A well-researched example is health care. Reinikka & Svensson (2010) show that, in Uganda, church-run health clinics are significantly more productive than government clinics, despite lower levels of pay.

I focus on a core state function. Building on Tilly’s (1990) work on the origin of European states, modern analyses emphasize the critical role of the capacity to tax. Hence, the failure to build an effective tax system, which is a feature of many weak states, is central to political analysis. Currently, the explanation for this failure is interest based. Leaders choose not to invest in building state capacity if they have short horizons or a fear of a transfer of power to another group (Besley & Persson 2011). An analysis of dysfunctional organizational cultures can provide an alternative explanation: In some societies, building an effective tax system would be infeasible. This is illustrated by the attempt of the International Monetary Fund (IMF) to get African governments to adopt value-added taxation (VAT). Most African governments have agreed to implement VAT, so the failure to raise tax here is not attributable to a direct choice of government. However, once adopted, in several countries the outcome has been a net loss of revenue. Tax inspectors are using VAT as a new opportunity for embezzlement, selling receipts for payment of the tax on purchases that entitle firms to rebates. Understanding the constraints on state capacity requires understanding the psychology of tax inspectors.⁵

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

Consider now an African tax inspector who participates in two social networks, workplace and family. The norm generated by the typical African family network is, let us suppose, “help the family.” The narrative circulating in the family is as follows: “If you help the family, it will help

⁵This example is based on Collier (2016).

you.” Finally, through getting his job as a tax inspector in a context in which jobs are scarce, he is able to adopt a respected, but conditional, identity, “the breadwinner.” The condition is simply that the inspector enacts the role by bringing home the bread.

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

Now consider the workplace network. Following Akerlof & Kranton (2011), suppose that to get self-esteem the inspector must enact the role of “a good tax inspector.” Similarly, the inspector gets peer esteem if his behavior conforms to what his colleagues regard as constituting “a good tax inspector.” Narratives can be generated both by the management and by fellow workers. The narrative of the manager is presumably that conventional to OECD tax departments: “By raising taxes, you are enabling the government to finance valuable public services.” The inspectors can either accept this narrative as true and circulate it (insider identity, in the terminology of Akerlof & Kranton 2011) or introduce an alternative. The alternative narrative is “the revenue we pass up the system is stolen by our manager” (outsider identity). These narratives are rivals in the sense that they are cognitively incompatible. Inspectors may adopt the latter narrative either in response to what they observe (the Bayesian account) or by weighting according to self-interest (Haidt 2012). In that case, they reinterpret the narrative articulated by their manager as self-serving rather than public spirited and so discount it. The crucial step is the meaning of the workplace norm: What is a good tax inspector? In an OECD tax authority, a good tax inspector is one who applies the law consistently. A rival norm, which might apply in contexts of corruption, defines a good tax inspector as one who fully exploits opportunities for personal gain. The two norms are incompatible in the same way as the two narratives: Holding them together would give rise to cognitive dissonance. However, unlike narratives, conflicting normative propositions cannot generally be resolved by objective evidence.

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

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

3.3. Coordination: Expectations of the Behavior of Others

Because people are engaged in strategic interactions, their expectations of the consequences of a chosen action depend not only on their knowledge of the material world but also on their knowledge of the behavior of others. Like all knowledge, this can be generated both by direct observation and by narratives. However, because the most memorable narratives are about behavior, narratives may be a particularly important vehicle for knowledge of how others behave. In an emblematic vignette, Gambetta (1993) describes the transmission of culture from father to son in Sicily. The father stands his young son on a high wall and tells him to jump off, waiting with his arms raised ready to catch him. The son jumps, and the father stands aside, leaving his son to injure himself. As the boy gets up, his father delivers the norm that the episode is meant to illustrate: “Never trust anyone.”

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

A study of trust by Charron et al. (2013) uses large-sample survey evidence, enabling estimates for 200 distinct subregions of Europe. Even within this area of supposedly common European values, they find massive differences. At the extremes, the people of Copenhagen are ten times more likely to trust their neighbors than the people of Slovakia. Northern and southern Italy still reveal the stark cleavage first identified by Putnam, which he traced back into the distant past (Putnam et al. 1993). Either such differences in expectations of trust are without foundation or they reflect differences in the probability of cheating. In some professions, forecasting trustworthiness is essential, so we would expect efficient usage of observable information. Gambetta & Hamill (2005) provide a fascinating study of how taxi drivers in different societies make such judgments through screening hard-to-fake signals, such as facial expressions, and their evidence strongly supports rationality. The implication is that large differences in levels of trust are likely to reflect corresponding differences in cheating. Direct measures of cheating are understandably less common than measures of trust. However, Gächter & Schulz (2016) have recently conducted an ingenious study of cheating using laboratory experiments to a standard design among students in various countries. They find large differences in the propensity to cheat, with Germans the least prone and Moroccans the most. Analogous to this study of cheating, Fisman & Miguel (2007) use a natural experiment to study compliance with unenforceable law, specifically the payment of parking fines by diplomats in New York. They find large differences between nationalities that are systematically related to the extent to which the home country is rated as adhering to the rule of law. They also find evidence that continued participation in the social network of New York-based diplomats gradually leads to a convergence of behavior. Evidently, people become torn between adhering to their culture of origin and their new group norm.

In a different context, a current study of the behavior of wives in polygamous marriages finds behavior clustered around two equilibria (A. Barr et al., unpublished). In one, the two wives reveal reciprocal cooperation, whereas in the other, they reveal reciprocated self-interest. As with trust, both equilibria involve reciprocity, but only one is functional.

Although common individual behavior presumably matters in shaping expectations, Charron et al. (2013) argue that key professions, such as the judiciary, are distinctively influential. If

professional behavior is untrustworthy, this sets the norms for ordinary people. In effect, with respect to trust, a few professions are nodal actors in social networks.

As to transitions in cultures, an aspect of the European cultural transition celebrated by McCloskey (2006, 2010, 2016), the decline in violence, has been analyzed from a psychological perspective by Pinker (2011). One such transition was from codes of honor, exemplified by dueling, to codes of justice. In this transition in norms, the obligation to avenge a harm passed from the aggrieved family, with the potential to generate vendettas, to the state. In some societies, this transition has yet to occur. A second European transition was the demise of public hangings. This occurred shortly after the rise in literacy rates, which Pinker regards as causal. The rise in literacy created a new mass market for novels, and this in turn exposed ordinary people to a new psychological experience. Nineteenth-century novels were typically constructed around a narrative in which a hero with whom the reader is invited to identify undergoes a struggle. The neuroscientist Paul Zak (2014) has established that the brain finds such a format particularly memorable. Pinker suggests that reading novels was an inadvertent training in empathy, the ability to see a situation from the perspective of another person. This may well explain why, even though the spectacle of a person being hanged was regarded as prime entertainment in the early nineteenth century, that attitude became unacceptable by the later part of it. People were still being hanged; the supposed disincentive for crime had not changed. But it was no longer fit entertainment. The cultural explanation for this change in public policy is arguably more plausible than one constructed in terms of rational interests.

A similar contest between rational interest and cultural explanations of violence is provided by the striking shift from endemic interstate violence in Europe prior to World War II to the sustained peace afterward. The familiar institutional account, as reflected in the award of the Nobel Peace Prize, attributes this to the institutions of the European Union. But an alternative cultural account is possible in terms of the profound psychological shift toward pacifism among the postwar generation of Germans. In this account, European institutions are a consequence of a cultural shift that produced sustained peace, rather than being the cause of peace. The Netherlands is in the European Union and uses the euro; Norway participates in neither. Prior to the great peace, Germany invaded both countries. Is Norway now more at risk than the Netherlands?

3.4. Network-Derived Social Misunderstanding

According to rationalist analysis, people make direct observations of the world and assimilate them through Bayesian updating to understand the causal processes that influence their efforts to maximize utility. The cultural counter-hypothesis is that people acquire much of their understanding from narratives circulated in social networks. False narratives may be sustained despite persistent conflict with observable reality.

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

Rationalist and cultural analyses of development also diverge on the role of the IMF in the management of macro-economic crises. The IMF has consciously played the role of scapegoat for adjustment policies, justified on the rationalist theory that by taking the immediate blame, it reduces the costs to governments, enabling easier implementation. Inadvertently, this disseminated a false narrative that pain was due to the IMF and not to prior mismanagement. This narrative has proved persistent. Across Africa, parts of the population look back fondly on the disastrous domestic policies of the early 1980s as generators of a golden period.

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

4. CONCLUSION

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

For the analysis of most organizations and societies, the rational choice framework may be sufficient. But it may fail to account for the tail of the distribution characterized by extreme and persistent dysfunction, which may contain a majority of the situations that require public policy responses. An analogy is with dysfunctional families. The Troubled Families Program, launched by the British Government in 2011, targets a mere 120,000 households that are collectively estimated to have generated £9 billion of public costs. Forcing the analysis of the behavior of such households into the conventional rational choice framework of incentives and interests, while denying the influence of distinctive values and misunderstandings, may sacrifice explanatory power for disciplinary purity. It is time to recognize that culture matters. Cultures evolve through processes that are amenable to scientific study, but there is no compelling reason to expect these processes to be benign.

DISCLOSURE STATEMENT

The author is not aware of any affiliations, memberships, funding, or financial holdings that might be perceived as affecting the objectivity of this review.

ACKNOWLEDGMENTS

I thank Margaret Levi for helpful suggestions from the initiation of this review to its final form. I also thank George Akerlof and members of the network “Economic Research on Identities, Narratives and Norms” for the intellectual impetus.

LITERATURE CITED

Acemoglu D, Robinson JA. 2012. *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*. London: Profile Books

- Akerlof GA, Kranton RE. 2011. *Identity Economics: How Our Identities Shape Our Work, Wages, and Well-Being*. Princeton, NJ: Princeton Univ. Press
- Akerlof R. 2016. Anger and enforcement. *J. Econ. Behav. Organ.* 132B:110–24
- Alesina A, Giuliano P. 2015. Culture and institutions. *J. Econ. Lit.* 53(4):898–944
- Bates RH. 1981. *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. Berkeley, CA: Univ. Calif. Press
- Benabou R, Tirole J. 2011. Identity, morals and taboos: beliefs as assets. *Q. J. Econ.* 126:805–55
- Besley T. 2016. Aspirations and the political economy of inequality. *Oxf. Econ. Pap.* 69:1–35
- Besley T, Persson T. 2011. *Pillars of Prosperity: the Political Economics of Development Clusters*. Princeton, NJ: Princeton Univ. Press
- Besley T, Persson T. 2016. *Democratic values and institutions*. Res. Work. Pap., London School Econ, London, UK
- Bisin A, Verdier T. 2011. The economics of cultural transmission and socialization. In *Handbook of Social Economics*, Vol. 1A, ed. J Benhabib, MO Jackson, A Bisin, pp. 339–416. San Diego, CA: Elsevier
- Boyd R, Richerson PJ. 1985. *Culture and the Evolutionary Process*. Chicago, IL: Univ. Chicago Press
- Burgess R, Jedwab R, Miguel E, Morjaria A, Padró i Miquel G. 2015. The value of democracy: evidence from road building in Kenya. *Am. Econ. Rev.* 105:1817–51
- Charron N, Lapuente V, Rothstein B. 2013. *Quality of Government and Corruption from a European Perspective*. Cheltenham, UK: Elgar
- Collier P. 2016. The cultural foundations of economic failure: a conceptual toolkit. *J. Econ. Behav. Organ.* 126(Part B):5–24
- Collier P. 2017. The institutional and psychological foundations of natural resource policies. *J. Dev. Stud.* 53:27–28
- Collier P, Hoeffler A. 2015. Do elections matter for economic performance? *Oxf. Bull. Econ. Stat.* 77:1–21
- Cook K, Hardin R, Levi M. 2005. *Co-Operation Without Trust?* New York: Sage Found.
- Christakis N, Fowler J. 2009. *Connected: The Surprising Power of Our Social Networks and How they Shape Our Lives*. New York: Little, Brown
- Cunha F, Heckman J. 2009. The economics and psychology of inequality. *J. Eur. Econ. Assoc.* 7(2–3):320–64
- Fisman R, Miguel E. 2007. Corruption, norms and legal enforcement. *J. Polit. Econ.* 115:1020–48
- Foster GM. 1965. Peasant society and the image of limited good. *Am. Anthropol. New Ser.* 67(2):293–315
- Fukuyama F. 1992. *The End of History and the Last Man*. New York: Free Press
- Gächter S, Schulz JF. 2016. Intrinsic honesty and the prevalence of rule violations across societies. *Nature* 531:496–99
- Gambetta D. 1993. *The Sicilian Mafia: The Business of Private Protection*. Cambridge, MA: Harvard Univ. Press
- Gambetta D, Hamill H. 2005. *Streetwise: How Taxi Drivers Establish Their Customers' Trustworthiness*. New York: Sage
- Gibbons R, Henderson R. 2012. *What do managers do? Exploring persistent performance differences among seemingly similar enterprises*. Work. Pap. 13–020, Harvard Bus. School, Cambridge, MA
- Gorodnichenko Y, Roland G. 2011. Which dimensions of culture matter for long-run growth? *Am. Econ. Rev.* 101:492–98
- Greene J. 2013. *Moral Tribes: Emotion, Reason, and the Gap between Us and Them*. New York: Penguin
- Greif A. 1994. Cultural beliefs and the organization of society: a historical and theoretical reflection on collectivist and individualist societies. *J. Polit. Econ.* 102(5):912–50
- Guiso L, Sapienza P, Zingales L. 2006. Does culture affect economic outcomes? *J. Econ. Perspect.* 20:23–48
- Haidt J. 2012. *The Righteous Mind: Why Good People Are Divided by Politics and Religion*. New York: Pantheon
- Hardin R. 1993. The street-level epistemology of trust. *Polit. Soc.* 21(4):505–29
- Hjort J. 2014. Ethnic divisions and production in firms. *Q. J. Econ.* 129:1899–946
- Kahneman D. 2011. *Thinking, Fast and Slow*. New York: Farrar, Strauss & Giroux
- Kuran T. 1989. Sparks and prairie fires. *Public Choice* 61(1):41–74
- Lipset SM. 1959. Some social requisites of democracy: economic development and political legitimacy. *Am. Polit. Sci. Rev.* 53:69–105
- McCants W. 2015. *The ISIS Apocalypse: The History, Strategy, and Doomsday Vision of the Islamic State*. New York: St. Martin's

- McCloskey DN. 2006. *The Bourgeois Virtues: Ethics for an Age of Commerce*. Chicago: Univ. Chicago Press
- McCloskey DN. 2010. *Bourgeois Dignity: Why Economics Can't Explain the Modern World*. Chicago: Univ. Chicago Press
- McCloskey DN. 2016. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. Chicago: Univ. Chicago Press
- Miguel E. 2004. Tribe or nation? Nation building and public goods in Kenya versus Tanzania. *World Polit.* 56:327–62
- Muñoz J, Pardos-Prado S. 2017. Immigration and support for social policy: an experimental comparison of universal and means-tested programs. *Polit. Sci. Res. Methods*. In press
- Padgett JF, Powell WW. 2012. *The Emergence of Organizations and Markets*. Princeton, NJ: Princeton Univ. Press
- Pardos-Prado S. 2015. How can mainstream parties prevent niche party success? Center-right parties and the immigration issue. *J. Polit.* 77:352–67
- Pinker S. 2011. *The Better Angels of Our Nature*. New York: Viking
- Polanyi K. 1944. *The Great Transformation*. New York: Farrar & Rinehart
- Putnam RD, Campbell DE. 2012. *American Grace: How Religion Divides and Unites Us*. New York: Simon & Schuster
- Putnam RD, Leonardi R, Nanetti RY. 1993. *Making Democracy Work: Civic Traditions in Modern Italy*. Princeton, NJ: Princeton Univ. Press
- Reinikka R, Svensson J. 2010. Working for God? Evidence from a change in financing of nonprofit health care providers in Uganda. *J. Eur. Econ. Assoc.* 8:1159–78
- Rueda D. 2017. Food comes first, then morals: redistribution preferences, parochial altruism and immigration in Western Europe. *J. Polit.* In press
- Sabel CF, Zeitlin J. 2010. *Experimentalist Governance in the European Union: Towards a New Architecture*. Oxford, UK: Oxford Univ. Press
- Schofield N. 2006. *Architects of Political Change: Constitutional Quandaries and Social Choice Theory*. Cambridge, UK: Cambridge Univ. Press
- Tangy B, Dercon S, Orkin K, Taffesse AS. 2014. *The future in mind: aspirations and forward-looking behaviour in rural Ethiopia*. Work. Pap. WBS/2014/16, Cent. Stud. Afr. Econ., Dep. Econ., Oxford Univ., Oxford, UK
- Tilly C. 1990. *Coercion, Capital and European States, AD 990–1990*. Oxford, UK: Blackwell
- Wantchekon L, Klačnja M, Novta N. 2015. Education and human capital externalities: evidence from colonial Benin. *Q. J. Econ.* 130:703–57
- Wilson PH. 2016. *The Holy Roman Empire: A Thousand Years of Europe's History*. London: Allen Lane
- Zak PJ. 2014. Why your brain loves good storytelling. *Harvard Bus. Rev.* (Oct.). <https://hbr.org/2014/10/why-your-brain-loves-good-storytelling>