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## Culture Forms Our Common Life

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*If we learn anything from the history of economic development, it is that culture makes almost all the difference.*

—[David S. Landes, 2000](#)

**I**N 1993 THE NOBEL PRIZE IN ECONOMICS WAS AWARDED TO Robert Fogel and Douglass North for their work in economic history. North won primarily because he drew attention to the need to understand the history of the development of market economies in terms of institutions—the patterns through which we undertake economic activity. His main point was that high transaction costs choke off economic activity, low transaction costs stoke it, and institutions are therefore important because they help keep transaction costs low.

This was a powerful and transformative position. It changed how economic historians and development economists looked at the world forever. The story of economic development was no longer driven by the evolution of policy. It was now coming from something deeper, from foundational institutions like property rights and third-party contract enforcement. It answered the question “Why are some countries rich but most are poor?” in a very simple but powerful way. There was abundant evidence to back it up, but it was so logically compelling it almost had to be true.

Now suppose an individual from a poor country moves to a rich country and quickly starts to prosper. Most economists, especially after [North](#), and [Acemoglu and Robinson](#), would argue that this happens because the rich country has better institutions.

But what if suddenly thriving is just what happens when honest hardworking people from poor countries are dropped into high-trust societies? In this case it's trust, not institutions, that makes the difference, because a high-trust society reduces transaction costs like nothing else can.

This is not to say that institutions aren't important. Institutions keep transaction costs low and therefore economic activity high. But if institutions were the beginning and end of the story, then any poor country could become a rich country by simply adopting the institutions that have already proven their worth in rich societies. The templates are ready and experts from rich countries are eager to assist with implementation.

This has been tried repeatedly and it almost never works. Why? There are many answers, most correct to some extent, but let's focus on just one. Many of the social, political, and economic institutions that we in rich societies take for granted—things like democratic voting, central banking that produces sound money, and courts that protect and promote the rule of law—are either absent or highly corrupted in low-trust societies. This is because they are themselves highly trust-dependent. In short, high-trust societies provide a foundation for the institutional landscape. But high-

trust societies rest, in turn, on a cultural foundation. So trust dependent institutions in the absence of a culture that can sustain a high-trust society is like a hammer without a carpenter.

I am not arguing that culture matters because institutions don't. Quite the opposite. It is because institutions are so important that culture matters so much. When certain kinds of moral beliefs—an obvious part of any society's culture—are culturally transmitted from one generation to the next, a high-trust society exists, which is the pillar of a thriving free market democracy. Saying that culture matters greatly, perhaps even most of all, does not imply that you believe institutions don't matter anymore than saying that a car without an engine cannot work implies that you believe that tires don't matter.

### **How Does Culture Make High-Trust Societies?**

Near the end of his career, [North](#) began to incorporate culture into his work by considering how belief systems affect the institutional environment. Pathbreaking economists like [Deirdre McCloskey](#) and [Joel Mokyr](#) have also drawn a great deal of attention to culture. They argued that the ideas, beliefs, and values of pre-industrial Europe set the stage for a second scientific revolution that ultimately unleashed the industrial revolution. This means that culture was in some ways primary to the institutions that get most of the attention. I agree.

But in my latest [book](#), I explain why these ideas, beliefs, and values would not have worked so well were it not for their being culturally transmitted. Moreover, without a trust-producing culture, a high-trust society would not have emerged. And from a high-trust society, institutions, like the free market and democracy, come into existence.

We don't ponder whether to blink when dust blows into our eyes. We also don't ponder whether to express sympathy to a friend upon hearing his mother died. Both of these examples involve behavior that is rather automatic, almost like it was encoded as an "if-then" statement in a computer program. But there is an important difference between these two examples.

The first is baked in our genetic cake and is thereby a product of *hardwired* neural architecture. The second is learned early in life and is therefore better described as a cultural practice that is a product of *constructed* neural architecture. At its core, culture is a uniquely effective mechanism for cultivating a consistent, constructed neural architecture in society to solve problems that are not well solved either by genetic encoding or by unfettered rational decision-making.

Cultural anthropologists have documented that a surprising amount of behavior conforms to encoding through constructed neural architecture. Indeed, the variation in cultural practices we observe across groups would be impossible if all neural architecture associated with social behavior was hardwired as it is with social insects like bees.

Without appreciating the awesome power of trust, it is hard to recognize the importance of culture that makes it, and the institutions we cherish, possible.

But if all behavior was consciously rational in the sense of [Daniel Kahneman's](#) System 2 mode of thinking, then our universal capacity for rationality would drive all groups to the uniformity of best practice. Just as perfect competition drives the price all firms charge to the same level, competition between groups would leave no choice but to choose the most rational course of action in response to any given circumstance.

Adam Smith didn't think of the world in this quintessentially neoclassical way. In his *Theory of Moral Sentiments*, he explained how our sensitivity to approval and disapproval provided a mechanism for responses to be consistent within the group yet able to be different across groups and therefore able to adapt to local conditions. These responses were not irrational—there is happiness and sadness to be derived from approval and disapproval—but they were also not fully *consciously* rational either because Kahneman's System 1 thinking connects the approved response to any given circumstance so quickly that the executive function of the brain is circumvented. This is better described as pre-rational than irrational, and it is easy to imagine how it contributes to group harmony. It is why you automatically offer words of sympathy to your friend upon hearing from him that his mother just died.

Another important part of culture is a group's shared beliefs about right and wrong and how the world works. Although our ability to create, teach, and learn such moral and scientific beliefs is hardwired, the beliefs themselves are not, so they must be retaught each generation. This explains why moral and scientific beliefs vary so much across groups while blinking in response to dust does not.

If high-trust societies were products of our hardwired neural architecture, like honeycombs are for bees, then all human societies would already be high-trust societies. But they aren't for one very simple reason: nearly all of our evolution took place in very small groups so there

has been too little time for sufficient reinforcement of genes that would support large group trust. In short, the mechanisms that make small group trust possible do not scale up (see [Dunbar](#) and [Rose](#)). So high trust societies must be built on something beyond genes.

Some cultures convey particular moral beliefs—a particularly important form of cultural content—that construct the neural architecture that makes the rejection of untrustworthy actions virtually automatic (see [Rose](#)). The earlier they are taught, the stronger they are reinforced, and the more they take precedence over other beliefs, the more likely that behaving in an untrustworthy way isn't even considered in adulthood in all but the most exceptional of circumstance (e.g., lying to protect Anne Frank's family).

### **The Need to Rediscover Trust**

Over the last few days at least a dozen or so opportunities have come along to benefit yourself by behaving in an untrustworthy way, some with no chance of being caught ([Robert Frank](#) dubbed these “golden opportunities”). But you didn't act on any of them. And this was not because over and over you rationally chose not to. You didn't behave in an untrustworthy way mostly because it simply did not cross your mind.

When individuals abide in moral beliefs that lead them to believe that untrustworthy behavior is always wrong, they know it will always result in experiencing feelings of guilt. This pain is real. When a critical mass of individuals abides by such beliefs, it becomes rational to presume most others can be trusted in most circumstances, producing a high-trust society. This reduces transaction costs to make cooperation on a grand scale possible. This unleashed human flourishing as never before.

But this is not a story where institutions create the trust upon which they depend in some kind of causal dog spin. This is a story whereby cultural content that is culturally transmitted creates conditions necessary for trust and therefore trust dependent institutions are able to emerge and persist. If all there was to having a high trust society was choosing trust-

producing institutions, societies would just choose them. But they can't without the right kind of cultural foundation.

One reason why culture is often overlooked is that trust is simply not on most people's radar screen. Those who live in high-trust societies are largely oblivious to how much they benefit from trust. This is because the high trust society produces benefits mostly through non-events that can't possibly be observed, things like not being robbed and not being cheated. High-trust societies are like seas and we who live in them are like fish. As the saying goes, fish are always the last to discover water. But without appreciating the awesome power of trust, it is hard to recognize the importance of culture that makes it, and the institutions we cherish, possible.

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