

Capitalism, not culture, drives economies

By Fareed Zakaria

Mitt Romney has explained that his comments abroad were simply truth-telling. “I tend to tell people what I actually believe,” he said. With regard to one much-debated comment — on the cultural differences between Israelis and Palestinians — many agree with him. The Wall Street Journal editorial page and columnists including Marc A. Thiessen and John Podhoretz all applauded. Podhoretz wrote: “Anyone who publicizes his remark is helping Romney win the election.”

“Culture makes all the difference,” Romney said at a fundraiser in Israel, comparing the country’s economic vitality to Palestinian poverty. Certainly there is a pedigree for this idea. Romney cited David Landes, an economics historian. He could have cited Max Weber, the great German scholar who first made this claim 100 years ago in his book “The Protestant Ethic and the Spirit of Capitalism,” which argued that Protestant values were the most important fuel for economic progress.

The problem is that Weber singled out two cultures as being particularly prone to poverty and stagnation, those of China and Japan. But these have been the world’s fastest-growing large economies over the past five decades. Over the past two decades, the other powerhouse has been India, which was also described for years as having a culture incompatible with economic success — hence the phrase “the Hindu rate of growth,” to describe the country’s once-moribund state.

China was stagnant for centuries and then suddenly and seemingly miraculously, in the 1980s, began to industrialize three times faster than the West. What changed was not China’s culture, which presumably was the same in the 1970s as it was in the 1980s. What changed, starting in 1979, were China’s economic policies.

The same is true for Japan and India. Had Romney spent more time reading Milton Friedman, he would have realized that historically the key driver for economic growth has been the adoption of capitalism and its related institutions and policies across diverse cultures.

The link between economic policies and performance can be seen even in the country on which Romney was lavishing praise. Israel had many admirable traits in its early decades, but no one would have called it an economic miracle. Its economy was highly statist. Things changed in the 1990s with market-oriented reforms — initiated by Benyamin Netanyahu — and sound monetary policies. As a result, Israel’s economy grew much faster than it had in the 1980s. The miracle Romney was praising had to do with new policies rather than deep culture.

Ironically, the argument that culture is central to a country’s success has been used most frequently by Asian strongmen to argue that their countries need not adopt Western-style democracy. Singapore’s Lee Kuan Yew has made this case passionately for decades. It is an odd claim, because Singapore’s own success would seem to contradict it. It is not so different from neighboring Malaysia. The crucial difference is that Singapore had extremely good leadership that pursued good economic policies with relentless discipline.

Despite all this evidence, most people still believe that two cultures in particular, African and Islamic, inhibit economic development. But the two countries that will next achieve a gross domestic product of \$1 trillion are both Muslim democracies — Turkey and Indonesia. Of the 10 fastest-growing economies in the world today, seven are African. The world is changing, and holding on to fixed views of culture means you will miss its changing dynamics.

When societies or people succeed, we search in their cultures for seeds of success. Culture being a large grab bag, you can usually find what you want. We observe the success of Jewish, Lebanese, Chinese and Indian people in various societies and attribute it to culture. But it may really stem from the traits of diaspora populations — small groups of entrepreneurial immigrants forced to live by their wits in alien cultures. Interestingly, Palestinians have a reputation around the Middle East for being savvy merchants and traders and have been successful in the United Arab Emirates, Jordan and Saudi Arabia.

Culture is important. It is the shared historical experience of people that is reflected in institutions and practices. But culture changes. German culture in 1935 was different from 1955. Europe was once a hotbed of violent nationalism; today it is postmodern and almost pacifist. The United States was once an isolationist, agrarian republic with a deep suspicion of a standing army. Today it has half of the world's military power.

Daniel Patrick Moynihan once observed: “The central conservative truth is that it is culture, not politics, that determines the success of a society. The central liberal truth is that politics can change culture and save it from itself.” That remains the wisest statement made about this complicated problem, probably too wise to ever be uttered in an American political campaign.
