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CULTURE AND CONSUMPTION IN THE CONTEXT OF THE STAGES OF ECONOMIC DEVELOPMENT THEORY

Summary: The paper analyzes the role of cultural changes taking place on the demand side of the economy in building its capacity to advance to higher stages of economic development. Assuming the “cultural turn” perspective, it is shown that not only can the advancement of enculturation precede the progress to Porter’s consecutive stages of economic development but it can also mark a new path of such development.

Keywords: culture, enculturation, cultural turn, demand side of the economy, stages of economic development.

Introduction

The principal economic goal of a country is to produce a high and rising standard of living for its citizens, typically expressed in terms of per capita income (GDP per capita). While extensive literature on macroeconomic side of economic development (GDP growth) has advanced our understanding of this aspect of the phenomenon, much fewer studies addressed its microeconomic foundations. A remarkable exception is Michael Porter’s book *The competitive advantage of nations*¹, in which its author envisages a country’s economic development in terms of the competitive success of its firms in particular industries. The book is devoted to isolating “(...) the competitive advantage of a nation, that is, the national attributes that foster competitive advantage in an

¹ M. Porter: *The competitive advantage of nations*. 2nd ed. Palgrave, New York 1998.

industry”². In Porter’s view, economies progress by upgrading their competitive positions through achieving more sophisticated sources of competitive advantage in higher-productivity segments and industries. In the process, they exhibit a number of stages of competitive development reflecting the characteristic sources of advantage of a country’s firms in international competition.

Although it is not the first major attempt at explaining economic development at the microeconomic level³ nor the first to identify stages in economic development⁴, Porter’s approach is by far the most comprehensive and well known. Despite the fact that the model was developed 25 years ago, it still constitutes a main reference point for our thinking about stages of economic development. Nevertheless, times have changed, and so have economic realities. With the passage of time, not only has the economic thought advanced but also the very nature of contemporary economies has evolved. Porter’s logic and model are firmly grounded in the industrial era mindset while the economic reality has long since abandoned it.

The current paper addresses only one aspect of this transition, namely the “enculturation” of the demand side of economies. Culture and economy have traditionally been seen as separate; the former being perceived as an aspect of the environment in which businesses operate and compete. Porter has followed suit by putting culture together with economic structures, values, institutions and histories in the context of economic processes⁵. Such an approach, dubbed embeddedness, is typical of institutional economics and has been widely applied across fields of economic studies. Here we take a different stance and assume the “cultural turn” perspective. Its proponents⁶ see culture and economy as merged “(...) to the extent that the distinction between the two is no longer meaningful”⁷. In the following pages, this approach is first explained and then confronted with the stages of economic development model.

The central question asked is: how culture affects the capacity of an economy to upgrade to higher stages of development? The purpose of the study is therefore to highlight the cultural aspect of such progress. The main thesis is that the concept of “enculturation” can better explain – compared to the “embeddedness” approach – the complex relationship between culture and economic deve-

² Ibid., p. 2.

³ A. Smith: *An inquiry into the nature and causes of the wealth of nations*. CreateSpace Independent Publishing Platform, New York, 2013/1776.

⁴ W. Rostow: *Stages of economic growth*. 2nd ed. Cambridge University Press, New York 1971.

⁵ M. Porter: Op. cit., p. 19.

⁶ L. Ray, A. Sayer: *Culture and economy: after the cultural turn*. Sage, London 1999.

⁷ D. Slater, F. Tonkiss: *Market society*. Polity Press, Cambridge 2001, p. 176.

lopment, particularly in the context of advancing to subsequent stages of development. It must be stressed, however, that the analysis carried out below addresses only the demand side of the economy (“culture and consumption”), leaving the issue of the impact of enculturation on the supply side for future research. By shedding new light on the role of culture, it aims to advance our understanding of sources and limits to economic growth.

The paper comprises three parts. The first one shortly presents Porter’s model of stages of economic development. The second part introduces the key concepts of culture, cultural object and enculturation in its two aspects – a growing role of cultural meanings attached to products at the cost of their functional usefulness and a shift from the production and consumption of material to non-material goods. The third part provides the economic interpretations of the enculturation process in the context of stages of economic development model. Concluding remarks follow.

1. Porter’s stages of economic development

Porter identifies four distinct stages of national economic development: factor-driven, investment-driven, innovation-driven, and wealth-driven. The first three of them involve successive upgrading of a country’s competitive advantages and are typically associated with rising economic prosperity, while the fourth one involves drift and, ultimately, decline. The stages “(...) provide one way of understanding how economies develop, the characteristic problems faced by a nation’s firms at different points in time, and the forces that propel the economy to advance or cause it to falter”⁸.

In countries at the initial, factor-driven stage, almost all internationally competitive industries draw advantage almost solely from basic factors of production. Domestic firms compete solely on the basis of price. Technology is sourced from other countries. More advanced product designs and technologies are obtained through passive investment in “turn-key” plants or through arrangements of foreign firms with local producers. Very few local firms at this stage have a direct contact with end users. Foreign firms provide access to foreign markets. Domestic demand for exported goods can be modest or non-existent.

⁸ M. Porter: *Op. cit.*, p. 546.

In the investment-driven stage, firms invest in modern, efficient, large-scale facilities equipped with the best technology available on global markets (typically a generation behind international leaders). Although they still acquire technologies from abroad, in this stage such technologies are not just applied, but improved upon. The ability of a country's industry to absorb and improve foreign technology is essential to reaching the investment-driven stage, and is a crucial difference between the factor- and investment-driven stages of development.

The investment-driven route to competitive advantage is only possible in industries with "(...) significant scale economies and capital requirements but still a large labor cost component, standardized products, low service content, technology that is readily transferable, and where there are multiple sources of product and process technology"⁹. In this stage, firms still compete in the relatively standardized, price-sensitive segments of the market, and product designs typically reflect foreign market needs. One of the reasons is that home demand remains relatively unsophisticated, because the standard of living is modest although improving. In such circumstances, indigenous enterprises aim and succeed at establishing some international marketing channels of their own. However, home demand begins to pay a more significant role and firms establish direct contact with domestic buyers.

In the innovation-driven stage of development, firms not only buy and improve technologies from other countries but create them. Domestic firms push the state of the art in product and process technology, marketing, and other aspects of competing. Firms compete internationally in more differentiated industry segments. They establish and develop international marketing and service networks and better brand reputations abroad. Consumer demand becomes increasingly sophisticated because of rising personal incomes, higher levels of education, increasing desire for convenience, and the invigorating role of domestic rivalry. Factor-cost advantage becomes more and more rare, as growing success in many industries puts upward pressure on such costs and the value of the currency.

In the wealth-driven stage, the driving force of the economy is the accumulated wealth. Porter argues that such an economy is not able to maintain its wealth because of undermined investment and innovation, and hence upgrading of the economy. In this stage, firms begin to lose competitive advantage in international industries. The prestige of working in industry may fall in favor of other careers, like money managers, financial advisors, etc. Investment in financial assets may supplant investment in real assets, and chronic underinvestment in industry may follow, involving both financial and human capital.

⁹ Ibid., p. 551.

Porter notes that even in this stage there is a range of industries in which firms can sustain competitive advantage. This points merits special attention as their specification turns out to relate closely to claims concerning the changing nature of the economy – a phenomenon mentioned in the introduction and scrutinized below, in the second part of the analysis.

The first category of industry in which wealth-driven economy can sustain competitive advantage is where home demand remains advanced and sophisticated because of accumulated wealth (luxury needs like financial services and entertainment). A second category are industries in which competitive advantage results from cumulative investments over a long period of time in the arts, basic science, specialized higher education. A third category of retained industries is where the position was build thanks to early mover advantages that are particularly durable, in particular based on strong brand loyalty or where there has been absence of discontinuous technological change. A fourth and final category are industries in which the country retains basic factor advantages, or inherited wealth (e.g. abundant natural resources). Interestingly, the first three categories coincide with the findings of the “cultural turn” approach, made on fundamentally different theoretical grounds. It is to this perspective that we now turn.

2. The cultural turn and enculturation of the economy

Contemporary economic and social theories have been increasingly preoccupied with the relationship between the economic and cultural processes. This concern resulted in the so-called “cultural turn” in the economic and social thought. Authors developing this perspective note that we should not only recognize the cultural and social embeddedness of economic processes but that “(...) the economy itself, and the ‘things’ that flow through it, are now largely constituted through informational and symbolic processes”¹⁰. Hence, we need to shift our focus from concerns of contextualization of economic processes to recognize that economic life is increasingly comprised of the production, circulation and consumption of cultural products (objects).

The starting point for understanding the role of culture and the nature of cultural objects is to see how goods are embedded in systems of cultural meanings. Consumer goods have a significance that goes beyond their utilitarian character and consists largely in their ability to carry and communicate cultural

¹⁰ D. Slater, F. Tonkiss: *Op. cit.*, p. 174.

meaning¹¹. Cultural meaning (or simply “meaning”) “(...) refers to the object’s capacity – in addition to whatever practical or direct properties it may possess – to suggest or point to something else”¹². The sorts of meanings that get attached to products typically draw on a small set of recurrent themes, such as social status, attractiveness, social relationships, group membership, gender, age¹³. Consumers purchase the meanings as much as the physical objects.

Products and services with attached cultural meaning are called “cultural objects” defined as shared significance (meaning) embodied in form. Culture denotes a pattern (organized system) of meanings embodied in symbols, or the accumulated totality of such meanings¹⁴.

Physical objects have possessed meaning in all societies and throughout history¹⁵. Nevertheless, many scholars assert that the economy is now more “enculturated” than ever. Two aspects of such “enculturation” are usually raised. Perhaps its clearest depiction was given by Lash and Urry:

“What is increasingly produced are not material objects, but *signs*. These signs are of two types. Either they have a primarily cognitive content and are post-industrial or informational goods. Or they have primarily an aesthetic content and are what can be termed postmodern goods. The development of the latter can be seen not only in the proliferation of objects which possess a substantial aesthetic component (such as pop music, cinema, leisure, magazines, video and so on), but also in the increasing component of sign-value or image embodied *in* material objects. The aestheticization of material objects takes place in the production, the circulation or the consumption of such goods”¹⁶.

In the above quotation, the authors stress a shift from the production and consumption of material to non-material goods and growing cultural meaning content of material goods in the form of aestheticization and symbolic values. The resulting growing importance of cultural hardware and cultural software (to use again Lash and Urry’ words) lies at the core of enculturation of the economy.

¹¹ G. McCracken: *Culture and consumption: new approaches to the symbolic character of consumer goods and activities*. Indiana University Press, Bloomington 1998.

¹² W. Griswold: *Cultures and societies in a changing world*. 4th ed. Sage Publications, Thousand Oaks 2013, p. 20.

¹³ B. Carruthers, S. Babb: *Economy/society: markets, meanings, and social structure*. 2nd ed. Sage, London 2012.

¹⁴ C. Geertz: *Religion as a cultural system*. In: *The interpretation of cultures*. Ed. C. Geertz. Basic Books, New York 1973.

¹⁵ B. Carruthers, S. Babb: *Op. cit.*

¹⁶ S. Lash, J. Urry: *Economies of signs and space*. Sage Publications, London 1994, p. 4.

These processes have serious implications for the operation of the economy. Economies are increasingly made up of informational and symbolic processes related to the production, circulation and consumption of goods. This gives, as Slater and Tonkiss put it, "(...) a new character to the economy: the logic of economic flows and processes is better understood in terms of the nature of signs, information and cultural dynamics"¹⁷. The market can increasingly be seen as the locus of identity formation (and not just need fulfillment) through the provision and consumption of symbolic resources, with the relatively diminishing role of material content. These observations can have serious implications for our understanding of the role of culture in economic development and, more specifically, understanding of the relationship between enculturation and progress to consecutive stages of economic development.

3. Enculturation and stages of economic development

One strand of research that seems to have the capacity to bring up-to-now separate traditions of enculturation and stages of economic development closer to each other concerns the relationship between enculturation and affluence. According to it, as societies become more affluent and people have more of all kind of things, human needs become more abstract¹⁸. Fulfillment of basic physical needs moves people to perceive products less in terms of their physical function than social one (for example related to status). In such circumstances, differences in meanings associated with products become more important than differences in price or function¹⁹. As Levy put it, "(...) when goods tended to mean some essentials of food, clothing, and shelter, practical matters were very important. The consumer was (...) more or less careful of how he distributed his pennies. To do this meant giving closer attention to the concrete value of what he bought, to the durability of the fabric, the quantity of the food, the sturdiness of the building materials. The philosophy of business was also oriented around these issues"²⁰. In the modern market place, "(...) there is considerable evidence that [the consumer] does not buy economically. Indeed, he is often vague about the actual price he pays for something; he has few standards for judging the quality of what he buys, and at times winds up not using it anyway"²¹. Levy

¹⁷ D. Slater, F. Tonkiss: Op. cit., p. 176.

¹⁸ S. Levy: *Symbols for sale*. "Harvard Business Review" 1959, No. 37, p. 117-124.

¹⁹ D. Slater, F. Tonkiss: Op. cit.

²⁰ S. Levy: Op. cit., p. 117-118.

²¹ Ibid., p. 118.

concludes that “(...) the consumer is not as functionally oriented as he used to be — if he ever really was”²².

In other words, the growing affluence of societies is associated with a shift of attention from the production, circulation and consumption of material products to socio-cultural needs. What follows from the above is that the process of enculturation should concur with the growing standard of living and therefore, with economic development and the advancement to successive stages of such development. Hence,

Proposition 1: The level of enculturation is positively correlated with the level (stage) of economic development.

The above proposition, however, seems to hold true predominantly for the historical process of development of the most advanced (“core” in Porter’s nomenclature) economies. Leaving aside, for the moment, the question of mutual influence of the two processes (enculturation and economic development) on each other, one factor in particular can be expected to introduce substantial variability to the above-stated relationship. Globalization, the factor in question, in its two aspects – economic and cultural – can be claimed to have fundamentally different effects on the supply and demand side of the economy.

The former aspect has been repeatedly stressed by Porter. For example:

“The globalization of industries and the internationalization of companies leave us with a paradox. (...) While globalization of competition might appear to make the nation less important, instead it seems to make it more so. With fewer impediments to trade to shelter uncompetitive domestic firms and industries, the home nation takes on growing significance because it is the source of the skills and technology that underpin competitive advantage”²³.

As the above quotation suggests, a major consequence of economic globalization is the differentiation and specialization of countries in industries and segments where home base advantage supports achieving competitive advantage on the global market. Porter states, “[i]nstead of submerging national character (...), the removal of protectionism and other distortions to free and open international competition will arguably make national character more decisive. Globalization makes nations more, not less, important”²⁴.

Globalization, however, affects not only the supply side of the economy but also the demand side: “[a]ccompanying economic globalization has been a process of cultural globalization, or the displacement, melding, or supplementation

²² Ibid.

²³ M. Porter: Op. cit., p. 18-19.

²⁴ Ibid., p. 736.

of local cultural traditions by foreign or international ones”²⁵. While all nations have their own unique cultures, those of less developed economies are typically amenable to the influences of more advanced ones. Globalization accelerates the process of absorption of foreign culture(s) by local consumers and moves them towards global (dominant) consumer culture. In other words, economic and cultural globalization operate in opposite directions – the former towards differentiation and specialization of firms, the latter towards homogeneity of consumer behaviors. Economic globalization makes countries more important while cultural globalization makes them less so. The importance of this distinction stems from pointing to different logics of development: Porter consistently stressed the role of home country conditions (and path dependence), while cultural globalization downplays the role of a country’s conditions while putting the diffusion process (and its characteristics) to the fore.

A key factor to have in mind here is that countries at *different* stages of economic development are at the same time exposed to *the same* cultural influences, or cultural patterns, of the most advanced (core) countries. If we accept the Proposition 1 that the most economically advanced countries are the most enculturated, then, save the core countries, the correspondence between the economic development and enculturation cannot be expected to be maintained. The effectiveness of diffusion processes lies at the core of enculturation while – at least according to the stages of economic development model – home country conditions are decisive for productivity gains and reaching consecutive stages of economic development. To repeat, there is no reason to expect that the two processes will develop in unison in all but the core countries.

It seems therefore reasonable to expect that most countries should be relatively more enculturated than economically developed, reflecting the relative ease of absorbing core countries cultures by means of media, advertizing, foreign trade, and travels compared to the ease of building ever more sophisticated sources of international competitive advantage by a country’s firms. It is easier for a country to reach a higher level of enculturation than it is to reach a higher level of economic development. Hence,

Proposition 2: Enculturation precedes advancement to higher stages of economic development.

Abhijit Banerjee and Esther Duflo’s depiction of consumption patterns in poor countries²⁶ seem to confirm the above pattern. If most countries, in particu-

²⁵ B. Carruthers, S. Babb: Op. cit., p. 11.

²⁶ A. Banerjee, E. Duflo: *Poor economics: a radical rethinking of the way to fight global poverty*. PublicAffairs, New York 2011.

lar non-core countries, are – in historical terms – more enculturated than economically developed, it poses both opportunities and challenges to indigenous firms. They find themselves forced to compete at home for their share of “meanings market”, advancing marketing, design, and other “soft” competencies. This requires developing new types of competitive advantages, based on information and socioculturally skilled labor rather than traditional basic factors of production (factor-driven stage), efficiency (investment-driven stage), and even technological innovation (innovation-driven stage). A country’s GDP per capita and standard of living can keep growing despite remaining at one and the same stage in Michael Porter’s model. The theory of stages of economic development seems ripe for a cultural overhaul.

Conclusions

Social sciences’ claim on the changing nature of the economy – its enculturation – concerns a historical process which concurred, at least roughly, with the advancement to Porter’s successive stages of development. Taking the historical perspective, countries at the initial, factor-driven stage of development remained low on the enculturation scale, as the role of home demand was insignificant for achieving competitive advantage by a country’s businesses. With the advancement to successive stages of development the role of home demand kept growing together with enculturation, reaching its peak in the last, wealth-driven stage. Nowadays, with the intensified globalization in its economic and cultural aspects, the direct link between the enculturation and economic development processes seems to have been lost. If we look at the stages of development model strictly from the cross-sectional point of view, a different pattern emerges. Countries at various stages of economic development can be disproportionately enculturated due to their exposition and amenability to influences of the most enculturated core countries. Home demand and consumption of meanings can increasingly take the role of the engine of economic growth, complementing or even replacing exports by indigenous firms in such quality.

Michael Porter’s model linked economic development to transitions from basic factors of production to efficiency to technological innovation as consecutive sources of competitive success and economic development. There seems to be an alternative route.

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KULTURA I KONSUMPCJA W KONTEKŚCIE TEORII ETAPÓW ROZWOJU GOSPODARCZEGO

Streszczenie: Tematem analizy jest wpływ zmian kulturowych zachodzących po popytowej stronie gospodarki na jej zdolność do przechodzenia do wyższych etapów rozwoju gospodarczego. Przyjmując perspektywę „zakrętu kulturowego”, autor pokazuje, że „ukulturowienie” gospodarek nie tylko może postępować szybciej niż przechodzenie do wyższych etapów rozwoju gospodarczego według modelu M. Portera, ale może także wyznaczać alternatywną wobec niego ścieżkę rozwoju.

Słowa kluczowe: kultura, „ukulturowienie”, zakręt kulturowy, popytowa strona gospodarki, etapy rozwoju gospodarczego.