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COMMENTARY

# Economic Policy and Latin American Culture: Is a Virtuous Circle Possible?*

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*Abstract*. Economic development is positively related to the presence of favourable cultural attitudes ('progressive values'): the radius of trust, the ethical system, the nature of the exercise of authority, and attitudes to work, savings, and innovation. This article explores the possibility of a virtuous circle linking economic policies and Latin American cultural attitudes, mostly using examples from Chile since the mid 1980s. The link from culture to development emerges from education, economic awareness and professional economics, and the traditional culture and spontaneous cultural change. The link from economic policy to culture is represented by developments in macroeconomics and the financial sector, industrial protection and free trade, and female participation in the labour market. The role of poverty and inequality, and the effectiveness of exhortation versus incentives, and of concentrating the effort on several specific groups, are also examined.

## *Introduction*

There is by now a substantial body of literature on the positive association between 'adequate' cultural attitudes and a nation's economic and political success.[1] Among Latin American countries, Chile has been

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* I would like to thank, without implicating, Lawrence E. Harrison, who was the first scholar to ask the questions this article attempts to answer, and who invited me to present a previous version of it at a World Bank/INCAE conference on the subject, in Washington DC in February 1998; Shanti P. Chakravarty, who convinced me that social choice paradoxes could be used productively in the Latin American context; and two anonymous *JLAS* referees.

[1] See, for example, M. Olson, *The Rise and Decline of Nations* (New Haven, 1982); and 'Big Bills Left on the Sidewalk: Why Some Nations are Rich, and Others Poor', *Journal of Economic Perspectives*, vol. 10, no. 2 (1996), pp. 3–24; L. E. Harrison, *Underdevelopment Is a State of Mind: The Latin American Case* (Lanham, 1985); *Who Prospers? How Cultural Values Shape Economic and Political Success* (New York, 1992); and *The Pan-American Dream* (New York, 1997); A. D. Lowenberg and B. T. Yu, 'The Role of the Intellectual in Economic Development: A Constitutional Perspective', *World Development*, vol. 20, no. 9 (1992), pp. 1261–77; A. Greif, 'Cultural Beliefs and the Organisation of Society: A Historical and Theoretical Reflection on Collectivist and

growing at a rate of about seven per cent per year since the mid 1980s, under conditions of increasing political stability and democratic achievements. This article explores Chilean successes and failures in the interface between culture and economic policy, with the ultimate aim of reaching conclusions of general applicability. The article takes the view that the relationship between culture, institutions, and economic development is – or may be – a virtuous (or vicious) circle, rather than a one-way cause-effect link. It is not simply that the 'right' culture generates successful development, or that some particular economic policies and high rates of economic growth contribute to reinforce positive cultural attitudes, but both. Sometimes this virtuous circle involves institutional change, and sometimes it does not. Culture, economic policy, and institutions, are all amenable to be affected by influences from outside the circle.

The article concentrates, first, on the one-way impact of culture upon development (either directly or via economic policy and/or institutions), and second, on the one-way impact of economic policy upon culture. Examples are drawn from the Chilean case. Sufficient evidence is offered to argue that there is indeed a virtuous circle, or at least, the possibility of a virtuous circle. We do not deal here with the direct link between economic policy and development, because this is a theme that has been extensively analysed in the development literature in recent years.[2] Once the possible character of the relationships within the virtuous circle has been established, the next question is what is to be done, and where. The question is how to improve the effectiveness of economic and cultural policy intervention. At least sometimes, achieving positive economic (cultural) outcomes will require improving the quality of cultural (economic) policy intervention. When, and how, should the effort be directed towards changing cultural attitudes, so that eventually economic policy changes? When, and how, should economic policies change first, in order to see cultural attitudes eventually modified as a result? These are the concerns addressed in this article. Successive sections examine general education, economics and business education, and the national culture and

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Individualist Societies', *Journal of Political Economy*, vol. 102, no. 5 (1994), pp. 912–50; S. Cornell and J. P. Kalt, 'Where Does Economic Development Really Come from? Constitutional Rule among the Contemporary Sioux and Apache', *Economic Inquiry*, vol. 33 (1995), pp. 402–26; F. Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (London, 1995); O. Dieckmann, 'Cultural Determinants of Economic Growth: Theory and Evidence', *Journal of Cultural Economics*, vol. 20, no. 4 (1996), pp. 297–320; and P. C. Roberts and K. L. Araujo, *The Capitalist Revolution in Latin America* (Oxford, 1997).

[2] S. Ghatak, *Introduction to Development Economics*, third edition (London, 1995); M. Gillis, D. H. Perkins, M. Roemer and D. R. Snodgrass, *Economics of Development*, Fourth Edition (New York, 1996).

spontaneous cultural change (all of them being forms of the one-way culture-to-development link); ethical aspects and poverty and inequality (or, how to maximise the effectiveness of policy intervention); and the informal sector.

We are interested in encouraging progressive values, but to whom should the effort be addressed? One of the arguments of the present article is that, for a given amount of effort, the level of positive outcome will be maximised by concentrating this effort on individuals who, for any particular reason, are likely to be more receptive, or to have a more favourable attitude, towards the message being conveyed, or who stand to benefit more substantially than the rest, from the implementation of modernising reforms. We have identified four, not mutually exclusive, groups of people on whom the effort should be concentrated: women, the new entrepreneurial middle classes, potential winners, and fashion leaders and opinion formers. As the argument progresses, we come across three important examples of the one-way link from economic policy to cultural attitudes. Thus, the virtuous circle has been completed.

Throughout the discussion, many of the examples are taken from the Chilean case, both because Chileans have been learning (and still have a lot to learn) from their mistakes, and because the Chilean experience has much to teach to the rest of Latin America.

## I. *General education*

Since 'appropriate' cultural attitudes are an important determinant of economic development, it follows that it is necessary to improve general education. However, just increasing the budget of the Education Ministry will not be enough, and it may even be counterproductive. Extreme care should be taken to make sure that the additional resources do not go to incompetent Ministry bureaucrats, or to their rent-seeking associates in the public or private sectors. Moreover, in most Latin American countries, the existing resources should be diverted from the top of the educational pyramid (university education) to the bottom (pre-basic, primary, and secondary education). All children should complete at least basic education, and, as the country can gradually afford it, also the secondary cycle. Among recent studies comparing the growth performances of East Asia and Latin America, and which have focussed on the relevant education indicators, several of these studies conclude that the superior East Asian growth performance may be directly related to the concentration of educational resources towards the bottom of the pyramid.[3] But not only GDP growth is affected. Emphasising pre-basic,

[3] This also gave Chile an advantage in relation to other Latin American countries, D. E. Hojman, 'Educational Standards and Ideological Attitudes in a Free-Market,

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primary and secondary education, rather than higher education, has also favourable distributional consequences.

Education subsidies should be granted only very selectively. This is because almost everywhere, i.e. in every country and for every type of education, the private rate of return to education tends to be higher than the social rate.[4] In fact, private returns to education are not only high, but they may have been underestimated by previous studies.[5] Therefore, in the aggregate, education should be taxed rather than subsidised. The exceptions to this general rule have to do with equity and efficiency considerations.[6] Often it is difficult to borrow in order to pay for educational expenses, because typically the borrower cannot offer collateral. This instance of market failure means that, in the absence of subsidies, education may be available only to those who can afford to pay for it out of their own pockets. There may be a case here for a careful mix of educational loans and subsidies. Loans may not be advisable as a general solution to pay for educational expenses, except at the university level, because household income and the price elasticity of the demand for education (in absolute value) may be inversely related. Poor households will tend to react to an increase in educational costs, by lowering their demand much more drastically than rich households.

Nursery education for pre-school age children should be made available as widely as possible. This will encourage open attitudes towards education at an early age, it will release young mothers for paid work, and,

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Open-Economy Development Model', in D. E. Hojman (ed.), *Neoliberalism with a Human Face? The Politics and Economics of the Chilean Model* (Liverpool, 1995), pp. 151–70.

[4] G. Psacharopoulos, 'Returns to Education: A Further International Update and Implications', *Journal of Human Resources*, vol. 20, no. 4 (Fall 1985), pp. 583–604; 'Returns to Investment in Education: A Global Update', *World Development*, vol. 22, no. 9 (September 1994), pp. 1325–43; A. S. Bedi and N. Gaston, 'Returns to Endogenous Education: The Case of Honduras', *Applied Economics*, vol. 29, no. 4 (April 1997), pp. 519–28.

[5] There are several ways in which upward and downward biases may be introduced in the empirical estimation of returns to education, M. Weale, 'A Critical Evaluation of Rate of Return Analysis', *Economic Journal*, vol. 103, no. 418 (1993), pp. 729–37. Moreover, different results may be reached when social returns are measured as the sum of the private returns, plus the net balance of positive and negative externalities, rather than by using actual taxes and subsidies. The latter approach assumes by definition that these taxes and subsidies exactly compensate for the externalities, which is not always true.

[6] P. Gertler and P. Glewwe, 'The Willingness to Pay for Education in Developing Countries: Evidence for Rural Peru', *Journal of Public Economics*, vol. 42, no. 3 (August 1990), pp. 251–75; H. G. Jacoby, 'Borrowing Constraints and Progress through School: Evidence from Peru', *Review of Economics and Statistics*, vol. 76, no. 1 (February 1994), pp. 151–60.

at least in the Chilean case, it will lower income inequalities.[7] We return to this question in the section on women.

All forms of discrimination in education should be eliminated. We have known since Becker that discrimination is inefficient.[8] This applies not only to discrimination against women (we come back to this later), but also to all other forms of discrimination, along economic, political, ethnic, religious, or cultural lines.

It is the responsibility of the government to decide about the specific contents of the school curriculum, and to keep watch for the quality of its implementation. In addition to acceptable standards of mathematics, the national language, natural science, and foreign languages, schoolchildren should also be taught economic principles and become familiar with key aspects of the national culture. Mathematics will not only help to develop logical thinking, but the combination of mathematics and natural science will make children more receptive to modern technology. Foreign languages are essential in export-based open economies which are engaging in fast processes of modernisation. Schoolchildren may learn about their national culture in the context of several different disciplines: history, literature, music, art, human geography, and even natural science and geology. (We come back to economics and to the national culture in the next two sections.)

Finally, it is also a duty of the government to make sure that adequate standards of quality are observed and maintained in every school. In some geographical areas, parents will take an active role, together with government inspectors, in ensuring that quality is high. However, this will tend to happen in high income areas but not in poor ones. In Chile, systems of vouchers (given to parents, who then choose a school) have been proposed to make schools compete with each other. These systems have their merits, but unfortunately, if the government cannot afford extremely generous vouchers, and society is divided by sharp inequalities of income and educational opportunities, there will be plenty of room for the voucher to be supplemented by parental contributions of wildly different sizes. This will simply reproduce the initial inequalities. For it to be successful, a voucher system has to be reinforced by the government playing an active role in supporting the weakest schools. The latter has been attempted in Chile, where the '900-Programme' allocates special human and financial resources to about ten per cent of the total of schools.[9]

[7] H. Beyer, 'Logros en la Pobreza, Frustración en la Igualdad?', *Estudios Públicos*, no. 60 (Spring 1995), pp. 15–33.

[8] G. S. Becker, *The Economics of Discrimination*, Second Edition (Chicago, 1971).

[9] V. Arancibia, 'La Educación en Chile: Percepciones de la Opinión Pública y de Expertos', *Estudios Públicos*, no. 54 (1994), pp. 125–50; J. García-Huidobro, 'Positive Discrimination in Education: Its Justification and a Chilean Experience', *International*

Although it is still early days for a definitive assessment, the initial signs are good, even if much more is possibly needed.

The Chilean experience suggests that, if the chosen policy is to give more money to education, and to give it in the appropriate ways, this is likely to encourage progressive values directly. The educational reforms mentioned in this section are also likely to improve income distribution, which will itself have a favourable effect upon cultural attitudes (see Section V).

## II. *Economics and business education*

This is another area in which cultural change may affect economic policy, and development, favourably. A modern democracy aiming at healthy rates of economic growth needs both to increase economic awareness amongst the general public, and to improve the quality of economic analysis made by policymakers and civil servants. Higher standards of economic awareness should make ordinary people economically more productive and politically better citizens, since as voters they will be better informed. Economic awareness in the general public may be enhanced by introducing the teaching of economic principles in the school curriculum, and by mass media campaigns to educate adults. By Latin American standards, ordinary Chileans have high levels of economic awareness.[10] Respondents in successive surveys tend to agree with the notion that a person, or a household, cannot spend more than what s/he, or it, has got, and that the same applies to countries. The concept that any government handouts will eventually have to be paid for by someone, i.e. will have to come out of someone's higher taxes, is understood and accepted by ordinary Chileans. Furthermore Chileans, not only ordinary members of the public but even industrialists, have also learnt about the advantages of low, uniform import tariffs, and free trade.[11]

On the other hand, one does not need to be a Chilean in order to hate inflation. Most ordinary Latin Americans have good reason to hate

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*Review of Education*, vol. 40 (1994), pp. 209–21; C. Cox, 'La Reforma de la Educación Chilena: Contexto, Contenidos, Implementación', *Colección Estudios CIEPLAN*, no. 45 (1997), pp. 5–32.

[10] D. E. Hojman, 'The Political Economy of Recent Conversions to Market Economics in Latin America', *Journal of Latin American Studies*, vol. 26, no. 1 (February 1994), pp. 191–219.

[11] V. Corbo, 'Trade Reform and Uniform Import Tariffs: The Chilean Experience', *American Economic Review*, vol. 87, no. 2 (May 1997), pp. 73–7 (AEA Papers and Proceedings); S. P. Chakravarty and D. E. Hojman, 'Voting, Collective Action, and Liberalisation in Latin America: The Rise and Fall of the Hillinger Paradox', *Public Choice*, forthcoming.

inflation. This is a progressive value that has been present for a long time, but it has been ignored by most observers. This hatred of inflation should be well understood, and used, by anyone who wants to change culture in a modernising direction. Many ordinary people understand that inflation is both cause and consequence of inequalities and rent-seeking abuses. It is not a coincidence that Brazil, which has had the highest and most persistent inflation rates in Latin America, also has the most unequal pattern of income distribution. The rich can protect themselves against inflation but the poor cannot. Brazilian (and Latin American) inflation was at least partly provoked by excessive government expenditure in subsidies to industrialisation. High inflation makes income inequalities worse, and these inequalities further alter the balance of political power in favour of rent seekers, who then demand further industrial protection, which has to be paid for with more inflation. Thus, inflation, inequality, and a rent-seeking culture are part of a vicious circle. Ordinary voters are often more painfully aware of this vicious circle than some academics. In this particular area, maybe ordinary people have something to teach policymakers, rather than the converse. During the 1990s, success at stopping inflation has given some incumbent Latin American politicians spectacular election victories.

Another policy intervention that will itself contribute to better economic policies (via some favourable cultural changes), is to spend some money in improving the quality of professional economics. In the words of Eisenstadt, 'the greater the degree of structural economic and technological development of a society, the greater the degree to which the political elites become dependent on the technical resources, knowledge, and skills of various specialist groups'.[12] The quality of technical analysis among professional economists and civil servants should be improved. This involves improving the quality of economics and business teaching at university level.[13] Short updating courses should be offered to practising economists who graduated a long time ago, and to civil servants, and satisfactory performance in these short courses should be made an essential requirement for the promotion of the latter. In a society with only a small number of highly qualified economic technocrats, these few technocrats may form alliances with rent-seeking groups in big business and in the public sector. In contrast, if large numbers of economic technocrats are present, there will be competition

[12] S. N. Eisenstadt, 'Intellectuals and Tradition', *Daedalus*, vol. 101 (1972), p. 13.

[13] The agreement between the Catholic University of Santiago, Chile, and the University of Chicago, to offer further training to the best graduates of the former in the 1950s and 1960s, stands out as a very successful experiment in human capital formation, D. E. Hojman, *Chile: The Political Economy of Development and Democracy in the 1990s* (London and Pittsburgh, 1993).

between them. Not only there will be an ongoing open debate on public policies, but any rent-seeking attempts will be much more likely to be challenged by other economic technocrats working for competing firms, or for consumer groups, or for regulatory agencies.[14]

It is necessary to reinforce the capacity to provide good-quality economic advice. This applies to advice to and from government, and independent from, and alternative to government. Some of these services are already provided by international organisations, and by private sector consultants, especially in those economies which are highly popular with foreign investors. However, these consultants tend to concentrate on macro and microeconomic aspects and issues which are largely of interest to their own clients. What is required is diverse teams, offering competing, but equally well founded advice. This would not need to be the exact equivalent of, but at least something similar to the competing advice offered by the 'Chicago-boys', and by CIEPLAN and other NGOs, in Chile during the 1970s and 1980s.[15]

During the early 1990s, Chile was sending ten times more active participants than Mexico, and six times more active participants than Argentina or Brazil (in relation to the sizes of the respective economies), to the Annual Latin American Meetings of the Econometric Society.[16] This is the most prestigious congress of economic technocrats in the region. Chile had (and has) more highly qualified economic technocrats, and its economy was (and is) performing systematically better. It is unlikely that this is just a coincidence.[17]

## III. *National culture*, *traditional culture*, *and spontaneous cultural change*

As Harrison[18] has convincingly argued, there are some distinctive characteristics in any national culture, which make the difference between that nation's success or failure: the radius of trust, the rigour of the ethical system, aspects of the exercising of authority, and attitudes to work, innovation, savings, and profit. However, not all successful national

[14] Thus, the relationship between the 'density' of economic technocrats, and economic development, is likely to follow a 'J' curve. Initially the sign of the relationship is negative, but after a 'critical mass' of economic technocrats has been reached, this sign becomes positive.

[15] Hojman, David E.; 'Non-Governmental Organisations (NGOs) and the Chilean Transition to Democracy', *European Review of Latin American and Caribbean Studies*, no. 54 (June 1993), pp. 7–24.

[16] 'Lists of Participants in the Latin American Meetings of the Econometric Society', *Econométrica*, vol. 61, no. 2 (March 1993), pp. 475–94; vol. 62, no. 2 (March 1994), pp. 484–505; vol. 63, no. 2 (March 1995), pp. 456–72.

[17] Currently there are three Chileans, but no other Latin Americans, in the Editorial Board of the *Journal of Development Economics*.

[18] *Underdevelopment*; *Who Prospers*?

cultures are the same. Each successful nation has a distinctive, individual national culture. Many aspects of the successful national culture of Taiwan are very different from the respective aspects in Denmark. The national culture of each successful nation is like '*un traje hecho a medida*' (a dress or suit especially cut and tailored for its intended individual user).[19] In the process of nurturing this '*traje hecho a medida*', particular attention should be paid to the traditional culture, and to the natural process of spontaneous cultural change (which in recent years is being increasingly accelerated by globalisation). Encouraging progressive values is not simply about getting rid of the traditional culture and forcing cultural change. Some traditional values could make a positive contribution to economic progress. Culture is always spontaneously changing, and some of these changes could be gently pushed in the direction of progressive values.[20]

In this particular context, a successful process of economic development faces two tasks. The first task has to do with learning about the traditional culture. It involves getting to know well the traditional culture of the society in question. The respective traditional roots of the national cultures of Taiwan and Denmark are very different. It is particularly important to identify those aspects of the traditional culture which are favourable to development, and isolate them conceptually, from the unfavourable aspects. Once the positive, favourable, or development-functional characteristics of the traditional culture have been identified, and isolated from the rest, the second task consists of encouraging the former and discouraging the latter. Schoolchildren, and the most promising and brilliant students in every educational level, should be encouraged to think and write about their own national culture. Systems of school and national prizes could be introduced for this purpose.

Several traditional Latin American cultures present some highly positive instances of cooperation. Some examples are certain forms of agricultural production and other peasant and social activities (such as the *mingas*) in Chiloe, southern Chile, or the particular aspects which contributed to a successful outcome in local government activities geared towards primary health care in Ceara, Brazil.[21] Only in a few cases have these attitudes been used and encouraged by modern society. Much more

[19] My thanks to Juan José Sobrado, who suggested this metaphor to me.

[20] According to J. Friedmann, 'Intellectuals in Developing Societies', *Kyklos*, vol. 13 (1960), pp. 513–43, 'the process of arriving at an adequate collective self-image will not succeed until a considerable amount of social and economic transformation has already occurred' (p. 537).

[21] B. Larrain, 'Intervención', in A. Squella et al, *Cultura y Sociedad: Encuentros y Desencuentros* (Valparaiso, 1994), pp. 141–59; J. Tendler and S. Freedheim, 'Bring Hirschman Back in: A Case of Bad Government Turned Good', in L. Rodwin and D. A. Schon (eds.), *Rethinking the Development Experience* (Washington, 1994), pp. 176–209.

frequently, these traditional cooperative attitudes tend to be discouraged by central government officials and other bureaucrats.

Respect for the progressive aspects of the traditional culture (if they are present) does not mean that cultural change should be fought against. On the contrary. Culture is always changing. It makes sense to try to understand the nature of spontaneous cultural change (which is both necessary and unavoidable), especially country-specific cultural change. The 'MacDonaldisation' of all societies is possibly inevitable, but it is possible to eat MacDonald burgers, and to wear jeans, without losing any of the most cherished aspects of the national culture. However, different societies will reap different amounts of positive aspects and benefits from globalisation, and will suffer different costs. Good things will inevitably be lost, but the question is how to make the balance more favourable. This balance is always country-specific, and it may be positively affected by those interested in encouraging progressive values. Some Latin American civil societies are stronger than others, and will be able to use aspects of their traditional cultures better. This is true everywhere, not only in Latin America. The free-market, open-economy reforms introduced in Chile in the 1970s and 1980s were relatively more successful than the same type of reforms, which were carried out in Great Britain during the same period.[22] It is possible to argue that in Chile, and despite all their vices and political and human rights abuses, these reforms went along with national traditions, to a larger extent than in Britain, and that they went with the grain of the old civil society rather than against it.[23] This, in spite of the fact that Chile had experienced a process of import-substituting industrialisation (ISI) for a period of over forty years, between the early 1930s and 1973, with high and unequal import tariffs, price controls, and state enterprises, and in spite of the fact that the current free-market, open-economy policies have been unable to improve income distribution in the 1990s.

[22] D. E. Hojman, 'Economic Growth and Civil Society under Pinochet and Thatcher: A Political Economy Analysis of the Free-Market Models in Chile and the United Kingdom', University of Liverpool, Liverpool Research Papers in Economics, Finance and Accounting, no. 9801 (April 1998). See also D. Coates and J. Hillard (eds.), *UK Economic Decline*: *Key Texts* (London, 1995).

[23] As Margaret Halsey, *With Malice toward Some* (New York, 1938), pp. 177–8, wrote about England in the 1930s: 'in England, having had money (provided it was not too mushroomy a phase) is just as acceptable as having it, since the upper-class mannerisms persist, even after the bankroll has disappeared. But never having had money is unforgivable, and can only be properly atoned for by never trying to get any', quoted by E. L. Jones, 'Review Article: Venetian Twilight – How Economies Fade', *Journal of Economic History*, vol. 56, no. 3 (September 1996), p. 704. If this was true, one can hardly think of a cultural environment less conducive to economic growth based on entrepreneurial attitudes. In Chile in the 1990s, the situation may be closer to the other end of the spectrum: the only important thing is having the money now.

In all cultures there are myths that are functional, and myths that are dysfunctional to economic progress. Myths (as well as civil institutions)[24] are subject to a process of natural selection. Myths that no longer fulfil a purpose tend to disappear. This process may be helped along by the deliberate intervention of cultural reformers. For example, in Latin America there tends to be a direct relationship between unit labour costs and the subjective managerial perception of the quality of this labour. As development progresses, both these variables tend to increase together.[25] But this long-term improvement in the subjective valuation of labour by management may be helped along by cultural reformers, by using education or the mass media. This type of intervention may be particularly positive in terms of supporting some desirable traditional values, or encouraging self-respect in ethnic minorities (again, the case of Chiloe comes to mind).

## IV. *Ethical attitudes and the rule of law: exhortation vs. incentives*

How to make intervention by cultural reformers more effective? There may be few activities less productive and more frustrating than preaching ethical behaviour to any group of people, if other necessary conditions are not present. For example, the police and judicial resources may not be there to detect and punish infringement, and this may be apparent to everyone. Or the ethical views of the preacher may not be shared by the receiver's peer group. Or those being preached upon may feel that more sacrifices are being demanded from them, than from anyone else, and that this is unfair. Perhaps, rather than preaching to a particular group about improving their own behaviour, it may be possible to teach them something, by explaining about the unethical behaviour of a second, clearly non-overlapping, group. This option may be better than nothing, but it has its own flaws.

This is really a question of exhortation versus incentives. Neither children nor adults will respond to exhortation and nothing else. For example, it is useless to tell people about the importance of savings, if they know that the financial institutions are not reliable, or that inflation will soon destroy the value of their savings. For most of the 20th century, families saved very little in Chile, but they invested large amounts in the education of their children. This was a particular type of investment which, after considering all the risks, was reasonably reliable and offered

[24] Larrain, 'Intervención'; K. Basu, 'Civil Institutions and Evolution: Concepts, Critique and Models', *Journal of Development Economics*, vol. 46 (1995), pp. 19–33.

[25] C. Montero, 'Estrategias de Flexibilidad Laboral en la Empresa Chilena: Estudio de Casos', *Colección Estudios CIEPLAN*, no. 43 (September 1996), pp. 143–82; *La Revolución Empresarial Chilena* (Santiago, 1997); S. Edwards and N. C. Lustig (eds.), *Labour Markets in Latin America* (Washington, 1997).

a good rate of return. During the 1990s, Chileans have been saving much more than before, both because the new pension scheme is based on compulsory savings, and because now a reliable financial system offers safe, inflation-proof saving instruments (moreover, families are investing as much as ever in the education of their children). In the Chilean case, macroeconomic stability, the modernisation of the financial system, and the introduction of the new pension funds, have changed ordinary people's perceptions of saving and investment.[26] This is an interesting example of how new economic policies can change cultural attitudes for the better (see Fig. 1). If we want to teach people about the value of savings, there is nothing wrong with making some form of savings (such as contributions to pension funds) compulsory, but only provided that a good, safe rate of return is guaranteed. Otherwise, even if savings increase (because of the compulsory element), there will be no cultural change. Ordinary people will see compulsory savings as just another tax. Furthermore, traditional mistrust of the financial sector is likely to be confirmed.[27]

Potential savers should be able to see that the system is fair. This means improving transparency in all financial markets (this is true for all markets, not only financial ones). If people are forced to save, reasonable returns should be guaranteed to them. On the other hand, if someone freely chooses to go to a higher-risk, potentially-higher-return, financial intermediary, s/he should not expect that, if something goes wrong, the government will intervene to save him or her. Ever since the financial crisis in the early 1980s, all the publicity for Chilean banks carries a government health warning: 'inform yourself about the limitations of

[26] As a referee pointed out, a clear distinction should be drawn between economic incentives and cultural change. People have always reacted to incentives. This is not new. What is new is that, first, the incentives are now different (which is at least partly related to cultural change among policymakers, advisers, and the constituencies of pre- and post-1990 governments), and secondly, the sizes of the relevant parameters in the respective aggregate equations are also different (which is at least partly due to cultural change in savers). On the other hand, this increase in the aggregate savings rate coexists with excessive 'consumerism'. But analysing the latter requires a disaggregated approach. 'Consumerism' is a particular problem in Chile, because the distribution of income is so unequal. In their desperate attempts to imitate the consumption patterns of high income consumers, many lower income families are becoming dangerously indebted. Large income inequalities mean that high earners can both consume a lot and save a lot, but, partly because of strong demonstration effects, the savings rates of many low income families are actually negative.

[27] Bernardo O'Higgins, the *Padre de la Patria*, the *Libertador*, knew that incentives work better than exhortation. In order to make the people 'interested in the revolution', instead of emphasising the virtues of political independence and the possibility of a faster pace of aggregate economic growth, he told them that they would pay less taxes, A. Fontaine, 'Economía Libre y Seguridad Nacional en Chile: Una Visión Histórica', *Estudios Públicos*, no. 7 (1982), pp. 49–60.

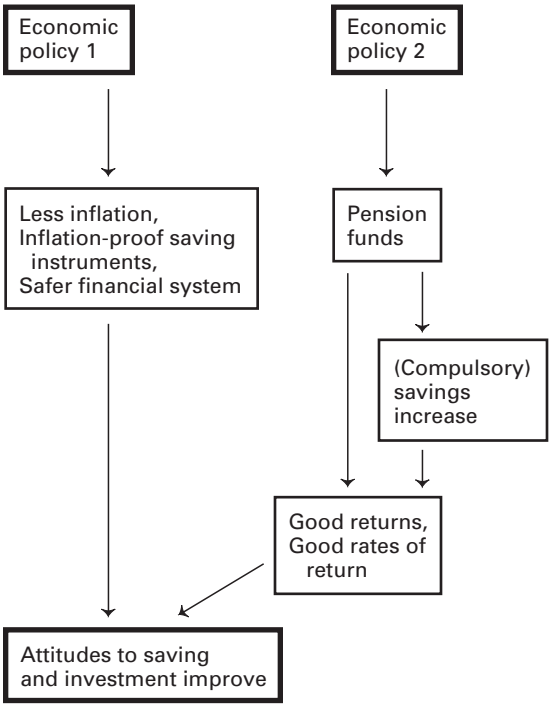


Fig. 1. *From economic policy to culture: the financial sector, savings and investment.*

government guarantees to bank deposits'. Even if the Central Bank is the 'lender of last resort', no one should be allowed to assume that the government is the 'saviour of last resort'.

Still, for those who want to preach, there are some positive things that can be done. This includes to inform, educate, and aim at creating ethical attitudes towards rent seeking and corruption. Obviously, at the same time it makes sense to reduce the actual opportunities for these evils. A good example refers to the imposition of a low, uniform import tariff rate. Once everyone understands that this policy is there to stay (and people have to be told this), and that no exceptions will be granted, this opportunity for rent seeking and corruption will have disappeared[28] (see Fig. 2; further explanation of Fig. 2 is provided in Section IX). In the field of privatisation, total transparency should ensure that there are no illicit gains, and that there are no suspicions – however unfounded – of illicit

[28] However, Chilean policymakers in the 1990s abandoned the 'flat tariff rule' in favour of some activities in traditional agriculture, which were granted up to eighteen years of preferential treatment in the Mercosur and other bilateral and multilateral trade negotiations. Some temporary protection may be advisable in order to minimise the costs of productive reconversion, but eighteen years is far too long. Unfortunately, once an exception is granted, the message is conveyed that rent seeking may be profitable after all.

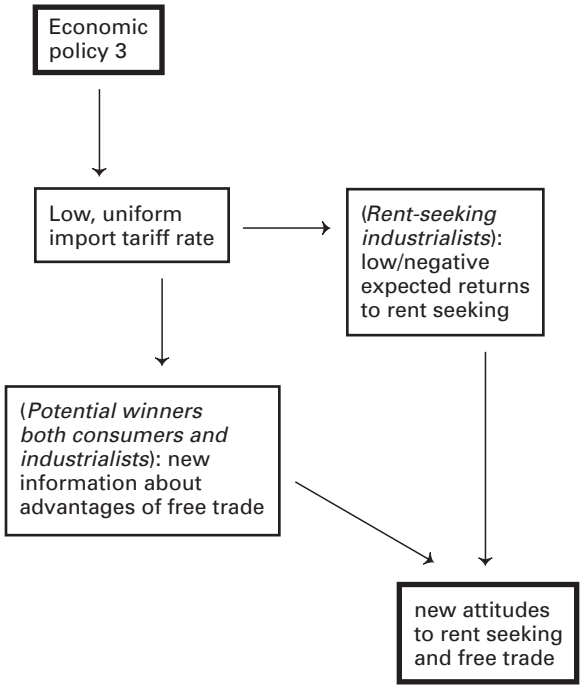


Fig. 2. *From economic policy to culture: industrial protection and free trade.*

gains. It is a mistake to bend the rules to please foreign investors, or potential foreign investors. Not only ordinary people will get the message that all the rules can be bent, even (or especially) by the rulers, but foreign investors will get the message that the next time that the rules are bent, it may be against them.

In relation to providing effective incentives and sanctions, there is an urgent need to reform Latin America's judicial systems. But again, as in the case of education, this is not just about throwing money at them.[29]

## V. *Poverty and inequality*

Poverty and excessive inequalities in Latin America have often been identified as sources of economic populism. Poverty and inequality provoke bad economic policies. Poverty also changes directly national culture for the worse. Poverty and extreme instances of inequality will contribute to the deterioration of attitudes in adults. In this sense, the present section is strongly linked to the previous one. The teaching of ethical behaviour may be left to families and churches. It may also be

[29] E. Buscaglia and T. Ulen, 'A Quantitative Assessment of the Efficiency of the Judicial Sector in Latin America', *International Review of Law and Economics*, vol. 17 (1997), pp. 275–91.

taught at school, but it is unlikely that any attempts at teaching ethical behaviour at school will be successful, if the family environment is unfavourable. Almost as a matter of definition, the teaching of ethical attitudes towards society at school is most likely to be successful, if schoolchildren feel that they are an integral part of the society that they are being taught (maybe a more appropriate word is 'told') to respect and support. Paraphrasing Chapter 38 of Samuelson's *Economics*,[30] of course poor people can be ethical (and there are many heroic examples of this all the time and everywhere), but they are ethical in spite of, not because of, their deprivation.

A Chilean example illustrates how the wrong type of education is unable to offer jobs to the young, and therefore it contributes to marginalise and alienate them. Arancibia[31] reports the results of a survey carried out among a cross section of the Chilean public in 1992, on their attitudes towards the school curriculum. Overwhelmingly, respondents disagree with the educational 'experts'. Ordinary people think that currently there is too much emphasis on Spanish, and that more space should be made available for the teaching of mathematics. Some 'experts' maintain precisely the opposite. Ordinary people think that more mathematics will make it easier for youngsters to get jobs. The open unemployment rate in Chile is small, about six per cent, but unemployment among school leavers and the young is almost three times as high. Young Chileans, and ordinary Chileans in general, know from their own experience that the deficient education they received is preventing them from getting a good job (or a job at all), or from going into higher education. They also know that, when looking for a job, vocational education is much more useful than general secondary education. In contrast, some 'experts' have been arguing that vocational schools should pay more attention to personal development and citizenship, even at the cost of diminishing the vocational contents of the curriculum. This 'expert' view is naive and myopic, since good citizenship is much more likely to come from a rewarding job, rather than from the wrong type of education followed by unemployment. Against these 'experts', ordinary Chileans tend to see their passage through the educational system as an important opportunity, sadly often wasted, for upward social mobility.[32]

In Chile, a combination of fast, labour-intensive economic growth with real appreciation of the domestic currency (which makes the basket of essential goods relatively cheaper) has been contributing to a gradual

[30] P. A. Samuelson, *Economics*, Tenth Edition (New York, 1976), p. 759.
[31] Arancibia, 'La Educación'.
[32] J. Hiscock and D. E. Hojman, 'Social Policy in a Fast-Growing Economy: The Case of Chile', *Social Policy and Administration*, vol. 31, no. 4 (December 1997), pp. 354–70.

reduction in the incidence of poverty.[33] From about 40 per cent in the late 1980s, the proportion of those below the poverty line had diminished to about 25 per cent by the mid 1990s. However, the income distribution patterns remain largely unchanged. As explained later, in the section on women, possibly one of the most promising avenues for reducing income inequalities is to provide nursery facilities for all pre-school age children, so that low income mothers become able to increase their participation rate in the labour force, as much as high income mothers.

Summarising, preaching, or teaching civic values at school at the expense of mathematics, will not work if other favourable conditions are not present. No amount of good intentions can compensate for the negative effects of poverty and excessive inequalities.

## VI. *The informal sector*

Restoring price stability and the macroeconomic and external balances is not enough to guarantee fast growth, especially if growth needs to be so fast that it absorbs large pockets of unemployment, at the same time as it tends to reduce the incidence of poverty. Most recent studies of economic growth explain it as depending, at least partially, upon positive externalities in education and in international trade.[34] In this particular sense, not all Latin American countries will be as fortunate as Chile was. Chile's excess labour supply is disappearing (is being 'exhausted'), and real wages are increasing, not only because the growth rate of GDP is high, but also because the rate of urbanisation has been comparatively large for many decades, and the demographic transition is very advanced.

In the rest of Latin America, not enough employment creation will come from the formal sector. The energies of the informal sector will have to be released. As Bromley says, Hernando de Soto's ideas are too important to be tested only on such an unfavourable ground as Peru.[35] Bromley suggests that more favourable testing grounds are, for example, Costa Rica and Ecuador. De Soto's message, possibly with country-specific modifications, should be fully adopted by cultural reformers. Microenterprises should be encouraged. Titles to urban and rural land

[33] D. E. Hojman, 'Poverty and Inequality in Chile: Are Democratic Politics and Neoliberal Economics Good for You?', *Journal of Interamerican Studies and World Affairs*, vol. 38, nos. 2/3 (Summer/Fall 1996), pp. 73–96.

[34] P. Romer, 'Increasing Returns and Long-Run Growth', *Journal of Political Economy*, vol. 94 (1986), pp. 1002–37; 'Endogenous Technical Change', *Journal of Political Economy*, vol. 98, Supplement (1990), pp. S71-S102; R. E. Lucas, 'On the Mechanics of Economic Development', *Journal of Monetary Economics*, vol. 22 (1988), pp. 3–42; 'Making a Miracle', *Econométrica*, vol. 61, no. 2 (March 1993), pp. 251–72.

[35] R. Bromley, 'Informality, de Soto Style: From Concept to Policy', in C. A. Rakowski (ed.), *Contrapunto: The Informal Sector Debate in Latin America* (New York, 1994), pp. 131–51.

should be legalised, and credit and training at reasonable costs should be made available. Red tape should be minimised. In the cultural sphere, the stigma often attached to the informal sector, however defined, should be fought against. Of course, the same applies to the stigma attached to working for the private sector, or to being self-employed, rather than having a government job.

## VII. *Concentrating the effort: women*

As mentioned before, some groups have more to gain from progressive reforms, or they already share progressive values but they need specific types of support, or their vote may be decisive. It makes sense to concentrate the effort on these groups. The effort should be geared, either towards changing the particular manifestations of the national culture in the group, or the group's particular subculture (or accelerating the speed of change), or towards sheltering the group from any negative byproducts of the reform. Possibly, women constitute the largest of these groups. Eliminating discrimination against women in education and in employment will be reflected in many positive results. These include higher economic efficiency and higher labour force participation, modernisation of the economics of the household, and changes in the attitudes of these women's male partners. Similarly positive results were observed in Chile in the 1970s and 1980s, although the initial impulse came, not from the elimination of discrimination, but from supply and demand shocks to the labour market.[36] Improving female education will also result in lower infant and child mortality, better health and nutritional standards, and stronger support for family planning.[37] This is so important that, if necessary, resources should be diverted from the education of men to the education of women.

In the particular case of Chile, increased female participation in the labour market, other things being equal, has provoked some negative income distribution results. This is because female participation has

[36] S. Bradshaw, 'Women in Chilean Rural Society', in D. E. Hojman (ed.), *Neoliberal Agriculture in Rural Chile* (London and New York, 1990), pp. 110–26; Hojman, *Chile*; I. Vogel, 'Gender and the Labour Market: Women's Experiences of Labour Force Participation in Chile', in D. E. Hojman (ed.), *Neoliberalism with a Human Face? The Politics and Economics of the Chilean Model* (Liverpool, 1995), pp. 82–92.

[37] G. T. Bicego and J. T. Boerma, 'Maternal Education and Child Survival: A Comparative Study of Survey Data from 17 Countries', *Social Science and Medicine*, vol. 36, no. 9 (1993), pp. 1207–27; R. D. Singh, 'Fertility–Mortality Variations across LDCs: Women's Education, Labour Force Participation, and Contraceptive Use', *Kyklos*, vol. 47, no. 2 (1994), pp. 209–29; D. E. Hojman, 'Economic and Other Determinants of Infant and Child Mortality in Small Developing Countries: The Case of Central America and the Caribbean', *Applied Economics*, vol. 28, no. 3 (March 1996), pp. 281–90.

increased faster among the higher income strata, that is, women who are better qualified and can command higher wages, and therefore can afford privately-purchased child care.[38] In order to deal with this problem, pre-school-age nursery places should be made available, at subsidised rates, to the young children of women with lower qualifications. Some progress has already been made in this connection, but much more is required. A higher degree of female participation is likely to affect income distribution, both between households, and within the household. Chile's experience in this connection shows again how some particular economic policies may have a positive effect, in terms of improving cultural attitudes (see Fig. 3).[39]

## VIII. *Concentrating the effort: the new entrepreneurial middle classes*

It is essential to understand the dynamics of formation and growth of the new local entrepreneurial middle classes, in order to support and encourage them. New entrepreneurial middle classes have been developing everywhere in Latin America. They have reached different degrees of development in different countries, from embryonic to fully grown.[40] Those interested in encouraging progressive values would be well advised, first, to identify these middle classes, and second, to concentrate their efforts on them, for several reasons. First, they may be potential winners (see the next section). Second, their eventual success

[38] Beyer, 'Logros'.

[39] It should be emphasised that subsidised pre-school age nurseries may be 'the' solution for Chile, but they may not work in other countries if the labour market (or other) conditions are different.

[40] I. D. Llovet, 'Algunas Consideraciones acerca de las Peculiaridades del Proceso de Diferenciación Campesina en el Ecuador', *Boletín de Estudios Latinoamericanos y del Caribe*, no. 38 (1985), pp. 47–59; M. Cortez, A. Berry and A. Ishaq, *Success in Small and Medium Scale Enterprises: The Evidence from Colombia* (Oxford, 1987); J. M. Cruz, 'La Fruticultura de Exportación: Una Experiencia de Desarrollo Empresarial', *Colección Estudios CIEPLAN*, no. 25 (1988), pp. 79–114; T. Korovkin, 'Neoliberal Counterreform: Peasant Differentiation and Organisation in Tartaro, Central Chile', in D. E. Hojman (ed.), *Neoliberal Agriculture in Rural Chile* (London and New York, 1990), pp. 91–109; H. González-Chavez, 'Los Empresarios en la Agricultura de Exportación en México: Un Estudio de Caso', *European Review of Latin American and Caribbean Studies*, no. 50 (1991), pp. 87–114; J. S. Melmed-Sanjak and M. R. Carter, 'The Economic Viability and Stability of "Capitalised Family Farming": An Analysis of Agricultural Decollectivisation in Peru', *Journal of Development Studies*, vol. 27, no. 2 (1991), pp. 190–210; B. Y. Nagel, 'Socioeconomic Differentiation among Small Cultivators on Paraguay's Eastern Frontier', *Latin American Research Review*, vol. 26, no. 2 (1991), pp. 103–32; L. Sklair, 'The Maquilas in Mexico: A Global Perspective', *Bulletin of Latin American Research*, vol. 11, no. 1 (1992), pp. 91–107; Hojman, *Chile*; B. Barham, M. R. Carter and W. Sigelko, 'Agro-Export Production and Peasant Land Access: Examining the Dynamic between Adoption and Accumulation', *Journal of Development Economics*, vol. 46 (1995), pp. 85–107; Montero, 'Estrategias'; Montero, *La Revolución*.

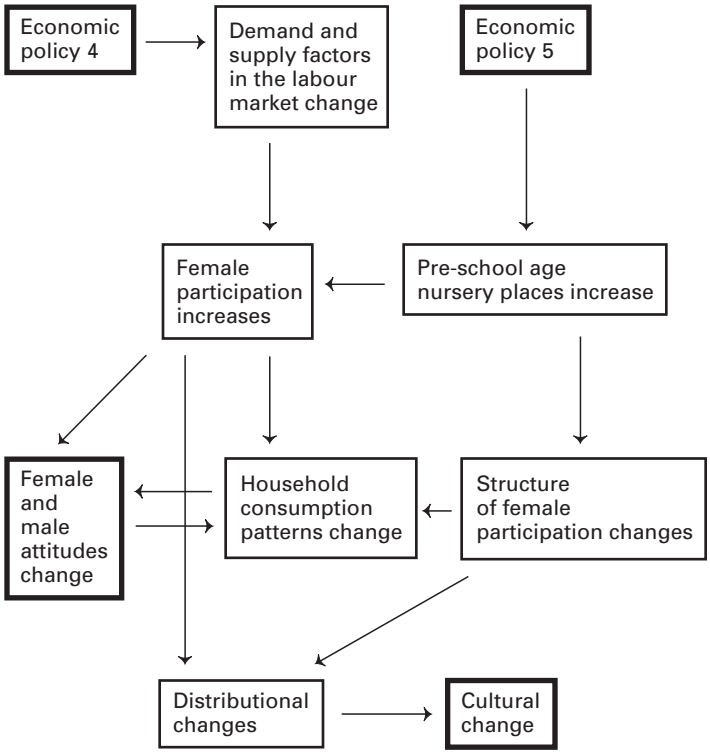


Fig. 3. *From economic policy to culture: female participation and income distribution.*

may depend on the support that is offered to them by others, and by cultural reformers in particular. Third, these new middle classes are precisely the opposite to the old middle class that grew out of import-substitution industrialisation in the past: they are not rent seekers, and they do not rely on government handouts. Finally, if they are not already large employers, these new entrepreneurs are likely to become large employers in the future, and therefore their attitudes are fundamental for the development of a new type of industrial relations.[41]

In some cases, these new entrepreneurial middle classes do not need convincing about progressive values, but they need legal help and business advice. For example, some small-scale fruit-growers in Chile, who tried to take advantage of the new favourable climate towards the exportation of fruit, have been cheated by large intermediary firms, and

[41] Insufficient coordination may be the only reason why some (or many) of these groups have so far failed to engage in collective action, R. Cortazar, 'Non-Redundant Groups, the Assurance Game and the Origins of Collective Action', *Public Choice*, vol. 92, nos. 1/2 (July 1997), pp. 41–53.

badly served by the post-1990 new democratic governments and by NGOs.[42] These small farmers have incurred huge debts, they have signed contracts that no one receiving proper advice would have signed, and in some cases they have been forced to sell their lands. Surprisingly for a country such as Chile, with its wealth of highly qualified specialists, respect for the rule of law, and long tradition of grassroots opposition to the so-called '*capitalismo salvaje*' of the pre-1990 military regime, no one was there to offer the proper advice. This advice should have included 'don't sign', and possibly would have included 'form a cooperative'.

## IX. *Concentrating the effort: potential winners*

Some potential winners from the modernising reform may not have been aware before the reform, that the reform will make them better off. Differently from women, this group may be quite small. However, it may be extremely important. The successful concentration of effort on this group may be essential to the preservation and enrichment of democracy. In this section we examine this group's role in the contexts of, firstly, 'Fernández-and-Rodrik' uncertainty, and secondly, the Hillinger paradox.[43]

In the Fernández and Rodrik model, a good policy package may never be introduced, because uncertainty may push potential winners to vote against it. Assume that out of 100 voters, the reform will make 51 of them better off, by 2 pesos each. The rest of the voters, 49 of them, will be worse off by 1 peso each. The net social outcome is favourable, and equal to 53 pesos:

$$\text{Net social outcome} = (51 \times 2) - (49 \times 1) = 53.$$

If each voter knows what to expect, the reform will be passed by at least 51 votes against 49 (at least, because some of the losers may have been offered a post-reform compensation deal by the winners, and accepted it). But assume that there is a particular form of uncertainty, such that only 49 (out of the 51) winners know for sure that they will be better off. The other two winners (let us call them Jack and Jill) do not know. All that each one of the 49 losers, plus Jack and Jill, know, is that among them there will be 49 losers out of 51 people. So, before the reform, the individual expectations of each loser, and of Jack and Jill, are identical.

[42] W. E. Murray, 'Competitive Global Fruit Export Markets: Marketing Intermediaries and Impacts on Small-Scale Growers in Chile', *Bulletin of Latin American Research*, vol. 16, no. 1 (January 1997), pp. 43–55.

[43] R. Fernández and D. Rodrik, 'Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty', *American Economic Review*, vol. 81, no. 5 (December 1991), pp. 1146–55; C. Hillinger, 'Voting on Issues and on Platforms', *Behavioural Science*, vol. 16 (1971), pp. 564–6; Chakravarty and Hojman, 'Voting'.

Table 1. *The Hillinger paradox*

| Preference order | Alice | Betty | Carol |
|---|---|---|---|
| First | AB | aB | Ab |
| Second | Ab | ab | ab |
| Third | aB | AB | AB |
| Fourth | ab | Ab | aB |

*Source*: S. P. Chakravarty and D. E. Hojman, 'Voting, Collective Action, and Liberalisation in Latin America: The Rise and Fall of the Hillinger Paradox', *Public Choice*, forthcoming.

The expected return of the reform for each member of this group is negative, and equal to (minus) 0.9:

$$\textit{Expected return} = [(2 \times 2) + (49 \times (-1))]/51 = -45/51 = -0.9.$$

Therefore, all 49 losers, plus Jack and Jill, will vote against the reform, which will be defeated. Under these circumstances, the reform can only be introduced by a military dictator, or by a cheating politician who betrays his electoral promises. However, if and when the reform is introduced, Jack and Jill will be better off, and they will support the reform in the next election.[44] The implication is clear: identify the uncertainty-ridden potential winners, and concentrate the relevant information, and the attempts to increase economic awareness, on them. This should be quite effective. After all, they are only two people in 100. This concentration of effort on the potential winners is more effective than spreading resources thinly. It is also cheaper than attempting to convince, and obtain the support, of the potential losers. The potential losers will need to be convinced, not only that the net social outcome will be positive, but also that adequate compensation to the losers will be provided.

A successful concentration of effort on the potential winners may make the whole difference between the presence or absence of a political and policy deadlock. In the presence of sharply conflicting views, acute polarisation, and mutually reinforcing political cleavages, an electoral stalemate may destroy the institutions of democracy. This may be examined in the context of the Hillinger paradox. Many electoral systems do not allow voting on individual issues, but only on platforms formed by several issues. The Hillinger paradox consists of the fact that an election may be won by a platform formed by individual issues, each one of which is rejected by a respective majority. Table 1 gives an example of the paradox with three voters (Alice, Betty and Carol), two individual issues (A against a, B against b), and four platforms (in no particular

[44] This sounds like a good description of what happened with Menem in Argentina and Fujimori in Peru during the early and mid 1990s.

Table 2. *The missing paradox*

| Preference order | Alice | Betty | Carol |
|---|---|---|---|
| First | AB | AB | Ab |
| Second | Ab | aB | ab |
| Third | aB | Ab | AB |
| Fourth | ab | ab | aB |

*Source*: S. P. Chakravarty and D. E. Hojman, 'Voting, Collective Action, and Liberalisation in Latin America: The Rise and Fall of the Hillinger Paradox', *Public Choice*, forthcoming.

order, AB, ab, Ab, aB). According to the first preference row in Table 1, A is preferred to a by 2 to 1, and B is preferred to b, also by 2 to 1. However, if a vote is taken between platforms, AB will be defeated by ab (see the second and third preference rows). The Hillinger paradox means that democratic decisions cannot be arrived at, or, if they are, they cannot be implemented. A majority of voters will always be unhappy with a government elected on this minority platform (platform ab), regardless of what the government does.

Now, let us assume that, if the reform package AB is implemented, Betty is a potential winner. Let us also assume that eventually she has changed her preferences, in favour of what is best for her, AB. Her change of mind may have come about, either because the general economic conditions are now different, or because Betty herself has changed, or because a campaign of attempts at persuading her has finally succeeded. In any case, the result is that the Hillinger paradox has now disappeared (Table 2). There is now a clear majority in favour of reform, and there is no contradiction between preferences for individual issues, and the result of voting on platforms. And this positive outcome, a significant improvement on Table 1, was achieved by a change in the views, and voting behaviour, of only one in three voters.

Chakravarty and Hojman have argued that the conditions of economic chaos and political polarisation that led to the demise of the Allende regime, and to the military takeover in Chile in 1973, are a textbook case of the Hillinger paradox.[45] Between the early 1970s and the early 1990s, however, this paradox would have been eliminated, with 'Betty' representing either a substantial sector of industrialists, or a substantial sector of ordinary voters. As a result, both the external trade regime and the democratic institutions in Chile are now more solid and stable. This is yet another case of some economic policies contributing to change cultural attitudes for the better (see Fig. 2).

[45] 'Voting'.

X. *Concentrating the effort: fashion leaders and opinion formers*

The previous section dealt with providing accurate information to less-than-fully informed *rational* voters (with emphasis on *rational*). The current section refers to the tendency in human beings to follow fads, to become part of informational cascades, and to most people's need to conform, or to appear to conform.[46] These attitudes may or may not be rational. In either case, they can be used by anyone interested in changing a nation's culture, in order to optimise the outcome of a given amount of effort, or policy intervention. In a world of two people, a leader and a follower, and if resources are so limited than it is only possible to try to convince only one of them rather than both, it makes more sense to try to convince the leader than the follower. There is nothing particularly undemocratic, or anti-democratic, in this approach. There will always be leaders and followers, and fashions, and there will always be a need to conform, or to be seen to conform, even in the most open, democratic, and minority-respectful societies.

One of the best known examples of this type of behaviour in economic life is Becker's explanation of low prices in a restaurant with a long queue outside it.[47] The owner will not put prices up, all the way to their 'market-clearing' level, because the long queue is intended to convey the message to potential customers that the restaurant is very good. Other cases are instances of financial bubbles, imitation between competing firms, or the way in which the stockmarket of a particular emerging economy goes in and out of fashion.

## *Conclusions*

This Commentary has offered various examples of the fact that the relationship between economic policy and culture may indeed be, or become, a virtuous circle. Some cultural interventions designed to induce specific changes in general education, in economics education, or directly in cultural attitudes, may all lead to better economic policies. Each successful national culture is country-specific: it is '*un traje hecho a medida*'. There is a lot that can be done, but, in terms of encouraging progressive values, exhortation will work better if it is supported by incentives. Preaching, or teaching ethical attitudes at school, will not work if other

[46] D. Hirshleifer, 'The Blind Leading the Blind: Social Influence, Fads, and Informational Cascades', in M. Tommasi and K. Ierulli (eds.), *The New Economics of Human Behaviour* (Cambridge, 1995), pp. 188–215; R. H. Frank, 'The Political Economy of Preference Falsification: Timur Kuran's *Private Truths*, *Public Lies*', *Journal of Economic Literature*, vol. 34, no. 1 (March 1996), pp. 115–23.

[47] G. S. Becker, 'A Note on Restaurant Pricing and Other Examples of Social Influences on Price', *Journal of Political Economy*, vol. 99 (October 1991), pp. 1109–16.

conditions, including family ones, are not present. There is no point in teaching civic values to children at school, only to see these children become unemployed, and bitter and frustrated, as soon as they leave school. It is much better to teach them mathematics, so that they can get good jobs. It is good jobs, and the absence of poverty, which will make them good citizens, rather than preaching ethical behaviour to them.

It makes sense to concentrate the effort on women, on the new entrepreneurial middle classes, on potential winners (especially if they do not know that they are potential winners), and on fashion leaders and opinion formers. Three examples of the impact of economic policy on the formation of new cultural attitudes were provided by: (a) economic policy changes in the macroeconomic environment and in the financial sector, savings and investment; (b) economic policy changes which diminish and rationalise industrial protection, and in favour of free trade; and (c) economic policy changes that provoke demand and supply shocks in the labour market, thus leading to higher female participation and to changes in income distribution (similar results may be achieved by eliminating educational and employment discrimination against women). The case of Chile has provided plenty of material. Chileans have a lot to learn from their mistakes, and other Latin Americans have a lot to learn from the Chilean experience.

There is plenty of room to be optimistic. In fact, it may be difficult not to agree with Mancur Olson,[48] when he writes: '... in these days it takes an enormous amount of stupid policies or bad or unstable institutions *to prevent* economic development'.

[48] *The Rise*, p. 175 (his emphasis).