Trust: The Social Virtues and the Creation of Prosperity

Francis Fukuyama

New York: The Free Press, 1995. ISBN 0-02-910976-0 (pbk), $15.00.

Francis Fukuyama has a simple thesis: although economics is about eighty percent right (a very generous estimate), it is becoming critically important that we understand the twenty percent of economic phenomena about which it is mistaken. That twenty percent is culture; in examining the role of culture in economic life, Fukuyama does economists a favor by showing how cultural factors can explain some of the variation in structure across national economies that is not well-explained by the neoclassical economic model.

Before the discrediting of communism, the focus of much mainstream economic thought was on the advantages of market economics, generally conceived, over planning. Because the focus of the debate was whether markets in general were better than central planning in general, the tendency of economics to abstract from cultural differences was not necessarily a critical shortcoming. Currently, though, the world economy is characterized by a "convergence of institutions"—most countries are adopting democratic liberal political institutions, and market economies. As countries become more alike institutionally, their cultural differences have taken center stage.

According to Fukuyama, it is critical at this point in history to realize that "economic life is deeply embedded in social life" (p. 13). Economic life is an immense collaboration among individuals, and as such it depends importantly on the nature of the habits, duties, and customs which foster and promote collaboration. Because different cultures demand different social allegiances and promote different attitudes toward those outside of one's immediate or extended family, economic life, even liberal institutions, will take different forms in different cultures. Thus understanding culture is crucial to understanding economic institutions in the 21st century. A course in comparative systems will no longer compare Russia and the U.S.; it will compare Japan and the U.S.

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based on commonly shared norms, on the part of others in the community" (p. 26). A related concept is social capital: "...a capability that arises from the prevalence of trust in society or in certain parts of it" (p. 26). Social capital makes the formations of groups (corporations, charitable societies, civic volunteer organizations) easier; societies which lack social capital will have a more difficult time producing large-scale organizations, even when those organizations appear to be cost efficient based on technology and input prices. Social capital is defined as an analog to physical capital—a society can draw on it over time, but it will depreciate and must be replenished.

The heart of the book is a series of country studies, in which Fukuyama demonstrates the importance of social capital for economic organization. He begins with what he calls "low-trust" societies: Chinese society (including Taiwan and Hong Kong), Korea, France, and Italy. China's Confucian ethic results in an extremely low level of trust outside of the extended family, or *jia*. As a result, Chinese societies (China, Taiwan, Hong Kong) have not been able to create large-scale, modern corporations; a reliance on family-owned enterprise means that Chinese economies have fewer large-scale firms, and are less able to take advantage of scale economies when they exist.

France and Southern Italy are also low-trust societies; France, because of the lack of any intermediary institutions (which Fukuyama traces to the French glorification of the state and individual, and hostility to any institution between the two); Italy, because of its strong familism, and resulting distrust outside the family. As a result, the private sector in both countries sustains few large-scale private economic organizations. The largest firms in both countries are often state-owned or subsidized.

The role of the state in sustaining large-scale economic organization, particularly in France, raises a question of causation. Is the private sector in France relatively stagnant because of heavy state involvement in the economy, or is the state heavily involved in the economy because the private sector is not dynamic and entrepreneurial? These questions can only be asked when culture becomes a variable in the analysis.

Fukuyama is ambivalent about the evaluation of culture in its effects on economic institutions. At times he appears to claim that low-trust societies will experience slower income growth, and he expresses concerns about the decline in social capital in the U.S. At the same time, he points out that low-trust societies find their niches in the world economy—Italy, for example, has a thriving medium-sized business sector, specializing in small-scale high-tech manufacturing. This suggests that the concern that high-trust cultures will thrive at the expense of low-trust cultures is overstated. Culture may be a determinant of a country's comparative advantage; its impact on absolute advantage may be unimportant in a world where free trade and mobile capital promote factor-price equalization.

Fukuyama examines three high-trust cultures: Japan, Germany, and the United States. Japan, when importing Confucianism from China, tempered Chinese Confucianism's familistic tendencies and strengthened its emphasis on loyalty to other groups. Thus a Japanese person has strong ties to institutions outside of the family. In Germany, a historical "...uneasiness with the atomizing, individualizing implications of classical and neoclassical economics" (p. 217) underscores a strong communitarian tradition in the culture. U.S. culture, contrary to the popular ideal of the independent Yankee, has produced large scale economic and non-profit organizations throughout its history. Americans are by "nature" (by culture, really) joiners and cooperators, as evidenced by the relatively smooth adoption of team-based manufacturing methods in the workplace.

After noting that Americans have a long tradition of communal association, Fukuyama raises concerns that the communalistic impulse is weakening, and that Americans are becoming more individualistic. He cites trends in family structure, civic participation, and attitudes towards others to make his case that the stock of social capital is declining in the U.S.

Fukuyama blames three factors for the decline in sociability. At the head of his list is the free market. Here he reflects the oft-voiced concern that markets atomize society. Although he lists this first, his argument is half-hearted, and one gets the sense that he is not entirely convinced.

Fukuyama makes a somewhat less tentative case that the expansion of the welfare state has eroded sociability. He claims that the welfare state supplanted the intermediary institutions that provided welfare service in the past: the extended family and religious organizations, primarily. Fukuyama is not entirely convinced that the welfare state is the primary cause, either, and moves on to what he thinks is the most important factor—the expansion of right-based individualism.

The Federal intervention to insure civil rights for blacks (which he applauds) sparked a "... drive to include the formerly excluded [which] led to increasingly broad interpretations of the individual rights defined by the Constitution" (p. 314). This expansion of rights, and the government's enforcement of them at every level of society (from city government to the Boy Scouts) has led to a weakening of those intermediary communities which exist between the state and the individual, and has fostered a culture in which rights have become an absolute, unrelated to duty or responsibility.

This well-written, engaging book challenges economists (Christians and others) to take culture seriously. I would add one comment. A common economic critique of the book's claim that trust and social capital are important variables for economic analysis is that we cannot measure them. I suspect that this criticism is a convenient excuse to ignore "non-economic" factors. The past several years have seen useful economic research comparing growth rates across countries, controlling for "economic freedom" and "openness to trade," both concepts which are difficult to operationalize. The attempt to measure cultural factors will itself help us to understand how culture can shape an economy. ■

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