# Book Reviews

**Why Culture Matters Most**
David C. Rose
New York: Oxford University Press, 2019, 190 pp.

What determines whether rich and free societies arise and endure? In *Why Nations Fail*, Daron Acemoglu and James Robinson famously concluded that the quality of a country's political and economic institutions matter most. David Rose disagrees. Successful free-market democracies, he claims, require *high trust* as their essential prerequisite, both between individuals and "with the system." Without high levels of generalized trust, opportunism becomes rife and democracy is overcome with tribalism, undermining the institutions that correlate with prosperity.

To make clear his direction of causation, he concludes: "A high-trust society can easily adopt trust-dependent institutions if there is reason to do so, but the reverse is not true." For example, the rule of law only operates successfully in the long term, he explains, if people trust the court system to be just. In Rose's view then, institutions or policies cannot effectively substitute for trust sustainably, though they can codify or complement it. Collapsing trust, as some fear today, eventually leads to institutional collapse.

If general trustworthiness is essential for prosperity, how is it achieved? Rose's answer is culture. Mass flourishing requires large-group cooperation, meaning overcoming our skepticism of strangers and forgoing opportunities to exploit them. This is achieved by transmitting through generations a moral taste against certain behaviors

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that "produce strong and involuntary feelings of guilt upon behaving in an untrustworthy way." Inculcating children that certain behaviors are wrong, through imitation and teaching, creates an effective constraint against our worst impulses, facilitating a societal environment of general trustworthiness. This lowers the transaction costs of exchange, allowing more trade and good institutions to operate effectively. Hence, *Why Culture Matters Most*.

Yet if this cultural transmission is the foundation for freedom and prosperity, Rose warns it is a fragile one. For it requires each generation to invest in maintaining such moral beliefs. Given the positive externalities, Rose worries we underinvest in them. In fact, he argues the very success of high-trust societies, generating large markets and democracy, can create dynamics that undermine trust. The returns to opportunism, he claims, are higher in a big market where others are trustworthy. Democracy provides opportunities for special interest groups to benefit from regulatory and redistributive favoritism, which can reinvigorate tribalism too. Maintaining a high-trust society therefore becomes ever-more difficult, requiring vigilance and active investment.

In a world in which policy or electing the right leaders is ever debated, Rose's warning is well taken. When he delineates how political polarization feeds on itself, his framework seems extraordinarily instructive for our current travails. And yet, the book's highly theoretical approach, and lack of empirical grounding, raises obvious questions. Can the variance in trust or moral tastes taught to children really explain differences in income levels across countries and over time? How does a culture of trust germinate in the first place? And how can one therefore answer the "chicken and egg" question of what comes first, institutions or culture?

Good institutions clearly don't fall like manna from heaven. Often, they reflect the past embodiment of a polity's norms, accepted ideals, and customs. That some stand the test of time in certain countries but not other places suggests culture matters. Indeed, among the ex-communist countries, Poland (a relatively high-trust society because of Catholicism, ethnic homogeneity, and a strong national identity) has seemingly performed better than many other states. Mixed records of success in outside imposition of "structural reforms," constitutions, democratic elections, and more, suggests cultural buy-in matters. In fact, the most persuasive argument against open borders is the unknowable risk of different cultural norms undermining institutions that currently underpin freedom and prosperity over time.

But Rose doesn't sufficiently explain what caused the cultural norms that developed into general trustworthiness in today's rich countries, such as the United States. He suggests greater farm ownership in the 19th century might explain why America grew richer and more entrepreneurial than Western Europe, for example. Farm ownership, he claims, meant that American parents had stronger economic incentives to teach their worker-children certain ideals—such as "keeping one's word"—which spilt over into a more trustworthy society. Yet if it was farm ownership that sparked high-trust-generating cultural norms, might not other economic policies or institutions create similar incentives today? And might not institutions codifying past norms offer at least a handbrake against rapid cultural change, making them "matter most" today?

Indeed, some evidence suggests that when institutions change rapidly, trust can break down. In a famous 2014 paper, economists tested Berlin residents' willingness to cheat in a simple game for monetary reward. Participants presented passports and ID cards to the researchers, which allowed them to assess their backgrounds. Those from East Germany, which had been under the grip of socialism, were far more likely to cheat than those from the capitalist West. What's more, the "longer individuals were exposed to socialism, the more likely they were to cheat." Trust can break down quickly under different institutions and policies. Rose's own analysis shows how an expansive state may reduce trust by encouraging free-riding and reducing the return to pro-social behavior. Does a less trustworthy society demand bigger government? Or does bigger government reduce societal trust?

Rose may be correct that free markets work best in generating prosperity when embedded in high-trust environments. But low-trust environments might still be able to benefit and sustain good policies. Indeed, policies that expand markets might positively shape culture. Most economic transactions are akin to a repetitive game, meaning there are costs to deviating and "cheating" on customers or workers. Contra Rose's claim that the incentives to breach trust are higher in a sophisticated economy, sowing the seeds of trust's breakdown, the opposite may be the case: such behavior is very likely to be easier to detect and punish in large, prosperous markets, and the reputational costs more difficult to shake.

Years of engaging in a high-trust, market economy might in fact generate positive spillovers that obviate the need for certain cultural norms. New technologies today are facilitating within-market institutions, such as readily available ratings and review sites, which substitute for trust, or at least reduce the cost of enforcing it. High-trust societies may therefore sometimes be self-reinforcing, not mean reverting (as Rose implies).

A final gripe with Rose's model is that it's difficult to use it to explain differentials in prosperity. Take the drastic rise of incomes from the mid-18th century. Did trustworthiness in England and the Netherlands hit a tipping point that meant larger-scale market transactions became possible? If so, why then? Much more convincing is Deirdre McCloskey's thesis of another cultural phenomenon—that for the first time a widespread acceptance of innovation meant that prosperity-enhancing activity wasn't stamped out by authority. This suggests a certain level of trust may be a necessary but not sufficient condition for mass flourishing on the prosperity frontier. Beyond a certain point, other factors may become more important. Indeed, the United States became vastly more prosperous through the 20th century than many other nations, but it's not clear higher trust can explain the divergence.

Rose deserves credit for rehighlighting the positive dynamics high levels of generalized trust can create, and the dangers of its erosion. Culture is understudied by economists. But his framework clearly presents as many questions as it answers. That means he lands no killer blow to convince that a culture of trustworthiness "matters most" for human flourishing.

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**Competition Overdose: How Free Market Mythology Transformed Us from Citizen Kings to Market Servants**
Maurice E. Stucke and Ariel Ezrachi
New York: HarperCollins, 2020, 421 pp.

Is competition always the answer to underperforming markets? Maurice E. Stucke, a professor at the University of Tennessee College of Law, and Ariel Ezrachi, the Slaughter and May Professor of Competition Law at the University of Oxford, unequivocally