

The purpose of this chapter is to show how cultural background is firmly interconnected with the way in which societies attempt to satisfy their basic human needs. A brief outline of the relationship governing human needs, cultural background and a society's economic development is presented below.

The concept of human needs is presented in the first Sect. 2.1. The following Sect. 2.2, discusses the relationship between needs and economic growth. The third Sect. 2.3 shows the relationship among needs, economic growth (development) and cultural background. Finally, the fourth Sect. 2.4 raises the issue of the relationship between the individual and society.

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## 2.1 Human Needs

The concept of human needs has been a focus of philosophy and psychology, as well as political, economic and social sciences (Rosenfeld et al. 1992). Thus, there is extensive literature on this particular field.

The first documented investigation into the area of human needs was carried out in the field of psychology. Maslow (1943) was one of the first scholars to study human needs as a separate thematic field. He attempted to determine whether there are particular factors that push humans to behave in accordance with particular rules. Following his research, Maslow developed “A Theory of Human Motivation”, citing five motivations that constitute “basic human needs”. These need categories are interrelated and follow a hierarchy—only when the lower category of need has been appropriately satisfied will the next level of need emerge. These needs dominate the conscious life of the individual and serve as the basis for the organization of their behavior until they reach the next category. The five categories are as follows (from the lowest to the highest):

- (a) Physiological needs: At the first level, humans universally seek to satisfy their basic biological needs, which are directly connected to their survival, for example food, shelter and clothes.

- (b) The need for safety: The satisfaction of the needs for safety and security is at the second level, where humans act to acquire a satisfactory feeling of safety and security against natural dangers. Issues concerning the satisfaction of their natural needs are also found here, as is the need for security in financial issues such as permanent employment and adequate savings.
- (c) The need for love: At the third level, and provided that the two previous categories have been satisfied to an adequate degree, humans start to strongly feel the lack of friendship, love and family. As a result, they will seek to satisfy their need to establish personal relationships of any kind, for example with friends, partners or family.
- (d) The need for esteem: At the fourth level and as an extension of the previous category is the satisfaction of the need for affiliation. Individuals aim at being esteemed and appreciated by other individuals through their successful affiliation in various social groups.
- (e) The need for self-actualization: Even if all the previous needs have been adequately satisfied, an individual may still experience dissatisfaction or anxiety. Such feelings constitute the need for self-actualization and this will only be satisfied when an individual is able to engage in activities that make them feel fulfilled, in which they are probably more efficient.

People worldwide have an innate predisposition to seek the satisfaction of the aforementioned needs, with their ultimate goal being self-actualization. Maslow stated that all humans worldwide share the same needs (Maslow 1943).

Following Maslow (1943) and Alderfer (1968) also suggested the universality of needs. However, he simplified Maslow's (1943) five ranked stages of needs into three: a) the need to exist, which includes physiological and safety needs, b) the need for relatedness, which includes love and esteem and c) the need for growth, which refers to self-actualization. His theory is known in the literature as "Existence, Relatedness and Growth" (E.R.G.). Alderfer (1968) sees his three categories as having more continuity and less of a hierarchical structure. Thus, an individual may experience some of the stages at the same time without organizing changes in the hierarchy.

When comparing various theories on needs, it is clear that human needs can be categorized; however, they differ on two points: whether the categories of needs apply to all people worldwide and whether these needs follow a hierarchy in being satisfied.

The economist Max-Neef (1991) dealt with human needs from an economic perspective. More particularly, his research concerned the modeling of human development as a society's productive source. According to his theory, human needs can indeed be categorized. In fact, they constitute a system where needs interact and inter-correlate, and with no particular hierarchy. The sole exception is physiological needs, which must be sufficiently satisfied for an individual to survive. In addition, Neef stated that human needs are the same for all people worldwide (i.e., universal human needs). What is different among civilizations is the way in which an individual acts to satisfy them (satisfiers). Therefore, Max-Neef (1991) created a matrix known as the "Matrix of Needs and Satisfiers"

to categorize needs and the means for the satisfaction of needs (satisfiers). In this model, the categories of needs are the same for all societies. However, each society can satisfy the needs using different methods (Max-Neef 1991) to determine how citizens choose to satisfy their needs.

Finally, human needs are objective in nature and, hence, may be considered universal in light of the doctrine that states needs constitute necessary requirements and elements for the molding of an individual's character. However, what do change and are subjective among humans are individuals' wishes and wants, which are in fact choices, likes and ambitions (Fernandez-Huerga 2008). Needs are aims with a universal form, whereas wishes and wants are aims that cannot be universal as they emerge from the subjective perception of each individual (Doyal and Gough 1984, 1991). The wishes and wants in fact constitute ways of satisfying needs, which are the same for all people worldwide, and wishes and wants, just like all the other means of satisfying needs, can be integrated into the need categories (Lutz and Lux 1979; Max-Neef 1991).

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## 2.2 Needs and Economic Evolution

Streeten et al. (1981) conducted one of the first extended surveys regarding the relationship that links human needs to the economic growth of developing countries. The authors conducted a series of analyses in different samples from South America, Europe and Asia and reached two basic conclusions: high economic growth rates are neither necessary nor sufficient to improve the satisfaction of basic needs and a good performance in satisfying basic needs boosts, or at the very least does not delay, economic growth. More specifically, that study showed that the process of the satisfaction of needs in the form of mass investments in human capital can initially decrease growth to the extent that resources are transferred from investment to consumption. Later on, the process gradually becomes more productive and leads to the boost of economic growth in the future.

All economies follow a course of economic growth that comprises five categories with a hierarchical structure and every society falls in one of these categories based on its economic status (Rostow 1960). The categories are as follows (from lower to upper):

- (a) Traditional society: This category includes those societies based largely on agricultural production. In these societies there is a maximum limit on the feasible production level of product per capita. This limit derives from the fact that the society cannot espouse and use the possibilities offered by modern science and technology in an organized and methodological way. Furthermore, such societies cannot effectively exploit productive resources for their economic benefit, and they have underdeveloped political systems. Hence, individuals within a traditional society seek to satisfy their physiological needs for food, shelter and clothing and nothing more.
- (b) Preconditions for "Takeoff": Societies in a transitional stage of growth are placed in this category. The ideology of such a society is that economic growth

is not only feasible but also necessary to gain national pride, private profit, general prosperity and a better life for following generations. At this level, one notices development in the education sector, which is extended to meet the needs for modern economic activity, the growth of entrepreneurship in public and private sector and the development of the banking system and institutional background. Such development means that the capital generated can be effectively managed and enables further growth in investments and trade. Nevertheless, the development pace at this stage is rather slow, given that it still employs low-productivity methods resembling those used in the traditional society.

- (c) “Takeoff”: This stage includes societies that have managed to move beyond the low-productivity methods of the traditional society and are now fully modernized. Hence, the ideology and practices of the previous stage are now supported by the appropriate “equipment”, creating the prerequisites for rapid and constant economic growth. This stage shows significant development in the industrial sector and in mass production, accompanied by the modernization of the agricultural sector as farmers are starting to implement new methods and technologies both in their agricultural production and way of life. In this stage, it is expected that in one to two decades, the social and political organization of the society will be significantly transformed resulting in steady growth for society.
- (d) Drive to maturity: This stage lasts for approximately 40 years, during which the society experiences growth in all sectors (Rostow 1960). At the same time, society starts to internationalize its activity and establishes its position in the international economy. Once a society achieves these milestones it is considered to have reached maturity. When a society has achieved total development in an industrial category, it is then able to focus on production in a new sector. An example is the switch from iron, coal and heavy railway to mechanical tools, chemicals and electrical equipment. Germany, Great Britain, France and the United States went through this phase at the end of the nineteenth century.
- (e) Age of mass consumption: The predominant period of this stage is when the citizens of the society experience modern comfort, during which they focus on the constant consumption of consumer goods and can barely recall the issues they faced during previous stages. This is the stage where a society focuses on achieving its own balance among three states: military and security issues, prosperity and equality issues and the further development of the upper classes. As Rostow (1960) stated, every society attempts to define its uniqueness and the factors that shape it on political, economic, geographical and cultural levels.

Based on the approach by Rostow (1960) and Porter et al. (2002) conducted a modern study and defined three categories of economic growth within a society. The first and lowest category is one where society is led by productive resources (factor-driven stage). In this stage, society produces low-value products using existing knowledge, without creating any new knowledge or innovation. Furthermore, society clearly produces for self-consumption to meet its own needs because there is no export sector. This stage is similar to the first stage of the traditional society developed by Rostow (1960).

**Table 2.1** Human needs and economic growth

| <b>Human needs</b>              |                   |
|---------------------------------|-------------------|
| Maslow (1943)                   | Alderfer (1968)   |
| Physiological needs             | Existence         |
| Safety needs                    | Relatedness       |
| The need for love               | Growth            |
| The need for esteem             |                   |
| The need for self-actualization |                   |
| <b>Economic growth</b>          |                   |
| Rostow (1960)                   | Porter (2002)     |
| Traditional society             | Factor-driven     |
| Preconditions for “Takeoff”     |                   |
| Takeoff                         | Efficiency-driven |
| Drive to maturity               | Innovation-driven |
| Age of mass consumption         |                   |

The second category is where society is led by effectiveness (Porter et al. 2002). This category includes Rostow’s (1960) other four categories, and represents the gradual attempts of a society to develop and become modernized, to make its debut in the international market and to acquire a national identity.

Finally, Porter et al. (2002) introduced a third category, which follows the previous two. This is the category where society has exhausted every resource (factor driven) and form of its efficient utilization (efficiency driven) and the only route for further growth is via knowledge and innovation (innovation driven). This stage can be considered parallel to the emergence and development of the notion of entrepreneurship, which is still examined and studied by many modern sciences.

By comparing the theories of Rostow (1960) and Porter et al. (2002) on economic growth with those of Maslow (1943) and Alderfer (1968) on human needs (Table 2.1), it is possible to state that there are clear similarities between the satisfaction of needs deriving from individual growth and changes in the stages of economic growth, and both can experience dual-direction causation. Lower (higher) levels of individual growth are parallel to lower (higher) levels of economic growth. Hence, the satisfaction of the need for food is parallel to the first stages of growth in primary production, whereas the stages of the economic actualization of the personality are connected with the growth stages of efficiency, entrepreneurship, creativity and innovation.

Economic growth leads to changes in the institutions related to economic activity. The anachronistic bureaucratic structures of the early industrialization were ineffective in the technologically modern societies with highly specialized labor force. This can also explain the efforts made over the last decades to cut the red tape, according to Inglehart (1997). Lastly, the external shocks in the economy can lead to changes in institutions and culture. The most distinctive example is war. The Second World War had a significant influence on the labor market for a great period of time (Fernandez and Fogli 2004). The lack of male population in the labor market due to the war led to the increase in working women, thus redefining their

role in the society. As an external shock, hyperinflation in 1920 had a negative impact on the middle class of that time, since many savings were lost. This resulted in intense uncertainty, and had an impact on the way money markets and insurance funds were organized.

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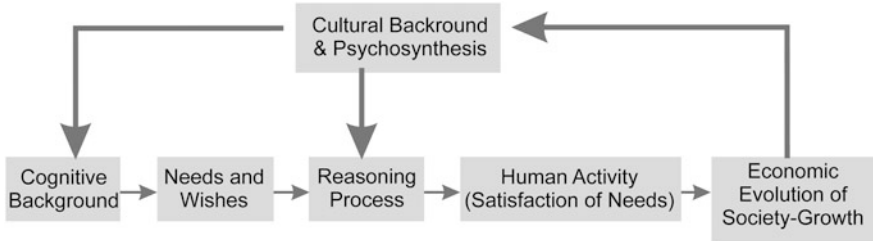
## 2.3 Needs, Economic Growth and Cultural Background

From the perspective of cultural background, the different phases of needs and economic growth also require individual constitutions of different qualities as well as various types of social organization. The meeting of primal needs requires people who are aggressive and good hunters or nomadic nations that can travel to find food. Innovation-driven economies require societies that have faith in the future because often their returns from investments are not realized for some time. In contrast, factor-driven economies can co-exist with high uncertainty avoidance, which is not consistent with higher growth levels. As a consequence, the development of the satisfaction of human needs and economic change in development and growth coexist in a constant process of cultural background.

The cognitive process of each individual is not fully conscious, particular or deliberate, and is instead limited and gradually developing throughout their lifetime (Hodgson 1988, 1997). The cultural and institutional background of each society provides each individual with information that has been created over the centuries and that mirrors the knowledge of the past (Hodgson 1988; Knight 1997; Streit et al. 1997). Such information directly affects the way in which the individual chooses and interprets their data and, hence, their cognitive background (Neisser 1967; Spradley 1972; Bourne et al. 1986). The fact that all individuals have access to this “ready-made” information also explains the existence of predictability (to a degree) in human behavior, to the extent that the cognitive level of each individual comprises information that is common and known to the other individuals within that society (Earl 1983; Heiner 1983; Hodgson 1988; Dequech 2004).

The internal psychological world is different and unique for each individual. The cognitive process, as mentioned above, is not a totally conscious, particular or deliberate procedure, meaning that it leaves room for diversity among individuals, and is formed in accordance with the different habits and experiences of each individual. In accordance with their internal world, each individual interprets data differently and extracts information that mirrors their personal imagination and creativity (Hodgson 1988; Loasby 2001). Hence, at any given time an individual forms a cognitive background that reflects their personal psychosynthesis and their cultural and institutional environment. Based on such background, an individual acts to understand and instantiate their needs and wishes. This is where the reasoning ability of each individual is defined, i.e., the ability to use information from their cognitive background to make decisions as to how to satisfy their needs and wishes.

The mentality of each individual is different regarding their ability to understand in great detail all the information included in their cognitive background (many



**Fig. 2.1** Cultural background and economic growth

have very complex cognitive backgrounds) and to assess and process that information to make decisions and to then act. This problem is strengthened by the fact that there is a fundamental uncertainty as to how they will develop in the future, which then limits an individual's cognitive and assessment ability because it limits the information used in decisions and subsequent actions (Dequech 2000, 2006; Davidson 1996).

Because of these problems and through the reasoning process, an individual seeks and implements simple mechanisms that will help them identify the best methods to satisfy needs. At this stage, the role of the external environment and the internal psychological world of each individual is to reduce these problems and increase the reasoning ability of the individual.

As mentioned above, a society's cultural and institutional background offers each individual a storage room of data and information that the individual can use at any time to structure their cognitive background. The same information, however, can also be used by the individual as an axis on which they can structure their reasoning processes (Douglas 1987). In this way, the cultural and institutional background offers a series of habits and rules that the individual can use as a standard to check whether they have identified the best solution or to identify which existing solution is the best according to the standards set by their cultural and institutional background (Hodgson 1988, 1997). Thus, the reasoning behavior that determines the cultural background can be considered the potential behavior of an individual.

The internal psychological world of each individual plays a very important role at this stage of the reasoning process and action. Personal creativity and the personal emotional world differentiate the reasoning behavior of each individual regarding their needs and how to satisfy them. Through each action, an individual gains some experience, which is then added to their internal psychological environment. Such an environment, together with cultural background, repeatedly drives human activity (Fig. 2.1).

In fact, cultural background and an individual's psychosynthesis shape the reasoning process. However, it has already been influenced by their needs and wishes, which are obviously influenced by their cognitive background. The reasoning process is in the background of human activity aiming to satisfy human needs. Thus, human activity leads to society's economic development and

economic growth. However, economic growth in turn influences cultural background, which, in turn, influences cognitive background.

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## 2.4 From Individual to Aggregate Level

Although the analysis in the previous section clearly shows the importance of cultural particularities at an individual level, questions have also been raised as to how individual traits are expressed as social behaviors. For example, if we take the existence of general social traits for granted, the question arises regarding how such general traits shape individual behaviors. In other words, what is in fact posed is a question concerning the relationship between the individual and the group. There are some views (The Chicago School; Becker 1976, 2000) that support the scenario that social behaviors are an outcome of collective individual behavior. In contrast, others claim that social phenomena define individual behaviors (Polanyi 1975 [1944]). The latter is widely accepted in psychology, given that it offers an easy starting point for the interpretation of personal behaviors. For example, in a general collectivism environment, people are more likely to develop individual isolation fears (Markman et al. 2009).

These two views may be coalesced by a more mature approach, i.e., by accepting that the composition of individual behaviors leads to the adoption of social standards *and* that cultural background shapes individual behaviors; the New Institutional Economics is considered to represent a prime example (Beugelsdijk and Maseland 2011), comprising a good mix of institutions and behaviors. In such an approach, institutions and culture are not the outcomes of careful planning, but exist in a model of inter-correlations by using the result of their composition and the conflict of opposing forces as the right of their existence.

The issue of the relationship between individualism and aggregate has a further parameter related to time or (more generally) to the specific reference period of the analysis.

If we are at a reference period strongly characterized by distressing events (e.g., Hurricane Katrina), local communities will display special experiential behaviors that are gradually transformed to behavioral traits passed from generation to generation. In contrast, a period of prosperity highlights the significance of greater stability and creativity, which results in a decrease in the significance of other cultural differences among members of the population.

An interesting dimension in the analysis of the relationship between individualism and aggregates concerns the extent of the implementation of its conclusions. There is the general perception that economics as a science seeks general norms and laws with universal implementation. It is very difficult to tolerate the introduction of views that lead to the special handling of various geographical or population segments. In contrast, the analyses that include cultural elements and references to cultural background by nature refer to separate population organizations. However, the tension between the two opposing forces has a problematic background. General rules may exist without necessarily being based on space or time segmentation.



Therefore, what does matter is whether the presence of cultural traits influences behaviors and economic output.

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