1. Introduction

Culture is a hermeneutic system, that is, ‘an interpretative integration of material objects, behaviour, and their meanings’ (Jennings and Waller, 1994: 1000). Culture encompasses language, norms, customs, morals, beliefs and conventions and it serves to establish a shared understanding among a group of people of the external world and each individual’s relationship to this world.

It is suggested that an understanding of culture should be an integral part of the economic analysis of the labour market. Culture determines, in large part, the value and significance that individuals attach to alternative labour market actions and outcomes. Particular aspects of culture, such as social norms, also help to define the boundaries to the pursuit by individuals of their culturally defined objectives in the labour market.

The economic analyses of Veblen and Commons embraced a cultural perspective on economic life (Jackson, 1996). Veblen described individuals as the sometimes comic creations of their inherited cultures and, following in his footsteps, ‘old-institutionalists’ have continued to interpret patterns of economic behaviour as being the product of cultural environments that are specific to particular times and places (Mayhew, 1987: 590 and 596 and Woodbury, 1979).

Old-institutionalists have also identified aspects of culture, such as customs, conventions and norms, as legitimate and distinct topics of economic analysis. Rather than interpreting these aspects of culture as the products of self-interested individual action, the old-institutionalists have sought to describe social norms, customs, conventions and beliefs as autonomous parts of the environment in which economic action takes place (see Hillard and McIntyre, 1994: 620–1 and Gimble, 1991).

However, the neoclassical (and new-institutionalist) analysis of the labour market has attacked the notion of culture as a core process (Mayhew, 1987). In neoclassical analysis, human action is typically defined by objectives that are treated as independent from the culture of the individual. Rather than viewing human action as the product of
culture, aspects of culture (such as language, norms and morals) are interpreted as the product of an independent set of individual interests. As Nelson (1993: 292) explains, *homo economicus*:

springs up fully formed, with preferences fully developed, and is fully active and self-contained...The [social and economic] environment has no effect on him but rather is merely the passive material, presented as constraints, over which his rationality has play. He interacts with society without being influenced by society.

The dominance of the neoclassical model in labour economics over recent decades has meant that, despite the richness of the old-institutionalist heritage, the important relationship between culture and labour market behaviour has been a relatively neglected field. An important gap now exists in the labour economics literature.

This book aims to help address this gap in the literature by providing a detailed analysis of the relationship between culture and the labour market. It sets out both to examine possible theoretical models that can reflect the important relationships between the cultural and economic environments, and to identify possible empirical measures of these relationships.

The book comprises six central chapters. Chapter Two is devoted to an exploration of the meaning of culture and possible categorizations of its economic effects. Two major types of cultural effects are identified and discussed in detail: the constitutive effects of culture and the regulatory effects. The constitutive effects refer to the important influence that the cultural environment has on the way in which individuals understand and value, for example, different labour market processes and outcomes. The regulatory effects of culture refer to the impact of social norms, morals, laws and conventions on individuals’ pursuit of their culturally defined objectives. Labour market examples of each type of effect are identified in Chapter Two and the important theoretical controversies that surround the economic analysis of the relationships are introduced.

Chapter Three extends the discussion of the theoretical analysis of culture. Attention is focused on the regulatory effects of culture where issues such as the origins of social norms, the relationship between norm-guided and self-interested behaviour and the impact of norms on market outcomes become important. Examples of economic models that have been utilized to address key questions about the relationship between the cultural and economic environments are provided. The
chapter also provides an introduction to some of the important issues surrounding empirical investigations of the effects of culture. The discussion of the theoretical and empirical approaches in this chapter provides a framework for the studies conducted in the remainder of the book.

In Chapter Four an efficiency wage model that has particular relevance to studies of the regulatory effects of culture is developed. This model describes the possible relationship between social norms of equity and the determination of skill-based wage differentials. The analysis pursues a common observation about labour market behaviour — that workers often base their judgments about the fairness of their wages on established skill-based wage relativities. A hypothesis that workers’ levels of effort are determined by these fairness judgments is also explored and, from this analysis, the possibility that employers might have a profit-based incentive to preserve existing wage differentials is examined.

Chapter Five contains an empirical study of the relationship between existing skill-based wage relativities and workers’ judgments about the fairness of their wages. As in the empirical studies in Chapters Six and Seven, data from the International Social Science Survey Programs of 1987 and 1992 are used. These provide information on the beliefs of a large number of survey respondents on important labour market issues, such as the determination of wage rates. Importantly, data are available from fourteen countries and for two time periods. This enables testing of the effects of different and changing economic and social conditions on the attitudes of community members to skill-based wage differentials. This information can also be related to the wage structures observed in the different countries and how these changed over the 1987–1992 period.

Chapter Six turns attention to norms of equality. These norms relate to shared beliefs about the legitimate degree of difference between the wages paid to high-status occupations, such as company executives, and low-status occupations, such as factory workers. The chapter examines community attitudes to wage inequality in eight Western industrialized countries — Australia, West Germany (as it then was), Great Britain, the United States, Italy, Norway, New Zealand and Canada — and six transitional economies — Hungary, Poland, East Germany (as it then was), Czechoslovakia (as it then was), Bulgaria and Russia. The chapter focuses on the nature, extent and causes of these international differences, with the aim of providing further insights on the
relationships between the cultural and economic environments. A particular aim of this chapter is the provision of information on the ways in which community attitudes towards the legitimacy of earnings inequality are informed by existing patterns of inequality.

Chapter Seven extends the analysis of community attitudes to earnings inequality by utilizing the International Social Science Survey Program data that are available for six countries — Australia, West Germany, Great Britain, the United States, Hungary and Poland — over the 1987–1992 period. The focus of this chapter is on the important relationship between economic and cultural change. The question of how the major economic upheavals in countries such as Hungary and Poland over the five-year period of investigation affected community beliefs about wage inequality is given particular attention.

Chapter Eight examines the possible economic effects of further social norms of distribution — norms of need. These norms relate to shared beliefs about the right of individuals to a minimum outcome from the distribution of the proceeds of a group’s resources. The chapter examines the role played in the labour market by these norms and focuses, in particular, on the relationship between such social norms and the regulation of minimum wage rates. It outlines a simple theoretical framework for the purpose of describing the possible nature of this relationship and it utilizes the results of the 1995 Australian round of the International Survey of Economic Attitudes (ISEA) to analyse the attitudes of Australians to minimum wage controls.

In Chapter Nine the key findings of the earlier chapters are highlighted and some comments are made on the direction for future research. The main conclusions to arise are, first, that culture is a complex and multifaceted concept that poses many challenges to economists attempting to understand its influence on the labour market. Second, cultural differences in beliefs about important labour market institutions, such as occupational wage differentials and wage inequality, exist between countries. These differences in beliefs constitute a normative force for the retention of the established wage structure of each country and, thus, for the persistence of different labour market institutions and outcomes in a globalized economy. Third, cultural phenomena, such as social norms, cannot be simply explained with reference to the self-interest of economic actors. Thus, culture should be recognized as a source of economic behaviour in the labour market and as a factor contributing to the nature of the labour market institutions and outcomes that are observed.