Culture Matters for Institutional Effectiveness

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Abstract:

This paper advances the conditional thesis that culture can serve as the primary determinant of formal institutional structures in settings where cultural norms display deep historical continuity while institutions have come and gone. Situated within the long-standing debate between institutionalist and culturalist explanations of economic development, the paper engages the dominant Western literature – from Acemoglu, Johnson, and Robinson's institutional primacy framework to the complementary cultural accounts of Mokyr, McCloskey, Ang, and Guiso et al. – and argues that this scholarship under examines the historical experience of the Indian subcontinent (Bharat). Drawing on macroeconomic reconstructions, inscriptional evidence from the Asia-Pacific, and contemporaneous traveller accounts, the paper documents sustained economic and scientific dynamism in early Common Era India. It develops a theoretical framework contrasting two ideal-type co-evolutionary dynamics: dynamics of capitalist culture and institutions – which tends toward "polycrisis" over time – with those of Dharmic culture and institutions, characterized by cyclo-linear temporality and sustainable flourishing. The central hypothesis is that institutional effectiveness depends on alignment with enduring cultural norms, while institutional transplantation without such alignment produces implementation frictions and reduced legitimacy. The argument for Dharmic norms aligned institutional design is explored through four contemporary Indian policy cases – Swachh Bharat Abhiyan, Mission Karmayogi, the Insolvency and Bankruptcy Code, and the Finance Commission – supplemented by comparative evidence from East Asia and Africa. The paper concludes with a call for a general theory of culture–institution co-evolution and urges policymakers to draw consciously on incorporating cultural norms in institutional design.

JEL Codes: *O43, Z10, O10, D02, H11, N35, D72*

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Section 1: Introduction

It is our contention in this paper that typically culture and institutions co-evolve, and so neither can be said to be strictly (i.e., always and everywhere) upstream of the other. But there are exceptions. When cultural norms have survived centuries, if not millennia of adaptive churn, while institutions have come and gone, then it is the case that culture is upstream of institutions. In such cases, policymakers and institution builders would be well-advised to design institutions by adapting institutional structures and institutional functioning to pre-existing cultural norms. If policymakers fail to do so, the institutions will be ineffective in performing the function that they were created for, and the institutional forms will die out sooner or later.

There has been, at least for the last several decades, a growing interest among academics in the social sciences to inquire into the original sources of economic growth and development. Several Economics Nobel Prizes have been awarded in recognition of pathbreaking scholarship in this area. Yet the matter is far from settled. Debate and contestations persist on the question of whether the "first cause" is geography, which is taken to signify or connote the unchangeable features of a country's natural endowment, or whether it is culture, which is taken to signify or connote informal rules of societal functioning in a country, or whether it is the institutional form, which is taken to signify or connote the formal rules of societal functioning in a country. In this paper, we put aside the geography variable, and we focus on the other two, to bring some clarity and sophistication to the search for a "first cause". We omit geography partly because over the long arc of history, it is not entirely unchangeable (either because of the shifting sands of geopolitical fortune, or because of the spread as well as deepening of capitalist enterprise), and partly because if some aspects of geography are indeed unchangeable, then those aspects would anyway attain the status of first cause by default. The more interesting question that has animated debate and controversy in the social sciences and especially in the discipline of economics, concerns the relative importance of culture vis-a-vis institutions. And therefore, that is the subject of our paper.

Our paper is situated within the broad ambit of literature on the above question, and at the same time, it skirts the edges of that literature. The reason for this somewhat ambiguous positioning will become obvious to the reader as we develop the argument step by step in the sections that follow. Here, we sketch the broad features of the argument for a preliminary understanding (and we leave all specific author citations to the relevant sections).

In Section 2, we first acknowledge and lay out the existing literature on this topic, mainly emerging from the academic discipline of economics. There are broadly two views – one that claims that institutions are primary, and that culture lies downstream of institutions, and the other that claims that culture and institutions inter-penetrate and interact, and so, neither can be really said to be upstream of the other. In the first view, the world is mostly cast into a mechanistic mold, the analytic method is privileged as a mode of inquiry, and the policy prescription is largely that if one creates the right kind of institutions, then the informal rules of the game become malleable and change in accordance with the formal codes that have been inscribed into the institutional forms. Here, there is a narrowing of the normative space in referring the qualifier "right kind of" to a very specific institutional form, which is Western liberal democracy. The adherents of the contrasting view appear on occasion willing to step outside of this narrow Euro-centric framing, their mode of inquiry is more grounded in a critical-historical method, and they are able to discover, therefore, other instances of the "right kind of" institutions, with the multiplicity of possibilities being referred to historical-cultural factors, and culture playing largely an equal, complementary role relative to institutions. We review both of these perspectives, and conclude that while there is some merit to each of them, they both miss an important instance of economic growth and human flourishing, which is that of Bharat (representing the sub-continental mass that is today referred

to as South Asia, and of which present-day India is only a part) especially spanning the first millennium of the Common Era (CE) and spilling over past that well into the second millennium also. This then opens the space for a historical narrative describing the many achievements particular to this specific instance – and an undeniable tracing of those achievements to cultural influences. All of the discussion in this section then resolves into a call for a general theory of the evolution of culture and institutions that will also admit the possibility of culture being the first mover or the first cause as a special case.

In Section 3, we describe a theoretical frame that we think meets the afore-mentioned requirement. The description begins with axiomatic definitions of culture and institutions that we think accord with the academic understanding of these terms, as laid out in Section 2. It then deduces from those axiomatic definitions a co-evolutionary dynamic between those two phenomena. Briefly, the deduction relies on the necessity of formal (institutional) and informal (cultural) codes or rules co-existing and interacting, with each shaping the other. To further elucidate this manner of co-evolution, we describe two ideal-type cases – the case of capitalist institutions co-evolving with capitalist culture, and the case of Dharmic institutions co-evolving with Dharmic culture (with "Dharmic" being our descriptor for all things sourced in the Dharmic religions of Hinduism, Jainism, Buddhism, and Sikhism, but primarily and originally in the first of these, since the others are derivatives or breakaway branches of the first). We contrast the interaction between capitalist institutions and capitalist culture, which produces socio-economic gains at early and middle-stages of economic development, but polycrisis at mature stages, with the interaction between Dharmic institutions and Dharmic culture, which produces a very different kind of dynamics, where episodes of progress and flourishing are punctuated by recurring episodes of capture by inimical, foreign cultural influences. As such, entropy is a feature of the former kind of co-evolution, but a bug of the latter, and this has implications for policymaking in contemporary India. We draw out the implications, and in doing so, articulate a hypothesis in both general and specific terms. The general hypothesis is that sometimes culture pre-exists institutions, especially when cultural norms have survived the longue durée of history, while institutions have arisen and fallen – and that in such cases, the enduring aspects of culture should be allowed to shape institutional forms and their functioning, if institutions are to succeed. The specific hypothesis is that in contemporary India, Dharmic culture, which has survived a long history of hostile incursions, contains by that very fact, the metaphysical content required for the practical design of India's institutions to yield positive economic, social and environmental outcomes – in short, to effectuate a flourishing of India's citizens and maybe also of the citizens of its trading partners, that does not devolve into polycrisis.

In Section 4, we present evidence in support of the specific hypothesis, and counterfactuals in support of the general hypothesis. For the former, we point to four specific instances of successful institution-making in India – the institutional apparatus behind India's cleanliness drive, the formation and functioning of an institution that trains India's civil servants, the conception of a bankruptcy code to widen and deepen credit markets, and the constitution of a commission that adjudicates Centre-state fiscal relations in a consultative federalist style. In each of the first three cases, we argue that culture has played a formative role in shaping the institution's success. In the fourth case, we show that the institution's success has been largely contingent on it being not only culture-aware but also culture-accommodating, because that is what the cultural diversity of India demands of its national-level institutions. Going beyond India, we also present evidence from countries like Indonesia, China and Japan where successful institutions have been shaped by cultural understandings of what it means for an institution to execute its proper function. RCT-like interventions in the African context also bear out the hypothesis that formal structures designed after informal understandings have a better chance of success in inducing positive development outcomes. Our counterfactuals come from both India and elsewhere. Just as a

present-day successful case of institution-making in India demonstrates the role of cultural knowledge in activating a new service-orientation among her civil servants, we show that the civil service inherited by India from her British administrators eight decades ago was largely ineffective in driving prosperity because it was anchored to colonial-era imperatives of power and prestige. Evidence from sub-Saharan Africa also serves as a useful counterfactual for our general argument.

Finally, Section 5 concludes the paper. We recount our main arguments and offer some speculative reflections on the research program that those arguments point to.

Section 2: Culture & Institutions – Euro-centricism and its Discontents

In this Section, we first lay out the scholarship on culture and institutions and their relation to economic growth and development from the Western, Euro-centric or Anglo-European perspective. We then argue that this perspective fails to account for the case of Bharat, especially in the early CE, largely because that case is not well known or properly studied in the Western social sciences – and we attempt to fill that gap.

Section 2.1: The Western Intellectual Tradition

There is a long and enduring debate in the Western intellectual tradition about the role that institutional structures play, vis-a-vis cultural norms, in facilitating economic growth. Perhaps the most well-known position is that of economist Daron Acemoglu (A) and his co-authors, Simon Johnson (J) and James Robinson (R) – see, for example, AJR (2002)[4], AJR (2005)[5], AR (2012)[6], AR (2019)[7], and most recently, AR (2025)[8]. Overall, this body of work claims that institutions are the primary diver of economic growth, that inclusive institutions in particular (exemplified by free markets, the rule of law, and democratic politics) make for persistent improvements in productivity and incomes, and that they do so because they unleash individual ingenuity and entrepreneurial drive on the widest possible scale. The suggestion is that liberal democracies are the richest and most prosperous in the world today because they have had a long history of building such inclusive institutions. For AJR/AR, cultural norms understood as informal rules of conduct in society, have little independent influence on institutional structures which embody formal rules, and rather, the former may be said to lie downstream of the latter rather than upstream. It is not our intention in this paper to parse the AJR/AR argument in terms of finding for it a proper place within the various schools of institutionalism in economics – for this, the reader may refer to Dzionek-Kozlowska & Matera (2016)[9]. However, it will be important to at least explore which scholars AJR/AR consider to be their intellectual interlocutors, if not forbears, and how they position themselves with regard to those scholars.

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[4] Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." Quarterly Journal of Economics 117 (4): 1231–1294.

[5] Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2005. "Institutions as a Fundamental Cause of Long-Run Growth." In Handbook of Economic Growth, edited by Philippe Aghion and Steven N. Durlauf, 385–472. Amsterdam: Elsevier.

[6] Acemoglu, Daron, and James A. Robinson. 2012. Why Nations Fail: The Origins of Power, Prosperity, and Poverty. New York: Crown Publishers.

[7] Acemoglu, Daron, and James A. Robinson. 2019. The Narrow Corridor: States, Societies, and the Fate of Liberty. New York: Penguin Press.

[8] Acemoglu, Daron, and James A. Robinson. 2025. "The Persistence of Political Power, Institutions, and Economic Development." Journal of Economic Literature 63 (1): 1–68.

[9] Dzionek-Kozłowska, Joanna, and Rafal Matera. 2016. "Institutions, Culture and Economic Development: An Overview of Competing Paradigms." Annales. Ethics in Economic Life 19 (4): 7–22.

Perhaps the most important influence that AJR/AR acknowledge is Douglas North's. North's 1989 paper with Barry Weingast[10] was not only popular among economic historians but also played a central role in establishing the centrality of institutions for economic growth. In it, the authors situated the first proper historical instance of modern institutional innovation in the Glorious Revolution of 17th century England, which heralded a slew of constitutional reforms that brought into existence an effective rule of law, enforced property rights, and established constraints on the arbitrary exercise of power. These institutional changes, according to the authors, produced substantially lower transaction costs and enhanced systemic credibility among citizens and foreign economic actors like. As such, they were perceived to be the catalyst for England's subsequent economic development, leading North to remark that "economic performance depended less on culture or geography, and more on these evolving institutional frameworks, which shape incentives, lower uncertainty, and foster growth by supporting contracts and cooperation."[11] Subsequent works of North further reinforced this position, as evidenced by his book "Institutions, Institutional Change and Economic Performance" (1990)[12], which distinguished between formal rules (constitutions, laws) and informal norms (customs, social conventions) and argued that institutions were the central determinant of economic performance superseding other factors including "technology or relative prices."[13] While North defined informal institutions such as cultural norms as "sources of continuity in long-run societal change,"[14] his work viewed such institutions as an outcome rather than the origin point of the formal institutions (for e.g., the laws and courts that upheld property rights) that he privileged as principally responsible for superior economic performance.

If North's work provides the necessary background for appreciating where AJR/AJ take their inspiration from, then Talcott Parsons and Samuel Huntington appear in AR (2025) as antagonists to be refuted, since both those scholars have argued for the critical and foundational role of cultural norms in influencing socio-economic outcomes. For Parsons (1951)[15], culture was able to perform such a role because it is a stable and coherent, and therefore sticky, normative pattern of value-orientations in a society. AR (2025) find this Parsonian definition of culture reflected in a volume edited by Huntington & Harrison, and published in 2000, in whose foreword Huntington defines culture as "the values, attitudes, beliefs and orientations and assumptions prevalent among people in a society"[16]. In arguing for the centrality of culture in influencing economic development, the book cites the example of South Korea and attributes its phenomenal economic growth in the latter half of the 20th century to its cultural orientation towards thrift, discipline and investment. The book cites Ghana's economic growth story as a counterexample – Ghana performed poorly because it's society lacked the cultural norms that Korea was able to capitalize on. Furthermore, several contributors to the volume cite the significant role played by cultural norms and family-centred civilizational values in shaping social capital and gender-specific outcomes in Asian and Latin American countries. For example, David Landes argues that "If we learn anything from the

[10] North, Douglass C., and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." Journal of Economic History 49 (4): 803–832.
[11] Bates, Robert H. 2014. "The New Institutionalism." In Governance, Natural Resources, and Post-Conflict Peacebuilding, edited by Carl Bruch, Carroll Muffett, and Sandra S. Nichols, 1–11. New York: Earthscan.
[12] North, Douglass C. 1990. Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.
[13] Acemoglu, Daron, Simon Johnson, and James A. Robinson. 2002. "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution." Quarterly Journal of Economics 117 (4): 1231–1294.
[14] North, Douglass C. 1990. Institutions, Institutional Change and Economic Performance, p. 37. Cambridge: Cambridge University Press.
[15] Parsons, Talcott. 1951. The Social System. Glencoe, IL: Free Press.
[16] Huntington, Samuel P. 2000. "Foreword: Cultures Count." In Culture Matters: How Values Shape Human Progress, edited by Lawrence E. Harrison and Samuel P. Huntington, xiii–xvi. New York: Basic Books.

history of economic development, it is that culture makes almost all of the difference"[17], Michael Porter writes that "culture prizes innovation, merit, and continuous improvement"[18], while Jeffrey Sachs claims that "geography matters, but collective values and elite-driven reforms are crucial for economic transformation."[19]

Another scholar whose work favours cultural norms as a primary causal explanation for economic performance is Joel Mokyr. In his book "The Culture of Growth" (2018)[20] he proposes that it was a "marketplace of ideas"[21] in post-Renaissance Europe that enabled it to flourish and that the Industrial Revolution in England was triggered by a change in attitudes towards knowledge that led to greater scientific enquiry in place of a blind veneration of the past. Writing about the book, Dorn (2024)[22] has argued that the core of Mokyr's thesis lies in his insistence that sustained economic progress requires the right kinds of cultural attitudes, especially those favouring innovation, scientific curiosity, and openness to new ideas. European economic success was the outcome of a "choice-based cultural evolution" and "cultural entrepreneurs" who shaped and spread positive views about science, progress and openness.[23] In other words, Mokyr appears to not view culture as a negative force or as a barrier so long as cultural evolution leads to "openness and critical thinking" which he believes to be key drivers for European prosperity.[24] Koyama (2025) argues that Mokyr's work does not negate the importance of institutions but rather complements institutional theories, showing that institutions and culture jointly interact to spur economic growth, instead of acting in isolation or opposition.[25]

Guiso et al. (2024, 2006, 2004) have also argued that cultural norms have a profound impact on economic outcomes, financial development and institutional efficacy. Their first paper[26] shows that social capital (whose basis is often rooted in cultural identity) has important consequences for financial development since it conditions participation in stock markets and access to institutional (or formal) credit. Their second paper[27] shows that differences in beliefs, trust and social norms between the Northern and Southern regions of Italy are determinative of the very different developmental outcomes in those regions, despite the two regions sharing similar formal institutions. Their most recent paper[28] suggests that embedded cultural norms could provide or restrict comparative advantage and therefore exert a powerful influence on economic development.

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[17] Landes, D. S. (2000). *Culture makes almost all the difference*. In L. E. Harrison & S. P. Huntington (Eds.), *Culture matters: How values shape human progress* (pp. 2–13). Basic Books

[18] Porter, M. E. (2000). *Attitudes, values, beliefs, and the microeconomics of prosperity*. In L. E. Harrison & S. P. Huntington (Eds.), *Culture matters: How values shape human progress* (pp. 14–28). Basic Books

[19] Sachs, J. (2000). *Notes on a new sociology of economic development*. In L. E. Harrison & S. P. Huntington (Eds.), *Culture matters: How values shape human progress* (pp. 29–43). Basic Books.

[20] Mokyr, Joel. 2018. A Culture of Growth: The Origins of the Modern Economy. Princeton: Princeton University Press.

[21] Mokyr, Joel. 2018. A Culture of Growth: The Origins of the Modern Economy, p. 8. Princeton: Princeton University Press.

[22] Dorn, James A. 2024. "Review of A Culture of Growth by Joel Mokyr." Cato Institute.

[23] Spolaore, Enrico. 2019. "Commanding Nature by Obeying Her: A Review Essay on Joel Mokyr's A Culture of Growth." NBER Working Paper No. 25188. National Bureau of Economic Research.

[24] Greif, Avner, Joel Mokyr, and Guido Tabellini. 2025. "Culture, Institutions, and the Long-Run Economic Development of Nations." CEPR Discussion Paper.

[25] Koyama, Mark. 2025. "Culture and Economic Growth: A Review." Personal website.

[26] Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2004. "The Role of Social Capital in Financial Development." American Economic Review 94 (3): 526–556.

[27] Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2006. "Does Culture Affect Economic Outcomes?" Journal of Economic Perspectives 20 (2): 23–48.

[28] Guiso, Luigi, Paola Sapienza, and Luigi Zingales. 2024. "Long-Term Persistence of Culture and Comparative Advantage." NBER Working Paper.

We turn now to scholars who have offered critiques of the AJR/AR view about the primacy of institutions. Deirdre McCloskey (2021) characterizes their body of work as suffering from an over-emphasis on state-led institutionalism. She argues that while institutions matter, they are incomplete without a profound understanding of "ideas, ethical norms and cultural beliefs." Like Mokyr, she points to the rise of "bourgeois virtues" in Western Europe during the 17th and 18th centuries, such as honesty, prudence, innovation, and respect for commerce, as the precursors and even the enabling conditions for the kinds of institutional changes that would drive economic progress in that part of the world over the next 2 centuries. Overall, McCloskey tends to advocate for a complementarity between institutions and cultural norms as causal explanations for economic performance. Yuen Yuen Ang is another vocal critic of the AJR/AR body of work. She appears to advance a thesis similar to McCloskey's, one where institutions and culture co-evolve and together cause good or bad economic performance, but whereas McCloskey's inquiry remains focused on the economic history of Western Europe, Ang's concern is altogether different, that of explaining China's remarkable economic growth story from 1978 onwards. Ang takes issue with AJR/AR's claim that only a very specific type of institutional structure, namely that found in modern Western liberal democracies, provides the proper conditions for sustained economic growth. This claim, she argues, betrays a mechanistic understanding of how the world functions.[29] If one were, instead, to cognize economies as complex adaptive systems, then one might be able to arrive at a multiplicity of political configurations, all favouring economic growth and each conditioned by its own specific historical trajectory of the co-evolution of institutions and cultural norms. Such an approach, which she calls Adaptive, Inclusive, Moral (or AIM) Political Economy, is able to envelope both the Western and the Chinese growth stories in a single embrace, but with a very different set of institutional features for China relative to the West. In her book "How China Conquered The Poverty Trap" (2016)[30], she points out that China relied on "direct improvisation"[31], which meant agile and dynamic localized solutions to policy problems, alongside an organic dialectic between institutional structures and cultural norms that resolved as narratives about how growth was to be achieved, and that informed the nature of improvisation in any particular place and time. Overall, Ang views cultural norms as a positive force which can be harnessed for economic development in a multipolar world.[32]

Dzionek-Kozłowska & Matera (D-K & M, 2016)[33] also provide a conceptual critique of AJR/AR in a somewhat similar sense to Ang. They contend that AJR/AR sometimes equivocate on which of culture or institutions has the greater role to play, but mostly settle the matter by claiming formal institutions to be the primary driver. They suggest that AJR/AR tend to do this because formal institutions lend themselves more easily to analytical representation and measurement, and therefore to the policymaker's desire for rational control. So, in effect, AJR/AR's preference for formal institutions appears to fall hostage to a methodological imperative rather than being driven by a concern for their theory's applicability to the widest possible set of cases – and D-K & M point out how the erstwhile authoritarian regimes of Central and Eastern Europe offer counterfactuals to AJR/AR's thesis.

Section 2.2: Moving Away from Euro-centricism

[29] Ang, Yuen Yuen. 2025. "Adaptive Inclusive Moral (AIM) Political Economy." UNCTAD.

[30] Ang, Yuen Yuen. 2016. How China Escaped the Poverty Trap. Ithaca: Cornell University Press.

[31] Ang, Yuen Yuen. 2016. How China Escaped the Poverty Trap, pp. 48–60. Ithaca: Cornell University Press.

[32] Ang, Yuen Yuen. 2025. "Rethinking Development in a Multipolar World." UNDP / Geoff Mulgan, ed.

[33] Dzionek-Kozłowska, Joanna, and Rafal Matera. 2016. "Institutions, Culture and Economic Development: An Overview of Competing Paradigms." Annales. Ethics in Economic Life 19 (4): 7–22.

Most of the scholars mentioned so far appear to take the view that the spirit of scientific and philosophical inquiry truly only emerges in any kind of sustained fashion for the first time in human history in Western Europe during the Rational Enlightenment. Even if Ang gives us reason to believe that she might be the exception, it is still the case that she, like everyone else, misses the bare facts of a tremendous flourishing of scientific, philosophical and humanistic inquiry prior to the Rational Enlightenment in what we shall call Bharat (since its geographical spread exceeded what is presently understood to be the nation state of India). This flourishing was coterminous with advances in technology and human creativity that remain the subject of profound historical scholarship even to this day, especially because the historical record is itself not continuous or always present in written form. It is our contention that the multi-dimensional civilizational achievements of Bharat provide a useful counterfactual to the Euro-centric story of scientific and economic progress, and that an investigation of Bharat's achievements will reveal that it was her culture, rooted in Sanatana Dharma (henceforth, Dharma), that facilitated their occurring to a significant measure. As such, the 16th and 17th century transformations in Western Europe cannot be the only relevant benchmark, as a Euro-centric perspective would have it, for adjudicating the role of culture in facilitating economic progress.

Madisson (2000) [34] has argued that Bharat and China were the top 2 countries in terms of GDP and GDP per capita in the early CE. Though macro-economic estimates from the past can be largely underestimated, the trend lines lend themselves to a broad directional assessment over the years and in this case they are quite striking. Balasubramanian (2024)[35] argues that both primary and secondary evidence more than supplement Maddison's empirical estimates. Primary evidence, mostly composed of inscriptions in countries in South-East Asia and the Asia-Pacific, with whom Bharat had long and enduring trade relations, highlight the economic power emanating from Bharat at the time, and the central role of Dharma-based knowledge systems in facilitating economic prosperity in both Bharat and the rest of the region. For instance, in the historic Angkor Wat temple in Cambodia, a 12th century CE inscription[36] says: "यत्र धर्मस्य मूलं भारतं देशमुत्तमम्।" *("Where the root of dharma lies – the excellent land of Bhārata").* Similarly, a 7th century CE inscription in the Takeo province in Cambodia claims: "समृद्धो भारतो देशः, संस्काररत्नभूषणः।" (*"Prosperous is the land of Bhārata, adorned with the jewels of culture."*). A 10th century CE inscription in Bali, Indonesia announces: "'समृद्धो भारतो यत्र धर्मः प्रवहति यथा नदी।" (*"Prosperous is Bhārata, where dharma flows like a river."*). The importance of Bharat's knowledge systems as a public good reaching far beyond its shores is illustrated in a famous Trà Kiệu (Simhapura) Inscription[37] (Champa, 10th century CE) "येन भारतादागतः शिक्षाविशेषो राज्यमिदं व्यभवत्।" (*"By the special learning that came from Bhārata, this kingdom flourished."*). This is further corroborated and highlighted by the Nakhon Si Thammarat Inscription (8th–9th century CE) in Thailand "भारते प्रतिष्ठितो धर्मो लोकहिताय प्रवर्तते।" *("The dharma established in Bhārata extends for the welfare of the world.").* These inscriptions across the Asia Pacific region from the CE period paint a portrait of Bharat's economic prosperity from both wealth and trading standpoints, and they make clear that the intellectual transfer of knowledge systems from Bharat to this region was integral to the prosperity of countries in the region and remained so for centuries.

Secondary evidence is composed of written records by travellers, writers, thinkers, and traders of the early CE who came to Bharat from foreign lands, such as the modern day nations of Greece, China, and Italy. Megasthenes, an ancient Greek diplomat who is said to have accompanied

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[34] Maddison, Angus. 2006. The World Economy: A Millennial Perspective. Paris: OECD Development Centre.

[35] Balasubramanian, Sriram. 2024. The Golden Thread: How Ancient India's Knowledge Systems Shaped the Modern World.

[36] Angkor Wat Sanskrit Inscriptions, K.300–K.305, 12th century CE.

[37] Trà Kiệu (Simhapura) Inscription, Champa, 10th century CE.

Alexander to Bharat around the 3rd century BCE, remarked that the "Indians were the most industrious of people" [38], and that the ancient town of Pataliputra (modern day Patna in the state of Bihar, India) was one of the largest cities in the world "twice the size of early Rome, three times the size of Alexandria and eleven times larger than Athens with a population of 200,000".[39] In the 2nd century CE, Chinese diplomat Zhang remarked that "The kingdom of Shendu (India) is rich and prosperous; its people are numerous, and its goods are abundant" [40]; a 7th century CE Chinese diplomat Wang Xuance remarked that Bharat "is a great and flourishing kingdom. Its fields are fertile, its people wealthy, and its markets filled with rare goods" [41]; and the famous 7th century CE traveller Heng-Tsuang found Bharat to be a land in which "the cities are large and flourishing; commerce is active and the markets are well supplied." [42] 1st century CE Roman author Pliny reported that "between India, China and Arabia, the trade value was almost 100 million sesterces per year and out of this almost half went to Bharat." [43] Furthermore, the second biggest discovery of Roman coins used in the CE period after Europe was found in Southern Bharat recently.

Taken together, all of three strands of evidence – macroeconomic data, primary inscriptional evidence and anecdotal secondary evidence – clearly indicate that Bharat was one of the world's most economically prosperous places in the early CE, a global textile and craft center (fine cotton, muslin), a major trading hub linking East and West, rich in agricultural output and fertile land, and well-organized with active markets and flourishing cities.

No less remarkable were Bharat's scientific achievements from that period. Dalrymple's best-selling book "The Golden Road" (2024)[44] lays out a long list, which includes (but is not limited to) the invention of the decimal system and the number zero, early advances in algebra and astronomy (by scholars such as *Āryabhaṭa*, *Brahmagupta*, and *Varāhamihira*), codified surgery techniques (including rhinoplasty and the use of anaesthesia), and diagnostic medical practices (such as those described in the texts *Caraka Saṃhitā* and *Suśruta Saṃhitā*, among others). Moreover, Bharat already boasted from a period even prior to the early CE period, one of the most sophisticated linguistic systems in the world, namely the scholar *Pāṇini*'s *Aṣṭādhyāyī*, and a pioneering text on statecraft, namely *Kautilya*'s *Arthashatra*,[45] which is a treatise on systematic governance, taxation, espionage and economic policies.

Bharat's scientific expertise during the early CE is also exemplified by engineering feats of extraordinary precision and beauty. In contemporary India, the plethora of exquisitely carved temples, grand monuments and other infrastructure projects that are more than 1000 years old represent a unique draw for tourists from all over India and far flung corners of the world. For instance, the *Brihadeeswarar* temple in Thanjavur in Southern Bharat, an UNESCO World Heritage site[46], was constructed in 1010 CE and is considered an engineering marvel even today by global standards. Unlike some other global monuments, this remains standing and has withstood several

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[38] Strabo. 1924. Geography. Translated by H. L. Jones. Cambridge, MA: Harvard University Press.

[39] Dalrymple, William. 2024. The Golden Road: How Ancient India Transformed the World. London: Bloomsbury.

[40] Ban Gu. 1962. Hanshu (Book of Han). Beijing: Zhonghua Shuju.

[41] Ouyang Xiu and Song Qi. 1975. Xin Tang Shu (New Book of Tang). Beijing: Zhonghua Shuju.

[42] Xuanzang. 1995. Da Tang Xiyu Ji (Great Tang Records on the Western Regions). Translated by Li Rongxi. Berkeley: Numata Center for Buddhist Translation and Research.

[43] Balasubramanian, Sriram. 2024. The Golden Thread: How Ancient India's Knowledge Systems Shaped the Modern World.

[44] Dalrymple, William. 2024. The Golden Road: How Ancient India Transformed the World. London: Bloomsbury.

[45] Kautilya. 1915. Arthashastra. Translated by R. Shamasastry. Mysore: Government Branch Press.

[46] UNESCO World Heritage Centre. (n.d.). *Great Living Chola Temples*. UNESCO. Retrieved February 7, 2026, from https://whc.unesco.org/en/list/250/

natural disasters including earthquakes over the centuries. It has a 216-feet tall *vimana* (a flying chariot), whose "granite blocks are precisely cut and fitted together using an interlocking system, demonstrating the advanced engineering knowledge of the era."[47]

Manufacturing was also undertaken at a reasonable scale, as many writers of the time would record. Greek historian Strabo (1st century BCE–1st century CE) remarked that "India produces the finest cloth, and her cottons are of remarkable beauty." [48]; his fellow Greek Arrian (2nd century CE) claimed that "Indian ships are made of stitched planks.. they navigate the ocean with great skill"[49]; Chinese historian Faxian (5th century CE) observed that "The people of Central India are prosperous… skilled in arts and crafts, and produce fine cotton cloth."

Social cohesion and community harmony were integral aspects of Bharat's multi-dimensional developmental fabric, as Strabo also notes. In contrast to popular western perception, it is the fluidity of social structures over millennia that has imparted to Bharat's civilizational ethos its uniquely enduring quality. In particular, Western scholarship on the caste system has often sought to force-fit caste dynamics into rigid structures of Marxist oppressed/oppressor logics that have allegedly operated for thousands of years. AR (2025)'s treatment of the caste system is only the most recent iteration of that tradition. Yet, the true history and nature of the caste system remains an arena of active scholarship even today. Some recent scholars claim that caste dynamics were relatively fluid, generating complex varieties of social capital within and against the ever-shifting sands of political power and also contesting prevailing narratives about caste origins and hierarchies. The historian Nicholas B Dirks argues, in his book "Castes of Mind" (2001)[50], that caste, as it has come to be understood by 20th century commentators, was a colonial construct primarily construed as an effective (and ingenious) administrative convenience. His book is an attempt to "refute the accounts that have become hegemonic in the West, and to some extent in India itself, in which caste is the key symbol of Indian society, and in which caste is a system of social relations in which the unvarying position of the Brahman and the untouchable confirm the spiritual basis that justifies, explains, and underlies this unique institution."[51] Further, Dirks argues that the caste system that colonial administrators encountered did not conform to the simplistic notions of social ordering that 19th and 20th century Indologists have claimed for it: "In fact, caste neither exhausted the range of social forms, functions, and identities, nor provided underlying unity. The only common social facts of caste concerned the codification of kinship relations and, to some extent, the protocols of inter-dining. But even these codes and protocols yielded to larger political histories of community formation, regulation, discipline, and participation within a range of larger social and political worlds - until, that is, the larger political history became dominated by a colonial power whose interest in ruling through an indirect logic predicated on caste changed things altogether."[52]

If Dirks's arguments are focused on excavating the pre-colonial nature of the caste system, and charting its transformation therefrom by the colonial administrative state, then sociologist

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[47] https://www.brihadeeswaratemple.com/architecture?utm_.com

[48] Strabo. 1924. Geography. Translated by H. L. Jones. Cambridge, MA: Harvard University Press.

[49] Arrian. 1989. Indica. Translated by P. A. Brunt. Cambridge, MA: Harvard University Press.

[50] Dirks, Nicholas B. 2001. Castes of Mind: Colonialism and the Making of Modern India. Princeton: Princeton University Press.

[51] Dirks, Nicholas B. 2001. Castes of Mind: Colonialism and the Making of Modern India, p. 79. Princeton: Princeton University Press.

[52] Dirks, Nicholas B. 2001. Castes of Mind: Colonialism and the Making of Modern India, p. 79. Princeton: Princeton University Press.

Dipankar Gupta's book "Interrogating Caste" (2000)[53] reveals for us an equally complicated and complex picture of the caste system in post-Independence India, notwithstanding the colonial efforts to regularize, standardize and hierarchize the caste system. Gupta says about post-Independence India: "Any notion of hierarchy is arbitrary and is valid from the perspective of certain individual castes. To state that pure hierarchy is the one that is universally believed in or one which legitimizes the position of those who participate in the caste system, is misleading."[54] Further, after carefully considering electoral data from Maharashtra, Bihar and Uttar Pradesh, during the parliamentary elections of 1991, 1996 and 1998, Gupta ends up echoing Dirks: "The fact that caste numbers and election results do not go hand in hand should caution those who are quick to succumb to the temptations of caste arithmetic. Every time an election is around the corner it is readily assumed that as caste loyalties dominate both the candidates and the public, it is really a question of fine-tuning the numbers game."[55], whereas, in reality, caste alliances "appear to emanate from secular and political factors and do not spring full blown from primordial loyalties."[56]

Western heterodox economists such as Wolfram Elsner (2024)[57] have persuasively argued that both formal and informal institutions take root not at the macro level, which is where caste is usually invoked by scholars, but rather at the "meso" level, which is logically located between the macro and micro levels. It is at this meso level that the informal institution of *jati* has continued to play a role in Indian society for centuries, if not millennia – and it is *jati* (a category denoting an occupational division or specialization) that needs theorizing rather than caste. According to Elsner (2024) and other evolutionary-institutionalists, such as Chandler & Maevsky (2020)[58], meso-level informal institutions are an emergent adaptive phenomenon, rather than an ideological one, and their emergent property owes its origins to the necessity of solving collective action problems in the face of radical uncertainty or contingency. This is also the reason that such informal institutions become the primary sites for the accumulation of social capital, of both the bonding type, between individuals who share a sense of common identity and belong to a community, and also the bridging type, which typically emerges between individuals from different communities. The difference between the two types of social capital has a long and storied tradition of thinking in the sociological literature, and the two main figures are Mark Granovetter (1973)[59] and Robert Putnam (1995)[60]. The emergence and function of *jati*s can be studied in the foreground of this literature, or it may be given a historical materialist turn as Gupta attempts to do in his book. Whatever the approach, if the notion of "muddled hierarchies", as Gupta puts it, applies to the caste system at large, then this is even more true of *jati*s, whose function has never been to give practical import to ideological notions of purity and status, but rather, as Narayan (1999)[61] might put it (though she was not referring to *jati*s in particular), to facilitate coordination and problem-solving so that social structures are organically produced in the course of such facilitation rather than created from top-down in hierarchical fashion by the sovereign decrees of those who sit at the top of such an imagined hierarchy.

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[53] Gupta, Dipankar. 2000. Interrogating Caste: Understanding Hierarchy and Difference in Indian Society. New Delhi: Penguin Books.
[54] Gupta, Dipankar. 2000. Interrogating Caste, p. 131. New Delhi: Penguin Books.
[55] Gupta, Dipankar. 2000. Interrogating Caste, p. 172. New Delhi: Penguin Books.
[56] Gupta, Dipankar. 2000. Interrogating Caste, p. 174. New Delhi: Penguin Books.
[57] Elsner, Wolfram. 2024. "Meso-Level Institutions and Economic Evolution." Journal of Institutional Economics.
[58] Chandler, Tertius, and Gerald Fox. 2020. 3000 Years of Urban Growth. New York: Academic Press.
[59] Granovetter, Mark S. 1973. "The Strength of Weak Ties." American Journal of Sociology 78 (6): 1360–1380.
[60] Putnam, Robert D. 1995. "Bowling Alone: America's Declining Social Capital." Journal of Democracy 6 (1): 65–78.
[61] Narayan, Deepa. 1999. Bonds and Bridges: Social Capital and Poverty. Washington, DC: World Bank.

The evolutionary paths of certain *jati*s provide good examples of the ability of meso-level institutions to stretch (expand and contract) as needed to current exigencies of livelihood options, market sophistication and technological advancement. For instance, landed farming communities in India who were early adopters of cereal/pulse-dehusking technology became, by virtue of that ability, wholesale trading communities. Other examples exist of communities splitting based on horizontal and vertical integration or disintegration of livelihoods, as *jati*s multiplied in response to emergent conditions, stitching the old world order with new possibilities, the entire system offering a great deal of elasticity within its structure. In speaking of the *jajmani* system, which was characterized at the village or community level by socio-economic interdependence between the different *jati*s, Gupta remarks that it is only possible to trace the *jati*s to some primordial hierarchy "if each caste follows its hereditary occupation which has been sanctified in the sacred texts. But surprisingly the sacred texts do not mention a very large number of *jati*s in existence today, and if it was the job of sacred texts to clearly identify *jati*s with occupations then this was done very carelessly."[62]

In light of the above discussion, we contend that despite Bharat's long historical record of multi-dimensional inclusive economic prosperity, especially starting in the 3rd century BCE and continuing till about the 17th century CE (ironically, right around the time that European colonial powers were beginning to assert their extractive, to use an AJR/AR term, authority over countries like Bharat), the scholarship on cultural norms and economic history does not do enough justice to non-Western or non-Anglo-European perspectives. Our paper aims to fill this gap. We have already provided primary inscriptional evidence suggesting that Bharat's prosperity before colonialism and especially in the early CE period, is attributable to a significant degree to Dharmic cultural norms and narratives, but this point is even further bolstered by recent books, already cited above, such as Balasubramanian (2024) and Darlymple (2024). It is not our contention that culture (rather than institutions) is the primary driver of economic performance, contra AJR/AR, but rather that culture is at least as important as institutions, in solidarity with scholars such as Mokyr and Ang. Therefore, we now proceed to lay out a theoretical basis for examining the interplay between culture and institutions.

Section 3: The Co-evolution of Culture and Institutions

In this section, we construct a theoretical argument about the co-evolution of culture and institutions. The argument is partly deductive and partly inductive. The deductive part is a set of claims about how culture and institutions co-evolve, whereas the inductive part provides richer detail on how this co-evolution might occur for two contrasting ideal-type cultural-institutional configurations. Although these ideal-type configurations are laid out in the abstract and the account of how culture and institutions co-evolve in each of them is meant to provide theoretical rather than empirical content, the two ideal-types become useful for considering the concrete case of India's history of institutional development, which represents an admixture of the two forms. That history serves as the ground for formulating a hypothesis that we carry into Section 4 for testing and validation.

Section 3.1: A Theoretical Frame

We begin with some definitions and axiomatic claims. Culture is best described as a symbolic logic of meaning making, and may be best represented by a set of statements that are non-propositional, meaning that the truth quality of the statements requires the experience of the content of the

[62] Gupta, Dipankar. 2000. Interrogating Caste, p. 131. New Delhi: Penguin Books.

statements in order to be appreciated.[63] Culture is learned through imitation or emulation, which means that someone else's experience of the truth quality of non-propositional statements may, under certain conditions, be taken as dispositive. It is also the case that some cultural practices or behaviours are more easily transmitted through imitation than others, a point we will elaborate further in what follows. Because culture is defined as above, especially in the non-propositional sense, it cannot be formally coded into institutions in any complete way, but rather constitutes the backdrop or context within which institutions form and from which they derive their form.[64] In other words, institutions are formal rules or contracts, and as such, they will invariably leave room for interpretation. The proper dynamic functioning of institutions necessitates referring back to the underlying informal understandings afforded by culture but also occasionally necessitates transgressing those informal understandings in the face of novel contingencies. Thus, institutional functioning can remake and reshape culture just as much as culture can inform institutional design. In other words, institutions and culture co-evolve, and this we take as a deduced proposition from the claims we have made so far in this sub-section.

Next, we will theorize the co-evolution between culture and institutions inductively, by laying out two contrasting cases of such a co-evolution involving ideal-type cultural-institutional configurations. The first is the configuration of capitalist culture and capitalist institutions. In secular modernity, money (fiat currency) has replaced the sacred, or perhaps it would be more correct to say that money has been elevated to the status of the sacred, so that money has become the value of values, or the value by which all other values are to be evaluated.[65] And to evaluate value is to make or construct meaning. Thus, we may argue that in modernity, the use or expenditure of money becomes a cultural practice insofar as it points to that which has meaning, and therefore that which deserves our attention, time, care, devotion and love. Money has been able to displace the sacred because of its several advantages such as universality, immediacy, tangibility and utility. These advantages allow money to circulate easily and anonymously in an economy premised on material exchange being the central activity performed by human subjects, and money then becomes the bearer of value, meaning, and culture. The ease with which money flows is the ease with which its meaning-making properties are transmitted. This explains why certain cultural practices like those rooted in monetary exchange are transmitted more easily than other cultural practices like those rooted in the actual sacred. So, power of course also enters the scene because those who have money have the power to dictate culture, and those who have power seek to consolidate and expand it therefore by acquiring money.

Thus, if the arena of monetary exchange is a significant form of cultural arena in contemporary times, then the ordering of society by monetary value gives rise to formal institutions whose primary purpose is to advance the multiplication of money, since that would both multiply monetary exchange and also multiply the opportunity for, or optionality of, meaning making. There can be little doubt that the evaluative perspective that monetary exchange offers

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[63] Geertz, Clifford. 1973. The Interpretation of Cultures. New York: Basic Books. The definition of culture as a symbolic logic of meaning-making derives from Geertz's foundational work. For its application to institutional analysis see: Dzionek-Kozlowska, Joanna, and Rafal Matera. 2016. "Institutions, Culture and Economic Development: An Overview of Competing Paradigms." Annales. Ethics in Economic Life 19 (4): 7-22. For the non-propositional dimension of cultural knowledge see: Vervaeke, John, and Christopher Mastropietro. 2024. Awakening from the Meaning Crisis: Part One.

[64] This particular way of differentiating culture from institutions is quite well accepted – for instance, it is a common feature of all of the work that we have reviewed in Section 2.1.

[65] We shall closely follow the work of philosopher Philip Goodchild in some of this theorizing. He has written extensively about the nature of monetary exchange in his books, most notably in Theology of Money (2007) and in the Credit & Faith trilogy (2019, 2020, 2021): See Goodchild, Philip. 2007. Theology of Money. London: SCM Press. Goodchild, Philip. 2019. Credit and Faith: Volume 1. London: Rowman & Littlefield. Goodchild, Philip. 2020. Credit and Faith: Volume 2. London: Rowman & Littlefield. Goodchild, Philip. 2021. Credit and Faith: Volume 3. London: Rowman & Littlefield.

predominates institutional choice as well as institutional design in contemporary nation states, most notably in the Western advanced industrialized world. Therefore, here, we have an example of the manner in which institutions arise out of a certain kind of cultural context. But equally, those institutions affect culture because their very purpose is to expand the scope of meaning making via monetary exchange, and thereby to extract a surplus from consumption behaviour that can be reinvested in the service of further multiplication.[66]

What the above points to, then, is that transient and fleeting aspects of culture (consumption-centred fads, manias, etc.) can become the driver of institutional design, just as much as that design can feed back into amplifying the transience and fleeting quality of cultural practices. Certainly, this dynamic makes for economic growth, but at what cost? We think that we are not making a novel point when we say that modern capitalist culture and modern capitalist institutions, despite all the technological and economic benefits that they have produced, have together degraded the environment, fragmented communities and societies, and corrupted enlightened forms of governance, which are the very things (environment, communities, governance mechanisms) that funded capitalist economic growth. This is owing to the principles of extraction and repatriation that fundamentally characterize the interaction between consumption culture and capitalist institutions.[67] What we have then, in this form of institutional and cultural exchange, is not much co-evolution but rather, considered from the perspective of the long arc of time, co-devolution, spawning as it has in its wake, a variety of crises, collectively recognized now as "polycrisis." It would appear then that the AJR/AR thesis about certain types of institutions premised on the benefits of capitalist enterprise creating the conditions for prosperity is rendered shaky and untenable, insofar as that very prosperity threatens to unmake the institutions that are argued to have caused it. AJR/AR's thesis, in other words, is hardly dispositive, and the full story awaits its proper articulation.

The second example is the configuration of Dharmic culture and Dharmic institutions. Temple-centred village communities in India are an enduring form of social ordering that has survived centuries, if not millennia, of adaptive churn. Here, the cultural mooring is not in monetary exchange but rather in the relationships that the community cultivates with forms of the sacred. Monetary exchange is also present, but as an epiphenomenon of the culture unlike the case of capitalist culture where monetary exchange is both basis and telos. If culture here is enduring in the form of an unbroken continuity over centuries of religious rituals and practices in homes, then so is the institution of the temple, which has typically experienced many a makeover over the decades, in some cases centuries, while retaining its essential character through time. This essential character is embodied in the form of the sacred that is worshipped in the temple, and the kind of moral/ethical authority that that form exerts over the community.

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[66] One may interject the case of public institutions in capitalist societies, and ask if the same thesis applies to them, as they are primarily supposed to enhance the efficacy of public service delivery which often lies beyond the realm of monetary exchange as defined here. To this, our response would be that public service delivery happens alongside, and arguably even within, a broader context of monetary exchange, which is precisely the reason that the quality of public service delivery is often plagued by deliberately manufactured inefficiencies that become the occasion for public officials to engage in rent-seeking activities, for example via the acceptance of bribes. The optionality of meaning making that money affords is once again, therefore, the motivating factor for how public service delivery actually works as opposed to how it is meant to work. There is a heterodox intellectual tradition, called "public choice theory", within economics that advances varieties of this argument – luminaries include Economics Nobel Prize Winner James Buchanan.

[67] Scholars like Nancy Fraser (2021) have argued this point, namely capitalism's tendency to scavenge on its own bases, forcefully and persuasively See Fraser, Nancy. 2021. Cannibal Capitalism: How Our System Is Devouring Democracy, Care, and the Planet—and What We Can Do about It. London: Verso.

To understand the nature of that authority, it is important to first understand how norms are transmitted and internalized in Dharmic culture. Our aforementioned definitions described cultural values as non-propositional truth statements whose truth quality is best appreciated and validated via experience. The call to experience travels along mimetic, imitative, emulative pathways. In capitalist culture, this call is expressed via advertising, which uses celebrity endorsements to invite human subjects into various domains of consumptive experience. In Dharmic culture, the call is for holistic material flourishing with the spiritual experience at its core, and it is expressed via the spiritual mentor's or the *Guru*'s transmission of various forms of spiritual knowledge to the *shishya*, which have consequential implications for the *shishya*'s material life also. The temple is the formal institution that encodes this knowledge, having itself been established always by a *Guru* and stewarded thereafter by a lineage of spiritual adepts. Another way to say this is that the temple is a sacred form that expresses the *Guru*'s own spiritual experience and becomes the stand-in for spiritual transmission to not just the *Guru*'s immediate disciples or *shishya*s but to all who walk through its corridors. As such, the *Guru-shishya* relationship is the canonical site for norm transmission and norm internalization in Dharmic culture. And it is from there that these norms percolate into households and families and become transmitted generationally down the ancestral bloodline via imitation of grandparents by grandchildren and of parents by their children.

Within this chain of transmission, there is room for novelty, as newer forms of spiritual experience give rise to newer representations of those forms, and new norms, rituals, understandings of the human subject's relation to the sacred take root. The quality of this mode of innovation is fractal or rhizomic,[68] so that there are new varieties of encoding, but these varieties retain some essential characteristic of the fundamental constructs of Dharmic culture. These fundamental constructs can be expressed in a multitude of ways, but perhaps the one that is most useful for us, is the paradox of the divine or the sacred appearing as simultaneously transcendent and immanent in relation to the material phenomenological world. This is in contrast to the various brands of Abrahamic monotheism practised in different parts of the world, and especially in the Western advanced industrialized world, in most of which the divine is transcendent to a significant degree, if not absolutely so. One concrete manifestation of this idea of transcendence is the insistence on a separation of the religious and secular spheres, or of the church and the state in the American Constitution. In Dharmic culture, however, spiritual experience and therefore cultural norms do not require a turning away from the material or the phenomenological, but demand rather an active engagement with it, with human striving attempting to model itself after the paradox of a God who is both detached and involved. Again, it is the *Guru* who is the living embodiment of this paradox, and it is through the *Guru* that the *shishya* is also called to experience this paradox. If there is any essential character to Dharmic tradition, then it lies in its attempting to encode this paradox in forms of material and spiritual living.

The foregoing description points to both continuity of the Dharmic tradition, whether that tradition is encoded into informal culture or formal institutions, and also ever newer expressions of the tradition. This, in essence, is how Dharmic culture and Dharmic institutions co-evolve. Unlike capitalist culture and capitalist institutions, the co-evolution does not threaten to undo its own bases but rather is characterized through and through by a commitment to sustenance through the cycles of time. Indeed, this commitment is reflected in the very name of the tradition, which is Sanatana Dharma, i.e. eternal Dharma. If there is any notion of economy in this tradition, it is fundamentally a circular, rather than an extractive, one. Money in the temple-centred village

[68] The notion of a rhizomic emergence will be familiar to scholars of the French philosopher Gilles Deleuze, and was first articulated in various of his writings, notably in his books co-authored with French psychiatrist Felix Guattari. See Deleuze, Gilles, and Felix Guattari. 1972. Anti-Oedipus: Capitalism and Schizophrenia. Paris: Minuit. Deleuze, Gilles, and Felix Guattari. 1980. A Thousand Plateaus: Capitalism and Schizophrenia. Paris: Minuit.

community does not seek to multiply itself endlessly, but rather seeks to remain in flow within the community at a cadence that mirrors the cadence of temple activities.

The temporal signature in capitalist culture and capitalist institutions is one of forward motion, of economic progress, of wealth expansion. In this conception, time is linear, Newtonian, moving inexorably from the past to the present and into the future, and yet, also conceptually reversible, as in the standard model of economics that informs much of capitalist culture. On the other hand, in Dharmic culture and Dharmic institutions, time's signature is cyclo-linear, like that of a wheel circling about an axis and also moving forward at the same time. The two different conceptions of time make for very different subjectivities and engender very different modes of economic activity. Whereas the cyclo-linearity of time in Dharmic culture allows for ideas of progress to be intrinsically compatible with notions of sustainability, the linearity of time in capitalist culture affords room only for a paradoxical co-incidence of material forms of progress and various forms of entropy – normative, ecological, communitarian, governmental, etc. The earlier discussion of the evolution of *jati*s is relevant here - the fluid inter-dependencies that come to be configured and constellated in different forms of social capital that itself shift and transform with time, are the constitutive feature of Dharmic culture and Dharmic institutions that makes for their longevity and sustainability.

One concrete example that brings out the difference between the above two types of co-evolution is the framing of the World Values Survey (WVS)[69], which categorizes countries along two axes: one axis spans the spectrum from traditional values to secular rational values, and the other axis spans the spectrum from survival values to emancipatory self-expression values. Here, the notion of a capitalist culture is baked into the very definition of emancipatory self-expression values, since only a limited kind of freedom is being imagined, viz. the freedom to consume as one desires, and so to self-express in the arena of monetary exchange. Since it is also the case that countries scoring high on this front are also richer, prosperous countries, the implication is that there is something to be learned and gained by poorer countries from studying the institutions of the richer, prosperous countries, and applying the lessons from such study to institutional design in their own countries. This is the characteristic Eurocentric assumption that most Western scholars of institutions make, whether they are of the AJR/AR persuasion or whether they take inspiration from Mokyr. The broader point for us is that downstream from this assumption, values are seen to affect institutions (and this is even implicitly true of AJR/AR's work, as we have already pointed out), just as much as institutional design is imagined to propagate and shape values. India is categorized by the WVS as a country lying closer to the survival values end of that spectrum than Western advanced countries. Yet, Dharmic culture prizes emancipation as a legitimate and even the highest striving, just not the kind of emancipation that consumption culture aspires for. It is freedom from desire rather than freedom of desire, that Dharmic culture propagates – and even such a characterization falls short of fully expressing the paradox referred to earlier – and so Dharmic institutions make for a very different encoding than is admissible in the WVS framework.[70] The co-evolution of secular rational institutions and an emancipative cultural logic that is narrowly framed, is likely to be destructive to both in the long run, as we have argued above. In the short to medium run, innovation and creativity can be expected but its incidence is mostly restricted to the material domain which is the primary site of self-expression. Since the material domain extends spatially, capitalist culture and capitalist institutions can expect to enjoy a certain longevity as long as spatial-material constraints are not binding. This can span centuries, but

[69] World Values Survey Association. 2022. World Values Survey Wave 7 (2017-2022). Madrid: JD Systems Institute & WVSA Secretariat. https://www.worldvaluessurvey.org/wvs.jsp

[70] Ours is not the only or first criticism of the WVS framework that takes issue with the definitions of the two dimensions. See, for example, the discussion here: https://statmodeling.stat.columbia.edu/2024/03/19/i-was-left-with-an-overwhelming-feeling-that-the-world-values-survey-is-simply-a-vehicle-for-telling-stories-about-values/

thereafter, polycrisis beckons. On the other hand, the co-evolution of Dharmic institutions and a Dharmic emancipative logic is likely to be generative in the long run, as the circular tendency is to give birth to ever newer forms of novelty as so many varied manifestations of the human subject's relationship to the sacred. In the short to medium run, various forms of predatory challenges to the culture can be expected from the outside, such as from proselytizing forms of religion, because of the culture's open and inclusive fundamental nature, but these challenges are met with resources also available in the culture, not least among them the courage and resilience that belief in an eternal return of sacred forms confers upon the culture's adherents. Here spatial constraints are not experienced in the same way as they are in capitalist culture, since the material domain is regarded as a particular manifestation of the divine's infinite form and is approached therefore with a mindset of reverence and respect. .

Section 3.2: A Hypothesis

It was necessary to explore the two contrasting examples at some level of depth because the argument we wish to make is that in India today, there is increasingly becoming evident a disjunction between Anglo-European capitalist institutions and Dharmic culture. By this, we mean that whereas the formal institutions of governance in India are designed after technocratic templates that emerged in a democratic-capitalistic West, everyday life in India for majority of her citizens, and especially her rural citizens, is still structured by Dharmic culture. The temple-centred village community is still a staple of Indian rural life. The disjunction, however, is not new. It has existed ever since India's independence from British rule, but it is beginning to become more salient in contemporary times for two connected reasons. First, there is a rising tide of Dharmic thought in the public sphere, that is seeking to revivify India's rich history of intellectual accomplishments over the last 3000 years and more, spanning practically every field of human knowledge as was described earlier. But second, there is also a crisis of conceptual thinking in statecraft and public policy around the world, as the advent of polycrisis exposes the unfortunate consequences of at least 100 years of a predominantly capitalist mode of economic development around the world, especially in its most economically consequential countries, which are the advanced, industrialized, democratic, secular-rational Western ones.

The uprising of Dharmic thought in contemporary India is then attempting to meet the imperative for new thinking as the nation seeks to navigate her own path through these interlocking crises, even as it emerges as a very significant economic actor on the world stage for the first time in nearly 500 years. Given our contrasting of the two types of co-evolution, it should be evident that Dharmic culture can indeed offer viable solutions for the polycrisis, but there is also the need to recognize that a not-insignificant residue of Dharmic culture already permeates formal institutions of governance in India. This should not be surprising, if one buys the claim that institutions and culture co-evolve. It is inevitable that the unbroken continuity of Dharmic practices and Dharmic beliefs in Indian homes should allow Dharmic values to percolate up into its institutions via the people who populated them, even if the top-down design may have been inspired by secular-rational modes of thought. But our submission is (a) that this has happened more extensively and more successfully in some cases of institutional formation than others, especially in recent times as the public policy sphere has become more pervaded by Dharmic thinking, and (b) that it is those instances also that institutional functioning has succeeded in achieving its goals only because of the alignment with the underlying long-lived cultural substratum. This idea, that a country's cultural ethos may remain an unchanging constant for centuries, but recede from, or emerge back into, the consciousness of its policymakers who then harness it consciously towards policy ends, is not a novel one. Mokyr et al. (2025)[71] employ this very style of argument to explain China's astonishing

[71] Mokyr, Joel, et al. 2025. "Confucian Roots of Chinese Economic Rise." Working Paper.

rise as a global economic superpower in the 21st century after centuries in virtual economic obscurity.

Our hypothesis, then, is that when institutions or formal rules are aligned with cultural understandings, then they succeed in the brief or mandate that is set out for them. The reader may note that in framing the hypothesis in this manner, and as is evident from the discussion in the previous paragraph, we are going beyond just stating a hypothesis about the co-evolution of culture and institutions. We are, in point of fact, claiming that sometimes culture should be given priority over institutions, which is also equivalent to saying that sometimes institutions should be conceived as lying downstream of culture. We believe that the case for such a normative claim is especially strong when the culture has a long, virtually unbroken, continuity of existence, even as institutions have risen and fallen. This is indeed the case for Dharmic culture, as India is the only large country in the world today with a civilizational continuity that spans at least three thousand years, if not more. Thus, the more general form of our hypothesis is that if there are aspects of culture that are enduring through longue durée history, such as aspects that are rooted in a spiritual core, as is the case with Dharmic culture, then those aspects should be allowed to shape institutions rather than institutions shaping culture, and this needs no further justification than the greater longevity of the enduring cultural traits relative to the longevity of social, political and economic institutions that come and go.

In the next Section, we offer several examples drawn from India and other contexts as validations of the above hypothesis.

Section 4: Culture Matters for Designing Effective Institutions

Since culture matters (by definition) for how people sense-make in their lives, it becomes an especially important consideration for the policymaker when a country targets economic development and needs to design institutions that will be appropriate for facilitating that development. This is partly the hypothesis that we ended the previous section with, but we went further. We claimed that in the specific case of India, Dharmic culture, by virtue of its having survived millennia of adaptive churn and therefore being already a deeply enduring feature of the everyday lives of majority of Indians,[72] is especially well-suited for guiding the design of institutions that would advance India in the arena of economic development. In other words, Dharmic culture would make for efficacious development-targeting institutions. There are several examples to bear out such a hypothesis and we highlight some of these below.

The *Swaach Bharat Abhiyan* (SBA) mission was conceptualized in India in 2016 and was spearheaded by the Hon'ble Prime Minister (PM) of India Shri Narendra Modi with an aim of having a clean India, as measured by a variety of indicators including ones pertaining to sanitation, drainage management etc. It became a national movement which has been hailed by multilateral institutions such as the UN as "transformative"[73] with 500 million people gaining access to safe toilets at home, 100 million individual toilets built in rural areas, and hundreds of thousands of villages declared Open Defecation Free. Not only was toilet access significantly increased, but also public health improved, women and children were empowered, and societal norms around sanitation shifted markedly. What enabled this significant improvement, if it had not been possible for almost 70 years prior (beginning with India's Independence from the British Empire in 1947)? We would

[72] Krishnakumar, Jaya and Balasubramanian, Sriram, Dharma-based Economic Systems and Sustainable Human Development (February 02, 2025). Available at SSRN: https://ssrn.com/abstract=5130247 or http://dx.doi.org/10.2139/ssrn.5130247

[73] De Wagt, A. (2024, November 8). *A decade of India's transformative Sanitation Mission*. UNICEF India. https://www.unicef.org/india/stories/decade-indias-transformative-sanitation-mission

argue that a critical factor was a collective effort undertaken by the PM and his team to awaken the Dharmic consciousness of "*saucham*" (cleanliness) among Indian citizens. *Saucham* is a very integral component of Hindu, Jain and Buddhist traditions, which are all Dharmic traditions, with *Patañjali's Yoga Sūtras* stating that "*śauca* leads to discipline, clarity, and self-respect."[74] The ideal of *saucham* was embedded in the stated mission of building toilets, called *sauchalaya*s, inside households and in public spaces. Both types of toilets were necessary since Indians already adhered to the practice of cleanliness within their own houses, and so if a toilet was not available at home, an open public space would be used instead. The success of SBA relied on an inducement to extend this already existing normative commitment to cleanliness within homes to shared neighborhood spaces and the broader public domain. This inducement was offered by the PM himself, in speeches and other communications, through the framing of public cleanliness as a Dharmic *kartavya* (duty), thereby reframing sanitation from being merely understood as a matter of personal habit within private spaces, to a matter of collective moral responsibility towards public cleanliness, grounded in cultural and civilizational values, and advancing as well other conjoined goals such as the dignity and safety of *mahila* (women) and the necessity of protecting sacred geographic spaces. The messaging by the PM was accompanied by aligning the country's public policy apparatus with the goal of cleanliness so that entire neighborhoods came to embrace the ideal, turning the SBA into a mass movement.[75] At the implementation level, the focus on social monitoring, praise, and moral pressure relied on traditional forms of enforcement such as occur in village *sabha*s (assembly/council), which have been integral to rural development[76], in place of modern forms requiring centralized institutions. In other words, there was a concerted effort to incorporate at the local level a particular Dharmic cultural norm into public policy institutional design and delivery of outcomes. The result was transformative developmental indicators and an almost reflexive compliance, adherence and ownership of the SBA movement all over India, and especially in the rural areas.

Other examples of institutional design inspired by cultural understandings may also be cited.[77] One such is the Capacity Building Commission (CBC), housed in the Prime Minister's Office. The CBC has emerged as one of the more successful human resource capacity building institutions[78] in recent times. It facilitates a competency-driven and continuous learning approach to train civil servants with a citizen-centric approach. The institution's flagship scheme was named "Mission *Karmayogi*" to invoke the cultural norm of self-less action, as enshrined in one of the foundational and most popular texts of the Hindu spiritual canon, namely the Bhagavad Gita[79]. Naveen (2025)[80] suggests that Mission *Karmayogi* "emphasizes ethical conduct, behavior, and responsibility of civil servants – values traditionally associated with Indian cultural norms of service and duty." This is exemplified by Annual Capacity Building Plans, which use Dharma-based ethical principles and

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[74] Patañjali. Yoga Sūtras, Verses 2.40–2.41.

[75] https://www.wionews.com/india-news/pm-modi-highlights-india-s-cleanliness-drive-in-mann-ki-baat-says-people-turned-swachh-bharat-into-mass-movement-1753607868931

[76] Dash, D. (2025). *From representation to participation: Odisha's governance transformation through Palli Sabha and Gram Sabha. International Journal of Science and Research (IJSR).* https://www.ijsr.net/archive/v14i10/SR251003190132.pdf

[77] Balasubramanian, S. (2025, November 12). *Institutional excellence: Why customising for Bharat matters.* News18. https://www.news18.com/opinion/opinion-institutional-excellence-why-customising-for-bharat-matters-ws-kl-9610236.html

[78] Dr. H M Naveen, "Mission Karmayogi : A National Capacity Building Paradigm for Civil Services", *Int. J. Sci. Res. Mech. Mater. Eng*, vol. 9, no. 1, pp. 27–34, Jan. 2025, Accessed: Feb. 20, 2026. [Online]. Available: https://ijsrmme.com/index.php/home/article/view/IJSRMME25915

[79] Bhagavad Gita. (2012). *The Bhagavad Gita* (E. Easwaran, Trans.). Nilgiri Press. (Original work composed ca. 400 BCE–200 CE)

[80] Naveen, H. M. (2025). *Mission Karmayogi: A National Capacity Building Paradigm for Civil Services. International Journal of Scientific Research in Mechanical and Materials Engineering*, 9(1), 27–34.

the concept of *seva* (service) based on *nishkama karma* (selfless action)[81]. Over 3.1 million central government employees are being trained[82] by this scheme with this number expected to increase to 5 million soon, and an estimated 15 million civil servants from state government and local bodies are also expected to join the training program. Furthermore, the iGOT *Karmayogi* digital learning platform currently hosts over 1,500 courses and is projected to expand to approximately 5,000 courses spanning technical, behavioral, and leadership competencies. More than 1,000,000 government officials have reportedly undergone training under the Rashtriya *Karmayogi* Programme. The scale and rapid uptake of the CBC's initiatives demonstrate how culturally resonant policy design can enhance administrative participation and institutional responsiveness. By aligning civil service reform with culturally embedded norms and ethical frameworks, policymakers appear to have generated stronger engagement and accelerated diffusion across the bureaucracy, suggesting that public policy rooted in familiar civilizational values may facilitate quicker institutional adoption. That the CBC has been a successful institution is attested to by scholars such as Jagota (2021)[83] and Kandasami et al (2022)[84], while Shirisath (2024)[85] claims that the CBC represents a structural shift in India's public administration and sets the path for a more effective civil service. Such a shift was needed, as will be clear to the reader when we discuss counterfactuals later in this section.

A third example, again from the domain of economic policy, is the Insolvency and Bankruptcy Code (IBC) which came into effect in 2016. There is a broad consensus that despite its limitations, the IBC has changed debtor–creditor behavior, improved recovery expectations, and introduced seriousness into credit markets (RBI, 2021[86]; World Bank, 2020[87]). The IBC's principles of debt resolution draw inspiration from Kautilya's "Arthashastra",[88] specifically the latter's injunctions about "*Saama–Daana–Bheda–Danda"* which represent four graded approaches for resolving any kind of dispute or conflict. In the case of the IBC, the dispute to be resolved is between the debtor/s and the creditor/s. At first, there is the injunction for both parties to voluntarily enter into a process of initial conciliation/persuasion (*Saama*). If that does not work, then cooperative resolution is attempted through incentives/concessions/loan haircuts (*Daana*). If either of those do not work, then establishing a credible threat using strategic foresight (*Bheda)* is recommended to force a resolution. Finally, if all else fails, the law is to be invoked and punitive action undertaken (*Danda)*. In some respects, this enshrinement of Kautilya's principles in the IBC is but a formalization of processes and means by which India's largest business conglomerates, which are all family-driven (whether listed or otherwise), have always resolved disputes, and they were able to do so because those businesses have possessed all along the tacit cultural knowledge about the four different forms of dispute resolution.[89] Even in non-family driven businesses, the ethos of

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[81] Panda, P. K. (2021). *Perspective Evaluation of Mission Karmayogi Scheme in India. Journal of Economics and Economic Education Research*, 22(6), 1–11.

[82] The Economic Times. (2024). *Nearly 31 lakh central govt employees undergoing training under Mission Karmayogi: Jitendra Singh*. https://economictimes.indiatimes.com/news/india/nearly-31-lakh-central-govt-employees-undergoing-training-under-mission-karmayogi-jitendra-singh/articleshow/112113880.cms

[83] Jagota, R. K. (2021). *Perspective evaluation of Mission Karmayogi scheme in India*. Journal of Economics and Economic Education Research, 22(6), 1–11.

[84] Patel, A., & Kandasamy, S. (2022). *Capacity building: An appraisal of Mission Karmayogi*. NeuroQuantology, 20(8), 10293–10300. https://doi.org/10.48047/nq.2022.20.8.NQ221050

[85] Shirsath, S. T. (2024). *Capacity Building Through Mission Karmayogi: A New Paradigm for Indian Administration*. International Journal of Novel Research and Development, 9(2), d736–d748. https://ijnrd.org/papers/IJNRD2402376.pdf

[86] Reserve Bank of India. 2021. Report on Trend and Progress of Banking in India 2020–21. Mumbai: RBI.

[87] World Bank. 2020. Doing Business 2020: Comparing Business Regulation in 190 Economies. Washington, DC: World Bank.

[88] Kautilya. (1915/2012). *Kautilya's Arthashastra* (R. Shamasastry, Trans.). Mysore Printing and Publishing House. (Original work published ca. 3rd century BCE)

[89] Gupta, Vishal K. & Levenburg, Nancy M. (2010). Family business governance in India. *Family Business Review*.

business choices and dispute resolution are deeply embedded in cultural norms that have existed for generations.[90] The assimilation of these norms to an institution such as the IBC is one of the reasons for its agility and effectiveness in a relatively short period of time.

Our final case from India is the Finance Commission of India (FCI), established in 1950 under Article 280 of the Indian Constitution. The FCI is a constitutional body that aims to represent and also assimilate the diverse polity of India, by conceiving Center-state relations to not only achieve national unity and development but also serve the ideals of federalism and diversity. The Commission conducts comprehensive outreach with all the states of India in a style of continuous engagement with the concerns of grassroot businesses in those states. Furthermore, the federalist ideal is served by consistently engaging with and adapting to the local cultural norms and narratives in each state. Several recent papers describe how the FCI functions and why such functioning redounds to the benefit of both the Center and the states. Rao (2000)[91] outlines how fiscal decentralization, including the constitutional role of the FCI, structures revenue-sharing and inter-governmental transfers to states. Govindharaj (2024)[92] examines how the FCI shapes inter-governmental fiscal relations for the better, and Yoganandam (2025)[93] shows how fiscal transfers, as prescribed by the FCI, plays an important role in state fiscal capacity. The FCI also serves as a model for incorporating political economy considerations, especially those arising from the very wide heterogeneity of cultural norms and cultural perspectives across Indian states, into financial and public policies. [94] Former RBI Governor Raghuram Rajan has on several occasions highlighted the importance of deftly navigating such political economy considerations for the success of institutions. Rajan (2020)[95] contends that while institutions are important, they are shaped, and their functioning sustained and mediated, by political economy considerations, and this means that such considerations are at least as critical for development outcomes as the institutions themselves, contra AJR/AR. Therefore, the FCI's sustained ability, over nearly seven decades, to maintain high technical expertise[96] while remaining sensitive to political economy realities, including India's cultural diversity, social norms, and federal pluralism, regardless of the ruling political dispensation, makes it a justifiably successful institutional model..

It should be noted that the FCI case is of a different nature from the other three, in that here, it is not a specific cultural norm or trope that is influencing the effective functioning of the institution. Rather, the FCI is relevant for our argument because its longevity and record of success are testament to our claim that for a national-level institution in a culturally diverse country like India to do what it is supposed to do, it needs to account for cultural perspectives. If the FCI had been culture-blind, the institutional form would have been dissolved long ago.

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[90] Thakadipuram, T. (2017). Ethical Business Cultures in the Emerging Market of India. In D. Jondle & A. Ardichvili (Eds.), *Ethical Business Cultures in Emerging Markets* (pp. 28–54). chapter, Cambridge: Cambridge University Press.

[91] Rao, M. Govinda. (2000, November 9). *Fiscal decentralization in Indian federalism* (IMF Seminar on Fiscal Decentralization). International Monetary Fund. https://www.imf.org/external/pubs/ft/seminar/2000/fiscal/rao.pdf

[92] Govindharaj, Y. (2024). *Deciphering India's Fiscal Federalism: A Comprehensive Analysis of the Union Finance Commission and State Finance Commissions*

[93] Yoganandham, G. (2025). *An empirical review of fiscal federalism in India: Assessing the economic impact of federal transfers, state tax efforts, and non-tax revenues*. Journal for Basic Sciences, 25(7), 378–___.

[94] Rao, M. G., & Singh, N. (2007). *The political economy of India's fiscal federal system and its reform. Publius: The Journal of Federalism, 37*(1), 26–44.

[95] Rajan, R. G. (2020). *Excerpt from interview with Tyler Cowen on political economy.* In **Conversations with Tyler**(Medium). Retrieved from https://medium.com/conversations-with-tyler/tyler-cowen-raghuram-rajan-community-india-b3737caaa382

[96] Reddy, Y V, G R Reddy, and Pinaki Chakraborty, 'Finance Commissions: Their Composition and Functions', *Indian Fiscal Federalism*, Second Edition (Oxford, 2026; online edn, Oxford Academic, 1 Dec. 2025), https://doi.org/10.1093/9780198971658.003.0004, accessed 21 Feb. 2026.

There is also mounting evidence from outside India that designing institutions after cultural norms makes for a considerable degree of success in economic and development policy. Moscona et al (2026)[97] highlight many cases – one such is the example of community-driven development in Indonesia, particularly through programs that worked through locally legitimate village decision-making forums. By embedding resource allocation within existing norms of deliberation and communal consensus, these initiatives aligned formal participatory institutions with culturally embedded practices of mutual obligation and village authority, which enhanced compliance, monitoring, and equitable distribution. The work of others may be cited to consider China and Japan as instructive examples of cultural norms affecting institutional design and efficacy. In the case of China, Arestis et al (2021)[98] argue that "sociocultural traits" embedded within political economy and institutional structures act as key enablers of China's economic model and it's institutional success in some cases. Hou et al (2022)[99] mention that Confucian thoughts influence not only the economic choices of ordinary Chinese citizens and also their informal financial practices, but also formal and mainstream institutions such as the People's Bank of China (PBOC). Indeed, the PBOC has publicly acknowledged the importance of culture in its economic and policy decisions and the need to incorporate it into those decisions.[100] In the case of Japan, Katayama, S. (2000)[101] suggests that it's regulatory and policy institutions tend toward cooperative deliberation and compromise, reflecting broader cultural expectations. Satoshi (2024)[102] has argued for the importance of cultural norms related to collective decision-making in Japanese institutions, including in the private sector. On its website, the Bank of Japan (BOJ) reports integrating into its functioning and structures aspects of core Japanese cultural ethos such as the ideas of Consensus (with regard to decision making), Gradualism (or aversion to abrupt change), and Credibility (or high institutional trust once legitimacy is established).[103] The BOJ's leaders have themselves attested in the institution's annual reports and in their own speeches, to the importance of Japanese culture in shaping the institution's organizational culture and its effective functioning.[104]

In the context of micro-level RCT[105]-like development policy interventions, Thomas et al (2026)[106] demonstrate that poverty-reduction interventions are more effective when they are culturally sensitive = that is, aligned with the predominant cultural model of agency in the target population

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[97] Moscona, J., Nunn, N., & Robinson, J. A. (2026). *Searching for Fish in Trees (緣木求魚)? Economic Development when Context Matters* (NBER Working Paper No. 34810). National Bureau of Economic Research. https://doi.org/10.3386/w34810

[98] Arestis P, Karagiannis N, Lee S. The economic growth of China: enabling politico-institutional and socio-cultural factors. Rev Evol Polit Econ. 2021;2(2):339-358. doi: 10.1007/s43253-021-00046-3. Epub 2021 Aug 28. PMID: 38624886; PMCID: PMC8397864.

[99] Hou, X., Yang, R., & Liu, C. (2022). *Confucian culture and informal household financing: Evidence from China's counties. Borsa İstanbul Review, 22*(5), 1005–1019. https://doi.org/10.1016/j.bir.2022.07.007 ScienceDirect

[100] People's Bank of China, et al. (2010, April 8). *Q&A with officials on the "Guiding Opinions on Financial Support for the Revitalization and Prosperity of Cultural Industries"* (translated). People's Bank of China. https://www.pbc.gov.cn/goutongjiaoliu/113456/113469/2025092212540673893/index.html?utm_source=chatgpt.com

[101] Katayama, S. (2000). *Japanese political culture and government regulation. European Journal of Political Economy*, 16(2), 273–286.

[102] Kawaguchi, Satoshi. (2024). The Effect of Cultural Norms on Group Decision-Making in Japanese Corporations. Frontiers in Management Science. 3. 70-75. 10.56397/FMS.2024.10.07.

[103] https://www.boj.or.jp/en/mopo/outline/index.htm

[104] Shirakawa, M. (2010, May 26). *Opening Speech at 2010 International Conference (Future of Central Banks and Central Banking).* Bank of Japan. https://www2.boj.or.jp/archive/en/announcements/press/koen_2010/ko1005a.htm

[105] Randomized Control Trials

[106] Yeager, D. S., Kay, A. C., Colodro, A., Gross, J. J., & Vicario, M. (2026). *How culturally wise psychological interventions can help reduce poverty. Proceedings of the National Academy of Sciences*, 123(5), e2505694122. https://doi.org/10.1073/pnas.2505694122

(in their case, poor women) – because cultural norms shape how people perceive and engage with institutional opportunities. In rural Niger, for example, local women's mental models of economic success emphasize interdependence, including social harmony, respect, and collective benefit, rather than the individualistic self-initiative emphasized in many Western-derived interventions. Similarly, Kusimba (2018)[107] shows that the effectiveness of digital financial institutions in Kenya depends not simply on technological access but on their alignment with gendered cultural norms governing obligation, reciprocity, and sociality. Mobile money platforms such as M-Pesa operate within longstanding practices of kin-based support and relational exchange, where women are culturally positioned as managers of social networks and caretaking ties. This normative framing – captured in the idea that "it is easy for women to ask" – facilitates women's strategic use of digital credit and transfers, embedding formal financial tools within moral economies of mutual aid.

There are also counterfactuals that bear out our general hypothesis. These are examples in which institutions in certain countries and at certain times have not succeeded because of their lack of assimilation of cultural norms, and the opportunity cost in terms of public money and investment has been quite high. Moscona et al. (2026) highlight instances in Sub-Saharan Africa where formal state institutions, such as centralized bureaucratic or anti-corruption reforms, were transplanted from the West without adequately accounting for entrenched ethnic patronage networks. In these cases, public office remained embedded in norms of kin-based redistribution, undermining rule-based enforcement and weakening policy effectiveness. Similarly, a good part of India's poor economic performance in the decades following its independence from British rule in 1947, has been attributed to a civil service that was steeped in a colonial construct, inherited from the British Indian Civil Service (ICS),[108] and designed to be subservient rather than proactive and dynamic in nature. Datta-Chaudhuri (1990)[109], comparing India to South Korea, two countries that looked very similar in macroeconomic terms in 1950 and both embarking on Five Year Plans at the time, describes how India's inheritance of a highly trained bureaucracy from the colonial era should have given her an advantage over South Korea, which had no bureaucracy to speak of – and yet, South Korea significantly outperformed India because India's bureaucracy was easily captured by political forces. In a similar vein, Bhatnagar (2003)[110] argues that colonial-era hierarchical procedures, their aversion to discretion and risk slowed adoption of technology especially in the early 2000s.

Section 5: Conclusion

This paper has argued that the relationship between culture and institutions is not one of simple unidirectional causation in either direction, but one of dynamic co-evolution – and that under specific, historically important conditions, culture is properly understood as lying upstream of institutions rather than downstream. Those conditions obtain when a culture has demonstrated the capacity for longue durée survival, adapting across centuries of political upheaval and hostile foreign incursions while retaining its essential normative core. Dharmic culture, rooted in Sanatana Dharma and expressed across the Indian subcontinent for at least three thousand years, exemplifies precisely such a culture.

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[107] Kusimba, S. (2018). "It is easy for women to ask!": Gender and digital finance in Kenya. *Economic Anthropology*, 5, 247–260. https://doi.org/10.1002/sea2.12121

[108] Sheni, K. (2025, August). *Institutional bureaucracy and policy lag in India: A Weberian perspective* [Unpublished manuscript]. ResearchGate. https://www.researchgate.net/publication/394293800_Institutional_Bureaucracy_and_Policy_Lag_in_India_A_Weberian_Perspective

[109] Datta-Chaudhuri, Mrinal. 1990. "Market Failure and Government Failure." Journal of Economic Perspectives 4 (3): 25–39.

[110] Bhatnagar, S. (2003). *E-government and access to information.* In T. Hodess, T. Inowlocki, & T. Wolfe (Eds.), *Global Corruption Report 2003: Access to information* (pp. 24–32). Transparency International / Profile Books Ltd.

In this paper, we have reviewed the dominant Western literature on culture, institutions, and economic development and found it to be systematically incomplete. While scholars such as Acemoglu, Johnson, and Robinson have made important contributions to understanding the role of formal institutions in economic growth, their framework privileges a particular Anglo-European model of inclusive institutions and fails to account for the economic and civilizational achievements of Bharat – achievements that long predate the emergence of Western liberal democracy and that were demonstrably shaped by Dharmic cultural norms. Scholars who allow more room for culture, including Mokyr, McCloskey, Guiso et al., and Ang, provide a richer picture, but even their accounts remain largely anchored in the Western historical experience, with Ang being a notable exception.

The theoretical framework developed here distinguishes between two ideal-type configurations of culture–institution co-evolution. In the Western capitalist configuration, meaning-making is organized around monetary exchange, institutions amplify this logic, and the dynamic, while productive in the short and medium term, tends over the long arc of history toward ecological degradation, social fragmentation, and what is now widely recognized as "polycrisis." In the Dharma-inspired configuration, meaning-making is organized around the relationship between human subjects and the sacred, institutions encode and transmit this relationship across generations, and the dynamic is characterized by circular rather than extractive flows of value, yielding what the tradition itself calls sustainable human flourishing. The temporal signature of the former is linear and entropic, that of the latter is cyclo-linear and regenerative.

The empirical evidence presented in Section 4 bears out the core hypothesis at multiple levels. India's Swachh Bharat Abhiyan succeeded where decades of prior sanitation efforts had failed because it mobilized the Dharmic norm of *saucham* and recast public cleanliness as a matter of collective moral and civilizational duty. Mission *Karmayogi* has achieved rapid and large-scale uptake because it aligns civil service reform with the deeply embedded cultural ideal of *nishkama karma*, or selfless action in service of others. The Insolvency and Bankruptcy Code has achieved unusual agility in credit markets because its graduated framework of dispute resolution mirrors principles articulated in Kautilya's *Arthashastra* that are already tacitly operative in India's business culture. The Finance Commission of India has maintained its legitimacy and effectiveness over seven decades precisely because it is not culture-blind: it incorporates the political economy of India's extraordinary cultural diversity into its deliberative processes. Comparative evidence from China, Japan, Indonesia, and Africa reinforces the point that the four cases from India make, while counterfactuals from India's colonial civil service inheritance and from institutional transplants in Sub-Saharan Africa illustrate the costs of institutional design that is indifferent or hostile to cultural context.

Three broader implications follow from the argument of this paper. First, for economics and the social sciences more generally, the paper advocates for a more genuinely pluralist and historically informed scholarship on the sources of economic development – one that takes non-Western civilizational traditions seriously on their own terms, rather than as deviations from a Euro-centric norm. Second, for development policy and institutional design globally, the paper argues that cultural attunement is not a soft or optional consideration but a structural prerequisite for institutional effectiveness, particularly in societies with deep and enduring cultural substrata. Third, and most specifically, for India at this moment in its re-emergence as a major global economic actor, the paper makes the case that Dharmic culture, far from being an obstacle to modernity, as it has sometimes been portrayed, contains within it the resources for a mode of institutional design that could model a path through the polycrisis confronting the world's advanced economies. India's policymakers would do well to draw on that inheritance consciously, systematically, and with the confidence that comes from understanding just how deep and how generative it is.

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