Affects of Group vs. Individual Behavior

Arnab Banerji

Arnab Banerji is chief investment officer for Foreign & Colonial Emerging Markets, Ltd. in London, U.K. He is responsible for investment management activities, policy decision making, and asset allocation throughout developed and emerging markets. His prior position was chief of staff at Citibank Global Asset Management. He was born in India and raised in the UK.

In examining the behaviors that affect economic growth and emerging markets, Arnab Banerji drew a comparison between the cultures of the Third World and the West.

"It has been argued that societies in much of the Third World place a greater emphasis on cooperation - group behavior - than on individual competitor behavior," said Banerji, adding that each culture has evolved to cope with the circumstances of the time. See box below.

In the West, emphasis is placed on individual behavior, which is the springboard for innovation. However, for a society to succeed, it must possess a combination of group and individual behavior. This combination results in "dynamic equilibrium," which is "an appropriate balance between the collective and the individual, between competition and cooperation."

"Dynamically stable societies are self-correcting," he said, with built-in solutions should they go to extremes.

Asian threat

Despite all the talk about the Asian trade threat, it does not exist, said Banerji, stressing that it is companies, not countries, which compete with one another.

"Countries do not and cannot compete in trade; they are each other's customers."

While competition between countries may exist in areas such as growth or military might, it does not exist in trade.

Countries like Bangladesh and the United States can trade profitably, each having a comparative advantage. What matters is not the unit cost of production, but the relative cost within an economy.

Banerji used shirts and computers to illustrate his point. In Bangladesh, at the internal rate of exchange, it takes 5,000 shirts to buy one computer; in the U.S., it takes 1,000 shirts. Therefore, it is more cost-effective for the United States to buy shirts from Bangladesh, and use the surplus to produce more computers.

Savings rates

Savings rates bear directly on economic growth. Do cultural differences predispose people to be savers? For example, savings rates in the U.S. and Europe are much lower than in Latin America and Asia. The cultural element, said Banerji, plays an important part but it is not the only factor; economic conditions also are important.

The Vietnamese are culturally similar to the rest of Asia but they don't save. Why? "Vietnam recently had an inflation rate of 700 percent, and in a high inflationary environment you don't save," said Banerji, adding that with the right economic incentives people will save.
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Part of the growth in Asia can be attributed to an expansion of savings rates from low levels to high levels. The reasons for those low levels included a lack of fiscal policies combined with high inflation. When the problems were corrected, the savings rates throughout Asia went up and spurred economic growth.

But very high savings rates do not guarantee continued growth. "There is a point where further growth by gains in savings is improbable because it is improbable that the savings rate will go higher. Therefore, this source of growth -- increased savings -- is beginning to disappear."

Labor and productivity

If savings rates alone will not bring about long-term, sustainable growth, what do you do? Employing more in an era of full employment is not the solution. Nor will capital investment in another factory do the trick.

To increase output further, you have to increase efficiency. You do this through the application of "a prior knowledge base, innovation and social organization."

Knowledge alone will not affect outcomes. You need to be able to apply that knowledge to unfamiliar situations. Innovation works by challenging the prevailing paradigm, rather than going along with the group. But the innovation has to be implemented by groups -- team work -- so you need social organization to gain the benefits of innovation.

Arnab Banerji on the way the world works...

As human beings, we create behavior patterns that work for the environment we're in. Most of the time we do things, like long multiplication, without understanding the thinking behind it. We have a vague idea of the way the world works, and that is sufficient. Most societies run like that.

It's one of the conceits of Western society that we understand the world very well. The truth is, we don't.

Embedded wisdom

People don't have to understand why a behavior pattern works; they are guided by embedded wisdom. It is the result, not the explanation, that matters. All advanced cultures, Asians included, have a need to preserve the embedded wisdom they've acquired. That may be one reason why, by Western standards, Asians appear to be rigid.

Norm referencing

As individuals, we don't have enough information or processing power to handle a complex problem. But we can take our clues from the group, by observing and following. If you ask a group and an individual to improve something, and the system is known, then the group usually does better than the individual because of norm referencing. If you're inexperienced, with limited computational power, you should defer to the group.
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Innovation

Most biological systems constantly change and evolve because they're under threat. They have to keep sparking innovation within their group, innovation in behavior and innovation in thinking to be able to survive. Yet, innovation comes from individual thought and there is tension in all societies between norm referencing and individual thought. Dynamic equilibrium seeks to find an appropriate balance between the collective and the individual, between competition and cooperation.