

1 Interplay Between Culture and Formal Institutions

Possibly a dynamic, bidirectional relationship between **culture** and **formal institutions** (including policies). This interaction unfolds through two primary channels:

1. **Institutions** \Rightarrow (**future**) **culture**: Policies and institutional settings shape cultural norms and beliefs over time.
2. **Culture** \Rightarrow **institutions**: Pre-existing cultural traits influence the design, acceptance, and functioning of formal institutions.

Both affect economic outcomes as well.

Open issues:

- **Explicate the links**: institutions \Rightarrow culture \Rightarrow institutions $\Rightarrow \dots$
- **Verify and quantify** the links

2 Case Study: Putnam (1993) on Social Capital and Institutional Performance in Italy

The idea is studying history to address endogeneity.

Overview

Putnam (1993) examines the interplay between **social capital** (informal institutions) and the **performance of formal institutions**, using a natural experiment in Italian regions.

Key Observations

- **Social capital** is **not uniformly distributed** across Italian regions.
- After the 1861 unification, **identical formal institutions** were implemented nationwide, but their **functioning differed by region**, influenced by local civic traditions: the idea is that regions with high social capital experienced less corruption and more efficiency in their institutions.

Hypothesis: Historical Origins of Civic Traditions

- Regional variation in civic culture stems from historical political experiences:
 - **North**: autonomous *communal republics* (ca. 1300) promoted civic norms (e.g., trust, cooperation with public goods). They have a tradition of good social capital.
 - **South**: autocratic regimes (e.g., Norman Kingdom) hindered civic development.
- These historical institutions shaped civic traditions, which persisted and influenced behavior during and after unification.

Definition and Measures of Social Capital

- **Concept**: Area level characteristics that allow people to cooperate, trust etc
- **Components**:
 - Civic commitment (interest for public good)
 - Solidarity, trust, tolerance
- **Indicators** (pre-1970):
 - # voluntary associations (e.g., blood donation)
 - Newspaper readership
 - Referenda turnout (free of vote-buying)
 - Preference voting (proxy for vote-buying)

The Natural Experiment: Regional Governments (1970)

- **Institutional setting:** All 20 regions received responsibility for healthcare, agriculture, urban affairs housing, public works, vocational education (expenditure = 10% GDP in 1990). GDP in 1990)
- **Design analogy:** “Genetically identical seeds in different soil”—formally identical institutions operating in diverse social and cultural contexts.

Outcome: Institutional Performance

- Measured using 12 aggregated indicators (1978–1985):
 1. Cabinet stability
 2. Budget promptness
 3. Statistical/info services
 4. Reform legislation
 5. Legislative innovation
 6. Day care centers
 7. Family clinics
 8. Industrial policy tools
 9. Agricultural spending
 10. Local health expenditures
 11. Urban development
 12. Bureaucratic responsiveness

Findings

- **High correlation between civic tradition and institutional performance** ($r = 0.92\text{--}0.93$).
- Path:

Historical civic tradition \Rightarrow civiness* (1860–1920) \Rightarrow Social capital (1970) \Rightarrow Institutional performance (1978–1985)

*civiness (1860–1920) = civiness at time of unification