

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** ⇒ **(future) culture**: Policies and institutional settings shape cultural norms and beliefs over time.
2. **Culture** ⇒ **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 ⇒ culture ⇒ institutions ⇒ …
- **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 higher 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 | 7. Family clinics |
| 2. Budget promptness | 8. Industrial policy tools |
| 3. Statistical/info services | 9. Agricultural spending |
| 4. Reform legislation | 10. Local health expenditures |
| 5. Legislative innovation | 11. Urban development |
| 6. Day care centers | 12. Bureaucratic responsiveness |

Findings

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

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

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