

Culture and Institutions

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- This paper is literature survey that investigates one possible mechanism: Relationship between culture and institutions.

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- With this in mind, two questions arise:
 - Can any casual link be established between the two?
 - How do they interact?

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- Most papers focus on the empirical side define culture as: "Those customary beliefs and values that ethnic, religious and social groups transmit fairly unchanged from generation to generation".

Definitions: Culture

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- Cultural beliefs, from sociology and anthropology, are the ideas and thoughts common to several people that govern the interaction between them and their environment.
- These beliefs can be understood as best responses and in consequence, past cultural beliefs that sustain Nash equilibria provide focal points in repeated social interactions.

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- They are made up of formal constraints, informal constraints, and enforcement characteristics.
- In North definition, Institutions are the rules of the game, however, institutions can also represent the equilibria of the game!

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- One way to deal with this is to only to count institutions as formal institutions, and informal rules and norms as culture.
- This is the most common approach in most of the empirical papers.

- Most common ways of measure culture:

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 - Experimental evidence.

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- Generally measured by surveys and laboratory experiments.

- **Individualism vs Collectivism:** Individualism, by emphasizing personal freedom and achievement, awards social status to personal accomplishments such as innovation. On the other hand, collectivism makes collective action easier because people are more able to internalize group interests, but, by encouraging conformity, discourages innovation.

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- The commonly used measure for individualism comes from Hofstede (2001).

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- To measure generalized morality, Tabellini (2008a) combines, using a principal component analysis, two questions taken from the World Values Survey (WVS).

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- These cultural attitudes toward work are crucial, as illustrated by the Weberian argument about the birth of capitalism.
- This belief is measured by survey questions.

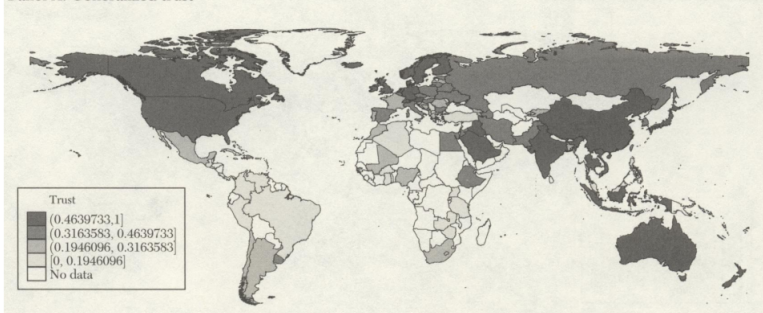
Relationship Between Cultural Traits

TABLE 1
CORRELATIONS AMONG CULTURAL TRAITS

	Family ties	Generalized morality	Individualism	Trust	Work–luck
Family ties	1				
Generalized morality	−0.49***	1			
Individualism	−0.48***	0.60***	1		
Trust	−0.57***	0.83***	0.50***	1	
Work–luck	0.33***	−0.08	−0.24*	−0.02	1

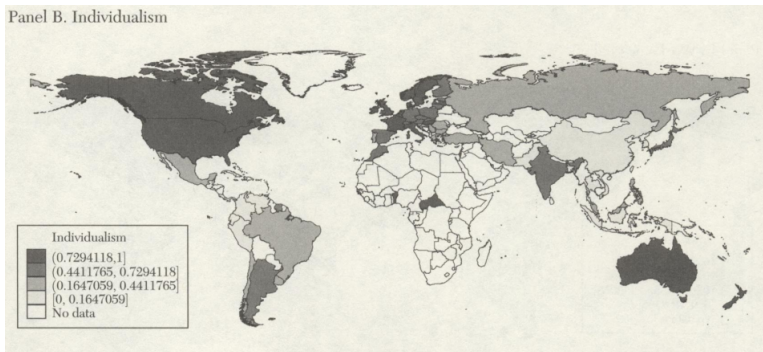
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Panel A. Generalized trust

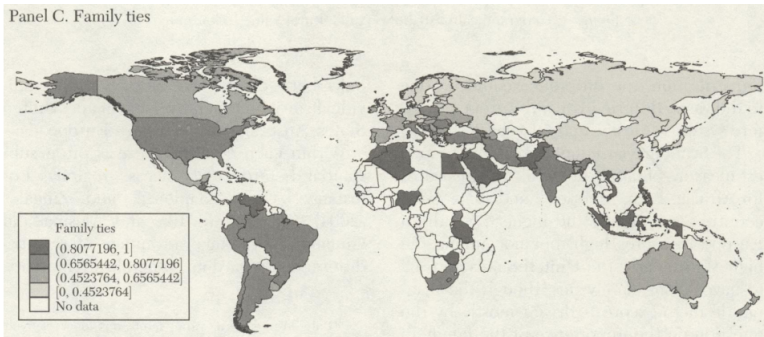


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Panel B. Individualism

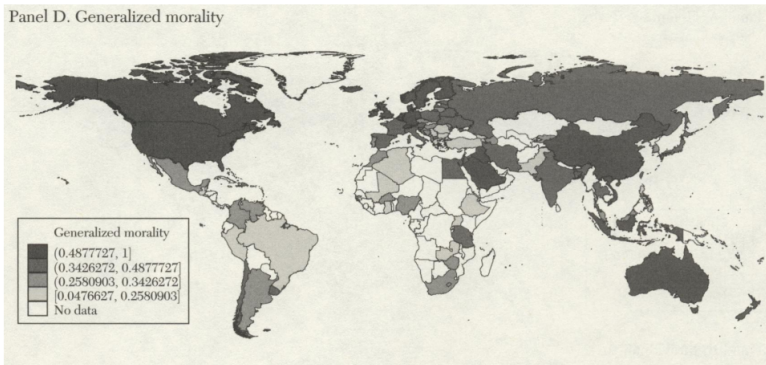


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Panel D. Generalized morality



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Panel E. Work-luck beliefs



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 - Regulatory environment indices.

Historical examples

- Effect of US migrations waves in original settlers laws, Fischer (1989).

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- Differences Between Medieval Maghribis and Genoese traders and institutions of trade, Grief(1994).

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- Role of trust on the development of financial markets, Guiso, Sapienza, and Zingales (2004, 2008a, 2008b).

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- The importance of culture as a determinant of democratization, Gorodnichenko and Roland (2013a)

- Impact of socialism on individual attitudes, Roland (2004), Shiller et al. (1992).

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- Impact of historically empire institutions on modern attitudes, Becker et al. (2011), Grosjean (2011), Peisakhin (2010).

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- Macroeconomic shocks and beliefs of luck vs work. Giuliano and Spilimbergo (2014)

- Role of the market on the formation of culture, Bowles (1998).

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- Rise of feminist values, the reduction in family size, and the extension of women's labor-force participation, Fernandez (2013),

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- Social class and cultural traits, Kohn et al.(1990).

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- The general idea underlying this approach is that a country shares certain cultural values, which leads to the choice of certain institutions.
- In turn, certain institutions lead to the survival (and transmission across generations) of certain cultural values.

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- The Coevolution of Culture and Regulation, Aghion, Algan, and Cahuc (2011).
- Empirical evidence to explain the coevolution of trust and regulation, Aghion et al. (2010).

- The interaction between family ties and the regulation of labor market, Alesina et al. (2015).

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- Economic opportunities and preference formation through parental investments around the Industrial Revolution, Doepke and Zilibotti (2008).

- Institutions, generalized morality and differences in development, Tabellini (2008a and 2010).

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- Culture and Institutions as complementary or substitutes, Bisin and Verdier (2015).