

# DEVELOPMENT ECONOMICS

## CULTURE AND SOCIAL CAPITAL



# This Lecture

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- We will mostly talk about culture.
  - ▣ What is it?
  - ▣ How we measure it?
  - ▣ Does it matter?
- We will start discussing if culture matters at the micro level.
  - ▣ Do individuals act differently because of different cultural values?
- And then discuss if social capital explains cross-region differences in financial/economic development.
- Readings:
  - ▣ Weil book: Chapter 14.
  - ▣ Guiso-Sapienza-Zingales (sections 3 and 6).

# What is culture?

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- Hard to define, and usually defined broadly and unclearly.
  - ▣ Weil: “*the values, attitudes, and beliefs prevalent in a society*”.
- Easier to define what is **not** culture: the hard, measurable, incentives people face.
- For example, Americans work more hours than Europeans. Why?
  - ▣ Americans’ belief in hard work is a cultural explanation (the protestant ethic).
  - ▣ Americans facing lower income taxes, or Europeans working under unions that restrict work hours is **not** a cultural explanation.

# Culture and Development Economics

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- Informal rules play a crucial role in settings with missing or imperfect markets.
  - ▣ Economic repercussions of certain traits or norms may be particularly deep.
  - ▣ Development policy may be ineffective if it does not consider cultural or social constraints.
  
- Potential for social norms to trigger a ‘poverty trap’
  - ▣ E.g., the caste system in India

# Culture vs context

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- When we see different people making different choices, is it culture or only incentives?
  - ▣ The “standard” economic answer is that it is all incentives.
    - E.g.: Americans work more than Europeans because of differences in labor laws, wages, and income taxation.
- But how can we be sure?
  - ▣ We cannot observe a place with European culture and American labor incentives to test if they work as much as Americans.
- In other words, **context** and **culture** are not observed separately.

# Culture vs. context

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- Another example: why New Yorkers jaywalk and Tokyoites don't?
  - ▣ **Context:** jaywalking leads to tickets only in Tokyo, or chances of getting run over are bigger there.
  - ▣ **Culture:** New Yorkers think it is “fine” to jaywalk, Tokyoites think it is “wrong” or “impolite”.
- New York and Tokyo have different culture **and** different context.
- To make the case culture matter, we need to make sure people with different culture make different choices in the same context.

# Separating culture from context

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- First strategy: artificially creating the same context in different cultures.
- Laboratory experiments in economics.
  - ▣ The ultimatum game.
    - Two people randomly and (anonymously) matched: “proposer” and “responder”.
    - Proposer chooses a division of a certain amount of money (say, \$10) between her and responder.
    - Responder has two choices:
      - Accept, and both players get the proposed division proposed.
      - Reject, and neither player receives anything.
- What would you do if you were the responder? And if you were the proposer?

# Taking same context to different cultures

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- A team of anthropologists played this exact same game with 15 very different small-scale societies.
  - ▣ From nomadic herders in Africa and isolated tribes in the Amazon to American undergrads.
  
- Behavior differed enormously by society.
  - ▣ Context (the ultimatum game) is the same.
  - ▣ So the differences mean that culture matters.



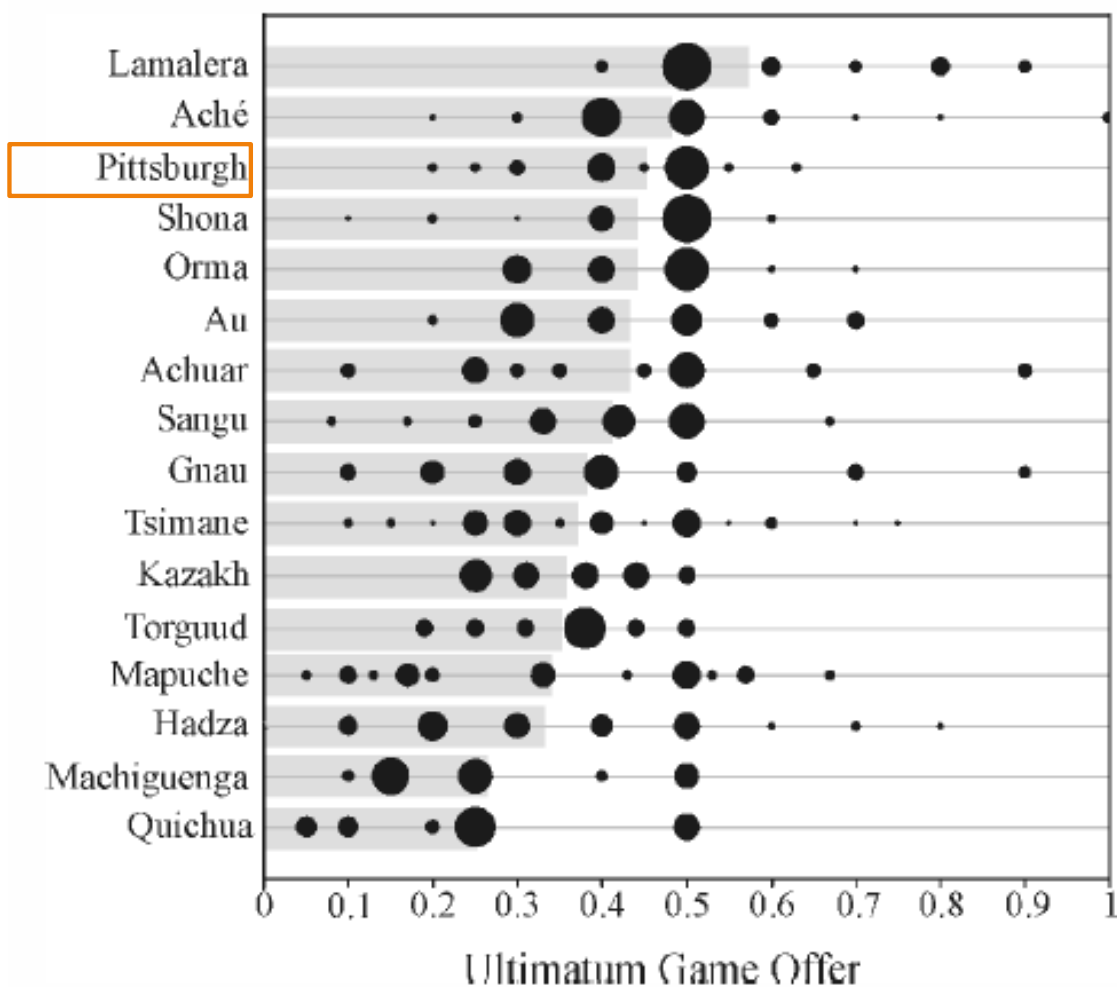


Figure 2. A bubble plot showing the distribution of UG offers for each group. The size of the bubble at each location along each row represents the proportion of the sample that made a particular offer. The right edge of the lightly shaded horizontal gray bar gives the mean offer for that group. Looking across the Machiguenga row, for example, the mode is 0.15, the secondary mode is 0.25, and the mean is 0.26.

# Bringing different cultures to same context

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- Another approach is finding people from different cultures in the same context.
- Fisman and Miguel (JPE, 2007): UN diplomats in New York City.
  - ▣ Different cultures (their countries of origin).
  - ▣ Same context: Manhattan.
  - ▣ Their choice/behavior: parking infractions.

# UN Diplomats and Parking in NYC

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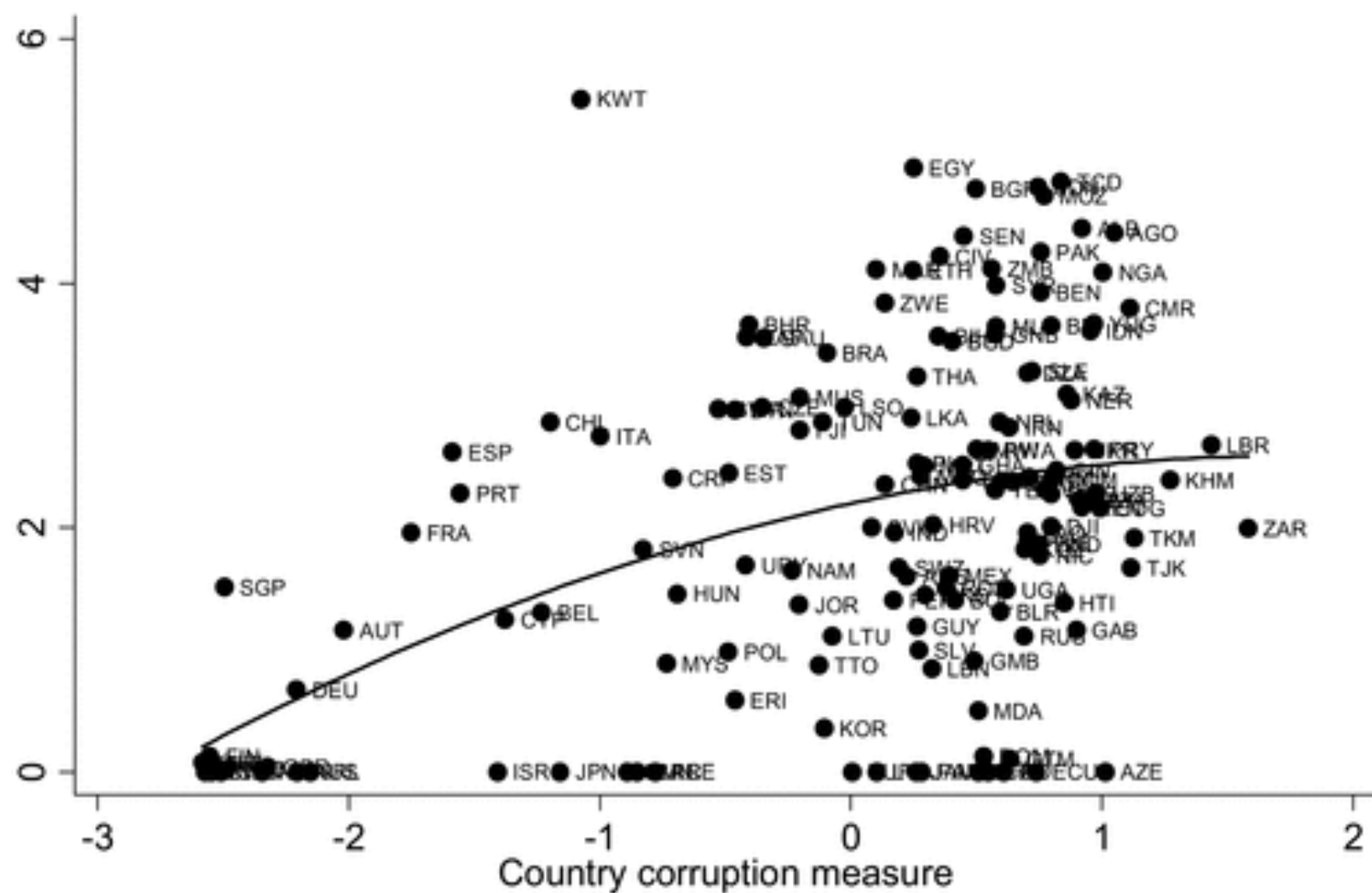
- Until 2002, diplomatic immunity protected diplomats from parking enforcement actions.
  - ▣ Basically, a diplomat did not have to pay their tickets.
  - ▣ And they did not: between 1997-2002, 150,000 tickets went unpaid, and \$18 million was owed.
  
- So “*diplomats’ actions were constrained by cultural norms alone.*”
  
- NYPD still issued parking tickets: a “paper trail” was available.
  - ▣ We know how much diplomats from different countries engaged in parking infractions.
  - ▣ Infraction is an unpaid parking tickets.

Parking Violations Rank	Country Name	Violations per Diplomat, Pre-enforcement (11/1997– 11/2002)	UN Mission Diplomats in 1998	Corruption Index, 1998	Country Code
1	Kuwait	249.4	9	−1.07	KWT
2	Egypt	141.4	24	.25	EGY
3	Chad	125.9	2	.84	TCD
4	Sudan	120.6	7	.75	SDN
5	Bulgaria	119.0	6	.50	BGR
6	Mozambique	112.1	5	.77	MOZ
7	Albania	85.5	3	.92	ALB
8	Angola	82.7	9	1.05	AGO
9	Senegal	80.2	11	.45	SEN
10	Pakistan	70.3	13	.76	PAK
11	Ivory Coast	68.0	10	.35	CIV
12	Zambia	61.2	9	.56	ZMB
13	Morocco	60.8	17	.10	MAR
14	Ethiopia	60.4	10	.25	ETH
15	Nigeria	59.4	25	1.01	NGA
16	Syria	53.3	12	.58	SYR
17	Benin	50.4	8	.76	BEN
18	Zimbabwe	46.2	14	.13	ZWE
19	Cameroon	44.1	8	1.11	CMR
20	Montenegro and Serbia	38.5	6	.97	YUG
21	Bahrain	38.2	7	−.41	BHR
22	Burundi	38.2	3	.80	BDI
23	Mali	37.9	5	.58	MLI
24	Indonesia	36.5	25	.95	IDN
25	Guinea	35.2	5	.57	GNB
26	Bosnia-Herzegovina	34.9	6	.35	BIH
27	South Africa	34.5	19	−.42	ZAF
28	Saudi Arabia	34.2	12	−.35	SAU
29	Bangladesh	33.4	8	.40	BGD
30	Brazil	30.3	33	−.10	BRA

# A Culture of Corruption

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- Fisman and Miguel compare the number of unpaid tickets by diplomats with a measure of corruption in their home country.
- The measure of corruption is an “average” of several surveys of investor opinions.
  - ▣ It is normalized to a mean of zero and a standard deviation of 1.
- How do infraction correlate with home country corruption?



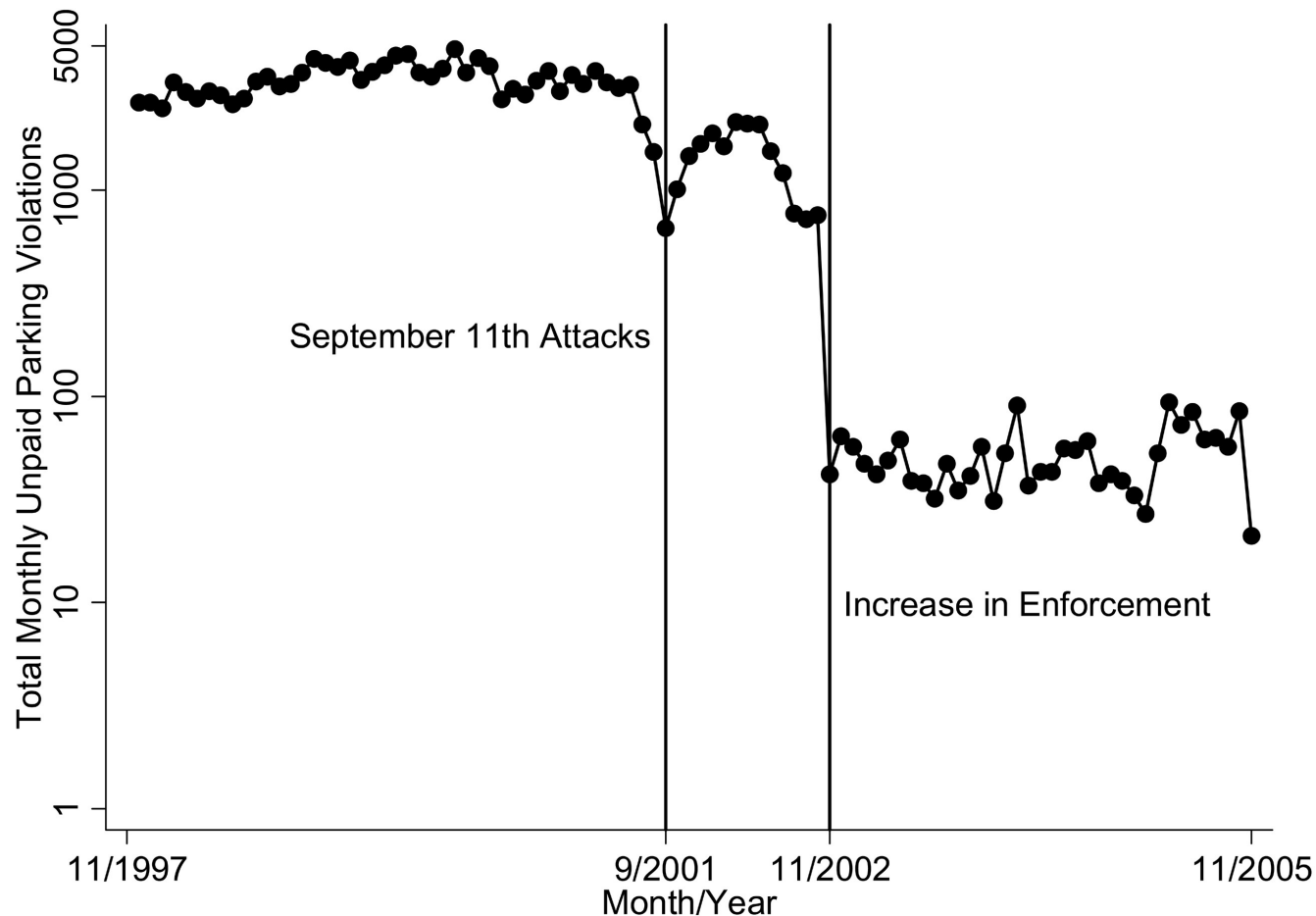
# Results

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- What does the previous graph tells us?
  - ▣ Cultural or social norms related to corruption are quite persistent.
    - Even when stationed thousands of miles away, diplomats behave in a manner highly reminiscent of government officials in the home country.
    - Factors other than legal enforcement are important determinants of corruption behavior.
- The positive correlation between infractions and home country corruption is robust to adding several controls:
  - ▣ Continent indicators.
    - It is not all driven by, say, Africa.
  - ▣ Per capita income.
  - ▣ Measures of relationship with USA
    - Trade, aid, distance. This controls for the possibility that corrupt countries are also anti-American, and do not pay their tickets because of that.

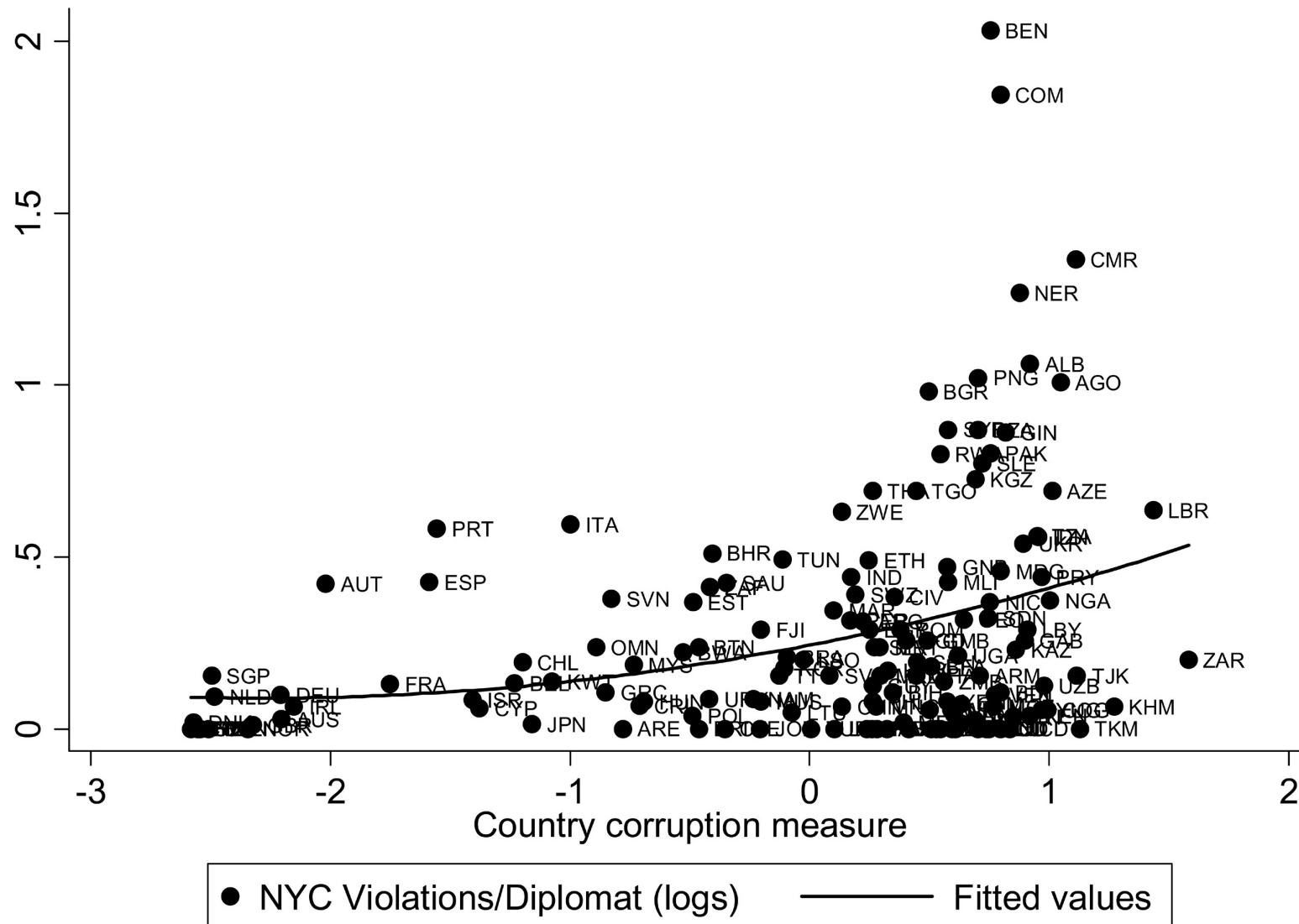
# But incentives trump culture...

- October/2002: State Department gives NYC permission to revoke the official diplomatic plates of vehicles with three or more outstanding unpaid violations.





# Results become much weaker in post-enforcement period



# American-born children of immigrants

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- Culture is likely transmitted from parents to children.
- An American with Italian parents has different cultural values than an American with Japanese parents.
  - ▣ But they face (roughly) the same context: living in the USA.
- Following the same idea of Fisman and Miguel, researchers compared behavior of children of immigrants with behavior in their parent's country.
  - ▣ Fertility of women is positively correlated with the historical fertility of their country of ancestry (ie, parent's country of birth).
  - ▣ Same was true for female labor force participation.
  - ▣ Same was not true with saving rate (see textbook for more on this).

# Trust and Social Capital

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- Economist Kenneth Arrow: *“It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence”*
  - ▣ Investment, loans, sales: all require one person trusting another to some extent.
  - ▣ Not every contingency can be put in a contract (or it is too costly to do so).
  
- Social capital is one key determinants of trust
  - ▣ Weil: *“The value of the social networks that people have and of the inclination of people in those networks to do things for each other”*.
  
- Social capital has other economic benefits
  - ▣ Information flows easily within social networks
  - ▣ Facilitates collection action (e.g. risk sharing agreements)

# How to measure trust?

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- One approach: asking people if “*Generally speaking, would you say that most people can be trusted, or that you can’t be too careful dealing with people?*”
  - ▣ This is what the World Values Survey (and many other surveys) do.
  - ▣ Many issues:
    - Too subjective.
    - What comes to people’s minds when they answer this?

# The Trust Game

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- A laboratory experiment.
  - ▣ Two people are anonymously and randomly matched.
    - Each get, say, \$5.
    - One of the subjects is told that he or she will be player (P1), and can send the \$5 to the other subject (player two, P2).
    - The amount sent will be tripled by the experimenter before it reaches P2.
      - Who then gets to decide whether to keep the additional 15\$ or return 7.50\$ to P1.
    - After P2's decision the game is over and subjects leave.
  - ▣ What would you do as a P2?
    - And as P1?
    - And as a P1 that trusted P2?

# Trust questions vs. trust game

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- Researchers asked the questions and played the game with the same group of people.
- People that answer positively to the questions behave differently in the game.
  - ▣ One paper (using Harvard undergrads) found that P2's choice of sending back money was positively related to reported trust.
  - ▣ Others (using Chicago MBAs, or “representative” Germans) found that P1's behavior was more generous to those that reported to trust.

# Do we really know culture affects country-wide economic outcomes?

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- Arguments are reasonable, but evidence is not clear.
- Again: correlation is not causation.
- Reverse causality and omitted variables are an issue when we compare country outcome and cultural values.
- At the country-level, culture and context cannot be separated.

# Guiso, Sapienza, and Zingales (AER, 2004)

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- Social capital and financial development
  - ▣ Whether individuals are willing to sign financial contracts depends not only on the enforceability of contracts,
  - ▣ but also on the extent to which they trust the counterparts.
- Within-country variations to identify the effects of social capital on the use and availability of financial contracts
  - ▣ Regions/provinces in Italy vary widely in levels of trust and social capital (Putnam, 1993)
- In areas with high levels of social capital HHs use more financial services
  - ▣ Results not driven by environmental factors, as movers carry the social capital of their province of origin



# Measures of Social Capital

- Outcome-based measures not affected by contextual variables, such as legal enforcement
  - ▣ Electoral Participation
  - ▣ Blood Donation

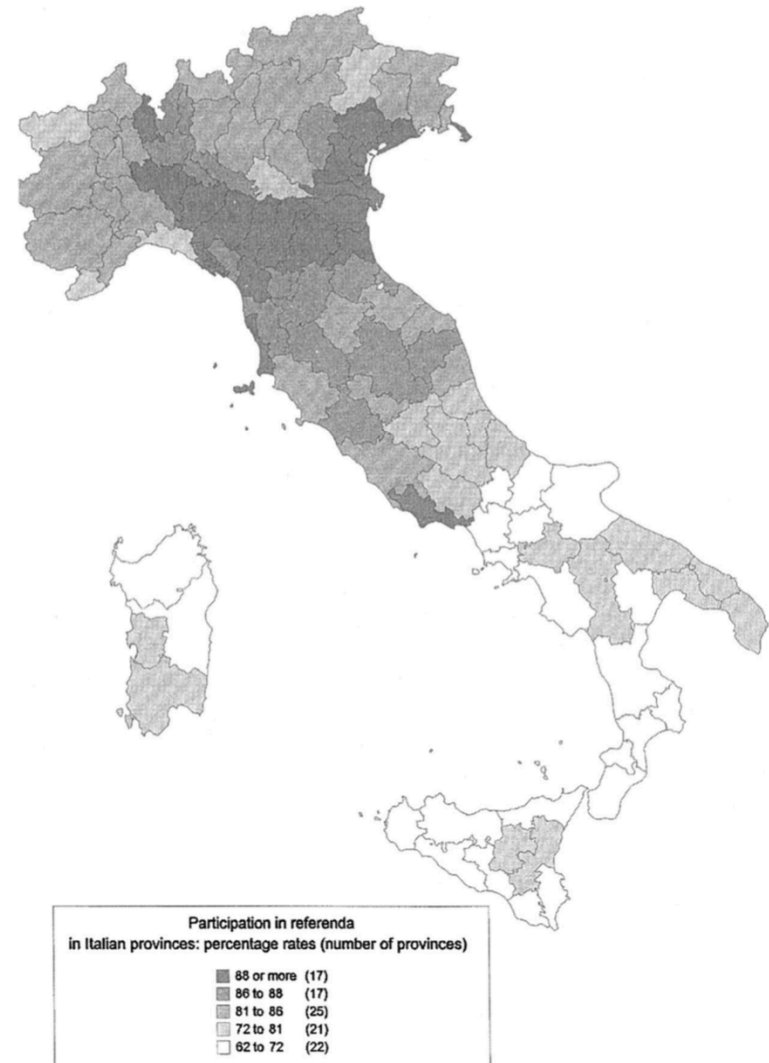


FIGURE 1. TRUST ACROSS ITALIAN PROVINCES: PARTICIPATION IN REFERENDA

*Note:* Darker areas correspond to provinces with a higher participation in referenda.

# Social capital and the use of checks

	I	II	III	IV	V
Social capital 1	0.5710*** (0.1790)	0.4265* (0.2436)	0.5552** (0.2224)		
Social capital 1— origin				0.2078*** (0.0481)	
Social capital 2					1.8614*** (0.3719)
Trust WVS					
North		0.0941*** (0.0295)			
South		−0.0078 (0.0397)			

# Social capital and percentage of wealth invested in stocks

	I	II	III	IV	V
Social capital 1	1.7380*** (0.3595)	0.6515 (0.5476)	0.9106* (0.5265)		
Social capital 1— origin				0.0473*** (0.0129)	
Social capital 2					2.5325*** (0.7879)
Trust WVS					
North		0.2267*** (0.0430)			
South		−0.1890* (0.1060)			

# Social capital and informal credit market

	I	II	III	IV	V
Social capital 1	-0.0968*** (0.0261)	-0.1196*** (0.0401)	-0.1157*** (0.0433)		
Social capital 1— origin				-0.0617*** (0.0207)	
Social capital 2					-0.1682 (0.1195)
Trust WVS					
North		0.0044 (0.0055)			
South		-0.0046 (0.0070)			

# Movers

- The "environmental" component versus the "inherited" component of social capital
- Social capital of origin might act as a proxy for some other (unobservable) individual characteristics that affect an individual's level of trust

Panel A					
	I Checks	II Cash	III Stocks	IV Discouraged or turned down	V Loans from family and friends
Social capital 1 for nonmovers	0.4418*** (0.1302)	-0.7603*** (0.1268)	0.0902*** (0.0259)	-0.0785*** (0.0240)	-0.1327*** (0.0340)
Social capital 1 of origin for movers	0.1778*** (0.0527)	-0.1912*** (0.0706)	0.0379*** (0.0122)	-0.0273 (0.0183)	-0.0755** (0.0315)
Social capital 1 of residence for movers	0.2857** (0.1313)	-0.5784*** (0.1332)	0.0492* (0.0260)	-0.0485 (0.0309)	-0.0517 (0.0434)

# Trust and financial development across countries

Dependent variable	External equity over GNP	Number of domestic firms over population	Number of IPOs over population	Debt over GNP	Percent of companies publicly held
Log per capita GNP	0.026 (0.475)	-1.486 (1.856)	0.049 (0.174)	0.994** (0.040)	0.144*** (0.041)
Trust	0.011* (0.005)	0.470** (0.204)	0.054*** (0.019)	0.003 (0.004)	0.012** (0.005)
Rule of law	-0.055 (0.035)	1.701 (1.365)	-0.201 (0.136)	0.029 (0.031)	-0.020 (0.038)
Constant	0.115 (0.534)	7.523 (20.860)	-1.352 (2.005)	-0.958** (0.455)	-1.751*** (0.590)
$R^2$	0.14	0.47	0.4	0.44	0.48
Observations	30	30	27	28	30

# Wrapping Up on Guiso-Sapienza-Zingales

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- Social capital affects financial development across different parts of Italy
  - ▣ The role of social capital is higher when education is low and law enforcement is weak
  - ▣ This is the case in developing countries
- Large literature links financial development with economic development
- Social capital (or lack thereof) may be part of the explanations for cross-country income differences