Institutions and Culture

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An important idea and an important question

Distant history =>

=> Quality of government institutions (property rights) =>

=> Economic development

      North,   Acemoglu, Johnson, Robinson,   Shleifer et. al.

What determines Q of G institutions?

Why so much persistence?

Formal political institutions often change abruptly

But economic / institutional outcomes unaffected

    Little improvements after democracy

    Stronger evidence of deterioration after relapse into autocracy

"Political economy" explanation of institutional persistence

Distributional effects of economic / political institutions
 => élites preserve institutions that hurt development

     Eg. Entry barriers, poor education

Important insights and promising research agenda

Puzzling institutional failures

- Within country variation in law enforcement & institutional outcomes, despite identical legislation
  Civil lawsuit in Sicily lasts 3 times as much as in Northern Italy

- Widespread political corruption not punished by voters
  Do voters reward public good provision or targeted benefits?

- Violent & disruptive political conflict blocking political decisions, but only in some countries
  What is a legitimate political protest ? France vs Sweden

- Collective action problems key in political economics
  Why are they overcome in some situations and not in others?

Cultural explanation of institutional persistence ?

In economic situations, incentives are key

In political situations and in government organizations often incentives are weak => role for culture

- Voters & group members
  Participation. What to expect from political representatives.

- Bureaucrats and govt officials
  Moral hazard / free riding influenced by perception of "right" or "wrong"

Distant history => Culture => Q of G institutions ?

Culture ?

- Beliefs about behavior of others
- Preferences / Normative values
  - How one "ought" to behave in specific circumstances
  - What is legitimate and acceptable

Both likely to matter, but values more persistent

Generalized vs limited morality

    Scope of application of norms of good conduct:

    Everyone vs small circle of friends & relatives

        Weber, Banfield 1958: "amoral familism"

Generalized morality & good governance

- Confidence in abstract principles rather than in hierarchy of power or individual leaders
  - Rule of law
  - Procedures & checks and balances

- Respect for the individual and his rights

Improves governance and institutional outcomes

Citizens: less cheating and free riding

Pubic officials: less abuse of power and corruption

Voters: more and better political participation

Alexis De Tocqueville

"Despotism which by its nature is suspicious, sees in the separation among men the surest guarantee of its continuance, and it usually makes every effort to keep them separate. No vice of the human heart is so acceptable to it as selfishness: a despot easily forgives his subjects for not loving him, provided they do not love one another. (…) He stigmatizes as turbulent and unruly spirits those who would combine their exertions to promote the prosperity of the community; and, perverting the natural meaning of words, he applauds as good citizens those who have no sympathy for any but themselves."

Outline

a) Measurement

b) Two clues that: History => Culture => Institutional outcomes

c) Cross country evidence

    Values => Quality of Government institutions

d) Cross country & sectors: specialization in production

    Values => Comparative advantage in specific sectors

e) Within country evidence: European regions

    Political history =>Values => Economic development & political behavior

Measurement

World Value Surveys (4 waves, 1980s-2000)

- Generalized trust

Trust: % saying: "most people can be trusted"

Gleaser et. al. 2001, Fehr et al. 2003: **trustworthiness** vs **trusting** others

- Respect for others

Respect: % saying: "tolerance & respect for others" is important quality in children

Trust & Respect: first principal component

Generalized morality not the only interpretation

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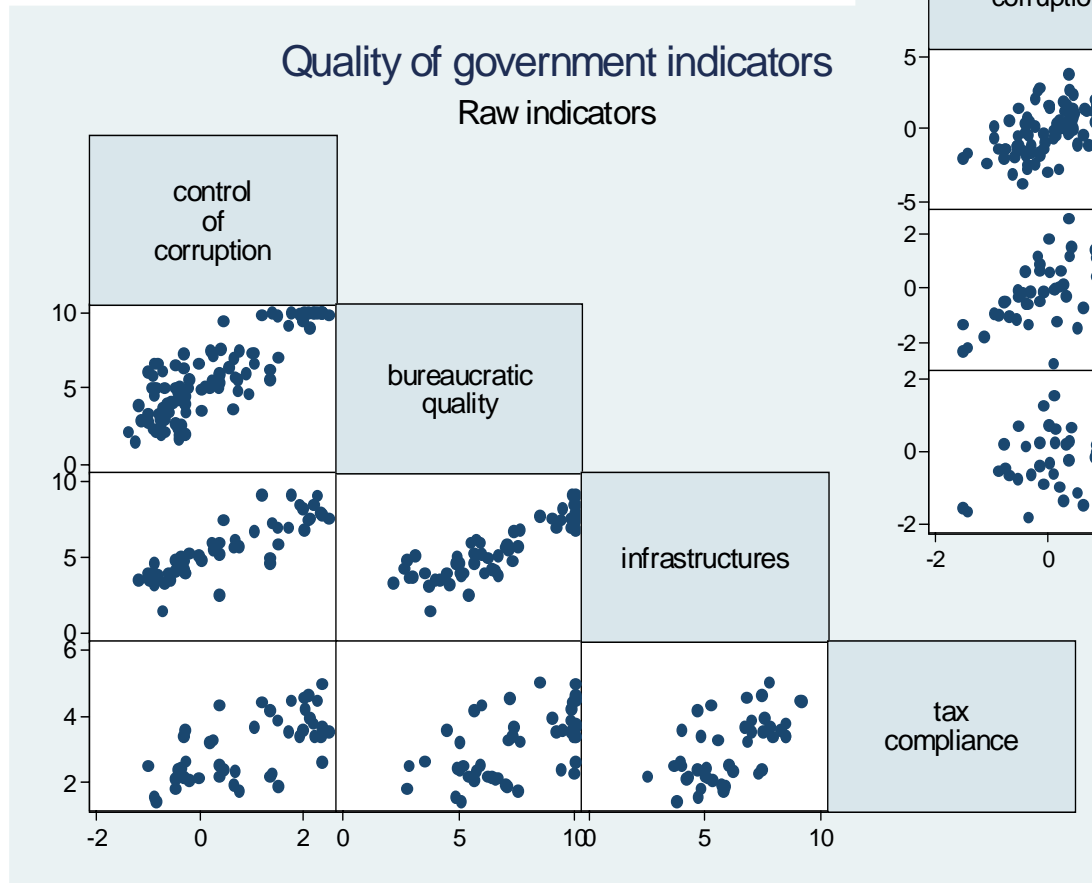   Values => Comparative advantage in specific sectors

e) Within country evidence: European regions
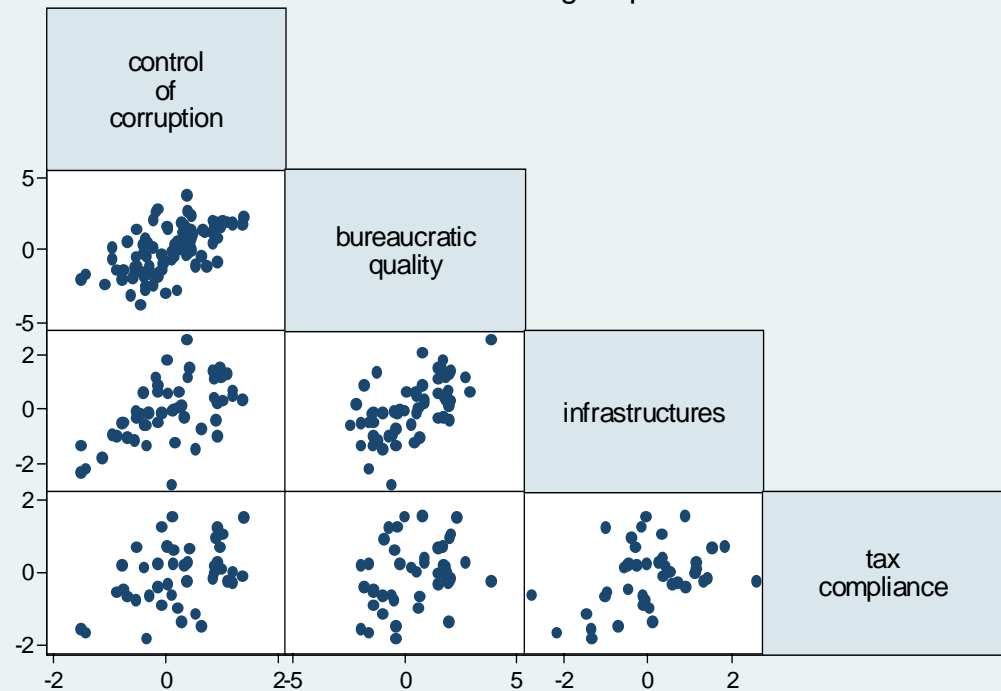   Political history =>Values => Economic development & political behavior

Two clues on the role of culture:
1. Generalized government failure / success

Raw indicators ⇩

Quality of government indicators
Residuals after controlling for pc income

Quality of government indicators
Raw indicators

After conditioning ⇧
on income per capita

11

Two clues on the role of culture:
2. Culture is slow moving

Evidence from individual data:

i)   Trust is transmitted within family

     Dohmen et al.

ii) Trust of 3rd generation US immigrants explained by
features of country of origin of ancestors

    Algan & Cahuc,   Guiso, Sapienza, Zingales,   Ulsaner, Tabellini

Third Generation US immigrants
GSS data

Control for individual features

– Income, education, mother's education

– Fixed effects for (260) metropolitan areas or counties

Sample:

- US born
- at least 2 grandparents born abroad
- at least 30 indivs originating in that country

Over 4000 indivs from 19 European countries + Russia & Mexico

Countries of origin of US immigrants

Country of origin	N. of indivs	Country of origin	N. of indivs
Austria	69	Lithuania	40
Canada	200	Mexico	252
Czechoslovakia	149	Netherlands	94
Denmark	51	Poland	376
Finland	46	Portugal	30
France	63	Russia	162
Germany	834	Spain	40
Greece	38	Sweden	153
Hungary	75	United Kingdom	450
Ireland	485	Yugoslavia	45
Italy	668		

Trust and ancestors' countries

Dependent variable: Trust

Country of origin vars:		
Current Trust	0.55	
	(0.22)**	
Constraints on	0.06	
Exec. pre 1901	(0.02)***	
Observations	**4267**	**4267**

Probit Estimates

Trust and ancestors' countries

Dependent variable: Trust

Country of origin vars:				
Current Trust	0.55 (0.22)**			
Constraints on Exec. pre 1901		0.06 (0.02)***	0.07 (0.02)**	0.05 (0.02)***
Per capita income in 1930			-0.03 (0.08)	-0.16 (0.10)
Primary school enrolment 1910				0.52 (0.18)***
Observations	**4267**	**4267**	**3907**	**3520**

Trust and ancestors' countries

Dependent variable: Trust

Country of origin vars:					
Current Trust	0.55 (0.22)**				0.67 (0.21)***
Constraints on Exec. pre 1901		0.06 (0.02)***	0.07 (0.02)**	0.05 (0.02)***	0.06 (0.01)***
Per capita income in 1930			-0.03 (0.08)	-0.16 (0.10)	-0.24 (0.08)***
Primary school enrolment 1910				0.52 (0.18)***	0.50 (0.16)***
Observations	**4267**	**4267**	**3907**	**3520**	**3520**

Outline

a)   Measurement
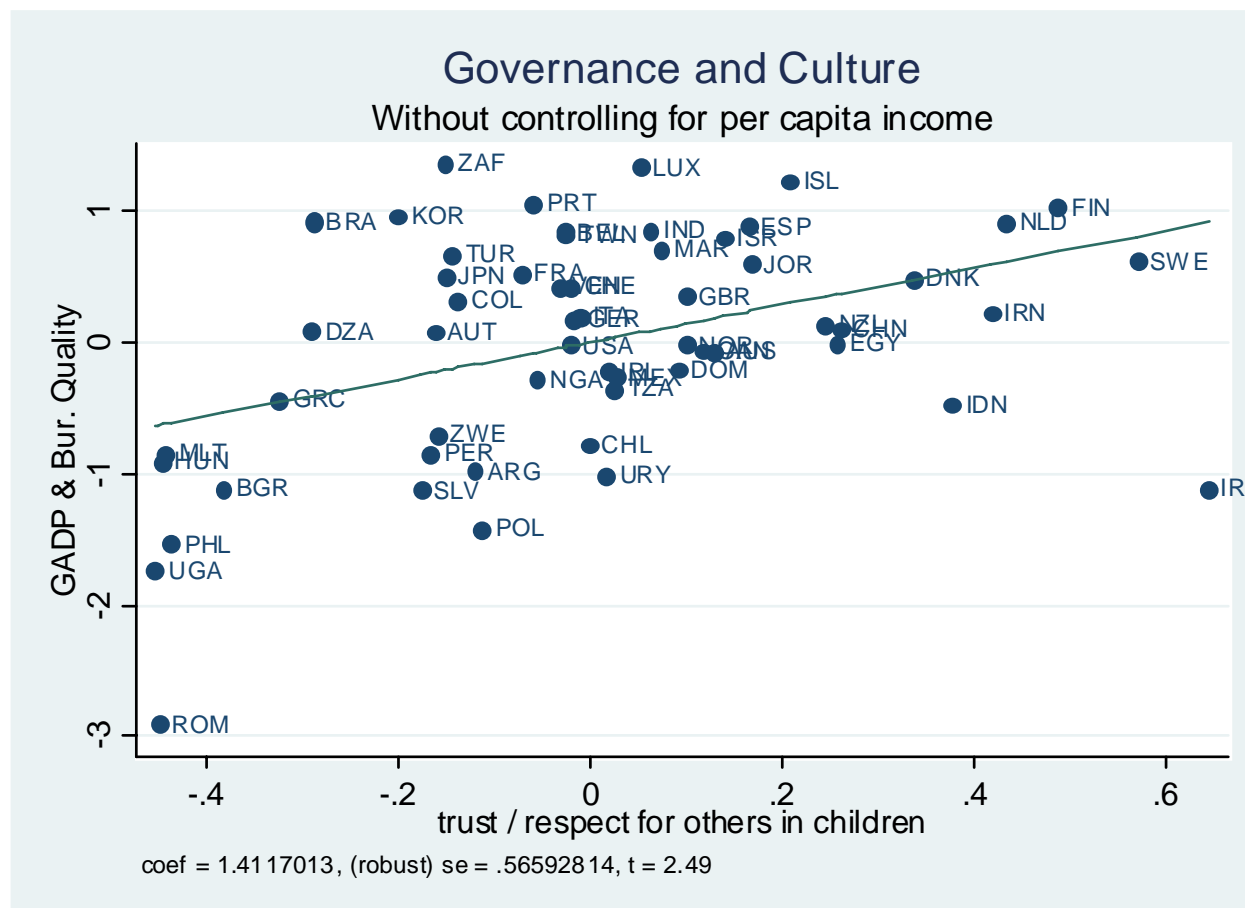
b)   Two clues that: History => Culture => Institutional outcomes

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     Values => Quality of Government institutions

d)   Cross country & sectors: specialization in production
     Values => Comparative advantage in specific sectors

e) Within country evidence: European regions
     Political history =>Values => Economic development & political behavior

Cultural Map of the World – Trust & Respect
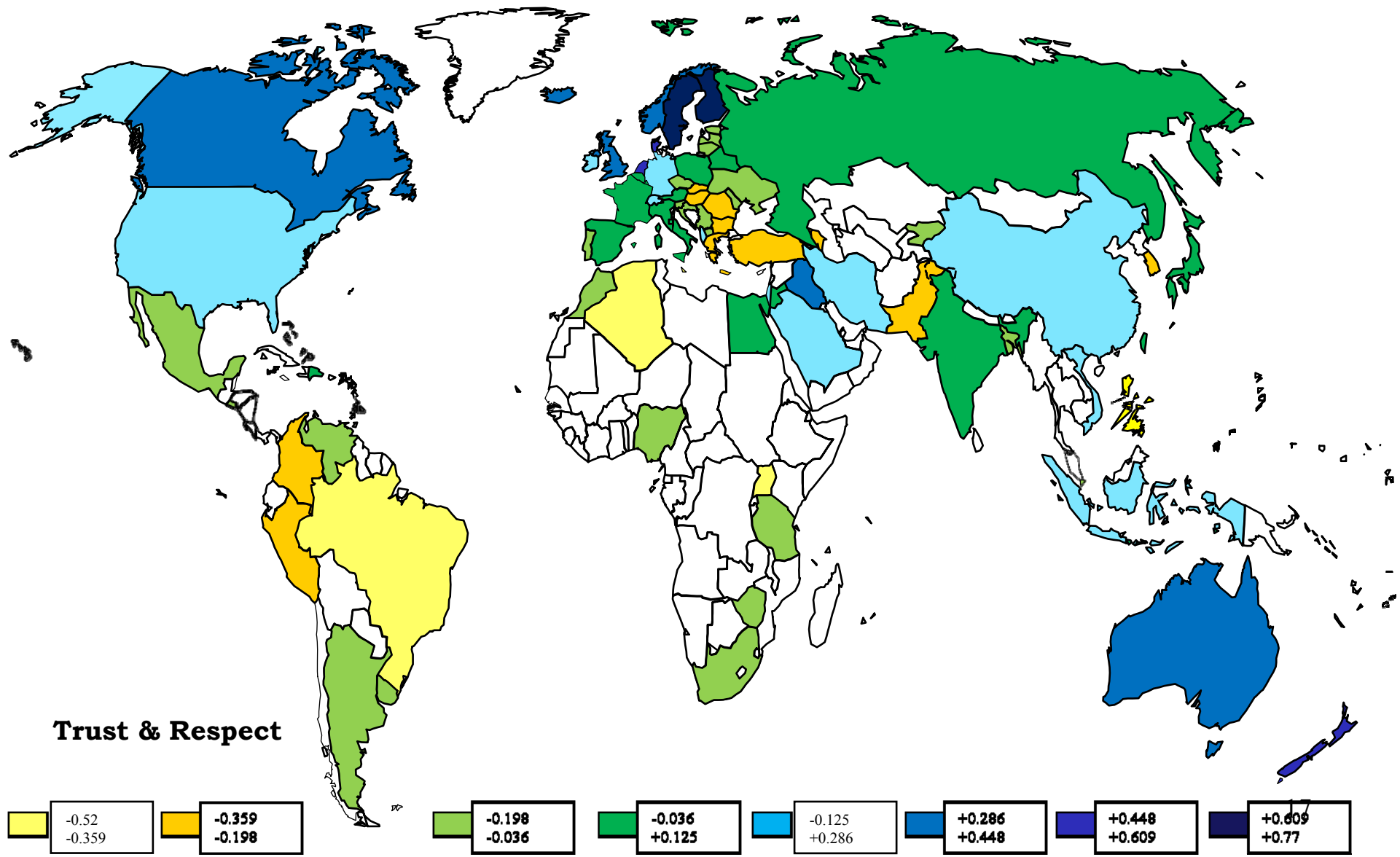
Trust & Respect

-0.52 / -0.359	-0.359 / -0.198	-0.198 / -0.036	-0.036 / +0.125	-0.125 / +0.286	+0.286 / +0.448	+0.448 / +0.609

+0.609 / +0.77

Culture and good governance across countries

Protection of property rights against govt abuse (GADP)
& bureaucratic quality

Governance and Culture

Without controlling for per capita income

coef = 1.4117013, (robust) se = .56592814, t = 2.49

Control for: primary education in 1930, UK and French Legal origin
Account for half of the difference between the Netherlands and Italy

18

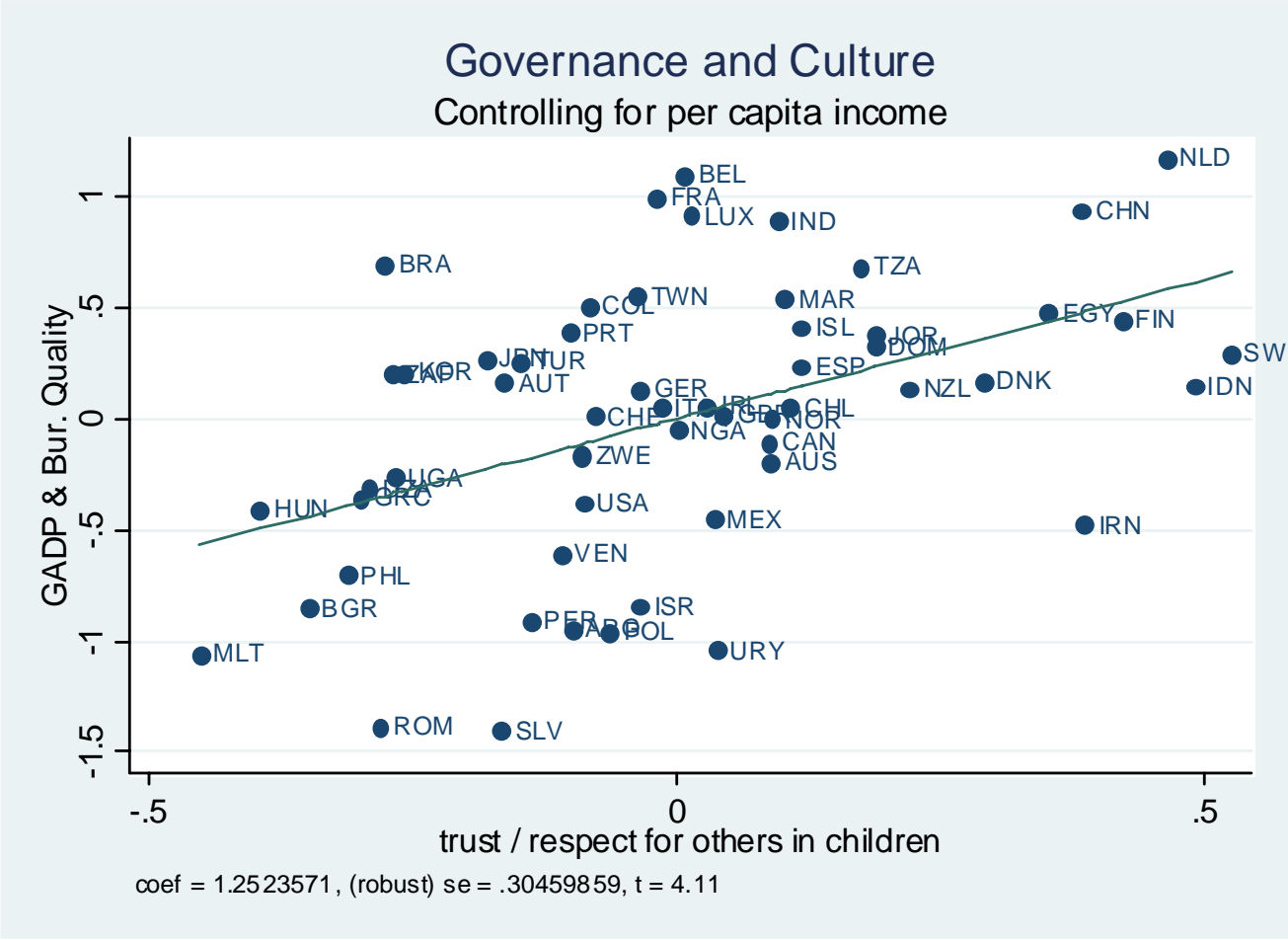# Culture and good governance across countries

Protection of property rights against govt abuse (GADP)
& bureaucratic quality

Also control for: primary education in 1930, UK and French Legal origin   19

Correlation or causation ?

Reverse causality

Better institutions => better values

Omitted variables not captured by included controls

Powerful élites or common shocks =>   institutional
outcomes & values

Estimation strategy

Exploit slow moving component of values

Instrumental variable correlated with historical
determinants of values, not with current environment

Language Licht, Goldschmidt & Schwartz 2006
– Evolves slowly out of conventions
– Reflects & influences culture

Correlated with omitted variables influencing governance?
Control for legal origin (Shleifer et al.)

How to code language?

Use and type of personal pronouns in 39 spoken languages
Kashima & Kashima 1998

1. Forbid first person pronoun drop (I) => more emphasis on the individual relative to the context of speech

2. Tu / Vous differentiation => more emphasis on social distance and hierarchy

(1) shown to be correlated with cultural traits as classified by cultural psychologists, and used as instrument for culture
Licht, Goldschmidt & Schwartz 2006

Language predicts Trust & Respect within multi-lingual countries
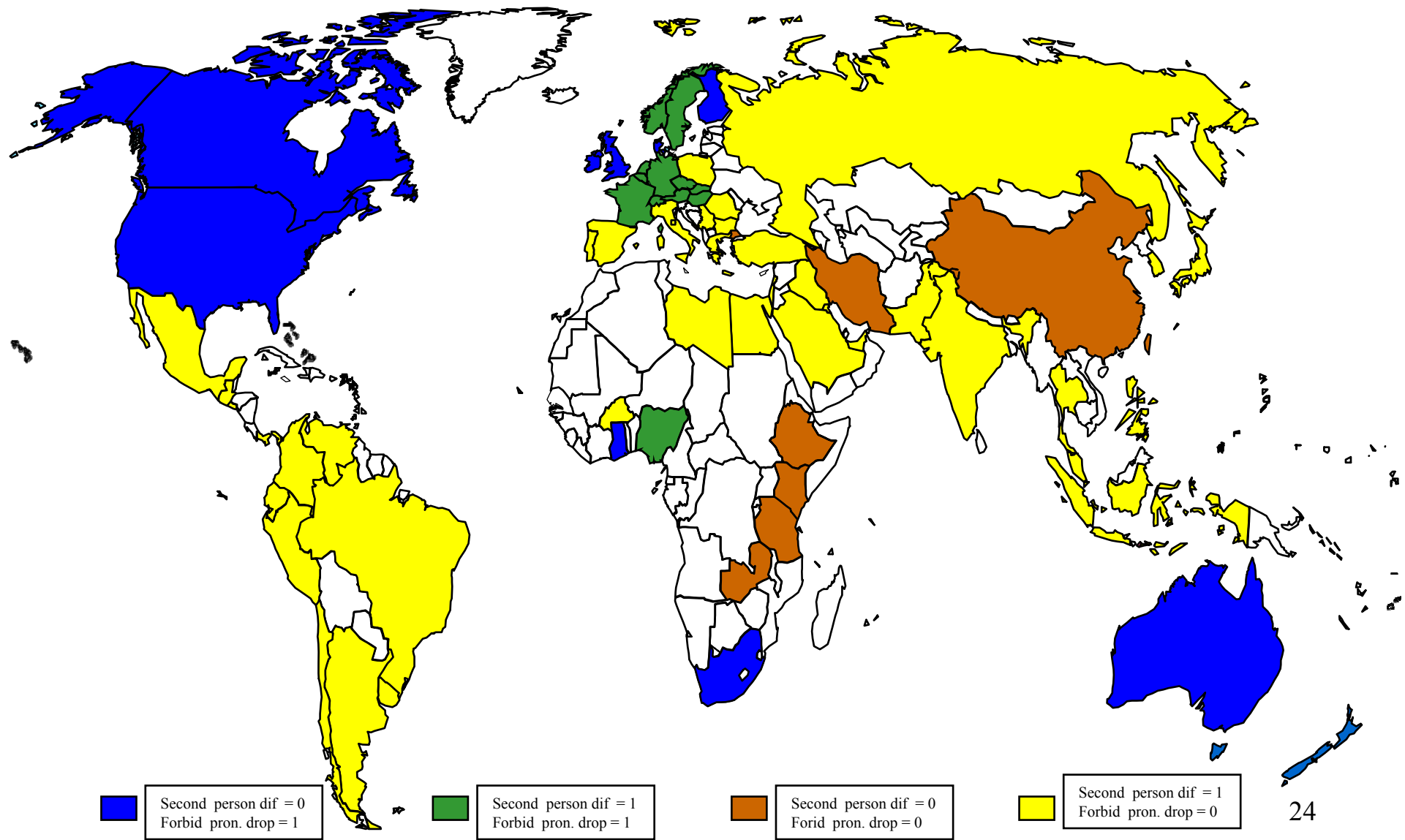
	Trust	*Respect*	*Trust & Respect*
2nd person Differentiation	**-0.22**** **(-0.06)**	**-0.25***** **(-0.08)**	**-0.24*****
Forbids pronoun drop	**0.18*** **(0.05)**	**0.05 (0.02)**	**0.12****
Estimation	**Probit**	**Probit**	**Ord. Probit**
Observations	**8640**	**8640**	**8640**
Pseudo R2	**0.07**	**0.03**	**0.04**

Marginal effects on probability in parenthesis
5 multilingual countries in WVS with different grammatical rules
Control for Country FE & individual features

23

Language Map of the World

Second person dif = 0 Forbid pron. drop = 1	Second person dif = 1 Forbid pron. drop = 1
Second person dif = 0 Forid pron. drop = 0	Second person dif = 1 Forbid pron. drop = 0

24

Cross country data
First stage

Dep var:	Trust & respect	
Forbids Pronoun Drop	0.19 (0.09)**	0.16 (0.08)**
Second Person Dif.	-0.21 (0.06)**	-0.20 (0.06)**
Control for PC income	NO	YES
Observations	48	47
Adjusted R2	0.36	0.45

Dep. Var. expressed as fraction of observation for Sweden, varying over [0, 1]
Control also for: primary education in 1930, UK and French Legal origin

Identification

Language $\longrightarrow$ Values $\longrightarrow$ Governance outcomes

Education in 1930

Legal origin

PC income
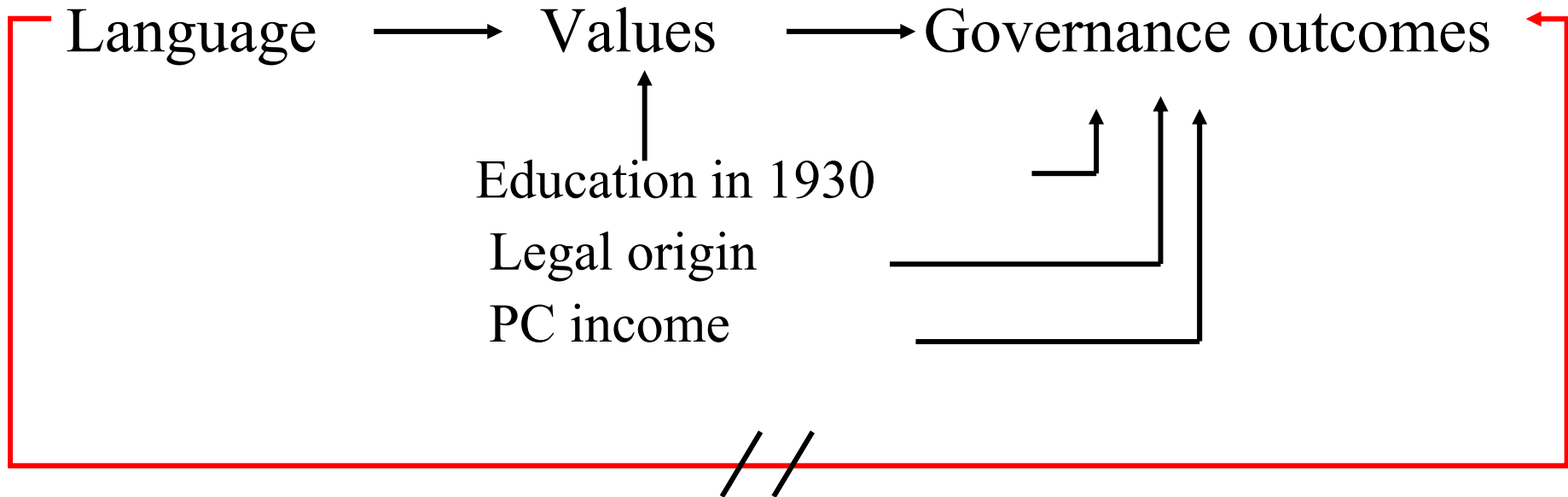
No omitted variable correlated with language

Second stage

Cols (1-3): control also for primary education in 1930, legal origin
Col. (4): pronoun drop is the instrument

Dep. Var:		GADP & Bur. Quality		
	(1)	(2)	(3)	(4)
Trust & respect	0.56	0.48	0.59	1.54
	(0.22)***	(0.20)**	(0.17)***	(0.57)***
Additional Control		PC income	Constr. executive	Settler's mortality
Sargan-Hansen	0.10*	0.01**	0.60	
Observations	48	47	48	21

Values account for difference in governance between Netherlands / Italy

Both variables expressed as fraction of obs. for Sweden, varying over [0, 1]

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      Political history =>Values => Economic development & political behavior

Cross country and sectors
Specialization in Production and Institutions

Good legal institutions => comparative advantage in
sectors with high "contract intensity"

    Levchenko, Nunn

Contract intensity?   Large relationship-specific investmt.

    Weak enforcement => hold up problem

Generalized morality => comparative advantage?

    directly or indirectly

Empirical strategy

Nunn, Rajan-Zingales

$$\text{Exports}_{ic} = a_i + b_c + \beta \, z_i \, Q_c + \varphi_i \, X_c$$

i= sector,   c = country

z_i = "contract intensity" of each sector,

% of intermediate inputs not sold on organized exchange nor
reference priced in trade publications

Q_c = institutions / culture

Identification from interaction effect (country & sector)

   Include country & sector fixed effects

   Don't worry about omitted variables varying only across
      countries or sectors

Values and specialization in production

Standardized beta coefficients

Dependent var.	Exports		
Contract intensity * Rule of law	0.29***		
Contract intensity * Trust-respect		0.12***	0.10***
Skill intensity * skill endowment			0.15***
Capital intensity * capital endowment			0.02
Obs.	22598	12799	7862
Adj. R2	0.72	0.69	0.73

Country and sector fixed effects always included

Reverse causation ?

Specialization in sectors with high contract intensity =>
=> Good institutions => More trust & respect

Use language as instrument for values (both interacted
with contract intensity)

Legal origin (interacted with contract intensity) as
additional second stage control

Very similar results

What is the mechanism?
Indirect vs direct effects

Effect of values on specialization mainly operates
through better institutional outcomes

But values supplement institutions in countries where
law enforcement is weak

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Within country evidence

Knack 2002, Putnam 1993, Tabellini 2005

European Regions:

same national institutions for 150 years, but different
political & economic histories

No data on institutional outcomes

Compare economic / political outcomes across regions
   Controls: country fixed effects and other regional variables

Questions:
- Early political institutions => regional cultural traits ?
- Regional values => economic / political outcomes ?

Data

69 Regions

Belgium, France, Italy, Netherlands, Portugal, Spain, UK, West Germany

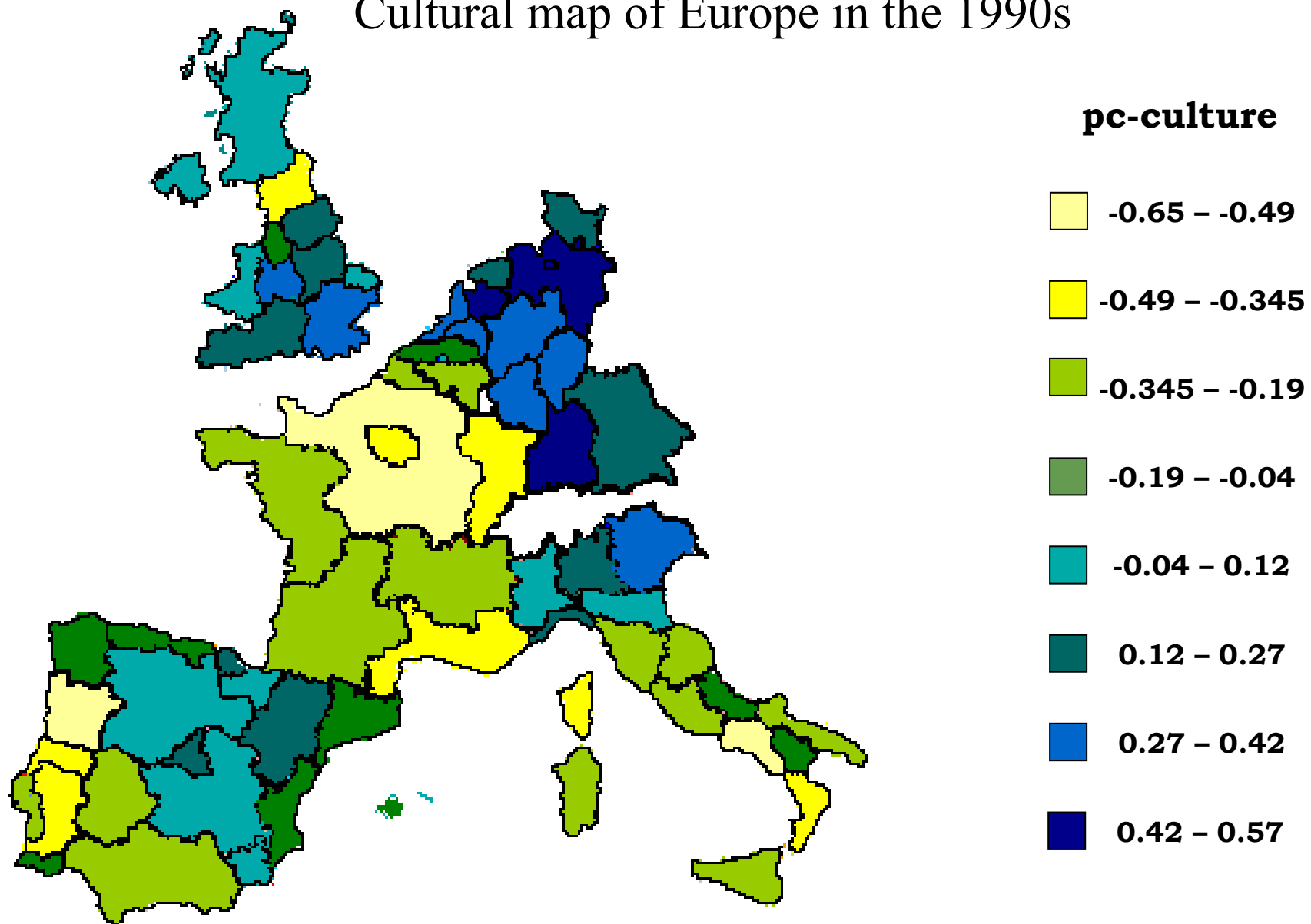Dependent variable: Regional per capita value added

Levels: 1995-2000; Growth: 1977-2000
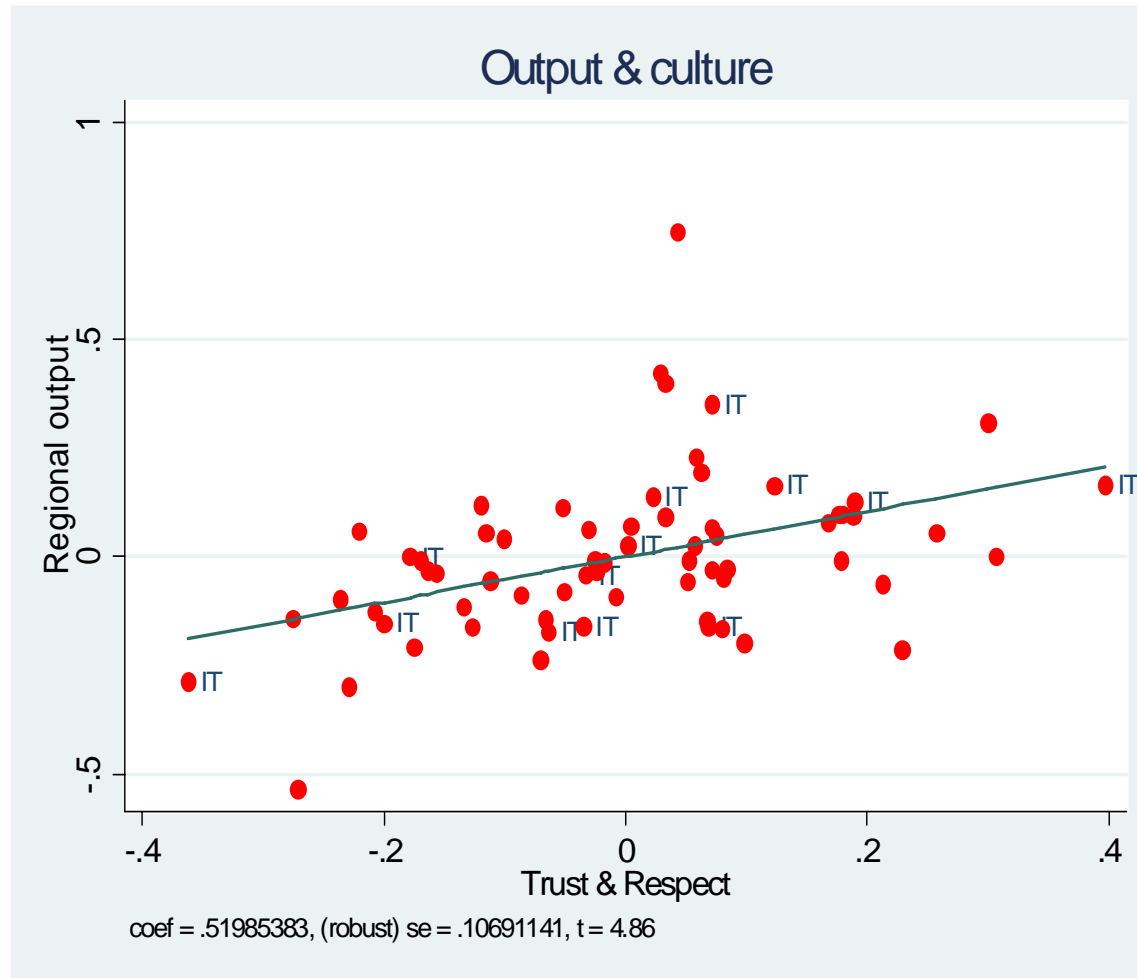
Key independent variable: regional Trust & Respect

Also control for (besides country FE)
- School enrollment in 1960
- Urbanization in 1850
- Literacy in 1880

Cultural map of Europe in the 1990s

pc-culture

☐	-0.65 – -0.49
☐	-0.49 – -0.345
☐	-0.345 – -0.19
☐	-0.19 – -0.04
☐	-0.04 – 0.12
☐	0.12 – 0.27
☐	0.27 – 0.42
☐	0.42 – 0.57

Output and values

Output & culture

coef = .51985383, (robust) se = .10691141, t = 4.86

Explain almost 1/2 of observed output difference between Lombardy & Southern Italy
Control for: country FE, contemporary education, urbanization in 1850, literacy in 1880
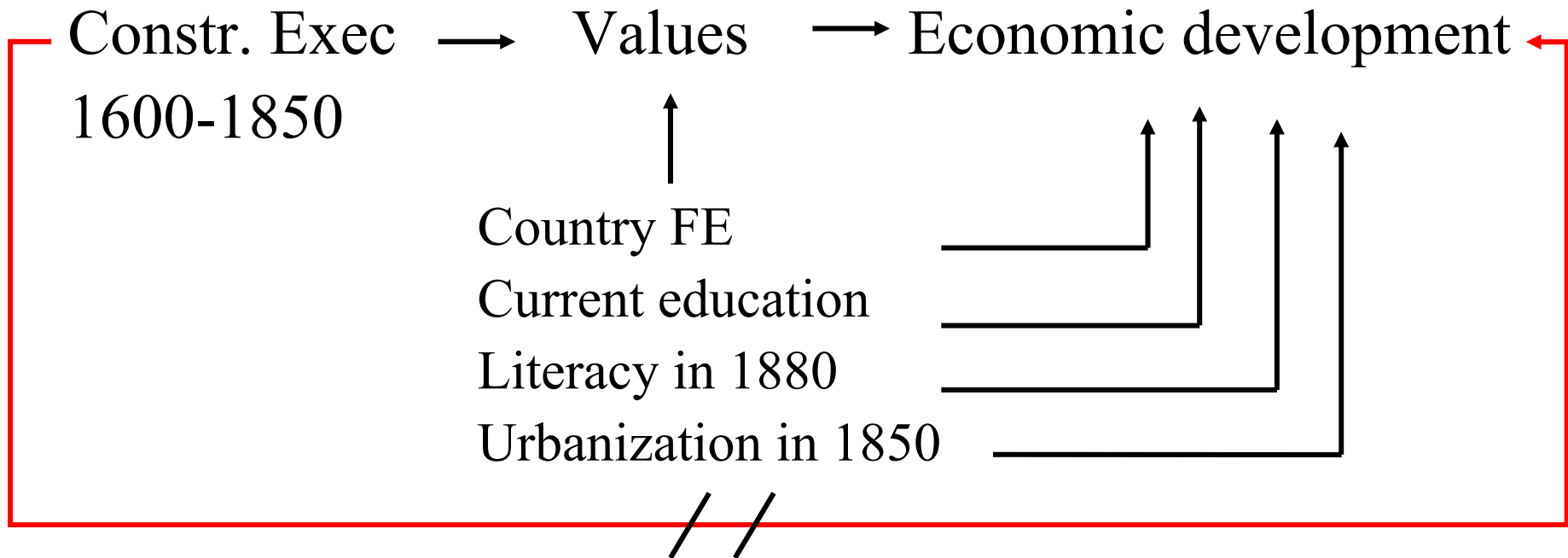
32

Slow moving component of values?

Distant political history in the region:

- – Constraints on the executive 1600-1850

Strong influence on regional values today after controlling for other covariates

Identification

Constr. Exec 1600-1850 → Values → Economic development

Country FE
Current education
Literacy in 1880
Urbanization in 1850

No omitted variable correlated with regional political history

Only exploit within country variation

But dependent variable is economic development, not just Q of G

34

Regional history, values & development

	Trust & Respect	Per capita output 1995-00	
Trust & respect		0.69 (0.29)**	
Past Constr. on executive	0.32 (0.04)***		
Estimation	OLS	2SLS	
Observations	67	67	

Explain over 50% of difference in *Y* betw. Lombardy & Southern Italy

Trust & Respect, Past constr. on exec vary approx over [-1, 1]
Also control for country FE, current education, urbanization in 1850

Regional history, values & development

	Trust & Respect	*Per capita output 1995-00*	Trust & Respect	*Growth 1977-2000*
Trust & respect		0.69 (0.29)**		1.40 (0.59)**
Past Constr. on executive	0.32 (0.04)***		0.29 (0.07)***	
Log per capita output 1977			0.23 (0.10)**	-1.32 (0.36)***
Estimation	OLS	2SLS	OLS	2SLS
Observations	67	67	67	67

Yearly growth ½% lower in Southern Italy than in Lombardy due to *Trust & Respect*

Trust & Respect, Past constr. on exec vary approx over [-1, 1]
Also control for: country FE, current education, urbanization in 1850, literacy in 1880

Values and voters' behavior

Nannicini, Stella, Tabellini, Troiano 2009

In Italy prosecutors need Parliament's approval to investigate elected representative

RAP: requests of approval to open criminal investigation

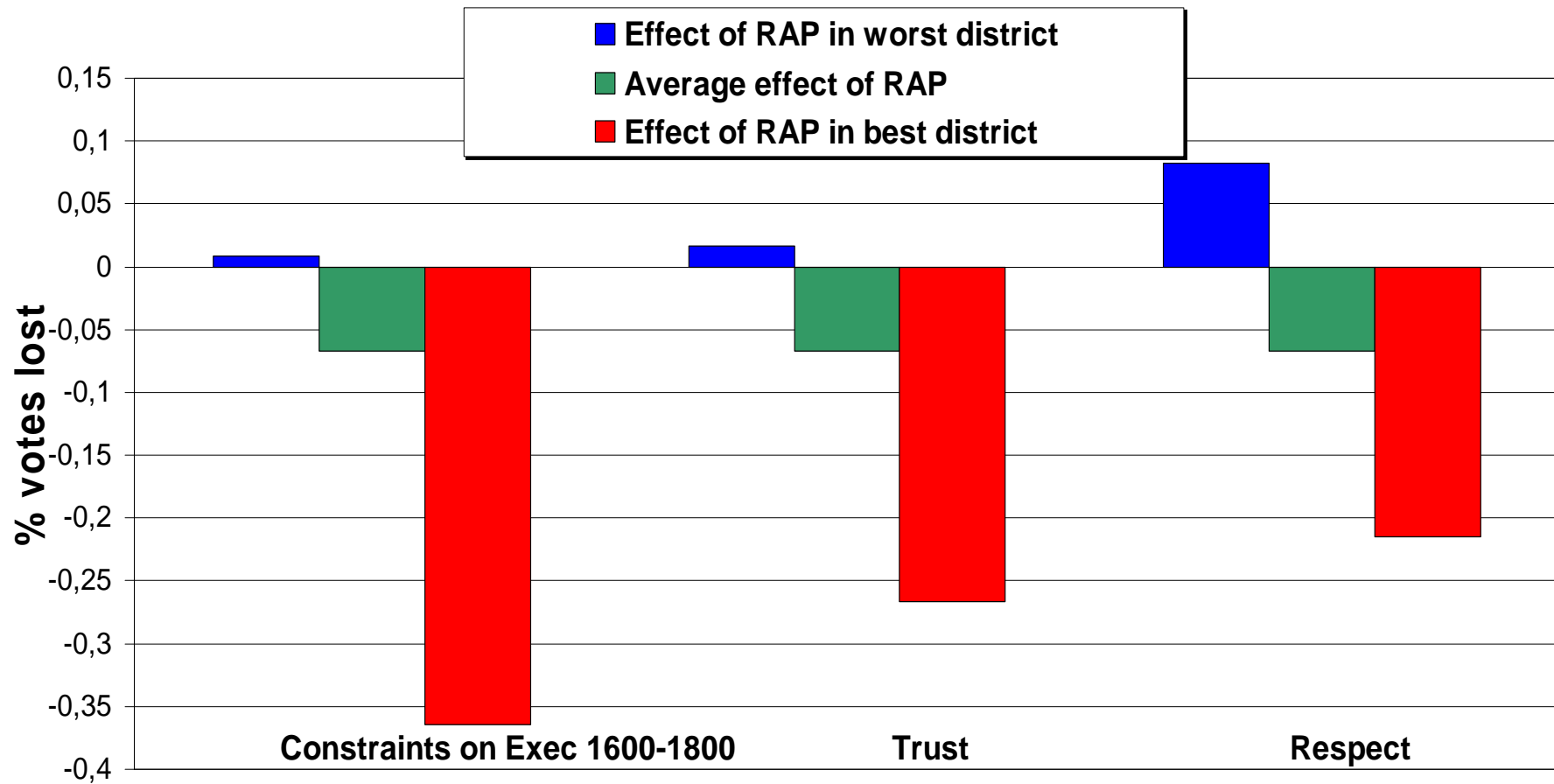Until 1993, Italian voters could express preference votes over individual candidates

How do voters react to RAP on incumbents in different districts?

Regress preference votes received on RAP, RAP * district features

Control for district & legislature FE, individual features of incumbent

Effect of RAP on preference votes by type of electoral district

Summary of the evidence

1. Past political institutions =>   Trust / Respect

    3rd generation US immigrants;   Regional data in Europe

2.   Subject to caveats on instruments

Trust / Respect => governance
    Cross country data

Trust / Respect => economic development & voters' behavior
    Regional data in Europe / Italy

An exciting research agenda!

Political economy:

Initial distribution of economic / political power => evolution of institutions

New questions:

- How do values influence economic / political interactions?

  How to model limited vs generalized morality ?

- How do values evolve over time ?

  Why do they reflect past institutions ?

- How do values interact with contemporaneous incentives and formal institutions ?

  As incentives change, how do values adapt ?

- Policy implications?

  Education;   Accountability of public services