

JUDIT KAPAS

University of Debrecen, Hungary

HOW CULTURE MATTERS: THE IMPACT OF INDIVIDUAL VALUES ON DEVELOPMENT

Abstract:

Recently, the view that culture matters for economic development has gained much ground within institutional economics; scholars have provided us with empirical evidence on the positive effect of culture on economic performance. This evidence shows, in some cases, the overwhelming effect of culture vis-à-vis that of formal institutions (Williamson 2009). In these investigations, culture is generally measured by the subjective evaluation of those answering the question “Do you think that most people can be trusted?” in the World Values Survey. However, whether an answer to this question really refers to culture has recently been doubted by a growing number of scholars, a problem which goes back to a somewhat ambiguous definition of culture. Another problematic issue here is that these empirical investigations do not rely on an economic theory concerning the effects of culture on economic performance, at least when it comes to the mechanisms through which culture may effect development.

One way to overcome these shortcomings – more importantly the “black box” view of culture – is to move from general statements about culture to a narrower, and consequently more reliable dimension of culture. My argument is that Schwartz’s (2006) theory of cultural value orientations developed in cross-cultural psychology can be fruitfully used for two reasons. First, this theory relies on a priori theorizing about three basic issues that all societies confront, rather than post hoc examination of data. Secondly, it captures only one, but an unambiguous, aspect of culture: individual values.

So, in this paper I argue that an analysis of individual values on economic development contributes to a clarification of the effects of culture by “unbundling” culture itself. Using individual values allows me to rely on theories of institutional economics – namely Williamson’s (2000) theory about the levels of institutions and of Boettke et al’s (2008) theory on institutional stickiness – to make hypotheses about their effects on development, and then empirically investigate them. The cross-country empirical investigation using the Schwartz Values Survey data on individual values provides evidence for the main hypothesis: individual values have no effect on development after controlling for formal institutions, and this result is different from the effect of the culture index derived from the World Values Survey and that of Hofstede’s “individualism”, and is very robust.

Keywords:

culture, economic development, institutions, individual values

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