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Analysis of the role of collectivism in light of the recent literature on the big triangle: Institutions, culture, and economic development

Necati Berk*

HSE University, Moscow, Russia

Abstract

Why do similar economic and political institutions function differently in various cultures? Do cultural traits, differences in individualism versus collectivism, have a causal impact on economic behavior and development? This article presents a recent survey of the literature on the relationship between culture, institutions, and economic growth. On the one hand, part of the literature indicates that there is a one-way causality from culture to institutions and economic performance. On the other hand, there is an extensive literature that has established causality from institutions to economic growth and culture. However, a growing body of empirical research demonstrates that culture and institutions interact in two ways and complement each other affecting long-term growth. Research documents cultural variables affecting a great deal of economic activity and institutions across the world. Recent dominant discourse on the role of the individualism-collectivism cleavage in the determination of the wealth of nations has attempted to examine the positive effects of individualism rather than collectivism. This paper shows that the advantages of collectivism have been rarely researched within economic literature. Taking into account collectivism can shed light on various puzzles in economics, such as solving collective action problems.

Keywords: institutions, economic development, culture, individualism, collectivism, family ties.
JEL classification: E02, O43, Z10.

1. Introduction

One of the most studied topics in modern economics is the impact of institutions on economic development over the last three decades (North, 1991; Hall and Jones, 1999; Acemoglu et al., 2001, 2006; Glaeser et al., 2004; Rodrik et al.,

* E-mail address: necatiberk34@gmail.com

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2004; Chang, 2011). There is no doubt that the existence of formal institutions has had a significant influence on the economy. However, it is not clear to what extent institutions have this kind of impact. Acemoglu et al. (2001, 2006) and Rodrik et al. (2004) see formal institutions as the main force behind differences in economic development. This is inconsistent with the view of Glaeser et al. (2004) and Chang (2011) that "good-quality" institutions are the result of economic wealth, not its driver. Although there are many countries with similar institutions in structure, the economic performance of these countries and functioning of these institutions vary considerably.

Mainstream economists (Acemoglu et al., 2001, 2006; Rodrik et al., 2004; Knack and Keefer, 1995) claim that "poor-quality" institutions are among the main reasons accounting for the underperforming economy of developing countries. In other words, they state that the variation of economic development is explained by the varying quality of institutions across countries. Therefore, the IMF counsels developing countries and lends funds to revise and regulate their institutions. Orthodox economists assume the existence of a unilateral relationship between institutions and economic development in which institutions affect development (Chang, 2011).

Even though economists have been paying more attention to the interaction between culture, institutions, and economy in the last two decades, the idea that culture and institutions affect economic outcomes is hardly novel. It has been emphasized by economic historians such as North (1981, 1991), Greif (1994), and lately Jones (2006). Nevertheless, development economists have not reached a broad consensus on how culture and institutions interconnect and evolve and impact economic outcomes. On the one hand, culture is considered to be the main factor behind differences in the quality of institutions and economic performance. On the other hand, culture and institutions are viewed as completing each other with mutual feedback, and affect long-term growth.

To sum up, new institutionalists have made a significant contribution to understanding the driving factors behind the economic growth disparities. They have demonstrated that institutions induce long-term growth. They concluded that institutions matter the most, not culture or geography (Acemoglu et al., 2001, 2006). On the other hand, a few cultural economists argue that culture, not institutions or geography, is the most crucial determinant of economic success across countries (Rose, 2018; Gorodnichenko and Roland, 2010). They conclude that culture shapes economic structures, thereby economic outcomes. Last but not least, some renowned scholars assert that we cannot differentiate between culture and institutions because they engage in a two-way relationship with one another (Alesina and Giuliano, 2015; Roland, 2016b). They emphasize that the interaction between culture and institutions actually influences economic activity positively and significantly.

The current dominant debate on the association between individualism-collectivism cleavage and the wealth of nations has focused on the positive effects of individualism rather than collectivism. Several empirical research papers have investigated the advantages of individualism for economic performance. For instance, Greif (1994) claims that individualist beliefs led to long term economic development in late medieval trade in the Mediterranean. Additionally, Gorodnichenko and Roland (2012) argue that individualism encourages people

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to engage in innovation and inventions. Moreover, Kyriacou (2016) asserts that individualism creates better governance, which is a robust protection of private property rights, rule of law, less corruption, and more efficient public administration. Therefore, this work has revealed that the studies have been limited mostly to "better" aspects of individualism.

This paper analyzes the current (post-2000) literature on the association between culture, institutions, and economic behavior. Specifically, this paper aims to re-explore the recent research about the interconnection between collectivist-individualist culture and institutions, and how that interconnection can impact economic growth. In addition, nowadays all governments emphasize the importance of a collective response to the pandemic in order to prevent the spread of the virus. Moreover, we can say that the crisis triggered by COVID-19 has unearthed; again, how crucial the role of collectivism is to overcome collective action problems. However, the "better" aspects of collectivism have rarely been researched within economic literature. Hence, the role of collectivism needs to be investigated more widely and deeply and this gap in the literature needs to be filled.

The rest of the paper is organized as follows. The second section will be investigating the intersection between culture, institutions, and economic development in more recent literature. This is followed by a brief overview of the relationship between institutions and economic growth. Then, the relation between collectivism and family ties is documented in a later section. Finally, the last subsection begins by reporting the most recent works about the impacts of individualism-collectivism dimension on the economic performance and quality of institutions.

2. Culture and economic development

Some of the most prominent scholars in the development community have paid close attention to the effects of culture on economic development and institutions in recent decades. Recently, researchers have demonstrated that the relationship between culture and economic development is strong. Many economic behaviors are determined by cultural variables (Alesina and Giuliano, 2015). One notable study by Gorodnichenko and Roland (2010), on Culture, Institutions, and the Wealth of Nations illustrates how culture has a very robust influence on long-term growth, even after they control for the effect of the formal institutions and other variables.

There are a large number of definitions of culture inside and outside the field of economics. According to Alesina and Giuliano (2015), it is essential to differentiate between theoretical and empirical definitions of culture. The previously cited scholars point out that the reason one should make a distinction between definitions, is that empirical studies merge values and beliefs in the same meaning. On the other hand, the authors highlight that theoretical studies consider values and beliefs separately. In empirical studies, most scholars in economics define culture as "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation", the definition initially introduced to economists by Guiso et al. (2006). However, in theoretical studies, Alesina and Giuliano (2015, p. 900) state that "*culture* means beliefs about the consequences of one's actions, but where these beliefs can be manipulated by

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earlier generations or by experimentation." They point out that what seems to be apparent at first sight from the theoretical definition, is that one's beliefs can be controlled or influenced by previous generations or by experiences. One can argue that learning from previous generations is vital, although it is underemphasized among cultural economists. Older generations play an essential role in shaping later generation's thinking patterns, social behavior, and preferences.

Culture is one of the most crucial determinants for shaping an individual's preferences, beliefs, and values, which in turn affects economic performance directly and indirectly. As stated before, some literature shows a robust association between culture, institutions, and economic development. However, there is not a broad consensus within cultural economists on the direction of causality. On the one hand, a part of the existing literature indicates there is a one-way causality between culture and institutions and economic performance (Rose, 2018). On the other hand, for a long time, extensive literature has established causality from institutions to economic growth and culture (Acemoglu et al., 2001, 2006.). Furthermore, a growing body of recent empirical research demonstrates that culture and institutions interact in two ways and complement each other (Alesina and Giuliano, 2015; Gorodnichenko and Roland, 2012; Roland, 2016b). In other words, the current research into cultural economics proves that there are two directions of causality and that there is mutual feedback between culture and formal institutions.

Several authors have emphasized, specifically, the importance of culture in shaping economic outcomes directly. For instance, one of the well-known cultural economists Roland (2016a) argues that culture is the main driving force behind various economic outcomes and behaviors. Also, Rose (2018) analyzes how culture matters for economic performance, not institutions, policies, genes, or geography. His central claim is that culture is vital in creating a high trust society, which is why he asserts that culture matters most. He also points out that property rights and the rule of law rely on an institutional foundation, and such an institutional foundation relies on a cultural base. According to this reasoning, it is central to understanding how the connection between culture and high trust society matters for sustainable development. Meanwhile, some economists have focused on the impacts of specific cultural variables such as respect, obedience, responsibility, and individualism-collectivism dimension which affect economic growth and institutions over time. Trust is one of the cultural traits that has been investigated most in empirical research hitherto (Alesina and La Ferrara, 2002; Alesina and Angeletos, 2005; Guiso et al., 2004; Algan and Cahuc, 2010, 2014; Algan et al., 2016; Borisova et al., 2017). For example, Tabellini (2008, 2010) shows how components of culture, such as trust and respect for others, are strongly correlated with not only economic performance but also institutional outcomes in a large sample of countries. Furthermore, Gorodnichenko and Roland (2013) present a model in which individualist cultures tend to adopt democracy faster than collectivist cultures.

Moreover, cultural aspects are examined further in various empirical studies. In one of those studies, Breuer and McDermott (2013) attempt to develop a theory based on the notion that respect for others and responsibility, which they call core values, influence productivity, physical and human capital accumulation, and output per worker. They assert that respect for others reduces the level of cheating and

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corruption in society and economic transactions, and people tend to invest more in physical and human capital in societies where relative responsibility is high. Furthermore, these scholars claim that core values increase trust and diminish the negative macroeconomic impacts of lower trust. In their empirical analysis, they find evidence consistent with the view that cultural traits such as respect for others and responsibility are significant determinants of economic performance. They suggest that their findings can be an alternative interpretation to scholars who claim that political and economic institutions are the key determinants of output per worker and economic growth.

In contrast to the above studies, Cassar et al. (2013) try to determine the causal impact of institutional quality on social capital such as trust and trustworthiness, and to better understand the relation between quality of institutions and cultural variables and how that relationship can sustain economic exchange. Their results reveal that there is a positive correlation between an impartial legal enforcement system and social trust and trustworthiness in which contract enforcement affects social capital. They claim that their findings imply that moral norms of cooperative behavior may emerge as a by-product of impartial formal institutions, and opportunistic behaviors can be affected by cultural background, initial trust, and trustworthiness when impartial legal institutions are absent in the markets. They believe the existence of a unilateral association between formal and informal institutions in which economic institutions influence culture and offset the mutual feedback between institutions and culture.

Mathers and Williamson (2009), also find that the impact of culture on economic development is relatively less significant than the impact of economic institutions such as the free market, democracy, property rights, and contract enforcement on long-term growth. In other words, their results reveal that the independence of economic institutions is crucial for successful long-term growth. Their results suggest that economic freedom is the driving force behind growth and economic performance, while the influence of culture on economic outcomes is quite weak.

Last but not least, Kapás (2017) criticizes the field of cultural economics for not having a well-developed theoretical framework. To put it another way, he claims that there is a lack of fundamental theory on how culture affects economic development. Tambovtsev (2015) points out that culture should not be investigated at aggregated level in economic research and each cultural variable must be examined separately. Bisin and Verdier (2017) also criticize the above discussions. They provide theoretical modelling of the interaction between culture and institutions. In their conclusions, they note that the relationship between culture and institutions is significantly non-linear. Therefore, they claim that a linear regression model used in empirical studies is not suitable when one aims to examine the relationship between culture and institutions.

After all, culture is mainly transmitted from previous generations to later generations. As a result, older generations play an essential role in shaping the later generation's thinking patterns, their social behavior, preferences, beliefs and values. Formal institutions are founded by mankind. Thus, one can agree with Rose (2018) that property rights, the rule of law, rely on institutional foundations, and such institutional foundations rely on a cultural base. Additionally, Roland (2016a) points out that culture tends to be changed slowly compared to formal

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institutions, which can change quickly. Hence, we can conclude that cultural variables might be the key elements in the formation and functioning of institutions and differences in growth rates across countries.

3. Institutions and economic growth

Ever since the late 1990s, as stated previously, the notion that "poor-quality" institutions are among the main reasons behind the underperforming economy of developing countries, has become a broad consensus within the development community (North, 1991; Chang, 2011; Acemoglu et al., 2001, 2006; Glaeser et al., 2004; Hall and Jones, 1999; Rodrik et al., 2004.). Since then, a number of the most prominent economists in the field draw attention to the connection between institutions and economic growth, and current literature has examined the effects of institutions on economic outcomes. Before going any further, what is the standard definition for an institution in the economic field? The single recognized definition is absent among scholars; however, a commonly used description initially introduced by North (1990, p. 3) is: "Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence, they structure incentives in human exchange, whether political, social, or economic."

Various studies examine the relationship between institutions and economic growth. For example, Dollar and Kraay (2003) investigate the association between trade, institutions, and economic growth. They note that countries that trade relatively more than others are, at the same time, countries with relatively good institutions. They also state that countries where colonial powers have established better institutions are, at the same time, the ones that are willing to trade more. They conclude that fast-growing, higher quality institutions and a large amount of trade go together. Moreover, Knack and Keefer (1995) focus on the role of institutions that protect property rights for economic performance. In their results, they find that countries with high protection of property rights have higher economic output and investment than other countries where there is a relative lack of securing property rights. Additionally, Hall and Jones (1999) report that institutions and government policies have an essential effect on capital accumulation, productivity, and thus output per worker, across countries. In other words, they come to the conclusion that institutions and government policies are the major determinants of a higher output per worker. Moreover, their results reveal a close and robust correlation between output per worker and the measures of institutions and government policies across 127 countries. They also assert that physical capital and education level have a partial impact on output per worker. However, it is not as significant as the measures of institutions.

Mainstream economists have instead historically stressed the importance of property rights, free market, democracy, and contract enforcement in terms of economic institutions (Acemoglu et al., 2001, 2005; Hall and Jones, 1999; Rodrik et al., 2004; Mathers and Williamson, 2009). They emphasize the importance of economic institutions because they maintain that economic institutions play a crucial role in the economy's structure. They significantly impact on investments in human and physical capital, and level of technology. For instance, if there is a lack of property rights in a country, individuals will not tend to invest in human

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and physical capital or increase the level of technology (Acemoglu et al., 2001). Moreover, they are also important for resource allocation. To put it another way, they help distribute resources more efficiently and determine who receives profits and incomes (Acemoglu et al., 2001, 2006). These institutions are endogenous and are also determined by political power. Acemoglu et al. (2001, 2006) claim that the question of why some nations are much more prosperous than others is connected closely with the question of why some nations have much "better" economic institutions than others. In their conclusion, they find that the driving force behind differing levels of economic growth lies in differences in economic institutions, not geography or culture. In other words, neither geography nor culture is significant for economic performance; nonetheless, economic institutions matter the most for long-term growth.

The currently dominant discourse on institutions has received a considerable amount of criticism inside and outside the field of economics. For example, Glaeser et al. (2004) argue that the role of human capital accumulation in building and improvement of institutions is not taken into account by Acemoglu et al. and "better" political and economic institutions are caused by economic growth; hence, institutions cannot be the main reason behind nations' wealth. Chang (2011) also criticizes the mainstream discourse on the interaction between institutions and economic growth, and claims it neglects several things. He suggests that there is a significant possibility that institutions can be altered by economic growth. He goes on to emphasize the channels of how economic development can change institutions. For example, rich countries' wealth has continued to increase as a result of growth. The increase in wealth might lead to increased demand for "higher-quality" institutions, and can make these institutions more affordable (Chang, 2011). To put it differently, the author claims that developed countries have made considerable adjustments and changes to many significant institutions, all while their wealth has continued to increase. In short, one should adopt a skeptical attitude towards the broad consensus that institutions are the major causes of economic development (Glaeser et al., 2004; Chang, 2011).

Meanwhile, according to traditional rational choice theory, people are rational decision-makers who always optimize their consumption under conditions of scarcity. Furthermore, one of the underlying assumptions about people's preferences in microeconomic analysis is completeness and ranking of the alternatives, which is that consumers can compare bundles of goods and rank them. This line of reasoning must align well with the idea that societies should prefer institutions which give them the most benefits and optimize their utilities. American new institutionalists claim that institutions are the major determinants of differences in economic success across the world. Then, this point of view yields several critical questions: why do some countries end up with "weak" institutions, if institutions are the leading cause behind long-term growth? Why do foreign introduced institutions fail in most developing countries? Why do the same economic and political institutions function differently in various cultures?

4. Collectivism and family ties

One of the frequently emphasized critical points in the definitions of collectivist culture is that individuals in such societies describe the groups they belong to as

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a family. To put it differently, other members of the community are considered an extension of their relatives. Therefore, the needs of the community are more valuable than the needs of individuals. Some of the significant collectivism indicators are that "adult children live with parents" and "resources should be shared with relatives." According to this line of reasoning, one can point out that family ties are a crucial part of a collectivist society.

In interesting research, Fincher and Thornhill (2012) report that parasite-stress has a positive causal impact on strong family ties. According to previously cited scholars, pathogenic diseases (currently COVID-19) have had a significant source of reproduction numbers (how contagious an infectious disease is) and death, thus of natural selection throughout human history. They highlight that the behavioral immune system, which comprises anti-parasite psychology and behavior, is one of the human adaptations for protection from parasite related diseases. Moreover, they maintain that the behavioral immune system leads to bias against those from outside of their community who are viewed as not clean, not healthy, or contaminated. The researchers also point out that the behavioral immune system also causes unwillingness to communicate with those who do not belong to their social groups since outsiders are viewed as a threat of potential new infections. Therefore, the authors claim that parasite-stress is the crucial determinant of strong family ties, and thus collectivism. Also, the authors use a measure of state-level collectivism for examining family ties in the U.S. since "collectivism includes strong family ties." In other words, collectivism and strong family ties are like substitute goods that could be used for the same purpose.

The household is an essential unit in various social sciences such as sociology, psychology, and economics. Many scholars have studied the effects of households on economic outcomes. Economists believe that close family ties have a significant impact on the whole economy. For instance, Alesina and Giuliano (2013) investigate how differences in family values and structures around the world affect a great deal of economic activity. They maintain that the available evidence is consistent with the view that family ties are the crucial determinant of social capital (limited and generalized trust), institutional quality, and economic development. Furthermore, the authors indicate that the unemployment rate of women, young adults, and older people is higher in societies where family ties are strong. Moreover, scholars also show that strong family ties have a negative causal impact on generalized trust and increase household production. However, they document in their empirical analysis that happiness, life satisfaction, and self-reported health are higher in countries where family ties are strong. To sum up, the authors found that strong family ties are negatively correlated with economic growth and quality of institutions, but positively correlated with well-being.

Moreover, Galasso and Profeta (2012) attempt to develop a model based on the notion that family structures influence the design of the public pension systems. In other words, they construct a model to analyze the relation between family culture and economic institutions. The scholars show that pension systems serve as a significant social security program for in-group redistribution in countries where the absolute nuclear family (weak family ties) are dominant. In contrast, pension systems act generously in societies where family ties are strong. They illustrate how the effect of family types is very robust with respect to the design of

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pension systems even after examining alternative variables such as legal origin, religion, and urbanization. The authors conclude that empirical evidence in their paper establishes a causal link from traditional family structures (family culture) to the design of the pension systems (institutions) across countries.

As already noted, family ties have been demonstrated as one of the critical factors in explaining the differences in economic outcomes across countries. In their seminal paper, Alesina and Giuliano (2007) state that strong family ties mean greater dependence on the family as an economic unit for providing goods and services, and lower dependence on social welfare programs and the market. To put it differently, strong family ties represent an alternative mechanism for dealing with a household member's lack of goods and services. The scholars also underline that more home production, higher fertility, and larger families are related to strong family ties. This result is due to the reduced participation of women in the labor market and the more traditional role of women in such countries. Moreover, the authors test second-generation immigrants in the U.S. to measure the influence of different cultural backgrounds on economic outcomes, holding the economic environment constant, avoiding the reverse causality and endogeneity of cultural indicators. The authors conclude that family type and structure has a significant effect on economic behavior and economic attitudes.

5. Individualist–collectivist dimension

The rise of interdisciplinary studies in economics is increasing faster than in the previous century. Especially the tools of psychology are now employed more often. For instance, the individualism–collectivism dimension is one of the terms used in cross-cultural psychology to distinguish societies from one another. The concepts of individualism and collectivism are well structured and developed by Hofstede (2001) in order to differentiate societies across the world. He defines *collectivism* as "a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty" (Hofstede, 2001, p. 92). He goes on and stresses the critical indicators in collectivist societies such as "harmony should always be maintained, and confrontations avoided," "adult children live with parents," "resources should be shared with relatives," "interdependent self," "the purpose of education is learning how to do," "hiring and promotion decisions take employee's in-group into account," and "collective interests prevail over individual interests." The author describes *individualism* as "a preference for a loosely-knit social framework in which individuals are expected to take care of only themselves and their immediate families" (Hofstede, 2001, p. 92). He emphasizes the leading indicators in individualist societies such as "speaking one's mind is a characteristic of an honest person," "individual ownership of resources, even for children," "adult children leave the parental home," "independent self," "the purpose of education is learning how to learn," "hiring and promotion decisions are supposed to be based on skills and rules only," and "individual interests prevail over collective interests."

Several scholars (Gorodnichenko and Roland, 2012, 2013; Kyriacou, 2016) employ the individualism–collectivism index to represent the cultural dimension. The authors take into consideration the difference between collectivism

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and individualism in terms of the cultural variable, terms which were coined by Hofstede et al. (2010). Hofstede, who initially used IBM surveys that are gathered from IBM employees in approximately 30 countries, has developed an index to measure individualism. As various surveys have revealed, Hofstede's measure of individualism has been expanded to over 100 countries. The spectrum ranges from 0 to 100, with 0 representing the most collectivist and 100 representing the most individualist. To illustrate what Hofstede means regarding collectivist and individualist society, the following descriptions are taken from the author's website:

> "The Netherlands, with the very high score of 80 is an Individualist society. This means there is a high preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only. In Individualist societies offence causes guilt and a loss of self-esteem, the employer/employee relationship is a contract based on mutual advantage, hiring and promotion decisions are supposed to be based on merit only, management is the management of individuals."[1]

> "South Korea, with a score of 18 is considered a collectivistic society. This is manifest in a close long-term commitment to the member 'group', be that a family, extended family, or extended relationships. Loyalty in a collectivist culture is paramount, and over-rides most other societal rules and regulations. The society fosters strong relationships where everyone takes responsibility for fellow members of their group. In collectivist societies offence leads to shame and loss of face, employer/employee relationships are perceived in moral terms (like a family link), hiring and promotion decisions take account of the employee's in-group, management is the management of groups."[2]

Schwartz (1994) introduced another index to measure the individualism–collectivism dimension. In the beginning, Schwartz's values scores were available for 38 countries. The number has increased to more than 80 countries over time. Kyriacou (2016) has used Schwartz's individualism index as a robustness check for Hofstede's individualism measure.

The present paper shows in section three that new institutionalists have stated that "better" economic and political institutions are the driving factors behind disparities in economic growth across countries. However, they did not address profoundly the question of why these institutions function differently in countries with similar institutional structures. To put it differently, though there are several countries with almost identical institutional structures, for instance, some countries in the European Union, the economic success and the operation of these institutions differ dramatically. Then, several scholars have tried to answer the above question and fill the gap. They point out that the critical reason behind differences in functioning institutions is differences in the level of individualism and collectivism among countries. For example, Kyriacou (2016) attempts to measure the effect of the individualist-collectivist dimension on the quality of

[1] https://www.hofstede-insights.com/country/the-netherlands/#
[2] https://www.hofstede-insights.com/country/south-korea/#

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government and investigates how the interaction between this cultural trait and the quality of government matters for development economics. His main conclusion is that individualism has a positive causal effect on long-term growth since individualism creates better governance, the reliable protection of private property rights, the rule of law, less corruption, and more efficient public administration. However, empirical evidence documented in his paper suggests that the positive causal effect of individualism on economic growth becomes insignificant in the presence of government quality. In other words, the author argues that individualism is statistically significant only in the absence of governance as an additional variable in the regression.

Gorodnichenko and Roland (2013) go a step further and claim that the origins of democracy have been due to the variations in the aspect of the individualism-collectivism dimension across the world. They develop a simple model based on the idea that the individualist-collectivist cleavage is a profound determinant of democratization. According to Gorodnichenko and Roland (2013), a crucial distinction between these cultural traits is that a collectivist society generates a higher pressure towards conformity and more resistance to radical institutional change. They claim that individualist cultures tend to adopt democracy faster than collectivist cultures, having the same level of autocracy at the beginning, even though collectivist culture could be better at solving collective action problems. Therefore, scholars claim that collectivism can often cause democratic failure in societies. In other words, they point out that collectivism can be a cause and an indicator of democratic instability in societies. Furthermore, they also show that collectivism often leads to having a "better" autocracy instead of democracy, while it is the other way around in individualist societies. They conclude that their finding was due to the higher resistance to radical institutional changes in collectivist societies.

In another paper, Gorodnichenko and Roland (2012) argue that the individualist-collectivist cultural dimension can affect economic growth through its impact on innovation. According to these scholars, individualism can be defined generally as stressing personal freedom and accomplishments. Thus, the scholars highlight that individualist societies give social status to those who have personal achievements such as important discoveries, inventions, artistic success, and such actions that distinguish a person from others. As a result, individualism encourages people to innovate and invent. Their empirical study shows that the individualism-collectivism cultural variable has a significant and robust impact on innovation and economic performance. Furthermore, they also report that other cultural indicators that are not associated with the individualism-collectivism dimension are insignificant and do not have a strong causal impact on economic development. To put it differently, the authors claim that the most crucial cultural trait that significantly affects economic outcomes is individualist-collectivist cleavage.

In an early and preliminary work, economic historian Greif (1994) tried to establish the effects of the individualism-collectivism cleavage on economic outcomes in history as far back as he could trace it. Economic historians believe that cross-cultural differences impacted economic activity even in the late medieval era, much earlier than modern institutions appeared. Greif studied the influence of collectivist beliefs versus individualist beliefs on social organizations and long-term economic development in the late medieval era. He demonstrated that

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individualist beliefs led to long-term economic development in late medieval trade in the Mediterranean. Then, in a recent theoretical work, Ahuja et al. (2017) try to construct a model to analyze the effects of individualism (time spent working alone) and collectivism (complementary time spent working with others) on economic performance across societies during the Malthusian-Agricultural Era (after the Neolithic Age and before the Industrial Revolution). In other words, they attempt to measure the effects of individualist-collectivist dimensions on population size, income disparities, and per capita income (GDP) by minimizing the impact of technological changes. The same authors suggest that the crucial factor behind the differences in income gap and per capita income is differences in culture across societies. They predict that both income disparities and per capita income are higher in countries where the individualism score is high. Also, they claim that evidence from historical data supports their predictions.

To be able to capture, clearly, the influence of cultural trait: differences in individualism versus collectivism on economic behavior, we should eliminate the effects of institutions and geography as much as possible. For this purpose, it is better to conduct a study on second or third-generation immigrants in a country that has relatively "higher-quality" institutional structures that have been stable over time. For illustration, Höckel (2018) focuses on the effects of cultural origin on second-generation immigrants on the labor market in the U.S. In particular, the researcher examines the relation between collectivism and the performance of male immigrants on the labor market in the U.S., using survey data from the U.S. The parents' country of origin is used as a measure of collectivism for the second-generation immigrants. Höckel (2018) finds that there is a strong positive causal impact of collectivism on labor force participation. The author also provides evidence that collectivism affects income levels positively on the labor market. Höckel emphasizes that employees with a collectivist background are better at working in teams and support their group mates more. Therefore, she shows that cultural origin affects the professional preferences of individuals significantly. Finally, Höckel suggests that considering cultural diversity can help policymakers integrate the labor market in the U.S.

In light of the above discussion, a fundamental issue with much of the literature on the role of the individualist-collectivist dimension in explaining development processes and differences in institutional quality is that research has tended to focus on the advantages of individualism rather than collectivism. To put it differently, even though vibrant new literature has developed up to the present time, empirical work on this topic has been limited to mostly "better" aspects of individualism. Therefore, the advantages of collectivism have not been dealt with in-depth and remain a neglected area in the field for researchers interested in the interaction between collectivist culture and economic development.

6. Conclusion

This review shows that new institutionalists found the existence of a single connection between institutions and long-term growth in which institutions cause long-term growth. Mainstream economists within the development community have made a substantial contribution to the analyses of the driving forces behind international discrepancies in economic growth. They concluded that institutions

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matter most, not culture or geography. Nevertheless, the idea that an institution causes economic growth has been gaining many criticisms due to the different measures of institutions and the direction of causality.

This paper also reports that an increasing number of studies have investigated the role of culture for economic outcomes. A few researchers claim that culture is the most significant determinant of economic performance across countries, not institutions or geography. They believe that culture shapes both institutions and economic behaviors. On the other hand, some well-known scholars argue that we cannot distinguish culture and institutions from one another. They point out that culture and institutions interact with each other, and this interaction has a causal impact on economic development. In other words, they suggest that researchers should pay attention to the channels of causality and the mechanism enabling the connection between culture and institutions. Therefore, one can say that cultural economists have not reached a broad consensus on the channels of causality.

The recent dominant discourse on the role of the individualism-collectivism cleavage in the determination of the wealth of nations has attempted to examine the positive effects of individualism rather than collectivism. To put it differently, various empirical work has been conducted to investigate mostly influence of individualism on economic outcomes. Scholars have found that individualism has a robust causal impact on the wealth of countries. However, as stated before, the main weakness in their research is that they almost invariably do not attempt to study the advantages of collectivism on economic performance across societies.

The work carried out to analyze the role of collectivism can be viewed as a contribution to the more recent literature. Taking into account collectivism can shed light on various puzzles in economics (Davis, 2014; Höckel, 2018). We cannot fully understand the key factors behind economic development if we do not comprehend how culture and cultural variables, especially collectivism, impact economic behavior directly and indirectly through their influence on institutions in particular. A more systematic, theoretical, and empirical analysis is required for a better understanding of the role of collectivism in shaping institutions' quality and economic attitudes.

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