

Culture and Economics

BY CLAYTON BROGA

The classical economists regarded culture as instrumental in shaping economic outcomes. At the turn of the 20th century, Max Weber expounded upon these ideas, insisting on religion's importance in developing capitalism in his famous book *The Protestant Ethic and the Spirit of Capitalism*. However, around the mid-20th century, many economists began to shy away from using culture as an explanatory variable. In part, it seemed like too nebulous of a concept — one that was hard to identify and isolate. So as statistical sophistication and technical tools advanced, culture gradually began to fade from discussion.

This same sophistication in modeling, however, has spurred a resurgence in cultural economics. In a recent paper, Luigi Guiso, Paola Sapienza, and Luigi Zingales of the University of Rome Tor Vergata, the University of Chicago, and Northwestern University, respectively, provide an overview of recent work on culture's effect on the economy. The authors narrowly confine their definition of culture to "those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation." They take a three-step approach: Show a direct effect of culture on beliefs and preferences, causally link those beliefs and preferences to economic outcomes, and prove this causality moves from culture to economics and not from economics to culture. Within this framework, Guiso et al. focus on three mechanisms by which culture can affect economics.

First, culture can affect *political* preferences, which, in turn, impact economic outcomes. Controlling for numerous variables, religion, and ethnic background significantly varied respondents' political preferences for income redistribution. Catholic and Protestant respondents, for example, had significantly more negative attitudes toward redistribution than those with no religion. Also, ancestors' country of origin mattered in preferences for redistribution. African-Americans and Americans with known African ancestors are 20 percent more in favor of redistribution than the average American.

The authors show that a significant positive relationship exists between respondents' preferences for income redistribution (revealed in a survey) and their states' efforts of redistributing income (as measured by taking the ratio of the share of state government revenues coming from progressive income taxes and the share coming from regressive

sale taxes along with other indirect taxes). The positive causal relationship is actually strengthened after testing for reverse causality, indicating that the respondents' culture is impacting state redistributive policies and not vice versa.

As a second mechanism, culture can affect *economic* preferences, which, in turn, affect economic outcomes. The authors conclude that religion and ethnic origin influence saving decision preferences. Catholics and Protestants are significantly more likely than nonreligious people to view teaching thriftiness to their children as an important value.

Furthermore, the thriftiness measure affects national saving rates. The authors argue that "a 10 percent increase in the share of people who think thriftiness is a value that should

be taught to children is linked to a 1.3 percentage point increase in the national saving rate." They acknowledge, however, that disproving reverse causality in this case is based on a "tentative" estimate; in other words, they were unable to fully conclude that culture-inspired preferences are leading to national saving rate outcomes and not the other way around.

The third mechanism provided by Guiso et al. is the effect of culture on *prior beliefs*, which, in turn, affect economic outcomes. For instance, the authors find that culture, as defined by religion and ethnicity, affects beliefs about trust. Being raised religiously increases the level of trust, as measured by survey response, by 2 percent and regularly attending religious services by another 20 percent. Also, there is a strong positive correlation between the average trust level in an immigrant's country of origin and trust in his new environment that holds over generations. And trust has a positive and statistically significant impact on the probability of becoming an entrepreneur.

Experiments able to take theories of culture's influence and subject them to rigid statistical analysis are valuable in deducing culture's economic impact. It is essential for economists, nonetheless, not to assume a significant causality between all forms of culture and economic activities. Rather, they should mimic the Guiso et al. methodology: Test the impact of narrowly defined cultural dimensions on specific preferences and beliefs, then test the impact of those preferences and beliefs on particular economic outcomes. If done properly, as Guiso et al. contend, "Importing cultural elements will make economic discourse richer, better able to capture the nuances of the real world, and ultimately more useful." **RF**

"Does Culture Affect Economic Outcomes?" By Luigi Guiso, Paola Sapienza, and Luigi Zingales. *Journal of Economic Perspectives*, Spring 2006, vol. 20, no. 2, pp. 23-48.