Alberto Alesina

Harvard University

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Question 1

The fundamental question for economists is to understand why certain countries, (nations, regions) have developed successfully while others are lagging behind. Answering this question will of course help in understanding how to defeat poverty.

In recent years economists have made progress by extending the realm of variables included in their models, empirical analysis and overall thinking. This process needs to continue if we want to be successful. The most promising and exciting areas of research in economics are those which lie at the border of the field (strictly defined) and touch upon other disciplines. Examples include political economics (bordering with political science), behavioral economics (bordering with psychology), law and economics (bordering with law of course) and recently cultural economics (bordering with sociology and anthropology). These developments have led also to a welcome deeper attention to long terms trends, historical analysis and the development of new and rich data sets. We are of course far from having definitive answers on many issues and more energy needs to be devoted along these lines.

I will elaborate on probably the less known of the subject matters mentioned above, which is the most recent and in my opinion very exciting, but very challenging: cultural economics. How many times in our casual conversations do we mention the word "culture" as an explanation of many things which are of relevance for economists such as savings rates, trust, attitude toward work, family relationships, the role and education of women, poverty traps, or hard work. How many times in our casual conversations do we wonder where different cultures come from? How many times do we wonder which, how and how quickly different cultures melt in the pot? Many times. But then, when as economists we try to understand those variables, we ignore culture. Researchers in others fields did not forget about culture. Weber postulated a cultural root for the development of capitalism, the protestant ethic, but neoclassical economists ignored it.

A new but rapidly growing body of research is taking, instead, the idea of including "culture" in our framework of analysis. Let's begin with a definition of culture: "The customary beliefs, social norms, and material traits of a nation, racial, religious or social group". A paper by Guiso, Sapienza and Zingales (2006) discusses this definition and the methodological issues related to the development of this field. [1]

Rather than discussing the question of culture in general let's discuss one example of a specific cultural trait: family relationships. In certain cultures families are very "tight" and family relationships are considered very important, for instance, in Mediterranean and Latin American countries; in other cultures the family is important but attitudes are more individualistic and family relationships are less important (say Anglo Saxon Countries and Scandinavian countries). How do these cultural traits affect many economic decisions?

Cross country comparisons are very suggestive and provocative, but from a scientific point of view they tell very little since too many things vary across countries. One needs to identify micro evidence, within countries, that is, one has to look at how different individuals within the same country behave as a function of their levels of family ties. By looking within a country, one can hold constant all the other characteristics and institutions of a country. A paper by Alesina and

[1] Guiso, L., P. Sapienza, and L. Zingales, "Does Culture Affect Economic Outcomes?" *Journal of Economic Perspectives,* 20 (2006), 23-48.

Giuliano (2010) is an overview of results regarding the role of the family relationship.[2]. The strength of family ties is measured by several answers from surveys about relationships between family members.

With strong family ties, the family becomes an organized production unit and it has important implications on: 1) the amount of home production: stronger ties imply more home production; 2) lower participation of women in the labor market and lower education of women; 3) lower participation of youngsters in the labor market; they live at home longer; 4) lower geographical mobility and, as a consequence, less flexible labor markets; 5) more reliance on the family as a producer of social insurance and care for the elderly and children, thus less demand for publicly provided social services; 6) more inward looking attitudes and less trust towards non family members; 7) a lower tendency to participate in social activities, lower political participation, and in general lower social capital.

Obviously, there is not an attempt to be normative here. Strong or weak family ties have different effects; they lead to different social and economic organizations. One cannot be ranked above the other. However, it is clear that these correlations (and potential causation) are extremely important in understanding various aspects of the economic structure, growth potential and poverty reduction policies. For instance, certain labor markets and social policies may have very different effects depending on the nature of family relationships. By ignoring these cultural aspects we may design the wrong policies and we may not understand why certain policies, say labor market regulation, may or may not work in different countries. This for instance is the point of a recent paper by Alesina, Algan, Cahuc, and Giuliano (2010). [3]

Progress along the line of uncovering causation is done by looking at immigrants in another country, typically in the US. This is how it is done. One can attribute to say, a Brazilian immigrant in the US the average cultural trait (in this case family ties) of his/her country of origin, Brazil. Then one can look at how a first, second,

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[2] Alesina A. and P. Giuliano (2010) "The Power of the family" Journal of Economic Growth, June 2010

[3] Alesina A., Y. Algan, P. Cahuc and P. Giuliano (2010) "Family values and the regulation of labor, " unpublished

etc. generation Brazilian immigrant behaves in the US. If he displays a behavior consistent with the strength of family ties in Brazil, this means that such cultural traits persist even in a different environment. Not only that, but the objective of isolating causality is reached by attributing to this Brazilian immigrant not his views (as measured by his answers to polls) but the average views of Brazilians in Brazil.

This opens up another fascinating question, namely how quickly cultures melt and how deeply. To some extent the U.S. is a successful melting pot, but cultural differences in behavior persist. What determines the speed of assimilation? How does the geographical distribution of ethnic groups matter, and how does it affect such speed? The answer to these questions may lead us to better understand immigration policies and better design policies to deal with assimilation. For instance, are small ethnic groups more likely to assimilate quickly or since they are small will they have a tendency to hold on more tightly to their cultural traits? Which cultural aspects assimilate more or less quickly?

The next question is where culture comes from. Continuing with this example, why in certain social groups, ethnicities, regions, and nations, are families tighter than others? One has to look deep into history to understand the answer. For instance, a hypothesis is that in the distant past the adoption of certain technologies rather than others created more or less of a need for women working in the field. That leads to a certain development of the role of women as “stay-at-home” mothers and wives rather than workers, which may affect for centuries afterwards the role of women and the organization of the family and society.

More generally, this type of analysis asks the question, “Where do preferences come from?” We as economists always start with the assumption that preferences are primitive, exogenously given and we have nothing to say about where they come from. Cultural economics will lead in the direction of being more ambitious. Perhaps we can make some progress in the explanation of where certain attitudes are born, how they persist and what leads to a change. As economists, not only do we think of preferences as primitive but also as constant over time. This cultural analysis will also help us understand the evolution of preferences and will link up with other fascinating areas of research like that of "persuasion," that is, how certain messages may change not only information and beliefs but also the utility function of individuals. Another connection here is with the literature on identity, pushed, amongst others, by George Karloff.

The nature of family relationships is only one example. Another widely studied cultural trait is trust. The importance of trust in economics cannot be overemphasized. In Ken Arrow's words "*Virtually every commercial transaction has within itself an element of trust, certainly any transaction conducted over a period of time. It can be plausibly argued that much of the economic backwardness in the world can be explained by the lack of mutual confidence*." What determines trust, its evolution, and its implications have been at the core of research in Cultural Economics. Work on trust spans from corporate finance to growth and development, to international trade, where trust has been shown to determine trade patterns. This point highlights another fundamental issue: individuals trust better and interact better with those who are more similar to themselves. The latter consideration has important implications for issues concerning the costs and benefits of ethnic fragmentation.

Religious beliefs may also matter and are certainly part of a broad definition of culture. Belief in the afterlife may have implications for what one does in the current life. Weber's views about the differences between Protestant beliefs and Catholic beliefs are the primary example of this point. Thrift may depend on your religious views. The role of women varies greatly in different religions.

One has to admit that to study culture is not easy. It is a concept that is hard to measure and it is easy to fall into a trap of "anything goes". We should maintain the rigor that economists have, even in the study of culture. Identification problems are huge. Reverse causality always looms in the background of these studies on culture. But we should not shy away from tackling big issues in economics. In my opinion, our profession is slipping too much into perfectly tight methodologies applied to smaller and smaller problems. We may perfectly identify certain things based upon "natural experiments". But what we uncover may be quite small and none very general.

Question 2

The answer to question 1) implicitly answers the second as well. The domain is advanced by including important but overlooked variables in the analysis. Graduate students are trained in thinking outside the box and pushing their creativity. The construction of new data sets has been part of the most important output of this research. Precisely because we are pushing the analysis towards domains not typically travelled by economists, one often feels the need to extend the coverage of data and to build new data sets including: historical data sets, geographical data sets, surveys, and experiments. Economists have began using (and extending when possible) surveys like the General Social Survey for the US, The World Values Survey and various regional surveys. Many experiments have been run, great efforts have been devoted to going back in history and collecting data on early institutions, agricultural technologies, human capital, etc. This is because one of the findings of this literature has been the long term persistence of cultural traits.