



# The cultural foundations of happiness<sup>☆</sup>



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## ARTICLE INFO

### Article history:

Received 18 April 2017

Received in revised form 27 June 2017

Accepted 2 August 2017

Available online 3 August 2017

### JEL Codes:

A13

E02

P48

I31

Z13

### PsycINFO Codes:

2960

2930

2010

### Keywords:

Self-determination

Culture

Trust

Subjective well-being

Happiness

Life satisfaction

## ABSTRACT

The paper provides a framework for how culture affects happiness. According to self-determination theory, well-being is driven by the satisfaction of three basic psychological needs: autonomy, relatedness and competence. We assess if, and to what extent, trust and the values of obedience and respect influence Europeans' satisfaction of these needs, controlling for income and education. We find a positive and significant impact for generalized morality (high trust and respect, low obedience), which is robust to different checks for endogeneity, including instrumental variable regressions at country, regional and individual level. Results suggest that lack of trust, high obedience and low respect not only reduce the wealth of nations, but also constrain the satisfaction of basic psychological needs, thereby hindering the individuals' fulfilment of happiness.

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## 1. Introduction

Culture plays a persistent role in economic outcomes. Research on this topic dates back to Weber (1905) and Banfield (1957), who stressed the importance of religion and social capital in economic development. Recent studies of a more causal nature show that the backwardness of many societies is rooted in low trust towards unknown others (Algan & Cahuc, 2010;

<sup>☆</sup> We thank Toke Aidt, Bruno Arpino, Sergio Beraldo, Reto Odermatt, Marco Pagano, Francesco Russo, Fabrizio Zilibotti, the CSEF, Collegio Carlo Alberto and ESt fellows and participants to the 2016 European Public Choice Society Workshop (Friburg) and to the 48<sup>th</sup> scientific meeting of Italian Statistical Society (Salerno) for their useful comments and suggestions.

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Guiso, Sapienza, & Zingales, 2006; Tabellini, 2010) and limited morality, according to which rules of good conduct and honesty apply only within circles of related people (Platteau, 2000; Tabellini, 2008). However, the role of culture in the broader concept of well-being is still underexplored. This is surprising given the growing attention towards concepts and measures of subjective well-being in economics and public policy (Algan & Cahuc, 2014; Helliwell, 2006; OECD, 2013).

This study investigates the role of culture in fostering well-being in European countries. We define culture in terms of persistent beliefs and values (Guiso et al., 2006) and rank societies according to whether honesty and good conduct are delimited by kinship relations (limited morality) or extended to unknown others (generalized morality). Empirically, generalized morality can be portrayed by high levels of trust and the internalization of individualistic values, for instance low obedience and high respect (Tabellini, 2008; Tabellini, 2010). From a theoretical point of view, we connect culture to well-being by relying on a well-established psychological theory, namely, the self-determination theory (SDT). SDT states that humans seek to satisfy innate basic psychological needs defined in terms of *autonomy* (acting concordantly with one's sense of self), *competence* (i.e. feeling a sense of accomplishment from one's own actions) and *relatedness* (feeling connected to individuals and groups). By satisfying these three needs, individuals thrive and experience higher levels of subjective well-being. In contrast, whenever the cultural and social characteristics of a country limit the fulfilment of the individual's basic psychological needs, well-being decreases (DeHaan & Ryan, 2014; Ryan & Deci, 2017).

The SDT is useful for two reasons. First, in contrast to the standard measures of happiness or life satisfaction, it goes directly to the mechanisms that drive individuals' subjective well-being. Secondly, the three basic psychological needs lend themselves naturally to the key cultural traits considered in the economics literature. Specifically, the need for *competence* would be better satisfied in countries where generalized morality sustains personal fulfilment, which is a feature of more horizontal-individualistic societies, where hierarchy is less pronounced and where the individual has priority over the group. In these societies, authority (e.g. parents) endorses individuals' control over choices and their feelings of effectiveness in dealing with the external environment (Chirkov, Ryan, Kim, & Kaplan, 2003; Grolnick, Ryan, & Deci, 1991; Iyengar & Lepper, 1999; Sagiv & Schwartz, 2000). Moreover, in horizontal-individualistic societies, where the value of independence is highly internalized (Triandis, 1995), the need for *autonomy* is satisfied to a greater extent. This implies that a high internalization of obedience hinders the individual's autonomy by limiting his/her ability to identify his/her own values and interests (Grolnick & Ryan, 1989; Phinney, Kim-Jo, Osorio, & Vilhjálmsdóttir, 2005). Finally, one's need for *relatedness* may be better satisfied in societies where generalized trust is high and where value internalization is high for respect and low for obedience. In those societies, respect for others stimulates social relations, interactions transcend the borders of a selected group of closely related persons and autonomy support creates the conditions for individuals to experience relatedness (Baard, Deci, & Ryan, 2004).

To test these hypotheses we use data from the European Social Survey to build an index measuring basic psychological needs satisfaction. For what concerns culture, we derive measures of obedience, respect and trust, as in Tabellini (2010), from the European Value Study. Our empirical strategy consists in exploiting the variation in culture and needs satisfaction at different levels (country, region and individual) and in assessing the robustness of the culture effect to alternative models aimed at mitigating possible correlation between the cultural variables and the error term. In particular, through OLS cross-country regressions we first show the effect of generalized morality on the satisfaction of basic psychological needs. Second, we present an IV approach where lagged values of the country's cultural traits are used as instruments. Third, we consider regional variation of generalized morality within countries and instrument it with historical institutions and past literacy rates. Finally, at the individual level, we run an IV estimation of psychological needs satisfaction on the second-generation migrants' level of trust, which is instrumented with the trust inherited from their parents. All models include income and education controls. Results show that generalized morality (high trust and respect, low obedience) positively affects the satisfaction of basic psychological needs – and hence subjective well-being – with culture remaining robust to most of our estimation strategies. Our findings suggest, therefore, that there is a significant role for culture in well-being, which goes beyond its well-recognized effects on economic growth.

Our study contributes to the economic literature on culture and well-being as it is the first attempt to give theoretical foundations to how culture affects individuals' subjective well-being. Indeed, measuring satisfaction with autonomy, relatedness and competence provides a closer connection between a well-being approach grounded in psychology and the definition of culture in terms of values and beliefs adopted in economics.

## 2. Background

### 2.1. Culture and subjective well-being

The idea that culture is relevant to economic outcomes dates back to Weber (1905) and it was later invoked by Banfield (1957). While Weber stressed the role of the Protestant Reformation in fostering the development of capitalism, Banfield identified “amoral familism” – good conduct as a moral duty only among those with family ties – as the cultural root of the underdevelopment of southern Italy. Amoral familism and low generalized trust have recently been recognized as features of limited morality (Platteau, 2000; Tabellini, 2008) and are shown to be detrimental to economic growth (Algan & Cahuc, 2010; Guiso et al., 2006; Tabellini, 2010). In particular Tabellini (2008), Tabellini (2010) find that generalized morality has a causal role in the economic growth of European regions. The cultural components of generalized morality that he

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