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Individualism–collectivism, governance and economic development

Andreas P. Kyriacou *

Departament d'Economia, Facultat de Ciències Econòmiques i Empresarials, Universitat de Girona, Campus de Montilivi, 17071 Girona, Spain

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ABSTRACT

While an individualist society prizes personal control, autonomy and individual accomplishments, a collectivist one puts a premium on loyalty and cohesion and imposes mutual obligations in the context of in-groups. It has been argued that, in contrast to collectivism, individualism will promote economic development directly by sharpening individual incentives to invest, innovate and accumulate wealth. In this article, I argue that the individualist–collectivist dimension can also affect development through its impact on the quality of government. The in-group favoritism inherent to collectivist societies is likely to engender corruption, nepotism and clientelism in the public sphere. In individualist societies, the relative weakness of in-group pressures and an emphasis on personal achievement and worth will contribute towards a more meritocratic and efficient public sector to the benefit of long-run growth. Empirical evidence is provided suggesting that insofar as individualism affects economic development it does so because it promotes good governance.

1. Introduction

The individualist–collectivist (I–C) dimension has been identified by social psychologists as the most fruitful way of explaining cultural differences across societies (Oyserman et al., 2002; Kashima and Kashima, 2003). An individualist society is one where ties between individuals are loose and everyone is expected to look after themselves and their immediate family while in a collectivist one people are born into tightly knit in-groups that protect them in exchange for unquestioning loyalty (Hofstede and Hofstede, 2010). Individualist societies put rights above duties and emphasize personal control, autonomy and accomplishments while collectivist ones impose mutual obligations and expectations in the context of in-groups that are perceived to have common fates and goals (Hofstede, 1980; Schwartz, 1990; Triandis, 1995).

Because of the potential salience of the I–C dimension, scholars have pondered the extent to which this cleavage can directly explain cross-country differences in the level of economic development. By imposing social obligations on individuals to share their resources with other group members, collectivism may dull individual incentives to maximize income to the detriment of economic growth (Bauer and Yamey, 1957; Lewis, 1965). Moreover, because individualist cultures attach social status to self-reliance and personal achievements while collectivist ones tend to be conformist, then the former are likely to foster, entrepreneurship, innovations and discoveries that are instrumental in promoting long run growth (Gorodnichenko and Roland, 2011, 2015; Bauernschuster et al., 2012).

* Tel.: +34 972418716.
E-mail address: andreas.kyriacou@udg.edu.

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In this article I explore the possibility that the I–C cleavage may also impact on economic development indirectly through its effect on government quality that broadly refers to the extent that the state secures private property and the rule of law, is free of corruption and is endowed with an efficient public administration (La Porta et al., 1999). A large literature in economics has identified the crucial role of good government for economic development (for example, North, 1990; Hall and Jones, 1999; Acemoglu et al., 2001; Rodrik et al., 2004). Secure property rights and equality before the law encourage investments in physical and human capital and technology thus setting the foundation for long-run growth (Acemoglu et al., 2005; Voigt et al., 2015). Corruption is inimical to development since it implies the misallocation of public resources both directly, because of the appropriation of public resources for private gain, and indirectly, insofar as it distorts collective decision-making (Shleifer and Vishny, 1993; Bardhan, 1997). And an efficient public administration opens the way for the cost-effective provision of public goods beneficial for sustained economic growth (Mauro, 1995; Evans and Rauch, 1999).[1]

The connection between the I–C dimension and governance has been made by several authors. For example, Tanzi (1994) describes how individualistic societies tend to apply the “arms length principle” such that public decisions are guided by universalistic and objective criteria rather than personal relationships and cronyism. He suggests that in collectivist societies such behavior would seem alien and even immoral and would conflict with social norms that put family and friends first. In his monumental work on the emergence of rule of law and political order more generally, Fukuyama (2011, 2014) describes patrimonial states staffed with family and friends with little or no effort to treat citizens impersonally on the basis of universally applied rules. These states suffer from nepotism, clientelism and corruption. While not strictly framing his discussion in the context of the I–C cleavage, this author identifies the weakening of kinship ties and the emergence of individualism as important milestones on the road towards the attainment of rule of law that refers to both the application of laws equally to all citizens and government's respect of the body of laws in place.

Given the potential link between the I–C dimension and governance, in this article I consider the causal impact of this cultural cleavage on economic development in the presence of government quality. As such, this contribution can be placed in the context of a growing literature examining the effect of different cultural dimensions on governance and economic development (for a review, see Alesina and Giuliano, forthcoming). My empirical results indicate that the I–C dimension impacts on development entirely through its effect on governance. Specifically, the empirical analysis suggests that more individualistic countries tend to be wealthier because this particular cultural trait endows them with better quality governments. My findings are robust to the introduction of a range of potentially confounding variables as well as the application of estimation methods that deal directly with the presence of reverse causality or, in other words, the possibility that economic development may be an important factor driving both individualism and good governance.

The paper is structured as follows. In the next section I review previous work that has discussed the impact of the I–C cleavage on development either directly or indirectly through government quality. Having done so, I present my choice of data and empirical method. After that I report and discuss the main result and explore their robustness. I then conclude the article.

2. Previous work

Several scholars have explored the direct effect of I–C on long-run growth. Ball (2001) draws from Bauer and Yamey (1957) and Lewis (1965) to explain how in developing country settings, the strength of in-groups such as the extended family may be advantageous because they can provide informal insurance, but in more developed economies they may undermine growth prospects because social obligations to share within the family or group are likely to reduce individual incentives to invest and accumulate wealth. Consistent with this, Platteau (2000) points out that the fact that redistributive norms are not applied to foreign entrepreneurs is one reason why they tend to do relatively well in their host countries. More recently, experimental evidence from a number of developing countries has provided support for the idea that individuals faced with kinship pressures to share their wealth, adopt evasive strategies such as “excessive borrowing” to signal that one is cash constrained (Baland et al., 2011), or reductions in profitable but observable investment incomes (Jakiela and Ozier, 2016) to the possible detriment of economic growth.

Gorodnichenko and Roland (2011, 2015) have proposed that, from a theoretical perspective at least, the direct impact of individualism on long-run growth is ambiguous. On the one hand, to the extent that individualism attaches social prestige to personal achievements this is likely to spur innovation to the benefit of growth. On the other hand, collectivism can promote growth insofar as it facilitates the coordination of production factors and collective action more generally. (Conversely, individualism can hamper growth insofar as it undermines social coordination while collectivism can do so to the extent that it imposes conformism thus blunting individual initiative.) These scholars argue that the expected benefits of individualism affect the dynamic efficiency of the economy while the benefits of collectivism impact on static efficiency and, as such, they expect the former to swamp the latter. Consistent with this, their empirical analysis reveals a strong positive effect of individualism on output per worker, productivity and innovation. In the same vein, Bauernschuster et al. (2012) report evidence supporting the idea that individuals with a cultural orientation that emphasizes self-reliance are more likely to become entrepreneurs.

[1] Empirical work has tended to equate government quality with formal institutional quality. A widely used measure of institutional quality is a perception-based index of protection against expropriation of private property (for example, Acemoglu et al., 2001). However, Glaeser et al. (2004) show that such indicators are uncorrelated with objective measures of institutional constraints – like electoral rules or formal checks on the executive by the judiciary – and suggest that this is because they measure outcomes rather than formal institutional constraints per se. Because my analysis relates the I–C dimension to governance outcomes, I prefer the term government quality or governance instead of institutional quality (see also, Kyriacou, 2014).