



Are individualistic societies less equal? Evidence from the parasite stress theory of values



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ARTICLE INFO

Article history:

Received 11 October 2016

Received in revised form 23 March 2017

Accepted 3 April 2017

Available online 10 April 2017

Jel Classification:

I0

J24

I21

I31

Keywords:

Inequality

Individualism–collectivism

Two-stage least squares

ABSTRACT

It is widely believed that individualistic societies, which emphasize personal freedom, award social status for accomplishment, and favor minimal government intervention, are more prone to higher levels of income inequality compared to more collectivist societies, which value conformity, loyalty, and tradition and favor more interventionist policies. The results in this paper, however, challenge this conventional view. Drawing on a rich literature in biology and evolutionary psychology, we test the provocative Parasite Stress Theory of Values, which suggests a possible link between the historical prevalence of infectious diseases, the cultural dimension of individualism–collectivism and differences in income inequality across countries. Specifically, in a two-stage least squares analysis, we use the historical prevalence of infectious diseases as an instrument for individualistic values, which, in the next stage, predict the level of income inequality, measured by the net GINI coefficient from the Standardized World Income Inequality Database (SWIID). Our findings suggest that societies with more individualistic values have significantly lower net income inequality. The results are robust even after controlling for a number of confounding factors such as economic development, legal origins, religion, human capital, other cultural values, economic institutions, and geographical controls.

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1. Introduction

A rich literature in social psychology, and more recently economics, has identified the value dimension individualism–collectivism (IC) as one of the most important cultural determinants of economic growth and prosperity (Oyserman et al., 2002; Gorodnichenko and Roland, 2012). Broadly defined, the IC dimension is the degree to which people are embedded within groups in society. In individualistic societies the ties between individuals are loose and everyone is expected to look after themselves and their immediate family (Hofstede et al., 1991). Such societies place value on personal freedom, self-reliance, creative expression, intellectual and affective autonomy, minimal government intervention, and reward individual accomplishments with higher social status. Higher rewards generate productivity that makes societies richer by channeling entrepreneurial talent into experimentation and innovation (Gorodnichenko and Roland, 2012), but

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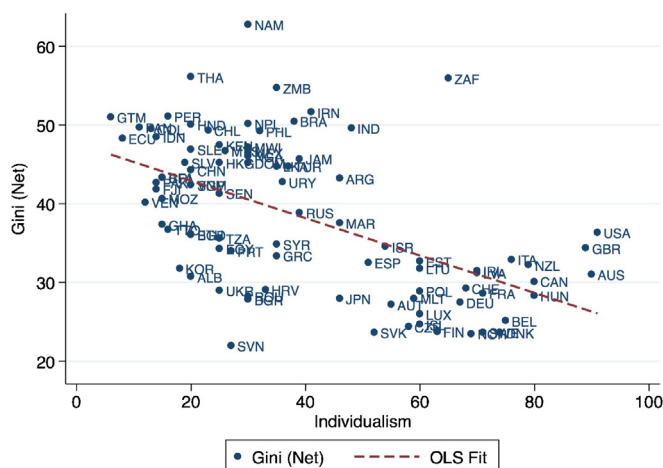


Fig. 1. Individualism and Income Inequality. Source: Data on inequality came from Solt (2016). Data on individualism were collected from <https://geert-hofstede.com/>.

the newly created wealth is inevitably distributed unevenly as entrepreneurs enter new markets and generate extraordinary wealth for themselves.¹

Collectivist societies, on the other hand, are the ones where individuals are born into strong, cohesive in-groups and receive protection from their extended family in return for unquestioning loyalty (Hofstede et al., 1991). Collectivism encourages conformity and discourages individuals from standing out from the group through variety of restrictive social norms that undermine individual achievement in favor of group solidarity, the status quo, and traditional order (Gorodnichenko and Roland, 2012). Indeed, as Pitlik and Rode (2016, p. 10) show, people in more collectivist societies are far more likely to support interventionist attitudes such as the belief that “government should take responsibility to ensure that everyone is provided for.” Such cultural attitudes play an important role in influencing redistributive policy, which can influence the net distribution of income.

In this paper, we examine the relationship between the cultural dimension individualism–collectivism and net income inequality. All else equal, are individualist societies more likely to have higher levels of income inequality compared to collectivist ones after taxes have been redistributed? On the one hand, as it is commonly believed, we would expect to see higher level of net income inequality in more individualistic societies, which tolerate greater individual differences, favor less redistributive policies, and have social and market institutions that promote higher economic inequality. On the other hand, collectivist societies, should have much lower net income inequality since individual preferences favor more redistributive policies and encourage conformity and the status quo. Yet, as Fig. 1 shows, the correlation between individualism and net income inequality across countries seems to go in the opposite direction – with more individualist cultures having lower levels of net income inequality. This empirical observation is quite puzzling in the face of an established literature, which shows that at the individual level there is a strong link between individualism and preferences for redistribution (Lansley, 1994; Alesina and Glaeser, 2004; Alesina and La Ferrara, 2005; Castell and Thompson, 2007; Quattrocchi, 2014). It is possible, of course, that the negative relationship in Fig. 1 is spurious capturing some third variable such as economic development that is unobserved. The graph is also merely correlational and does not imply causality. Thus, the starting point of our analysis are the issues of reverse causality and omitted variable bias.

To deal with these issues, we propose a potential instrument, the historical prevalence of infectious diseases, as a source of exogenous variation for individualistic values. There is by now substantial evidence in support of the so called Parasite-Stress Theory of Values (PSTV), according to which regional variation in infectious diseases influenced cultural traits such as xenophobia, openness, and ethnocentrism that led to the formation of social values associated with collectivism–individualism (Fincher et al., 2008), which, in the next stage, shaped economic outcomes at the regional level. Our analysis, then, is based on a rich literature in evolutionary psychology and biology that has identified the instrument *a priori* (Thornhill and Fincher, 2014). Thus, our paper contributes to the literature on the causes of economic inequality by suggesting that cross country differences in income inequality today have their deep origins in the historical prevalence of infectious diseases, which determined cultural values at the regional level.

Our results challenge the conventional view that individualistic societies are more prone to higher levels of income inequality. On the contrary, we find that even if people in more individualistic cultures are more likely to accept and encourage greater individual differences, they end up living in far more equal societies at the end of the day. In our 2SLS analysis, we find that the historical prevalence of infectious diseases is strongly and negatively correlated with individualistic values, which

¹ In economics, the trade-off between efficiency and equality is well-established theoretically, e.g., see Okun (2015).

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