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## **Economic Individualism and Government Spending**

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### **ABSTRACT**

Although cited as an important source of support for capitalism and laissez faire, the effect of economic individualism, which embraces the values of self-reliance, individual autonomy and freedom on government spending, has yet to be addressed. Hence, using data from the World Values Survey and Persson and Tabellini's *Economic Effects of Constitutions* datasets, I show that more individualist nations are associated with lower government spending and that the effect of economic individualism is stronger in countries with majoritarian elections and presidential systems. The results also show that institutions do not exert a uniform influence on government size, with most spending taking place under majoritarian elections and presidential systems in the most collectivist countries.

*Key Words:* Cultural Values - Economic Individualism - Government Size

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## Economic Individualism and Government Spending

### INTRODUCTION

Government spending varies greatly across nations: In some countries, government size, as measured by expenditure, is large; in others, government expenditures comprise only a small portion of the government budget (Torrisci, 2007). Even in countries with similar levels of socioeconomic development, income support policies and safety nets differ drastically (Alesina & Glaeser, 2004). Likewise, whereas some countries have progressive tax regimes accompanying their relatively larger governments and extensive welfare benefits, others have low tax rates (Persson & Tabellini, 2003). Nonetheless, although the literature on the factors that affect government size is extensive, the effect of cultural orientations on government spending has received limited attention (Oorschot, 2006). Rather, in explaining cross-national variation in government size, scholars usually focus on such factors as economic development and the socioeconomic and demographic conditions associated with it (Cutright, 1965; Wilensky, 1975), income inequality (Meltzer & Richards, 1981; Moene & Wallerstein, 2001), the strength of labor unions and left-wing parties (Huber & Stephens, 2001), working class movements and the political coalitions they engender (Esping-Andersen, 1990; Huber et al., 1993), partisan composition of governments (Hicks & Swank, 1992), electoral systems (Austen-Smith, 2000; Iversen & Soskice, 2006; Persson & Tabellini, 2003), and forms of government (Persson & Tabellini, 2003; Persson et al., 2006).

Only recently have scholars attempted to incorporate behavioral factors like ideological orientations and the policy preferences of the masses (Brooks & Manza, 2006; Gabel & Hix, 2005) or subjective beliefs about poverty (Alesina & Glaeser, 2004) to explain cross-national differences in government spending. Thus, although culturally shared values, and especially economic individualism, are cited as important factors in explaining low levels of government spending in the United States, there is a tendency to treat the U.S. case as an exception, meaning that research in this area is limited (although see Jacobs, 1992, King, 1973a, 1973b; Lipset, 1996, Lockhart, 2003a, 2003b, 2003c). In other words, cultural values and beliefs are not traditionally regarded as potential factors in the explanation of cross-national differences in government spending, probably because culture has often been treated as a "black box" (Acemoglu & Johnson 2005) and has remained a largely residual category in the explanation of policy outcomes. On the other hand, empirical evidence on the explanatory effect of culture on institutions (Greif, 1994; Zerbe & Anderson, 2001), institutional performance (Inglehart & Welzel, 2005; Licht et al., 2007; Putnam, 1993), economic growth and development (Granato et al., 1996a, 1996b; Inglehart, 1990; Tabellini, 2006), and public policy (Jacobs, 1992; Lockhart, 2003a, 2003b, 2003c) is accumulating.

The aim of this paper, therefore, is to show that cultural values should be taken into account in explaining cross-cultural differences in government size. Specifically, I argue that economic individualism—a cultural orientation that emphasizes the values of individual autonomy, self-reliance, and achievement and is associated with support for capitalism and *laissez faire* and preference for a limited role of government in the economy—should be negatively related to government spending. Because economic individualism is a cultural orientation, I draw upon theories and definitions of culture to build a theory about its role in explaining cross-national variation in government spending. At the same time, however, culturally shared values are translated into public policies through existing institutions. Hence, economic individualism's negative effect on government size should be conditional on the existing institutional framework.

Using data from the World Values Survey database and Persson and Tabellini's *Economic Effects of Constitutions* dataset, I show that economic individualism does indeed have a negative effect on government spending. The negative effect of individualism on government spending is moderated by existing institutions and is stronger in countries with majoritarian elections and presidential systems. In addition, I find that in the least individualist countries, most government spending is observable under majoritarian elections and in presidential systems, which implies that the effects of institutions are not uniform and are dependent on the cultural orientations of the country within which they operate. Therefore, this study also contributes to the literature by demonstrating the conditional effect of institutions on policy outcomes.

## **THEORY AND HYPOTHESES**

Culture consists of subjective beliefs and values that are widely shared by members of a group<sup>1</sup> and are transmitted from generation to generation through learning and

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<sup>1</sup> The group of people who share these common assumptions could be a nation or an ethnic or religious subgroup within a nation. In cross-cultural studies, most research uses nations as cultural units, although the assumption that nations are more or less homogenous with regards to cultural values is questionable. On the other hand, although nations may not necessarily be homogenous in terms of shared values, forces towards integration in established nations—including a common dominant language, political and educational systems, shared mass media and national symbols—could be said to produce substantial sharing of culture (Hofstede, 1980). Indeed, many nations are characterized by language policies mandating a *lingua franca* for use in education or government; such national education policies permit only slight regional variations in curricula or procedures and are small enough to be subject to relatively uniform geographical conditions (Smith et al., 2006, p. 56). Therefore, despite diversity, society's institutions press their inhabitants toward greater unity (Smith et al., 2006, p. 56). Thus, to assess cultural unity within nations, Schwartz (2004) compares the within and between-country cultural distances across various nations. He finds that the cultural distance between samples from different countries is almost always greater than the distance between samples

socialization (Hofstede, 1980; Triandis, 1994, 1995). Such culturally shared beliefs and values provide limits and act as effective guides for individual action and behavior. In other words, culture provides group members with a range of possible behaviors for meeting various goals. In addition, the adaption of these shared values and assumptions by the younger generation through learning and socialization means that culture has a stable element.<sup>2</sup>

All these features make culture an important component of social, political, and economic life and a vital element in understanding similarities and differences across countries. Cultural orientations influence the selection of what is considered socially important. Likewise, socially shared values about what is good, bad, and/or desirable are expressed in the organization and goals of institutions as well as in their modes of operation (Schwartz & Ros, 1995). In fact, many scholars argue that culture is an important element in explaining the cross-national variation in institutions (Greif, 1994, Zerbe & Anderson, 2001), institutional performance (Inglehart & Welzel, 2005; Licht et al., 2007; Putnam, 1993), economic growth and development (Granato et al., 1996a, 1996b; Inglehart, 1990), and public policy (Jacobs, 1992; Lockhart, 2003a, 2003b, 2003c).

Cultural beliefs and values also affect political outcomes by providing shared expectations and common points of concern and by constraining the range of options available to the members of a society. Most particularly, culture influences individual perceptions, categorizations, beliefs, ideals, values, and expectations (Triandis, 1994) and is thus a judgment standard that shapes the way members of cultural groupings view their environment and evaluate various events and phenomena. As a result, individuals socialized into different cultural settings differ in the judgments and attributions they make about social and political issues. For example, Alesina and Glaeser (2004) show that Americans tend to attribute poverty to lack of individual effort and laziness, whereas citizens of most European countries blame contextual factors like luck or social and economic conditions. Since individuals who belong to different cultural contexts have different understandings and evaluations of similar situations, culture provides "societal common knowledge" (Greif and Laitin, 2004), a "'tool kit' of worldviews, which people may use in varying configurations to solve different kinds of problems and provides components that are used to construct strategies of action"

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from the same country, suggesting a similarity of cultural value orientations within a nation that could be used as meaningful cultural units.

<sup>2</sup> It is misleading, however, to see culture as completely static. Changes in physical, political, or economic environments may alter the cultural orientations shared by the members of the group (Bates & Franklin, 2003). Yet nor should the dynamic nature of cultural orientations be exaggerated: it takes both significant changes in the environment and time to alter a society's basic cultural configurations. Moreover, cultural change is usually slow, and when it occurs, it takes place more readily among younger than among older groups, resulting in intergenerational changes (Inglehart, 1990, p. 19).

(Swidler, 1986, p. 273).<sup>3</sup> Culture thus coordinates individuals' different expectations (Greif, 1994).

Because different cultures embody different norms and unstated assumptions, they produce different political outcomes. In fact, scholars like Greif (1994) provide evidence that similar worldviews influence institutional outcomes by coordinating group members' expectations. Greif points out that during medieval times, collectivist orientations among the Magribi traders led them to rely on a collective mechanism to prevent cheating by agents, whereas individualist Genoese traders relied on a structure with low levels of communication and no collective punishment, which thus required the development of formal legal and political enforcement institutions. Similarly, Zerbe and Anderson (2001) show that culturally shared beliefs helped gold miners in California overcome collective action problems during the Gold Rush. Among these American gold miners and their European counterparts, commonly shared beliefs about equality, fairness, respect for property, and rewards commensurate with work provided for the development of property arrangements based on individual claims. Miners from Latin countries, however, worked in corporate ventures, and the Chinese worked as contract labor for wages, with individual miners subject to control by a company or controlling organization. Both Greif (1994) and Zerbe and Anderson (2001) show that culture provides members of a society with a common understanding of the problems to be solved and facilitates similar expectations among them, such as the expectation that a trader cheated by an agent will report that agent to other traders. These understandings and expectations define the "toolkit" available to group members in their selection of appropriate institutions. Both examples also provide evidence for the effect of culturally shared values on cross-national variation in institutional arrangements.

Based on these observations, economic individualism should affect government spending by providing common points of concern and coordinating citizen expectations. Most particularly, economic individualism stresses the values of achievement, competition, self-reliance, and individual autonomy in decision making in the economic sphere. Economic individualism has from the beginning gone hand in hand with the development of capitalism; and self-assertiveness, competition, and a desire for fame (and thus presumably achievement) were highly valued during the rise of capitalism in Europe (Watson, 2005). Economic individualism is also believed to be an essential characteristic of American society (Uyl, 1986), one associated with support for capitalism, a market economy, a preference for smaller government, and a desire for social mobility (Feldman, 1988; McClosky & Zaller, 1984). Moreover, although earlier discussions of individualism portrayed it as an exceptional feature of the United States, research in cross-cultural psychology clearly shows that individualism is a cultural

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<sup>3</sup> Of course, not every individual shares precisely the same theory of the cultural code, but culture could be treated as a general *system of knowledge* differentially distributed among the members of a society yet partially realized in the minds of individuals (Keesing, 1974, p. 89).

dimension that varies across societies. The terms "individualism" and "collectivism" are also used in the context of social welfare and redistribution in several other countries, including Sweden (Bjork, 1972; Lockhart, 2003c), Britain (Beer, 1982; Jacobs, 1992; Kavanagh, 1985), France (Friedlander, 1962), and Japan (Martin & Stronach, 1992).

Although economic individualism is a thoroughly discussed and well-defined concept, there is almost no mention in the discourse of its opposite dimension, which may be termed "economic collectivism." If economic individualism is defined as individual autonomy and responsibility for making decisions in the economic sphere, with an emphasis on competition and achievement, then economic collectivism could be defined in terms of individuals' duties and obligations toward society in the economic sphere, as well as the embeddedness of the individual within the group in both private and economic matters. Because collectivist societies are characterized by the valuing of group interests at the expense of the individual, these societies can be expected to emphasize the moral *duty* of the society and the government to help those in need. Likewise, since individuals' welfare depends on the well-being and actions of the group, in societies with a collectivist focus, individuals can be expected to support policy outcomes that would benefit the nation as a whole rather than individual initiatives.<sup>4</sup>

Economic individualism, therefore, should affect government size by facilitating the commonly held values of individual autonomy, freedom, self-reliance, and concern with the well-being of the self as opposed to others. These values should result in policy debates that emphasize individual responsibility and effort in the economic sphere, as well as the limits of government interference in the economy. On the other hand, because collectivism emphasizes embeddedness, duty, and obligations, as well as concern for others' well-being, such debates should stress the need for government

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<sup>4</sup> The definition of individualism as concern for the well-being of the self (as opposed to others) does not bring with it a preference for the inequality of outcomes. In fact, those with a strong commitment to individualism also show care and concern for others' well-being. The values of individualism are also quite compatible with humanitarian values (Feldman & Steenbergen, 2001, p. 660). The distinguishing feature of individualism is the perception of individuals as responsible for their own well-being. Hence, individualists, or individualist societies, should prefer government policies that support individual initiative. On the other hand, individualists may still prefer actions that would enhance the welfare of the poor and needy but should prefer that those actions be individual like charity and private donations. Collectivists, in contrast, see the individual as embedded in the social group and should therefore see the group as responsible for the welfare of the society's members. Thus, whereas economic collectivism emphasizes the duty and obligation of society to care for others at the expense of individual autonomy, competition, or individual achievement, it should also be distinguished from egalitarianism, which could be defined as a concern with the well-being of others in the society and voluntary commitment to promoting their welfare (Schwartz & Ros, 1995). In fact, egalitarian cultures emphasize equality in the economic and political spheres in addition to social justice, freedom, and responsibility and honesty (Schwartz, 2004). Hence, although the terms egalitarianism and economic collectivism may seem to represent the same concepts, egalitarianism emphasizes voluntary commitment to the equality of outcomes, whereas economic collectivism sees it primarily as society's duty and obligation to provide for the well-being of its members.

action to provide for the members of the society. These common points of concern within societies constrain the range of options available to the actors designing redistributive institutions. For example, King (1973a, 1973b) observes that unlike their American counterparts, conservatives in Canada, France, Germany, and Great Britain are committed to making extensive use of state machinery and are not consistently anti-statist. In contrast, reforms expanding the role of the state in the U.S. were enacted by Congress and administrations of a generally reformist nature, mostly in times of national crisis, and were opposed by powerful interest groups (including trade unions). In other cases, however, governments with different ideological orientations expanded public ownership, under varying circumstances, causing little controversy about the role of the state in economic policy. King also notes that interest groups in the U.S. have been more concerned than those in other countries with keeping the state within narrow confines and that their opposition has taken the form of principled objections to any measures being introduced. That is, in the individualistic American society, there has been great concern for limiting government action in the economic sphere; whereas in more collectivist societies, even conservative elites and groups have not questioned whether it is the duty of government to provide social services.

Although economic individualism should be negatively related to government spending, culturally shared values are translated into policy outputs through institutional structures, meaning that their effect on policy outcomes should be conditional on the existing institutions. In fact, institutions affect many political outcomes, including electoral behavior (Cox, 1997; Shugart & Carey, 1995), party systems (Shvetsova & Ordeshook, 1994), legislative outcomes (Cox, 2000; Huber, 1996), government formation and termination (Martin & Stevenson, 2001), and economic policy (Persson & Tabellini, 2003). Therefore, in addition to socially shared values, institutions act as another constraint on policy. In other words, culture is not the only source of policy outcomes: it works in interaction with other variables like the extant institutional structure (North, 1994).

Institutional design therefore affects redistributive policies and explains some of the cross-national variation in government size. For example, majoritarian elections are more likely to produce single-party governments than proportional electoral systems. Such single-party governments tax and spend far less than coalition governments, in which each party has different spending priorities (Persson & Tabellini, 2003; Persson et al., 2006). According to Iversen and Soskice (2006), majoritarian elections affect social policy and redistribution through the propensity for right-wing governments to be elected. These authors also argue that in a two-party majoritarian system, center-right parties are more likely to win elections and redistribute less than the center parties in proportional systems, which are more likely to enter into coalitions with left parties.

Dispersion of political power within the state and the ability of minority interests to obstruct legislation are also cited as important factors in explaining government size and redistributive policy. According to Huber et al. (1993) and Swank (2002),

presidential systems, by dispersing political power and offering multiple veto points of influence in the making and implementation of policy, deter the expansion of the welfare state. In contrast, Persson and Tabellini (2003) point out that the greater concentration of powers in parliamentary regimes makes it easier for politicians to collude with each other at the expense of voters and results in higher rents, higher taxes, and higher government spending (pp. 23–24).

Since preferences are reflected in policies through existing institutions that also act as constraints, institutions should moderate the effect of cultural orientations. Because majoritarian elections are associated with small governments (based on the assumption that single-party governments are tempted to spend less), individualism's negative effect on government spending should be much more pronounced under majoritarian elections (Hypothesis 1). In other words, majoritarianism should be associated with lower government spending, and this effect should be larger if the culture is individualistic. On the other hand, although majoritarianism is usually associated with smaller governments, in majoritarian systems even a small change in voter preferences can have an important effect on which party holds the majority (Gabel & Hix, 2005). Thus, when elections bring to power parties whose voters value more equal income distribution, single party governments may in fact end up taxing and spending more. In these countries, even right-wing parties may prefer higher redistribution than their counterparts in more individualistic countries. Hence, although majoritarian elections may tend to lead to smaller governments, this may not always be the case: if the culture is collectivist, the highest spending may be observable under majoritarian elections (Hypothesis 2).

Scholars also argue that presidential systems lead to less government spending owing to the presence of veto players that block pro-spending legislation. Since individualism leads to preferences for smaller governments, when coupled with a presidential system that makes policy change difficult, the decrease in government spending should be larger (Hypothesis 3). On the other hand, in countries where collectivism is a widely shared value orientation, veto players should be more likely to be pro-spending and therefore deter reform attempts toward decreasing expenditure. If so, then in less individualistic countries, presidentialism should be associated with higher redistribution (Hypothesis 4).

Testing these hypotheses first requires a measure of economic individualism at the national level. Therefore, the next section discusses the construction of this measure.

## **MEASURING ECONOMIC INDIVIDUALISM**

To build a measure of economic individualism at the national level<sup>5</sup>, I draw on the World Values Survey (WVS). Although the WVS contains no items specifically devised to measure individualism, it assesses child-rearing values and work-related goals that tap individual autonomy, self-reliance, and achievement. One advantage of these items is that they measure core values uncontaminated by salient events, political frames, ideology, and partisanship. That is, because culture is transmitted across generations, it differs from other concepts like attitudes or orientations toward contemporary issues and events, or preferences for or affect toward objects or events in the social and political system. These latter, although they may be influenced by existing cultural orientations, are neither basic predispositions nor adaptations through learning that are transmitted across generations. A measure of cultural orientation, therefore, should include items that reflect individual core values.

Using individual values as indicators of broader cultural syndromes has several advantages. First, all cultures carry value components, guidelines about what is good, bad, and desirable. Second, because values are acquired both through socialization in dominant group values and through unique individual learning experiences, they partly reflect both the society's value priorities and individuals' specific experiences. These cultural value priorities make up a culture's shared, explicit and implicit value emphasis, which is passed on to group members through everyday exposure to customs, laws, norms, scripts, and organizational practices shaped by and expressive of prevailing cultural values (Licht et al., 2007). Lastly, values are quite stable psychological constructs that provide a convenient way of measuring culture, which is itself resistant to change in the short run.

Another advantage of using child-rearing and work values is that family values and ideals about child-rearing reflect individuals' principal concerns. In fact, child-rearing patterns in collectivist and individualist cultures differ: whereas parents in collectivist societies emphasize obedience, responsibility, and proper behavior, those in individualistic societies stress self-reliance, independence, and creativity (Triandis, 1989, p. 510). Child-rearing values are also used to measure valuation of survival versus self-expression (Inglehart & Welzel, 2005) and authoritarianism versus libertarianism

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<sup>5</sup> Although the individualism rankings of Hofstede and Schwartz are available, these constructs do not adequately capture the *economic* dimension of individualism, which emphasizes achievement, self-reliance, and individual responsibility. Hofstede's individualism index measures the degree to which individuals are integrated into groups. Schwartz's intellectual autonomy dimension emphasizes the degree to which individuals are expected to pursue their own ideas and intellectual directions independently, while his affective autonomy dimension captures whether individuals are encouraged to pursue positive experiences for themselves. The fact that these measures also correlate highly with socioeconomic development and Inglehart's self-expression dimension and post-materialism index (Inglehart & Oyserman, 2004) suggests that they capture some aspect of socioeconomic development and modernization.

(Flanagan & Lee, 2003). Work goal items, on the other hand, are used by Hofstede (1980) to measure broader cultural syndromes including individualism.<sup>6</sup>

As of 2008, the WVS dataset included 83 countries. For this study, I chose the latest wave for which data are available, which for most countries is the fourth wave conducted between 1999 and 2001. Some countries, however, had to be dropped because of missing key items, sampling problems, or questionable respondent comprehension, so the final measurement model includes observations from 62 countries.<sup>7</sup>

The first item included in the model asks respondents to indicate which of two statements they agree with more: "Regardless of what the qualities and faults of one's parents are, one must always love and respect them" and "One does not have the duty to respect and love parents who have not earned it by their behaviour and attitudes." These statements (taken from the English language version of the survey) assess whether the respondent values individual autonomy at the expense of close family relations; the outcome should therefore be negatively related to economic individualism. As regards the ideal qualities for children, the WVS presents respondents with a list of qualities that children could be encouraged to learn at home and asks them to choose up to five. From these items, I select independence, imagination, feeling of responsibility, and hard work. Choosing independence and imagination as desirable child qualities could indicate valuation of individual autonomy and individual freedom. Because individualism is also associated with individual responsibility, I add responsibility to the item pool. Hard work, the final child quality included in the model, taps individual duty and obligations as opposed to autonomy and independence.

The survey also contains items on work-related values. As in the child quality assessment, respondents are asked to choose from 11 items values that they think are important in a job. Here, however, the respondents are free to choose as many options as they like. Although not necessarily devised to measure economic individualism, some items should tap individualist rather than collectivist orientations. For example, responsibility, opportunity to use initiative, and achievement might be associated with

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<sup>6</sup> Although Hofstede's use of work values has been subject to criticism, the replication of surveys during the 1970s and 1980s produced results similar to his originals (Hofstede, 2003, pp. 66–68). In addition, the fact that Hofstede's cultural dimensions show substantive and expected correlations with other economic, geographic, and demographic indicators, as well as with other individualism measures (Hofstede, 2003), gives credibility to the use of work values in the measurement of cultural syndromes like individualism.

<sup>7</sup> These are Albania, Argentina, Armenia, Austria, Belarus, Belgium, Brazil, Bulgaria, Canada, Chile, China, Croatia, the Czech Republic, Denmark, the Dominican Republic, Egypt, Estonia, Finland, France, Germany, Great Britain, Georgia, Greece, Hungary, Iceland, India, Indonesia, Iran, Ireland, Italy, Japan, Latvia, Lithuania, Luxembourg, Macedonia, Malta, Mexico, Moldova, the Netherlands, New Zealand, Northern Ireland, Norway, Peru, Philippines, Poland, Portugal, Puerto Rico, the Republic of Korea, Romania, the Russian Federation, Slovakia, Slovenia, South Africa, Spain, Sweden, Switzerland, Taiwan, Turkey, Uganda, Ukraine, Uruguay, the United States, and Venezuela.

concern for achievement and taking responsibility for oneself. The item "a job that is interesting" should also be related to individual freedom and autonomy versus a perception of work as a duty.

The country-level individualism measure is derived by saving factor scores from a measurement model based on a confirmatory factor analysis (CFA) in which items are averaged across countries.<sup>8</sup> All selected items are specified as indicators of a unidimensional trait: economic individualism versus collectivism. Admittedly, however, because the survey respondents were allowed to select as many work-related items from the list as they wished, country-level acquiescence bias could be a problem. To account for the potential error introduced by national level acquiescence,<sup>9</sup> I add a measurement factor, which is also specified as a latent factor. The CFI of the proposed measurement model is .845, with a TLI of .768 and an RMSEA of .16,<sup>10</sup> which are close to the acceptable model fit. Since the number of observations and degrees of freedom are rather small, it is not surprising to obtain fit indices that are below the acceptable threshold (Jackson, 2001).

To test the validity of my economic individualism measure, I compare it with the individualism measures of Schwartz and Hofstede, both of which capture the degree to which individual autonomy and freedom are valued in a culture. Their measures should thus be moderately correlated with my economic individualism measure, which is in fact the case: my CFA-based individualism measure has a correlation coefficient of .48 with Hofstede's individualism measure and .47 with Schwartz's affective autonomy and intellectual autonomy measures. All these correlations are statistically significant at the  $p < 0.05$  level and thus provide some evidence for the external validity of my economic individualism measure. I also consider the possibility of cultural orientations' being endogenous with respect to government size. However, applying Hausman tests to the

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<sup>8</sup> Although it is tempting to take the mean value of the individual-level individualism scale and use it as an indicator for country-level individualism, this practice is not recommended by many researchers who point to the changing level of analysis when comparing cultures (Hofstede, 1980, 2003). Likewise, using within-society (individual-level) correlations to compare cultural orientations could be misleading because items that correlate at the individual level might not show internal consistency at a higher level. Hofstede (1980) labels this practice of constructing ecological indexes from variables correlated at the individual level the *reverse ecological fallacy* and suggests the use of ecological (between-society) correlations to devise such indices, calculated from the mean values of items for each society or from percentages or proportions in the case of dichotomous variables. This strategy is also employed by Hofstede, Inglehart, and Schwartz in their analysis of cultural value orientations.

<sup>9</sup> Research indicates that the acquiescence bias varies across cultures (see for example Van Herk, 2000).

<sup>10</sup> Although sample size affects variability in fit indices, some goodness of fit indices like the Comparative Fit Index (CFI) and the Non-Normative Fit Index (also known as the Tucker-Lewis Index or TLI) are reported to vary less as a function of sample size (Jackson, 2001; Marsh et al., 1988). These indices are therefore used in evaluating the model's goodness of fit and the internal consistency of the items.

model shows that the OLS and 2SLS estimators do not differ systematically, suggesting empirically that government size does not have a decisive influence on economic individualism. The model can thus be consistently estimated using OLS (Wooldridge, 2001, p. 119).

## DATA

To test the hypotheses on the effect of individualism on government size, I draw on the Persson and Tabellini dataset in the *Economic Effects of Constitutions* (2003), which includes various observations for a cross-section of 85 electoral democracies. All these observations are averaged over the 1990–1998 period.<sup>11</sup> To measure government size, I use central government expenditures as a percentage of GDP. These expenditures include spending on general public services, defense, public order and safety, education, health, social security and welfare, housing and communal amenities, recreation, cultural and religious affairs, economic affairs and services, and interest payments.

There is much debate in the literature about whether to use central or general government expenditures as the indicator of government size because spending incurred by federal states and local governments also makes up a substantive portion of general government spending. However, although general government expenditures are collected and released by the OECD, which embraces about 30 countries, central government data are compiled by IMF and World Bank and so are available for a much larger number of countries. I therefore choose central government expenditures to enable a larger dataset and more variance in the observations, and use a federalism dummy as a control variable.

The key independent variable is each country's factor score on the economic individualism scale, normalized to vary between 0 and 1. The analysis also includes the following control variables:<sup>12</sup>

*Democracy:* Democratization, by leading to party competition around the median voter, is expected to lead to an increase in public expenditures. The measure for democracy is the Freedom House civil liberties and political rights index, measured on a 7-point scale with 1 representing the highest degree of freedom and 7 the lowest.

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<sup>11</sup> The fact that the responses used to construct the individualism score were gathered later than the government spending data (1990-98) should not seriously matter since cultural values are highly persistent over time. The lack of an adequate number of observations made it impossible to use an earlier version of the WVS to ensure that the independent variable precedes the dependent variable.

<sup>12</sup> Other variables such as working age population, ethnic fractionalization, income inequality, and gender are also proposed to explain cross-national variation in public and social welfare expenditures. However, I excluded these variables from the models presented here in order to increase the degrees of freedom. In addition, the inclusion of gender variables and working age population does not produce substantive changes in model fit and the coefficients of other variables, while income inequality and ethnic fractionalization do not seem to have the proposed effects.

*Economic development:* As already mentioned, some researchers argue that the economic development and socioeconomic and demographic changes associated with modernization lead to pressures on governments to increase spending (Cutright, 1965; Wilensky, 1975). Therefore, economic development is captured by the log of per capita GDP.

*Older population:* According to Wilensky (1975), the mechanism that translates economic development into public policy is the transformation of the demographic structure. Specifically, Wilensky argues that economic growth and development lead to a decrease in birth rates, which in turn leads to an elderly society that forces governments to increase spending. In fact, most empirical research finds that an older population is the most robust predictor of government size and welfare spending. Here, an older population is measured as the percentage of the total population over 65 (averaged over the 1990–1998 period).

*Trade openness:* Some scholars also argue that economic openness puts more pressure on governments to increase spending to insure workers against the risks associated with domestic vulnerability to international markets (Cameron, 1978; Katzenstein, 1985). Trade openness is thus measured as the sum of the exports and imports of goods and services measured as a share of GDP (averaged over the 1990–1998 period).

*Federalism:* In line with Persson and Tabellini (2003), although they use central rather than general government spending, I include a control variable for federal systems. Federalism is a dummy variable equal to 1 if the country has a federal political structure.

*Majoritarianism:* The dummy variable for majoritarianism equals 1 if the entire lower house is elected under plurality rule.

*Presidentialism:* The dummy variable for the form of government equals 1 for presidential regimes, 0 otherwise.

I test the hypotheses on the effect(s) of economic individualism by running OLS regressions on three model variations: Model 1 includes the economic individualism measure in addition to control variables, and Models 2 and 3 test the effect of individualism moderated by electoral system and presidentialism, respectively.

## RESULTS

Table 1 presents the results of the OLS regressions for central government expenditures.<sup>13</sup> For all three models, the coefficients of the control variables are in the

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<sup>13</sup> Since the Persson and Tabellini dataset does not provide country-level individualism measures for all countries, the analysis only includes the following: Argentina, Austria, Belarus, Brazil, Bulgaria, Canada, Chile, the Czech Republic, Denmark, the Dominican Republic, Estonia, Finland, France, Great Britain, Germany, Greece, Hungary, Iceland,

expected direction. Thus, the democracy variable has a negative coefficient: governments in countries that score higher on the civil liberties and political rights index (classified as "less free") spend less than countries that score lower on the index (classified as "free"). Although this finding is in line with the proposition that empowerment of the masses puts more pressures on governments to increase spending on social services and welfare, the coefficient has a very large standard error and is not significantly different from zero.

In addition, despite claims that economic development has a positive effect on government size (Wilensky, 1975, p. 13), in my models, the coefficient of GDP per capita is negative and not statistically significant. Apparently, economic development is not a robust predictor of government size in all conditions. On the other hand, Wilensky (1975) also proposes that the effect of economic development on government spending can be mediated by demographic factors, most notably by the proportion of older individuals in the population. In fact, in this study, this percentage does prove to be a robust and significant predictor of government size. Trade openness, however, does not seem to have the proposed effect on government spending. Its coefficient is negative in Models 1 and 3 and although positive in Model 2 it is not statistically significant, which suggests that vulnerability to international economic forces does not necessarily lead to an increase in government size. Thus, in line with the findings of previous research (Huber & Stephens, 2001; Persson & Tabellini, 2003), trade openness fails to be a reliable predictor of government spending.

As expected, federalism, included as a control variable, is negatively related to government size, and majoritarian elections and presidentialism also have the expected effects on redistribution. That is, *ceteris paribus*, a country with a majoritarian electoral system can be expected to spend 3.8 percent less on general public and social services (Model 1). Similarly, presidential regimes, on average, are associated with 5.9 percent less central government spending (Model 1).

In Model 1, the key independent variable, economic individualism, has a negative coefficient; that is, as anticipated, individualism is associated with smaller government size. Specifically, all else being equal, the most individualistic countries can be expected to spend 4.5 percent less on public services than the least individualistic countries. However, because of the large standard error, it is not possible to reject the null hypothesis that the coefficient of the variable is not statistically different from zero. This finding is not surprising given that, as previously discussed, cultural values may not have a direct effect on policy outcomes and the effect of economic individualism on government spending should be conditional on the existing institutions that constrain policy outputs. In fact, the results of the second and third models provide empirical support for this argument: the coefficients of the interaction variables are in the

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India, Ireland, Italy, Japan, Latvia, Lithuania, Malta, Mexico, the Netherlands, New Zealand, Norway, Peru, Philippines, Poland, Portugal, the Republic of Korea, Romania, Russia, Slovakia, South Africa, Spain, Sweden, Switzerland, Taiwan, Turkey, Uganda, Uruguay, the United States, Venezuela, and Zimbabwe.

Table 1. Economic Individualism and Government Size (OLS estimates)

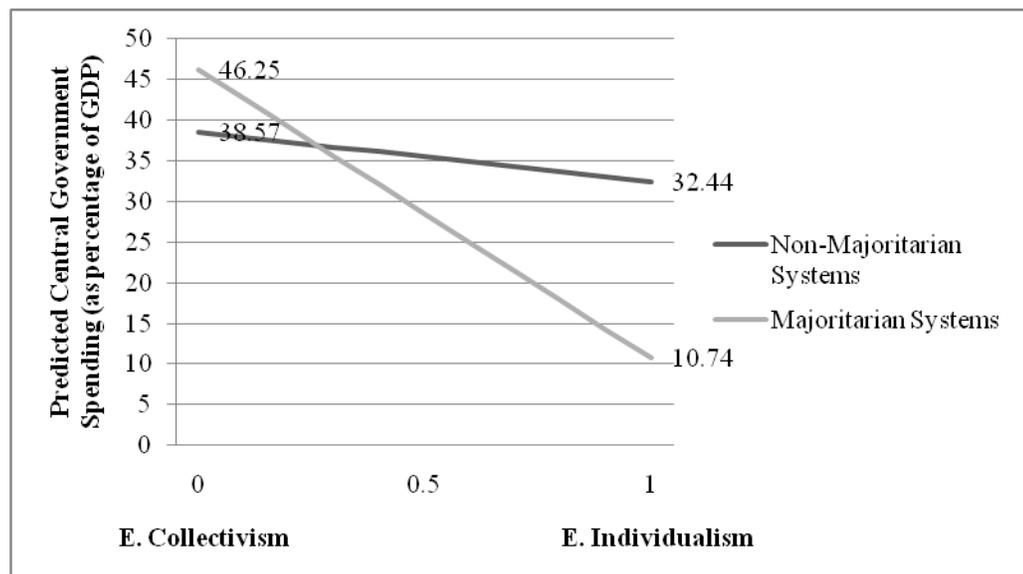
	Model 1		Model 2		Model 3	
	<i>Coef.</i>	<i>Std. Err.</i>	<i>Coef.</i>	<i>Std. Err.</i>	<i>Coef.</i>	<i>Std. Err.</i>
Constant	31.24	20.49	19.13	19.47	24.03	19.64
Democracy	-1.44	1.62	-2.19	1.53	-2.17	1.57
GDP per capita (logged)	-0.22	2.34	1.67	2.27	0.88	2.27
Old Age Pop.	1.07	0.4	0.97	0.37	0.93	0.38
Trade Openness	0.00	0.02	-0.02	0.02	0.00	0.02
Federalism	-5.51	2.65	-5.60	2.46	-6.07	2.52
Majoritarianism	-3.82	2.28	7.72	4.71	-4.51	2.18
Presidentialism	-5.91	2.9	-6.69	2.7	3.03	4.7
Economic Individualism	-4.58	6.02	-5.93	5.6	-3.39	5.73
E.Individualism*Majoritarianism	-	-	29.36	10.71	-	-
E.Individualism*Presidentialism	-	-	-	-	23.71	10.12
	N = 48		N = 48		N = 48	
	F (8, 39) = 11.01		F (9, 38) = 12.25		F (9, 38) = 11.52	
	Prob. > F = 0.000		Prob > F = 0.0000		Prob > F = 0.0000	
	R-squared = 0.6931		R-squared= 0.7437		R-squared = 0.7318	
	Adj. R-squared = 0.6301		Adj R-squared = 0.6830		Adj R-squared = 0.6683	
	Root MSE = 6.5206		Root MSE = 6.0363		Root MSE = 6.1746	

expected direction and are statistically significant. It should also be noted that the addition of interaction terms increases the model fit substantially. Specifically, the addition of the interaction of majoritarianism and economic individualism increases the R-squared from .6931 to .7437 and the inclusion of the presidentialism-individualism interaction increases it to .7318. The adjusted R-squared values for the three models are .6301, .6830, and .6683, respectively.

In both Models 2 and 3, the coefficient of economic individualism is in the expected direction as are the coefficients of the institutional variables unless their interaction with individualism is specified in the model. When majoritarianism or presidentialism is interacted with individualism, however, the coefficient is in the unexpected direction and not statistically significant, which implies that the effect of institutions on government spending is not direct but rather moderated by cultural values. Nonetheless, when the interactive effects are taken into account, the effects are in the expected direction.

Figure 1 plots the effect of economic individualism on central government expenditures, moderated by electoral system.<sup>14</sup> The relationship between economic individualism and government size is in the expected direction regardless of system type; that is, more individualistic countries have smaller governments under all conditions. Nonetheless, although individualism is associated with lower spending under

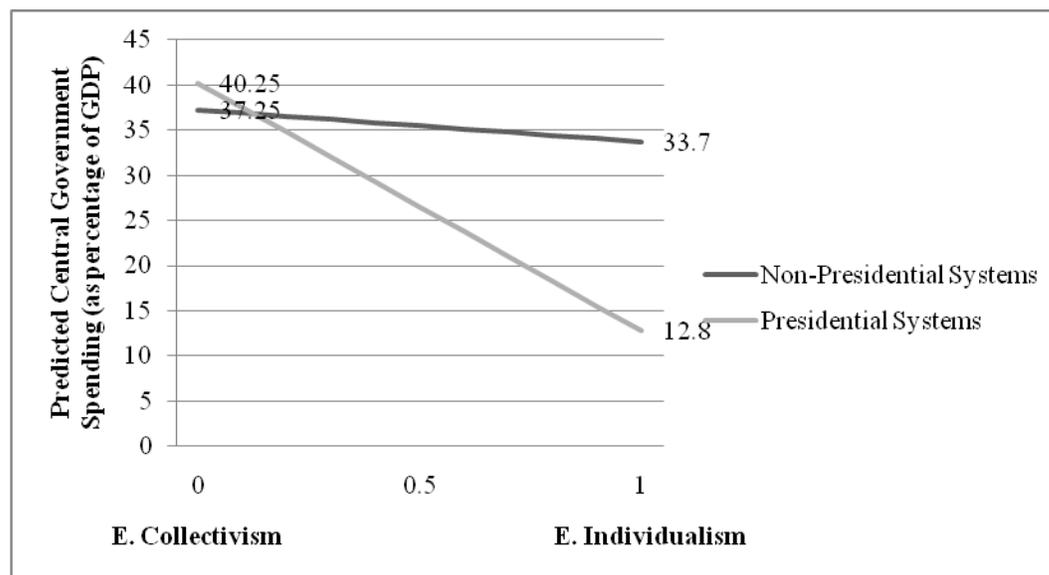
*Figure 1.* The Moderated Effect of Economic Individualism-Collectivism on Government Spending



<sup>14</sup> For the calculation of predicted values, the democracy, GDP per capita (logged), proportion of the elderly, and trade openness variables are set at their means, and the federalism dummy is set at zero.

all conditions, the decline is much more pronounced in countries with majoritarian elections, which provides empirical evidence for Hypothesis 1. In countries with mixed or proportional elections, the expected difference in central government expenditures is about 6 percent. On the other hand, countries with majoritarian elections exhibit much more variance in government spending: expenditures decrease by about 36 percent along the continuum from most collectivist to most individualistic. Apparently, under coalition governments, parties are pressed to spend more even when the dominant cultural values support smaller governments. The presence of majoritarian elections, however, strengthens the relationship between individualistic orientation and government size, and the most government spending is observable in the least individualistic countries with majoritarian elections. This finding implies that majoritarian elections are not necessarily associated with small governments under all circumstances. Rather, depending on the political context in which they operate, majoritarian systems can be associated with higher government expenditures.

*Figure 2.* The Moderated Effect of Economic Individualism-Collectivism on Government Spending



Similar trends emerge for the effect of economic individualism moderated by presidentialism (Figure 2). Again, more individualistic countries are associated with smaller governments regardless of government type, but the effect of individualism on government size is stronger under presidential systems, which provides empirical support for Hypothesis 3. Specifically, in non-presidential systems, the reduction in government spending between the least and the most individualistic countries is only

about 4 percent, but among countries with presidential systems, it is about 27 percent. Therefore, as expected, presidentialism strengthens the relationship between individualism and redistributive outcomes by leading to even greater reductions in government size. In contrast, parliamentary and semi-presidential systems are associated with lower reductions in government spending in more individualistic countries. As Hypothesis 4 predicts, the most government spending occurs in the most collectivist countries with presidential systems, which suggests that rather than being associated with low government spending under all circumstances, presidential systems have the effect of preserving the status quo. In less individualist countries, which value higher government spending, presidential systems with a higher number of veto points seemingly deter reform proposals favoring reduction in government expenditures.

## **CONCLUSIONS**

Overall, the results provide strong empirical support for the hypothesis that economic individualism is a cultural orientation that explains cross-national differences in government size, a finding that has important research implications. In political science, as well as in economics, culture has traditionally been treated as a “black box” in explaining policies, institutions, and institutional change. Yet, despite growing interest in culture as a variable that explains institutions and institutional performance and recognition of its centrality in explaining social, political, and economic outcomes, few of the numerous attempts to explain cross-national variation in government spending consider the effect(s) of cultural orientations like economic individualism. As a result, prior to this current study, the effects of economic individualism on government spending have been neither systematically tested nor employed as an explanatory tool for cross-national variation.

Another important finding is that the effect of economic individualism on government size is not direct but rather moderated by existing institutions—the electoral system and form of government. That is, culture works in interaction with other factors that also constrain policy outputs. This observation suggests that scholars working in the field of political culture should also consider the effect of other factors when theorizing about cultural influences. Equally important is the finding that the effect of institutions on policy is not uniform but rather conditional on a society’s value orientations. Thus, for example, majoritarian elections and presidential systems, which are associated with lower government spending, do not necessarily produce small governments under all conditions. Rather, contrary to conventional wisdom, in countries where collectivist orientations dominate the political context, these institutional structures are associated with larger governments. Both these results strongly imply that efforts to predict the effects of institutions on political outcomes should take into account behavioral factors like cultural influences or mass preferences.

In sum, the findings not only indicate that cultural orientations have a measurable and significant effect on policy, they also suggest an important corollary to the proposition that culture matters: the effect of culture on policy is not uniform across cultures. Rather, the degree and direction of culture's influence on policy depends on the existing social institutions. Nonetheless, although the results provide strong evidence for the effect of cultural orientations on policies enacted by governments, the research design addresses only one dimension of culture—individualism—and its effect on government spending. Hence, future research should address the effect of other cultural orientations on economic and social policies to develop a more systematic understanding of culture's influence on political outcomes.

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