

# Culture Rules: The Foundations of the Rule of Law and Other Norms of Governance

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## ABSTRACT

This study presents evidence about the relations between national culture and three basic social norms of governance: the rule of law, corruption, and accountability. Drawing on the prevailing theories of cultural dimensions in cross-cultural psychology, we derive testable hypotheses about such relations and test them in a broad sample of nations. We find strong systematic correlations between these norms and value dimensions and also differences among cultural regions. Cultural variables exhibit remarkable predictive power for governance, especially together with variables for economic inequality and British heritage. The results suggest a framework for understanding the relations between fundamental institutions of social order.

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## I. INTRODUCTION

Culturally diverse views on the rule of law as a desirable mode of governance date from antiquity. Socrates and Confucius expounded the classic and diametrical positions. The scholastic debate over the optimal mechanisms of social order has not subsided since. This debate has significant economic implications. A growing body of research suggests that economic performance is strongly related to the social infrastructure. The quality of a nations' legal institutions and the absence of corruption have been shown to affect per capita income, infant mortality, and literacy.<sup>1</sup> Other studies find positive associations between aspects of social infrastructure and national economic performance, development of financial markets, firm growth, and corporate finance.<sup>2</sup> Legality has also been shown to be instrumental in the success of structural reforms in transition economies, particularly in the area of corporate governance.<sup>3</sup> Corruption in particular has been claimed to affect economic performance negatively and to be a primary cause for failure of reform programs.<sup>4</sup>

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<sup>1</sup> See Daniel Kaufmann, Aart Kraay, & Pablo Zoido-Lobaton, *Governance Matters*, Working Paper, The World Bank (1999).

<sup>2</sup> See Stephen Knack & Philip Keefer, *Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures*, 7 *Economics & Politics* 207 (1995); Rafael La Porta *et al.*, *Legal Determinants of External Finance*, 52 *J. Fin.* 1131 (1997); Robert Hall & Charles Jones, *Why Do Some Countries Produce So Much More Output Per Worker Than Others?*, 114 *Q. J. Econ.* 83 (1999); Stijn Claessens & Luc A. Laeven, *Law, Property Rights and Growth*, working paper (2001).

<sup>3</sup> See Katharina Pistor, Martin Raiser, & Stanislaw Gelfer, *Law and Finance in Transition Economies*, EBRD Working Paper No. 48 (2000); Katharina Pistor, *Patterns of Legal Change: Shareholder and Creditor Rights in Transition Economies*, EBRD Working Paper No. 49 (2000).

<sup>4</sup> See Paolo Mauro, *Corruption and Growth*, 109 *Q. J. Econ.* 681 (1995); Paolo Mauro, *The Effect of Corruption on Growth, Investment, and Government Expenditure*, in *Corruption and the Global Economy* (Kimberley A. Elliot, ed. 1997); Kaufmann *et al.*, *supra* note 1; Knack & Keefer, *supra* note 2; Alberto Ades & Rafael DiTella, *National Champions and Corruption: Some Unpleasant Interventionist Evidence*, 107 *The Econ. J.* 1023 (1997); The World Bank, *World Development Report* (1997); Joel S. Hellman, Geraint Jones, & Daniel Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption, and Influence in Transition*, working paper no. 2444, The World Bank (2000).

The rule of law, curbing corruption, and accountability are the central tenets in a “good governance” agenda of the major international financial institutions (“IFIs”), namely, the International Monetary Fund (“IMF”) and the World Bank.<sup>5</sup> In deciding whether and how to assist a country, these institutions are guided by the country’s promotion of the rule of law, anti-corruption policies, and general principles of transparency, accountability, and fairness.<sup>6</sup> These principles also underlie the World Bank’s policy on empowering the poor.<sup>7</sup> International bodies are careful to acknowledge that reform programs need to be attentive to national cultures.<sup>8</sup> Nonetheless, some critics argue that the IFIs’ programs do not really take cultural factors into account,<sup>9</sup> and neither they nor the IFIs specify ways to achieve this goal.

This study advances a new framework for the discourse of culture and governance. It aims to integrate the discourse into established law and economics analysis. We propose that the rule of law, corruption, and accountability should be

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<sup>5</sup> See, for instance, International Monetary Fund, *Good Governance: The IMF’s Role* (1997). An updated overview of the World Bank’s position and activities can be found at <http://www.worldbank.org/wbi/governance/> (visited Apr. 22, 2001).

<sup>6</sup> See, for instance, The World Bank, *The Rule of Law as a Goal of Development Policy* (2000); The World Bank, *Helping Countries Combat Corruption: The Role of the World Bank* (1997).

<sup>7</sup> The World Bank, *World Development Report 2000/2001: Attacking Poverty*.

<sup>8</sup> For example, “*Cultural factors* touch upon issues of national sovereignty, values, and ideologies. External support for governance programmes should take into consideration changing national ideologies and sovereign goals of a country in addressing the requirements for governance. The prevailing concepts of sustainable human development and good governance are culture-bound to a large degree. Political, cultural, economic, and social circumstances will all contribute to indigenous definitions of sound governance. UNDP’s role, as demonstrated by the case studies, is to help develop locally meaningful views of what constitutes good governance. Governance programmes should reflect national cultural factors and should not impose western practices and ideologies.” United Nations Development Programme, *UNDP and Governance: Experiences and Lessons Learned* 110 (1997), available at <http://magnet.undp.org/docs/gov/Lessons1.htm>. See, with respect to corporate governance, Ad Hoc Task Force on Corporate Governance, *OECD Principles of Corporate Governance*, Document SG/CG(99)5 3 (1999).

<sup>9</sup> For a review see Susanne Schech & Jane Haggis, *Culture and Development: A Critical Introduction* (2000); see also Chantal Thomas, *Does the "Good Governance Policy" of the International Financial Institutions Privilege Markets at the Expense Of Democracy?*, 14 Conn. J. Int’l L. 551 (1999); Joel R. Paul, *Cultural Resistance to Global Governance*, working paper (2000).

perceived as part of a general category of social norms referred to as “norms of governance”. Social norms of governance prescribe desirable modes of wielding power. That is, they specify desirable or legitimate modes of conduct for people who exercise power and for people subject to power. In the public sphere, power is associated with authority. In the private sphere, power often has an economic character, such as market power, corporate control, or agency relationships. As social norms, norms of governance are likely to be compatible with the general cultural environment in which they exist.

We postulate that widespread compliance with formal legal rules, exercise of discretionary power undistorted by bribes, and feedback mechanisms of accountability are consistent with a culture that emphasizes pursuit of individual preferences and that views individual persons as equal. We hypothesize that, in societies characterized by such a culture, the normative environment will be more transparent and enable individuals to better plan their moves.

To test this broad, perhaps intuitive hypothesis, we draw on the prevailing theories and data on cultural value dimensions from cross-cultural psychology. We link these dimensions to an integrated set of indicators of perceived levels of governance. We find strong correlations between countries’ scores on the cultural dimensions and on governance, consistent with our theorizing. We further find that scores for governance are significantly higher in the English-speaking and West European cultural regions than in other cultural regions. These results are robust even after controlling for economic inequality and a history of British rule. We consider in detail the intricate interaction of cultural and governance factors with economic development. The results have direct implications for development and reform programs.

Part II presents the theoretical background and the hypotheses. Part III describes the data. Part IV presents the results, and Part V discusses some implications of the findings. Part VI concludes.

## II. THEORY AND HYPOTHESES

### A. *Values and Dimensions of Culture*<sup>10</sup>

Definitions of culture abound. In order to distinguish culture from other aspects of society that might influence governance, we define it in subjective terms as the values, orientations and underlying assumptions that are prevalent among the members of a society.<sup>11</sup> Values are the essence of culture seen this way. We adopt the definition of values as conceptions of the desirable that guide the way social actors (e.g., organizational leaders, policy-makers, individual persons) select actions, evaluate people and events, and explain or justify their actions and evaluations.<sup>12</sup> In this view, values are trans-situational criteria or goals (e.g. security, wealth, justice), ordered by importance as guiding principles in life.

The values that constitute a culture are the implicitly or explicitly shared, abstract ideas about what is good, right, and desirable in a society.<sup>13</sup> These cultural values (e.g., freedom, prosperity, security) are the bases for the specific norms that tell

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<sup>10</sup> For more detail, see Shalom H. Schwartz, *Cultural Value Differences: Some Implications for Work*, 48 *Appl'd Psychol. Int'l Rev.* 23 (1999), on which the following section draws.

<sup>11</sup> This definition is similar to that adopted in studies of the effects of societal development (e.g., Lawrence E. Harrison & Samuel P. Huntington, eds., 2000, *Culture Matters: How Values Shape Human Progress*) and widespread in cross-cultural psychology (e.g., J.W. Berry, M.H. Segall & C. Kagitcibasi, eds., 1997, *Handbook of Cross-Cultural Psychology*, 2nd Edition).

<sup>12</sup> Compare Clyde Kluckhohn, *Value and Value Orientations in the Theory of Action*, in *Toward a General Theory of Action* (T. Parsons & E. Shils, eds. 1951); Milton Rokeach, *The Nature of Human Values* (1973); Shalom H. Schwartz, *Universals in the Content and Structure of Values: Theoretical Advances and Empirical Tests in 20 Countries*, in *Advances in Experimental Social Psychology* (M. Zanna ed. 1992).

people what is appropriate in various situations. The ways that societal institutions (e.g., the family, education, economic, political, religious systems) function, their goals and their modes of operation, express cultural value priorities.

Because cultural value priorities are shared, role incumbents in social institutions (e.g., leaders in governments, teachers in schools, executive officers of corporations) can draw upon them to select socially appropriate behavior and to justify their behavioral choices to others (e.g., to go to war, to punish a child, to fire employees). The explicit and implicit value emphases that characterize a culture are imparted to societal members through everyday exposure to customs, laws, norms, scripts, and organizational practices that are shaped by and express the prevailing cultural values.<sup>14</sup> Thus, adaptation to social reality and informal socialization are just as central to the transmission of cultural values as is formal socialization.

Cultures encompass a wide variety of values. Rather than select values likely to relate to governance based on arbitrary intuitions, we draw upon the two theories of the key dimensions of culture currently prevalent in cross-cultural psychology. A common postulate in cross-cultural psychology is that all societies confront similar basic issues or problems when they come to regulate human activity.<sup>15</sup> Societal members, especially decision-makers, recognize and communicate about these problems, plan responses to them, and motivate one another to cooperate in coping with them. Values are the vocabulary of socially approved goals used to motivate action and

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<sup>13</sup> Robin M. Williams, *American Society: A Sociological Interpretation* (3rd ed. 1970).

<sup>14</sup> Pierre Bourdieu, *Outline of a Theory of Practice* (1972); Hazel R. Markus & Shinobu Kitayama, *A Collective Fear of the Collective: Implications for Selves and Theories of Selves*, 20 *Personality & Social Psychology Bulletin* 568 (1994).

<sup>15</sup> See, for instance, Rokeach, *supra* note 12; Florence R. Kluckhohn & Fred L. Strodtbeck, *Variations in Value Orientations* (1961).

to express and justify the solutions chosen. Because values vary in importance, it is possible to characterize each society by the relative importance attributed to these values in the society. This yields unique cultural profiles.

Schwartz derives three bipolar, cultural value dimensions from three basic issues he identifies as confronting all societies. In coping with these issues, societies exhibit greater or lesser emphasis on the values at one or the other pole of each dimension. Seven types of values on which cultures can be compared derive from the analysis of the bipolar dimensions. The theory also specifies the structure of relations among these types of values. Next, we briefly describe these three value dimensions, the seven types of values, and the basic issues to which they relate. Figure 1 presents graphically the structure of relations among the dimensions and types of values.

*Embeddedness/Autonomy:* This dimension concerns the desirable relationship between the individual and the group. Embeddedness represents a cultural emphasis on the person as embedded in the group and committed to maintaining the status quo, propriety, and restraint of actions or inclinations that might disrupt group solidarity or the traditional order. The opposite pole of Autonomy describes cultures in which the person is viewed as an autonomous, bounded entity who finds meaning in his or her own uniqueness. It is possible to distinguish conceptually between two types of Autonomy. *Intellectual Autonomy:* A cultural emphasis on the desirability of individuals independently pursuing their own ideas and intellectual directions (curiosity, broadmindedness, creativity). *Affective Autonomy:* A cultural emphasis on the desirability of individuals independently pursuing affectively positive experience (pleasure, exciting life, varied life).

*Hierarchy/Egalitarianism:* This dimension concerns the desirable ways to guarantee responsible behavior that preserves the social fabric. Hierarchy represents a

cultural emphasis on obeying role obligations within a legitimately unequal distribution of power, roles, and resources. Egalitarianism represents an emphasis on transcendence of selfish interests in favor of voluntary commitment to promoting the welfare of others whom one sees as moral equals.

*Mastery/Harmony:* This dimension concerns the relation of humankind to the natural and social world. Mastery refers to a cultural emphasis on getting ahead through active self-assertion in order to master, change, and exploit the natural and social environment. Harmony represents an emphasis on accepting the social and physical world as it is, trying to comprehend and fit in rather than to change or exploit.

[Figure 1 about here]

A pioneering and still most influential dimensional framework for characterizing culture was advanced by Geert Hofstede.<sup>16</sup> This theory of dimensions and the findings based on it dominate current international management studies.<sup>17</sup> We next set forth Hofstede's value dimensions and the basic societal problems they address. Here too, each dimension describes a range of possible stances between two polar extremes.

*Uncertainty Avoidance:* This dimension concerns cultural preferences for dealing with uncertainty. Are uncertainty and ambiguity viewed as disturbing and threatening or as acceptable challenges? The more threatening uncertainty is

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<sup>16</sup> See Geert H. Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (1980, abridged ed. 1984) (hereinafter "Culture's Consequences 1980"); Geert Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations* (2d ed. 2001) (hereinafter "Culture's Consequences"); Geert H. Hofstede, *Cultures and Organizations: Software of the Mind* (1991) (hereinafter "Software of the Mind").



perceived to be, the more highly valued are beliefs and institutions that provide certainty.

*Power Distance:* This dimension concerns social inequality, including relations with authority. High power distance indicates that an unequal distribution of power in institutions is viewed as legitimate.

*Individualism/Collectivism:* This dimension refers to the relationship between individual and group. An individualist orientation values loosely knit social relations in which individuals are expected to care only for themselves and their immediate families. A collectivist orientation values tightly knit relations in which people expect their broad in-group (e.g., extended family, clan) to look after them in exchange for unquestioning loyalty.

*Masculinity/Femininity*<sup>18</sup>: This dimension concerns the social implications of gender-linked behavior. More “masculine” cultures value achievement, heroism, assertiveness, and material success. More “feminine” cultures emphasize relationships, modesty, caring for the weak, and interpersonal harmony.

## B. *Social Norms and Cultural Values*<sup>19</sup>

We use “social norms” to refer to what social psychologists call injunctive norms<sup>20</sup> and legal economists call “ought statements.”<sup>21</sup> Social norms specify

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<sup>17</sup> Stephen P. Robbins & Mary Coulter, *Management* 125-29 (6th ed 1999); *see, generally*, Richard Mead, *International Management: Cross-Cultural Dimensions* (2nd ed. 1998).

<sup>18</sup> Although this label has elicited negative responses, Hofstede argues that it reflects an empirical reality of gender differences that is independent of its normative undesirability. *See* Geert H. Hofstede & Willem A. Arrindell, *Masculinity and Femininity: The Taboo Dimension of National Cultures* (1998).

<sup>19</sup> The following sections draw on Amir N. Licht, *The Pyramid of Social Norms*, working paper, Interdisciplinary Center Herzliya (2002).

behaviors that are seen as desirable or legitimate in the shared view of societal members and whose violation elicits at least informal disapproval. Social norms are grounded in prevailing cultural values because values define broadly what is desirable in a society. The myriad concrete social norms in every society constitute a system that can be depicted as a pyramid.<sup>22</sup> In the metaphorical pyramid of social norms, cultural values define the foundations of the pyramid. They represent societal preferences for the best ways to respond to the basic challenges that every society faces. These responses translate into societal emphases on particular values. Basic social norms specify the behaviors that are needed in order to promote cherished societal values or prevent violation of those values. Concrete social norms apply basic norms to the many situations in life where specific behaviors may promote or violate values. Thus values constitute the lower strata of the pyramid and concrete social norms are found at higher strata.

### *C. Norms of Governance and Value Dimensions*

Social norms that guide the wielding of power over others are an important category of norms. We call these norms collectively “norms of governance.” “Governance” is a term that has become popular since the mid-1990s, *inter alia*, as a result of “good governance” projects sponsored by the United Nations, The World Bank, and the IMF. These bodies define governance as the traditions and institutions by which

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<sup>20</sup> See Robert B. Cialdini & Melanie R. Trost, *Social influence: Social norms, Conformity and Compliance*, in 2 *The Handbook of Social Psychology* 151, 152 (Daniel T. Gilbert et al. Eds. 4th ed. 1998).

<sup>21</sup> See, e.g., Robert D. Cooter, *Expressive Law and Economics*, 27 *J. Legal Stud.* 585 (1998). See also Robert C. Ellickson, *The Market for Social Norms*, 3 *Am. L. & Econ. Rev.* 1, 3 (2001); Richard A. Posner & Eric Bennett Rasmusen, *Creating and Enforcing Norms, With Special Reference to Sanctions*, 19 *Int'l Rev. L. & Econ.* (1999); Kaushik Basu, *Social Norms and the Law*, in *The New Palgrave Dictionary of Economics and the Law* 476 (Peter Newman ed. 1998).

authority in a country is exercised for the common good.<sup>23</sup> This definition is compatible with the operational agenda of these bodies. However, governance need not be limited to the public sphere, as used by international institutions. Governance also applies in the private sphere—as in corporate governance. It consists of rules and structures for wielding power over other people’s interests—namely, for tackling various agency problems.<sup>24</sup> Unless otherwise noted, we treat norms of governance as generally applicable to both the public and private spheres.

The crucial assumption underlying our hypotheses is that the norms of governance in a society are likely to be compatible with the cultural environment. Cultures that value individual uniqueness and view individual persons as equal are likely to develop norms that promote societal transparency that better enables societal members to plan their independent moves. In contrast, cultures that emphasize these values less and view the individual as an embedded part of hierarchically organized groups are more likely to develop norms that accommodate wielding power from above and that compromise the interests of individual persons. The following sections apply this general hypothesis to social norms in three specific domains.

## *I. The Rule of Law*

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<sup>22</sup> See Licht, *supra* note 19.

<sup>23</sup> See Kofi Annan, *The Quiet Revolution*, 4 GLOBAL GOVERNANCE 123, 123 (1998); The World Bank Group, *Governance, Finance and Regulation*, <[www.worldbank.org/wbi/wbigf/governance.html](http://www.worldbank.org/wbi/wbigf/governance.html)> (visited Apr. 24, 2001); The World Bank, *Governance: The World Bank's Experience* vii (1994); International Monetary Fund, *Declaration of Partnership for Sustainable Global Growth* (1996).

<sup>24</sup> See Andrei Shleifer & Robert W. Vishny, *A Survey of Corporate Governance*, 52 J. FIN. 737 (1997); Luigi Zingales & Raghuram G. Rajan, *Power in a Theory of the Firm*, 113 Q. J. Econ. 387 (1998). For a review, see Luigi Zingales, *Corporate Governance*, in 1 THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW 495 (Peter Newman ed., 1998).

Jurisprudence scholars differ in their conceptions of the rule of law. We focus on what may be regarded as its most basic aspect, the “formalistic” or “procedural” aspect, or, more colloquially, “law and order”.<sup>25</sup> This aspect deals with the degree to which the behavior of individual persons and government authorities is guided by formal legal rules. It is immaterial whether the rules are morally unjust or what political process produced them. The only question is whether the rules are respected and enforced. The implicit assumption is that ordinarily they should be.<sup>26</sup>

If a mode of conduct that is sanctioned by law also enjoys the status of a social norm, private enforcement may complement or substitute state enforcement.<sup>27</sup> In this spirit, Cooter called for promoting the “rule-of-law state” – a state in which the law is aligned with social norms, so citizens can economize on legal counsel by using morality as a guide to legality.<sup>28</sup> Cooter’s proposition exemplifies the growing interest in social norms among students of law and economics in light of accumulating evidence that social norms may replace legal norms in certain communities.<sup>29</sup> Of particular interest are mechanisms to integrate the potency of social norms with the

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<sup>25</sup> See, generally, Lon L. Fuller, *The Morality of Law* ch. 2 (1964; revised edition 1969).

<sup>26</sup> Joseph Raz, *The Authority of Law* 212-14 (1979).

<sup>27</sup> The now standard example in the law and economics literature considers a “pooper-scooper” municipal ordinance like Berkeley’s. Compliance with such an ordinance arguably rests on civil enforcement that is driven by a social norm. See Ellickson, *supra* note 21, at 39; Robert D. Cooter, *Decentralized Law for a Complex Economy: The Structural Approach to Adjudicating The New Law Merchant*, 144 U. Pa. L. Rev. 1643, 1675 (1996); Cass R. Sunstein, *On the Expressive Function of Law*, 144 U. Pa. L. Rev. 2021, 2032 (1996); Robert E. Scott, *The Limits of Behavioral Theories of Law And Social Norms*, 86 Va L. Rev. 1603, 1603 (2000).

<sup>28</sup> See Robert D. Cooter, *The Rule of State Law and the Rule-of-Law State: Economic Analysis of the Legal Foundations of Development*, 1996 Annual World Bank Conference on Development Economics 191 (1996).

<sup>29</sup> See Robert C. Ellickson, *Order Without Law: How Neighbors Settle Disputes* (1991); Lisa Bernstein, *Opting Out of the Legal System: Extralegal Contractual Relations in the Diamond Industry*, 21 J. Legal Stud. 115 (1992); Lisa Bernstein, *Merchant Law in a Merchant Court: Rethinking the Code’s Search for Immanent Business Norms*, 144 U. Pa. L. Rev. 1765 (1996).

malleability of legal norms – namely, ways for using the law to foster the emergence of beneficial social norms.<sup>30</sup>

Successful implementation of such mechanisms hinges, however, on the prevalence of a fundamental social norm promoting the rule of law in society. Where such a norm prevails, societal members consider the duty to obey the law an “ought” that should be followed even in the absence of legal sanctions. With the dual character of a legal doctrine and a social norm, the rule-of-law can function as an interface between the formal legal system and the informal social normative system.

The essence of the rule of law is that power ought to be used only in ways allowed by the law.<sup>31</sup> The rule of law covers a broad variety of types of power. They range from long-term positions of power held by the state itself (as reflected in the German *Rechtsstaat* doctrine) or state organs (as in the separation of powers doctrine) to holding a public office. They also include power inherent in holding an executive office in a business corporation and to power in short-term, fleeting situations that allow for opportunistic behavior (e.g., during sequential performance of contractual obligations or when one party’s conduct is unobservable or unverifiable).

Endorsing the rule of law as an overarching norm is consistent with societal emphases on the cultural values of Autonomy and Egalitarianism in Schwartz’s theory. The gist of Autonomy values is the perception of people as bounded entities

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<sup>30</sup> See Cass R. Sunstein, *On the Expressive Function of Law*, 144 U. Pa. L. Rev. 2021, 2021-28 (1996); Robert D. Cooter, *Expressive Law and Economics*, 27 J. Legal Stud. 585 (1998); Lawrence Lessig, *Social Meaning and Social Norms*, 144 U. Pa. L. Rev. 2181 (1996); Richard H. McAdams, *A Focal Point Theory of Expressive Law*, 86 Va. L. Rev. 1649 (2000). On the difficulties of harnessing law to change social norms see Dan M. Kahan, *Gentle Nudges vs. Hard Shoves: Solving the Sticky Norms Problem*, 67 U. Chic. L. Rev. 607 (2000).

<sup>31</sup> Compare T.R.S. Allan, *Rule of Law*, in *The New Palgrave Dictionary of Economics and the Law* 369, 369 (Peter Newman ed. 1998).

who are encouraged to cultivate their unique ideas and feelings. The rule-of-law state expresses such a cultural emphasis by providing people with a comprehensive set of rights and freedoms—e.g., of property and contract, and in democracies, also of speech—and by effectively enforcing them. Such an environment clarifies the content and scope of people’s entitlements, thus allowing them to better plan their independent moves.<sup>32</sup> A rule-of-law norm also expresses Egalitarianism that defines societal members as moral equals, entitled to equal protection under the law. Societies whose culture emphasizes Egalitarianism are more likely to engage in affirmative actions, such as transfer payments and social safety nets.

In contrast, a rule-of-law norm is less likely to find support in societies whose culture emphasizes Embeddedness. The key values in such cultures—respect for tradition, honoring elders, and obedience—encourage people to seek guidance in sources other than the law. The relations of the rule of law to the Harmony-Mastery cultural dimension are more ambiguous. Mastery emphasizes assertiveness, which is compatible with people standing up for their rights. But Mastery also legitimizes exploitation, including of other people, an idea that legal rights are intended to curb. Harmony values emphasize acceptance and preservation of the physical and social world, an approach neither compatible nor incompatible with a rule-of-law norm.

Turning to the dimensions in Hofstede’s theory, a rule-of-law norm is most compatible with cultural emphases on Individualism and low Power Distance. Societal members in individualistic societies are expected to pursue their own (sometime selfish) goals in life. A rule-of-law state provides an easier environment in which to do this because it sets a legal framework that allows every person to have her

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<sup>32</sup> Compare Raz, *supra* note 26, at 214.

fair chance to pursue her goals. Societies high on Collectivism assign less importance to protecting individuals' interests or satisfying their preferences. The premise of Collectivism is that group interests take precedence over individual interests. Countries whose culture is more collectivist may therefore give less emphasis to enforcing laws intended to shield personal rights and property from encroachment. High cultural Power Distance gives greater freedom to those in positions of power in the system to act in ways they define as appropriate. This may enable them to evade legal rules and enjoy benefits that are not legitimately theirs.

## 2. Corruption

Lord Acton deftly captured the connection between power and corruption in remarking, "power tends to corrupt and absolute power corrupts absolutely."<sup>33</sup> Although there is no universal or comprehensive definition of corrupt behavior, the prominent definitions share a common emphasis on use of public office or power for private gains.<sup>34</sup> Variants of this definition are employed by the international financial institutions as well as by non-governmental organizations. Recently, this definition has been extended to the private sector.<sup>35</sup>

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<sup>33</sup> John E.E.D. Acton, *Acton-Creighton Correspondence*, in *Essays on Freedom and Power* 335 (Gertrude Himmelfarb ed., 1972).

<sup>34</sup> Pranab Bardham, *Corruption and Development: A Review of Issues*, 35 *J. Econ. Lit.* 1320, 1321 (1997). *See also* Susan Rose-Ackerman, *Corruption*, in 1 *The New Palgrave Dictionary of Law and Economics* 517 (Peter Newman, ed., 1998).

<sup>35</sup> *See* Bardham, *supra* note 34, at 1321; Asia Development Bank, *Definitions of Corruption* (2001), available at [www.adb.org/documents/policies/anticorruption](http://www.adb.org/documents/policies/anticorruption) (visited Apr. 12, 2001) (adopting a shorthand definition of corruption as "the abuse of public or private office for personal gain"). This fits with Licht's assertion that norms of governance also apply in the private sphere.

Corruption is antithetical to the rule of law, particularly in the formalistic sense of this term.<sup>36</sup> Adverse effects of widespread corruption include: entrenching a social norm of disrespect for the law; rendering law enforcement agencies and the judiciary dysfunctional; distorting private transactions by infiltrating into the sphere of private law. Widespread corruption creates “a business culture of law avoidance.”<sup>37</sup>

Researchers have addressed the question of why corruption is greater in some countries than in others.<sup>38</sup> Several economic models seek to explain how corruption may emerge and become a stable equilibrium despite its undesirability.<sup>39</sup> History—particularly the colonial traditions of countries—is another factor that may explain international variation in the incidence of corruption.<sup>40</sup> La Porta et al. argued that the legal family affiliation of a country may affect corruption, because different legal families protect property rights against the state to varying degrees.<sup>41</sup>

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<sup>36</sup> See Ibrahim F.I. Shihata, *Corruption – A General Review with an Emphasis on the Role of the World Bank*, 15 Dick. J. Int'l L. 451, 455-56 (1997) (legally defining corruption as “deviation (for private gains) from binding rules, the arbitrary exercise of discretionary powers and the illegitimate use of public resources.”)

<sup>37</sup> Bernard Black, Reinier Kraakman, & Anna Tarassova, *Russian Privatization and Corporate Governance: What Went Wrong?* 52 Stan. L. Rev. 1731, 1753 (2000).

<sup>38</sup> Daniel Treisman, *The Causes of Corruption: A Cross-National Study*, 76 J. Pub. Econ. 399, 400 (2000).

<sup>39</sup> See, for example, Olivier Cadot, *Corruption as a Gamble*, 33 J. Pub. Econ. 223 (1987); Jens Andvig & Karl Ove Moene, *How Corruption may Corrupt*, 13 J. Econ. Behavior & Org. 63-76 (1990); Andrei Shleifer & Robert W. Vishny, *Corruption*, 108 Q. J. Econ. 599 (1993); Jean Tirole, *A Theory of Collective Reputations (with Applications to the Persistence of Corruption and to Firm Quality)*, 63 Rev. Econ. Stud. 1 (1996); Isaac Ehrlich & Francis T. Lui, *Bureaucratic Corruption and Endogenous Economic Growth*, 107 J. Pol. Econ. S270 (1999). For a critical review of the economic literature, see Rose-Ackerman, *supra* note 34.

<sup>40</sup> See Treisman, *supra* note 38. Treisman analyzes other factors that may correlate with corruption, including countries' natural endowment of oil and minerals and having a federalist structure.

<sup>41</sup> Rafael La Porta, Florencio Lopez-De-Silanes, Andrei Shleifer, & Robert W. Vishny, *The Quality of Government*, 15 J. L. Econ. & Org. 222 (1999). This argument does not receive support in Treisman's study, *supra* note 38.



Corruption researchers share the view that culture, loosely defined, is a major determinant of corruption. Rose-Ackerman argues that the definition of bribes and gifts is a cultural matter and may be blurred in societies based on strong interpersonal relations.<sup>42</sup> Others take a country's predominant religion as a proxy for its culture. They offer a variety of approaches to the mechanisms that may cause religion to affect the incidence of corruption. La Porta, et al., for example, link religion to the incidence of corruption by viewing religion as representing an inclination to hierarchical structures. They document a connection between perceived corruption and "hierarchical religions" (Roman Catholicism, Eastern Orthodox, and Islam).<sup>43</sup> Lipset and Lenz advance a rich analysis of possible links between religion and corruption.<sup>44</sup>

We relate corruption to culture directly by drawing on cultural value dimensions. Recently, Hofstede documented associations between his value dimensions and Transparency International's scores of perceived corruption.<sup>45</sup> Hofstede reasoned that "larger power distances in a society mean fewer checks and balances on the use of power—that is, a stronger temptation for power holders to

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<sup>42</sup> See, for example, Susan Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform* 106-10 (1999); but see Susan Rose-Ackerman, *Trust, Honesty, and Corruption: Reflection on the State-Building Process*, Archives of Eur. Sociol. (forthcoming 2002). (arguing, with regard to corruption in Central and Eastern Europe, that "there are no deep cultural barriers to reform.")

<sup>43</sup> Rafael La Porta et al., *Trust in Large Organizations*, 87 Am. Econ. Rev. Paper and Proceedings 333 (1997). For a critique, see Amir N. Licht, *The Mother of All Path Dependencies: Toward a Cross-Cultural Theory of Corporate Governance Systems*, 26 Delaware J. Corp. L. 147, 191 (2001).

<sup>44</sup> Seymour Martin Lipset & Gabriel Salman Lenz, *Corruption, Culture, and Markets in Culture Matters: How Values Shape Human Progress* 112 (Lawrence E. Harrison & Samuel P. Huntington, eds. 2000). For empirical analyses, see Treisman, *supra* note 38 (finding negative correlation between perceived corruption and Protestantism as a dominant religion); Martin Paldam, *Corruption and Religion: Adding to the Economic Model*, 54 *Kyklos* 383 (2001) (same).

<sup>45</sup> See Hofstede, *Culture's Consequences*, *supra* note 16, at 132-33. See also Bryan W. Husted, *Wealth, Culture, and Corruption*, 30 J. Int'l Bus. Stud. 339 (1999).

enrich themselves illegally.”<sup>46</sup> Hofstede’s proposition thus blends (absence of) accountability with corruption and relates both to high Power Distance. We would add that societies high on Individualism may be less susceptible to endemic corruption because corruption signals disrespect for individual persons’ property and independent discretion.

The cultural dimensions identified by Schwartz are also relevant to the incidence of corruption. Corruption, in the sense of deriving material gains (bribes) from a power position, is incompatible with cultural emphases on Autonomy and Egalitarianism because it violates the fair pursuit of individual interests. Corruption is more compatible with Hierarchy and Mastery which legitimize the use of power and the exploitation of others in the pursuit of individual or group interests. Note that this is reasoning at the cultural, not the individual level. Individuals in societies high on Hierarchy and Mastery may resent having to pay bribes. Nonetheless, they will pay bribes if necessary and demand bribes if given the opportunity, without considering such conduct appalling. This is because cultural values legitimize the social norms that call for them to do so.

### 3. Accountability

Accountability is a pervasive concept with a rich history – from Athenian democracy through religious injunctions to the evolution of democratic institutions. Today, accountability features highly in “good governance” programs, where it is mainly applied with respect to the public sector.<sup>47</sup> Oftentimes, accountability is

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<sup>46</sup> Hofstede, *Culture’s Consequences*, *supra* note 16, at 113.

<sup>47</sup> For a critical review, see Charles Polidano & David Hulme, *No Magic Wands: Accountability and Governance in Developing Countries*, 18 *Regional Development Dialogue* 1 (1997).

mentioned as shorthand for “democratic accountability.” Whichever of its many definitions one prefers, accountability can be viewed as a norm of governance – a norm that prescribes particular legitimate modes of using power.

Accountability implies power relationships—namely, that one party’s actions can directly affect another party’s prospects. A social norm of accountability provides that the party holding power owes certain duties to the party subject to this power. Among other things, the accountable holder of power is obliged to give an account of her decisions or actions. She is expected to explain or justify them and, in cases of misconduct, to bear responsibility and make amends. A social norm of accountability calls for feedback channels between the relevant parties.

Accountability is related to the rule of law, although relations between these two concepts apply primarily in democratic regimes. Legal scholars consider accountability a necessary element in producing a meaningful sense of the rule of law<sup>48</sup> and as fulfilling an instrumental role in preserving the rule of law.<sup>49</sup> Production and enforcement of law by accountable state organs and through democratic processes support the formalistic aspect of the rule of law.

The norm of accountability differs from the rule of law and non-corruption norms in that its content is more dependent on circumstances. That is, the exact obligations owed by the accountable party may vary considerably across situations even with a single country. For example, although similar in principle, the accountability of elected politicians, of civil servants, and of trustees to an estate entail very different obligations. Consequently, hypotheses that relate accountability

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<sup>48</sup> See, e.g., Richard H. Fallon, *"The Rule of Law" as a Concept in Constitutional Discourse*, 97 Colum. L. Rev. 1, 11 (1997).

to cultural values must be tailored to the type of accountability in question. The sources used to operationalize accountability in the present study concentrate on democratic accountability in the public sphere. They weave together aspects of representative democracy, civil liberties, and voice in general (see Appendix 1).

The cultural values of Autonomy and Egalitarianism clearly and directly imply a norm of democratic accountability. Various facets of freedom of expression (speech, press, assembly, and demonstration) and of religion express values central to Intellectual Autonomy like freedom and broadmindedness (see Figure 1). In contrast, cultural Embeddedness calls for circumscribing individual freedoms in favor of social order and security. Societies high on Embeddedness are therefore more likely to compromise individual rights in the name of protecting the interests of the wider social group or nation.<sup>50</sup>

Democratic accountability is also compatible with cultural Egalitarianism as opposed to Hierarchy. Egalitarianism emphasizes the moral equality of those subject to state power and those who exercise it. Despite formal status differences, an egalitarian culture exhorts all voluntarily to promote the interests of all. Beyond promoting the value of equality itself, egalitarian cultures also emphasize responsibility—a close synonym for accountability in certain languages. In contrast, cultural Hierarchy legitimizes the pursuit of positions of authority and responses of submission to authority. This orientation is diametrically opposed to requiring accountability from superiors, hence incompatible with a norm of accountability. Finally, accountability is incompatible with cultural Mastery, which legitimizes self-

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<sup>49</sup> See Raz, *supra* note 26, at 218-19.

promotion even at the expense of others, in order to pursue individual or group interests. Societies that have representative legislatures and protect minority rights (see Appendix 1) can be expected to be low on Mastery and high on Egalitarianism.

The Hofstede cultural dimensions are also relevant for predicting where norms of accountability are found. In individualist societies, people are expected to pursue selfish interests in relations outside the ingroup. A norm of accountability may be needed as a counter-measure to limit selfishness and facilitate social interaction. Loyalty in collectivist societies is, in principle, unquestioning and unquestioned. In contrast, loyalty in individualist societies rests on questioning and on answerability—in other words, on accountability. Democratic accountability functions to provide answerability in the public sphere.

Accountability in general and democratic accountability are also compatible with low Power Distance. In societies whose culture is low on Power Distance, inequality of roles is established only for convenience and power holders are not seen as superior persons.<sup>51</sup> They might therefore be expected to be held accountable for their actions before the public.

### III. DATA

#### A. *Measures of Culture*

##### I. On National Cultures

In order to use culture as an explanatory variable, it is necessary to delimit the cultural groups to be used. The vast majority of cross-cultural studies have compared

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<sup>50</sup> One of the items in the Accountability index indeed considers military involvement in politics as reducing accountability (see Appendix 1).

nations.<sup>52</sup> In nations that have existed for some time, there are strong forces towards cultural integration. There is usually a single dominant language, educational system, army, and political system, and shared mass media, markets, services, and national symbols (e.g., flags, sports teams). All this warrants treating nations as reasonable proxies for cultural groups. Both Hofstede and Schwartz used means of national samples on cultural dimensions to represent national cultures. Where national boundaries encompassed heterogeneous groups with separate distinctive cultures, their data refer to the culture of the dominant group or of specified subgroups.

## 2. The Schwartz Data

*Value Scores:* Respondents from every inhabited continent completed a value survey anonymously in their native language.<sup>53</sup> They rated the importance of 56 single values “as guiding principles in MY life.” Each value was followed in parentheses by a short explanatory phrase (e.g., WEALTH [material possessions, money]). Responses ranged from 7 (of supreme importance) to 3 (important) to 0 (not important) to -1 (opposed to my values). Examination of separate multidimensional scaling analyses of the 56 values within each of the different nations established that 45 of the values have equivalent meaning across cultures. Only these 45 values were therefore included in the analyses that assessed the existence of the theorized cultural dimensions. A Similarity Structure Analysis (SSA) of these values across nations

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<sup>51</sup> Hofstede, Culture’s Consequences, *supra* note 16, at 97-98.

<sup>52</sup> See Peter B. Smith & Shalom H. Schwartz, *Values*, in 3 Handbook of Cross-Cultural Psychology 77, 95 (2nd ed., J.W. Berry *et al.*, eds 1997).

<sup>53</sup> The survey is described in Schwartz, *supra* note 10.

supported this theory of cultural values and the use of indices on the above-mentioned dimensions to represent national cultures.<sup>54</sup>

Data for comparing nations might ideally be obtained from representative national samples. Even with such samples, however, inferences about national culture require caution. National populations differ in their demographic composition (e.g., distributions of age, education, occupation), and these different distributions affect average value priorities.<sup>55</sup> Consequently, even when comparing the values of representative national samples, it would still be necessary to control for demographic differences between nations before we could confidently ascribe observed differences in value priorities to national culture alone. Moreover, as noted earlier, many nations contain more than one sub-cultural group, so a single characterization based on a representative national sample is still misleading.

The approach taken instead was to obtain samples matched on critical characteristics, largely from the dominant cultural group in each nation. The focal type of sample was urban school teachers who teach the full range of subjects in grades 3-12 of the most common type of school system. No single occupational group represents a culture, but school teachers may have a number of advantages for characterizing national value priorities. As a group, they play an explicit role in value socialization, they are presumably key carriers of culture, and they probably reflect

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<sup>54</sup> The SSA was performed on data from over 35,000 respondents from 122 samples in 49 nations, gathered between 1988 and 1993. See Schwartz, *supra* note 10. See generally Ingwer Borg & James C. Lingoes, *Multidimensional Similarity Structure Analysis* (1987); Louis Guttman, *A General Nonmetric Technique for Finding The Smallest Coordinate Space for a Configuration of Points*, 33 *Psychometrika* 469 (1968).

<sup>55</sup> The values of particular demographic groups (such as the elderly) are influenced not only by the prevailing culture, but by the unique experiences to which these groups are exposed by virtue of their social locations. Observed differences between the mean values of representative national samples

the mid-range of prevailing value priorities in most societies. By focusing on this single matched group, it was possible to obtain a relatively pure representation of national differences in value priorities, net of the influences of other national differences.<sup>56</sup>

To compute the mean importance of a value in a nation, the importance that members of the sample from that nation attributed to the set of value items that represent the value was averaged. For example, the mean importance of Hierarchy is the average of the ratings of authority, wealth, social power, influential, and humble; the mean importance of Affective Autonomy is the average of the ratings of varied life, exciting life, pleasure, and enjoying life. For cross-national comparisons, sample differences in scale use were eliminated by centering the mean importance of all seven values within each sample around the approximate international mean.

*Cultural Regions:* Some of the analyses in the present study use groupings of nations as the unit of reference. Analyses of the profiles of nations on the seven cultural values reveal that they can be grouped into six major cultural groups: English-speaking, West European, East-Central European, Far Eastern, Latin American, and African (see Appendices 2 and 3).<sup>57</sup>

### 3. The Hofstede Data

Hofstede's study originated in an audit of company morale among the employees of the IBM corporation around the world at two points of time: around

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reflect, therefore, not only the prevailing culture. They also reflect current differences in the demographic composition of national populations.

<sup>56</sup> To test the robustness of conclusions from the teacher samples, Schwartz, *supra* note 10, performed parallel analyses with data from samples of college students, from a wide variety of majors, in each of 40 nations. The results supported the value dimensions and the locations of the cultures on these dimensions.



1968 and around 1972. Factor analysis of country mean scores in 50 countries and three regions produced the four dimensions described above.<sup>58</sup>

Hofstede notes the criticism that “IBMers are very special people, not at all representative for our country”. He argues, however, that the crucial requirement is that the samples be well-matched across countries, not that they be representative. He asserts that comparing IBM subsidiaries shows national culture differences with unusual clarity because they are so homogeneous in terms of employer, kind of work, and education level.<sup>59</sup>

### B. *Measures of Governance*

The measures of governance are drawn from the work of Kaufmann, Kraay, and Zoido-Lobaton.<sup>60</sup> Kaufmann et al. follow the World Bank’s definition of governance as the traditions and institutions that determine how authority is exercised in a particular country. They classified several hundred cross-country indicators into six dimensions of governance. The indicators were based on polls of experts and on cross-country surveys. They consist primarily of qualitative data, covering a wide range of topics, obtained from varied organizations, and representing the perspectives of diverse observers.

Kaufmann et al. developed quantitative indices of six broad governance concepts by aggregating relevant indicators. The data cover virtually all the countries

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<sup>57</sup> See Schwartz, *supra* note 10, at 35-39.

<sup>58</sup> Hofstede, *Software of the Mind*, *supra* note 16, at 251-52; Hofstede, *Culture’s Consequences*, *supra* note 16, at 58-60.

<sup>59</sup> Hofstede, *Software of the Mind*, *supra* note 16, at 252. Hofstede summarizes and responds to several criticisms in *Culture’s Consequences*, *supra* note 16, at 73.

in the world. We use three indices that Kaufmann et al. called ‘Rule of Law’, ‘Graft’, and ‘Voice and Accountability.’ These indices gauge the perceived compliance with the three norms we specified above (rule of law, non-corruption, accountability) in each country. Scores on the indices range from around –2.5 to around 2.5, with a mean of zero, and a standard deviation of one. Higher scores indicate more desirable outcomes.

The rule of law index mainly measures the traditional concept of “law and order”, incidence of crime, enforceability of private and government contracts, and respect for property rights. The non-corruption index gauges corruption among public officials and the frequency of “additional payments” to “get things done.” The accountability index concentrates on aspects of democratic accountability, civil liberties, and political rights (see Appendix 1). In short, the indices measure the extent to which the injunctions of the three social norms are in fact followed in each country.

The polls used by Kaufmann et al. enabled them to integrate more indicators and to cover a broader set of issues than indices like those constructed by the International Country Risk Guide and Transparency International.<sup>61</sup> Unlike the Schwartz indices of culture, however, the indices of governance norms are not based on data whose consistency of meaning across nations was evaluated.<sup>62</sup>

### *C. Other Data*

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<sup>60</sup> Kaufmann, Kraay, & Zoido-Lobaton, *supra* note 1; Daniel Kaufmann, Aart Kraay, & Pablo Zoido-Lobaton, *Aggregating Governance Indicators*, Working Paper, The World Bank (1999).

<sup>61</sup> See, for example, La Porta et al., *supra* note 2 (using ICRG’s index); Treisman, *supra* note 38 (using Transparency International’s index). We repeated the correlation analysis reported below in Table 1 with the indices of ICRG and Transparency International and received similar results.

<sup>62</sup> Several surveys were conducted mainly among Western respondents but surveys also polled experts with experience in several countries, such that their relative scoring is meaningful. For a detailed discussion of the poll-of-polls methodology, see Treisman, *supra* note 38, at 409-14.

To represent economic development in each country we use the (natural) logarithm of the average of per capita gross domestic product (GDP) in the period 1990-1999. The data are from the World Bank's World Development Indicators. Averaging GDP data over a ten-year period serves two goals: First, it smoothes out short-term fluctuations. This is particularly appropriate because we deal with long lasting social phenomena. Second, the ten-year time frame covers the early 1990s, during which most of Schwartz's cultural measures were sampled, and the late 1990s (specifically, 1997-1998) to which the governance indices refer.

We measure economic inequality with Gini coefficients based on surveys conducted between 1990 and 1999, taken from the World Bank's World Development Indicators.<sup>63</sup> GDP and Gini values correlate negatively in our sample ( $r = -.40$ ), reflecting the fact that economic inequality tends to concentrate in poorer countries.<sup>64</sup> Finally, we use a dummy variable index from Treisman to indicate whether a country is part of the United Kingdom or had been under British rule of any kind (colony, mandate area, etc.).<sup>65</sup> This enables us to control for the fact that countries with a history of British rule are consistently rated "less corrupt."

#### IV. RESULTS

For the empirical analysis of relations between norms of governance and national culture, we adopt two approaches. First, we treat countries as the unit of

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<sup>63</sup> See <http://www.worldbank.org/poverty/inequal/data.htm>.

<sup>64</sup> On the negative relationship between inequality and economic growth see, for instance, Torsten Persson & Guido Tabellini, *Is Inequality Harmful for Growth?*, 84 Am. Econ. Rev. 600 (1994); Mark Partridge, *Is Inequality Harmful for Growth? A Comment*, 87 Am. Econ. Rev. 1019 (1997).

<sup>65</sup> Treisman, *supra* note 38, at 449-51, tbl 4. Countries not included in Treisman's table were coded according to the Central Intelligence Agency, *The World Factbook* (2001) <[www.cia.gov/cia/publications/factbook/indexgeo.html](http://www.cia.gov/cia/publications/factbook/indexgeo.html)>.

analysis and examine relations between country scores for the norms of governance and for each of the cultural dimensions. Second, we treat cultural regions, comprised of countries with similar cultural profiles, as the unit of analysis. This allows us to investigate broad international patterns in the prevalence of governance norms.

#### *A. Norms of Governance and Cultural Value Dimensions*

Table 1 gives a first approximation of the central finding of this study: Social norms of governance correlate strongly and systematically with cultural value dimensions. First consider the rule of law index. Countries with high scores for the prevalence of a rule of law are also high on Affective and Intellectual Autonomy and Egalitarianism, and low on Embeddedness, Hierarchy, and Mastery. Thus, the rule of law norm relates significantly to six of the seven cultural dimensions on which countries differ according to Schwartz. This norm also correlates significantly with three of the four cultural dimensions distinguished by Hofstede. Countries scoring high on the rule of law are high on Individualism and low on Power Distance and Uncertainty Avoidance. In sum, widespread compliance with legal rules that govern interactions in the public and private spheres—having a “law and order” tradition—is associated with a distinct profile of cultural values. Apparently, the duty to obey the law is not a universal normative principle of equal importance regardless of cultural diversity.

[Table 1 around here.]

The findings for non-corruption are almost identical to those for the rule of law. This was to be expected because country scores for the rule of law and for non-corruption correlate very highly ( $r = .94$ ). It may derive from the fact that corruption and the rule of law are two sides of the same coin: In most countries, the law prohibits

taking bribes and corruption is usually defined as including an element of illegality. Yet, the survey items used by Kaufmann et al. to construct the rule of law and non-corruption indices do not overlap.<sup>66</sup> The two indices purport to gauge separate social phenomena. Of course, respondents' answers to questions about the rule of law and corruption in a particular country may be interdependent. Nevertheless, the correlations of non-corruption with the cultural dimensions are informative. They strongly suggest that corruption is substantially grounded in the prevailing culture in a country. The correlations with particular cultural dimensions point to the nature of the cultural supports for corruption.

Next consider accountability. In line with the hypotheses, national scores on the index of democratic accountability correlate significantly with all seven of the value dimensions from Schwartz. Unlike the rule of law and non-corruption indices, the accountability index exhibits a positive correlation with Harmony. Accountability, like the rule of law and non-corruption, correlates positively with the Hofstede dimension of Individualism and negatively with Power Distance. However, accountability is not related to Uncertainty Avoidance.

Considering the entire correlation matrix of social norms and value dimensions in Table 1, the overall consistency of the findings for the three governance indices is striking. It supports the notion that the three norms indeed belong to a common category – the category of norms of governance. The systematic correlations of these norms with underlying cultural dimensions suggest that they all draw their injunctive force from similar fundamental societal preferences.

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<sup>66</sup> The Rule of Law index includes an item on corruption in banking from the Economist Intelligence Unit but this item is not included in the Graft index. See Appendix 1.

### *B. Norms of Governance across Cultural Regions*

We next examine whether culturally similar groups of nations exhibit similar norms of governance. Table 2 presents the mean scores for the three governance norms in each of the world's cultural regions identified by Schwartz and the differences between the regions. These differences are tested statistically with Tukey tests, appropriate for post hoc pair-wise comparisons, and with the less stringent *t*-tests that are commonly used in the governance literature. With regard to all three norms of governance, the English-speaking and West European regions exhibit similar high levels. These two regions score significantly higher than the African, East European, Far Eastern, and Latin American regions on the rule of law and non-corruption. There are no significant differences among the latter sets of nations. With regard to accountability, the English-speaking and West European regions again score higher than all the other regions. In this case, however, the nations in the African region exhibit somewhat lower levels of accountability than those in Eastern Europe.

[Table 2 around here.]

These results point to the existence of two cultural mega-regions in the world, in terms of levels of governance. One region consists of the English-speaking and West European nations and one consists of the remaining regions. Although not all nations in each mega-region may differ from all the nations in the other mega-region, overall, compliance with norms of governance is substantially higher in the first mega-region than in the second. Such substantial differences in governance are likely to have consequences in many important domains that affect the welfare of citizens. For instance, Kaufmann et al. argue that an improvement of one standard deviation—a one unit increase here—in the rule of law or non-corruption indices leads to between

a two- and fourfold increase in per capita incomes, a decline in infant mortality of similar magnitude, and an improvement of 15-25 percentage points in literacy levels.<sup>67</sup> As already noted, other studies also highlight the economic importance of good governance.

## B. *Adding History and Economic Factors to the Picture*

### I. Methodological Background

The analyses thus far have focused on the relations between culture and governance alone. They reveal substantial and systematic associations, when considering both countries and cultural regions. However, cultural influences on governance are interwoven with the influences of numerous other factors. These include economic factors, historical events, and the legal institutions that characterize countries. It is difficult to disentangle the causal relations among all these factors. Most probably, feedback mechanisms operate among culture, economics, and governance in every society, with governance systems resting on both legal and non-legal foundations. In other words, many of the social phenomena discussed in this study are determined endogenously. In what follows, we examine some of these factors and test their joint relations to governance.<sup>68</sup>

A comprehensive analysis of the effects of culture on governance should consider the complex model of relations depicted in Figure 2. Single-headed arrows represent unidirectional causal relationships between constructs. Double-headed

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<sup>67</sup> Daniel Kaufmann, Aart Kraay, & Pablo Zoido-Lobaton, *Governance Matters: From Measurement to Action*, 37 *Fin. & Develop.* 10 (2000). Kaufmann et al., *supra* note 1, at 18, argue that the causal effect runs from governance to development – a point which we discuss below.

<sup>68</sup> Legal institutions are not included in the analysis because they would make it unduly complex. We return to this point in the Discussion. For a value dimension analysis of corporate

arrows represent mutual influence. Thus, the vertical arrow from culture to governance at the center of the diagram signifies our theorizing that culture influences governance. The results presented above are compatible with this view.

[Figure 2 around here]

The literature contains lively discussions regarding the causal relations among culture, governance, and economic development.<sup>69</sup> Economists generally hold the view that causality runs from governance to economic development while acknowledging the possibility of mutual effects.<sup>70</sup> Resolving these issues is beyond the scope of the present study. Our goal is to discern the extent to which cultural value dimensions can be helpful in predicting the prevalence of governance norms when other factors are taken into account. To reduce complexity, we use only the dimensions identified by Schwartz in the analyses that follow. Two methodological notes deserve mention before we present the regressions.

First, recall that the seven cultural values in Schwartz's dimensional theory form a circular structure of bipolar value dimensions (see Figure 1). It is problematic statistically to include in the same regression variables that are empirically opposed. We therefore used only one polar value from each bipolar dimension. Based on

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governance laws, see Amir N. Licht, Chanan Goldschmidt, & Shalom H. Schwartz, *Culture, Law, and Finance: Cultural Dimensions of Corporate Governance Laws*, working paper (2001).

<sup>69</sup> See, for example, Max Weber, *Protestant Ethic and the Spirit of Capitalism* (1904; 1930 English translation); Deepak Lal, *Unintended Consequences: The Impact of Factor Endowments, Culture, and Politics on Long-Run Economic Performance* (1998); Mark Casson & Andrew Godley, eds, *Cultural Factors in Economic Growth* (2000); Amartya Sen, *Culture and Development*, paper delivered at the World Bank Tokyo Meeting, December 13, 2000, available at <[www.worldbank.org/wbi/B-SPAN/sub\\_sen.htm](http://www.worldbank.org/wbi/B-SPAN/sub_sen.htm)>, at 13-16; Shalom H. Schwartz, *Antecedents and Consequences of National Variation on Three Cultural Dimensions*, presentation at the conference "Comparing Cultures", March 2001, Tilburg, The Netherlands.

<sup>70</sup> Kaufmann et al., *supra* note 1, at 16; Treisman, *supra* note 38, at 401; Mauro, *supra* note 4. But see Hofstede, *Culture's Consequences*, *supra* note 16, at 253 (arguing that causality runs from national wealth to Individualism).



running regressions with different specifications of the cultural values, we selected the Harmony, Embeddedness, and Hierarchy polar values. These values can be understood as representing the Harmony/Mastery, Embeddedness/Autonomy, and Hierarchy/Egalitarianism dimensions of culture.<sup>71</sup>

Second, the poll-of-polls methodology used to derive mean country scores on governance also yields data about the variance of each score. The variance reflects the degree of consensus among the different surveys used to construct each score. This makes it possible to give greater weight in the regressions to those governance scores on which there was greater consensus.<sup>72</sup> Doing so with the current data increases the variance explained in the regressions by a few percentage points at most, as compared to ordinary least squares (OLS) regression. It does not change the qualitative results. We therefore opted to use the more conservative and familiar OLS method.

## 2. The Rule of Law

Table 3 presents regressions of the rule of law on the cultural values alone and together with various combinations of economic and historical indicators. All the results are standardized. Countries' cultural profiles alone (column 1) explain almost half of the variance in the level of compliance with the law. All three cultural values contribute significantly to the level of the rule of law. As hypothesized, Embeddedness and Hierarchy predict lower levels of compliance with the law. This reflects both their negative effects and the hypothesized positive influence of the

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<sup>71</sup> Results of regressions using the various different specifications of cultural values are available from the authors.

<sup>72</sup> See Treisman, *supra* note 38 (using weighted least squares regression).

values opposed to them on the bipolar cultural dimensions, Autonomy and Egalitarianism.<sup>73</sup> Thus, the results for culture alone are impressive.

Based on Treisman's argument that a heritage of British rule influences levels of corruption, we included this variable as a predictor together with the cultural dimensions (column 2). Consistent with Treisman's finding, a British heritage predicts higher levels of the rule of law. Introducing this historical factor eliminates the effects of the Harmony (Mastery) dimension of culture – a point to which we return in Section D. The other two cultural dimensions, Embeddedness (Autonomy) and Hierarchy (Egalitarianism), continue to predict significantly, with nearly identical coefficients. The association between these cultural preferences and the rule of law thus appears unrelated to the historical fact of having a British heritage. Although Treisman noted that a British heritage does not necessarily mean a common law system, we argue below that the effect of this heritage may be due to a combination of legal and structural factors.

[Table 3 around here]

Economic inequality, as measured by the Gini coefficient, correlates negatively with the rule of law, irrespective of a country's cultural profile (column 4). To allow comparability, we report regression results for cultural dimensions alone in the sub-sample for which the Gini coefficient is available (column 3). The variance predicted by culture alone in this sub-sample is 63%. Including the Gini coefficient increases the adjusted *R*-squared to 68%. The coefficients for Embeddedness and Hierarchy do not change significantly and the coefficient for Harmony strengthens

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<sup>73</sup> Harmony too has a negative coefficient. This coefficient is not robust to certain controls. We discuss the results for Harmony separately in section D below.

somewhat. Economic inequality is apparently inimical to the rule of law. Higher inequality may provide the wealthy with more opportunities to exploit their economic power to infringe on the rights of the poor. At the same time, poor people who face higher levels of economic inequality may be more willing to break the law.

The next regression (column 5) adds both economic inequality and British heritage to the cultural dimensions as predictors of the rule of law. This combination of cultural, economic, and historical factors explains 76% of the variance. All but the Harmony (Mastery) dimension contribute uniquely to the variance in the rule of law. Adding economic inequality and British heritage has little effect on the coefficients for Embeddedness and Hierarchy. These four variables have independent associations with levels of legality.<sup>74</sup> Taken together, this parsimonious set of variables permits good prediction of the countries in which people obey the law to a lesser or greater degree. It may well point to some of the reasons *why* people obey the law.<sup>75</sup>

### 3. Corruption

This section repeats the same regression analyses for predicting the non-corruption index. Because the indices for the rule of law and for non-corruption are highly correlated conceptually and empirically, similar results indeed obtain (Table 4). To avoid repetition, we compare the two sets of results in general and leave to readers to examine the tables in detail.

[Table 4 around here]

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<sup>74</sup> We discuss the possible role of national wealth in these relationships (column 6) below.

<sup>75</sup> In this view, compliance with the law stems from a combination of particular cultural, economic, and historical factors. Hence, Tom Tyler's theory regarding the role of individual perceptions about the fairness of laws and legal procedures may need to be modified to take account of prevailing culture as well. See Tom R. Tyler, *Why People Obey the Law* (1990).

The regression coefficients for non-corruption are similar in sign and magnitude to those obtained for the rule of law. Somewhat more variance is predicted in non-corruption, ranging from 4 to 10% higher for corresponding models. The model that includes national cultural profiles, economic inequality, and a British heritage as predictors explains 81% of the variance in perceived corruption (column 5). For non-corruption, however, all variables, including the Harmony (Mastery) cultural dimension, contribute significantly. High cultural Embeddedness (vs. Autonomy) again emerges as the strongest predictor. Comparing the coefficients for non-corruption with those for the rule of law reveals that the cultural dimensions are somewhat stronger predictors and the other variables somewhat weaker predictors of non-corruption. As with the rule of law, including both economic inequality and British heritage has little effect on the predictive power of cultural Embeddedness (Autonomy) and Hierarchy (Egalitarianism) (column 5).

#### 4. Accountability

Like the norms of legality and non-corruption, the level of democratic accountability in the public sphere also relates clearly to features of the encompassing national culture. Results of the regressions presented in Table 5 are consistent with the results for the former two norms, but they are not identical. In the basic cultural model (column 1), Embeddedness and Hierarchy have a significant, negative, and relatively equal role, whereas Harmony has virtually no effect. These variables alone predict 62% of the variance. Consistent with our hypotheses, cultural preferences for Embeddedness (vs. Autonomy) and Hierarchy (vs. Egalitarianism) values are inimical to the prevalence of accountability.

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[Table 5 around here]

Both a heritage of British rule (column 2) and economic inequality (column 4) add to the variance in accountability that is accounted for. Together, the cultural, historical, and economic factors predict 72% of the variance in accountability (column 5). Consistent with the previous findings, economic inequality has a negative effect on the level of accountability: The larger the differences between rich and poor, the less likely are the politically powerful (and, plausibly, richer) to be accountable to weaker constituencies. A heritage of British rule increases accountability.

#### 4. Taking the Level of Economic Development into Account

Given the substantial associations between governance variables and level of economic development,<sup>76</sup> it is important to consider how economic development bears on the relations we have examined. Explicating relations among culture, governance, and economic performance is problematic. Figure 2 reflects the common view that mutual feedback relations exist among these factors. In this view, better governance facilitates economic development while at the same time, more economically developed countries can afford higher spending on governance institutions such as law enforcement agencies and courts. Cultural values affect societal compliance with governance norms but may also be affected by the level of development.

Researchers have thus noted that including governance as an independent variable in regressions to predict economic development (or vice versa) would entail downward estimation biases. Efforts to sidestep this problem usually concentrate on

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<sup>76</sup> See, for instance, Kaufmann *et al.*, *supra* note 1; Knack & Keefer, *supra* note 2; Mauro, *supra* note 4.

using instrumental variables in two-step-least-squares (2SLS) regressions, but such efforts are not always successful nor feasible.<sup>77</sup> However, we add economic development to the regressions as a predictor in order to assess the approximate effects of controlling for level of development on relations of the other predictors to the norms of governance. Interpretation of the results should be done against this backdrop.

Column 6 in each of Tables 3-5 presents results of predicting the rule of law, non-corruption, and democratic accountability, respectively, simultaneously with the three cultural variables, British heritage, economic inequality, and with economic development, measured as the log of GDP per capita. For the rule of law (Table 3), economic development exhibits no independent predictive power, as shown by the non-significant beta coefficient for GDP per capita. It does not add to the variance in the rule of law accounted for by the other variables. For non-corruption (Table 4) and democratic accountability (Table 5), GDP per capita has significant positive coefficients. One can expect less corruption and greater accountability in wealthier countries, even after controlling for the three cultural dimensions, British heritage, and economic inequality. These latter variables retain predictive power, but their strength is reduced by including GDP per capita. However, the addition of GDP per capita to the already high levels of variance explained is small (2% for non-corruption

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<sup>77</sup> See, for instance, Kaufmann *et al.*, *supra* note 1; Hall & Jones, *supra* note 2; Mauro, *supra* note 4. See also Daron Acemoglu, Simon Johnson, & James A. Robinson, *The Colonial Origin of Comparative Development: An Empirical Investigation*, 91 *Am. Econ. Rev.* 1369 (2001); Thorsten Beck, Asli Demirguc-Kunt, & Ross Levine, *Law, Endowments, and Finance*, *J. Fin. Econ.* (forthcoming 2002)). Estimation problems due to the endogeneity of GDP per capita led Beck *et al.* to exclude this variable from their analyses. Fully avoiding endogeneity problems may be difficult, if not impossible. Cultural preferences transcend particular life situations such that their imprint is pervasive. Using an instrumental variable technique based on contemporary variables is therefore not a valid approach. Using historical variables as instruments could eliminate traces of reverse causality, but such variables may not be available even in theory for all the cultural dimensions.

and 3% for accountability). When GDP per capita is entered last in hierarchical regressions, the added variance it explains in non-corruption and in accountability is not significant. Hence, the models that include and that do not include this measure of economic development may be considered equivalent.

The regression analyses including GDP per capita are compatible with a view that legality and economic development are often associated. They suggest, however, that cultural, historical, and other economic variables (e.g., inequality) play an independent part in explaining levels of legality across countries. Indeed, adding economic development to these factors yields little if any additional predictive power. Thus these are fundamental factors whose meaningful relations of governance may be interpreted without reference to economic level.

## 5. Cultural Regions

Table 6 provides another perspective on the cultural region analysis presented in Table 2. We used a regression approach to examine the extent to which countries' locations in particular cultural regions might account for their levels of compliance with governance norms. Dummy variables were constructed for the cultural regions identified by Schwartz. Latin America, whose mean score on the rule of law index (-.05) is close to the international mean score of zero, was omitted. Table 6 reports the results for the three norms of governance. We also show regressions including economic development whose inter-relations with the regional variables is more tenuous than with cultural value dimensions.<sup>78</sup>

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<sup>78</sup> British heritage is not included in these analyses due to the high overlap between the dummy variable that represents it and the cultural region classification: All the English-speaking countries and three out of four African countries in our sample have a British heritage, while none of

[Table 6 around here]

The regressions including only location in cultural regions (columns 1, 3, 5) reinforce the findings reported in Table 2. English-speaking and West European countries exhibit much higher levels of law and order, non-corruption, and democratic accountability than countries in other cultural regions. With regard to the rule of law and non-corruption, we again find that the world can be dichotomized into mega-regions of high and low governance. With regard to accountability, three broad regions can be formed, with the African countries exhibiting especially low accountability.<sup>79</sup> Interestingly, the location of countries in cultural regions accounts for approximately the same proportions of variance in governance norms as the country scores on the three underlying cultural dimensions (compare Table 6 with Tables 3, 4, and 5).

A richer picture emerges when the level economic development is included. As we saw earlier, economic development is associated with compliance to norms of governance, probably reflecting reciprocal influence. Here, this holds for the rule of law as well. The significant positive coefficients for the English-speaking and West European regions in columns 2, 4, and 6, indicate that their higher levels of compliance are not merely a matter of their higher socio-economic level. Most intriguing is the finding of significant positive coefficients for Africa and the Far East in predicting the rule of law and non-corruption norms. These suggest that compliance

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the countries in Western Europe, Eastern Europe, and Latin America does. Results for the Gini coefficient were mostly non-significant.

<sup>79</sup> For accountability, the mean score of the excluded Latin American region (.35) lies in the middle-range of regional scores (see Table 2) – higher than in Africa, lower than in English-speaking and Western European countries, and equivalent to Eastern Europe and the Far East.



is actually higher in these regions than one would expect for countries at their level of economic development!

Regression analyses of democratic accountability across cultural regions are reported in columns (5)-(6). Including GDP per capita in the regression has a more modest effect than it has for the rule of law and non-corruption. Compared with these norms, The Western regions' coefficients decrease less strongly and the coefficient for economic development is much lower. The increase in predictive power is also moderate: 8%, compared with 21-27% for non-corruption and the rule of law. These results indicate that regional differences in the prevalence of democratic accountability are more strongly tied with culture than with economic development. The picture changes notably only with regard to Africa as the region's negative coefficient disappears. There, it appears, differences in accountability could be more related to the level of development.

### *C. A Note on Harmony*

Two of the three bipolar cultural dimensions in the Schwartz theory, Autonomy/Embeddedness and Egalitarianism/Hierarchy, exhibit significant and stable relations with governance norms, as predicted based on theory. Better governance is associated with societal emphases on cultural Autonomy (vs. Embeddedness) and Egalitarianism (vs. Hierarchy). In the regression analyses, these two dimensions have most of the predictive power, while Harmony (vs. Mastery) adds only marginally.

The picture with regard to Harmony/Mastery is mixed. Recall that Harmony does not correlate with the rule of law (.09) and non-corruption (.09), but correlates positively with accountability (.40) (Table 1). In the regressions including all three

cultural dimensions, however, the beta coefficient for Harmony is significantly negative for the rule of law (-.26) and non-corruption (-.29) and near zero for accountability (.03) (Tables 3, 4, 5, column 1). Thus, the variance in Harmony that is not shared with the other cultural dimensions does relate to the first two norms. A heritage of British rule may be the key to understanding this variability.

Nations with a heritage of British rule, both English-speaking and non-English speaking, are unusually low on Harmony (and high on Mastery),<sup>80</sup> and a British heritage relates positively (at 1%) to all three norms of governance and substantially to the rule of law and non-corruption. Once one controls the effects of a British heritage by introducing it into the regressions, the effects of Harmony on the rule of law and non-corruption largely disappear (Tables 3 and 4, column 2), indicating that Harmony is not related to these norms across the remaining nations. A weak positive effect appears for accountability (Table 5, column 2), suggesting that Harmony, which opposes exploitative assertiveness by individuals or groups, contributes to an atmosphere of democratic accountability.

## V. DISCUSSION

Some 2500 years ago, the city of Athens sentenced Socrates to death for religious heresy and corrupting the youth. Socrates refused to escape from jail. The “Laws,” he argued, would come and tell him that by escaping he would break his agreement with them and undermine the stability of the state.<sup>81</sup> Socrates’s position is often presented

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<sup>80</sup> For English-speaking nations, this has been attributed to the shared frontier experience of these countries and to their traditions of pragmatic development and entrepreneurial activity (*See* Schwartz & Ros, *supra* note xx). British colonial rulers may have influenced the Harmony/Mastery culture of their non-English-speaking colonies through the institutional reform and development in which they engaged. *See* Acemoglu *et al.*, *supra* note 77.

<sup>81</sup> Plato, *Crito*, in *Euthyphro, Apology of Socrates and Crito* (John Burnet trans. 1977).

as the classic exposition of arguments for the duty to obey the law and, generally, for the importance of the rule of law. At about the same time, in equally powerful terms Confucius derided the rule of law as a means for establishing social order in China. In the Confucian vision, social harmony rather than justice is the symbol of the ideal society.<sup>82</sup> Contemporary scholars continue to debate the validity of these two positions.<sup>83</sup> Socrates and Confucius remain fine examples of the diametrical stances toward promoting social order through the rule of law that cultures may embody.

The current study extends this ancient controversy and adds empirical findings relevant to it. We have drawn on two theories from cross-cultural psychology to operationalize dimensions of culture and used them to examine relations of culture to the rule of law. The analyses reveal substantial and consistent links between the cultural emphases in a society and levels of the rule of law. Largely similar links are also found between culture and non-corruption and accountability. The similarity of the associations of levels of the rule of law, non-corruption, and accountability with culture across nations support the notion that good governance norms form a general system of social norms. Of course, good governance is not entirely a product of culture. As we have seen, both economic and historical factors also account for

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<sup>82</sup> This vision is nicely captured in Confucius' maxim: "If people are directed by laws (fa), and regulated by punishment, they will try to avoid punishment but have no sense of shame; if they are directed by virtue and regulated by ethics (li), they will have a sense of shame and so become good." Confucius, Lunyu [The Analects], reprinted in Sishu [The Four Books] Bk. 2, at 146 (1962) (translated by Joseph W. Dellapenna, *The Lesson of the Triple Twisted Pine: Plum Blossoms on Mountain Peaks and the Future of the Rule of Law in Hong Kong*, 30 Vand. J. Transnat'l L. 637 (1997)).

<sup>83</sup> See William P. Alford, *On the Limits of "Grand Theory" in Comparative Law*, 61 Wash. L. Rev. 945 (1986); Albert H.Y. Chen, *Toward a Legal Enlightenment: Discussions in Contemporary China on the Rule of Law*, 17 UCLA Pac. Basin L.J. 125 (1999-2000). See also Frederick Schauer, *Free Speech and the Cultural Contingency of Constitutional Categories*, 14 Cardozo L. Rev. 865 (1993). On Socrates, see M.B.E. Smith, *Is There a Prima Facie Obligation to Obey the Law?*, 82 Yale L.J. 950 (1973); Philip Soper, *Another Look at the Crito*, 41 Am. J. Juris. 103 (1996); Frances Olsen, *Socrates on Legal Obligation: Legitimation Theory and Civil Disobedience*, 18 Ga. L. Rev. 929 (1984); Haim Gans, *Philosophical Anarchism and Political Disobedience* (1992).

substantial variation in good governance. Yet, culture makes its independent contribution over and above these factors.

The theories and data on cultural dimensions employed in this study have a reasonable claim to universal applicability in literate societies.<sup>84</sup> In comparison, the governance indices used here may be biased toward a Western view of the meaning of the rule of law, corruption, and accountability. As noted earlier, these indices were based on multinational polls from non-Western as well as Western countries and on surveys of internationally experienced experts. Nonetheless, there is certainly room for improving the cross-national operationalization of governance norms to make it more universal.

The present findings have significant implications for people and institutions engaged in development projects around the world and, in particular, in institutional reform programs.<sup>85</sup> This study shows that particular cultural profiles in major world regions are less compatible with “good governance,” as defined in these programs, than the profiles in West European and English-speaking countries. In our view, these findings warrant serious rethinking of development programs. Obviously, culture must be factored into development programs. But how this should be done is far from obvious.

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<sup>84</sup> Schwartz, *supra* note 10; Hofstede, *Culture’s Consequences*, *supra* note 16.

<sup>85</sup> Consider the concluding statement in a World Bank’s “governance and poverty toolkit:” “Perhaps most important for sustainability [of institutional reforms] is the match between the design of reforms and the environment in which they must take root if they are to be effective. It is important to understand the degree of rule-respect in the society, the extent of informality, the role of informal networks and the way in which power and influence are exercised, if reforms are to be relevant to their institutional context.” Navin Girishankar *et al.*, *Governance and Poverty Reduction*, in *Poverty Reduction Strategy Sourcebook* 36 (Draft, 2001), available at <[www.worldbank.org/poverty/strategies/chapters/governance/gov0427.pdf](http://www.worldbank.org/poverty/strategies/chapters/governance/gov0427.pdf)>.

The insight that culture underlies governance does not necessarily imply that countries scoring low on the governance indices are doomed to a lawless, corrupt, and unaccountable future because of their cultural endowment. The assumption that certain cultural profiles are more conducive to good governance poses a grave dilemma for policy makers. Domestic political leaders may find it difficult to run campaigns that draw on foreign values: the citizenry may feel that they are alien or resent their foreignness. International agencies may hesitate to promote policies that can readily be depicted as a new and threatening form of imperialism. And efforts to transplant cultural values or to replace entire value systems are likely to prove difficult. National cultures constitute a system, manifest in myriad life contexts, and are thus resistant to change.

An alternative approach for designing effective governance reforms would entail decoupling culture and governance and reconstructing culture-compatible governance systems. In this view, “good Asian governance” could be different from, but just as good as, a West European version of governance norms. For instance, an ideal-type of governance that drew on Confucian elements might be more appealing to people in certain East Asian countries and thus easier to implement. In the Confucian view, social order rests on relationships of superiority and subordination. In ancient Chinese ideology it was said that “equal queens, equal sons, equal powers and equal cities—all lead to disorder”.<sup>86</sup> Indeed, economically successful Asian countries were sometimes characterized as having “authoritarian” regimes.<sup>87</sup> The

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<sup>86</sup> Stephen B. Young, *The Concept of Justice in Pre-Imperial China*, in *Moral Behavior in Chinese Society* 38, 42 (Richard W. Wilson et al., eds. 1981).

<sup>87</sup> See, for example, Fareed Zakaria, *Culture is Destiny: A Conversation with Lee Kuan Yew*, 73 *Foreign Affairs* 113 (1994); Kim Dae Jung, *Is Culture Destiny? The Myth of Asia's Anti-*

issue of “Asian values” and their relations to economic development and human rights is a thorny one. Our findings indicate that societal preferences for Hierarchy values may be conducive to corruption and inimical to democratic accountability and to the rule of law. Whether governance systems that draw on such values can be successful in the long run (and with which measures this should be judged) is debatable and exceeds the scope of this article.

The present findings suggest, however, that aspects of hierarchy constitute only part of the picture. The Autonomy-Embeddedness dimension may point to the most fundamental issue, even when other aspects are taken into account. Providing people with comprehensive rights and freedoms—and, more fundamentally, with ample individual choice—runs counter to the societal preference for Embeddedness that is common in many Asian countries. At least in countries influenced by Confucianism, such cultural preferences are further accompanied by deeply rooted epistemologies and cognitive styles that differ markedly from those prevailing in the United States, for example.<sup>88</sup> It follows that policies that champion strengthening individual agency—such as Amartya Sen’s “development as freedom” thesis<sup>89</sup> or the World Bank’s empowerment strategy—may be especially difficult to implement in these countries.

This study has dealt with the social normative environment in which legal systems operate. The law too plays a role in the interaction between culture,

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*Democratic Values—A Response to Lee Kuan Yew*, 73 *Foreign Affairs* 189 (1994). For a critical discussion see Amartya Sen, *Development as Freedom* 231 *et seq.* (1999).

<sup>88</sup> For reviews see, for example, Richard E. Nisbett *et al.*, *Culture as Systems of Thought: Holistic versus Analytic Cognition*, 108 *Psychol. Rev.* 291 (2001); Kaiping Peng, Daniel R. Ames, & Eric Knowles, *Culture and Human Inference*, in *Handbook of Culture and Psychology* 245 (D. Matsumoto Ed. 2001).

<sup>89</sup> Sen, *supra* note 87.

governance, and economics, as alluded to in part IV.C. Recent cross-sectional analyses trace the origin of countries' legal systems—under a traditional classification of legal families—both to economic growth and to the operation of the court system. Paul Mahoney argues that, in comparison to civil law systems, common law systems produce improvements in property rights and contract enforcement that, in turn, may speed economic growth.<sup>90</sup> Mahoney relates his findings to Friedrich Hayek's views on the different emphases on individual liberty and the role of the state implicit in the common law and civil law legal families.<sup>91</sup> Djankov *et al.* present evidence that legal family affiliation—which they relate to colonial transplantation—is associated with procedural formalism in court enforcement of basic contract and property rights.<sup>92</sup>

One need not adopt Hayek's controversial views about the rule of law<sup>93</sup> to appreciate that the current study generalizes some of his insights. It directly connects law-related norms with cultural values and cultural regions on the one hand and with colonial history on the other. Among other things, the present framework sidesteps the problematic classification into legal families<sup>94</sup> and distinguishes between the possible influence of cultural factors and of colonial history. Together with evidence presented by others, this study suggests a mode of reform that concentrates on institutions more than on legal transplantation. Further research on the performance of legal systems

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<sup>90</sup> Paul G. Mahoney, *The Common Law and Economic Growth: Hayek Might be Right*, 30 J. Legal Studies 503 (2001). See also Ross Levine, *Law, Finance, and Economic Growth*, 8 J. Fin. Intermediation 8 (1999); Thorsten Beck, Asli Demirguc-Kunt, & Ross Levine, *Law, Politics, and Finance*, working paper (2001).

<sup>91</sup> Friedrich A. Hayek, *The Constitution of Liberty* (1960); Friedrich A. Hayek, *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy* (1973).

<sup>92</sup> Simeon Djankov *et al.*, *Courts: The Lex Mundi Project*, working paper (2001).

<sup>93</sup> For a critical review, see Cass R. Sunstein, *Problems with Rules*, 83 Calif. L. Rev. 953 (1995).

should benefit from acknowledging the importance of law-related social norms and, more fundamentally, of culture.

Consistent with previous research, we document generally positive relations between economic development and governance. Whatever the reciprocal, causal processes that link economics and culture, social norms of governance constitute an important mediator. They give concrete expression to abstract cultural values in regulating specific forms of economic relations and transactions. The strength of linkage between governance norms and culture demonstrated in our findings lends support to the view that certain cultural profiles might create vicious circles of underdevelopment.<sup>95</sup>

## VI. CONCLUSION

This study seeks to advance our understanding of the ways in which culture matters. It shows how social norms like the rule of law, non-corruption, and accountability—whose merit may seem universal and self-evident to some—vary across cultural regions of the world. It reveals the associations of these norms with the cultural profiles prevalent in different nations, using well-established dimensions of culture. The relations of culture to governance norms are substantial even when critical economic and historical factors are taken into account. These findings may be helpful in assessing legal systems and economic mechanisms. They also indicate that more research into the relations between culture, governance, and economics is both timely and warranted.

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<sup>94</sup> See Licht, Goldschmidt, & Schwartz, *supra* note 68.

<sup>95</sup> See, for example, Harrison & Huntington, *supra* note 11.



TABLES

Table 1. Relations of Norms of Governance to Cultural Value Dimensions across Countries (Pearson Correlations)

A. Dimensions from Schwartz

<u>Cultural Dimension</u>	<u>Norm of Governance</u>		
	Rule of Law	Non-Corruption	Accountability
Harmony	.09	.09	.40***
Embeddedness	-.64***	-.64***	-.70***
Hierarchy	-.47***	-.51***	-.67***
Mastery	-.25**	-.26**	-.35***
Affective Autonomy	.54***	.55***	.52***
Intellectual Autonomy	.49***	.48***	.55***
Egalitarianism	.52***	.60***	.61***
<i>Number of Nations</i>	53	52	53

B. Dimensions from Hofstede

<u>Cultural Dimension</u>	<u>Norm of Governance</u>		
	Rule of Law	Non-Corruption	Accountability
Uncertainty Avoidance	-.31**	-.36***	-.11
Individualism	.66***	.71***	.72***
Power Distance	-.61***	-.67***	-.66***
Masculinity	-.10	-.15	-.02
<i>Number of Nations</i>	49	49	49

\*\*\* significant at 1%; \*\* significant at 5%.

Significance levels are one-tailed.

Table 2. Comparison of Standardized Mean Scores for the Rule of Law, Non-Corruption and Accountability across Cultural Regions Identified by Schwartz

Differences between Means of Regions						
<u>A. Rule of Law</u>	Mean	AF	EE	ES	FE	LA
Africa (AF)	.21					
Eastern Europe (EE)	.16	.05				
English-speaking (ES)	1.47	1.26***	1.30***			
Far East (FE)	.62	.41	.46	.85*#		
Latin America (LA)	-.05	.26	.21	1.52***	.67	
Western Europe (WE)	1.41	1.20***	1.25***	.06	.79**#	1.46***
<u>B. Non-Corruption</u>						
Africa (AF)	-.23					
Eastern Europe (EE)	.07	.30				
English-speaking (ES)	1.67	1.90***	1.60***			
Far East (FE)	.40	.63	.33	1.27***		
Latin America (LA)	-.10	.12	.17	1.77***	.51	
Western Europe (WE)	1.58	1.80***	1.51***	.09	1.17***	1.68***
<u>C. Accountability</u>						
Africa (AF)	-.33					
Eastern Europe (EE)	.62	.94*##				
English-speaking (ES)	1.43	1.76***	.82*##			
Far East (FE)	.04	.37	.58	1.39***		
Latin America (LA)	.35	.68	.26	1.08**#	.31	
Western Europe (WE)	1.47	1.80***	.85*##	.04	1.43***	1.12***

Significance by both Tukey and *t* tests: \*\*\* at 1%, \*\* at 5%, \* at 10%; other levels of significance by *t* test: \*\*# or \*## at 1% and \*# at 5%.

Table 3. Regressions of the Rule of Law on Cultural Dimensions and Other Factors

	(1)	(2)	(3)	(4)	(5)	(6)
Harmony	-.26** (2.27)	-.04 (.37)	-.23** (2.18)	-.31*** (3.08)	-.11 (1.02)	-.03 (.87)
Embeddedness	-.59*** (5.10)	-.58*** (5.75)	-.66*** (6.21)	-.60*** (5.97)	-.58*** (6.71)	-.49*** (4.12)
Hierarchy	-.31** (2.59)	-.33** (3.14)	-.35*** (3.20)	-.31*** (3.01)	-.34*** (3.80)	-.27** (2.54)
British heritage		.42*** (4.06)			.35*** (3.84)	.33*** (3.52)
Gini coefficient				-.27*** (2.70)	-.25** (2.82)	-.23** (2.64)
Log GDP/Capita						.16 (1.12)
Adjusted $R^2$	.47	.60	.63	.68	.76	.76
$F$	16.62***	20.53***	25.60***	23.98***	28.70***	24.29***
$N$	53	53	45	45	45	45

\*\*\* significant at 1%; \*\* significant at 5%.

$t$ -statistic absolute values are reported in parentheses. Intercepts are not shown.

Columns (3)-(6) relate to the same set of countries.

Table 4. Regressions of Non-Corruption on Cultural Dimensions and Other Factors

	(1)	(2)	(3)	(4)	(5)	(6)
Harmony	-.29**	-.06	-.31***	-.36***	-.18*	-.15*
	(2.61)	(.58)	(3.39)	(3.99)	(1.94)	(1.73)
Embeddedness	-.58***	-.57***	-.68***	-.64***	-.63***	-.48***
	(5.20)	(6.20)	(7.54)	(7.19)	(8.21)	(4.86)
Hierarchy	-.39***	-.42***	-.44***	-.40***	-.44***	-.33***
	(3.31)	(4.29)	(4.63)	(4.40)	(5.52)	(3.70)
British heritage		.46***			.31***	.28***
		(4.70)			(3.76)	(3.45)
Gini coefficient				-.19**	-.16*	-.13*
				(2.06)	(1.99)	(1.71)
Log GDP/Capita						.27**
						(2.30)
Adjusted $R^2$	.51	.66	.73	.75	.81	.83
$F$	18.87***	25.90***	38.81***	32.52***	37.63***	35.77***
$N$	52	52	44	44	44	44

\*\*\* significant at 1%; \*\* significant at 5%; \* significant at 10%.

$t$ -statistic absolute values are reported in parentheses. Intercepts are not shown.

Columns (3)-(6) relate to the same set of countries.

Table 5. Regressions of Democratic Accountability on Cultural Dimensions and Other Factors

	(1)	(2)	(3)	(4)	(5)	(6)
Harmony	.03 (.32)	.17* (1.67)	.01 (.09)	-.06 (.59)	.11 (.96)	.14 (1.33)
Embeddedness	-.49*** (4.97)	-.48*** (5.25)	-.51*** (4.92)	-.47*** (4.58)	-.45*** (4.81)	-.24** (2.00)
Hierarchy	-.42*** (4.11)	-.44*** (4.53)	-.44*** (4.03)	-.40*** (3.85)	-.43*** (4.41)	-.28** (2.50)
British heritage		.27** (2.07)			.28*** (2.86)	.23** (2.44)
Gini coefficient				-.21** (2.09)	-.19** (2.04)	-.16* (1.79)
Log GDP/Capita						.36** (2.52)
Adjusted $R^2$	.62	.67	.64	.67	.72	.75
$F$	28.89***	26.95***	26.94***	22.98***	23.30***	23.13***
$N$	53	53	45	45	45	45

\*\*\* significant at 1%; \*\* significant at 5%; \* significant at 10%

$t$ -statistic absolute values are reported in parentheses. Intercepts are not shown.

Columns (3)-(6) relate to the same set of countries.

Table 6. Regression of Governance Norms in Countries on their Cultural Region and Economic Development Level

	Governance Norm					
	Rule of Law		Non-Corruption		Accountability	
Cultural Region	(1)	(2)	(3)	(4)	(5)	(6)
African	.05 (.39)	.39*** (3.90)	-.10 (.91)	.23** (2.32)	-.23** (2.13)	-.05 (.48)
Eastern Europe	.04 (.88)	.01 (.11)	-.01 (.11)	-.04 (.47)	.15 (1.30)	.14 (1.29)
English-speaking	.58*** (4.46)	.38*** (2.71)	.56*** (4.71)	.27*** (2.75)	.47*** (4.26)	.32*** (2.89)
Far East	.20 (1.49)	.25** (2.60)	.12 (.96)	.12 (1.29)	-.12 (1.05)	-.12 (1.08)
Western Europe	.70*** (4.92)	.32*** (2.80)	.67*** (5.10)	.31*** (2.73)	.62*** (5.06)	.43*** (3.41)
Log GDP/Capita		.80*** (6.84)		.73*** (6.32)		.40*** (3.07)
Adjusted $R^2$	.47	.73	.56	.76	.60	.68
$F$	10.04***	24.47***	13.82***	27.77***	16.87***	18.91***
$N$	51	50	51	50	51	50

\*\*\* significant at 1%; \*\* significant at 5%; \* significant at 10%.

$t$ -statistic absolute values are reported in parentheses.

Excluded region: Latin America.

## APPENDICES

### *Appendix 1. Kaufmann et al.'s Main Survey Items*

Source	Rule of Law	Graft	Voice and Accountability
Political Risk Services (PRS)	Law and order tradition	Corruption in the political system as a "threat to foreign investment"	Democratic accountability: Responsiveness of the government to its people, free and fair elections; Military in politics: Reduces accountability
Economist Intelligence Unit (EIU)	Corruption in banking; Crime	Corruption among public officials	Change in government, orderly transfer; Legal system, transparency, fairness
World Development Report	Theft and crime (now); Confidence in authority to secure property (now); Unpredictability of the judiciary (now); Crime and theft as obstacles to business	Frequency of "additional payments" to "get things done"; Corruption as "obstacle to business"	Business is kept informed of important developments in rules and policies; Business has a voice to express its concerns over changes in laws or policies

Standard and Poor/McGraw-Hill	Losses and Costs of Crime; Enforceability of private contracts; Enforceability of government contracts; Kidnapping of Foreigners	Corruption among public officials, effectiveness of anticorruption initiatives	
Heritage Foundation/Wall Street Journal	Black Market; Property Rights		

This Appendix details the main survey items used by Kaufmann, Kraay, and Zoido-Lobaton to construct their governance indicators and the sources from which these items were drawn. Only items included in “representative sources” – namely, sources with substantial country coverage – are mentioned here.

*Source:* Daniel Kaufmann, Aart Kraay, & Pablo Zoido-Lobaton, Governance Matters, working paper, The World Bank (1999), at tbls. G1, G5, G6.



*Appendix 2. Countries Studied and Classifications into Cultural Regions*

Country	Schwartz's Regions	Hofstede's Regions	British Heritage
Argentina	Latin America	More Developed Latin	0
Australia	English-speaking	Anglo	1
Austria	Western Europe	Germanic	0
Belgium		More Developed Latin	0
Bolivia	Latin America		0
Brazil	Latin America	More Developed Latin	0
Canada	English-speaking	Anglo	1
Chile	Latin America	Less Developed Latin	0
China	Far East		0
Colombia		Less Developed Latin	0
Cyprus	Middle East		
Czech Republic	Eastern Europe		0
Denmark	Western Europe	Nordic	0
Ecuador		Less Developed Latin	0
Estonia	Eastern Europe		0
Ethiopia	Africa		
Finland	Western Europe	Nordic	0
France	Western Europe	More Developed Latin	0
Georgia	Eastern Europe		
Germany	Western Europe	Germanic	0
Ghana	Africa		1

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Greece	Western Europe	Near Eastern	0
Hong Kong	Far East	Asian	1
Hungary	Eastern Europe		0
India	Far East	Asian	1
Indonesia	Far East	Asian	0
Iran		Near Eastern	0
Ireland	English-speaking	Anglo	1
Israel	English-speaking	Germanic	1
Italy	Western Europe	More Developed Latin	0
Japan	Far East	Asian	0
Macedonia	Eastern Europe		
Malaysia	Far East	Asian	1
Mexico	Latin America	Less Developed Latin	0
Namibia	Africa		0
Nepal	Far East		
Netherlands	Western Europe	Nordic	0
New Zealand	English-speaking	Anglo	1
Norway	Western Europe	Nordic	0
Pakistan		Asian	1
Peru		Less Developed Latin	0
Philippines	Far East	Asian	0
Poland	Eastern Europe		0
Portugal	Western Europe	Less Developed Latin	0
Russia	Eastern Europe		0
Singapore	Far East	Asian	1

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Slovakia	Eastern Europe		0
Slovenia	Eastern Europe		
South Africa		Anglo	1
South Korea		Asian	0
Spain	Western Europe	More Developed Latin	0
Sweden	Western Europe	Nordic	0
Switzerland	Western Europe	Germanic	0
Taiwan	Far East	Asian	0
Thailand		Asian	0
Turkey	Middle East	Near Eastern	0
Uganda	Africa		1
United Kingdom	English-speaking	Anglo	1
United States	English-speaking	Anglo	1
Uruguay		Less Developed Latin	0
Venezuela	Latin America	Less Developed Latin	0
Yugoslavia		Near Eastern	
Zimbabwe	Africa		1

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*Appendix 3. Mean Scores on Cultural Value Dimensions in Each Cultural Region*

A. Regions Identified by Schwartz

Region and # Countries	Cultural Value Dimensions						
	Harmony	Embedded- ness	Hierarchy	Mastery	Affective Autonomy	Intellectual Autonomy	Egalitar- ianism
Africa (5)	3.75	4.17	2.71	4.20	3.04	4.20	4.52
Eastern Europe (12)	4.49	4.00	2.31	3.85	3.01	4.29	4.63
English-speaking (7)	3.91	3.66	2.26	4.01	3.64	4.38	4.94
Far East (10)	4.05	4.02	2.85	4.07	3.09	4.09	4.49
Latin America (6)	4.25	3.85	2.24	4.00	3.00	4.40	4.91
Western Europe (14)	4.57	3.34	1.90	3.93	3.74	4.86	5.13

B. Regions Identified by Hofstede

Region and # Countries	Cultural Value Dimensions			
	Power Distance	Uncertainty Avoidance	Individualism	Masculinity
Anglo (7)	35.57	44.71	80.57	61.43
Germanic (4)	23.25	68.50	61.00	65.50
Nordic (5)	30.20	42.50	71.40	13.80
More Developed Latin (6)	59.67	83.83	59.50	52.33
Less Developed Latin (8)	69.75	85.25	20.63	51.00
Asian (11)	71.45	53.18	25.45	53.09

## FIGURE LEGENDS AND FIGURES

Figure 1. The Structure of Cultural Value Dimensions according to Schwartz

Figure 2. Interactions between Governance and Other Factors

