

## **Values: How do they Contribute to Economic Success?**

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*Different values lead to different choices and outcomes. As the outcomes accumulate, they determine whether individuals experience better or worse lives and determine whether society is a more or less healthy. This paper examines values and culture, focusing on how they contribute to economic success. Recognizing their significant impact, we examine how values are inculcated and discuss policy implications.*

### **INTRODUCTION**

Economics largely focuses on how decision environments impact choices that then translate into economic outcomes. When two individuals, or two societies, face the same constraints, the two will make the same choice if each optimize and have the same preferences. Most often, economic analysis does not explain different economic outcomes as arising from different preferences. This allows economics to focus on how changes in the economic environment impact economic outcomes. It also allows economics to avoid ethical issues that might arise from recommending a particular preference because of the outcome it tends to produce.

However, given the extensive efforts parents put into shaping the preferences of their children, and given the regular contentious societal debates over collective decisions, it is reasonable to consider how preferences impact economic outcomes. Psychologists, sociologists, and anthropologists have a long history of studying the relationship between values and outcomes. In recent years, economists have increasingly done so.

This paper weaves together the literature linking values to economic outcomes. We find significant links, so we also examine how values are inculcated. Because values are disproportionately formed in youth, we focus on how the family inculcates values, but we also examine the influence of external factors.

The paper unfolds as follows. Section 2 focuses on defining values and culture in applicable ways. Section 3 presents links researchers have identified between values and economic outcomes. Section 4 focuses on how parents and society inculcate values. Section 5 concludes, with some focus on the implications for policy.

## DEFINING VALUES AND DEFINING CULTURE

What are values? What is culture?

We find scholars have associated the word values with (1) ways of behaving and (2) preferences. Good ways of behaving are virtues; bad ways are vices (McCloskey, 2006). Describing your values can therefore amount to identifying what you consider good and bad behaviors. However, people also have preferences over products (i.e., goods and services that satisfy wants) and assets (i.e., things that can be owned and store value into the future). Describing your values can therefore also amount to identifying the products and assets you like and those you do not like.

A fundamental ethical question is, “What should we value?”

In his *Republic*, Plato claimed we should value four “cardinal virtues:” courage, prudence, temperance, and justice. The goodness of these behaviors lies in their usefulness. Plato identified fortitude (courage) as useful for soldiers, wisdom (prudence) for rulers, and temperance for producers. He identified justice as useful for all.

The Roman Catholic Church added three “theological virtues” -- faith, hope, and love -- to the four “human virtues” virtues of Plato (Catholic Catechism, 2017). Stalker (1902) and McCloskey (2006) contend these seven primary virtues (courage, prudence, temperance, justice, faith, hope, and love) are like primary colors. You can construct any virtue you might identify as a combination of the primary seven.

Immanuel Kant viewed morality as being primarily concerned with how our own actions affect others (McCloskey, 2006). Similarly, Stigler (1981) describes ethics as “a set of rules with respect to dealings with other persons” (p.189). Rawls (1971) explained ethics as arising to resolve conflicts between people, and conflicts would naturally arise because there are always multiple ways to distribute the benefits of cooperation. Baumard et al. (2013) identify fairness standards as emerging to guide the distribution of gains resulting from cooperative interactions.

Definitions of values provided by scholars researching the family often focus on behavior, but also extend beyond. Schönplflug (2001) describes values as providing “standards for actions” which “regulate day-to-day behavior ... and critical life decisions” (p.175). Whitbeck (1988), referring to Rokeach (1973), defines a value as “an enduring belief that a specific mode of conduct ... is preferable to an opposite or converse mode” (p.830). Fine et al. (1987) consider values as including more than behavior when, referring to Kaplan (1964), they define “values” as the “standards or principles of worth and are the set of cultural, social, and individual beliefs concerning preferential or healthier life styles” (p.2). The proposition that there is a preferential lifestyle implies there are products (e.g. education, vegetables) and assets (e.g. real estate, 401K) that people should prefer.

Tabellini (2008) emphasizes values are not the same thing as preferences. When two children have different preferences, for example over what they like to eat, a parent might not be too bothered. However, with values Tabellini (2008) notes “parents are likely to be convinced that what is ‘right’ for themselves is also ‘right’ for everyone else, and in particular for their kids” (p.918). We consider Tabellini’s distinction key for our work. If a particular preference leads to a better economic outcome for most anyone, it is reasonable that all should give that preference a higher standing.

Culture is comprised of ingrained values. Albanese et al. (2016) define culture as the “values, beliefs, and gut feelings about what is the right or wrong action in a particular situation” (p.571-572). Guiso et al. (2006) define culture as “those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation” (p.23). Super and Harkness (1986) view culture as customs, which they define as “sequences of behavior so commonly used and so thoroughly integrated into culture that they do not need rationalization and usually occur without conscious thought” (p.555). Sherry and Ornstein (2014) associate culture with “unconscious life,” contending culture involves “fusing together the internal of the person with the external environment so the environment provides an automatic cue for how the person should behave” (p.455).

## LINKS BETWEEN VALUES AND ECONOMIC OUTCOMES

Are all preferences equal in terms of the economic outcomes they generate? The short answer is, “No.” Sherry and Ornstein (2014) contend “the maintenance of customs and tradition assures the survival of societies” (p.455). Short of survival, researchers have linked certain preferences to particular positive economic outcomes. The fruitfulness of a preference gives us reason to elevate it to the status of a value, for it is sensible that all should prefer more fruitfulness.

Most commonly, economists have linked values to productivity and economic growth. Max Weber (1930, [2005]) identifies a stronger work ethic as directly enhancing productivity; he identifies a stronger saving ethic as indirectly enhancing productivity by channeling a larger share of income into tools. Fernandez and Fogli (2009) and Guiso et al. (2006) recognize Landes (1998) for presenting evidence that thrift, hard work, tenacity, honesty, and tolerance promote growth, whereas xenophobia, religious intolerance, bureaucratic corruption, and state edicts stifle growth. Dohmen et al. (2012) and Fukuyama (1995) recognize the importance of trust for promoting growth; it facilitates cooperation and allows people to conduct business less formally and more flexibly.

Scholars also link values to entrepreneurial activity. Guiso et al. (2006) emphasize trust encourages entrepreneurship. Dohmen et al. (2012) find children are more willing to take risk when their parents value risk-taking, and the children are then more likely to become self-employed. Valuing altruism can promote entrepreneurship because altruistic family members can provide insurance against the uncertain future, and this encourages children to take more risks including entrepreneurial self-employment (Becker 1991, p.281-282). McCloskey (2016) makes a book length argument that the cause of the great improvement in living standards since 1800 has been a change in values from negative attitudes about business and entrepreneurship to positive.

Familism, or strong family ties, has been linked to slower economic growth and development. Banfield (1958) uses it to explain slower development in Southern Italy. Alesina and Giuliano (2010) and Alesina et al. (2015) find strong family ties worsen economic outcomes by limiting geographic mobility. Family ties are more useful when people live close to each other, but the limited mobility imposes a wage and employment penalty.

Webb (2011), recognizing Putnam (2000), links values to social capital and growth. Reciprocity and trust develop as social networks develop. This enhances cooperation, which increases productivity and encourages trade. Putnam also links this additional social capital to more efficient governance. Albanese et al. (2016) emphasize the importance of extending the social network to include a larger circle. Less innovation and growth occur when the scope trust and cooperation is limited by familism or other factors.

Scholars have linked values to labor force participation and employment. Albanese et al. (2016) find familism discourages labor force participation. Dohmen et al. (2012) find trust encourages employment. Specifically, a one standard deviation increase in the trust level of parents causes an 11% increase in the likelihood that the child is employed. Fernandez et al. (2004) find a man is more likely to have a wife who works if his own mother worked when he was growing up.

Scholars have linked childhood values to adult earnings. Cunha and Heckman (2007) connect a variety of “non-cognitive abilities” (e.g., perseverance, motivation, time preference, risk aversion, self-esteem, self-control, preference for leisure) to earnings. Mason (2007, p.75-76) identifies “efficacy” and “achievement orientation” as significant values parents instill, finding an increase in either of these for the family by a standard unit increases the earnings in adulthood by about 6%. Mason also connects future earnings to childhood self-esteem.

Inequality has been explained by the value parents place upon investing in their children. Ishikawa (1975) explains wealth inequality and a stratified society as stemming from higher wealth and higher income levels being reinvested generation after generation. Becker (1991, p.304) similarly explains why an income inequality created by luck may persist; any inequality is magnified as investments in children are made in successive generations. Greenwood et al. (2016) identify the “skill premium” as a root cause of inequality, and find family investments in children amplify this effect.

Vazsonvi and Huang (2010, p.253) link greater self-control to reduced crime and deviance. Among the children they examine, they find self-control explains 45% of the variation in deviance.

Becker (1991) links valuing the family reputation to economic success. Because outsiders use family reputation as a proxy for the unobservable characteristics of family members, parents have an incentive to shape the behavior of their children. Parents foster economic success for their children as they invest in their children and shape their behavior to promote the family reputation.

More than any other product, scholars have identified education as something to be valued. Cunha and Heckman (2007) emphasize the importance of valuing a child's cognitive development in the earliest years (up to age 3 or so), but they also stress valuing noncognitive development up to adulthood. Mason (2007, p.64) finds children attain 11 percent more education when both parents have a college degree compared to both having a high school diploma, while children attain 8 percent less education when both parents have dropped out of high school.

## **HOW ARE VALUES INCULCATED?**

Having identified links between particular values and particular measures of economic success, it is of interest to examine how values are inculcated.

Adam Smith (1759 [2000]) identifies "the man in the breast" and the "impartial spectator" as sources of our values. The man in the breast is your conscience: "We approve of another man's judgment, not as something useful, but as right: . . . and it is evident we attribute those qualities to it for no other reason but because we find that it agrees with our own" (Smith, 1759 [2000], p.21). The impartial spectator is your perception of what others believe. The "passions of human nature seem proper and are approved of when the heart of every impartial spectator entirely sympathizes with them, when every indifferent by-stander entirely enters into, and goes along with them" (Smith, 1759 [2000], p.97).

Bisin and Verdier (2000) identify the "direct socialization" of parents and the "indirect socialization" of society as sources of values. Direct socialization involves intentionally spending time with and making choices for children (e.g. neighborhoods, schools, acquaintances, activities, church.) Indirect socialization occurs unintentionally as children interact with others.

"Positive assortative matching" is one way to combat unwanted indirect socialization. It involves choosing a partner who shares your values. Bisin and Verdier (2000) find direct socialization to be more effective when the parents share cultural traits. People often use religion and ethnicity as signals when seeking a partner because matching on these broad attributes tends to imply matches on specific values. Dohmen et al. (2012) find evidence that positive assortative matching facilitates the transmission of values. Specifically, parents have a larger impact on the risk attitudes children when the parents are more similar.

Schönpflug and Silbereisen (1992) identify communication as a transmitter of values. The effectiveness depends upon the frequency of discussion and the parent's openness toward the child. Parlevliet (2011) emphasizes the power of literature; parents can transmit values through famous stories.

The relationship between parent and child affects values transmission. A child will more strongly internalize a parent's values when the parent treats the well and when child esteems the parent (Whitbeck and Gecas, 1988). Empathetic parenting facilitates transmission because it creates an emotional bond; authoritarian parenting hampers transmission because it creates emotional distance (Schönpflug, 2001). Congruence between parent values and child values facilitates transmission, and girls are more likely than boys to adopt parental values (Barni et al., 2011). Caretaker pressure is the primary factor influencing the self-control exhibited by the child, but maintaining a positive relationship with the child magnifies the ability to instill self-control (Vazsonvi and Huang, 2010).

Padilla-Walker (2007) and Barni et al. (2011) emphasize children are more vulnerable to value messages during adolescence when children start to assume adult roles. Schönpflug (2001) finds transmission becomes more difficult as the child becomes older and increasingly autonomous.

Parents can choose a culture that supports their values transmission goals by choosing a neighborhood. Fernandez and Fogli (2009) find neighborhood differences impact attitudes toward work

and fertility. Dohmen et al. (2012) find regional differences impact the risk attitudes and willingness to trust. Albanese et al. (2016) find the values of first-generation movers do not differ from much from those who stay in the original region, but they find values transmission is weakened for second generation movers.

The transmission of culture requires social learning (Schönpflug, 2001), and Tabellini (2008) recognizes that law enforcement can support this learning. Traditions and legal institutions promote ethical behavior between unrelated individuals. This generalized morality fosters cooperation that lifts society. Tabellini emphasizes that moving toward a globalized economy expands the scope of cooperation, but the benefits of globalization are limited it increasingly exposes people to less attractive values.

As economic interests evolve, the supporting values also evolve. Greenwood et al. (2016), Creed (2000) and Becker (1991) recognize the move away from rural farming to urban manufacturing and services has caused fundamental changes in the family and values. The economic evolution has reduced the need for the family to train up farm workers, but it has made valuing other types of education more fruitful.

## CONCLUSION

Surveying scholarly work linking values to economic outcomes, we find values come in two forms: (1) good ways of behaving and (2) products or assets that are good to obtain. We find many links between values and good economic outcomes. This is not surprising because the most common criterion used to lift the status of a preference to a value has been fruitfulness. We have reason to distinguish values from personal preferences as Tabellini (2008) suggests. Preferring one thing to another will not tend to bear fruit, but values bear fruit. When we create a culture (i.e. set of values) that gives status to fruitful behaviors, products, and assets, we promote economic success.

In terms of promoting economic success, all cultures are not equal. Consequently, policy makers should consider how government actions influence culture. Most values are inculcated into children by parents, so policy makers should especially keep that dynamic in mind. Parents should also care about the dynamic because their children are the primary beneficiaries of a good set of values. Parents and policy makers should recognize that cultures vary geographically.

What values should we inculcate if we seek economic success? There is evidence individual economic success is promoted by valuing work, saving, an achievement orientation, self-control, tenacity, self-esteem, honesty, tolerance, reciprocity, trust, cooperation, entrepreneurship, risk-taking, altruism, family reputation, and the propensity to invest in children. Xenophobia, familial loyalty, and small group loyalty have been linked to weaker economic performance.

Looking to the culture of the society as a whole, there is evidence that valuing education pays economic dividends. A culture with weaker family ties and weaker group loyalties will tend to outperform the converse. Becker (1991) contends individualism has replaced collective familism and small group loyalties in most modern societies because important functions traditionally performed by the families or smaller societal groups (e.g. insurance, job training) are more effectively performed by markets. Tabellini (2008), referring to Greif (1997), contends law enforcement in collectivist societies tends to reinforce group loyalties that limit trust and cooperation. When the culture values the rights of individuals independent of group affiliations, law enforcement and tradition tend to extend the scope and productiveness of trust and cooperation.

Behavioral scientists have long recognized the ethical issues associated with their work (Krasner and Houts, 1984). How should a therapist decide a particular behavior is better? Economic tradition suggests an approach, and behavioral therapists seem to follow it. The tradition is to compare the outcomes of one alternative with others, and choose the alternative that produces the best outcomes. Our work here illustrates we can evaluate alternative preferences in the same way, responsibly lifting some to the status of values because of the positive outcomes they generate.

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