11:45 AM CT | OCTOBER 19, 2018

Yannis Ioannides' (Tufts University) talk had a deceptively simple title, "Social Interactions Do Matter; Two examples." His presentation was a technical analysis in two examples of how economies are affected by social interactions, culture, values and institutions. "Social interactions are ubiquitous and central to the urban economy." His first example was how adoption of Information and Communication Technologies (ICT) affects city-size distribution. (A nation's city population sizes usually follow an intriguing pattern, the rank-size rule, which says that if a country's cities are ranked top-to-bottom by population, the second largest city will have half the population of the largest, city No. 3 will have a third the population of No. 1, and so on.) Ioannides's research finds that as nations adopt ICT, this distribution becomes less dispersed, increasing decentralization—people grow farther apart. (If social networks grow, it's through technology, not face-to-face.)

The second example was focused on the interaction of "non-economic" factors such as culture, politics, history and institutions (e.g., enforcement of property rights) and economic growth. His is a theory of corruption and rent-seeking, given history, culture and institutions "which operate, critically, through social interactions." This theory explains corruption and rent-seeking as outcomes, but also as influences on long-term economic performance. He supplemented his theoretical model with empirical analyses, regressions measuring the effect on per capita GDP of corruption, institutions, human capital and culture. Results largely confirm theoretical predictions: lagged corruption and collectivistic culture (rather than individualistic) have negative impact on growth; institutions and human capital have positive impact.

Further empirical analysis estimated the impact on individual institutional growth of corruption, per capital GDP, and human capital. Here, theory implies that previous levels of corruption (“norms”) lead to weaker institutions without necessarily reducing per capita GDP. Results confirm: “Bad norms tend to reproduce themselves.” Therefore, change is difficult: “Getting to be Denmark is not exactly easy.” For institutions as a whole, regressions further confirmed that lagged corruption and collectivism had a negative impact though lagged per capita GDP and human capital were largely positive.

Overall conclusion: Social interactions do indeed matter—for city-size distribution, institutions, corruption, rent-seeking and economic growth.