



Solidarity among the poor



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HIGHLIGHTS

- We design and implement a visual version of the solidarity game for use in low-literacy populations.
- We find significant evidence of conditional gifts (informal risk sharing) in a low income population.
- Less than 7% of participants do not make any conditional gifts. These individuals are more risk tolerant than other participants.
- We find substantially more 'fixed gift' behavior than previous studies, over 40% of the participants.

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ABSTRACT

We conduct a field experiment with low-income subjects in Dallas, Texas. We examine voluntary, informal risk sharing using a visual representation of the solidarity game developed for low-literacy populations. We find substantially more 'fixed gift to loser' behavior and less 'egotistical' behavior than in previous studies. Individuals who display 'egotistical' behavior are more risk tolerant. The amount of the conditional gifts is positively related to age, income, and connection to the community. However, trust and empathy, which are commonly discussed as drivers for solidarity, are not significantly related to the amount given.

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1. Introduction

Solidarity, a driving force behind risk sharing, is a type of indirect reciprocity; taking care of others who have ended up in a bad financial situation, purely by chance. Informal risk sharing arrangements are most often observed among individuals living at or below the poverty line, and provide an important financial alternative for those with few market-based options for borrowing

or insurance. However, very little is understood about the behavioral propensity to risk-pool, nor about the potential behavioral responses that might result. On the one hand, risk pooling provides a safety net for individuals most susceptible to shocks. On the other hand, it reduces incentives to self-insure against losses. Previous research on solidarity, or risk pooling more generally, has focused on establishing the phenomenon and understanding underlying motivations for self-selecting into risk-pooling groups (Barr and Genicot, 2008; Büchner et al., 2007; Charness and Genicot, 2009; Selten and Ockenfels, 1998), cultural differences (Brosig-Koch et al., 2011; de Beer and Berg, 2012a,b; Ockenfels and Weimann, 1999), the role of social networks in risk-pooling decisions (Attanasio et al., 2012; Fafchamps and Lund, 2003); luck, deservingness and wealth differences (Chaudhuri et al., 2005; Trhal and Radermacher, 2009). However, these studies have primarily focused on

Abbreviations: SO98, Selten and Ockenfels, 1998.

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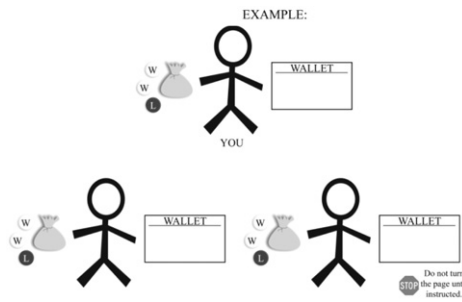


Fig. 1. Solidarity game instruction page.

ACTIVITY 8 EXAMPLE

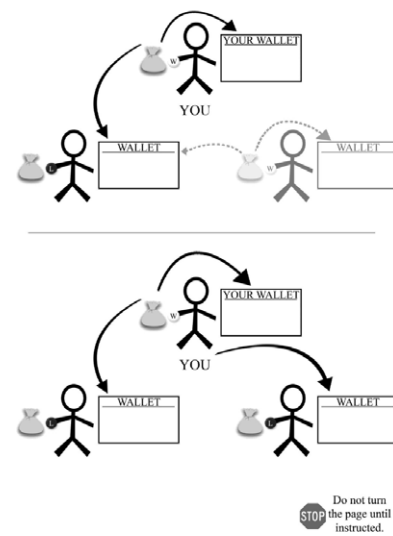


Fig. 2. Solidarity game decision form.

either student samples (e.g., Charness and Genicot, 2009) or less-developed countries (e.g., Attanasio et al., 2012).¹ We contribute to the literature by developing and implementing a variation of the Solidarity game (Selten and Ockenfels 1998, hereafter SO98) with a simple, visual representation, and examining behavior in a low-income urban neighborhood in the US.

In the solidarity game, participants are placed in random and anonymous groups of three. Each has an independent 2/3 chance of receiving \$75 and 1/3 chance of receiving nothing. Before outcomes are known, subjects decide how much of their earnings to send, conditional on winning, to those who lose.

We find evidence of substantial informal risk sharing when the opportunity is available. While we identify the same types of giving behavior observed in previous studies, we find a different distribution of types, with substantially more ‘fixed gift to loser’ behavior: over 40% of individuals make decisions that guarantee a set minimum payoff to their group members, even though the groups are anonymous. We further find that ‘egotistical’ individuals, those who do not make conditional gifts, are more risk tolerant. Conditional gifts are positively related to income and connection to the community.

2. Experimental design and field implementation

We adapt the SO98 design for a low-income population by introducing a visual representation and by increasing the stakes, so that subjects can win \$75 with 2/3 probability and \$0 with 1/3 probability. Fig. 1 shows the graphic representation. Each of the three players has a bag with two winning chips, marked *W*, and one losing chip, marked *L*. To determine payment, person pulls a chip out of the bag, and that chip determines whether they win or lose.

Before pulling a chip, each subject has to make two decisions. The decision form is shown in Fig. 2. The form shows two situations: When the subject and one other person win (top panel) and when the subject was the only winner (bottom panel). They were instructed to write down the amount they wanted to put in their wallet and the amount they wanted to send to the loser(s) in each situation.²

Experiments were conducted as part of a larger field study examining neighborhood quality and neighborhood change.³ Subjects were chosen randomly from 496 individuals who completed

the detailed household survey where one participant per household was recruited from a random selection of tax parcels in the neighborhood (Leonard et al., 2011). A total of 201 subjects participated in the experimental sessions in October 2009, November 2009, and February 2010 and ranged in size from two to nineteen subjects, with a mean of 10.⁴ Subjects could participate in only one session. All sessions were run at a centrally-located field station maintained for this study, and transportation was provided when necessary. The same lead experimenter ran all sessions, with trained assistants drawn from both the community and from Center for Behavioral and Experimental Economic Science at the University of Texas at Dallas. Subjects arrived, gave informed consent, and were paid a \$20 show-up fee.

Subjects participated in a series of experiments to elicit preferences for individual risk, correlated risk, skewness, and time preferences as well as the dictator, trust, and solidarity games. Solidarity game results are this study’s focus. We additionally use the average gift from a comparative dictator game (DG) in the analysis. Subjects made four DG decisions with other anonymous strangers from their community. They received some limited information about recipients, possibly (but not necessarily) including gender, marital status, number of children, employment status and disability status.

Experimental tasks were followed by a survey. Further, some subjects completed additional surveys as part of the larger study, which were conducted on different dates/times. The experimental games were always run in the same order, with no feedback between tasks.⁵ One game was chosen at random for payment for all subjects in a session. Average earnings were \$50.16 (min = \$0, max = \$170), plus the \$20 show-up fee.

3. Aggregate gifts and strategies

We begin with a discussion of aggregate results for the baseline solidarity game, Appendix A details all of the conditional gifts.

¹ Notable exceptions are de Beer and Berg (2012a,b) who use an urban environment (Amsterdam), but one that is more financially affluent. For brevity we provide illustrative examples, not an exhaustive review of the literature.

² Note that while we did not force individuals to send the same amount to each of two losers, 183 out of 199 who completed the game chose to send an identical conditional gift to each. Full instructions are available from the authors. Note that SO98 conduct a double-blind study whereas ours is not. All subjects complete their booklets using a code number, but the number is not randomly assigned.

³ More details are available at http://www.utdallas.edu/~murdoch/NeighborhoodChange/index_nc.html.

⁴ Session size is never statistically significant in our analysis (either independently or in interaction with the key variables) and so it is omitted.

⁵ This design choice means that we cannot explicitly test for order effects, nor can we rule out the influence of order on the contribution levels chosen. Paying one activity, with no feedback between activities, should help minimize these effects: Subject only receives feedback for the task for which they will be paid.

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