



An affective social tie mechanism: Theory, evidence, and implications



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ARTICLE INFO

Article history:

Received 28 February 2016

Received in revised form 17 January 2017

Accepted 16 April 2017

Available online 19 April 2017

JEL classification:

A13

C91

D03

D64

H41

Keywords:

Social ties

Public good

Social preferences

Affect

Experiment

ABSTRACT

This paper presents substantial evidence of a simple social tie mechanism that endogenizes people's care about other individuals under the influence of interaction experiences. The mechanism is rooted in scientific studies from various disciplines. For our evidence, we propose and estimate a dynamic model of tie formation using different experimental datasets regarding public goods, test its within-sample and out-of-sample predictive performance, and compare it with other models. In addition to the support obtained for the mechanism, we find that the effects of interaction experiences show substantial persistence over time, and that only a minority looks ahead to strategically influence the behavior of interaction partners. Furthermore, our model appears to track the often volatile behavioral dynamics of the different datasets remarkably well. Additional evidence is presented of a neural substrate of the tie mechanism, based on a recent (fMRI) application of the estimated model, and of the explanatory power of our model regarding other extant experimental findings. Implications for private and public governance and topics for future research are discussed.

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A tendency in the West to see emotions as soft and social attachments as messy has made theoreticians turn to cognition as the preferred guide of human behavior. We celebrate rationality. This is so despite the fact that psychological research suggests the primacy of affect: that is, that human behavior derives above all from fast, automated emotional judgements, and only secondarily from slower conscious processes.

[de Waal, 2006]

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1. Introduction

Enduring affective social ties, also labeled affectional bonds or interpersonal attachments, play a crucial role in human lives. People's health, happiness, and economic welfare depend on them, and this dependence goes together with a need to belong (Baumeister & Leary, 1995; Campbell & Loving, 2012; Helliwell & Putnam, 2004; Reis, Collins, & Berscheid, 2000). Starting with maternal care, they continue to play an important role throughout our lives in, for example, peer groups, romantic relationships, and professional relationships within and outside organizations. Characteristic of affectional bonds is that they are dynamic, develop via emotional experiences in social interactions with specific individuals, and generalize across contexts and time. Bonds developed in one context and time period are likely to impact the behavior of interaction partners in another context or future time period. For example, friendship relationships developed at work are not restricted to the work environment but carry over to other settings and show some duration ("once a friend, always a friend"). Developmental psychology, furthermore, shows that there is also a social learning aspect to it. The literature on attachment (Bowlby, 2005; Mikulincer & Shaver, 2007) provides abundant evidence that early childhood experiences with the primary caregiver form the basis of the development of a particular attachment style that influences the quantity and quality of bonding later in life.¹ A growing number of evolutionary studies argue in favor of the adaptive value (fitness) of bonding for (non)human animals in relation to their extremely limited brain capacities to deal with the deep environmental uncertainty and potential dangers they are confronted with (see Seyfarth & Cheney, 2012). There is also suggestive evidence now of the neurobiological drivers of bonding and of the related social approach and avoidance motivational systems, as we will further discuss below.

In the economics literature, affective social ties have been hinted at in the past and found to be important in various private and public economic contexts, such as resource sharing, the control of externalities, collective action, and fair business dealings (Akerlof, 1982, 1983; Becker, 1974, 1981; Coleman, 1984, 1990; Granovetter, 1973, 1985; Simon, 1952; Uzzi, 1996, 1999).² A timely example concerns the debate in finance about the relative merits of relationship banking versus transactional or arms-length banking (Boot, 2000). Extensive empirical evidence shows that firms having relationships with banks enjoy various benefits, such as improved credit availability and insurance from these banks, while the banks in their turn face lower costs by obtaining more proprietary information (e.g., Beck, Degryse, De Haas, & van Horen, 2014). Affect appears to play an important role in the development of these relationships (Uzzi, 1999).³ Affective relations with bank lending officers are beneficial for firms that are seeking financing, because they motivate partners to share private resources.⁴ There is also substantial experimental evidence, both from the lab and the field, of the importance of affective social ties like friendships for economic behavior, for example, related to cooperation (Apicella, Marlowe, Fowler, & Christakis, 2012; Harrison, Sciberras, & James, 2011), giving (Brañas-Garza, Durán, & Espinosa, 2011; Goeree, McConnell, Mitchell, Tromp, & Yariv, 2010; Leider, Möbius, Rosenblat, & Do, 2009), coordination and conflict (Reuben & van Winden, 2008), trust and trustworthiness (Abbink, Irlenbusch, & Renner, 2006; Glaeser, Laibson, Scheinkman, & Soutter, 2000), and norm enforcement (Goette, Huffman, & Meier, 2012).

In stark contrast to their widely attested importance, so far the development and testing of a formal structural model of affective social ties has been neglected in economics, a task to which we turn in this paper. Existing models of social preferences (see Camerer, 2003; Cooper & Kagel, 2013; Fehr & Schmidt, 2006; Sobel, 2005) miss out on one or more of the aforementioned characteristics of affectional bonding. Specifically, the dynamics of the development of the weight attached to the utility of another individual, including the *persistence* of the effects of interaction experiences across time and contexts, is not modeled. These models are typically static equilibrium models, offering no explanation of the dynamics that are key in the study of bonding.⁵

An exception is the theoretical social ties model of van Dijk and van Winden (1997; vDvW, for short), developed in the context of the private provision of a local public good. Based on arguments and findings of social scientists regarding the impact of social interaction on the sentiments that interaction partners develop towards each other,⁶ they formalized a social

¹ Interestingly, some evidence also exists for the proposition that an individual's *social value orientation* (SVO), defined as stable preferences for payoff distributions concerning oneself and a (randomly selected) other individual, is partially rooted in interaction experiences early in life and further shaped by such experiences during adulthood (Van Lange, Otten, De Bruin, & Joireman, 1997). We will come back to this below.

² In *The Theory of Moral Sentiments*, Smith referred to (habitual) sympathy as an underlying factor driving affective (kin and non-kin) relationships. In his view, affective social ties abound even in competitive business environments: "Colleagues in office, partners in trade, call one another brothers; and frequently feel towards one another as if they really were so. Their good agreement is an advantage to all (...)" (Smith [1759] 1971, p.224). Edgeworth, in his classic book *Mathematical Psychics*, referred to a "coefficient of effective sympathy" as a possible weight attached to someone else's utility (Edgeworth, 1881, p. 53). And Marshall, in his famous *Principles of Economics*, referred to the importance of « old associations » for explaining the reluctance of workers to migrate: « There are often strong friendships between employers and employed (...) » (Marshall, [1890] 1961, p. 226).

³ A bank lending officer quoted by Uzzi (1999, p. 488) puts it this way: "A relationship on a social basis tends to break a lot of ice and develop a multidimensional relationship that's more than cold facts, interest rates, and products. It's an emotion-based bond ... that's so important to have ... [because] the customer will let us know about problems early, so we can correct them." And another such officer notes: "After he [the entrepreneur] becomes a friend, you want to see your friend succeed and that goes along many lines." (Uzzi, 1999, p. 489).

⁴ In response to the 2008 financial crisis, the *Kay Review* (2012) has pleaded for the restoration in the financial sector of such deeper caring relationships, and to weaken the current role of transactional cultures. For a more general concern about the weakening of social ties in Western societies, see the Sarkozy Report (Stiglitz, Sen, & Fitoussi, 2009).

⁵ That is why experimental applications of these models focus on the last period(s) of repeated games assuming that sufficient learning to play an equilibrium has taken place; see e.g., Fehr and Schmidt (1999, p. 851) and Levine (1998, p. 599). Apart from offering no explanation of the evolution of play it is also questionable whether stability is indeed reached towards the end of an interaction (see, for instance, the individual contribution patterns of the public good experiments presented in Section 4).

⁶ Homans (1950), Simon (1952), Granovetter (1973, 1985), Frijda (1986), Coleman (1990), Baumeister and Leary (1995). See also Lawler (2001).

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