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Conflicting risk attitudes☆

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ABSTRACT

This paper examines whether differences in individual risk attitudes are related to interpersonal conflict. In more than thirty villages of rural Uganda, we conduct a social survey to document social links between pairs of individuals within a village, and separately elicit individual risk attitudes using an incentivized task. Our findings reveal that the difference in risk attitudes between two individuals is significantly and positively related to the presence of interpersonal conflict between them. This relationship is particularly strong among kin. By contrast, the strength of risk aversion per se is not related to conflict. Further, we conduct simulations that suggest that the relationship cannot be solely explained by diverging attitudes after the severing of social ties as a result of interpersonal conflict.

1. Introduction

Conflict is pervasive in many different kinds of groups, ranging from small and large societies to organizations and teams (Simmel, 1955; Coser, 1998). Conflict, both violent and non-violent has very harmful economic effects. Opportunities to trade or invest are forgone when two parties cannot reach an agreement. Conflict can also lead to sabotage and destruction. Understanding when conflict is most likely to arise is especially important in developing countries, where it strongly hinders the improvement of economic and social conditions (Blattman and Miguel, 2010).

To understand why, consider that in small-scale societies with imperfect credit and insurance markets and a paucity of formal savings instruments, a dense network of relationships, many of them kin-based, governs investment behavior

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(Fafchamps, 2003). Examples include the joint purchase of large, indivisible capital goods (a plough, an irrigation pump); informal risk-sharing arrangements (IRSAs) in case the investment goes wrong; and gifts or informal loans to help finance an investment, often with an expectation of reciprocity. The myriad ways in which people in small-scale societies in developing countries, when it comes to their investment behavior, are tied through informal arrangements would suggest a tremendous scope for disagreement, and if not settled, for conflict. One plausible motive would be when one party is more cautious, i.e. more risk averse, than the other, so that conflict may result from disagreement about the amount of exposure to risk of the investment that parties are jointly engaged in. In this paper we examine conflict from a microeconomic perspective, focusing on the role of heterogeneous risk preferences in determining interpersonal conflicts in rural villages in Uganda.

From a theoretical perspective, conflict may be modeled as the outcome of a failed bargaining process (e.g., Fearon, 1995). In the context of farming, where investments are often made jointly by groups of farmers, bargaining situations may be at the heart of social tensions. Consider two farmers who face the decision of how much to invest for their farming activities, e.g., in buying a plough. Assume they will equally share the payoffs from harvesting and the investment is indivisible. A central aspect of this decision, given price and yield uncertainty, is how much risk to take. If risk preferences are private information, each farmer may have an incentive to misrepresent them during bargaining. This can lead to failed agreements (Kennan and Wilson, 1993) and generate conflict between the two farmers. This may be especially likely if their risk preferences differ substantially. In this paper, we investigate empirically whether such a relationship between risk attitudes and conflicts exists. We ask, are two individuals with different risk attitudes more likely to suffer from interpersonal conflict? Our study focuses on a society that has historically suffered from violence among its people, the Bagisu people in Eastern Uganda (Heald, 1998). Within this region, we collect information on interpersonal conflict among pairs of adults living in the same village. In particular, we ask whether village members get along well or not, inquiring in a sensitive manner about past conflict. Additionally, we collect information about a wide range of socio-economic variables and other characteristics of the social link between each pair of adults. Two weeks following the survey, we elicit individual risk attitudes in an incentivized experiment.

Our empirical approach is based on the examination of the relationship between conflict and risk attitudes, focusing on whether the likelihood of a conflictual relationship between two linked individuals is determined by the absolute difference in their degrees of risk aversion, controlling for other relevant individual and pair characteristics. Since the composition of rural villages cannot be exogenously changed, our results cannot be interpreted as causal evidence. However, focusing on different subgroups of the population and conducting an analysis based on random links, as detailed below, provides suggestive evidence for a particular direction of the relationship. Further, providing correlational evidence is nevertheless important for several reasons. To our knowledge, no previous study has examined the determinants of interpersonal conflict, as the focus in the literature is often on friendships or, generally, positive social ties. Second, we elicit an incentivized measure of risk attitudes, and not only relate conflict to individual socio-demographic characteristics. Third, interpersonal conflict may be at the very heart of the violent episodes that the people in African countries often suffer. Hence, understanding its potential sources may be valuable in deterring future violence.

Our results reveal that an increase in the difference in risk attitudes between two individuals significantly increases the likelihood of conflict, controlling for as many differences in other characteristics as possible, as well as for relationship characteristics. More precisely, a one standard deviation increase in the difference in risk attitudes (measured in terms of the distance between estimated CRRA parameters) multiplies the odds ratio of conflict by 1.23 (in absolute terms, the odds ratio increases by 0.21). Two other factors significantly increase the odds of conflict, difference in age and difference in gender. The effect of differences in risk attitudes is very similar in magnitude to that of differences in age, and somewhat smaller than that of differences in gender.

We find that differences in risk attitudes are more strongly related to the presence of interpersonal conflicts among kin. A one standard deviation increase in the difference in risk attitudes multiplies the odds ratio of conflict by a factor of almost 2 (1.92). This result is in line with the argument that bargaining among farmers may lead to conflict. As Heald (1998) reports, in the most recent ethnography of the Bagisu, resource allocation decisions among farmers (especially over land) are made in extended families, i.e. among kin, and frequently give rise to conflict. Such results are also in line with recent evidence from Attanasio et al. (2012), who find that relatives are less likely to form risk sharing groups if their risk preferences are different.

While differences in risk attitudes could lead to conflict for the reasons stated above, the link could also be in the opposite direction. Individuals, who experience interpersonal conflict may break off relationships, decrease their social contact and over time diverge in their risk attitudes. Our finding that the role of risk attitudes is especially important in conflicts among kin, where social relationships are relatively unlikely to break, makes such a channel appear unlikely. To nevertheless explore this possibility, we exploit the fact that individuals from different villages are not in contact, while almost everyone within a village knows each other and, hence, has either a non-conflictual or a conflictual relationship. We randomly generate links between individuals across villages and thereby simulate a distribution of differences in risk attitudes among individuals who have no social relationship. If conflict leads to the breakage of links and in turn to segregation of risk attitudes, we would expect the difference in risk attitudes among those who are randomly linked to be similar to those who have conflictual links. However, differences in risk attitudes are larger among individuals who experienced conflict. Further, an increase in the difference in risk attitudes is significantly related to an increase in the likelihood of conflict between two individuals, relative to the likelihood of not knowing each other (as measured by a random link).