



On the redistribution of wealth in a developing country: Experimental evidence on stake and framing effects



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ABSTRACT

We experimentally study the effect of framing and size of large windfall gains on the redistribution of such gains. Randomly selected individuals from villages in Bangladesh were invited to take part in dictator experiments where they received endowments worth up to five months of average household income and were asked to distribute the endowment between themselves and other individuals. We manipulated whether dictators could GIVE to or TAKE from another individual (i.e. whether the endowment was allocated to the dictator or other individual) and whether the endowment was moderate (LOW) or very large (HIGH). We also provided dictators with the option to reconsider their original decision. We find that dictators allocate almost nine times more to other individuals under the TAKE than the GIVE frame when stakes are HIGH, even after they could reconsider their choices. In addition, we find that proportions allocated to other individuals dramatically drop when stakes increase under the GIVE but not the TAKE frame. The results provide novel evidence on the role of framing and stakes for pro-sociality.

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1. Introduction

Large income inequalities are common in many developing countries and are often viewed as one of the major reasons behind political instability (Alesina and Perotti, 1996), crime (Kelly, 2000) and unhappiness (Alesina et al., 2009). In these environments where opportunities to strike it rich are concentrated in the hands of a few and governments are unable and often unwilling to redistribute wealth, poorer individuals are often dependent on the altruism of the lucky and rich. Experimental research on charitable giving has provided important insights into circumstances under which individuals help others and subsequently helped design mechanisms to increase giving¹.

Given the importance of pro-sociality in wealth redistribution in developing countries, it is crucial to examine what factors affect the extent of pro-sociality in such societies. One important general factor that has shown to affect pro-social behaviour is the “frame” of the decision environment. There is now substantial evidence that framing can significantly influence individual choices. In particular, there is evidence that framing affects voluntary contributions in the context of redistribution experiments suggesting that framing can be used to nudge lucky, richer individuals to redistribute some of

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¹ For excellent summaries see Andreoni (2006) and List (2012).

their wealth to needy, poorer individuals². Another important factor that seems to affect pro-social behaviour is the size of the endowment (or the windfall gain, which is to be redistributed). There is some evidence that individuals behave differently if they need to share a very large sum as opposed to a moderate sum (Engel, 2011; Andersen et al., 2011)³.

In this paper we use an artefactual field experiment conducted in rural Bangladesh to investigate how individuals redistribute windfalls of money and whether framing and the size of this windfall affects their pro-sociality. We invited randomly selected individuals from a set of villages to participate in dictator experiments where we manipulated frames and stakes. In these experiments, participants were either assigned the role of dictators (the lucky and rich) or recipients (the poor). Each dictator was provided with a monetary endowment by the experimenter and had to decide on the allocation of her endowment between herself and another anonymous participant (the recipient) who could not make any decisions. We employed a 2 × 2 across subject design in which we varied both the frame and the endowment (stake). In our frame treatments we varied whether the endowment was allocated to the dictator (GIVE frame) from which the dictator could give any amount they wished to their matched recipient or to the recipient (TAKE frame) from which the dictator could take away any amount⁴. Our stakes treatment varied whether the windfall was moderate – representing a typical day's worth of earnings (LOW stake) or very large – representing 5 months worth of average earnings (HIGH stake).

We find in our field settings that redistributions of wealth significantly depend on both frames and stakes. Similar to the findings from studies using students in developed countries (see Engel, 2011; for a review), we find that dictator transfers are non-negligible. Importantly, we find that the proportion of endowment allocated to recipients dramatically differ across our treatments. In the GIVE frame, dictators allocate 16 percentage points less than in the TAKE frame. Allocations by the dictator are also significantly lower when stakes are HIGH than when they are LOW (corroborating findings in Engel, 2011). Additionally, we report a pronounced interaction effect between frames and stakes: there is almost no redistribution of wealth when stakes are HIGH and individuals are asked to GIVE (the HIGH-G treatment). Here the proportion allocated drops below 4%. In contrast, allocations to recipients are significantly higher when individuals are asked to TAKE, even if stakes are HIGH (the HIGH-T treatment). In this case, 33% of the endowment is allocated to the recipients.

In addition, we allow dictators to *reconsider* their allocation decision (approximately 30 min after they had made the initial allocation). We find that 40% of the dictators reconsider their allocations and that the use of the reconsider option depends on the frame. Allocation decisions are less robust under the GIVE than under the TAKE frame, where individuals are approximately twice as likely to reconsider.

Our findings provide novel evidence that framing and stake size affect transfers in a simple redistribution of wealth experiment. Both the documented framing and stake size effects are difficult to reconcile with standard economic theory and challenge the assumption that individuals have simple stable preferences, such as self-interest, altruism (Andreoni, 1990), inequity-aversion (Fehr and Schmidt, 1999; Bolton and Ockenfels, 2000), or follow simple fairness norms in dictator experiments (Andreoni and Bernheim, 2009). The findings are, however, consistent with other models that predict that frames affect social decision-making (see e.g. Krupka and Weber, 2013) and that 'taking' (but not 'giving') activates a notion of property rights, which motivates individuals to respect other people's possessions (see Stake, 2004). Our findings related to stakes are consistent with the argument that adherence to social norms is a normal good, and decreases with costs (see for example, Levitt and List, 2007).

Our study contributes to existing research in several important ways. Our paper adds to the limited literature of the effect of framing on dictator behaviour and to the best of our knowledge, this is the first attempt to study the role of framing in social decisions involving very large stakes⁵. More generally, our study adds to the rather sparse literature that investigates social decisions when stakes are very large (Slonim and Roth, 1998; Cameron, 1999; Carpenter et al., 2005; List and Cherry, 2008; Andersen et al., 2011). A second novel feature of our experiment is the *reconsider* option, which could be regarded as a tool to assess the robustness of individual choices over short periods of time.

There are a number of other studies investigating the role frames and stakes in social decision environments, albeit not in the context of developing countries. Dreber et al. (2013) report no framing effect in the context of dictator games when comparing dictator behaviour under TAKE and GIVE frames over relatively small stake sizes. List (2007) and Bardsley (2008) also conduct dictator game experiments and show that increasing the action space of the dictator from only having the ability to GIVE versus the ability to GIVE as well as to TAKE leads to lower levels of actual giving. Cappelen et al. (2012) show that these findings are robust even if dictators have to earn their endowments. All of these studies investigate the effect of framing over comparatively low stakes (typical 1–2 hours student wages). Our results using low stakes are consistent with the results presented in Dreber et al. (2013), which concludes no effect of framing. The focus on low stakes may constitute an important limitation as there is evidence that behaviour in dictator games changes as stakes increase (List and Cherry, 2008). Indeed, we show that framing effects are significant when stakes are very large.

² See Andreoni (1995), Dufwenberg et al. (2011) and Ellingsen et al. (2012).

³ However it is not the case that stakes always matter in such an environment. For example Carpenter et al. (2005) show that that stakes do not matter in dictator or ultimatum games.

⁴ The dictators received two envelopes (yellow and white). The yellow envelope was labelled "YOUR", and the white envelope was labelled "OTHER PERSON'S". In the GIVE frame, the endowment was placed in the "YOUR" envelope and the dictators could transfer money to the "OTHER PERSON'S" envelope. In the TAKE frame, the endowment was placed in the "OTHER PERSON'S" envelope and participants could transfer money to their own envelope. We discuss the experimental procedure in greater detail in Section 2.

⁵ Carpenter et al. (2005) and List and Cherry (2008) use stakes up to US \$100 for students in the U.S., which roughly translates into 1–2 days of salary.

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