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Cheap talk reconsidered: New evidence from CVM☆

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Abstract

Two recent studies have shown that "cheap talk" is an effective means of eliminating positive hypothetical bias in experimental and field-auction settings. We further investigate the ability of cheap talk to mitigate positive hypothetical bias in a contingent-valuation phone survey administered to over 4000 households. Positive hypothetical bias is detected in our data by contrasting revealed and stated preference information. However, a short, neutral cheap-talk script appears to exacerbate rather than mitigate the bias. Based on this and mixed evidence from earlier studies, we suggest caution in using cheap talk as an ex ante control for hypothetical bias.

JEL classification: Q26; C35

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1. Introduction

The contingent-valuation method (CVM) is a widely used approach for estimating the value of goods and services when market information on equilibrium prices and quanti-

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ties is either unavailable or unreliable. CVM has been employed by courts and government agencies such as the US Environmental Protection Agency, the National Oceanographic and Atmospheric Administration, and the US Fish and Wildlife Service to assess the benefits of policies impacting the environment and damages from environmental disasters. Researchers often estimate these values through surveys that ask individuals to place a monetary value on the hypothetical provision of a good or service. Since provision of the good and the associated payment are purely hypothetical, the reliability and validity of information obtained from CVM has been the subject of lively debate (Diamond and Hausman, 1994; Hanneman, 1994). Proponents of CVM have attempted to develop new methodologies that either: (1) mitigate ex ante any hypothetical bias (i.e., bias associated with the respondent misstating her maximum willingness to pay (WTP) due to the hypothetical nature of the good and payment method) or (2) calibrate the welfare estimates ex post (List and Shogren, 1998; Harrison et al., 1999).

Recently, Cummings and Taylor (1999) and List (2001) have advocated the use of "cheap talk" to mitigate ex ante the effects of hypothetical bias in CVM. In the context of CVM, cheap talk refers to explicit warnings about the problem of hypothetical bias provided prior to respondents' valuation of the good. Cummings and Taylor (CT hereafter), in a series of laboratory experiments with students, find that cheap talk successfully eliminates hypothetical bias in valuation responses for a variety of public goods. List tests a similar script for private goods using sportscard auctions and finds that cheap talk is effective in eliminating hypothetical bias for non-dealers, but not for dealers. The cheap-talk scripts used in both of these studies are almost identical in length and content. They each provide lengthy descriptions of *positive* hypothetical bias.

In order for cheap talk (such as that applied by CT and List) to be a useful design element in CVM surveys, the script needs to be general so that, unlike ex post calibration, it can be easily applied across a wide array of non-market goods without requiring ex ante information on the degree of hypothetical bias in the data. Unfortunately, the scripts used in CT and List are not easily generalized.[2] Both scripts refer to a baseline degree of hypothetical bias by comparing the outcomes of preliminary experiments with hypothetical and real payment mechanisms for the goods in question. In CVM research, such prior information regarding the degree of hypothetical bias is typically unavailable or too expensive to produce in the field. The researcher must therefore presume the degree of hypothetical bias that exists in the population and subsequently calibrate the specific wording of his cheap-talk script based solely on this presumption. The more unique the population or good in question, the more potentially problematic is this calibration-by-presumption approach.

Our research addresses this concern by testing a more "neutral" version of cheap talk that can easily be generalized to other goods or services. We administered a telephone survey to over 4000 households regarding their WTP for a curbside recycling program

[2] In addition to their main script, CT report similar results using a modified script that replaces the specific percentages of people in previous studies who voted "yes" for hypothetical and real referenda, with a statement indicating that "on average" more people voted "yes" for hypothetical referenda (see CT, pp. 659–660). Although the modified script is more general in the sense of not reporting the magnitude of hypothetical bias, it still informs the subjects that the bias is positive.