



Does an educated mind take the broader view? A field experiment on in-group favouritism among microcredit clients[☆]

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ABSTRACT

A number of studies document an in-group bias in social dilemma situations. While group structure and dynamics are important in shaping in-group favouritism, less attention has been paid to individual characteristics affecting favouritism. Using data from dictator games conducted among 523 microcredit clients in Angola, this paper analyzes the effect of education on in-group favouritism. When addressing the endogeneity of education, we find that education increases in-group bias. This goes against the conventional view that education broadens the perspectives of an individual. In addition, our results suggest that in-group favouritism is related to gender, family background and access to particular forms of networks.

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1. Introduction

Several recent studies in experimental economics find evidence for an in-group bias in social dilemma situations. In-group favouritism or parochialism has been found in variants of the dictator game, where dictators give more to members of their own group than to outsiders (Fehr et al., 2011; Bernhard et al., 2006; Güth et al., 2009; Chen and Li, 2009), and in prisoner's dilemma and similar games, where cooperation is more frequent between group members than with outsiders (Goette et al., 2006; Charness et al., 2007; Ruffle and Sosis, 2006). Some work has been done to examine what types of groups generate an in-group bias and under what conditions, and to identify the motives behind in-group favouritism. Less is known about how in-group favouritism develops, or its relation to individual characteristics. In a study of children aged 8–17,

Fehr et al. (2011) find that parochialism increases with age, becoming significant in the teenage years. Beyond the dimension of age, however, we know little about how individual characteristics affect people's parochial preferences or their susceptibility to norms of in-group favouritism.

This paper analyzes the effect of education on in-group favouritism. Data was collected among 523 microcredit clients in Luanda, the capital of Angola. A standard dictator game with an in-group and an out-group version based on credit group affiliation was conducted to elicit information on in-group bias. The results show that subjects on average allocate a positive amount both to members of their own credit group, and to outsiders, which is consistent with other-regarding preferences such as altruism or egalitarian norms. Moreover, subjects allocate significantly more to recipients who are members of their own credit group than to outsiders, which confirms previous findings on in-group favouritism. In estimating the effect of education on in-group favouritism, we instrument for education to address the possibility that education is endogenous. The results show a strong positive effect of education on in-group favouritism. In other words, rather than make individuals more broad-minded, education seems to promote parochialism and a narrow group focus.

Our results contribute to and complement the literature on in-group favouritism in several ways. The design of Fehr et al. (2011) does not permit a distinction between effects due to mental

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development occurring naturally, and effects of education. While other studies corroborate the finding that distributional preferences evolve with age (Almås et al., 2010), in principle it is possible that the results of Fehr et al. partly reflect a positive effect of education on in-group favouritism. Though based on data from a population of adults, our results indeed suggest that this may be the case.

Like Bernhard et al. (2006), our study is from a context where formal institutions for legal enforcement or redistribution are weak or dysfunctional, and social norms can be expected to play a large role in regulating social interaction. However, where Bernhard et al. analyze favouritism towards one's own ethnic group, we find evidence for favouritism based on more short-lived social group constructions. In this sense, our study is also similar to that of Goette et al. (2006) and Ruffle and Sosis (2006) in looking at effects of real social groups. Such groups have a history of interaction which may be essential to their effect, compared to minimal groups constructed for the purpose of an experiment, whose effect may depend on their salience (Goette et al., 2006; Charness et al., 2007).

A positive effect of education on in-group favouritism also has some wider implications. A key idea in microfinance is that in the absence of collateral, joint group liability for loans creates incentives for repayment through social pressure from other group members. Our results suggest that more educated people are more willing to prioritize in-group considerations over distributional demands from outside. In other words, increasing the education of microcredit clients may not only increase their success in business (de Mel et al., 2008; Berge et al., 2010), but may also contribute to the viability and sustainability of microcredit arrangements through enhanced identification with the credit group.

On the other hand, the positive effect of education on in-group favouritism can also be seen in a less favourable light. Education is often seen as important in broadening the perspectives of individuals; in making them focus on the greater good rather than the special interests of a more limited social group. In modernization theory, for instance, the increase in education that comes with increases in income is assumed to lead to a greater chance of democracy, since “[e]ducation presumably broadens men's outlooks” (Lipset, 1959:79). One possible interpretation of our results is, however, that education promotes particularism rather than universalism, and a more educated population therefore does not necessarily press for a more impartial institutional order. Viewed in this way, our results are broadly consistent with recent findings of Friedman et al. (2011) that education may strengthen stated attitudes of ethnic identification while having no effect on democratic attitudes.

The paper is structured as follows. Section 2 presents the contextual background of our study, the design of the experiment, and the identification strategy for estimating the effect of education. Section 3 presents the data and descriptive statistics. Section 4 presents our main results, followed by a discussion of robustness. Section 5 concludes with a discussion of the results and directions for further research.

2. Background and methodology

2.1. Background

For our experiment, we used subjects from the client pool of the Angolan microcredit institution KixiCrédito. KixiCrédito is the largest non-commercial microcredit institution in Angola. Established in 1999, it has a total of 13,000 active clients in 12 branches across the country. Most KixiCrédito clients are organized in solidarity groups consisting of 10–30 clients, with joint liability for loans. Membership in solidarity groups is the result of

self-selection, and after an initial orientation phase, groups meet bi-weekly. Both self-selection and socialization through frequent meetings are potential sources of in-group favouritism. Our experiment included members from 51 randomly selected groups in two KixiCrédito branches in central Luanda, São Paulo and Hoje Ya Henda, a total of 539 clients.

2.2. Experimental design and procedures

The experiment was conducted as part of a larger survey during a 6-week period from February to March 2010.¹ The experiment took the form of an anonymous, one-shot standard dictator game. Each of the 539 subjects, 37% of whom were male, participated in two versions of the game placing them in two different types of distributive situations. In the first version, subjects were told that at the end of the survey they would receive 500 Kwanzas, and that they could choose to keep this money or give some or all of it to an (anonymous) member of their own credit group (see Appendix 1 for a translated version of the precise instructions). In the second version, subjects were told that they would receive an additional 500 Kwanzas, and that they could choose to keep this money or give some or all of it to an (anonymous) recipient who was not a member of their own credit group. All subjects played the role of dictator twice, once in each version of the game. The subjects also participated as recipients twice, receiving one transfer from a dictator in their own credit group and one transfer from a dictator from another credit group.

In-group favouritism predicts a higher allocation in the first version of the game than in the second. Since each subject played the game in the two versions sequentially, this introduces a possible order effect, so some caution is advised in interpreting the absolute levels of in-group favouritism. As our main focus is on what explains differences in in-group favouritism between individuals, however, this is of limited concern. At the time of the experiment, the sum of 500 Kwanzas equalled about 5.40 USD, a substantial amount compared to daily wages or profits among Luandan microcredit clients (median daily profits in our sample are about 17 USD).

The experiment was conducted in the field, at the bi-weekly meetings of the credit groups. Since the groups do not meet at a central location, but at different locations throughout the city, this posed some challenges in terms of the physical set-up. Bringing the clients to some central location for the experiment would have been difficult and prohibitively costly, due to the extreme traffic congestion in Luanda. At each location, care was taken to preserve anonymity by taking the subjects out of hearing range from each other. Experiments were conducted manually with pen and paper in Portuguese by local enumerators, overseen by a supervisor. For logistical reasons, the design was single blind. At the end of the full survey, which lasted about 30 min, subjects were paid discreetly in cash according to the total amount kept in the two distributive situations. Funds allocated by each subject to in-group and out-group recipients were placed in differently marked envelopes. The in-group envelopes from the current group, and the out-group envelopes from the group last visited were shuffled by the supervisor, and one envelope of each type handed to each subject. There was no participation fee.

2.3. Estimation strategy

In addition to data on in-group favouritism from the experiment, the survey generated data on a number of background variables for

¹ The fact that the experiment took place over a period of 6 weeks raises the possibility that communication across credit groups could affect the choices of groups surveyed later in the process. However, regressions of in-group favouritism on week dummies reveal no significant differences over time.

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