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Subjective discount rates among Israeli Arabs and Israeli Jews

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Abstract

In this study, we compare the subjective discount rate for Israeli Jews and Arabs. All the subjects were bank customers, who were asked to bid and ask prices for delayed fixed amounts and for lotteries. The two populations live in the same country under the same laws. Nevertheless, according to the literature, Israeli Arabs seem to be a discriminated minority, who exhibit traits of a traditional collectivist culture, while Israeli Jews are a majority, who exhibit traits of an individualistic culture. As a discriminated minority, Israeli Arab may suffer from lower trust and as a result, according to the "trust" hypothesis, exhibit higher subjective discount rates and higher risk aversion. On the other hand, according to the "cushion" hypothesis, a collectivist society such as Israeli Arabs, provides a safety net for the individual and as a result, he will exhibit lower subjective discount rates and lower risk-aversion. The experimental findings show that the subjective discount rate and risk aversion of Israeli Arabs are significantly higher than that of Israeli Jews. Moreover, higher percent of Israeli Jews are at the low range of the discount rates (below 10%) and lower percent of Israeli Jews are at the high range of discount rate (above 20%) compared to Israeli Arabs. This is consistent with the "trust" hypothesis. For Israeli Jews, the discount rates are closer to the bank interest rate, while Israeli Arabs rates are much higher particularly for receipt. The dispersion of the distribution of discount rate is much larger for Arabs than for Jews.

JEL classification: C93; D14; D81; J15

Keywords: Discounting; Risk aversion; Cross-cultural; Israeli Arabs; Israeli Jews

1. Introduction

The current paper compares subjective discount rate and risk attitudes among Jewish and Arab populations in Israel. Mikulincer et al. (1993) suggested that Israeli Arabs exhibit traits of traditional Middle Eastern collectivist culture, while Israeli Jews exhibit traits of a modern Western individualistic culture. Hofstede (1991), as well, has proposed that Israeli Jews are more individualistic, while Arabs are more collectivistic.

Some researchers suggest that Israeli Arabs are a minority living in a Jewish state under discriminating laws and regulations which prefer Jews over Arabs (e.g. Halabi, 1987; Kretzmer, 1990; Rouhana and Ghanem, 1993). Other researchers suggest that the discrimination is not only in state laws but also in state policies. The main claim is that there is a major gap between the resources allocated to the Arab population and the Jewish population in favor of the Jewish majority (e.g. Benziman and Mansour, 1992; Al-Haj and Rosenfeld, 1990). This discrimination was also shown in government services to the citizens such as education (Shavit, 1990; Al-Haj, 1995), and health (Reiss, 1991).

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Rouhana and Ghanem (1998) suggest that the Israeli Arabs are "systematically excluded from the political, social, economic and military power centers in the Israeli state," (p. 328). They also suggest that there is discrimination on the cultural level, such as the language, and dominant symbols and values (such as the flag) are exclusively rooted in the majority's religion.

Malach Pines (2003) agrees that there are differences between these two groups, however, states that "the fact that Israeli Jews and Israeli Arabs, both descendants of the biblical Abraham, reside in the same country under the same democratically elected government, yet are two distinct cultural groups makes them ideal subjects for cross-cultural research" (p. 98).

The first difference between the two populations we refer to in this study, is the level of income. According to the National Insurance Institute of Israel, in the years 2005–2006, 15.4% of Israeli Jewish families were below the poverty line, while 51.2% of Israeli Arabs families were below the poverty line.

There are several empirical and experimental results on the relation between risk attitude and wealth; however, the findings are mixed. Some of the findings show a positive relation between risk aversion and wealth (e.g. Fafchamps and Pender, 1997; Nielsen, 2001), other findings show no relation between risk wealth and risk attitude (Binswanger, 1981; Mosley and Verschoor, 2005). Still others found a negative relation between wealth and risk aversion (Wik and Holden, 1998; Yesuf, 2004).

The findings regarding the relation between wealth and discount rates are more consistent. Most of the studies found negative relations between wealth and discount rates (e.g. Hausman, 1979; Lawrance, 1991; Harrison et al., 2002; Yesuf, 2004). However, there are a few studies which did not find such a relation between wealth and discount rate (Kirby et al., 2002; Anderson et al., 2004).

The second difference referred to in this study is the fact that the Arab population is a minority, mostly Moslems, living with a Jewish majority (approximately 20% of the population in Israel, are Arabs). These two groups have different social capital and different levels of membership in associations and might have different level of trust.

There are several studies that deal with the relation between trust and economic decision-making.

Bohnet and Zeckhauser (2004) tested experimentally the relation between the decision to trust a stranger in a one-shot interaction and the decision to take risk. They conducted three experimental treatments: a decision problem, a risky dictator and a trust game. They found that, in a trust game, subjects behave as though there is a "betrayal cost" and as a result, subjects needed a much higher chance to receive the good outcome, meaning lower risk than in the other conditions. They also tested the trust level for minorities compared to the majority and women compared to men. They suggest, based on the finding of Alesina and La Ferrara (2002), that minorities are less likely trust others. The results show lower trust among minorities and women compared to the majority and men, respectively; however, these differences are not significant.

Additional studies found that minority groups are less likely to trust others (e.g. Glaeser et al., 2000; Ashraf et al., 2004). The findings on the relation between gender and trust are mixed. Some of the studies indicate that women are less likely to trust others (e.g. Glaeser et al., 2000; Buchan et al., 2003). Some of them indicate that there is no difference between men and women regarding trust (e.g. Croson and Buchan, 1999; Ashraf et al., 2004). However, Eckel and Wilson (2003) reported a higher trust rate for American women than for men and Fershtman and Gneezy (2001) found mistrust in Jewish/Israeli men of Eastern origin, and that men are affected by ethnic affiliation while women are not.

Another group of studies tested the relation between social capital and economic activity. They used several variables to measure social capital such as trust, involvement in associations, individualism, and ethnic diversity.

Knack and Keefer (1997) suggest that "economic activities that require some agents to rely on the future actions of others are accomplished at lower cost in a higher trust environment" (p. 1252). They found that trust has a significant impact on aggregate economic activity. They also claim that involvement in associations may strengthen trust within the ethnic group, but weaken trust between the ethnic groups. Helliwell (1996) tested the effect of social capital on productivity growth in 17 OECD members. He used an equally weighted combination of trust and associations to measure social capital. He found that social capital, trust and associations were negatively related to productivity growth.

Temple and Johnson (1998) tested the effect of social indicators on economic growth. Specifically they define the variable KINSHIP as the "dominance of the immediate family over the extended family or clan and tribal allegiances" (p. 976). They found a positive relation between the KINSHIP variable and economic growth. Easterly and Levine (1997) show that ethnic diversity can explain cross-country differences in economic indicators. Their main finding is