

THE FREE
RIDER PROBLEM

SOCIAL NORM
AND SOCIAL
PRES URE

RECITATION 7

IN WHICH CASES CAN WE HAVE A COLLECTIVE ACTION FAILURE?

- Examples of situations?
- We need 2 conditions for a collective action failure / free rider problem: people can benefit from a good without buying it
 - ① good does not have to be cut in shares
 - ② I can't prevent you from consuming it

- Definition of a public good?
 - good that I can consume without decreasing the consumption of others: non-rival
 - good that people can't prevent me from consuming: non-excludable
- Examples of public goods?

DEVELOPED COUNTRY SOLUTION FOR COLLECTIVE ACTION FAILURE?

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- What is the typical solution to collective action failure used in developed countries?
taxation = constraint: state constrains people to contribute
- Why don't developing countries use this solution?
 - strong informal sector: it is hard to observe and verify individual income → tempting to use proxies for income
 - state might not have enough power to force people to contribute (cf. early Latin American states)
- Alternative solution?
 - import duties
 - installing a norm that says one should contribute

THE INGREDIENTS OF COLLECTIVE ACTION MODELS

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- The usual question to ask to economic models is the mapping between assumptions and results: to what extent do results depend on assumptions?
- Whether payoff is continuous or discontinuous
 - Continuous payoff (cf. the game we played in class): everyone gets the average contribution minus their own contribution \rightarrow the larger N , the lower my marginal return from contributing
 - Discontinuous: everyone gets payoff if everyone contributes \rightarrow full participation from everyone is an equilibrium

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- Whether payoffs contain only public or also private component
 - if private component and everyone is equally likely to get it, contribution decreases when N increases
 - if private component captured by group, contribution decreases when the size of the groups increases
- If there are different groups: how are they characterized?
 - by their size? \rightarrow above result holds
 - by their taste? \rightarrow more heterogeneity (bigger median distance to the median taste) decreases contribution

- Contribution to public good can be a social norm
- Think of public goods for which it's the case?
- Examples of public goods
 - voting
 - environment
 - blood and organs donation

HISTORIC EVIDENCE ABOUT SALIENCE OF SOCIAL NORMS

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- All around the world, sense of declining salience
 - Putnam, Bowling alone: US = declining voter turnout, public meeting attendance, participation to civic organizations
 - True in Europe also: role that was played by big political parties (e.g. French Communist Party) to strengthen community ties
- Reason ?
 - Putnam: technological individualizing of our leisure time via television, internet
 - cf. evidence by Olken 2009 on Indonesia

HOW DOES SOCIAL NORM OPERATE?

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- Internalization: I derive utility from complying with the norm
Thus, my objective function is not

$$5 - c_i + 3 \times \frac{1}{N} \sum_j c_j$$

but something like

$$5 - c_i + u_i + 3 \times \frac{1}{N} \sum_j c_j$$

- What kind of utility?
 - feeling a citizen - stating an important part of one's identity
 - altruism: I actually value my neighbors' well-being
- How would you measure this?

WHY DO I INTERNALIZE A SOCIAL NORM?

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- What would you say? And how would you measure the channel you have in mind?
- I will discuss 4 channels
 - ① value transmission at school or in family: people tell you that it's good to vote, it's good to preserve the environment
 - ② social pressure
 - ③ you reproduce what you see your neighbors do
 - ④ paternalistic nudges

- For a while, economists have left the question of explaining the original of personal preferences to other social sciences. Sociology or anthropology spend time explaining how values get transmitted.
- Questions such as:
 - do several values build a system, a coherent view of the world / should we see them as isolated traits, which have a life of their own?
 - do values come from initial necessities
 - social darwinism: only societies with the most adapted values survive, when competing against other societies

- Channels:
 - people get mad at you, punish you or exclude you from the community or network
 - make you feel bad if you don't vote or throw garbage in the nature: you care about others' opinion
 - just tell you what the norm is, reemphasizing it: explicitly (canvassing) or assume it (bummer I won't be able to vote!; media)
- Funk 2010:
 - Swiss elections
 - voting by mail introduced in some random cantons. Intention = decrease cost of voting and increase participation
 - unintended result = decreased turnout
 - why?

- Social pressure more effective if done by people who are like you / close to you: Miguel and Gugerty, 2005
 - rural western Kenya
 - higher ethnic diversity → lower primary school funding, worse school facilities, poor water well maintenance
 - explanation: more difficult to impose social sanctions in diverse communities
- Predictions about impact of group size on individual contribution can go in the other way than what we've seen. Why?
If the group is bigger you can lose more by getting rejected and not benefitting from the network, thus bigger contribution

YOU REPRODUCE WHAT YOU SEE YOUR NEIGHBORS DO

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- Taste for doing what your neighbors do: keep up with the Joneses applies to contribution to public goods as well
- Cialdini et al., “The Constructive, Destructive, and Reconstructive Power of Social Norms”, 2007: how to reduce electricity consumption?
 - is this a public good?
 - results
 - inefficient interventions = emphasize need to preserve environment or care about future generations; economic gains from energy saving
 - efficient intervention = describe your neighbors' consumption if your consumption is higher than the average
- Canvassing in New Hampshire: “Many of your neighbors told us that they were going to vote. Will you vote as well?”

- Richard Thaler and Cass Sustein, *Nudges*
- Example: paternalistic choice of a default option which benefits society, such as contributing to public good
 - in France, sampling organs from dead bodies requires explicit consent
 - in Austria, consent is presumed - you have to explicitly refuse in a written way if you don't want to
 - the number of organs given is incredibly higher in Austria

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14.75 Political Economy and Economic Development

Fall 2012

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