



Social preferences and moral biases

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ABSTRACT

An emerging consensus in economics is that three motives are at work in strategic decisions: distributive preferences, reciprocal preferences and self-interest. An important obstacle, however, has been *moral biases*: distortions created by self-interest can obscure our measures of social preferences. This paper describes a simple experiment to address this. We compare the decisions of implicated “stakeholders” with those of impartial “spectators.” We find that stakeholders are less inclined to respond to the generosity of others than are spectators. We also clarify a result in previous research [e.g., Offerman, T., 2002. Hurting hurts more than helping helps. *European Economic Review* 46, 1423–1437] that stakeholders punish unkindness more than they reward kindness. We find that this asymmetry in reciprocity has two sources: an asymmetry in the underlying preference that even impartial spectators display and a moral bias; stakeholders punish more and reward less than spectators. In sum, we find that all three motives have important and significant effects on final allocations.

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Nature, which formed men for that mutual kindness, so necessary for their happiness, renders every man the peculiar object of kindness, to the persons to whom he himself has been kind. Though their gratitude should not always correspond to his beneficence, yet the sense of his merit, the sympathetic gratitude of the impartial spectator, will always correspond to it.

Adam Smith, *The Theory of Moral Sentiments*

1. Introduction

The assumption of self-interest has served as a powerful axiom of economics. It has helped to explain and predict large swaths of observed facts and to develop rigorous and elegant theoretical models. With mounting evidence of behavior at variance with material self-interest, however, economists are increasingly enriching traditional models with additional motives. The growing consensus is that integrating *social preferences* into the analysis can explain important economic phenomena, including involuntary unemployment (e.g., Akerlof and Yellen, 1990), pricing policies (e.g., Kahneman et al., 1986b; Kachelmeier et al., 1991), and bargaining behavior (e.g., Güth et al., 1982).

Nevertheless, the confluence of self-interest and social preferences has proven an important hurdle to inferring the underlying preferences that theory needs to incorporate. Attempts to identify social preferences have been hindered by what we call “moral biases,” that is, the distortionary effects of self-interest on expressed social preferences. For example, consider the dictator game, an experiment in which one subject (the dictator) may transfer money to an anonymous recipient. A purely

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self-interested dictator would send nothing. On average, though, dictators send approximately 30% of their endowment to recipients, and this transfer typically is taken as a measure of social preference. But suppose that an impartial spectator motivated purely by social preferences would implement an equal split between the parties. One might consider this as the measure of true social preferences. The observed 30% transfer is neither self-interest, which implies no transfer, nor social preferences, which prescribe a 50% transfer. The difference between the 30% transfer and the 50% transfer is an example of what we call a moral bias; it represents a distortion in our measures of social preferences due to the impact of self-interest on their expression.²

Although the existence of moral biases has been noted (e.g., Forsythe et al., 1994), almost no studies of social preferences have isolated social preferences from self-interest and its distorting effects. One exception is Charness and Rabin (2002), who report two sets of comparisons in binary choice dictator games focusing on preferences for surplus maximization. The current study, on the other hand, has no surplus creation and instead explores distributive and reciprocal preferences over a wide range of allocation conditions. We experimentally isolate the separate effects of self-interest, distributive and reciprocal preferences using a simple two-stage dictator game. We contrast the behavior of *stakeholders*, or implicated parties, with that of *spectators*, or third parties, the latter serving to establish a benchmark of pure social preferences.

Our design permits us to identify and separate the different motives. The experiment produces evidence of moral bias that affects both the average willingness to act on social preferences as well as responsiveness to inequity, kindness and unkindness. In addition, both spectators and stakeholders exhibit an asymmetry in reciprocity, favoring punishment over reward. There is also a moral bias in this asymmetry: stakeholders are less inclined to reward and more inclined to punish than spectators.

The paper is organized as follows. Section 2 presents background and hypotheses, Section 3 describes the experimental design and procedures, Section 4 presents and analyzes the results of the experiment, and Section 5 contains the concluding remarks.

2. Background and hypotheses

2.1. Background: social preferences and experimental design

This subsection selectively reviews previous experimental studies of social preferences in order to clarify and motivate our experimental design.

The Güth et al. experimental test of the ultimatum game (and many follow-up studies) demonstrated that behavior deviated from that predicted by self-interested subgame perfect equilibria. These results framed much of the subsequent literature on social preferences. Among possible explanations for these and similar “anomalies,” authors offer fairness (e.g., Bolton, 1991; Bolton and Ockenfels, 2000; Fehr and Schmidt, 1999), altruism (e.g., Becker, 1974; Levine, 1998), warm glow (e.g., Andreoni, 1993), spite (e.g., Cason et al., 2002), intentions (e.g., Rabin, 1993), and trust and reciprocity (e.g., Berg et al., 1995). The central debate has identified two types of social preferences: *distributive* (preferences over outcomes or endstates), and *reciprocal* (preferences over intentions or player types).³

The experimental ultimatum design of Blount (1995) clarifies this distinction and motivates our design. Suppose a proposer offers a responder \$3 out of a sum of \$10. Now compare this with the same division, but suppose it had been randomly determined. If the responder’s preferences were solely distributive, she would either accept or reject this offer, regardless of its source. If, on the other hand, the responder were (also) motivated by reciprocity, she might reject the proposer’s offer as unkind but accept the randomly determined \$3.⁴ We adopt this feature of Blount’s, comparing responses to divisions made by one’s counterpart with random divisions. In addition, our design eliminates explicit strategic elements and allows for both negative and positive reciprocity.

Another important design in this literature has been the trust (or investment) game, introduced by Berg et al. Proposers transfer money to responders, which is multiplied. The trust game thus produces efficiency gains (as studied experimentally by Charness and Rabin), unlike the ultimatum or dictator games. Responders can then return some, all or none of the amount received to proposers. Contrary to the subgame perfect equilibrium, proposers typically send some positive amount to responders, who then often return positive amounts to proposers (e.g., see Croson and Buchan, 1999). The latter is sometimes taken as a measure of reciprocity and the former of trust. However, both proposer and responder transfers might be

² We should distinguish moral bias from another phenomenon that has been noted in this literature called self-serving bias. *Moral bias* can be traced to at least two sources: *self-serving bias* and *self-centered bias*. As commonly used in the literature, self-serving bias refers to an alteration of one’s beliefs (self-deception) due to self-interest, such as believing it is fair to be unfair in order to relieve the disutility of engaging in unfair behavior. In contrast, the self-centered bias involves deliberately self-interested action, for example unfair behavior that is acknowledged by the actor to be unfair and yet is still chosen. We will not distinguish these two forces in this paper, instead using the more general term, moral bias.

³ We should note that terminology is evolving with the accumulation of knowledge in this area, and sometimes the debates over what to call these preferences have run hotter than the debates over the actual form of the preferences themselves. We will be more specific in our meaning later, but whatever usage one adopts, it is bound to conflict with that used in some important part of this literature.

⁴ Brandts and Solà (2001) and Falk et al. (2003) employ a variation called the “mini-ultimatum game” that produces strong evidence of negative reciprocity: the rejection rate by responders to a given proposer offer depends on the alternate offer a proposer could have made.

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