



Microfoundations of social capital[☆]

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ABSTRACT

Research on social capital routinely relies on survey measures of trust which can be collected in large and heterogeneous samples at low cost. We validate such survey measures in an incentivized public good experiment and show that they are importantly related to cooperation behavior in a large and heterogeneous sample. We provide evidence on the microfoundation of this relation by use of an experimental design that enables us to disentangle preferences for cooperation from beliefs about others' cooperation. Our analysis suggests that the standard trust question used in the World Values Survey is a proxy for cooperation preferences rather than beliefs about others' cooperation. In contrast, the "fairness question", a recently proposed alternative to the standard trust question, seems to operate through beliefs rather than preferences.

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1. Introduction

Trust has been proposed as an important determinant of various economic phenomena, including growth (Knack and Keefer, 1997; Zak and Knack, 2001), financial development (Guiso et al., 2004), civic participation (La Porta et al., 1997), investment decisions and patterns of international trade (Guiso et al., 2009). Such studies suggest that survey measures of trust like the standard trust question ("Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?") are a good proxy for "social capital" and that social capital promotes economic

efficiency by facilitating cooperation and the enforcement of incomplete contracts. However, this literature has been challenged on the grounds that it is unclear what survey measures such as the trust question actually measure (see e.g. Sobel, 2002; Durlauf, 2002; Beugelsdijk, 2006).

This paper combines survey measures and experimental data to shed light on the behavioral validity of such measures. By showing that the survey measures importantly relate to cooperation when actual money is at stake we provide evidence for the behavioral validity of standard survey measures, and by uncovering that the standard trust question is related to preferences for cooperation rather than beliefs about others' cooperativeness we provide a more accurate interpretation of what is actually measured by "survey trust". Thus, our paper adds to the literature on the microfoundations of social capital.

We report results from a public good experiment with close to 1500 randomly selected participants from the Danish population. We find that both self-reported trust and observed cooperation levels are high, and regression analysis shows that trust attitudes have significant explanatory power for cooperation behavior. While these results are interesting per se, the main focus of this paper is to study the microfoundation of this relation. We argue that cooperation choices are driven by preferences and beliefs. Some people have no preference for cooperation, and choose to free ride regardless of the contribution level of others (15% in our sample are free riders), but most have a preference for cooperating given that others do (69%

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are conditional cooperators). Beliefs about other peoples' inclination to cooperate do not matter for free riders but are a main determinant of contribution choices of conditional cooperators.

Our main finding is that trust attitudes appear to be a proxy for the strength of people's cooperation preferences but not for beliefs. In particular, we find that responses to the standard trust question (*Trust* for short) explain how much people contribute given their beliefs about others' contributions, but not how optimistic they are about other peoples' tendency to cooperate. We also find that the fairness question ("Do you think most people would try to take advantage of you if they got a chance, or would they try to be fair?"), an alternative to the trust question that has recently been added to the World Values Survey, is a proxy for beliefs but not for preferences. In particular, we show that responses to the fairness question (*Fairness* for short) explain how optimistic people are, but do not explain the strength of their preferences for cooperation. We speculate that the two survey measures capture different aspects of social capital because *Trust* evokes thoughts about what the respondent generally does ("you can't be too careful") while *Fairness* evokes thoughts about how other people generally behave ("would they try to be fair?").

Our paper contributes in several ways to a recent stream of research combining survey and experimental measures of social capital. First, we relate *Trust* to cooperation behavior while the literature has to a large extent focused on behavior in experimental trust games.¹ This focus on trust experiments in the literature is surprising given that "social capital" is a multifaceted concept (Dasgupta and Serageldin, 1999), and that most definitions of social capital involve notions of trust and cooperation. In fact, many contributors to the economics literature see trust and cooperation as intimately related concepts (e.g. Knack and Keefer, 1997; La Porta et al., 1997). In social psychology, the notions of trust and cooperation have long been thought to be closely related. For example, Yamagishi (1986: 111) argues that "mutual trust is the key to actual cooperation". The public good game used in this study is played in groups and may therefore better reflect important aspects of everyday cooperation problems which are often multilateral rather than bilateral as in the experimental trust game.²

Second, we provide strong evidence that survey measures of social capital are significant predictors of cooperation behavior in the Danish population. Evidence from other samples on the relation between survey trust and cooperation suggests that there is a positive relation between the two measures. For example, an early study by Yamagishi (1986) finds that "high-trustors" contribute more than "low-trustors" in a sample of Japanese subjects, while Ahn et al. (2003), using prisoner's dilemma games, find no relation between a survey measure of trust and cooperation behavior in a sample of US students. Anderson et al. (2004) find in a sample of US students that both *Fairness* and *Trust* are positively related to contributions in a public good experiment. In a comparable sample, Capra et al. (2008) find that the two survey measures are jointly (but not separately) related to contributions. Similarly, Gächter et al. (2004) find that *Fairness* is related to cooperation behavior in a sample from Russia and Belarus. Herrmann et al. (2008) report results from cooperation games with punishment and find that survey measured civic norms strongly relate to cooperation across a

¹ For the trust game results are mixed: Glaeser et al. (2000) find that *Trust* has no predictive power for trust as measured in the trust game but it predicts trustworthiness in a sample of students at Harvard University. In contrast, Fehr et al. (2002) find a relation of survey-measured trust to experimentally measured trust but not to trustworthiness in a sample representative of the German population. Sapienza et al. (2007) find that survey trust predicts trust in a sample of MBA students at the University of Chicago. Yet, Bellemare and Kröger (2007) do not find a significant relation either to trust or trustworthiness in a heterogeneous Dutch sample. Holm and Danielson (2005) find that survey measures of trust predict trust in an experiment in Sweden but not, using the same protocol, in Tanzania.

² An additional concern with using trust games is that first-mover choices in the trust game may not only reflect genuine trust but may also be affected by risk attitudes (Karlan, 2005; Schechter, 2007), altruism and reciprocity (Cox, 2004), or betrayal aversion (Bohnet et al., 2008).

sample of 16 different participant pools. Using a sample of Peruvian microcredit borrowers, Karlan (2005) finds that a summary variable of several survey measures does not relate to contributions in a public good experiment when social capital is measured at the individual level. However, when aggregating the answers of the survey questions for each group of the public good game, the resulting social capital measure is positively related to the share of subjects in the group that contributes.³

Third, our findings suggest that different survey measures of social capital capture different determinants of cooperation and, thus, of social capital. More specifically, we find that *Trust* is related to cooperation preferences but not to beliefs about cooperation, while it is the other way around for *Fairness*. We are able to disentangle these two channels because we measure individual choices, beliefs and preferences using two versions of the public good game.⁴ The first is a standard one-shot cooperation game which we refer to as the Standard game. In this game, participants are endowed with money, approximately \$10 each. Participants are anonymously matched into groups of four and simultaneously decide how much to contribute to a common project. All contributions are doubled and equally shared among the four participants. Not to contribute is therefore the individually money-maximizing choice, while contributing the total amount is the efficient choice since only money contributed will be doubled by the experimenter. Participants also indicate their expectation about the average contribution of others. In the second game, referred to as the Strategy game below (developed by Fischbacher et al., 2001), participants provide a complete contribution schedule conditional on the contribution choices of others. That is, they decide to contribute a , b , c given that others on average contribute x , y , z . Thus, beliefs about the average contributions of others do not matter for contributions in the Strategy game by design. Other large-scale studies have not been able to distinguish between the preference and belief channels of cooperation. The closest match to our study in this respect is Sapienza et al. (2007). In contrast to our results, these authors find that *Trust* captures the belief-based component but not the preference-based component of behavior in trust games.⁵ However, our finding is broadly in line with Gächter et al. (2004) for cooperation behavior, and with Fehr et al. (2002) for choices in a trust game. These authors find that the trust question remains significant for explaining trust behavior even when controlling for beliefs about the money sent back by second movers (i.e. beliefs about others' trustworthiness).

On a methodological level, our findings validate widely used survey measures of social capital with measures of cooperative behavior in a controlled environment with monetary incentives.⁶ In a broader perspective, our paper therefore contributes to an ongoing debate on the relative merits of hypothetical vs. experimental (incentivized) measures (e.g. Camerer and Hogarth, 1999). Survey measures are inexpensive to collect in large and heterogeneous samples, but have been criticized by economists as being unreliable because answers are not incentive-compatible and respondents may

³ As pointed out by an anonymous referee, Karlan (2005) includes the proportion passed in a trust game as a control variable in these regressions. This may reduce the estimated effect of the survey measures on contributions.

⁴ The need to disentangle the causal channels, but also the difficulties in doing so have been recognized by many contributors to the literature. For example, Putnam (2001: 137) notes that "The causal arrows among civic involvement, reciprocity, honesty, and social trust are as tangled as well-tossed spaghetti. Only careful, even experimental, research will be able to sort them apart definitively."

⁵ However, the studies are not directly comparable because of differences in experimental protocol (they use a trust game) and subject pool (they use a relatively homogenous student sample). In addition, their regression analysis does not include *Fairness*, which makes it hard to compare the results. Comparing the results by Sapienza et al. (2007) to our results is also difficult because they use in many specifications a measure for unconditional cooperation as a control, which is exactly what *Trust* measures according to our results.

⁶ The validation of survey measures by experimental measures has spurred recent interest in the context of risk preferences, see Anderson and Mellor (2009), Ding et al. (2010), Dohmen et al. (2011), Hardeweg et al. (2011).

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