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Contents lists available at ScienceDirect

Journal of Economic Behavior & Organization

journal homepage: www.elsevier.com/locate/jebo

Are group members less inequality averse than individual decision makers?

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ARTICLE INFO

Article history:

Received 12 December 2016

Received in revised form 3 April 2017

Accepted 3 April 2017

Available online 20 April 2017

JEL classification:

C91

C92

D03

D63

D72

Keywords:

Group

Inequality aversion

Preference aggregation

Social image

Experiment

ABSTRACT

Do groups exhibit more or less inequality aversion than individuals? Although the previous literature has shown that in many environments individuals in groups make more selfish decisions than when deciding in isolation, we find that individuals express *more* inequality aversion when making initial proposals in a group decision-making environment compared to an individual decision-making environment. This may be driven by a change in the decision-making environment and by beliefs about the prevailing norm in the group, but we exclude that it is driven by a loss of anonymity or by efficiency concerns. By investigating how groups aggregate individual preferences under a unanimity rule, we show that the members with median social preferences lead the group decisions and a higher inequality aversion compared to the median slows down the convergence process. Overall, final decisions in groups reveal the same level of inequality aversion than individual decisions.

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1. Introduction

Social comparisons, both among individuals and among groups, are widespread in human societies. While some individuals enjoy outperforming others, many people are inequality averse. In economic models such as [Fehr and Schmidt \(1999\)](#) and [Bolton and Ockenfels \(2000\)](#), inequality aversion captures the fact that people care about both their own material payoff and the distribution of payoffs between them and others. To date, the experimental literature has almost exclusively considered inequality aversion when an individual interacts with other individuals. It has less deeply investigated inequality aversion when individuals decide as members of a group, although the norm of equality in groups has been shown to be often more appealing than the norm of efficiency when groups are heterogeneous ([Nikiforakis et al., 2012](#); [Reuben and Riedl, 2013](#); [Gangadharan et al., 2015](#)). Social dynamics, in particular the influence of peers, may generate systematic differences in preferences compared to an environment in which people decide in isolation. It is unclear, however, whether inequality aversion is stronger or weaker in a social environment than when individuals interact with a single other individual. We know even less about inequality aversion when groups interact with other groups. Group members may weigh less the

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difference with another group; on the opposite, they may behave more competitively than when interacting with a single person, expressing more disadvantageous and less advantageous inequality aversion because of the influence of group identity on behavior (Akerlof and Kranton, 2000; Chen and Li, 2009).

In this paper, we designed a laboratory experiment to compare inequality aversion in individuals when these individuals interact with another person and when they interact as a member of a group facing with another group, using various allocation tasks. We address three questions. First, we investigate whether the degree of inequality aversion when group members make initial proposals to the group differs from when individual choices are made in isolation (*i.e.*, when interacting with a single individual). Studying the first proposal made by individuals in a group decision-making environment before they receive any feedback about others' choices (and not only the final group decision, as done usually in the literature) allows us to isolate the impact of a collective decision-making context independently of the social information conveyed by peers' proposals in the next rounds. When making their first proposal to the group, individuals may express less inequality aversion than when making decisions in isolation if a group environment encourages selfishness; on the opposite, they may express more inequality aversion to compensate for the expected selfishness of others.

Second, we study the process of aggregation of individual proposals to form the final group decision and we examine whether it varies with the degree of inequality aversion that was expressed initially. By observing the members' initial proposals and measuring the distance with the final vote while keeping the group environment constant, we can characterize the formation of group decisions once people learn about others' proposals. Analyzing the entire dynamics of the group decision formation allows us to address the question of who in the group, in terms of relative inequality aversion, has a stronger influence on the final decisions.

Finally, we study whether individual preferences in a group decision-making environment depend on whether the anonymity of group members is preserved or not during the aggregation process, revealing the possible role of social image concerns.

We contribute to the literature comparing group and individual decision-making. Many studies have found that groups behave in general more rationally and selfishly than individuals (Charness and Sutter, 2012), although some have shown that the difference depends crucially on the nature of the task and on the decision-making procedure (*e.g.*, Kocher and Sutter, 2007). However, these studies did not explore inequality aversion directly. A recent exception is Balafoutas *et al.* (2014) who show that while groups express the same advantageous inequality aversion as individuals, they are more benevolent than individuals in the domain of disadvantageous inequality and much more efficiency-oriented. Our design introduces three main differences. We measure inequality aversion under the Fehr and Schmidt's (1999) theoretical framework. We use games in which the fixed option maximizes the level of inequality, instead of fixing payoff equality. And we isolate image concerns in the aggregation of preferences.

We also contribute to the literature by matching this comparative analysis of individual and group decision-making regarding inequality aversion with the analysis on the aggregation of individual preferences in groups (*e.g.* Gillet *et al.*, 2009; Zhang and Casari, 2012; Ambrus *et al.*, 2014). By comparing the individual choices made in isolation before any social interaction and those made in a group environment, we can explore whether some players have a stronger influence in the group decision-making process. In particular, we test the hypothesis that those with a median level of inequality aversion make less concessions than other group members, although all players have a veto power under the unanimity rule introduced in our experimental design.

Another contribution is related to the study of whether and how the anonymity of decisions affects individual initial proposals in a group environment and their adjustment during the aggregation process. In real settings, choices by voters in various policy-making procedures are typically anonymous, while choices by juries, boards, and families usually result from non-anonymous interactions. When it is common information that a proposal emanates from a physically identified group member, allocation choices may express a different degree of inequality aversion than when choices are made anonymously. Indeed, previous literature has shown that individuals tend to make more selfless decisions when observed because they care about their social image (*e.g.*, Andreoni and Petrie, 2004; Soetevent, 2005, 2011; Bénabou and Tirole, 2006; Ariely *et al.*, 2009; Linardi and McConnell, 2011; Reinstein and Riener, 2012; Karlan and McConnell, 2014). We study whether a similar effect is observed in the context of our experiment.

Precisely, in our experiment we elicit advantageous and disadvantageous inequality aversion at the individual level by means of the multiple price lists introduced by Blanco *et al.* (2011), based on the ultimatum bargaining game (Güth *et al.*, 1982) and a modified dictator game (originally developed by Forsythe *et al.*, 1994; Hoffman *et al.*, 1994). We adapt this design to a group decision-making environment when all members of a group receive the same payoff from the group decision. Pairs of three-player groups perform the same allocation tasks. The group decisions result from votes made under a unanimity rule. Using both within-subject and between-subject designs allows us to compare individuals' decisions made in isolation and their initial and final proposals in a group environment. To identify the role of anonymity, we make a between-subject comparison with an additional treatment in which subjects can physically identify their group members and their proposals.

We have three main findings based on the analysis of switching points in the two games. First, on average individuals express more disadvantageous and advantageous inequality aversion when they make their initial proposals to the group than when they decide in isolation. This increased inequality aversion is driven neither by social image concerns, as the lift of anonymity has little effect, nor by efficiency concerns, as similar differences are observed in both games although efficiency is kept constant only in the ultimatum game, nor by peer effects since no social information has been disseminated yet. It may result from the expectations about the social norm prevailing in the group or from a change in preferences due to a

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