

**Pew Christian Scholars Program: Economics Team**  
**“The Moral and Social Dimensions of Microeconomic Behavior In**  
**Low-Income Communities”**

Summary of Constituent Projects

**Applied Theory Projects**

**Larry Blume (Cornell University and Northwestern University), “Religious Groups: Cohesion and Social Control”**

The membership theory of inequality proposes that an individual’s socioeconomic outcomes are influenced by the composition of the various groups he belongs to. The effect of group membership is to perturb individual incentives and opportunities in such a way that behavior within a group is positively correlated. Thus, the probability of a teenage girl becoming pregnant increases, *ceteris paribus*, with the number of pregnancies among her peers. The probability that a teenage boy commits a crime increases, *ceteris paribus*, with the degree of criminal activity among his peers. The relevant peer groups come together in a variety of ways. Some are exogenously determined, such as race and ethnicity. Others are endogenously determined, such as neighborhood. The purpose of this project is to examine the effects of one such endogenously determined peer group, religious affiliation, on social outcomes. Religious groups vary in ways that one would expect to effect their efficacy in nurturing wanted behaviors. These include the degree of exclusivity, the tightness of internal ties, the organization of the group’s control mechanisms, and, more general the methods used by the group to induce a sense of group identity. These characteristics bear both on how group members will respond to external influences and on the stability of the norms and values the group ostensibly promotes. Blume will draw upon models and insights from the recent literature on population games and large-scale strategic interactions. These models will be based on ethnographic and sociological studies of religious movements. The methodology will be unabashedly “rational actor” but nonetheless somewhat distinct from the religious economy models which are currently popular in the sociology literature.

**Sam Bowles (University of Massachusetts and Director of Economics Program, Santa Fe Institute), “Inequality and Sharing as Evolutionary Phenomena”**

This research project explores why, in contrast to the economists’ canonical assumption of selfish behavior, sharing the necessities of life among non-kin has been such a ubiquitous characteristic of human societies over most of the life span of anatomically modern humans. Using both anthropological evidence and formal evolutionary modeling (with agent based simulations) Bowles will explore the cultural and genetic bases for the evolution of both human dispositions to share and for the institutions which support these dispositions (including redistribution of resources, upholding general moral codes of behavior applicable to all, monogamy, and other practices).

**Joan Esteban (Instituto de Analisis Economico, Barcelona) and Debraj Ray (New York University), "Group Identity and Social Polarization"**

We connect notions of individual welfare to group identity and consequently to social polarization, a phenomenon which involves the existence of a small number of tightly identified groups that differ from one another in matters of social and economic policy. The first connection runs from individual to society. We claim that expanding the domain of individual preferences to include group ties is *necessary* if we are to provide a welfarist underpinning to the concept of polarization. The second connection runs from society to individual. We investigate how social polarization affects individual behavior, and whether polarized societies --- via a reduction in individual mobility --- possess a tendency to be self-reinforcing. We connect notions of individual welfare to group identity and consequently to social polarization, a phenomenon which involves the existence of a small number of tightly identified groups that differ from one another in matters of social and economic policy.

**Karla Hoff (The World Bank), "Common Agency Problems That Arise When the Poor are in a Solidarity Network"**

The social custom that this paper considers is that of the extended family system. By definition, the extended family system is "a system of shared rights and obligations encompassing a large number of near and distant relatives" (Wolf, 1955, p. 872). It is commonly observed that individuals in the extended family system, who could have made transfers to kin in cash, make them in-kind. Nepotism can be understood in this light: individuals use management positions with firms to favor their nephews for jobs. Such transfers will be inefficient whenever the individual who extends the favors does not bear the full marginal resource costs, as is likely to be true if he does not own the firm. Moreover, since some cultures may be characterized by the extended family system, and other cultures not, and subcultural membership is easy to observe, potential employers may be reluctant to hire individuals in subcultures with the extended family system. Thus, the extended family system may give rise to barriers that the poor face in market. And given those barriers, the extended family system may remain attractive to the poor whereas, in a setting without those barriers, the extended family system would not be attractive even to the poor.

**Ravi Kanbur (Cornell University), "Social Well-being and Private Contributions to Public Goods"**

This project will examine how private contributions to public goods affects social well-being at the level of households and communities. Kanbur and co-authors will construct theoretical models drawing on the current literature but focusing on such factors as the impact of technical progress in the private sector on contributions to public goods in the household. It will examine how the "degree of publicness" in an economy affects the possibility of achieving efficient outcomes.

**Glenn Loury (Boston University), "Racial Classification as an Equilibrium Phenomenon"**

This project aims to advance our understanding of how rational agents come to think about themselves and others in terms of "race." Supposing that human beings can be distinguished on the basis of physical traits, but that those traits are intrinsically payoff-irrelevant, Loury will illustrate how equilibria can arise in models of social interaction where it is in the interest of human beings to pay attention to these physical traits, despite their objective irrelevance. "Race" is conceptualized as an index around which imperfectly informed, self-

interested, decision-making agents hang their expectations, and their notions of identity. The goal of this sort of work is to find formal representations of social interaction between rational agents, using mathematical models (games) that reflect the interplay between agents' actions and their beliefs -- beliefs both about others (expectations/stereotypes) and about themselves (identity). Tools of analysis familiar from game theory and information economics will be deployed for this purpose, with the expectation that heretofore unexpected insights will be generated, some of which may be relevant to contemporary policy debates in the world's many multi-racial societies.

## **Empirical Projects**

### **Chris Barrett (Cornell University), “Social Duties, Solidarity, and Property Rights Among East African Pastoralists”**

This project explores the prospective social and moral origins of three interrelated puzzles among poor pastoral populations in the arid and semi-arid lands of east Africa, building on ongoing survey research among 330 households in southern Ethiopia and northern Kenya. Pastoralists are constantly buffeted by shocks due to drought, disease, market instability and violence. Most of their wealth is held in the form of livestock, yet they routinely suffer asset shocks that deplete wealth by 25-50 percent in a single year. The first puzzle one confronts in this setting is that pastoralists' marketed offtake of animals is extraordinarily low (2-4%) and does not respond significantly to observable decreases in range carrying capacity (e.g., due to drought). Rather than sell animals at low prices, they hold animals that then die, offering no return. To what extent is this attributable to constraints pastoralists perceive in their freedom to sell off animals received directly or indirectly from family or neighbors, constraints sometimes embodied in complex property rights over livestock? Second, although gifts and loans are widespread in response to shocks in the sense of most people engage in them regularly and there exists a clear cause-and-effect relationship between shocks and transfers, the scope of such informal exchange and thus the insurance value of these transfers appears surprisingly small given the absence of alternative insurance or credit instruments against shocks. Economists have tended to view such informal transfers as insurance underpinned by self-interested reciprocity agreements. But might these exchanges be better understood as solidarity driven by social duties? Finally, spatial mobility is pastoralists' primary means of preserving livestock wealth in the face of spatial and temporal variation in forage and water availability. Yet property rights in pasture and water are complex and overlapping in the rangelands. To what extent is resource access state-contingent (i.e., quasi-insurance) and/or a function of social and familial ties? Much has been written about conflict over key resources, but might cooperative histories be key determinants of resource access and thus wealth retention?

### **Michael Carter (University of Wisconsin-Madison), “The Social Limits to Reciprocity: Trust, Risk Management and Accumulation in Stratified Societies”**

This project will explore the social limits to reciprocity in poor, rural Honduras communities that were struck two years ago by Hurricane Mitch and compare these results to similar analysis done in South Africa. The systematic failure of formal financial markets that leave the poor vulnerable to chronic poverty motivates more careful examination of the potential for informal, mutual aid insurance arrangements to substitute for missing markets and open

the way to feasible trajectories of accumulation. Unlike market contracts, informal insurance arrangements are sustained by trust and social relations, rather than by enforceable contracts. But is there a market failure analogue for these alternative, non-market arrangements? The objective of this research is to explore the social limits to reciprocity that are created when certain social groups are systematically excluded from relationships of reciprocity and trust because of language, class or race. This work will exploit ongoing survey work in rural Honduras to gauge the impact of Hurricane Mitch on sample households, their use of market and non-market-based coping strategies, the adequacy of their access to formal financial markets, and the extent of their social networks. Carter will also field an experimental protocol designed to elicit levels of altruism and trust using variations on "Dictator" and "Trust" games, permitting matching of experimental and observational data to explore the effectiveness and normative and other foundations of mutual aid arrangements. Similar matched panel and experimental data are currently being collected under another of Carter's projects in South Africa. While economically stratified, Honduras is socially more homogenous than South Africa. The comparison between the two countries promises insights on the boundaries of trust and the social limits of reciprocity.

**Marcel Fafchamps (University of Oxford), "Market Institutions and Agricultural Trade in Sub-Saharan Africa"**

This project investigates how economic exchange takes place in Sub-Saharan Africa today. Using comprehensive agricultural trader surveys conducted in four African countries, as well as a resurvey with Barrett of agricultural traders in Madagascar, Fafchamps will examine the role of relationships and discrimination in commercial exchange. The origin of trust and the role of religion in fostering trust and business ethics are investigated, as are the respective roles of legal institutions, business networks, and social norms in supporting market exchange.

**Andrew Foster (Brown University), "Altruism and Human Capital Investment in Bangladesh"**

Foster will explore how family ties and altruism may resolve problems of imperfect commitment that influence investment incentives among households in Bangladesh. The central idea is that given imperfect commitment, investments in human capital are importantly distinguished from other forms of investment in that the returns to this investment are not easily appropriable. For example, a father who invests in land improvements can ensure equal sharing of the returns to this investment by dividing the land among his sons equally. If the same resources are invested instead in building human capital, a son with higher ability may differentially benefit in the absence of social norms that lead those who enjoy higher returns from such investment to compensate others. The project will evaluate the extent, if any, to which such distortions influence human capital investment, emphasizing empirical analysis of data from a survey he directed in Bangladesh, which Foster will supplement with follow-up data collected from the same households.

**Eliana La Ferrara (Bocconi University, Italy), "Descent rules and private transfers: a test of altruism versus reciprocity"**

The literature on the motivations of inter-vivos transfers has identified two main explanations for the existence and extent of these transfers: (i) altruism, whereby the "donor" attempts to equalize the welfare of the recipients by transferring more to those who are poorer; (ii) reciprocity, whereby transfers flow to relatively richer individuals, who have a higher

likelihood of reciprocating in the future. A growing literature has concentrated on testing these predictions (e.g., Cox, Eser and Jimenez (1998) and Altonij, Hayashi and Kotlikoff (1996)). In the present study I intend to exploit a peculiar feature of descent systems in some developing countries, i.e. the fact that some ethnic groups follow patrilineal rules, while others have a matrilineal structure. Given that the two systems generate different “claims” and “property rights” over children for the families of the man and of the woman, the pattern of intergenerational transfers should differ accordingly if the motivation lies in reciprocity. On the contrary, altruistic remittances should not be influenced by descent rules. I will conduct my empirical investigation using panel data at the household level for Ghana, where such diversity in descent rules exists.

**Jean Philippe Platteau (Université Notre Dame de la Paix, Namur, Belgium), "Can Marriage Payments Affect Happiness? A Case Study of African Countries Under Varying Levels of Land Pressure"**

This project explores whether the existence and size of marriage payments affect the harmony between spouses and the stability of the marriage because of the difficulties the husband incurs in paying the full brideprice to the wife's family or due to resentment by the in-laws which results in harassment of the wife. Such dynamics may be especially likely in the case of poor families for which payment of high brideprices is problematic. Yet, if parents become aware of the impact of high brideprices on the wellbeing of their children, they may be expected to show self-restraint in their request for brideprices from the groom's family. The study will be based on first-hand data Platteau is collecting in areas of high population density in northern Tanzania (Kilimanjaro area), Kenya (central and western parts) and Malawi. Individual questionnaires will be administered to a sample of both men and women belonging to at least two different generations. Group focus interviews will also be used. Data have already been assembled in Senegal (the Senegal River Valley) and the preliminary results of that study will be used as a benchmark against which to assess the results obtained for Tanzania and Kenya.

**Chris Udry (Yale University), "Social Network Formation Among Ghanaian Farmers"**

This project will examine processes of social network formation among farmers in southern Ghana. There are two interrelated networks that are of particular concern. The first is a knowledge network, through which farmers exchange ideas about agricultural technology. The second is a financial network, through which farmers exchange credit and gifts. Is it sensible to apply a rational actor model to an analysis of the formation of social networks? For example, can it be shown that farmer A calculates the relevant costs and benefits to making a zero-interest loan to farmer B rather than to farmer C? Much of the quantitative data required for this analysis is in hand, gathered during a 2-year period of fieldwork in 4 village clusters in Ghana's Eastern Region. Udry will enrich the analysis through follow up fieldwork designed to establish farmers' motivations for their choices, perhaps encouraged by pointed questions regarding particular interactions recorded in the data.