

# **The Moral and Social Dimensions of Microeconomic Behavior In Low-Income Communities**

**An Invited Proposal to the Pew Christian Scholars Program  
at the University of Notre Dame**

August 2000

Christopher B. Barrett  
Associate Professor  
Department of Applied Economics and Management  
Cornell University  
351 Warren Hall  
Ithaca, NY 14853-7801  
Email: [cbb2@cornell.edu](mailto:cbb2@cornell.edu)  
Telephone: 607-255-4489  
Fax: 607-255-9984

This project has been invited as one of the eight interdisciplinary Collaborative Research Projects funded through a grant by the Pew Charitable Trusts to the University of Notre Dame. The broader aim of the collaborative research projects is to explore “The Nature of the Human Person” through parallel investigation of issues at the current research frontiers of each of the eight disciplines included. As Notre Dame’s proposal to Pew puts it, “[a]ll the disciplines, and especially the social sciences, depend heavily upon theories about the nature of human beings. But Christian scholars universally find contemporary theories to be insufficiently complex accounts of how human beings truly operate and what motivates them.”

This is perhaps especially so in economics, where most contemporary research rests fundamentally on a microeconomic theory of human behavior as motivated by the satisfaction of material wants and a positivist tradition dominates discourse. The economics team project proposed here aims to explore the role of nonmaterial preferences and constraints – such as social norms, altruism, duty, trust, fidelity, solidarity, identity -- on behavior among or on behalf of poor subpopulations seemingly most in need of material advancement. To what extent can contemporary microeconomics explain, in a Friedmanite positivist sense, individual or group behavior using only the framework of material motivation presented in most, if not all, current graduate textbooks? Do we need models that explicitly accommodate moral or social dimensions to preferences, incentives, technologies, and constraints on individual choice? To what extent do we find empirical evidence for or against the importance of nonmaterial preferences or conditioning factors in determining consumption, exchange or production behaviors among the poor? In recent years, there has been much interest and notable advances in understanding the role of identity, conformity, generalized morality, and other such moral and social dimensions of individuals and their behaviors (Young 1993, Bernheim 1994, Platteau 1994a,b, Akerlof 1997, Bowles 1998, Elster 1998, Akerlof and Kranton forthcoming, Brock and Durlauf forthcoming). These advances notwithstanding, the mainstream economic literature and the theory and methods on which it rests seem ill-equipped to understand how individuals perceive and adapt their identities and how these identities affect their consumption, production and exchange behaviors. This project aims to make a substantive contribution toward improving the economic literature on these important subjects.

In the interests of trying to focus the attention of a small and busy group, the team's work is focused around three core topics: (i) the social nature of investment and learning about new opportunities, e.g., about new production technologies or prospective market opportunities that may improve well-being and fuel economic growth and improved livelihoods; (ii) the functioning of solidarity and reciprocity arrangements to cushion the poor against adverse shocks; (iii) the place of generalized morality, social identity, and socially exclusionary groupings on contracting and resource access. Recent literatures on trust, fairness, social capital, the economics of altruism, interactions-based modeling, social learning, etc. all bear on these topics.

## **The Team**

The team of twelve distinguished scholars offers a mix of those working more on the applied theoretical dimensions of such issues and those doing more empirical work, as well as a blend of more senior scholars and younger, up-and-coming members of the profession. The geographic and topical coverage is sufficiently broad to ensure that the project as a whole speaks not just to a particular subfield, but to the economics discipline more broadly. Brief descriptions of the general direction of worked planned by each team member follow, in alphabetical order.

Curricula vitae for most team members appear in Appendix B. Both the composition of the team and the details of individual research projects are subject to modest revision prior to the team's first meeting in spring 2001.

**Chris Barrett** is an associate professor in the Department of Applied Economics and Management at Cornell University. In addition to serving as the team leader, Dr. Barrett will collaborate with Dr. Fafchamps in empirical work on the role of identity and social relations in conditioning the behavior and performance of agricultural traders in Madagascar. He will also explore the nature of solidarity and reciprocity networks among pastoralist populations in southern Ethiopia and northern Kenya in providing social insurance against shocks such as drought, theft and violence, and the role of social identity and interpersonal trust in livestock marketing networks in that region.

**Larry Blume** is a professor in the Department of Economics at Cornell University and former director of the economics program at the Santa Fe Institute. His research is concerned with non-linear dynamics in games and in general equilibrium models with incomplete markets. His work in this project will likely focus on how social phenomena affect individual behavior, building on his recent work in interactions-based approaches to understanding socioeconomic behavior (Blume 1993, 1997, Blume and Durlauf 1999).

**Sam Bowles** is a professor in the Department of Economics at the University of Massachusetts, director of the economics program at the Santa Fe Institute, and co-director of the MacArthur Foundation Research Network on the Effects of Inequality on Economic Performance. His work in this project will likely continue his recent research on the importance and evolution of non-self-regarding motives in explaining behavior, with applications to policy areas such as the economics of education and the politics of government redistributive programs, and on the economics of mutual monitoring and cooperative production (Bowles 1998, Bowles and Gintis 1998, Bowles 2000).

**Michael Carter** is a professor in the Department of Agricultural and Applied Economics at the University of Wisconsin-Madison. His research explores the extent to which mutual aid insurance arrangements can and do 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 arrangements—a social failure—that occurs when certain social groups are systematically excluded from relationships of reciprocity and trust because of language, class or race? The new field work proposed here will deploy an experimental protocol designed to elicit levels of altruism and trust using “Dictator” and “Trust” games. The experiment will be applied to rural households (and their surrounding communities) that are members of an on-going panel study. The panel study itself is collecting detailed information on income accumulation, as well shocks and risk management, with special attention given to Hurricane Mitch which struck Central America two years ago. The ability to match the experimental data with information on shocks and risk management promises new insight on the effectiveness and normative and other foundations of mutual aid arrangements. In addition, similar matched panel and experimental data are currently being collected 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.

**Joan Esteban** is a research professor of economics at the Instituto de Analisis Economico in Barcelona, Spain, and was Director of Scientific Research for Catalunya, and a Governing Council member of the European University in Florence. In collaboration with Dr. Ray, he will explore how individuals develop notions of the group, why do such group affiliations play such a basic role in individual consciousness, and how do we go from these notions to forming societal judgements. This work advances the microeconomic underpinnings of their previous work on polarization (Esteban and Ray 1994). Individual material preferences do not suffice to explain that socioeconomic phenomenon, which seems to demand that individuals take social identity into consideration in forming judgements and choosing behaviors.

**Marcel Fafchamps** is a reader in economics, a professorial fellow at Mansfield College, and deputy director of the Centre for the Study of African Economies at Oxford University (U.K.). He plans to build on his research work on interpersonal relations, particularly social capital and trust, and the nature of market institutions in Sub-Saharan Africa. He is currently writing a book for MIT press on this topic. His contribution to the project will involve empirical work on surveys of traders and rural communities already completed under his supervision in Benin, Malawi, and Ethiopia, as well as a resurvey of previously surveyed traders and rural communities in Madagascar to be fielded in 2001. The emphasis of this work is on the way traders identify trustworthy partners and overcome information asymmetries. Put differently, what how do individual identities and social relationships affect trader behavior and market formation? The work in Madagascar, undertaken in collaboration with Chris Barrett and Bart Minten, will be the first panel survey ever undertaken of traders in Africa.

**Andrew Foster** is an associate professor in the Departments of Economics and Community Health at Brown University. He plans to focus his work on 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 equally sharing of the returns to this investment by dividing the land among his sons in equal fashion. If the same resources are invested instead in building human capital, a son with higher ability will 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 he intends to supplement with follow-up data collected from sample households.

**Ravi Kanbur** is the T.H. Lee Professor of World Affairs at Cornell University. Over the past decade, a strong feeling has grown up in popular discussions that despite economic advances and rising real incomes, “welfare” has not risen as much, if at all. Often this is couched in terms of loss of community, which is seen as the counterpart to an increasingly privatized existence which goes with the current forms of economic advances. Dr. Kanbur will investigate the nature of these concerns within the framework of the “private contributions to public goods” literature in economic theory, wherein economists confront the nature and place of altruism. He plans to explore what happens in these models when there is technical progress and productivity increase in private sector activities. Do contributions to local public goods fall and are there

conditions under which the fall may be so severe as to outweigh the welfare-enhancing effects of material advance in the private sector?

**Glenn Loury** is a professor of economics at Boston University, where he is also the founding director of the Institute on Race and Social Division. He will pursue the general theme of "reproduction across generations of cognizance of race," where "race" is thought of as an index around which people hang (1) expectations and (2) notions of identity. The approach with respect to expectations is information theoretic. "Race" would be studied as the equilibrium outcome of decision-making agents interacting under incomplete information within a system where physical traits matter. They matter because people think they will matter, act on that thought, and thereby create incentives for behavior by "raced" agents who anticipate race-contingent actions and adapt accordingly. "Race" thereby emerges as by-product of the accident of observable morphological variability in human populations. People attend to it in equilibrium as a result of self-confirming feedbacks. That is, a "race" can be constructed around any low cost to observe, reliable, difficult to misrepresent, payoff irrelevant index that varies in population, permitting partitioning of field of human subjects into subsets about which conditional expectations can be formed of hard to observe but payoff-relevant traits. The forming of these race-contingent conditionals, and taking of decisions on that basis, engenders a differential pattern of incentives for persons based on their "race," in such a way that their race-varying behaviors, in reaction to these different incentives, serve to confirm the initial supposition that the race-index would be informative. Dr. Loury's research will also try to say something formal about identity (who am I), and identification (who's like me), and how these phenomena can acquire and retain over time a racial dimension. (The difference between "race," "ethnicity," and "nationality" will not be sharp here.) How can one account for ways in which, within a system of mutually susceptible individuals, each seeking approval or standing with the others, a normative type emerges that becomes the model for what "authentic" behavior represents within the group. All the peer effect models seem to posit some kind of gravity-type idea -- the norm is the mean behavior of the group, or whatever. Why? These are human beings, not celestial bodies. Why should criminal behavior, early unwed pregnancy, or hours spent studying be driven by the mean or median action within a peer group, and not by the 90th or 10th percentile action. In other words, how does the group construct its notion of what constitutes a norm. Bernheim (1994) puts all the weight on signalling and makes heavy use of refinement ideas to arrive at the gravity-type conclusion that others merely assume. This centrist-focused approach may be quite far off. Examples abound where idealization of heroic, extreme behavior is much more influential than regression to mean types of peer influence. The aim will thus be to model stigma, shame, honor, and the rest, as outcomes of ideational interactions amongst a group of people search to discover for themselves "who they really are" - as individuals, and collectively.

**Jean Philippe Platteau** is a professor in the faculty of economic, social and management sciences, Université de Notre Dame De La Paix, Namur, Belgium. His work in this project will build on his extensive previous research on mutual insurance, generalized morality, and interpersonal coordination in natural resource management in low-income communities, incorporating new empirical material from field work in east Africa.

**Debraj Ray** is a professor of economics at New York University. In collaboration with Dr. Esteban, he will explore how individuals develop notions of the group, why do such group affiliations play such a basic role in individual consciousness, and how do we grow from these

notions to forming societal judgements. This work advances the microeconomic underpinnings of their previous work on polarization (Esteban and Ray 1994). Individual material preferences do not suffice to explain that socioeconomic phenomenon, which seems to demand that individuals take social identity into consideration in forming judgements and choosing behaviors.

**Chris Udry** is a professor of economics at Yale University. His research 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 (Conley and Udry 2000). 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. However, Dr. Udry proposes to enrich the analysis through a series of informal discussions with some of the farmers regarding their motivations for their choices, perhaps encouraged by pointed questions regarding particular interactions that are recorded in the data.

### **Work Plan**

The team's work plan, per the broader project's guidelines, involves (a) annual project meetings for the team leader with the leaders of the other seven disciplinary teams and the Notre Dame-based directorate, (b) annual team meetings in each of the first two years of the project, (c) panels at disciplinary meetings and participation in the broader Pew project's interdisciplinary capstone conference in the project's final year, and (d) publication of a volume from a major press or a special issue(s) of a prominent journal presenting the collaborative work of the project. The team leaders' annual meetings are coordinated by the main project office at Notre Dame.

The annual team meetings will be held in spring. The first is tentatively scheduled for May 4-5, 2001, at Cornell University in Ithaca, NY. The second will be held in spring 2002, site to be determined (most likely in Europe).<sup>1</sup> The objectives of the first meeting are:

- (i) to agree on a division of labor among the team members and a publication strategy for the team's collaborative output, plan participation in year three conferences, and ensure the pieces fit together as a cohesive inquiry,
- (ii) to discuss the current state of the relevant literatures in order to identify opportunities for making significant advances,
- (iii) to provide a forum for team members to present work in progress under this project.

The objectives of the second meeting are:

- (i) to provide a forum for team members to present work in progress under this project,
- (ii) to finalize the team's plans for conference panels and joint publication(s).

In the third and final year of the project the team will convene at least two panels at major disciplinary conferences (e.g., Allied Social Sciences Association, American Agricultural

---

<sup>1</sup> The team leader expects to be on sabbatic leave at Wageningen University in the Netherlands spring semester 2002. The meeting could either occur at Wageningen or perhaps at Oxford.

Economics Association, Royal Economic Society, Western Economic Association International). The objective of these panels of three or so team members is to mainstream the scholarship of the team, and to heighten interest in the topic and the upcoming public conference of the broader Pew project directed by Notre Dame. Another subset of the team will present our broader findings at the broader Pew project's interdisciplinary capstone conference in 2003.

The single most important objective of the project is to publish a book or special issue of a journal that will disseminate the project's scholarship and have an impact throughout the discipline. The project team leader will begin contacting presses after the team agrees to a publication strategy at its first workshop in spring 2001. It is expected that the team will also publish ancillary articles, books, and scholarly presentations on the topic. The project team leader will also approach the editors of *Faith & Economics*, the journal of the Association of Christian Economists, about the possibility of publishing a special section or issue of short essays by the team, reflecting the core issues and findings raised in the project and how they bear on Christian scholarship within economics.

## References

- Akerlof, G., 19987. "Social Distance and Social Decisions," *Econometrica* 65, 1005-1027.
- Akerlof, G. and R. Kranton, "Economics and Identity," *Quarterly Journal of Economics*, forthcoming.
- Bernheim, B.D., 1994. "A Theory of Conformity", *Journal of Political Economy* 102, 841-77.
- Blume, L. 1992. "The Statistical Mechanics of Strategic Interaction," *Games and Economic Behavior* 5, 387-424.
- Blume, L. 1997. "Population Games," in W.B. Arthur, S. Durlauf and D. Lane, eds., *The Economy as a Complex Evolving System II*. Menlo Park: Addison-Wesley.
- Blume, L. and S. Durlauf. 1999. "The Interactions-Based Approach to Socioeconomic Behavior," mimeo.
- Bowles, S. 1998. "Endogenous Preferences: The Cultural Consequences of Markets and other Economic Institutions," *Journal of Economic Literature* 36, 75-111.
- Bowles, S. 2000. "Individual Interactions, Group Conflicts, and the Evolution of Preferences," in S. Durlauf and H.P. Young, eds., *Social Dynamics*. Cambridge: MIT Press.
- Bowles, S. and H. Gintis. 1998. "The Moral Economy of Communities: Structured Populations and the Evolution of Pro-social Norms," *Evolution and Human Behavior* 19.
- Brock, W. and S. Durlauf, "Interactions-Based Models," in J. Heckman and E. Leamer, eds., *Handbook of Econometrics, vol. V*. Amsterdam: North-Holland, forthcoming.

- Conley, T. and C. Udry, 2000. "Learning About a New Technology: Pineapple in Ghana," mimeo.
- Elster, J. 1998. "Emotions and Economic Theory," *Journal of Economic Literature* 36, 47-74.
- Esteban, J. and D. Ray. 1994. "On the Measurement of Polarization," *Econometrica* 62, 819-851.
- Platteau, J.-P, 1994. "Behind The Market Stage Where Real Societies Exist," two parts, *Journal of Development Studies*.
- Ray, D. and K. Ueda, 1996. "Egalitarianism and Incentives," *Journal of Economic Theory* 71, 324-48.
- Young, H.P., 1993. "The Evolution of Conventions," *Econometrica* 61, 57-84.