UNIVERSITEIT VAN AMSTERDAM

'Everybody's Doing It': Essays on trust, social norms and integration.

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Summary

This thesis consists of three essays that, broadly speaking, investigate topics at the intersection of behavioural and development economics. Different economic tools are used throughout the chapters, but a common methodological theme is the use of experiments to shed insights on the research.

The economic experiment is one of the most useful and versatile instruments in the modern economist's toolkit. In Chapter 2, it is used to test the predictions of a theoretical model and computer simulations. The experiment in Chapter 3 simulates different types of societies around the world and suggests some unexpected consequences of income inequality, which are later confirmed from an analysis of a large data set from 60 countries. Finally, Chapter 4 takes the laboratory out into the field, using a natural 'experiment' to precisely measure the seemingly abstract concept of how much people trust each other.

In addition to the shared use of experiments, the essays are also motivated by a common research philosophy for forming ideas. Each project was borne out of an interesting question - or, rather, a puzzle - about a topic with important policy implications. For each of these questions, I and my coauthors have endeavoured to tackle them with the best tools available to economists, in order to better understand behaviour and improve welfare outcomes.

The first essay (Chapter 2) seeks to explain a challenging puzzle from social psychology: Why do some social norms that are inefficient - or even damaging - manage to persist for so long? Social norms permeate society across a wide range of issues and are important to understanding how societies function. This chapter describes how bad social norms evolve and persist, and what can be done to break them down. Together with my PhD supervisors, Theo Offerman and Uri Gneezy, I developed a theoretical model that proposes a testable model of bad norm persistence based on evidence from real-world examples. The results of our experimental test of the model were very promising: We found strong empirical support for our theory's main predictions.

Central to the model is the role of a person's *social identity*, the scale of her social payoffs, in encouraging compliance to a norm. Social identity is a powerful theory developed from psychology and adapted to economics in recent decades, specifically to account for the fact

that we humans are social creatures who care (both consciously and subconsciously) about what others think of us. Such a seemingly obvious concept can have large consequences for how we act, the decisions we make, and, consequently, how group behaviours can implant themselves within societies.

As predicted by our theoretical model, the strength of social identity was found to have a strong effect on bad norm persistence in our experiment. Additionally, while the size of the social group did not have a long-run effect, smaller groups were more likely to break a bad norm in the short term. Furthermore, the results suggest that both increasing people's information about the payoffs of their peers and facilitating anonymous communication are promising intervention policies to counter bad norms. This latter intervention is currently being adapted by my colleagues and I at Bocconi University as part of a large project in Somalia that is designed to tackle the prevalent traditions of female circumcision and child marriage.

The second essay (Chapter 3) investigates the well-known empirical fact that societies with high levels of income inequality exhibit lower trust among individuals. This is an interesting and important phenomenon, but little is known about how this relationship works. In this project, Sanne Blauw and I investigated whether the income distribution mechanism in a society matters. In our lab experiment, subjects were placed into either a high- or low-income class, with the class assignment predetermined by one of three allocation mechanisms: greed, merit or luck. These three mechanisms were chosen to represent three categories of societies in the real world: those in which becoming rich usually implies engaging in corruption ('greed'), or working hard ('merit'), or just having been born into the right family ('luck'). To test how this may affect the relationship, we also varied the degree of overall inequality in our experiment.

Our results revealed an unexpected and intriguing insight: Income inequality indeed negatively impacts trust, but only when income classes are randomly determined. When the income distribution mechanism is based on either merit or greed, the relationship between trust and inequality disappears. Our findings are robust against selection effects, social preferences and alternate measures of trust.

Here, the use of an experiment helped to bring to light an interesting underlying process that otherwise would have been difficult to predict. To check whether our hypothesis is supported in the real world, we also analysed data from a large cross-country sample from the World Values Survey. We found strong supporting evidence that, indeed, the trust-inequality relationship is very much dependent on people's perceptions that luck, rather than merit or greed, drives the inequality.

In the third project, I had the pleasure of pairing with my partner in all things, Sabina Albrecht, on an extremely topical issue that is important to both of us. Chapter 4 exam-

ines the impact of refugee resettlement on host communities' social capital, and particularly changes in the local population's level of trust and attitudes towards refugees. We explored this through a case study in rural Australia, in which the locals of a small country town experienced a large influx of refugees (almost 10% of the town's population) over the course of a few years.

Normally, similar resettlement stories fail to offer the researcher interesting lessons that are externally valid, but the features of this natural refugee shock were both convenient and important for identifying general effects. Specifically, the resettlement was exogenous with respect to social indicators of the township and filled an unmet labour demand in the host community, thus allowing us to isolate social capital effects. We combined trust data from a lab-in-the-field experiment with repeated cross sectional survey data from both our treatment town and demographically and economically similar control towns. We also used this combination of data to run a synthetic control group analysis, which allowed us to as closely as possible match the conditions of a true town-level randomization.

Contrary to current social theory of ethnic diversity and migration, we found no evidence of negative social capital effects on the host community. In fact, the story that emerges from this chapter is surprisingly positive in terms of the social effects on the local population. Residents in the treated town trusted refugees relatively more, and also showed significantly more favourable attitudes towards refugee resettlement in Australia in general. These effects were particularly strong among females, who in general had more social contact with the refugees - further supporting a theory of the positive social impact of contact with refugees. Based on our findings, we can describe the conditions for which shifts toward rural resettlement policies can minimize social welfare costs for host countries.

Given the importance of this issue for international policy, our results should not be ignored. They suggest that governments in host countries may be able to do better than simply randomly distributing refugees throughout communities, by instead designing resettlement policies that maximise the benefits for both the refugees and the local population. Sabina and I are extending this research in our current work by looking at other refugee resettlement settings in Europe, with a view to developing guidelines for these 'smarter' resettlement policies in the future.