

Mini-Course on Pro-Social and Anti-Social Behaviour

Spring 2010

Lecture 2: Pro-social Behaviour

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Lecture will be divided into four parts:

1. What is Pro-social Behavior in general?
2. Typical Motivations
3. Look at pro-social behaviour from a new perspective: ethical investments
4. Look at ethical investors with charity contributions and those without

Lecture 2: Pro-Social Behaviour

PART 1

What is Pro-social Behavior in general?

Definition:

”Prosocial behavior is caring about the welfare and rights of others, feeling concern and empathy for them, and acting in ways that benefit others.”

Wikipedia

or

”Prosocial behavior occurs when someone acts to help another person, particularly when they have no goal other than to help a fellow human.” Changing Minds.org

An activity that is costly to the individual and mostly benefit others

Typical activities are:

volunteering, helping strangers, voting, giving to political or charitable organizations, donating blood, joining rescue squads and sometimes sacrificing your life for strangers!

Constitutes significant Activities:

US Charitable giving 2.2 % of GDP,
2008

1. Charitable Giving

Almost 70 percent of US households report giving to charity (Andreoni, 2007).

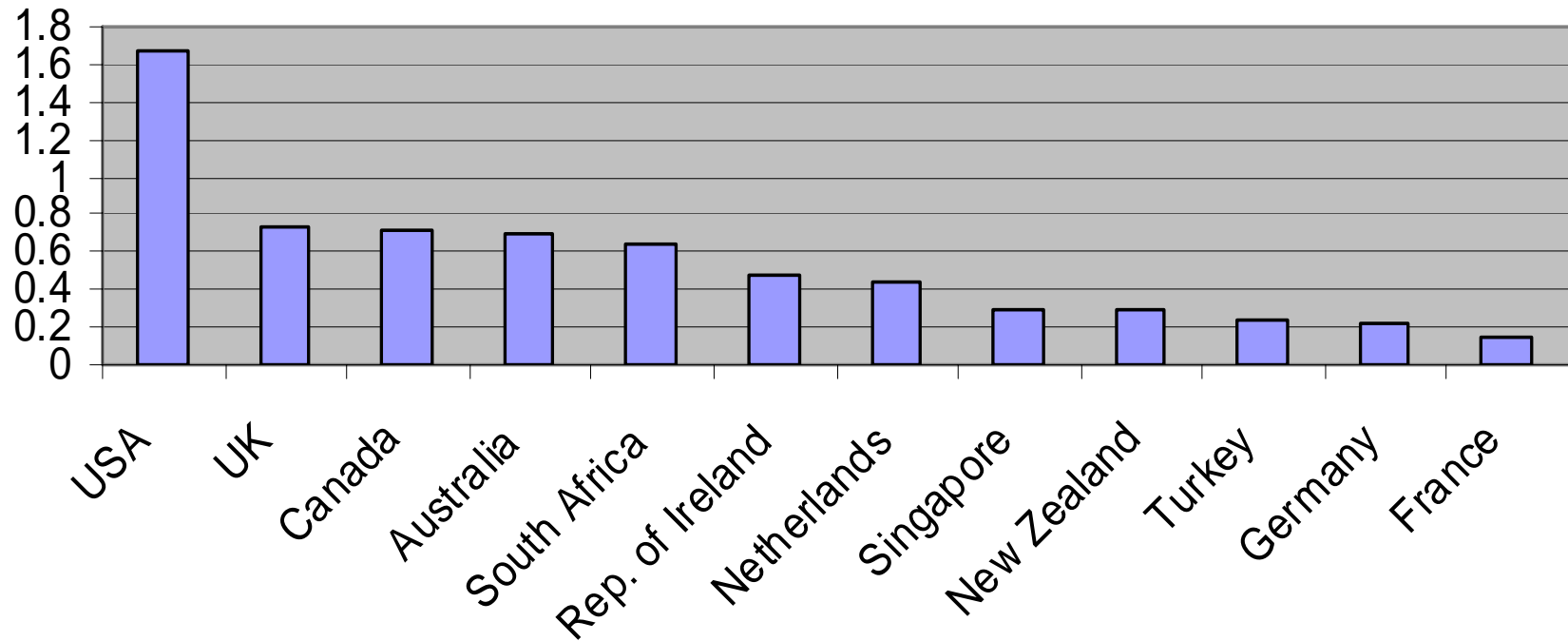
What can we say about those who gives?

From cross-section data /panel:

**older, more educated, married, female
(Andreoni et al. 2005),**

No effect of race (Rooney et al 2005)

Charitable Giving as a Percentage of GDP



From UK Charities Aid Foundation

New Experimental research on charitable giving reveal:

Sensitive to framing
visibility of donors (+ effect)
lotteries (+ effect)
physical attractiveness of fundraiser
(+ effect)
gift-exchanges (+ effect)

(see e.g. Landry et al (2006), Andreoni & Petrie (2004).

Elasticity of Charitable Giving?

Large interest in price elasticity and income elasticity of charitable giving (much from US data)

No real consensus:

Usually a price elasticity of -1.1 to -1.3

Yet this was challenged and re-challenged by Randolph(1995) LR: -0.51 and SR: -1.55

Income elasticity: 0.4-0.8

2. Altruism in Experimental Research

A very sketchy overview!:

Prisoners' Dilemma:

- Often found **robust cooperation** (Roth and Murnighan (1978)).
- **Yet cooperation could be explained by** agents thinking **someone else** will be altruistically motivated.
- **Yet repeating the game only explained some cooperation**

Altruism in Experimental Research

Public Goods Games:

- In spite of a dominant strategy of giving nothing to the public good – **average giving is significantly above zero** (e.g. Isaac & Walter 1988, Andreoni (1988) even when playing with strangers).
- Is it just confusion? Yes, but **confusion only explain some giving**

Altruism in Experimental Research

Ultimatum Games:

Many proposers strike **fair deals (50/50)**

Dictator Games:

Keeping all is modal but **a significant share gives a little or a lot** (often give 25 %).

With greater anonymity: 10 % yet great anonymity makes subjects sceptical of the experiment...

Altruism in Experimental Research

Trust Games and Gift Exchange:

A game of sending money which is multiplied, in hope to get some back!

Standard result is that senders receive more than they sent!

Gift – exchange: some proof of reciprocal behaviour

Lecture 2: Pro-Social Behaviour

PART 2

**Typical Motivations:
Why do people engage in this?**

1. pure *material* self-interest

For example, charity giving can be a means of **acquire social prestige** or **signaling income** (Glazer and Konrad, 1996).

Necessary that donations are made visible to others!

2. Pure altruism and empathy

engagement in pro-social behaviour is based on truly altruistic motivations reflecting a genuine concern for the situation of someone else.

***Psychologists:* have shown much evidence of a genuine feeling of empathy**

***Sociobiologists:* showed how selfish genes may induce altruism at the level of the phenotype.**

Other fields : individuals helping others **live longer** (Harris & Thoresen (2005 in journal of health Psychology)) **and are happier** (Brooks (2007))!

The "helper's high":

when people give they actually **get opioids** through **endorphins which are released into their system**

(see e.g Tankersley et al, 2007 in *Nature Neuroscience*, (first to find the effect was psychologist Allan Luks(1988))

A "Mother Teresa effect": improved immune system from watching Mother Teresa's work (McClelland & Kirchnit(1988))

Economic modeling including altruism

1. charity donations is a privately provided public good (Warr (1982) and Roberts (1984)

Yet due to a “crowding out”-effect it cannot explain data.

2. Charity donations is a private good due to a “warm glow” - not altruistic about the utility of others –only the warm feeling.
Andreoni (1998)

3. Reciprocity

Simple game-theoretic models: pro-social behaviour can be a stable equilibrium with reputation and reciprocity
Hammond (1975) and Kurz (1978)

Reciprocity is often cited in two versions:

- a. **all partners in the social interaction gain** – and the fact that others gain is a necessary condition for them to keep participating.
2. **how an agent respond to friendly or hostile actions** even if no gains can be expected e.g. Fehr and Gächter (2000)

4. Following of norms and principles

a. **Dutiful altruism:** if they **obey their own personal principles**. A “**sense of duty**”. The dutiful altruist acts pro-socially, even if the recipient does not reciprocate this pro-social behaviour. Needs no visibility of the act

b. **Social pressure:** norms are external and social rewards are essential to explain behaviour. Avoid blame or to get social approval.

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PART 3

Pro-Social Behaviour from a New Perspective:

Socially Responsible Investments

see

See “Who Lets Ethics Guide His Economic Decision-making? An Empirical Analysis of Individual Investments in Ethical Funds” in

Säve-Söderbergh, J., Economics Letters, Vol. 107, May 2010, pages 270-272.

Ethical economic decision-making

- What is Ethical Economic Decision-making?
Integrating personal values and societal concerns with economic decision-making
- For example, individuals **may not want to partake in activities considered unethical** or that have unwanted effects on others
- In this paper I let Socially Responsible investments elucidate ethical economic decision-making

The idea is:
How can we describe the “*ethic man*”?

Aim:

Empirically try to distinguish **individual features predicting who allows ethics to guide the economic decision-making.**

This has been largely unexplored in economics.

Not a causal study – just suggestive

Mini-course on Pro-social and Ant-social Behaviour: Lecture 2, Jenny Säve-Söderbergh

What is Socially Responsible Investments?

The use of a **Screen on portfolio choices**

Some funds offer a screen against financial investments, either **to promote ethical behavior or to ban unethical behavior.**

1. Negative screening

Divert investments from activities with undesirable social change or have undesirable effects on certain groups
i.e typically **Tobacco, weapon**

2. Positive Screening

Divert investments to activities with desirable social change, or which have desirable effects on certain groups,
i.e environmentally-friendly production, **good ethical standards, protect labor rights**

Ancient origins

- **Within many religions: historical directives** regarding what investments are **considered unethical**.
- **Vietnam War Movement** (in particular against the manufacturer of **napalm** or even any company profiting from the war
- Since then the custom of screening investments has gained a significant interest (Grossman and Sharpe 1986).

Today it is a Fairly Significant Activity

In the US: more than 11 percent of all US funds managed with ethical guidelines in 2007 (Social Investment Forum, 2007).

Lower in Europe , e.g. Sweden has appr 2.6 % of total fund savings guided by ethical guide lines in 2001, Skillius (2002).

What may then motivate screening?

1. Altruism

2. **Ideological Motivation or a political motivation**, Public good argument

3. **Awareness**: a high level of awareness about the societal impact of unethical products

4. Status or Prestige

On the other hand:

1. No-Diversification cost

Modern portfolio theory holds that diversification reduces risk and maximizes long-term returns –

Restricting the investment universe will yield a non-optimal portfolio with a lower return for a given level of risk

2. Investments are fairly anonymous

- Not easy for others to check - Prestige motives are not likely

On the other hand:

3. Free-riding incentives

- The benefits of ethical investments have a public good character

4. Exchange motives are not apparent - reciprocity or gift exchange motives are hard to enforce

Data

- **portfolio choices** from 2000 from a public pension reform **of approximately 18 200 observations**
- **a new self-directed part of the public pension** for all born after 1954 (of which 2.5 % of wages have been set aside for the premium pension)
- **only look at the first choice**

The Fund Choice: choose 5 funds

**Out of 600 funds 20 had Ethical
Guidelines**

15 with a pronounced negative screen

5 with a positive screen

62% self-directed

38 % governmental default fund

Results from summary statistics

- **1 out of 8 investors chooses ethical screening**
- **Average allocation was about a 1/3 of the portfolio**
- **Only 5% chose to have 100% in ethical funds**

Hence for the great majority:

the ethical principle means having a fraction of one's portfolio invested ethically!

Empirical model: Two Stage - Selection model

First decision: to actively self-direct pension contributions

Probability to be an active investor:

- **familiarity with financial markets** and pension-savings decisions (financial wealth, a no financial wealth dummy, income, education, age, gender and tax-deductible pension-savings)
- **reform and time dummies**

Empirical model: Two Stage - Selection model

Second decisions: the investor chooses whether to screen, and, if so, by how large a share:

This decision is guided by:

Education, Gender, empathetic profession, income, wealth, union enrollment, pension assets etc.

Do two different estimations: prob(screen) (heckman selection, probit) and share-screened (heckman selection, OLS)

Main Results

(First, we can note that the Heckman model was warranted)

- 1. Education is by far the most important predictor** of applying ethical screening.
Similar to supply of volunteer labor (Freeman, 1997) and charity contributions (Andreoni, 2008).
- 2. Gender important; women have a higher demand for ethical investments** (similar to previous research on gender and altruism)

Main Results

3. Working in empathetic professions, such as health-care and teaching, also signifies investors who screen

4. having actively chosen to support a group-norm compared to an individual norm, here signified by trade union enrollment, predicts ethics screening

Main Results

5. Interestingly, **neither income nor wealth affects the choice to screen.** Yet, conditional on screening, investors with more income screen a larger share.
6. **Age is hump-shapedly related to the proportion screened.** (in spite of a lower cost of screening)

does not resemble findings on the supply of volunteer labor (Freeman, 1997) and charity contributions (Andreoni, 2008)!

•Providing indispensable public goods,
such as national safety or rescue services, or
working in religious associations clearly
predict screening

* Employees in **financial business have a
lower demand(-)**

* No effect from having children

Discussion

It is noteworthy that fairly many self-directing investors show a willingness to forego economic returns for non-economic values!

Since it is like a public good, there must be a private benefit of screening.

Discussion

- **Education** is the best predictor – Is it **”Awareness”** or **Ideology** – or **Altruism**?
Cannot say
- **Parental Altruism** – seems not to be the case
- **Empathetic Profession** – a correlated choice – both altruistically motivated? Or is it that they **deal in their jobs with some of the consequences of “unethical” products**
- **Gender** – Women more altruistic? Not huligans at least?

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PART 4

**Looking at ethical investors with
charity contributions and those
without**

Preliminary study

Charity profiles in Ethical Funds

Among ethical investments: **some ethical investment profiles include a set donation to a charity** whereas some don't,

Try to Empirically distinguish between individuals who choose charity profile versus other ethical profiles.

How many of the ethical investors choose a charity profile?

- **1/3** choose a charity profile .
- **Average amount** invested with charity profile: **33 % percent**
- If chosen a charity profile 31 percent invested a 100 percent

Two interesting results appear:

- **Females are less likely** to use screening for charity donations
- **Higher Education** is correlated with **lower use of screening for charity** donations.

Thus it was not the fact that there was a charity donation which drove the result on these two variables predicting the ethical investor!