Endogenous Social Norms: A Lucas Critique of Behavioral Economics

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Abstract:

Behavioral economists generally understand the importance of social norms in behavior both inside and outside the laboratory. Here we study the consequences of the endogeneity of social norms. We show how laboratory studies and "natural experiments" may provide misleading conclusions when the endogeneity of social norms is not accounted for. For example, in the widely cited work on the role of "small" incentives in reducing effort it is generally assumed that effort reduction is a "bad" thing. We show that when the endogeneity of social norms is accounted for not only should we expect a reduction in effort when incentives are "small" - but that from a welfare point of view it is a "good" thing. We offer a broader Lucas critique - a small level of intervention may be insufficient to produce changes in social norms while a high level of intervention may have a very different effect because it becomes worthwhile to change social norms. Finally, we show how behavior in the laboratory may be either positive or negatively correlated with behavior outside the laboratory depending on the incentives that lead to the internalization of particular social norms.