

Authors

Pamela Jakiela
Williams College

Owen Ozier
Williams College

Does Africa Need a Rotten Kin Theorem? Experimental Evidence from Village Economies

Pamela Jakiela and Owen Ozier^{*}

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Abstract

This paper measures the economic impacts of social pressures to share income with kin and neighbors in rural Kenyan villages. We conduct a lab experiment in which we randomly vary the observability of investment returns to test whether subjects reduce their income in order to keep it hidden. We find that women adopt an investment strategy that conceals the size of their initial endowment in the experiment, though that strategy reduces their expected earnings. This effect is largest among women with relatives attending the experiment. Parameter estimates suggest that women anticipate that observable income will be “taxed” at a rate above four percent; this effective tax rate nearly doubles when kin can observe income directly. At the village level, we find an association between willingness to forgo expected return to keep income hidden in the laboratory experiment and some economic outcomes outside the laboratory.

JEL codes: C91, C93, D81, O12

^{*}Jakiela: University of Maryland, pjakiela@umd.edu; Ozier: Development Economics Research Group, The World Bank, ozier@worldbank.org. We are grateful to Felipe Dunn for excellent research assistance, to the staff at IfA-Kenya for their assistance and support in the field, and to the Volkswagen Center and the Center for Research in Economics and Strategy at Washington University in St. Louis for funding. We also thank Kelly Bishop, Alexander Cappelen, Esther Duflo, Ray Fisman, Georges Genicot, Xavi Gual, Jon Goldberg, Shoukat Kazi, Cynthia Kinnon, Ashley Langer, Karen Levy, Maggie McConnell, Justin McCuey, Ted Miguel, Sushil McKinathan, Alvin Murphy, Carol Sekona, Silvia Pina, Gil Shapiro, Erik Sorensen, Bertil Tungodden, Sergio Urzua, Deon Yang, Andrew Zetlitz, numerous conference and seminar participants, the associate editor, and four anonymous referees for helpful comments. All errors are our own.

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This paper measures the economic impacts of social pressures to share income with kin and neighbors in rural Kenyan villages. We conduct a lab experiment in which we randomly vary the observability of investment returns to test whether subjects reduce their income in order to keep it hidden. We find that women adopt an investment strategy that conceals the size of their initial endowment in the experiment, though that strategy reduces their expected earnings. This effect is largest among women with relatives attending the experiment. Parameter estimates suggest that women anticipate that observable income will be “taxed”

at a rate above four percent; this effective tax rate nearly doubles when kin can observe income directly. At the village level, we find an association between willingness to forgo expected return to keep income hidden in the laboratory experiment and worse economic outcomes outside the laboratory.

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