

Behavioural ignorance or behavioural exploitation?

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EALE Conference



Roadmap

- 1 **Exploitation**
- 2 Ignorance
- 3 Policy implications
- 4 Methodological considerations

Firms can exploit workers' behavioural biases

Workers may have biased beliefs about how they will respond to a contract (due to overconfidence, or lack of sophistication)...

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'A contract is exploitative if the central considerations driving it derive from trying to profit from the agent's mistake (...)'

Koszegi, 2014, Behavioral Contract Theory, JEL

Many potential examples from the gig economy...



... and a striking example from the past



The 'Dop' system: alcohol as a fringe benefit



Firms can exploit workers' behavioural biases

The Dop system is an example of **behavioral exploitation**:

1. Unsophisticated agents with self-control problems enter the Dop contract (wrongly) assuming that they will not get addicted.
2. Addicted workers find it hard to leave the firm and are ready to accept low wages.

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→ **The firm profits because agents assess the contract wrongly.**

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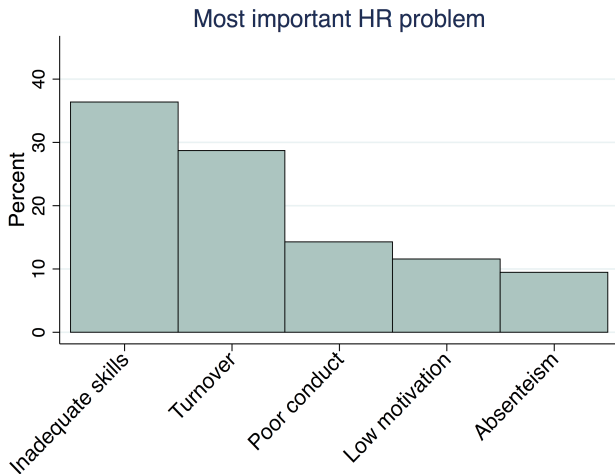
Managers are also often unable to predict worker behaviour. As a result, they may design suboptimal contracts.

An example from my own work in Ethiopia

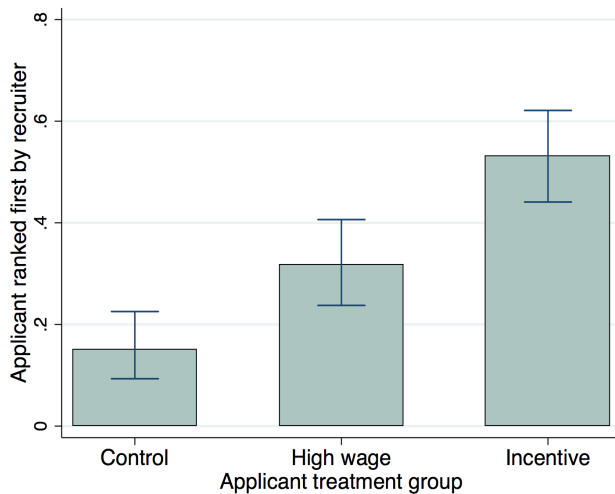
(Abebe, Caria, Ortiz-Ospina 2018)



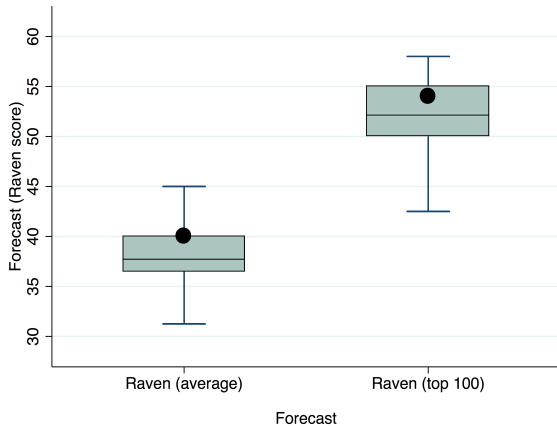
Attracting talented workers is hard for local managers



Application incentives are a cost-effective solution

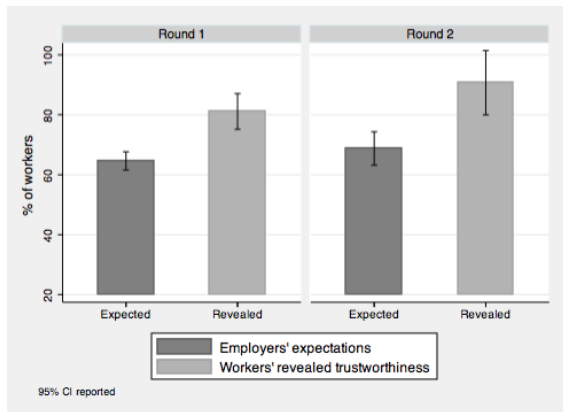


... but managers underestimate their impact



Further evidence on behavioural ignorance from Ghana

(Caria and Falco 2017)



We know very little about when firms are misinformed and when they are informed and exploitative.

This limits policy in two important ways:

- 1 Exploitative practices can be regulated (e.g. the Dop system was abolished after Apartheid);
- 2 Firm misinformation can be corrected in ways that are Pareto improving and ... cheap!

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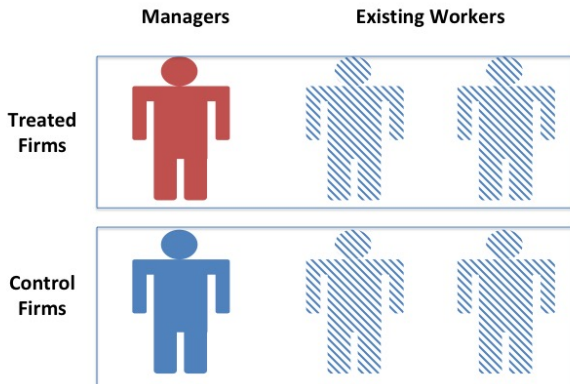
→ Experimental methods will play a key role to develop an understanding of behavioural exploitation and ignorance.

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- 1 Experimental design
- 2 How to provide information?
- 3 How to elicit beliefs?

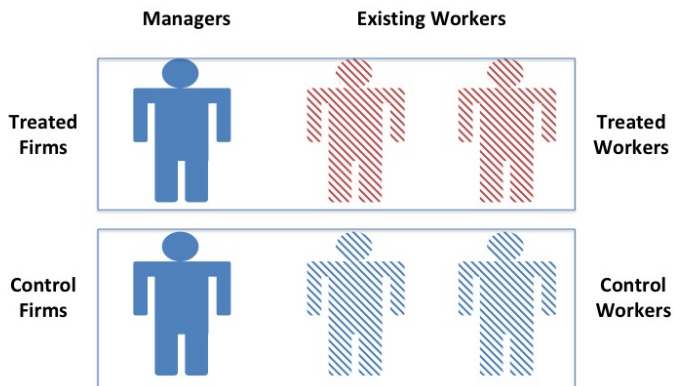
1. Inform firm managers to assess *ignorance*



2a. Inform existing workers to assess *exploitation*

Pro: Simple + High power to study job exit

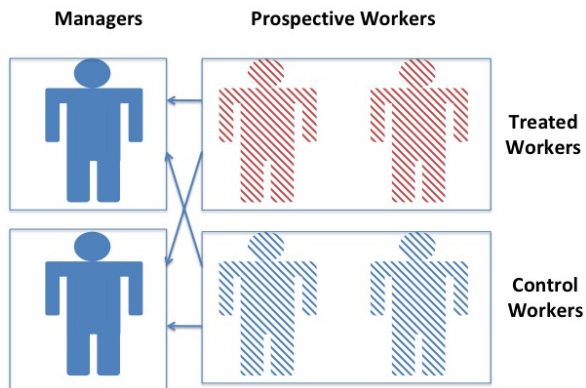
Con: Low power to study job entry



2b. Inform prospective workers to assess *exploitation*

Pro: High power to study job entry

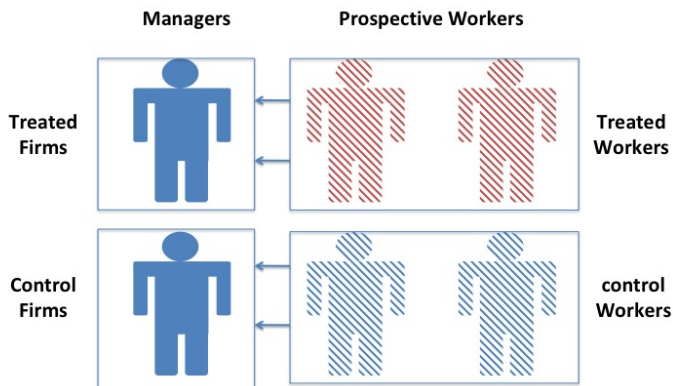
Con: Low power to study job exit + Is SUTVA violated?



2c. Inform prospective workers to assess *exploitation*

Pro: A lot of power to study job entry

Con: Low power for job exit + Control on matching decreases external validity



Where does the information come from?

An older generation of studies (e.g Jensen 2010) used OLS regressions to generate information.

Clearly we need to move beyond that!
(We know OLS estimates are likely to be biased...)

One solution is offered by **two-stage designs**:

- 1 Run an RCT to get unbiased estimate of the effect of interest;
- 2 Provide that information.

The way information is provided matters

People fail to incorporate information if:

- It is not attention capturing (Hanna, Mullainathan, Schwartzstein 2016)
- It contradicts priors (Falk and Zimmerman 2016)
- It threatens self-image (Mobius, Niederle, Niehaus, Rosenblat 2016)

→ We need more research on effective and persuasive ways of providing information!

Eliciting firms' beliefs

- 1 Whose beliefs? (Coibon et al. 2018)
- 2 Incentives? (Gächter and Renner 2010)

Thank you!