

Incentives and Social Preferences in a Traditional Labor Contract: Evidence from Rice Planting Field Experiments in the Philippines

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Abstract

This paper presents evidence on peer effects in the traditional labor contracts. By doing so, we aim at address an important question, whether and how the performance of worker depends on co-worker's behavior and social connection in an agrarian labor contract. Particularly, we investigate the underlying mechanisms of the peer effects by focusing on social preferences. We investigate the case of the Central Luzon of the Philippines where a community-based labor organization headed by a local boss called *kabisilya* has supplied hired labor for rice planting process since the 1970s. Its planting process is characterized by team production in which workers voluntary form groups separately taking responsibility for a given plot. In addition, despite of the possibility of infestation of opportunistic behaviors by workers, a fixed wage scheme has been adopted as a payment system. To elicit the peer effects, we have implemented field experiments targeting two community-based labor organizations that consist of 120 workers during the dry planting season in 2011. We exogenously introduced three distinct labor contracts – fixed wage (FW), individual piece rate (IPR), and group piece rate (GPR). We made group formation process in each incentive schemes either random or self-selection. Laboratory experiments are then utilized to construct measures of social preferences of targeted workers such as altruism, cooperation, propensity of social sanction, and inequality aversion. Our estimation results show the incentive effects – higher productivity level in IPR comparing to other schemes – which implies that the performance in FW and GPR are deteriorated due to moral hazard and free-riding behaviors. However, we find strong evidence on peer effects that the individual productivity level converges to the average group productivity, by which group productivity is improved as a whole. In addition to this conformism, our estimation results indicate the individual and peer's social preference affect worker's behavior. Especially, some common productivity norm can be created along with the intensity of monetary incentives; lower intensity of monetary incentives encourage workers more to behave altruistically and reciprocally, which finally increase their performances.

Keywords: Incentives, social preferences, peer effect, labor contract, field experiment, Philippines

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