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What Norms Trigger Punishment?

by

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WHAT NORMS TRIGGER PUNISHMENT?*

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Abstract

Many experiments have demonstrated the power of norm enforcement - peer monitoring and punishment - to maintain, or even increase, contributions in social dilemma settings, but little is known about the underlying norms that monitors use to make punishment decisions. Using a large sample of experimental data, we empirically recover the set of norms used most often by monitors and show first that the decision to punish should be modeled separately from the decision of how much to punish. Second, we show that absolute norms often fit the data better than the group average norm often assumed in related work. Third, we find that different norms seem to influence the decisions about punishing violators inside and outside one's own group.

JEL Classification: C72, C92, H41.

Keywords: public good, experiment, punishment, social norm, norm enforcement.

1 Introduction

There has recently been a lot of interest in the ability of punishment to regulate behavior in social dilemma settings, but the bulk of this work tends to focus on testing institutional boundaries and few papers examine the causes of punishment.¹ The notable exceptions are the neural studies of de Quervain et al. (2004) and Singer et al. (2006), which indicate that people receive pleasure from punishing norm violators but even these studies do not tell us what triggers punishment. What rule must be violated before someone punishes? And does the same rule determine both the likelihood of intervention and the level of punishment? We work towards answers to these questions by employing more traditional methods. Using

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¹Examples include Masclet et al. (2003), Anderson and Putterman (2005), Cinyabuguma et al. (2006), Carpenter (2007a) and Nikiforakis (2007).

a large sample of contribution and punishment decisions from public goods experiments and a novel econometric specification, we recover both the "norms" used to motivate the decision to punish and those that determine the level of chosen punishment.

The problem with the literature is not that the link between enforcement and some normative trigger has been ignored, but rather that the trigger has been assumed, not inferred. Many researchers assume that the salient triggering norm is the group average contribution to the public good: the more one contributes below (and possibly above) the group average, the more likely one is to be punished and the more punishment one receives. In the theoretical literature, Falkinger (1996, 2006) models tax and transfer policies around the group average that are to be implemented both decentrally and by a central authority.² Ever since its original invocation in Fehr and Gächter (2000), lab studies have routinely used the group average as the reference norm when analyzing experimental data from the voluntary contribution mechanism.³

Another contribution of this paper is the recovery of distinct second-party and third-party norms from our data. *Second party punishment* occurs when one member of a group free rides and the other "ingroup" members punish this person. *Third-party punishment* (Fehr and Fischbacher, 2004; Carpenter and Matthews, 2005) occurs when members of one group punish free riders in other, completely disjoint, groups. While second party punishers benefit in the long run if they can get free riders in their groups to contribute, third-party punishers can typically expect no material benefit to come from their sanctions and given the potential costs of such acts, it is not clear why anyone would intervene.⁴ Although the logic of third-party punishment is not obvious, researchers have determined that it is crucial for the enforcement of social norms - second party punishment is often not enough (Bendor and Swistak, 2001, Carpenter and Matthews, 2002, Fehr and Fischbacher, 2004).

We describe our experiment in the next section and present an overview of the data in Section 3 before reporting on our analysis of the normative triggers for punishment in Section 4. We conclude by briefly organizing our results into three main themes in Section 5.

²The model in Falkinger (2006) is later tested in the lab by Falkinger et al. (2000).

³This work includes Decker et al. (2003), Anderson and Putterman (2005), Ertan et al. (2005), Sefton et al. (2005), Carpenter (2007b), Ones et al. (2007). Exceptions include Kosfeld et al. (2006) who model a "contribute everything" norm and Nikiforakis (2007) and Gächter and Herrmann (2006) who examine the norm of contribute as much as the monitor.

⁴The study of third party punishment has roots in the psychological literature on the "bystander effect" (Latane and Darley, 1970) which was sparked by the murder, witnessed by many neighbors who did nothing, of Kitty Genovese in 1964.

2 A Norm Enforcement Experiment

While our design is based on the standard voluntary contribution mechanism originally used in Isaac et al. (1984), we allow players to freely monitor the decisions made by other players and to punish them at a cost. We recruited a large sample of 276 participants At Middlebury College in 34 experimental sessions. The participants were randomly assigned to 69 four-person groups, with two groups, or eight participants per session. The experiment lasted for ten periods and participants remained in the same group for all ten periods, and both of these features were common knowledge. Participants earned an average of \$16.84 including a \$5 show-up fee and a typical session lasted slightly less than an hour.

There were four treatments: a replication of the standard voluntary contribution game (VCM) which we use as a control on our procedures (14 groups), a replication of previous mutual monitoring experiments (MM) in which players could monitor and punish other members of their group (11 groups), and two *outgroup* treatments in which players could monitor and punish the other players in a session, but they only benefited from their own group's contribution to a public good. In the Two Way treatment (26 groups) players contributed to a public good that only benefitted the four people in the group but they could monitor and punish all eight people in the session including the four people in the other group. The One Way treatment was identical to the Two Way treatment except that only one of the two groups in a session could monitor and punish participants in the other group.

The purpose of having two outgroup treatments was to control for any possibility of reciprocity between the groups as a motivation for punishment. In the Two Way treatment, members of one group might engage in more outgroup punishment if they expect the other group to reciprocate the third-party monitoring (Carpenter and Matthews, 2005). If this occurs and has some impact on the underlying norm that triggers punishment, we want to identify the change and can do so with the One Way treatment. In the One Way treatment, reciprocity is precluded because only one group can punish outgroup and therefore the treatment provides the "cleanest" demonstration of third-party intervention.

The payoff function for the experiment was similar to the mutual monitoring incentive structure (see Carpenter et al., 2006), but we augmented it to account for outgroup punishment. Punishment was costly; players paid one experimental monetary unit (EMU) to reduce the gross earnings of another player by two EMUs.⁵

Imagine n players divided equally into k groups, each of whom can contribute any fraction of their w EMU endowment to a public good, keeping the rest. Say player i in group k free

⁵The instructions referred to "reductions" with no interpretation supplied.

rides at rate $0 < \sigma_i^k < 1$ and contributes $(1 - \sigma_i^k)w$ to the public good, the benefits of which are shared only by members of group k . Each player's contribution is revealed to all the other players in the session, who then can punish any other player at a cost of 1 EMU per sanction. Let s_{ij} be the expenditure on sanctions assigned by player i to player j (we force $s_{ii} = 0$). Then the payoff to player i in group k is:

$$\pi_i^k = [\sigma_i^k + (n/p)m(1 - \sigma_i^k)]w - \sum s_{ij} - 2 \sum s_{ji}$$

where $\sigma^k \equiv (\sum \sigma_i^k) / n$ is the average free riding rate in group k , $\sum s_{ij}$ is player i 's expenditure on sanctions and $2 \sum s_{ji}$ is the reduction in i 's payoff due to the total sanctions received from the rest of the players. The variable m is the marginal per capita return on a contribution to the public good (see Ledyard, 1995). In all sessions m was set to 0.5 and w was set to 25 EMUs.

With $m = 0.5$, the dominant strategy is to free ride on the contributions of the rest of one's group (i.e. $\sigma_i^k = 1$ for all i) because each contributed EMU returns only 0.5 to the contributor. Also notice that if everyone in a four-person group contributes one EMU, they all receive a return of 2 EMUs from the public good. Therefore, these incentives form a social dilemma - group incentives are at odds with individual incentives.

Because sanctions are costly to impose and their benefit cannot be fully internalized (ingroup) or cannot be internalized at all (outgroup) by the punisher, the threat to punish is an incredible one and cannot be part of any subgame perfect equilibrium. Indeed, the only subgame perfect equilibrium of this game is one in which everyone free rides and nobody punishes..

Each session lasted ten periods and each period had three stages which proceeded as follows.⁶ In stage one players contributed any fraction of their 25 EMU endowment in whole EMUs to the public good. The group total contribution was calculated and reported to each player along with his or her gross payoff. Participants were then shown the contribution decisions of all the other players in their group (mutual monitoring) or in the session (outgroup). Players anonymously imposed sanctions by typing the number of EMUs they wished to spend to punish an individual in the textbox below that player's decision. After all players were done distributing sanctions, the experiment moved to stage three where everyone was shown an itemized summary of their net payoff (gross payoff minus punishment dealt minus punishment received) for the period.

⁶Participant instructions are provided in the Appendix.

3 Data Overview

The next section constitutes the core of our analysis in which we estimate the norms used by our participants to regulate their punishment behavior; however, we begin the analysis in the section by providing a brief overview of our punishment and contribution data.

Table 1 lists summary statistics for the experiment by treatment. Mean contributions vary from a low of 10.65 (43% of the endowment) in the VCM replication to 16.14 (65%) in the MM treatment. Consistent with most other mutual monitoring studies (e.g., Fehr and Gächter, 2000 or Masclet et al., 2003), second-party punishment increases contributions significantly ($z = 8.91, p < 0.01$).⁷ We also see that the combination of second-party and third-party punishment also increases contributions. The mean of 12.45 in the One Way treatment represents a significant increase over the VCM ($z = 4.44, p < 0.01$), as does the mean contribution of 15.67 in the Two Way treatment ($z = 10.33, p < 0.01$). Considering only the punishment treatments, it appears that the One Way treatment does not do as well as either the MM or the Two Way treatments at generating contributions (One Way vs MM: $z = 7.44, p < 0.01$; One Way vs. Two Way: $z = 8.28, p < 0.01$).⁸

To get a sense of the dynamics of contributions, Figure 1 plots the time series for each treatment. As is now typical in this literature, punishment tends to stabilize contributions. While Fehr and Gächter (2000) report significant increases, most studies (e.g., Masclet et al., 2003 or Carpenter 2007a) report relatively flat contributions over time. We also see the small dip in contributions at the end of the game that is common in this literature. Consistent with Table 1, the MM and Two Way treatments elicit higher contributions from the start of the experiment. We also see that the One Way treatment only begins to show higher contributions after the fourth round of play and the VCM demonstrates a slow decline from contributions near half the endowment in period 1 to contributions near a quarter in the last round.

It appears, based on the data in Table 1, that the likelihood with which a participant will punish one of her teammates is similar across the three treatments that allow punishment: slightly more than a third of the participants punish. Indeed, none of the three proportions tests yielded significant results. Likewise, the overall punishment expenditures do not appear to be significantly different across treatments. Participants tend to spend an average of about 1.5 EMUs on punishment per round. Of course this average is low because most of the observations are zeros. Conditional on punishment, the average rises to 4.37 EMUs. We find it interesting that players tend to spend the same amount on punishment in each

⁷We report the nonparametric Wilcoxon rank sum statistic.

⁸In an expanded one-shot version of this experiment, Carpenter and Matthews (2005) find contributions to be higher in the One Way treatment than in the Two Way treatment.

of the treatments and that they devote about half of their resources to punishing outside their groups in the outgroup treatments.⁹ At first blush, the fact that people tend to spend about the same amount on punishment might make one think that the contribution norms are independent of the treatments, but as we show in the next section, this is not the case.

4 What Triggers Norm Enforcement?

Four principles informed our recovery of the norms used by participants to guide their punishment decisions. First, because we suspected that for most individuals, the decisions whether or not to punish and how much to punish were not just two sides of the same coin, we concluded that the tobit model and its variants, a common framework in the literature, would be too restrictive. Indeed, one of the novel possibilities we wished to consider was whether these decisions were based on different norms.

Second, we did not assume, as much, if not all, of the empirical literature does, that the relevant norm for either decision is the "own group average." Our motivation, however, was not to marshal evidence in favor of some preferred alternative, but rather to confront the data with a broad, if not exhaustive, set of alternatives, and discover which fits the observed behavior of our subjects best.

Third, because we were also interested in the persistence of norm enforcement, both decisions were also allowed to depend on the extent of norm violation in the previous round.

Last but not least, there is one sense in which our framework is more restrictive than much of the literature: we assume that the likelihood of sanctions and the amount spent on punishment are continuous at their respective norms. In other words, we want to rule out cases in which, for example, the sanctions imposed on someone who contributed a little less than the norm are predicted to be much different than those on someone who contributed a little more. To this end, we used bilinear splines (Poirier 1975) to model both decisions.¹⁰

In retrospect, the four principles seem sensible ones. As we shall soon show, for example, punishment is perhaps best treated as the result of two distinct decisions made under the influence of two distinct norms, neither of which is the own group average.

⁹These punishment results also differ in the Carpenter and Matthews (2005) one-shot environment.

¹⁰Bilinear splines are uncommon in economics - for a recent exception, see Anderson and Meyer (1997) - and we are aware of no other papers in which the specification is used to model an index function.

Our basic econometric framework is:

$$\begin{aligned}
p_{ijt}^* &= \beta_0 + \beta_1 c_{jt} + \beta_2 (c_{jt} - \gamma_t^p)^+ + \beta_3 \bar{c}_{g_{jt-1}} + \beta_4 (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+ \\
&\quad + \beta_5 c_{jt} \bar{c}_{g_{jt-1}} + \beta_6 c_{jt} (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+ + \beta_7 (c_{jt} - \gamma_t^p)^+ \bar{c}_{g_{jt-1}} \\
&\quad + \beta_8 (c_{jt} - \gamma_t^p)^+ (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+ + \mu_i + e_{ijt} \\
v_{ijt}^* &= \alpha_0 + \alpha_1 c_{jt} + \alpha_2 (c_{jt} - \gamma_t^v)^+ + \alpha_3 \bar{c}_{g_{jt-1}} + \alpha_4 (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^v)^+ \\
&\quad + \alpha_5 c_{jt} \bar{c}_{g_{jt-1}} + \alpha_6 c_{jt} (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^v)^+ + \alpha_7 (c_{jt} - \gamma_t^v)^+ \bar{c}_{g_{jt-1}} \\
&\quad + \alpha_8 (c_{jt} - \gamma_t^v)^+ (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^v)^+ + \eta_i + u_{ijt} \\
v_{ijt} &= 1 \text{ if } v_{ijt}^* > 0 \\
p_{ijt} &= p_{ijt}^* v_{ijt}
\end{aligned}$$

where $(a)^+ = \max[a, 0]$, v_{ijt} is an indicator that subject i punished subject j in round t , p_{ijt} is how much i spent to punish j in t , c_{jt} is how much j contributed in t , $\bar{c}_{g_{jt-1}}$ is the mean contribution of j 's group in $t-1$, γ_t^p and γ_t^v are the (to be determined) contribution norms in t , and μ_i and η_i are unobserved individual effects. It assumes that without the information required to follow individual behavior from one round to the next, it is the representative, or mean, contribution of the target group that influences punishment in the current round.

It will prove helpful, for purposes of discussion, to amend Poirier's (1975) classification of "main" and "interaction effects" in bilinear splines. In particular, define the "low current effect" on punishment expenditures to be $\beta_1 + \beta_5 \bar{c}_{g_{jt-1}} + \beta_6 (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+$ - that is, the effect of the target's current contribution on punishment expenditures, conditional on the decision to punish, when this is smaller than the current norm γ_t^p , the value of which varies with past contributions. In a similar vein, define the "high current effect" to be $(\beta_1 + \beta_2) + (\beta_5 + \beta_7) \bar{c}_{g_{jt-1}} + (\beta_6 + \beta_8) (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+$ and, therefore, the "change in the current effect at the norm" to be $\beta_2 + \beta_7 \bar{c}_{g_{jt-1}} + \beta_8 (\bar{c}_{g_{jt-1}} - \gamma_{t-1}^p)^+$. Likewise, call $\beta_3 + \beta_5 c_{jt} + \beta_7 (c_{jt} - \gamma_t^p)^+$ and $(\beta_3 + \beta_4) + (\beta_5 + \beta_6) c_{jt} + (\beta_7 + \beta_8) (c_{jt} - \gamma_t^p)^+$ the "low" and "high past effects," and so on.

Because it is reasonable to suppose that the unobserved sources of variation in norm enforcement will be uncorrelated with the contribution choices of others, μ_i and η_i can be treated as uncorrelated (that is, random) effects. It would be unreasonable to assume *a priori*, however, that the decision to punish is unrelated to the idiosyncratic shock e_{ijt} , that is, to rule out selection effects. We therefore implement a version of the test described in Nijman and Verbeek (1992), one that exploits the panel structure of our data or, to be more precise, the correlation of the punishment indicator across rounds. In particular, if the indicator for the previous round, v_{ijt-1} , is incorporated into the expenditure or level equation, then under the null of no selection effect, its estimated coefficient will be insignificant under

a standard t -test.

There are two unusual, and context-specific, complications to consider, however. First, because subjects could not track one another from one round to the next, it made little (behavioral) sense to match the multiple punishment choices of each subject in the current round p_{ijt} with the indicators for the previous round v_{ijt-1} . The problem is not as serious as first seems, however: since v_{ijt-1} and v_{ikt-1} must themselves be correlated, such matches are not essential. On the other hand, if the modified test is to be persuasive, the results should not be sensitive to the choices of j and k .

Second, because the contribution norm γ_t^p is unknown, the test statistics are also conditional on its definition. With more than a dozen norms under consideration, it is at least possible, then, that the test results will differ across norms, with uncertain implications.

As it turns out, however, our results are quite robust. In particular, there is little evidence of a selection effect, across treatments or norms. In other results available upon request, for example, we report test regressions for the same cases described in Table 5, and the coefficient on the last round indicator is never significant at the 10% level. Furthermore, a comparison with the results in Table 5 indicates that its inclusion has little effect on the other coefficient estimates. We summarize this finding as:

Result 1. In this context, norm enforcement comprises two separate decisions, first, whether or not to punish, and second, if so, how much to punish.

The immediate practical benefit of this result is that it allows the parameters $[\alpha_0, \dots, \alpha_7]$ and $[\beta_0, \dots, \beta_7]$ to be estimated separately. We start with the decision to punish, which we estimate as a random effects probit under each of fourteen norms. The first of these was the fixed or absolute norm $\gamma_t^v = \gamma_{t-1}^v = k$, where k is some integer between 0 and 25 chosen on the basis of a grid search.¹¹ The second, the punisher's own contribution, was the most relative of the norms we considered and, *a priori*, we did not expect either to fit the data all that well. Between these two extremes were twelve norms defined in terms of group behavior, including, of course, the average contribution of group members. But which group? Do ingroup members judge outgroup contributions relative to their own (in)group or to the outgroup or both? Because few experimental studies of norm enforcement concern third party punishment, these questions are seldom asked. But to the extent that social norms require the involvement of third parties, it matters, for example, whether the norms are not just relative, but local (Bendor and Swistak 2001). It is for this reason that we consider not one but three average norms: own group, target group and session.

¹¹With the possible exception of 12.5 - that is, half the endowment - it seemed implausible to us that a fixed and universal (in the sense that its value is known to all) norm would not be a whole number.

Even if norms are defined in terms of central tendency, it is not obvious that the mean is the appropriate measure. Cinyabuguma, Page and Putterman (2006), for example, have coined the phrase "perverse punishment" to describe the ingroup sanctions that are sometimes imposed on those who contribute more than the group average, but consider a situation in which the four members of a group contribute 0, 18, 25 and 25 to the public good. If those who contribute 25 then punish the individual who contributes 18, it is not clear how, even within this framework, the sanctions are perverse. From a broader perspective, if it is the "representative contribution" that determines the norm, then it is at least plausible that individuals measure violations in terms of deviation from the median, not mean. To this end, the next three norms we considered were the own group, target group and session medians.

Sugden's (1984) principle of reciprocity, on the other hand, implies that the search should not be limited to measures of central tendency. To paraphrase, it asserts that each individual ought to contribute at least as much as the minimum of all others in the relevant group, unless she believes that all should contribute some amount less than this. This is, in effect, a conditional version of the Kantian rule, approximated here by a norm that is equal to the *ex post* minimum over all group contributions, where, as before, we consider three (own, target, session) alternative definitions of group. Last, for reasons of both substance and symmetry, we also include models in which it is the maximum contribution that determines the norm.

Table 2 summarizes the full set of norms that we examined. Because it was also presumptuous to insist that the decisions to punish "insiders" and "outsiders" - or, for that matter, outsiders in the one and Two Way treatments - were based on the same norm, we estimated separate models for each of these subsamples and, in each case, with and without the last round.¹² We use a simple metric to establish which norm fits the data best: which specification results in the highest log likelihood?

With this in mind, the first column in Table 3 reports the log likelihoods for all ingroup norms when the decision to punish is estimated as a random effects probit. To our initial surprise, the absolute norm won the "horse race," so easily, in fact, that we shall not devote much attention to the common runner up, the session minimum. (Inasmuch as the difference between "place" and "show" was also substantial, it should also be noted that the session minimum is a relative, but not local, norm, and is consistent with Sugden (1984)). Furthermore, the norm that best fits the data is $\gamma_t^v = \gamma_{t-1}^v = 24$, that is, one that is almost equal to the entire endowment.¹³

¹²We do not, in other words, distinguish between the punishment of insiders in various treatments. It should also be noted that in the case of ingroup punishment, the own and target group norms are the same.

¹³Because of the slight dip in contributions seen in Figure 1, we conducted the entire examination including and excluding the last round of data. This did not seem to make a difference.

The first column of Table 4 contains the estimated coefficients and their standard errors for this norm. If we limit attention to estimates that are significant at the 10 percent level or better, the low current effect on the index variable v_{ijt}^* is $-0.142 + 0.003\bar{c}_{g_jt-1}$, the value of which is negative for all admissible \bar{c}_{g_jt-1} . In other words, when the target's current contribution c_{jt} is less than or equal to 24, the likelihood that she will be sanctioned by another member of her own group decreases as her contribution increases. This does not mean, of course, that expected punishment will also decrease, since it remains to be seen how expenditure on sanctions varies with contribution levels. In addition, the size of this effect is not independent of behavior in the previous round: in groups with a (brief, at least) tradition of generosity, the desire to punish is less sensitive to current contributions, and vice versa.

To appreciate better the sizes of these and other effects in this "doubly nonlinear" specification¹⁴, consider Figure 2, which plots the predicted likelihood of punishment as a function of current and past mean contributions. Its most visible feature is the substantial likelihood that free riders ($c_{jt} = 0$) are punished no matter what happened in the previous round. Even in a group whose members contributed nothing ($\bar{c}_{g_jt-1} = 0$), the likelihood that any one of them will sanction a free rider is almost one in five (18.4 percent). This sort of behavior, it should be noted, is inconsistent with the standard relative norm: no matter how "bad" the actions of members in the past - that is, no matter how low the group's mean contribution level - free riders are still viewed as norm violators.

The second most prominent feature in the region of interest ($c_{jt} \leq 24$) is the rate at which the likelihood of sanctions decreases as the current contributions of insiders increase above zero. When $\bar{c}_{g_jt-1} = 12.5$, for example, the estimated likelihood falls from 39.7 percent when $c_{jt} = 0$ to 9.6 percent when $c_{jt} = 10$, to 0.9 percent when $c_{jt} = 20$. Accepted at face value, these numbers mean that when the representative group member has contributed half of her endowment in the previous round, there is a four in five chance ($1 - (0.603)^3 = 0.78$) that at least one of the other three members of an ingroup will punish someone who contributes 0, a one in four chance (0.26) that someone who contributes 10 will be punished at least once, and about one chance in 40 that someone who contributes 20, which is still less than the norm, will be.

The diagram also suggests that as past mean contribution rises in this region, so, too, does the likelihood of punishment, consistent with the view that "history matters," that the response of ingroup members to a particular contribution decision cannot be understood in isolation. To be specific, consider the case in which the target contributes half her endowment ($c_{jt} = 12.5$) in the current round. The likelihood that another member of the group will

¹⁴The probit is itself nonlinear, of course, but in this case the index function is, too.

sanction this choice is not much different in a group that contributed nothing last round (0.3 percent) than in one that contributed an average of 10 units (3.7 percent) but rises to 18.2 percent in a group that contributed 20 on average. The estimates in Table 4 offer qualified support for this characterization: if attention is once more limited to coefficients that are statistically significant at the 10 percent level or better, the low past effect is $0.051 + 0.003c_{jt} - 0.246(c_{jt} - 24)^+$, which is positive when the current contribution is 17 or less. We would interpret this to mean that "all is forgotten" - that is, the likelihood that sanctions are imposed becomes less sensitive to past behavior - when individuals either become, or remain, generous.

Figure 2 also suggests dramatic changes in behavior "on the other side" of the norm. In particular, it seems that when group members have not been very generous in the previous round, the likelihood that any one of them will punish another who then contributes *all* her endowment in the current round is much greater than it would be if the same target had contributed even a little less than this. To illustrate, when the mean contribution in the previous round is 0 - in other words, when no one contributed - the predicted likelihood of punishment rises from what is, in effect, zero when the target's current contribution is 24, to 34.4 percent when it is 25. If the mean contribution in the last round was 12.5, on the other hand, it rises from 0.3 percent to just 2.8 percent. The results in Table 4 support this characterization: the net change in the current effect is $4.047 - 0.246\bar{c}_{g_jt-1}$ and the high current effect is $3.905 - 0.243\bar{c}_{g_jt-1}$, both of which are positive when $\bar{c}_{g_jt-1} \leq 16$.

If this is "perverse punishment," it is a perversion that is conditioned on past behavior. We would attribute such behavior to the difference in emotions, and the resultant difference in "action tendencies" (Elster, 1998), when the contributions that deviate from a recent tradition of low contributions are either perceived to be virtuous or ostentatious. In other words, someone who contributes more than the historical average is a model of sorts, especially when that average is low, but someone who contributes more than the norm is, in effect, a show off.

The same diagram also reveals what seems to be a difference in the treatment of ingroup members when the mean contribution in the round before is above or below the norm of 24. When $c_{jt} = 12.5$ and $\bar{c}_{g_jt-1} = 24$, for example, the predicted likelihood of punishment is 29.1 percent, but when $\bar{c}_{g_jt-1} = 25$, it increases to 42.7 percent. One could interpret this to mean that those who defect from an "all contribute all" outcome - the mean contribution cannot be 25 unless each member of the group contributes 25 - are treated more harshly than those whose contribution is smaller than some generous historical average. This result should be viewed with some skepticism, however: the change in the past effect at the norm is not significant, so we cannot conclude with confidence that the (still positive) low and

high past effects are different. This said, the fact that so many coefficients are significant at the 1 percent level or better lends some support to the choice of bilinear spline.

To summarize, then, we have:

Result 2. Ingroup punishment is consistent with the existence of an absolute norm and, with the exceptions of those whose contributions are "ostentatious" and, perhaps, those who break "all contribute all" outcomes, the desire to punish diminishes as current contributions rise and past mean contributions fall.

Is the decision to sanction members of *other* groups similar, in qualitative, if not quantitative, terms? We first note that the data in Table 3 seem to support the view that, in both treatments, the behavior of our subjects was consistent with the existence of an absolute norm. There are several *caveats* this time, however. First, the norms in the one (17) and two (12) way treatments are smaller than, and closer, in practice, to the standard relative norms. Second, the differences, however, between the absolute and best of the relative norms are much less sharp: in both treatments, for example, the session median performs almost as well, a reminder that not all relative norms are local. It should be said, however, that the punisher's own group average fits the Two Way data relatively well, too.)

The third and most important caveat, however, is that in neither case does the norm seem to matter as much: as will soon be seen, changes in both current and past effects, while often significant, affect their size, not direction. Consider first the estimates for the absolute norm in the One Way treatment, as reported in the second column of Table 4. With attention restricted to significant coefficients, the low current effect on the index variable v_{ijt}^* is -0.285 , the value of which is not just negative, but independent of the past mean contribution \bar{c}_{g_jt-1} and, therefore, on whether it was above or below the mean. The net change in the current effect at the norm is $0.933 - 0.046\bar{c}_{g_jt-1}$, the value of which is positive for all admissible values of \bar{c}_{g_jt-1} , and the high current effect is $0.648 - 0.046\bar{c}_{g_jt-1}$. Since the null hypothesis that $\alpha_1 + \alpha_2$, the constant term in the last expression, is equal to zero can be rejected at the 5 percent level ($p = 0.04$), the ambiguous sign of the high current effect cannot be dismissed. As a practical matter, however, the question is almost moot.

To understand the reasons for this, consider Figure 3, which depicts the variation in the predicted likelihood that outsiders will be punished in the One Way treatment, based on the complete (that is, significant and otherwise) set of probit coefficients. A comparison of Figures 2 and 3 reveals, first and foremost, much less enthusiasm for norm enforcement across groups than within them, at least in the absence of reciprocity. For no combination of current and past mean contributions, for example, does the predicted likelihood of punishment of outsiders exceed 1 in 12, whereas it is close to 1 in 5 when an insider's current contribution

is close to zero, no matter what was contributed in the last round.

To be more precise, if the target's group average contribution in the last round $\bar{c}_{g_j t-1}$ was 10, the likelihood of punishment is 2.4 percent if she contributes 0 in the current round; 0.009 percent if she contributes 10; 0 (to the fifth decimal place) if she contributes the norm of 17; and 0.5 if she contributes her entire endowment. If, on the other hand, the group average in the last round was 20, these likelihoods are 8.1, 0.01, 0 and 0.07 percent, respectively. In short, whether outgroup members were generous in the last round or not, the likelihood of punishment falls from a low but not trivial level when the current contribution is small, to almost zero very quickly, and remains there, notwithstanding the fact that the high current effect is, under some conditions, positive. When reciprocation is not possible, in other words, the impulse to punish members of other groups is limited, more or less, to free riders.

The results in Table 4 also hint, however, that the "hump" in Figure 3 is an artifact of sorts. The change in the past effect at the norm (that is, the hump) is statistically insignificant, so it is difficult to claim that the low past effect on the index variable, $0.051 + 0.003c_{jt} - 0.246(c_{jt} - 17)^+$, should be much different than the high. This is positive if $c_{jt} \leq 18$ but once more, the restriction does not matter much in practical terms.

There is some temptation to interpret the third column in Table 4, which reports the estimates for the same model under one of the best of the relative norms, the session median, as a robustness check of sorts. Comparisons are difficult, however, because the session median varies from period to period and, more problematic, the interpretation of the past effect coefficients is not the same: the observation that the target's group average was, for example, 2 units less than the session median is less a claim about the level of contributions than their distribution.

This said, the results of such a comparison are mixed. The low current effect, for example, is unambiguously negative, and the change at the norm is significantly positive, as was the case under the absolute norm. There is less doubt about the high positive effect, however, which is equal to $-0.167 + 0.038\bar{c}_{g_j t-1}$, and therefore positive even for relatively low values of $\bar{c}_{g_j t-1}$. Once more, then, the question is, how important is this positive current effect in practice? A tractable answer requires some additional structure, in particular, assumptions about the values of the session medians/norms in each period. Suppose, for example, that the session median in the current and previous rounds are equal and that both, in turn, are equal to the target (outgroup) mean in the previous round, or $\gamma_t^p = \gamma_{t-1}^p = \bar{c}_{g_j t-1}$. The effects of variation in c_{jt} and $\bar{c}_{g_j t-1}$ on the likelihood of punishment are then depicted in Figure 4. Under these conditions, and consistent with the results under the absolute norm, it is the negative low current effect that matters: in practice, "ostentatious contributors" had little to fear from outsiders in the One Way treatment.

We have noted that it is difficult to compare past effects under absolute and relative norms. In this context, for example, the low past effect is the effect of an increase in the outgroup's average contribution in the previous round when this average was less than the session median for the same round, which would happen when outsiders contribute less than insiders or when total (and therefore average) contributions are the same but the contributions of outsiders are skewed left, and so on. For what it's worth, then, this effect is always positive while the high past effect almost always is, from which we conclude that the current contribution of any outsider "looks worse" the more generous her group was in the previous round.

Collecting all of the results for outgroup punishment in the One Way treatment, we have:

Result 3. In the absence of reciprocation, there is less enthusiasm for the imposition of sanctions on outsiders than insiders. The motivation for these sanctions is also different: whether the norm is absolute or relative, the likelihood of punishment falls as their current contributions rise, and rises as their past contributions rise.

This leads naturally to the question, how does the decision to punish outsiders differ in the Two Way treatment, when there are opportunities to engage in group reciprocity? Is the result "one big group" in which ostentatious contributors are pressured to conform? Or is the response of insiders to outsiders independent of such opportunities? The short answer is that the differences are not those of kind, but degree.

To see this, consider Figure 5, a plot of the predicted likelihood that insiders will sanction outsiders in the Two Way treatment when the norm is absolute (12). A comparison with Figure 3, the equivalent diagram for the One Way treatment, reveals some of the same patterns and more, if not much more, enthusiasm for norm enforcement. Recall, for example, that if the past mean contribution of the outgroup is 10, the likelihoods of punishment as the target's current contribution increases from 0 to 10 to 17 (the norm) to 25 are, respectively, 2.4, 0.009, 0 and 0.5 percent. In the Two Way treatment, the comparable likelihoods are 8.3, 0.3, 0.1 and 0.2 percent. In short, free riders are more likely to be sanctioned in the Two Way treatment - the estimated likelihood that no outsider will punish one is 90.7 percent in the One Way treatment but just 70.7 percent in the Two Way - but in both cases, there is a sharp decline in the likelihood of punishment to, in effect, zero, as the target's current contribution increases. The same numbers also reveal a common positive but economically insignificant change at the norm.

The estimates in the fourth column of Table 4 support this characterization of the data. Calculated on the basis of coefficients that are at least statistically significant, the low current

effect, for example, is equal to $-0.432 + 0.03\bar{c}_{g_j t-1}$, the value of which is negative for all $\bar{c}_{g_j t-1} \leq \gamma_{t-1}^p = 12$. The change at the norm is $0.660 - 0.052\bar{c}_{g_j t-1} + 0.056(\bar{c}_{g_j t-1} - 12)^+$, which is positive, and the high positive effect is $0.228 - 0.022\bar{c}_{g_j t-1} + 0.025(\bar{c}_{g_j t-1} - 12)^+$, which is almost always positive.

There are similarities in the past effects, too. In both treatments, for example, the low past effect is positive. In the Two Way case, however, the change at the norm is negative, and the null hypothesis that the high past effect is insignificant cannot be rejected at the 10 percent level.

This does not mean, however, that there are no qualitative treatment differences. Further comparison of Figures 3 and 5 reveals what seems to be a local peak at $(c_{jt} = 0, \bar{c}_{g_j t-1} = 0)$ in the Two Way treatment. The simplest explanation is that when insiders and outsiders are connected via punishment networks, there is less tolerance for low level outcomes in which failure to contribute much in the past becomes the reason not to contribute now. If so, there is at least one sense in which, to invoke an earlier term, reciprocation produces "one big group."

The final column of Table 4, the coefficient estimates under one of the best relative norms, the session median, serves at least two purposes. First, subject to earlier caveats about comparisons of coefficients, the robustness of some, if not all, our claims about behavior in the Two Way treatment can be evaluated. Second, with fewer complications, the estimates can be compared with those obtained for the same norm in the One Way treatment, which allows the robustness of claims about treatment differences to be evaluated.

A comparison of the third and fifth columns, the session median estimates, reveals that, with the exception of the intercept, the estimates are all close in absolute value and significance, consistent with the view, articulated above, that the principal treatment difference is the increased enthusiasm for norm enforcement when reciprocation is possible. Furthermore, as a consequence of the properties of the probit model, this difference in "autonomous enthusiasm" should be most prominent near $(c_{jt} = 0, \bar{c}_{g_j t-1} = 0)$.

The results of the comparison within treatment/across norms are a little more mixed. Both the low current effect and the change at the norm (and, therefore, the high current effect) are significantly negative, for example, in contrast to the situation under the absolute norm, when only the low current effect was unambiguously negative. Once more, however, there is reason to believe that as a practical matter, the difference isn't a meaningful one. Figure 6, like Figure 4, depicts variations in the likelihood of punishment under the assumption that $\gamma_t^p = \gamma_{t-1}^p = \bar{c}_{g_j t-1}$. And, as was the case in the One Way treatment, there is a reasonably sharp decline in the likelihood of punishment as the current contribution rises to what amounts, in practice, to zero.

We consolidate all of these observations in the form of two more results:

Result 4. There is limited evidence that the decision to punish either insiders or outsiders is best explained in terms of the difference between individual and local mean group behavior. There is more evidence that here, too, the relevant norms are absolute or, if relative, then session-wide. Furthermore, there is not much indication that the norms, absolute or relative, are sensitive to the existence of reciprocal punishment networks.

Result 5. There is some, but not much, more enthusiasm for norm enforcement when reciprocation is possible, especially in the case of free riders. Otherwise, punishment patterns are quite similar: the likelihood of sanctions from outside declines with current contributions and, with some caveats, increases a little with past mean contributions.

We noted earlier that the mere fact that punishment is more or less probable does not mean that the expected level of punishment will rise or fall, too. And while it would be a mistake to assume that the level is *all* that matters - as the recent field experiments of Carpenter and Seki (2005) remind us, the act of disapproval itself, even when it imposes no direct costs, can influence behavior - the question of what, conditional on the decision to punish, determines its level is critical.

To this end, we start, as before, with insiders. The first column of Table 5 reports the log likelihoods for each of the same norms for the random effects maximum likelihood estimator. The best absolute norm, for the decision of how much to punish other insiders is 7. Two other features of the data in Table 5 merit attention. First, we were surprised - even more so than we were in the case of the decision to punish - to discover that with the exception of outsiders in the One Way treatment, absolute norms explained the variation in punishment levels as well, and often better, than relative norms. Second, in this case, some of the best relative norms are local: both the own group median and the own contribution, for example, perform quite well. If robust, these results constitute an important, and heretofore unexplored, challenge to the conventional wisdom about norm enforcement: either the norms that explain both the decision to, and level of, punishment are absolute or, if relative, the norms that explain the former evolve within a broader population than those which explain the latter.

The first two columns in Table 6 report full sample estimates for two norms, absolute (9) and own group median. There are some important similarities in the results. Under both norms, for example, the current effects, low and high, are significantly negative. Further,

under neither norm is the change at the "knot" significant: as a statistical matter, the hypothesis that the low and high effects are equal cannot be rejected. It is therefore differences in the likelihood of punishment, rather than differences in the punishment imposed, that determine the treatment of ostentatious contributors within groups.

It is less clear whether the size of the current effect is the same under the two norms. With attention limited to coefficients that are significant at the 10 percent level or better, it is equal to $-0.067\bar{c}_{g_jt-1} + 0.076(\bar{c}_{g_jt-1} - 9)^+$ under the absolute norm and -0.169 under the relative. If $\bar{c}_{g_jt-1} \geq 3$ - that is, if the representative insider was not a "near free rider" in the previous round - punishment seems to be more elastic with respect to current contributions under the absolute norm.

Under the absolute norm, the low and high past effects are $0.456 - 0.067c_{jt}$ and $0.036 + 0.009c_{jt}$, respectively. The past effect will be positive, therefore, whenever the past mean contribution \bar{c}_{g_jt-1} is 9 or more or whenever it is less than 9 and the current contribution is also less than or equal to 7. When $c_{jt} = \bar{c}_{g_jt-1} = 12.5$, for example, a one unit increase in the past mean contribution is associated with a small (0.15) increase in punishment expenditures. This is consistent, in both direction and size, with estimates for the relative norm, in which $dp_{ijt}^*/d\bar{c}_{g_jt-1} = 0.096$ for all values of c_{jt} and \bar{c}_{g_jt-1} . If $c_{jt} > 7$ and $\bar{c}_{g_jt-1} < 9$, on the other hand, the past effect under the absolute norm is negative. Subject to the caveat this implies, we would nevertheless conclude that contributions tend to attract more punishment from insiders when compared to a tradition of generosity.

Result 6. Insiders' decisions about how much to punish one another can (also) be explained in terms of an absolute norm that is equal to about half the endowment. The data are also consistent, however, with local, if not personal, relative norms. In either case, the evidence supports the view that punishment expenditures fall as the target's current contribution rises. The effects of past contributions are more ambiguous but, on the whole, the members of groups with a "tradition of generosity" tend to spend more on punishment, ceteris paribus.

The juxtaposition of the two results on ingroup punishment prompts an important question: if ostentatious contributors are more likely to be punished but, conditional on this, have smaller punishments imposed on them, are they punished more or less *in expectation*? Or in broad terms, do movements in either the likelihood or conditional level of punishment drive its expected value? The answer is contained in Figure 5, which depicts the variation in $\hat{v}_{ijt}^* \hat{p}_{ijt}^*$ as a function of c_{jt} and \bar{c}_{g_jt-1} , where \hat{v}_{ijt}^* and \hat{p}_{ijt}^* are each calculated under the best of their respective absolute norms.

The salient feature of Figure 6 is its resemblance, in qualitative terms, to Figure 2. The

ostentatious contributor effect, for example, is still pronounced. To illustrate, when the mean contribution in the previous round is 5 and j contributes 20 in the current round, i , a member of the same group, will spend, on average, 0.007 (in effect, nothing) on punishment, but if j had contributed 25 instead, i would spend 2.28. With three potential norm enforcers in each group, the difference in j 's expected payoff is $2(3)(2.28) = 13.68$, a substantial amount. There are similarities, too, in the effects on free riders: if j contributes 0 in the current round, i 's expected punishment expenditures are just 0.63 if the mean contribution in the previous round is 5, but 1.50 if the mean contribution was 10 and 2.55 if it was 20. In short, the more generous the group's past, the harder its members are on those who free ride in the current period. To summarize:

Result 7. It is the variation in the likelihood of punishment that drives the variation in the expected value of sanctions imposed on insiders.

The relatively small number of cases of outgroup punishment in the One Way treatment precludes estimation of the full model, so the second column of Table 5 reports the log likelihoods of a stripped down model in which all of the interaction terms have been omitted. The full (but not truncated) sample results are the first instance in which relative norms - in particular, the session mean and median - seem to fit the data better than the best of the absolute norms. Because the absolute norm is not a poor fit, however, and because we have reported results for absolute norms in all other cases, the results, and those for the session median, are included in Table 6.

Table 6 reveals that the low current effect is unambiguously negative under both norms. Furthermore, the change in the current effect at each norm is positive, with one important difference. Under the absolute norm, it is statistically insignificant, and the hypothesis that punishment in this context decreases with the target's current contribution, even when that contribution exceeds $\gamma^p = 23$, cannot be rejected. It is significant, however, under the relative norm, even at the 1 percent level. The question is then whether expenditure on punishment continues to fall, albeit more slowly, or rises when the target's current contribution exceeds the session median. The answer, perhaps, is neither: the null hypothesis that the sum of the coefficients β_1 and β_2 is zero cannot be rejected at the 5% level. The prudent interpretation of the results, then, would hold that the amount spent on punishment is estimated to be more or less constant when the target contributes more than the relative norm. (Such an interpretation could also reconcile the different estimates of the low current effect under the two norms. Under the absolute norm, the fall in punishment is predicted to be $5.05 = 25(0.202)$ as the target's current contribution rises from 0 to 25; if the session median is 12, it is $5.26 = 12(0.438) + 13(0)$ under the relative.)

There is also some evidence that, once committed to the punishment of outsiders, expenditures on sanctions are less sensitive to variation in current contribution than with insiders, at least in the One Way treatment. Recall that for punishment within groups, the common (low and high) current effect under the absolute norm was equal to $-0.684 + 0.009\bar{c}_{gjt-1}$, which exceeds, in absolute value, the common effect (-0.202) here.

In addition, the low past effect is significantly positive under both norms. Further, while the net change at the norm is negative under both, it is only significant under the relative and, unlike the current effect, the hypothesis that the change is smaller (in absolute terms) than the low effect can be rejected at the 1 percent level. Under the absolute norm, then, the smaller the current contribution relative to the mean contribution in the previous round, the more it will be punished. Under the relative, this is true only when the past mean contribution is less than the session median or, to reprise an earlier observation, the outgroup is less generous than the ingroup and/or the distribution of outgroup contributions is skewed right. To combine some of these observations:

Result 8. In the absence of opportunities for reciprocation, the decision about how much punishment to impose on outsiders is best explained in terms of norms that are either relative but not local or absolute. Both specifications predict that the level of punishment will fall, at similar rates, as the target's current contribution rises. Punishment is also predicted to rise with the past mean contribution of the outgroup when that contribution is either small (absolute norm) or smaller than the ingroup's.

Since the likelihood and level of punishment functions have more or less the same "shape," the contours of the expected punishment function are not difficult to infer. We nevertheless construct such a diagram (Figure 7) for the case where both components \hat{v}_{ijt}^* and \hat{p}_{ijt}^* are estimated on the basis of the full coefficient set under their respective absolute norms, in part to facilitate comparisons with the punishment that insiders (Figure 6) and outsiders able to reciprocate (Figure 8) should expect. It is clear from Figure 7, for example, that previous observations about differences in the enthusiasm for norm enforcement within and between groups extend to the expected level of punishment. In the absence of opportunities for reciprocation, for example, there is no combination of current and past mean contribution for which the expected punishment of an outsider is more than one. In contrast, the sanctions imposed on at least two sorts of insiders - ostentatious contributors and free riders - exceed this threshold. To illustrate, someone who free rides when the past mean contribution was 20 should expect each of the (three) other members of her group to spend 2.55 on punishment on average, but each of the four members of the outgroup to spend just 0.67. In sum,

Result 9. In the absence of opportunities for reciprocation, the expected punishment of outsiders exhibits the same qualitative features as the likelihood of their punishment: it declines, for example, with the target's current contribution but is less, *ceteris paribus*, than the punishment imposed on the "equivalent insider."

Unlike the likelihood of punishment, there are dramatic differences in the estimated determinants of how much outsiders are punished in the One and Two Way treatments. The differences do not include the norm itself, however: once more, an absolute norm and the session median fit the data well. (This said, the value of the absolute norm (17) is not an extreme one, and therefore closer to that which describes behavior within groups.) Under the absolute norm, the low current effect is, after substitution:

$$\frac{dp_{ijt}^*}{dc_{jt}} = \begin{cases} -0.659 + 0.044\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} \leq 17 \\ 1.500 - 0.083\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} > 17 \end{cases}$$

the value of which is, as expected, almost everywhere negative. The high current effect, however, is:

$$\frac{dp_{ijt}^*}{dc_{jt}} = \begin{cases} 7.649 - 0.483\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} \leq 17 \\ -3.673 + 0.183\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} > 17 \end{cases}$$

which is almost always positive when \bar{c}_{g_jt-1} is below the norm. Indeed, when the past mean contribution is small, the effect is not just positive, but substantial: if no member of the outgroup contributes in the previous round, for example, punishment is predicted to increase more than 7 units for each unit of current contribution in excess of the norm.

Is this a statistical artifact, or evidence of an ostentatious contributor effect that transcends group boundaries? The estimation results for the relative norm, in the last column of Table 5, provide no more than an imperfect robustness check - few coefficients are significant at even the 10 percent level - but are, on balance, consistent with the existence of conformist pressure. With attention restricted to these few coefficients, the low current effect is 0, and the high current effect is:

$$\frac{dp_{ijt}^*}{dc_{jt}} = \begin{cases} 3.653 - 0.211\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} \leq \gamma_{t-1}^p \\ (3.673 - 0.142\gamma_{t-1}^p) - 0.069\bar{c}_{g_jt-1} & \text{if } \bar{c}_{g_jt-1} > \gamma_{t-1}^p \end{cases}$$

Consistent with predicted behavior under the absolute norm, the effect is positive if, for example, $\bar{c}_{g_jt-1} \leq \min[\gamma_{t-1}^p, 17.3]$ or the contribution of the representative outgroup member's contribution in the previous round is "small" in the double sense that it is less than 17 and the session median. (It will also be positive under another, less intuitive, condition, namely, $\gamma_{t-1}^p < \bar{c}_{g_jt-1} < 53.23 - 2.05\gamma_{t-1}^p$).

There are important treatment differences in the influence of the past effect, too. Under the absolute norm, for example, the low past effect is $0.044c_{jt} - 0.527(c_{jt} - 17)^+$, the value

of which is positive when the target's current contribution exceeds the norm, but generally negative when it exceeds it. And while the relevant coefficients are more difficult to interpret under most relative norms, the basic pattern is similar: when the representative outsider contributes less in the last round than the session median, the past effect is insignificant when the current contribution is also less than the (new) session median - that is, small - but negative when it exceeds the session median.

This is perhaps another manifestation of the ostentatious contributor effect. We know, on the basis of an earlier result, that when an outgroup member deviates from a (one period) tradition of miserliness and contributes "a lot" in the current period, the conditional level of punishment rises with this current contribution. This result tells us, in effect, that it also increases as the mean contribution in the previous round - and thus the difference between current and past behavior - rises.

The estimated high past effect under the absolute norm is:

$$\frac{dp_{ijt}^*}{d\bar{c}_{gjt-1}} = \begin{cases} -0.083c_{jt} & \text{if } c_{jt} \leq 17 \\ -4.522 + 0.183c_{jt} & \text{if } c_{jt} > 17 \end{cases}$$

when only significant coefficients are considered, which implies that once the contributions of outgroup members in the previous round meet some threshold for generosity, the sanctions imposed on *any* particular current contribution tend to diminish with that generosity. Combining many of these results, we have:

Result 10. When reciprocity is possible, the sanctions imposed on outsiders exhibit the "ostentatious contributor effect," decreasing with the target's current contribution until the norm, absolute or relative, is reached, and increasing after that.

As it did with insiders, the calculation of expected punishment levels now involves two forces that work in opposite direction. The difference is that, in this case, it is the level, not the likelihood, of punishment that embodies the pressure to conform. Furthermore, as Figure 9 reveals, the ostentatious contributor effect does not dominate here: expected punishment resembles the likelihood of punishment more than it does the level. In particular, for any past mean contribution, it tends to decrease, sharply, as the target's current contribution rises, and then remain close to zero, a pattern reminiscent of the response to outsiders in the One Way treatment.

There is, however, an important treatment difference in norm enforcement across groups. To illustrate, suppose that $\bar{c}_{gjt-1} = 12.5$. Under the absolute norm, the model predicts that an individual will spend 0.16 to punish a free rider in the outgroup in the One Way

treatment, but almost double that (0.31) in the Two Way. As the current contribution is increased to, for example, 10, the expected punishment levels fall to 0.001 and 0.04. While there is less enthusiasm for norm enforcement here than there is within groups, there is more than there would be in the absence of reciprocation.

Result 11. With or without reciprocation, the expected punishment of outsiders exhibits more or less the same patterns, the most important of which is its sharp decrease as the target's current contribution rises. There is a difference, however: when reciprocation is possible, the level of punishment increases, ceteris paribus.

5 Concluding Remarks

Three overarching themes emerge from our work. First, we find that the decision to sanction someone else is separable from the (conditional) decision about the level of sanctions. In this context, we would conjecture that neurological evidence (de Quervain et al, 2004; Singer et al 2006) that norm enforcement is "pleasurable" concerns the first decision more than the second, but this is a matter for future research. In broader terms, if norm enforcement embodies the "action tendencies" of several different emotions, there is much to learn about their respective roles.

Second, there is, at best, limited evidence that the norm often assumed to drive both decisions - that is, the local or own group average - is responsible for either, a result that, if robust, has serious implications for the interpretation of experimental data on sanctions and rewards. We do not pretend, of course, that our identification of alternative norms is definitive: it would be preferable, of course, to achieve identification through experimental design, and we look forward to learning how other researchers deal with this question.

Third, if, as expected, fewer and smaller sanctions are imposed on the members of other groups, there is also some evidence that the reasons for their imposition differ, too. That is, the punishment inflicted on outsiders is not just a muted version of that sometimes imposed on insiders. To the extent that the adoption of social norms is predicated on third party punishment, the emphasis on second party punishment in the literature seems misplaced.

6 Appendix - Participant Instructions (One Way Treatment)

You have been asked to participate in an experiment. For participating today and being on time you have been paid \$5. You may earn an additional amount of money depending

on your decisions in the experiment. This money will be paid to you, in cash, at the end of the experiment. When you click the BEGIN button you will be asked for some personal information. After everyone enters this information we will start the instructions for the experiment.

Please be patient while others finish entering their personal information. The instructions will begin shortly.

During the experiment we will speak in terms of Experimental Monetary Units (EMUs) instead of Dollars. Your payoffs will be calculated in terms of EMUs and then translated at the end of the experiment into dollars at the following rate: 30 EMUs = 1 Dollar.

In addition to the \$5.00 show-up fee, each participant receives a lump sum payment of 15 EMUs at the beginning of the experiment.

The experiment is divided into 10 different periods. In each period 8 participants are divided into two groups of 4. The composition of the groups will remain the same for the entire experiment. Therefore, in each period your group will consist of the same four participants.

Each period of the experiment has three stages.

Stage One

At the beginning of every period each participant receives a 25 EMU endowment. In Stage One each of you will decide how much of the 25 EMUs to contribute to a group project and how much you want to keep for yourself. You are asked to contribute whole EMU amounts (i.e. a contribution of 5 EMUs is alright, but 3.85 should be rounded up to 4). Your payoff and the payoff of everyone else in your group will be determined by how much each member contributes to the group project and how much each member keeps.

To record your decision, you will type EMU amounts in two text-input boxes, one for the group project labeled GROUP ALLOCATION and one for yourself labeled PRIVATE ALLOCATION. These boxes will be yellow. Once you have made your decision, there will be a green SUBMIT button that will record your decision.

After all the participants have made their decisions, each of you will be informed of your gross earnings for the period.

GROSS EARNINGS

Your Gross Earnings will consist of two parts:

- 1) Earnings from your Private Allocation. You are the only beneficiary of EMUs you keep. More specifically, each EMU you keep increases your earnings by one.
- 2) Earnings from the Group Project. Each member of the group gets the same payoff from the group project regardless of how much he or she contributed. The payoff from the

group project is calculated by multiplying 0.5 times the total EMUs contributed by the members of your group.

Your Gross Earnings can be summarized as follows:

$$1 \times (\text{EMUs you keep}) + 0.5 \times (\text{Total EMUs contributed by your group})$$

Let's discuss three examples.

Example 1: Say each member of your group contributes 15 of their 25 EMUs. In this case, the group total contribution to the project is $4 \times 15 = 60$ EMUs. Each group member earns $0.5 \times 60 = 30$ EMUs from the project. The gross earnings of each member will then be the number of EMUs kept, $25 - 15 = 10$, plus the earnings from the group project, 30 EMUs, for each member. Hence, each member would earn $10 + 30 = 40$ EMUs.

Example 2: Now say everyone in the group contributes 5 EMUs. Here the group total contribution will be 20 and each member will earn $0.5 \times 20 = 10$ EMUs from the group project. This means that the total earnings of each member of the group will be 20 (the number of EMUs kept) plus 10 (earnings from the group project) which equals 30 EMUs.

Example 3: Finally, say three group members contribute all their EMUs and one contributes none. In this case, the group total contribution to the project is $3 \times 25 = 75$ EMUs. Each group member earns $0.5 \times 75 = 37.5$ EMUs from the project. The three members who contributed everything will earn $0 + 37.5 = 37.5$ EMUs and the one member who contributed nothing will earn $25 + 37.5 = 62.5$ EMUs.

Stage Two

In stage two you will be shown the allocation decisions made by all the other participants, and they will see your decision. Also at this stage you will be able to reduce the earnings of other participants, if you want to, and the other participants will be able to reduce your earnings. You will be shown how much each member of your group kept and how much they allocated to the group project. You will also be shown how much each member of the other group kept and how much they contributed to their group project. Your allocation decision will also appear on the screen and will be labeled 'YOU'. Please remember that the composition of your group remains the same during each period and therefore every person in your group during this period will also be in your group next period.

At this point you will decide how much (if at all) you wish to reduce the earnings of the other participants. You reduce someone's earnings by typing the number of EMUs you wish to spend to reduce that person's earnings into the input-text box that appears below that participant's allocation decision.

For each EMU you spend you will reduce the earnings of the other participant by 2 EMUs. You can spend as much of your accumulated earnings as you wish to reduce the

earnings of the other participants.

The two groups participating in this experiment have different opportunities to reduce the earnings of other participants. If you are in Group A you will be able to reduce the earnings of everyone participating in this session. That is, you will be able to reduce the earnings of other members of your group AND you will be able to reduce the earnings of the members of Group B. However, if you are in Group B you will only be able to reduce the earnings of the other participants in your group. The computer will inform you what group you are randomly assigned to when it comes time to make these reduction decisions.

Consider this example: suppose you are in Group A and spend 2 EMUs to reduce the earnings of a participant in the other group, you spend 9 EMUs reducing the earnings of a participant in your group, and you don't spend anything to reduce the earnings of the remaining participants. Your total cost of reductions will be $(2+9+0)$ or 11 EMUs. When you have finished you will click the blue DONE button.

How much a participant's gross earnings are reduced is determined by the total amount spent by all the other participants in the session. If a total of 3 EMUs is, then this person's earnings will be reduced by 6 EMUs. If the other participants spend 4 EMUs in total, the person's earnings would be reduced by 8 EMUs, and so on.

Stage Three

In stage three, you will be shown the total EMUs spent on reductions by each other participant. You will then be able to spend an additional amount of money to reduce the earnings of the other participants, if you choose to do so.

Again, for each EMU you spend you will reduce the earnings of the other participant by 2 EMUs. You can spend as much of your accumulated earnings as you wish to reduce the earnings of each of the other participants. When you have finished click the blue DONE button.

Nobody's earnings will be reduced below zero by the other participants. For example, if your gross earnings were 40 EMUs and the other participants spent 50 EMUs to reduce your earnings, your gross earnings would be reduced to zero and not minus sixty.

Your NET EARNINGS after the third stage will be calculated as follows:

$(\text{Gross Earnings from Stage One}) - (2 \times \text{the Number of EMUs spent on reductions directed towards you}) - (\text{your expenditure on reductions directed at other participants}).$

If you have any questions please raise your hand. Otherwise, click the red FINISHED button when you are done reading.

This is the end of the instructions. Be patient while everyone finishes reading.

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8 Tables and Figures

	VCM	MM	One Way	Two Way
Contribution	10.65, (9.73)	16.14, (8.75)	12.45, (7.81)	15.67, (8.13)
Pr(Punish)	-	0.38	0.36	0.35
Total Punishment Expenditure	-	1.44, (3.41)	1.17, (2.75)	1.91, (8.93)
Ingroup expenditure	-	1.44, (3.41)	0.50, (1.18)	0.79, (2.92)
Outgroup expenditure	-	-	0.67, (1.57)	1.11, (5.10)

Note: mean, (standard deviation).

TABLE 2: Description of the Tested Contribution Norms

	Description
Own Contribution	Contribute at least as much as the monitor.
Own Group	
Average	Contribute at least as much as the monitor's group average.
Median	Contribute at least as much as the monitor's group median.
Minimum	Contribute at least as much as the monitor's group minimum.
Maximum	Contribute at least as much as the monitor's group maximum.
Session	
Average	Contribute at least as much as the session average.
Median	Contribute at least as much as the session median.
Minimum	Contribute at least as much as the session minimum.
Maximum	Contribute at least as much as the session maximum.
Other Group	
Average	Contribute at least as much as the other group's average.
Median	Contribute at least as much as the other group's median.
Minimum	Contribute at least as much as the other group's minimum.
Maximum	Contribute at least as much as the other group's maximum.
Absolute Norm	Contribute at least x where $x \in [0,25]$.

TABLE 3: Log Likelihoods For The Decision To Punish Under Different Norms

	Ingroup Punishment	Outgroup Punishment (One Way)	Outgroup Punishment (Two Way)
Own Contribution	-1409	-119	-551
Own Group			
Average	-1442	-117	-546
Median	-1420	-118	-547
Minimum	-1419	-117	-556
Maximum	-1412	-111	-555
Session			
Average	-1409	-114	-547
Median	-1413	-110	-549
Minimum	-1392	-116	-552
Maximum	-1426	-124	-556
Target Group			
Average		-121	-559
Median		-120	-554
Minimum		-122	-557
Maximum		-122	-552
Absolute Norm	-1373 (24)	-110 (17)	-547 (12)

Note: All models estimated as random effect probits. Norms with one of the three highest log likelihoods are highlighted in bold. (The best performing absolute norm).

TABLE 4: Random Effects Probit Estimates Of The Decision To Punish.

	Sample:	Ingroup	Outgroup	Outgroup	Outgroup
	Norm:	Absolute (24)	Absolute (17)	Session Median	Absolute (12)
Target's Contribution		-0.142 [0.017]***	-0.285 [0.103]***	-0.167 [0.077]**	-0.432 [0.103]***
Lag Target's Group Average		0.051 [0.013]***	0.102 [0.056]*	0.13 [0.050]***	0.013 [0.049]
max(Target's Contribution-Norm, 0)		4.047 [0.509]***	0.933 [0.389]**	-0.21 [0.224]	0.66 [0.246]***
max(Lag Target's Group Average-Norm, 0)		0.414 [0.415]	-0.149 [0.143]	-0.165 [0.084]**	-0.041 [0.069]
Target's Contribution \times Lag Target's Group Average		0.003 [0.001]***	0.011 [0.007]	-0.001 [0.005]	0.03 [0.009]***
Target's Contribution \times max(Lag Target's Group Average-Norm, 0)		-0.011 [0.025]	-0.055 [0.042]	-0.001 [0.012]	-0.031 [0.012]***
Lag Target's Group Average \times max(Target's Contribution-Norm, 0)		-0.246 [0.030]***	-0.046 [0.027]*	0.038 [0.017]**	-0.052 [0.022]**
max(Target's Contribution-Norm, 0) \times max(Lag Target's Group Average-Norm, 0)		-0.021 [0.494]	0.162 [0.132]	-0.026 [0.032]	0.056 [0.025]**
Constant		-0.899 [0.177]***	-2.994 [0.828]***	-3.178 [0.962]***	-1.515 [0.486]***
Observations		4751	1296	1296	3744
Groups		176	36	36	104

Notes: Standard errors in squared brackets. One, two and three stars denote significance at the 10%, 5% and 1% levels.

TABLE 5: Log Likelihoods For The Punishment Expenditure Under Different Norms

	Ingroup Punishment	Outgroup Punishment (One Way)	Outgroup Punishment (Two Way)
Own Contribution	-1416	-83	-553
Own Group			
Average	-1415	-86	-544
Median	-1413	-81	-538
Minimum	-1421	-83	-543
Maximum	-1418	-78	-552
Session			
Average	-1415	-75	-540
Median	-1416	-76	-532
Minimum	-1418	-88	-555
Maximum	-1423	-88	-560
Target Group			
Average		-86	-553
Median		-86	-540
Minimum		-87	-560
Maximum		-88	-559
Absolute Norm	-1409 (7)	-84 (24)	-537 (17)

Note: All models estimated with random effect. Norms with one of the three highest log likelihoods are highlighted in bold. (The best performing absolute norm).

TABLE 6: Random Effects Regression Estimates Of Punishment Expenditures.

	Sample:	Ingroup	Ingroup	Outgroup	Outgroup
	Norm:	Absolute (9)	Own Group Median	Absolute (24)	Session Median
Target's Contribution		0.259 [0.336]	-0.169 [0.061]***	-0.202 [0.122]*	-0.438 [0.103]***
Lag Target's Group Average		0.456 [0.133]***	0.096 [0.033]***	0.600 [0.200]***	0.925 [0.114]***
max(Target's Contribution-Norm, 0)		1.439 [1.910]	0.057 [0.217]	0.643 [1.666]	0.63 [0.220]***
max(Lag Target's Group Average-Norm, 0)		-0.42 [0.157]***	-0.023 [0.190]	-0.489 [2.362]	-1.392 [0.245]***
Target's Contribution × Lag Target's Group Average		-0.067 [0.040]*	0 [0.003]		
Target's Contribution × max(Lag Target's Group Average-Norm, 0)		0.076 [0.043]*	0.002 [0.020]		
Lag Target's Group Average × max(Target's Contribution-Norm, 0)		-0.114 [0.214]	0.01 [0.014]		
max(Target's Contribution-Norm, 0) × max(Lag Target's Group Average-Norm, 0)		0.091 [0.216]	0.048 [0.043]		
Constant		0.156 [1.037]	2.561 [0.545]***	-3.607 [2.221]	-4.759 [1.271]***
Observations		603	603	34	34
Groups		134	134	12	12

Notes: Standard errors in squared brackets. One, two and three stars denote significance at the 10%, 5% and 1% levels.

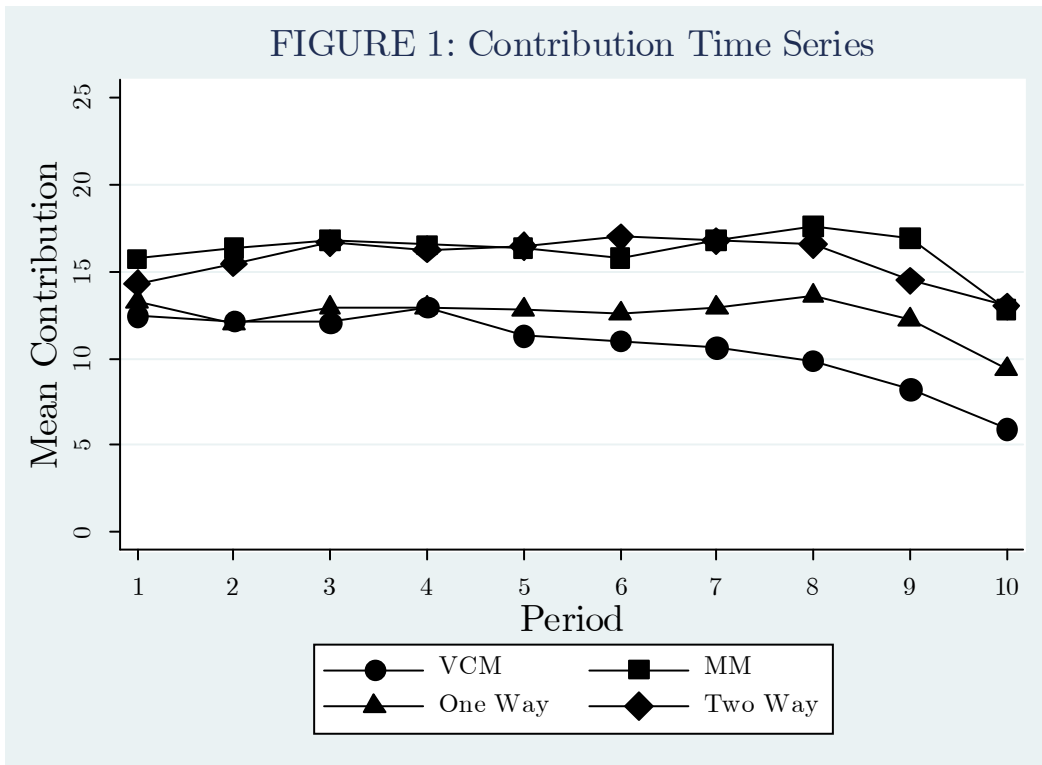


FIGURE 2. Likelihood of Punishment Within Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Absolute Norm

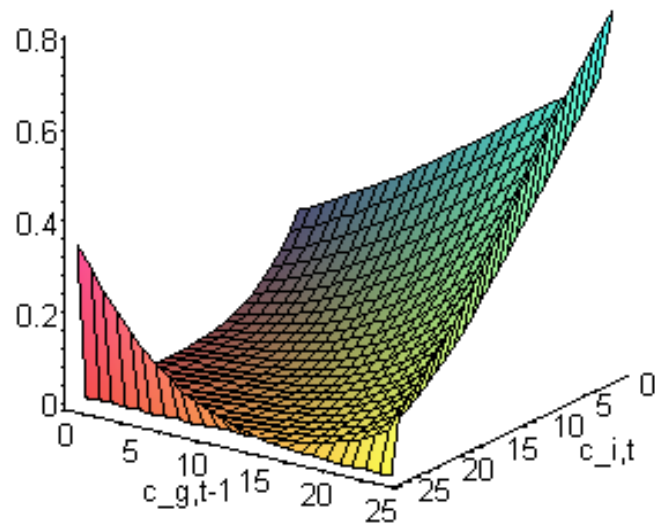


FIGURE 3. Likelihood of Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Absolute Norm When Reciprocation Is Not Possible

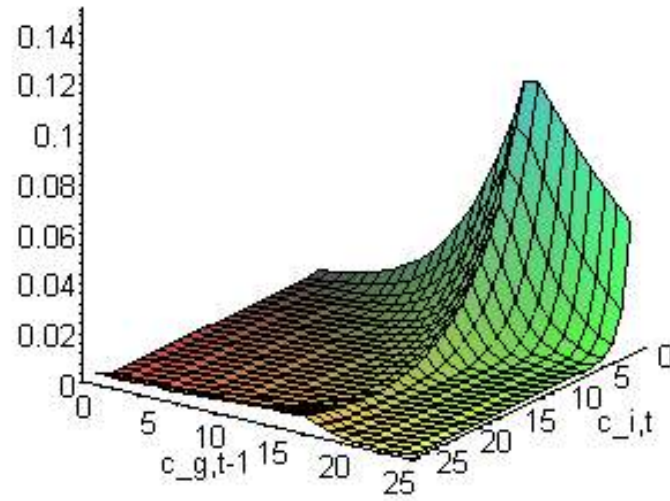


FIGURE 4. Likelihood of Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Relative Norm When Reciprocation Is Not Possible

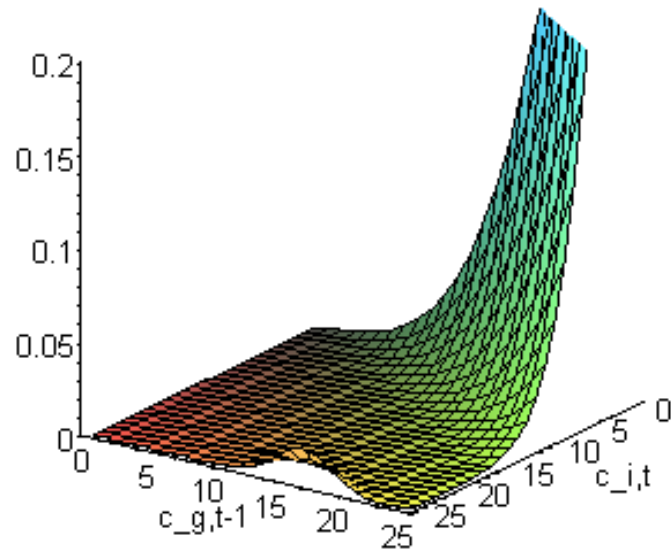


FIGURE 5. Likelihood of Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Absolute Norm When Reciprocation Is Possible

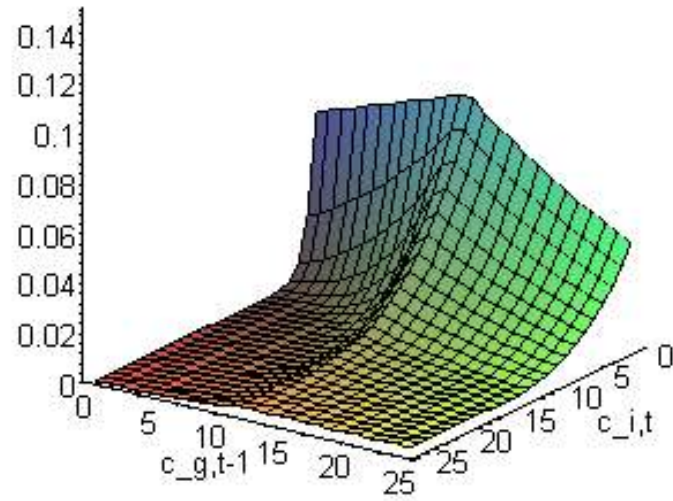


FIGURE 6. Likelihood of Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Relative Norm When Reciprocation Is Possible

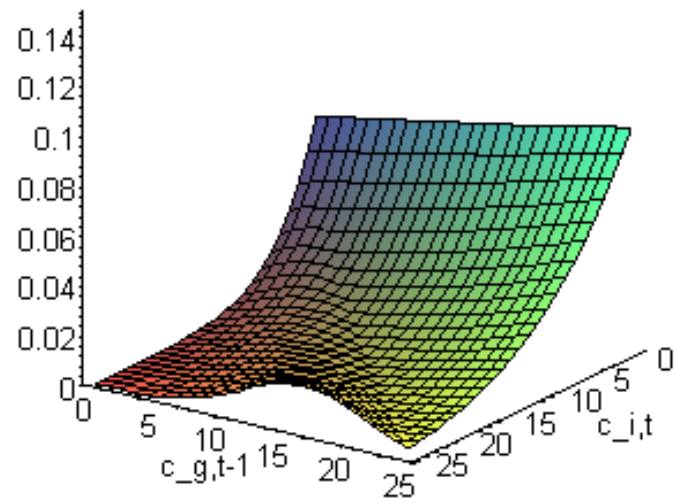


FIGURE 7. Expected Punishment Within Groups

As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions

Under Absolute Norm

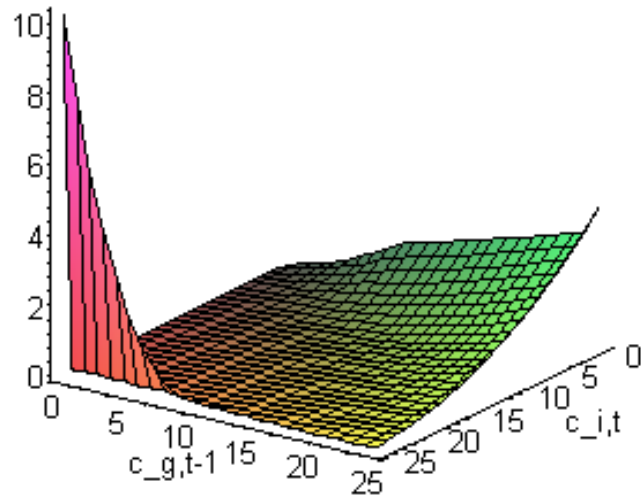


FIGURE 8. Expected Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Absolute Norm When Reciprocation Is Not Possible

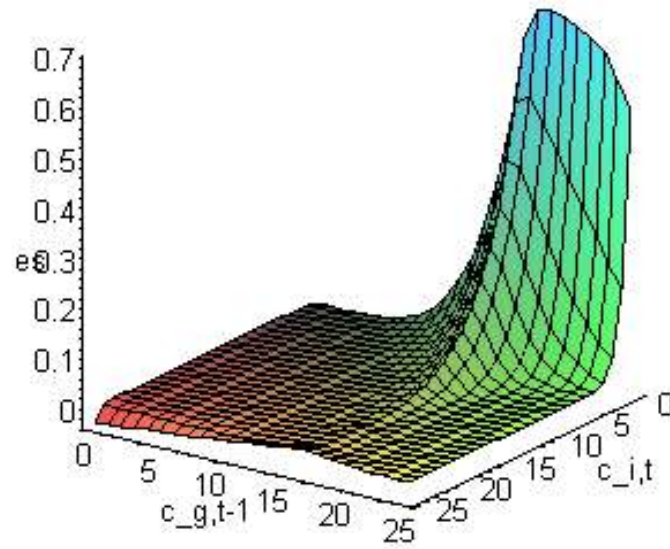


FIGURE 9. Expected Punishment Across Groups
As A Function of Current ($c_{i,t}$) and Past Mean ($c_{g,t-1}$) Contributions
Under Absolute Norm When Reciprocation Is Possible

