How not to punish your neighbour
Microfinance and second-order free riding
in rural China

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Abstract
Purpose – The paper aims to better understand why borrowers do not sanction one another in group-lending microfinance programmes.
Design/methodology/approach – The paper utilises interviews conducted in 16 villages in Western China. The data were complemented by ethnographic fieldwork of an NGO in the region.
Findings – The paper confirms the relevance to microfinance of existing literature showing that punishing others is costly, so people tend to wait for others to do it. It also reveals the existence of particularistic metanorms – norms of sanctioning that focus on whom one can and cannot punish. Additionally, it shows that people may punish according to whether they believe others are punishing.
Research limitations/implications – The results are not immediately generalisable to all group-lending programmes.
Originality/value – Fieldwork in rural China is difficult to conduct. Although cultural and social patterns are known to be important in development work, little is known about how it affects microfinance.
Keywords Microfinance, Culture, Borrowing, Rural China, Particularistic metanorms
Paper type Research paper

Introduction
Since the 1960s, there has been academic interest in collective action (how people cooperate in a group). In particular, the question of when punishment is imposed (and when it is not) remains highly relevant to many fields, including political science, economics, and international relations (Hechter and Opp, 2001). Influential studies indicate that groups create systems that reward cooperation and punish free riding. But there is also the potential “for actors to enjoy the fruits of the sanctioning system without bearing any costs associated with its creation and maintenance” (Heckathorn, 1989, p. 80). This is the second-order free-rider problem: people wait for others to do the punishing, because it is costly. One solution for a group with such members is the emergence of metanorms – norms about enforcing norms. Taking its cues from Axelrod (1986) and Yamagishi (1986), the literature on the second-order free-rider problem in collective action has associated the presence of metanorms with an increase in punishment of behaviours harmful to the group.

But this increase would only make sense in contexts where inflicting sanctions would be considered nobler than choosing not to. What about if/when metanorms lead

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to noncooperation with sanctioning expectations? Recent research has examined descriptive norms (what people perceive others are doing), finding that people tend to do what they believe others are doing, even if it goes against the greater good and indeed their own morality. Do people punish others in the same way they see others punishing (or not punishing)? And, do different types of metanorms exist, some leading to noncooperation? As early as Durkheim (1900), scholars have observed that there are moral rules governing sanctions, and that these rules depend on the meanings conferred on particular actions. Is it possible that not punishing behaviour that is harmful to the group could be considered a moral behaviour?

To address these questions, I analysed the explanations offered by the residents of villages in rural China where a microfinance programme was being conducted, focusing on how they thought about sanctioning others. I employed in situ research (Fine and Fields, 2008) to help fill in the “blind spots” in existing research on metanorms (which has relied on mathematical theory, computer simulations, and experimental methods). The research site was a village that has existed for decades but where the history of the region stretches back millennia. The place, then, has both long-standing and more recently developed norms.

Microfinance usually entails the distribution of tiny loans for the purpose of boosting profit making among the poor. Its innovation of having the borrowers monitor each other and enforce repayment quickly kindled interest among funders and policy makers. If just one person in a group defaults on a microcredit loan, the others all lose access to future loans, and this supposedly provides the lenders a no-cost collateral to ensure high repayment rates: social pressure and group sanctions.

Optimism for microfinance was high from the late 1990s to the mid-2000s. In 2006, the Nobel Peace Prize was awarded jointly to Muhammad Yunus and the Grameen Bank for their work in microcredit. At that time, total assets for microfinance were $22.44 billion (Nelson, 2007), with an estimated 150 million people borrowing through 10,000 microfinance institutions (PlaNet Finance, 2009). However, a few years later, microcredit sectors crashed in Bosnia, Morocco, Nicaragua, and Pakistan. In 2010, a rash of suicides in India were associated with microcredit repayments. Failures in microfinance increasingly continue to surface in places as varied as Zambia, Kyrgyzstan, Bolivia, Peru, Mozambique, and Kenya (Udoh, 2012; Siwale and Ritchie, 2011; CGAP, 2005).

In the sense that it puts ideas about social behaviour to the test, microcredit provides something of a natural laboratory to test theories of collective action (Anthony, 2005). Though not designed for this purpose, the microcredit programme I studied served as a field experiment that began with microlenders and ended with my research efforts: a programme was extended to villagers, the rules of engagement were explained, and observations were recorded and measured. First-order cooperation could be defined as paying back the loan, while second-order cooperation meant maintaining a sanctioning system to prevent other borrowers from defaulting. The loan amounts were so low that it even felt like a field experiment at times; it could almost be a game – if the borrowers were not in such poverty that the money was no laughing matter.

The solution to the second-order free-rider problem: metanorms

The free rider in a group is someone who allows everyone else to bear the costs of producing the public goods. To whip this free rider into shape, a group needs either
a centralized authority (like Hobbes's sovereign) or a sanctioning system in which members reward cooperation and punish free-riding actions (we are dealing here with the latter case). But enforcing norms is costly, even though everyone benefits from the maintenance of the sanctioning system. It takes time to monitor people for wrongdoing, but what is worse – it could annoy a free-riding neighbour (who may return the “favour” later on by not helping you when you need it), establish grudges among friends, or even start feuds among kin. The second-order free-rider, then, is the person who – hoping to avoid these drawbacks – sits back and waits for others to do the punishing, while enjoying the fruits of the sanctioning system (Oliver, 1980)[1].

The main solution to the second-order free-rider problem seems to be the existence of “metanorms,” or norms about sanctioning. If it is perceived as normal and good to punish bad behaviour, people will do it. These metanorms might arise because individuals have an interest in regulating behaviours that have an impact on the group. In other words, they have incentives to sanction (Coleman, 1990; Ostrom et al., 1992; Bendor and Swistek, 2001; Hechter and Opp, 2001, p. xi; Decker et al., 2003; Oliver and Marwell, 1988; Heckathorn, 1990; Ellickson, 1991). There is also evidence that the desire to adhere to metanorms themselves might be sufficient motivation to sanction. Experimental evidence shows that negative emotions (“That makes me so mad!”) trigger people to apply sanctions to free riders, despite the costs to the punisher (Fehr and Gächter, 2002). And we have propensities to be busybodies: people seem to find sanctioning inherently enjoyable, spending costly personal resources to ensure that defectors get their due (de Quervain et al., 2004; Knutson, 2004).

Norms that produce noncooperation

The literature on metanorms assumes that they facilitate the act of punishing harmful behaviour (second-order cooperation). Yet a body of literature on descriptive norms implies that there could be metanorms that produce noncooperation. Descriptive norms are based on what most other people do. In a field experiment about littering, Cialdini et al. (1990) showed that when people know that other people are littering, they litter more. Therefore, when the Department of Transportation in Arizona collected and displayed litter as “Towers of Trash” along the sides of the roads, their method was ineffective. And when visitors were notified upon entering Arizona’s Petrified Forest National Park that “Your heritage is being vandalized every day by theft losses of petrified wood of 14 tons a year, mostly a small piece at a time,” this also produced feeble results, presumably because it told visitors that other people were already taking the wood (thus triggering the perception of descriptive norms), even as it condemned such behaviour (Cialdini et al., 2006).

Why would simply knowing that other people are doing something make it easier to do it, even if you know that it is bad for the group? One reason is that people measure the appropriateness of their behaviour by how far away they are from the norm, and being extra good deviates from the norm just as much as being extra bad (Schultz et al., 2007). A majority of college students overestimate the prevalence of alcohol consumption on campus, and they are therefore likely to drink more, thinking such behaviour is normal. A second reason descriptive norms are so strong is because they promote group identification, which makes it possible even for noncooperative norms to be self-sustaining (Irwin and Simpson, 2013).
This body of research has two implications for our questions asked earlier: why do people ever sanction? And can metanorms actually discourage them from doing it? First, we can assume that one reason they do it is that they think other people are doing so. Second, the research on descriptive norms pushes us to identify a type of metanorm regarding punishment that does not solve the pesky second-order free-rider problem and may exacerbate it.

**Particularistic metanorms**

To understand how particularistic actions can be exercised in Chinese society, I draw upon Madsen’s (1984) study of a southeastern Chinese village, in which he observes that what one ought to do was characterized by a Confucian notion of having “good feeling” in relationships, so propriety was variable, depending on the relationship at hand:

In Confucian tradition, morality was particularistic. One’s moral obligations to others were defined by their positions within one’s network of personal affiliations [...] One’s obligations to immediate family members were more intense than obligations to distant kin (1984, pp. 54-55).

Madsen argues that although the Maoist rhetoric for a “renunciation of self in favour of the collective” enjoyed a season of success and a degree of emotion-laden respect for those ethical ideals, this transformation was only temporary. Villagers became disillusioned by the political episodes and withdrew into a somewhat self-indulgent life focused only on the circle of one’s immediate family. And villagers were obligated to help out their own family members with whatever resources they had – whether material or immaterial. Cadres (village leaders) were expected to leverage their posts for the good of their families, accepting gifts for doing favours and acquiring scarce goods like home-building materials – even appropriating public funds. Because of particularistic norms, what would otherwise be called nepotism or favouritism was admissible.

Understanding particularistic ideas regarding sanctioning requires a recognition that punishment is a complex and substantially moral act – that is, an act based on moral considerations and full of moral implications Durkheim’s ([1900]1992) work on norms regarding punishment focused on various penal codes. He maintained that punishments are cultural constructs that rest on variable definitions of what is moral. For that reason, punishments for the same crimes vary greatly by society. And as moral ideas change, punishments vary within the same society over time. Harmful behaviours are not punished merely because of material injuries; when “sacrilegious” acts are committed, the willingness to punish is much greater.

If we want to examine informal sanctioning systems, then, we must look at the moral understandings underlying any specific social environment. In Chinese villages, perspectives on sanctions are an outgrowth of a distinct view of human relationships, where moral rules vary based on the details of the relationships involved. In the well-known story of the stolen sheep, Confucius was told that in another province, there was a ruler so just and moral that, when his father was caught stealing a sheep, he turned his father into the courts. Confucius was unimpressed and responded that in his own province, a just and moral ruler would lie to the courts and protect his father because that is what he ought to do as a son (*Analects* XIII.18). This was not instruction to say that all sons should break the law for all fathers but rather that justice requires paying attention to the circumstances of a particular relationship and situation
(Cline, 2013). The teaching manifests a particularistic morality rather than one that focuses on rules (legalistic) or the good of the group (utilitarian).

Similarly, who is doing the sanctioning in rural China (as well as who is being sanctioned) is very important. The already established relationship between the wrong one and the one calling "wrong!" means everything. One seemingly sensationalistic episode from the history books relays the case of Cheng Han-cheng’s wife, illustrating how gravely important it is to act within one’s role. In October 1865, Cheng’s wife had the insolence to beat (punish) her mother-in-law. This was regarded as such a heinous crime that Cheng and his wife were both skinned alive in front of the mother. Their skin was displayed at the city gates in various towns, and their bones were burned to ashes. Relatives were beheaded, hanged, and tattooed. Cheng’s land was to be left in waste “forever” (Ta Chi’ing lu-li, Vol. 4:2846, as quoted in Hsu, 1970, pp. 36-37). What was so egregious about Cheng’s wife’s behaviour that it warranted such a ghastly response? She had stepped outside what was considered proper in her role as a daughter-in-law, so the local government stepped into bring the situation into line.

Even today in Chinese society, when someone is considering whether to reward or punish another person’s behaviour, she must first consider her relationship to that other person and determine whether doing so is appropriate (as opposed to whether it is deserved). Acting outside what is appropriate reflects, in the cultural mores of the setting, a fundamental lack of understanding of how to be a human being. It is a social shortfall of the highest order, because it transgresses the classical concept of li (Shun, 1993). Li is the primary way that people act out moral principles, and it consists mainly of having proper relationships between the self and others. To misunderstand li or to disregard it between people is to show a profound and repugnant ignorance. Seemingly small deviations from the prescribed order are still considered important moral transgressions, because each role must be performed fully in order for the whole to function properly. One brick out of place threatens to topple the tower. The immense importance of order in such contexts is crucial and yet difficult to apprehend[2].

Central to li is the fulfillment of roles. Even in the 2000s, rural Chinese regard breaches of role very seriously. For example, one elderly man discovered that there was no egg in his soup while everyone else at the table had one (Wu, 2012, p. 223). The roles of father, father-in-law, and grandfather (and the respect they brought with them) were the core of this man’s identity. When the traditional order was breached (which is happening more as change is accelerating), he felt profoundly disrespected, enough to take his own life. This may initially seem incomprehensible, but it makes sense within the logic of the moral system. To that man, the missing egg meant something very profound. His role was disintegrating, and his life was no longer worth living.

It is not only the rules about who can appropriately punish whom that matter in rural China; the microcredit programme depends upon a certain form of punishment: informal, verbal, nonprivate sanctioning. In the context of these small villages, it is impossible to keep secrets about these things. And this is precisely the type that has held a terribly important place in the daily lives of rural Chinese for centuries. Informal sanctions used to enforce obligations within relationships tend to be carried out by using shame and humiliation on either the target or his family members (Jiang and Lambert, 2009). In the village environment, this shaming causes someone to “lose face,” and this is very serious, even devastating in the most extreme cases. In one of
Zhu's (2000) cases, the verbal shaming of one person caused him to commit suicide by swallowing a bottle of pesticide.

Consider another example from Zhu: one day, Dong Fu mentioned in front of others that Mo Han’s son had stolen his belongings. This act shamed Mo Han deeply, as he felt that it violated the rule of *li* between friends, where things said in public are much different from things said in private. Several years later, Mo Han publicly denounced Dong Fu as a “small man” (*xiaoren*), a term for someone immoral and petty, unworthy of respect. By doing so, Mo Han was inciting fellow villagers to retaliate against him. To make amends, Dong Han was compelled to hold banquets for Mo Han where he publicly apologized for his errors in front of feast guests. So one careless remark had necessitated years of retribution, entailing both loss of reputation and financial resources for the one who committed the misstep. Since losing face in the village is a blow to one’s humanity, people must be deliberate with their words, vigilant about only making someone else lose face when it is intended – and when it won’t violate *li*. This all depends on the relationship at hand. Zhu notes that during the socialist era, people used Maoist rhetoric about the good of the collective as a cover for these kinds of personal vendettas; the main force behind the village campaigns (public meetings where individuals underwent denunciation by other villagers for straying from Maoist ideology) was to enact this kind of retribution using a legitimate means.

When a specific relationship determines whether or not one will sanction another, these could be called “particularistic metanorms.” They would be unlike metanorms characterized by a legalistic focus on rules broken or a utilitarian focus on what is good for the group. The metanorms governing informal sanctioning systems in Chinese villages, then, may not necessarily endorse what would be deemed “cooperation” in the collective-action literature (these tend to be things that benefit the group as a whole, usually materially). In our context, we are talking about individuals who value both propriety and property. To prioritize property over propriety is not something we can automatically expect from them.

**Methods**

Within a larger study microcredit in rural China, I examined the way that people (both borrowers and nonborrowers) in the poor, agricultural region of Yunnan handled verbal sanctions within the many relationships they were part of, including their accompanying roles. I wanted to know whether verbal sanctions were socially costly. I considered familial and village hierarchy as well as borrowers’ relationships with fellow borrowers. Relevant were the layers of new and old relationships; borrowers were tied to each other through the microfinance programme, but they also had previously existing ties (whether close or not) and a deeply entrenched regard for *li*.

My present method is to subject the in-depth interviews I conducted to interpretive analysis with the goal of accessing the “visceral, causally powerful level of ‘practical consciousness’” (Pugh, 2013). I am working to understand the social dimension to individual motivation and to uncover what constitutes “common sense” for my informants. I analyse the interviews for the frameworks through which the informants viewed the world. In this paper, I scrutinize in particular those moments during the interviews when my questions were not sufficient: how did respondents change the framing of my questions to direct me to where they wanted to go?
My research comprised two components: gathering of ethnographic data conducted in repeated visits over the course of three years (working with an international organisation that provided services to the rural poor) and six weeks spent interviewing 100 villagers in 16 villages. Interviews were largely conducted in informants’ homes. Sometimes a villager was alone; others met me in husband-wife pairs or with various family members present. (I myself was always accompanied by an official or at least an employee from the organisation; given the sensitive political environment, where any outsider is scrutinized as a possible threat to the local status quo, I was lucky to be able to speak directly with villagers at all.) Interviews ranged in length from 20 to 90 minutes. Two sets of my standard interview questions were directly pertinent to metanorms, as I explain below.

Villagers who participated in the microcredit programme had been given a loan of 1,000 RMB ($125) for the purpose of profit making. A common use of the loan was to raise piglets, which cost 200 RMB ($25) each. If a villager were to buy four piglets at the beginning of the year for a total of 800 RMB (setting aside the other 200 RMB for pig medicine, supplies, and interest payments) and then raise them for about eight months, the adult pigs could then be sold for 1,100 RMB each, generating about 3,400 RMB ($425) of profit after repaying the loan. The loans could generate a substantial cash flow for the villagers, and the financial incentive existed for the villager to take the loan, generate profit, repay the loan, and then get another loan, because she could generate much more money by doing so ($425 per year) than by defaulting and keeping the loan amount of $125. Therefore, the temptation to default and simply keep the money was diminished by the opportunity to more than double one’s household income.

The crucial catch was that borrowers, even if they repaid, could only receive another loan the following year if everyone else in the village repaid their loans. Therefore, individual borrowers not only had a personal financial incentive to pay their own loans but to make sure that everyone else repaid theirs, too. The microcredit financiers, then, expected free-riding villagers to experience social pressure to repay their own loans from their eager-to-succeed neighbours.

My first set of questions addressing metanorms asked how borrowers were sanctioning other borrowers about loan repayment: when did they do it, how, and to whom? And what was the crux of their decision to sanction or not? Personal financial incentive? Group welfare? II and the proper social order? Second, I asked about sanctioning in the village more generally: what reasons would villagers give for sanctioning or not sanctioning others in a variety of situations? What logic did they employ?

As I asked these questions, I listened especially for evidence of the motivations that financiers were assuming were present: financial incentive and a desire for personal and group advancement. (Sanctioning along these lines would not be punitive but rather more benign, based on a greater good, not revenge.) During the interviewing, I began to get an inkling that the programmes were not operating in quite the way that policy makers expected; it was not matching up to the hype. Later, while I analysed the interviews, my findings agreed with the increasing number of reports that microcredit was faltering and beginning to crumble around the world. I listened closely to ascertain whether or not villagers indicated that defaulting was even a bad thing at all, and if so, if it was considered socially shameful. I noted whether information about one’s defaulting neighbours was easy to come by, and how a person would think about doing the work of convincing or pressuring those free riders.
Findings

Based on my data, I advance two claims:

(1) Villagers indicated the presence of norms about sanctioning that depend on the particular person at hand and the history of one's relationship with that person – what I call particularistic metanorms. These can be contrasted with the utilitarian concept that assumes that any norms about sanctions will benefit the group.

(2) Villagers conveyed a perception of a descriptive metanorm – in other words, they believed that everyone else was following particularistic metanorms, too.

Since villagers thus believed that other villagers only sanctioned within appropriate relationships, their straying from this norm was even more unthinkable.

Recall the field experiment or microfinance "game" situation imagined earlier. In this case, pressuring other borrowers to repay their loans is second-order cooperation. Conversely, not mentioning the topic to these potential defaulters would be second-order free-riding.

As the literature on rural China discussed earlier shows, informal sanctions are a regular part of village life. But I was interested in when the informal sanctions were normally employed. Villagers explained to me that it is only appropriate to sanction (i.e. persuade to do something positive or deter from doing something harmful) kin or close friends. But what if I presented a question of serious consequences? One of the inquiries that elicited the most revealing responses was, "If you knew that someone was going to hurt another person in the village, would you say something to try to stop it?"

The first thing to note is that sanctioning was, indeed, costly in this environment. As I mentioned earlier, with all the years of history between individuals and families, there were ample opportunities for conflicts to arise and for people to be forced to take sides. The situation was like a pieced-together powder keg: people had put lots of effort into arranging relationships and expectations to keep the situation benign – any disruption would need to be deliberately planned and worth the risk. Mrs Lin conveyed this to me:

If I see two people fighting, I won't mediate myself, but I will go tell the village head. It's because it's not easy to say something. If I say that one person is right, then the other person will hate me. I'd rather keep out of it and let the village head take care of it. I want to keep relationships good.

Whereas I had phrased it as knowledge that "someone will hurt someone else," she immediately visualized the situation and reinterpreted it as "two people fighting." She knew that there were always two sides to a story, and she was aware that the two people were likely two with whom she had a carefully cultivated relationship. Her taking one side or another would disrupt the balance. In other words, sanctions here were neither easy nor cheap.

The costliness of verbal sanctions was affirmed by the other informants, but most of them were less articulate about it. For example, Mrs Gu and her sister-in-law, Mrs Huo, informed me that there were some families who did not do their part in the group effort to fix the roads that everyone used: "Nobody talked to them about this besides the village head, who asked them to help two or three times." Similarly, Mr Du told me that
he tries to avoid accusing someone or pointing out wrongdoings to his face because, "If you say something, he’ll be unhappy. I don’t say things directly to his face because if I do, we might fight."

(1) The presence of particularistic metanorms
I spoke with Mr and Mrs Zhou sitting outside of their tiled-roof home. When I asked the question about stopping the person who is going to hurt someone else, Mr Zhou answered by saying, "Sometimes people will listen, sometimes not. If they don’t understand propriety [bu dong li], then they won’t listen, right?" Mr Zhou had not answered my question about what he would do but rather jumped straight to weighing the effectiveness of saying something. This is evidence of the framework through which he views the world. It seemed that he was justifying the certainty that he would not say anything by pointing out that it would not be effective anyway.

Mr Zhou was telling me the way the world works, implying that I was asking the wrong question. It is like if someone would ask me, "If your neighbour gave you a piece of cheese, would you use it to start your car?" My response would be, "Cars are started with car keys." In a similar way, even though I did not ask the right question, Mr Zhou addressed the issue that I had brought up. If someone does not understand li enough to not hurt another inappropriately, the person certainly is not going to listen to a correction from him.

My question had presented an established “good” in the Western literature – heroic intervention. Indeed, in an American context, asking the question would risk the problem of people giving the answer of “Yes, I would step in,” whether or not they would actually do it. In survey research, this would be called the social desirability bias, when people answer in a way they think would be viewed favourably by others. Mr Zhou showed that this bias – for this question at least – could not be presumed in the same way here.

Note that Mr Zhou referenced li, the Confucian concept that describes the outward manifestation of a right understanding of human relations. “Bu dong li” is a common phrase in village life, but it references weighty ideas. It describes someone with a fundamental lack of understanding of what it means to have right relationships, which means he lacks basic understanding of how to be a human being. In essence, Mr Zhou was saying that when he does sanction people, he appeals to them on the basis not of justice but of li, which is all about right relationships – and his decision as to whether or not to sanction someone is also based on li.

How, then, does one distinguish among different relationships and know when it is not appropriate to say certain things? Mr Liu, a 34-year-old man, made a distinction to me between his close friends and others in the village. He answered the same question (whether he would get involved if someone was planning to hurt another) this way: "If I'm good friends with the person who wants to hurt someone else, I'll say something. If I'm not good friends with him, then I won't say anything." In essence, he would sanction those he considered good friends, because it is appropriate to give them his opinion on their actions. Again, it is less about the action and its outcome and more about the relationship to the person doing the action. This reflects two village realities: how important particular relationships are in the village, and how social networks there are based on specific relationships rather than a general principle of preventing harm or a general sense of duty to the group.
Mrs Zhang, a 40-year-old woman in the same village, echoed the same particularistic way of thinking. She answered that whether she prevents someone from being hurt depends on the relationship she has with the hurter. She said:

I'll say something to stop someone from hurting someone else if it's necessary – when I say 'if it's necessary,' I mean that if I know them pretty well, I will say something.

Of course, whether she steps in also depends on her relationship to the victim – certainly, her family would be protected – that was something that went without saying.

Thirty-four-year-old Mr Yang answered similarly, preferring not to breach the boundaries that a particular relationship allows. Later, concerning helping others with problems, he said, “I'll help fix problems if it's my kin or friends. I can't help if I don't know them.” However, in his village of about 100 households (400 people), with most of the families having been there for several generations, it is likely that he knows each person by name and that he has known these people his entire life. When he said that he gets involved only if he “knows” someone, he meant that he only steps in if doing so is appropriate to the relationship.

How the villagers applied these general norms about sanctioning to the “game” at hand – their microcredit programme – was surprising. Every participant in the village had the (first-order) choice of whether to repay the loans or to default. Then, each villager had the (second-order) decision to make about whether to pressure other borrowers to repay their loans so that they could access the next round of loans. I had it on good assurance that in these small villages, everyone knew things like who repaid and who defaulted – monitoring and access to information were not a problem.

One borrower, Mrs Chen, told me that there were two households who did not repay their loans. I asked her whether she had attempted to persuade them to repay, and she said that she had not. Then I asked her why, as their default precluded her own access to future money, not to mention that of the rest of the village:

If I go ask about those two families, they will hate me. They will ask, 'Have you eaten too much, and is that why you are trying to boss me around?' And not only will the two families dislike me, but all the kin of the two families will also hate me. I don't want people to hate me, so I don't ask.

Why would anyone “hate” Mrs Chen for talking to them about the loans? She was referring to the fact that her relationships with those two particular families were not characterized by an easy exchange of gentle reminders or commands. They were not within her authority (as might have been some members of her family), and they were not close enough friends that she could feel as though she could tell them what she thought they ought to do without infringing on their self-respect. This was not a matter of being too little acquainted, which an invitation to tea might fix. It was a matter of the type of relationship they had cultivated over many years; the boundaries were well understood. Overstepping them would be interpreted as a major breach of the routine they had established and likely, as an act of aggression.

In a village where everyone has been born and raised there within families who have been present for at least four generations, people have doubtlessly taken sides with others on particular issues in the past. With every issue, families would necessarily align themselves with some and distance themselves from others. And families have had to stick together. That is why Mrs Chen said that all the kin of the
two families would get involved if she dared breach the boundary. With so much interpersonal and interfamly history, one cannot casually or flippantly chide someone else to repay a loan, even if it is financially advantageous for all.

Looking more closely at the villagers' perception of potential reactions to sanctions further reveals the importance of these particularistic metanorms. Specifically, villagers noted that sanctions are especially costly because they cause people to lose face. Losing face, as Zhu (2000) elucidated, could be much more than a temporary embarrassment. It could in fact be a blow to one’s humanity that might permanently endanger relationships and even cause people to commit suicide. In another township, I spoke with Mr Lu, a 40-year-old man who focused on personal relationships when explaining why people did not want to sanction others about repaying the loans. As we were leaving the village, the staffer accompanying me (someone from the field site who worked for the international organisation mentioned earlier) told me that if one person were to ask another, outside of an appropriate relationship, about repaying the loans, it would be an embarrassing situation for the one being asked, causing that person to lose face: “I wouldn’t want to make that person lose face by my asking about the repayment,” she said.

What is of most interest in her statement is that the shame was not in defaulting, despite the damage to the entire group’s financial welfare. Instead, what would be shameful is to be subjected to sanctioning by an inappropriate party. The anger that the villagers referred to (or the “hate” described by Mrs Chen) is a reaction to the shameful accusation. In the grave case of Cheng Han-cheng’s wife and her presumption, the infringement here would be someone stepping beyond her role. If someone else had said or done the very same words or actions, the case would have been ruled differently. So when informants say someone would be “angry” or “we’d fight” after sanctioning, they are not talking about the sanctioned person defending his right to default on a loan if he wants to. They are talking about that person retaliating against the disrespect that caused him to lose face. The out-of-role shaming would be the bigger sin here.

One loss of face leads to another, as the sanctioner then has to bear the weight of his obvious impertinence. He is judged to be audacious, morally untethered (“Have you eaten too much, and is that why you are trying to boss me around?”), and heedless of proper lines of respect. It is assumed that he does not respect the one he sanctioned, because if he had respected him enough to consider him a person, then – as li requires – he would have treated him in a proper personal manner. Therefore, the sanctioner, not just the sanctioned, loses face for having the bad judgment to put his neighbour in a situation where he must answer for his actions and may be humiliated in the process.

The interview evidence on sanctioning that was gathered outside of the lending programme provides further substantiation of this argument, showing also that sanctioning itself, when within the appropriate relationship, is acceptable.

(2) Perception of a descriptive metanorm
The interviews further convey a sense of a descriptive metanorm – that villagers perceived these norms about when to sanction as being strongly held by other villagers.

In Mr Lu’s village, there was a difference of opinion about the loans. There were some households who defaulted because they were treating the loans as a government handout rather than as an opportunity for business growth. He explained:
There were some people who didn’t feel that they needed to repay a government loan. Of the twenty families who did not repay the money, more than ten families had the money to repay.

Under such circumstances, it would seem the villagers have the incentive to discuss with and convince those planning on defaulting to repay their loans. After all, most of them could afford to pay; they just needed to be convinced of the benefit. However, Mr Lu described a different outcome. The villagers had a long-established “habit” of avoiding sanctioning one another for fear of damaging relationships, and they would not act any differently in the microcredit programme, despite its incentive-driven design:

Some others in the village thought it wasn’t good for those people not to repay, but they wouldn’t say so to their face. They don’t want to endanger their relationship. They try not to say anything negative or critical. It’s a habit of ours. We’re always like that. We don’t say anything critical in order to keep the relationships good. You know in your heart what’s wrong, and that’s good enough.

When Mr Lu said, “We’re always like that,” he was referring to the other villagers, explaining to me how social interaction works in his world. The literature on descriptive norms shows that they are quite powerful; if there is the perception that others are acting based on particularistic metanorms, that in itself will reinforce the pattern.

Note also that Mr Lu spoke in terms of “we” both above and throughout his interview. He explained that people in his village do not easily confront people they knew were planning to default on the loans:

There was one family that didn’t repay […] We didn’t want to have a bad relationship with them, so we didn’t say anything […] In our hearts, we might be unhappy and angry about this, but we wouldn’t show it to the family that didn’t repay.

I focus here on Mr Lu because he was particularly articulate, but others affirmed the things he explained. For example, when I asked Mrs Gu, a 30-year-old woman, about whether those who do help others talk among themselves about those who do not, she said no: “People don’t talk among themselves about it; they just keep it in their hearts.” Importantly, Mrs Gu talked about “people” in general – this is her perception of what is normal to do, what is common sense, what everyone else does.

Conclusion
Despite substantial financial incentives at the individual and group level, none of the informants emphasised these when discussing sanctions. Instead, they focused on the social relationships at hand, and how sanctioning would affect those relationships. Additionally, they spoke about how these understandings were shared without exception among all the other villagers.

My findings elucidate the workings of metanorms in rural China. We see that villagers decided to punish or not to punish loan defaulters depending on the particular person defaulting and the history of their relationship with that person – they were following what I call particularistic metanorms. (These can be contrasted to a more utilitarian concept of metanorms, which assumes that metanorms benefit the group.) We see also that villagers perceive these particularistic metanorms as descriptive (descriptive norms describe what everybody does; descriptive metanorms describe how everyone sanctions or rewards norm behaviour).
These descriptive and particularistic metanorms reinforced a propensity toward noncooperation — even against the tide of tremendous financial benefit. Since villagers knew that other villagers only sanctioned within appropriate relationships, straying from this noncooperative metanorm was even more unthinkable. Thus, in the “accidental field experiment” presented to villagers by the microcredit programme, the two factors of a deep-seated particularistic culture (both historically and morally) and a strong sense of communal agreement on the need for adherence to that culture combined to make cooperation (punishing defaulters) extremely unlikely — undermining the microcredit programme from the start. In other words, the presence of particularistic metanorms actually increased the second-order free-rider problem.

Yet, these second-order free-riders did not see themselves as unethical or uncooperative; they saw their own decisions to abstain from punishing harmful behaviour as moral. Therefore, we cannot assume that metanorms always promote the enforcement of norms or the punishment of harmful behaviour. The findings support Durkheim’s (1900) observation that different societies punish harmful behaviour in different ways, depending on what is considered meaningful in that time and place.

The ethnographic data allow a more detailed view of how second-order free riding works in the real world — particularly the reasoning that people employ when they are making decisions about sanctioning. One departure from the existing literature on norms is that, contrary to neat, implicit dichotomies often presumed to exist, the nature of the noncooperative decisions was neither wholly self-interested nor completely altruistic. Villagers were not throwing away ethical concerns; they were embracing them. However, they were also pursuing their own welfare. It is just that their welfare was based on communal peace and the happiness of others. Going along with established metanorms was something the villagers did to maintain important relationships and to uphold their reputation in the village as someone who understands how to be a human being. They were not only concerned about outcomes (merely listening to some sort of inner moral voice or conscience); they also interpreted outcomes about relationships and reputation according to a moral framework. Therefore, in contrast to the findings of the existing literature, there is no basis for any implicit assumption that people act either self-interestedly (immorally) or altruistically (morally). The two can be intertwined.

For research on collective action, these findings imply that context matters a great deal. Much of the existing research focuses — from a Western scholar’s point of view — on how it is plausible that norms may arise. But ethnographic methods are invaluable for examining how norm enforcement works on the ground.

I should say that these findings urge policy makers not to put these kinds of “games” into the field untested. I called the programme a game, because it fits the kinds of collective-action problems (like the Prisoner’s Dilemma) that researchers often conceive of as games. But microfinance was not a game for these villagers; the stakes were great. Interest on the loans equaled two days’ wages — in a situation where a person may only have a few days’ wages to work with at a time. To neglect assessing a particular social context before implementing an extensive, complicated programme that ties together funders from around the globe with hopeful persons in poverty can lead to a sad and demoralizing failure.

Although this is not the place for a full inquiry into this topic, I surmise that underlying much of the modern modeling of norms is an assumption of individualism
(that individuals make decisions free from social context) and utilitarianism (that what is best for the group will prevail). But my ethnographic data underscore the point that many scholars have made: there are other ways of being rational (Bloch and Parry, 1989). Individualistic, evolutionary, and utilitarian starting points do not work in places where people have a different understanding of what a person is (Shweder and Bourne, 1984). Future research on collective action – to identify other types of metanorms in the real world – would benefit from further use of ethnographic data collected in diverse settings.

Notes

1. Why individuals ever willingly engage in meting out costly punishment is unclear, so researchers have come up with various explanations, including the demonstration of sincerity and the establishment of membership in a group (Centola et al., 2005). Unclear standards for social approval also seem to be a factor: when people are not exactly sure what behaviour will meet with social approval, they will sanction those who do not behave in typical ways (Horne et al., 2009). There are diverging views, however, about how costly it is to apply sanctions. Heckathorn (1989) says that enforcers may not even have to pay the “cost” of cooperation. Examining the phenomenon of hypocrisy, he cites the old American West, where brutal and corrupt men enforced laws while violating the same rules they imposed on others. Even though they personally broke the rules, their enforcement of them eventually facilitated establishment of the norms.

2. Weber was one such scholar who impaired his own analytical power when he failed to grasp the grave consequences of disturbing the proper order of things in his analysis of the structure of domination in Europe and China (Weber, 1951; Hamilton, 1984). A breach of order was a threat to the entire system, and an entire network of people were implicated when one person failed to perform appropriately (Hamilton and Zheng, 1992).

References


**About the author**

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