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## **Effects of Threshold Uncertainty on Common-Pool Resources**

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# Effects of Threshold Uncertainty on Common-Pool Resources

By SARA E ADLER MANDELBAUM\*

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*Many natural resources and common-pool resources have inherent thresholds regarding the onset of deleterious environmental impacts or consequences. Group and individual behavior were examined in an experimental setting using three distinct games designed to model common-pools in which there existed such a threshold: one with complete information of the threshold, one with incomplete information of the threshold and one with sporadically enforced targets. By design the true threshold was unknown to the players in the role of policymaker, and the guesses of the threshold value were allowed to change during every round. Sporadically enforced targets had a significant negative effect on the lifespan of a common-pool resource and individual gains. Allowing the participants to develop and act on their own beliefs for the location of the threshold improved both individual benefit and conservation of the common-pool. Conservation of common-pool resources will be best achieved by policies which allow users of the resource access to reliable information regarding the status of the common-pool and which enable the development of their own beliefs regarding the location of threshold.*

*JEL: C92, H41, P48, Q38*

*Keywords: Common-Pool Resources, Threshold, Unenforced Policies*

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## I. Introduction

Common-pool resources have been a focus of both economic research and governmental policy. The “Tragedy of the Commons” explains that Common-Pool Resources suffer from overuse and degradation (Hardin, 1968). Establishment of effective governmental policies for conservation of Common-Pool Resources are needed as without definitive intervention this diminishment will continue, especially as demands for resources increase with a growing population. The struggle for policy makers to resolve the conflict between resource conservation and the growing current resource needs ultimately results in ever changing policies. This conflict can be observed in policies addressing variety of common-pool resource problems around the globe, like pollution and emission regulations, fishery management, and water resource management. In order to prevent disastrous environmental impacts in those instances policies to limit resource use were created, but when the time comes for the policies to go into effect, due to current resource demands, policies are pushed off or left unenforced. This raises the question, “what is the impact of lack of policy target enforcement on the lifespan of common pool resources?”

This paper addresses Common-Pool Resources in the context of lack of governmental commitment and follow-through, which in turn creates policies and policy targets which are constantly readjusted. In order to prevent the crossing of inherent natural resource and common-pool thresholds and keep deleterious environmental consequences from going into effect, policies which set resource limits/targets are often put into place. However, struggling to commit to the current policy and biased by the present, the targets, limits and policies are readjusted. Analysis of the impact of changing policies/targets on group and individual resource use behavior and the longevity of the common-pool resources has not been thoroughly examined. Through laboratory experiments it is seen that when policy targets go unenforced or are readjusted it leads to shorter Common-Pool Resource lifespans. The finding of this research are critical to addressing environmental and resource management problems and developing long term policies. This paper has broader implications for other government policies and develops a case for policies which promote widespread access to reliable information on the common-pool resource.

Allowing the users of the resource to have access to reliable information regarding the level and status of the common pool resource is optimal for Common-Pool Resource conservation and will be demonstrated in this paper.

This process of repetitive threshold readjustment is something which affects many areas of government. This is the norm for establishing the U.S governmental debt ceiling, and is already happening with Corporate Average Fuel Economy Standards and is likely to be seen with the U.S. greenhouse gas emission regulations (Deb, 2011; Smith, 2011; Horowitz, 1996).<sup>1, 2</sup> The consequences of this policy of repetitive threshold readjustment have not fully been studied. Corrêa, Kahn, and Freitas (2014) examine unenforced fishing management policies. They found that fishing defasos were left completely unenforced in the Brazilian Amazon and that in the absence of enforcement there was an increase in the number of fishers, leading to a decline in fish stocks. “In short, the current policy [unenforced policy] is worse than no policy,” (Corrêa, Kahn, and Freitas, 2014) .

While Corrêa, Kahn, and Freitas (2014) is one of the first to examine the impacts and consequences of unenforced common-pool resource management policy, since the findings and results are from the Brazilian Amazon it is important to combine these results with results from a study which is more general. This will allow conclusions to be drawn which one can then apply not only to the amazon, but to other common-pool resource settings, as well. In other examples, like those mentioned above, a study with field data would not be possible since the only observation is the given case, there is no counter-factual data available. Laboratory experiments offer the cleanest possible approach for identifying treatment effects. A laboratory study which builds on this study and other literature, addressing moving policy targets in a general context would have application for all areas of common-pool resource management. Additionally, laboratory studies are able to create controls and can develop a greater understanding of the driving factors behind common-pool resource depletion and user behavior.<sup>3</sup>

<sup>1</sup>Between 1995 and February 2011 the debt ceiling has been raised 12 times(Deb, 2011).

<sup>2</sup>“The Obama Administration will not meet its September deadline for releasing its 2025 Corporate Average Fuel Economy (CAFE) standards. The new deadline is mid-November of this year [2025]. CAFE is a national effort to increase fleet-wide vehicle fuel-economy averages to 54.5 mpg by 2025.,”Smith (2011).

<sup>3</sup>In Corrêa, Kahn, and Freitas(2014) through survey they were able to determine that with unenforced fishing man-

To understand the impacts of changing threshold policies I conducted a Common-Pool Resource laboratory experiment in which groups of five withdraw tokens from a shared pool with a threshold for punishment, similar to an inherent threshold for environmental consequences. There were three experimental treatments, 1.) Complete Information, 2.) Incomplete Information and 3.) Sporadically Enforced Targets. In complete Information the punishment threshold is revealed to all participants is automatically enforced. In incomplete information the punishment threshold location is unknown to resource users. Sporadically Enforced Targets represents the real-world case in which the conflict between current and future resource use results in changing policy targets. In Sporadically Enforced Targets, guesses of the threshold location are made by a group policy maker and could be enforced before a new policy maker is assigned. The basic game and experiment will be explained in Section 2. Results and a discussion of the experimental findings can be found in Section 4. Conclusion and policy recommendations follow in Section 5.

#### *A. Background*

Water resources present a particularly relevant system for illustrating the interventions of policymakers and the need for a greater understanding of their impacts. As an example, Lake Kinneret provides two-thirds of Israel's water and serves as a source of water for neighboring countries in exchange for peace.<sup>4</sup> In an already tense region, a shortage of Israel's water resources would not only strain diplomatic relationships across borders, but would also place an undue burden on the economy and on human and environmental health (Starr, 1991). Israel withdraws more water than the natural rate of replenishment, creating an annual water deficit of approximately 4,200 million cubic meters (Kislev, 2001). Since water is a basic human right, the price of water is set to near zero. The annual water deficit continues to increase as the demand for water grows and the price of

agement policies in the Amazon the Catch Per Unit Effort (CPUE) had decreased but since the number of fishermen had increased in addition to the decline in fish stock. In a laboratory study one is able to control for resource users and would be able to effectively account for changes in effort or other user behavior attributed to changes in resource stock and changes in the number of resource users.

<sup>4</sup>Lake Kinneret is also known as the Sea of Galilee or Lake Tiberias.

water remains low (Berman and Wihbey, 1999; Plaut, 2000).

Israel's water issues can be thought of as a common-pool resource problem based on three characteristics: (Dasgupta and Heal, 1979; Gardner et al., 1990; Sethi and Somanathan, 1996; Hardin, 1968) 1.) Water can be withdrawn over time and is rival in consumption. The water that an individual demands and subsequently consumes cannot be utilized by any other consumer. Many stakeholders demand water from the Kinneret including but not limited to individuals, agriculture and industry across multiple countries. 2.) The current amount of water which is withdrawn from the Kinneret is suboptimal (Starr, 1991; Amir and Fisher, 2006). 3.) There does exist a more efficient level of water use. To combat the depletion of water, the Israeli government created an invisible threshold, or "red line," in the Kinneret to mark a danger level for the water level.<sup>5</sup> In theory, if the amount of water in the Kinneret drops below this threshold, the government will take action and stop pumping water from the Kinneret to prevent saltwater intrusion and complete depletion of the resource (Feitelson and Fischhendler, 2005).

However, as the water level approaches or drops below the "red line," the government shifts the threshold downward (Parparpov et al., 2013; Plaut, 2000; Feitelson and Fischhendler, 2005).<sup>6</sup> As a result of the decline in water level below the threshold, before or after the threshold adjustment, consumers were not faced with penalties from the government, such as changes in the price of water or a decrease in water availability. However, there are consequences including changes to the ecological system and environment, challenges in changing infrastructure to account for the lower water level, and a non-optimal allocation of resources.

The original threshold was created so that future policymakers would be aware of the water shortage and impending environmental consequences for over-extraction and eventually devise a solution to the challenges of meeting the water demands of Israel and its neighbors in a sustainable manner (Feitelson and Fischhendler, 2005). Since this

<sup>5</sup>The natural threshold is the water level below which the Kinneret would have damaging environmental consequences, such as saltwater intrusion, and water depletion. The red line threshold was created as a warning for the natural threshold. It should not be mistaken for the natural threshold itself.

<sup>6</sup>The status of Kinneret and the red line appear frequently in news headlines in Israel. "Kinneret Drops Under Lower Red Line" from Israel National News is an example of one headline illustrating that the water level in the Kinneret surpassed the Red Line.

threshold was not permanently and irrevocably established, policymakers continue to repeatedly lower the threshold, passing the problem on to future policymakers, each time neither willing to give up consumption today nor to meaningfully address water conservation. The changing “red line” threshold demonstrates the continual conflict that faces the Israeli government as the steward of this water resource. While the government and current policymakers recognize that there is a water problem, there is a trade-off between conserving the resource with the associated costs of limiting consumption today versus the less immediate cost of depleting the resource and its value. This is the situation addressed by Horowitz (1996) with theoretical literature on governmental present biased preferences.<sup>7</sup> Consumers and policymakers may not know the exact point at which the value of the resource drops to nearly zero. They are tasked with balancing the conflict between consumption and conservation and devising a solution before the resource becomes valueless.

While Corrêa, Kahn, and Freitas (2014) is one of the first studies to examine a specific unenforced common-pool resource management policy, examining a specific case of unenforced fishing policy in the Brazilian Amazon, other literature has addressed the impacts of not following through with rules and punishments in other settings (Aschuler, 2000; Bhattacharya and Daouk, 2009; Bloch, 1998; Stormshak et al., 2000). Albert Aschuler (2000) explains in his book that unenforced laws lead people to commit more crimes of various natures. Investigators in the fields of behavioral psychology and education have studied child performance and behavior with various parenting styles. They found that when parents do not enforce the rule and their associated punishments, children exhibit more extreme and disruptive behaviors (Stormshak et al., 2000). For example, not enforcing the rules, continually adding more numbers to count to after “10,” is worse than not having the rules in the first place. This is also supported in studies of crime and unenforced laws. Bloch (1998) compares various methods of automobile speed-control and finds that when the speed limit is unenforced, drivers exceed the

<sup>7</sup>Horowitz (1996) examined pollution emission under both a market and non-market discount rate, finding that a non-market discount rate results in governmental present preferences. This ultimately results in higher levels of pollution. This was purely a theoretical work.

speed limit more than the when the speed limit is enforced. Bhattacharya and Daouk (2009) show, both in a theoretical and empirical framework, when an unenforced law can be worse than having no law at all. They found that this is the case when 1.) motivation for the law is to solve a prisoner's dilemma (if there was no law everyone would be stuck in the bad equilibrium) and 2.) some people will follow the law regardless of it being enforced.

To date no experimental approach regarding common-pool resources has incorporated thresholds or a moving target. This paper addresses this gap in knowledge by identifying the relative effect of continually readjusted targets on the longevity of a common-pool resource through the use of laboratory experiments. Through these experiments I find that natural resources are best managed when policy makers are constantly informing resource users of the level of the common pool while also making them aware that a threshold for consequences exists. I also found that there exist significant detrimental effects on the lifespans of common pool resources when policies and thresholds are not enforced. Unenforced, moving policy targets result in a significantly shorter common pool lifespan.

Past common-pool resource experiments have not examined cases of individual behavior when a threshold exists. There have been other experiments in which individuals evaluate depletion of a common-pool resource when there is some externality associated with the depletion. Plott (1983), Walker and Gardner (1992) and Walker and Gardner (1992) found that individuals tend to ignore the externality. "They find rapid and complete depletion of the resource. In many instances the rates of depletion exceed the Nash-equilibrium prediction," (Andreoni, 1995). Sell and Son (1997) show common-pool resource experiments have similar results to public goods games when there is interaction among the participants. Threshold public goods games have been studied, but only with a fixed threshold (Palfrey and Rosenthal, 1984; Bagnoli M, 1989, 1992). Marks and Croson (1999) examined contributions to threshold public goods under uncertainty and incomplete information. They found that the lack of information had no impact on the provision of the public good. McBride (2006) examined contributions found that when



there is uncertainty with threshold if the public good is low valued the the uncertainty leads to fewer contributions, but in contrast if the public good is high valued uncertainty leads to a greater level of contributions. Some common-pool resource experiments study the effects of uncertainty on withdrawal and depletion. However, these experiments only focus on the size of the pool being unknown (Budescu et al., 1995; Gustafsson et al., 1990). They found that when there is uncertainty in the size of the pool, individuals overestimate the size and withdraw more coins more rapidly. The other uncertainty seen in common-pool resource experiments is uncertainty of the payoff structure Apestegua (2006). They found that individual behavior was not significantly different from the case where the exact payoff structure was revealed and the case where individuals were only told that their payoff would be dependent on the number of coins that they withdrew and the number of coins that others withdrew from the pool. Threshold public goods games with uncertainty study the impact of individuals having no information regarding how others value the public goods, as compared to full information or partial information of their valuations. Punishments have been examined and seen to be an effective tool in both Common-Pool Resource Experiments and Public Goods Games for decreasing withdrawal from the common-pool or increasing contributions to the public good (Fehr and Gächter, 2000; Nikiforakis and Normann, 2008; Ostrom et al., 1992; Wade, 1987). Gächter in his 2007 paper studied the factors which motivate voluntary cooperation through laboratory and field public goods experiments. He was able to eliminate the warm glow effect (Andreoni, 1990) and pure altruism as reasons for voluntary contribution, finding that more than half of the participants voluntary contributions contributors and depended on the contributions of other group members. People contributed more the more others in their group contributed to the public good (Gächter, 2007). Gächter finds that without punishment conditional cooperation unravels (2007). Additional threshold Public Goods Games examined the relationship between fear, trust and individual contributions. Lack of trust and fear that others would not contribute was one of the leading causes for lack of provision or under provision of the public good. (Rapoport, 1967; Dawes et al., 1986; Yamagishi and Sato, 1986; Parks and Hulbert, 1995; DeCremer,

1999).

## II. Experimental Design and Game Play

This experiment looks at how uncertainty with regard to the location of a threshold impacts common-pool resource depletion. The experiment was implemented using z-Tree (Fischbacher, 1997). Sessions lasted close to an hour, including reading through the instructions. Individuals were randomly assigned to a group of five and placed at their own computer terminal. Participants did not know the identities of the other members of their group or those in other groups. Instructions were given to the participants and also read aloud (see Appendix - Instructions). Subjects were informed that they would be interacting with four other people in the laboratory. Participants were able to withdraw up to twenty-five tokens a period from a common-pool that initially had 1000 tokens. After each period, the pool recharged as a function of the remaining tokens in the pool. When the number of tokens dropped below a certain level, the recharge stopped and individuals would be faced with a penalty, the loss of 1/3 of their personal tokens. The game play continued until all withdrawing group members, four individuals, could not withdraw their allotted twenty-five tokens (less than 100 tokens), or for an undisclosed amount of time.<sup>8</sup> The number of periods of game play represents the longevity of the common-pool resource. After completing the experiment, individuals answered a brief questionnaire to reveal a few personal characteristics. They were then paid \$0.025 for each token in their private fund at the conclusion of the experiment. This was calculated so that participants would receive an average of 15 dollars using the recharge function and the results from previous CPR experiments. There were three different treatments in this experiment: 1.) Threshold CPR with Complete Information, 2.) Threshold CPR with Incomplete Information, and 3.) Threshold CPR with Sporadically Enforced Targets.

<sup>8</sup>Time limits were not disclosed to prevent end-game effects and ensure that the experiment did not continue forever. For experimental treatment one and two, the time limit was 35 minutes of play. Experimental treatment three was given 45 minutes of play, an additional 10 minutes to account for the additional actions required by the 5th player.

*A. Treatment 1- Threshold Common-Pool Resource Experiment With Complete Information*

In the first treatment, Threshold CPR with Complete Information, the groups were informed of the location of the threshold, the point where recharge stopped and individuals would lose one-third of their tokens. This game had four group members interacting with each other through computer terminals and withdrawing tokens in each period and a fifth player who sat out of the round. The fifth player role rotated around the group; each player taking a turn sitting out. The fifth player sat out of the round to maintain consistency with the two other experimental treatments in which the fifth player had another role. See Figure 1. This treatment served as a control in which the true threshold and policy target was revealed and would be, without fail, enforced.



FIGURE 1.

Threshold CPR with Complete Information (experimental treatment 1). All players are informed of the true threshold. One player sits out of the round while the other four players make their withdrawal decision. After withdrawal and recharge, they all are informed of the resulting level of the common-pool.

*B. Treatment 2 - Threshold CPR with Incomplete Information*

In the second treatment, Threshold CPR with Incomplete Information, players were not given any information regarding the location of the threshold. They were only informed that the threshold existed. This game had four group members interacting with each other and withdrawing tokens in each period and a fifth player who reveals their beliefs regarding the threshold location to the experimenter which was not shared with

the other group members, but was recorded for analysis.<sup>9</sup> The role of the fifth player rotated each period. Although participants were not given information about the threshold, they were given the size of the common-pool, its initial size and then were updated on its size after withdrawal and recharge at the beginning of each period. See figure 2. This treatment will show the effects of allowing individuals and groups to develop their own beliefs of the threshold on the lifespan of the CPR when compared to the other experimental treatments, Complete Information (the control) and Sporadically Enforced Targets. This treatment will not only serve as a comparison against the other treatments, but its exists will allow for for the development of policy recommendations.

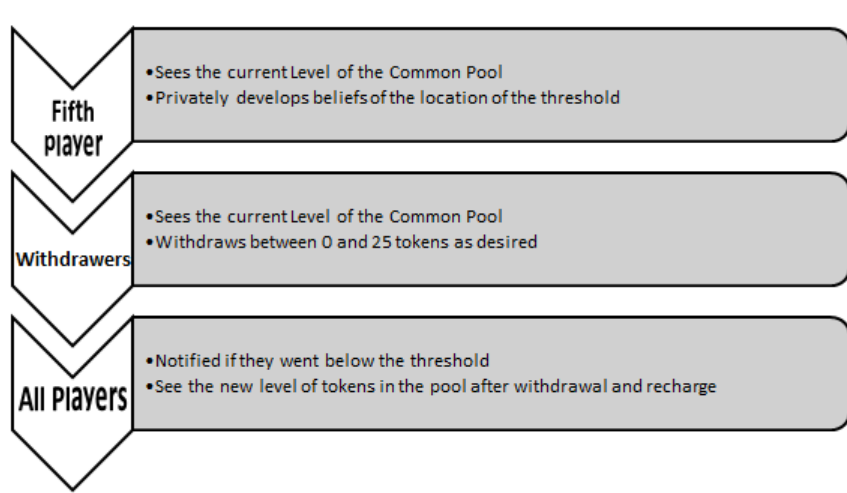


FIGURE 2.

Incomplete Information (experimental treatment2). The fifth player develops beliefs as to the location of the threshold while the four withdrawing players are deciding how many tokens to remove from the common pool. Then, all players see the level of the common pool after withdrawal and recharge.

*C. Treatment 3- Threshold CPR with Sporadically Enforced Targets*

The third and final treatment, Threshold CPR with Sporadically Enforced Targets, was meant to model a moving threshold policy, as seen in the real world case in Israel. In this game the fifth member of the group played the role of the policymaker. This role rotated

<sup>9</sup>Guesses of the threshold were restricted to be between the current size of the pool and 0.

among the group members and was reassigned every period. At the beginning of each period the new policymaker announced to the other players via the software program their guess of the threshold. The other four members then withdrew tokens as in the other two experimental treatments. After withdrawal and recharge, the policymaker was informed of the level of the common-pool, reminded of their guess of the location of the threshold, and then given an option of enforcing their guess. The policymaker could pay 100 tokens to the common-pool to enforce their threshold and inflict a punishment on all the players. The punishment was a loss of 50 tokens from the private funds of the four withdrawing players. See figure 3. This treatment represents a changing policy target and unenforced polices which are faced in real world common-pool resource situations, as illustrated in the Introduction.

#### *D. Rationale*

Since enforcing this punishment is costly and the role of policymaker will move to another player next period, the announced target or guess of the threshold will move and the policymaker may choose to pass the responsibility of enforcement to policymakers in future rounds. Alternatively, one could enforce the predicted threshold or target to prevent individuals from withdrawing too many tokens, which otherwise could result in ending the game more quickly and a large loss of personal tokens. If the punishment is enacted, then the public good is increased. Treatment three was designed to closely match moving policy targets resulting from the conflict between future resource use and bias for the present, as illustrated in the example of the the moving punishment threshold (“red line”) in Israel’s main body of water. The rotating role of the policymaker and the existence of a cost to punish and enforce the estimated threshold represents the conflict for the policymaker of conservation, facing a cost today, versus uncontrolled consumption. Just as in the real world case, the policymaker has the option to do nothing and pass the responsibility off onto the next policymaker, which would not address over-consumption and jeopardize the life of the common-pool. Alternatively, the policymaker may act, paying a personal penalty to enforce warning thresholds and punishments for

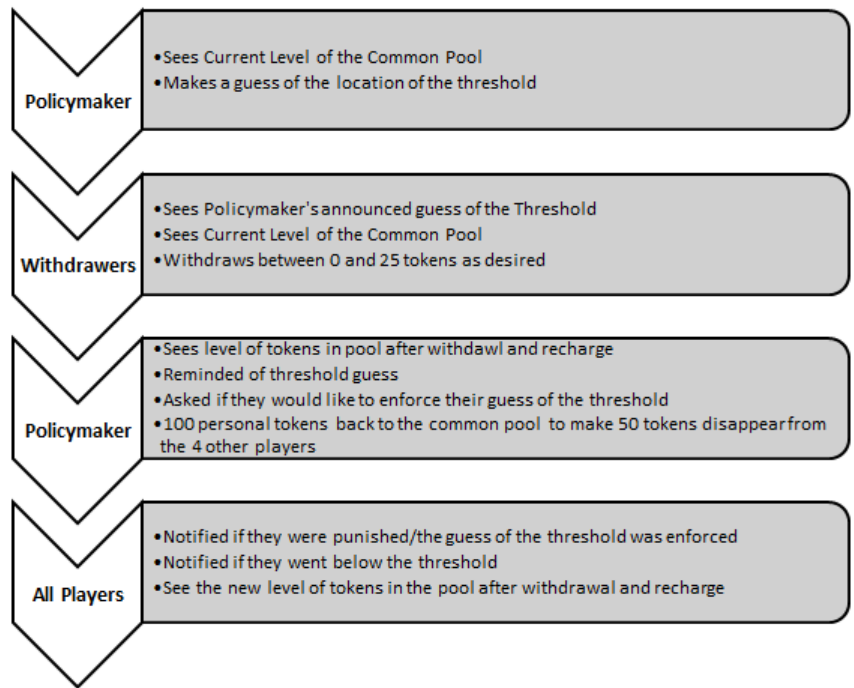


FIGURE 3.

Sporadically Enforced Targets (experimental treatment 3). The fifth player, the policymaker, makes an announced guess of the threshold. The four with drawing players see the current level of the common pool and withdraw their desired tokens. The policymaker can then enforce their guess of the threshold. After the policymaker makes their enforcement decision all players see the level of the common pool after withdrawal, token contribution and recharge and they are notified it they were punished by the policymaker or if they went below the threshold.

protection of the common-pool.<sup>10</sup>

### III. Hypothesis

The three experimental treatments present various options to enable an evaluation of the use and consequences of thresholds in the setting of a common-pool resource. The expected result is that being given information which is constantly changing and unenforced, like the “red line” in the Kinneret in Israel, (Threshold CPR with Sporadically Enforced Targets), will result in the resource being depleted more quickly than the cases

<sup>10</sup>There are other reasons why a participant in the role of the policy maker would choose to not enforce thier guess, but either way the result is the same. The target or announced guess of the threhsold changes with each policy maker and if the target goes unenforced it will appear like the moving “red line” and other unenforced and constantly readjusting common pool resouce management policies.

for which there is either no announced threshold (Threshold CPR with Incomplete Information) or a threshold that is announced (Threshold CPR with Complete Information).

#### IV. Results and Discussion

The experiment was conducted at the University of California, Santa Barbara's Experimental and Behavioral Economics Laboratory. There were 180 participants from the University of California, Santa Barbara's undergraduate population. There were 12 groups in each experimental treatment, each consisting of 5 members. Average earnings were approximately \$15, including a \$5 show-up fee.

The results sections is divided into four sections. I begin by discussing the *Lifespan of the Common-Pool Resource* across the three different experimental treatment groups. I then support my findings by examining the *Total Token Withdrawl From the Common-Pool Resource*. Next, I discuss the *Over Withdrawl and Depletion* of the Common-Pool.. Finally, in *Pre-Threshold and Post-Threshold Behavior* individuals withdrawl behavior before the is crossed is compared to their post-threshold behavior. There are four major results:

- *Result. Sporadically Enforced Targets, when non-credibly enforced, result in a significantly shorter common-pool lifespan. Common-Pool Resource Lifespans increase by providing individuals with reliable information (their own beliefs or given information) about the current size of the resource and the location of the threshold.*
- *Result. A greater number of tokens is indicative of a greater number of periods of game play.*
- *Result. Sporadically Enforced Targets results in a significantly fewer number of individual tokens upon the completion of the game, when compared to both Complete and Incomplete Information. Not only do individual earnings increase by providing individuals with reliable information (given information or their own beliefs) about the current size of the resource and the location of the threshold but, Common-Pool Resource lifespans increases as well.*
- *Result. The majority, 77.8%, of groups withdrew tokens in excess of the optimal strategy. Over-withdrawal resulted in 33 of 36 groups depleting the Common-Pool Resource.*

### A. *Lifespan of the Common-Pool Resource*

In this model of games, extending the number of rounds played serves as a measure of conservation of the common-pool resource. Table 1 displays the number of periods that the game lasted, the longevity of the common-pool. In all three experimental treatments there was one group which was considered sustainable.<sup>11</sup> The sustainable groups were withdrawing close to the optimal amount of tokens, an average of 57 total tokens or less.<sup>12, 13</sup> This resulted in the common-pool remaining in the 900-1000 token range for the majority of the game, removing a few tokens each round and then getting recharged, with very little downwards motion. Continuation of this process by these groups would allow play to continue indefinitely, creating a sustainable resource.

The average number of periods of play, including only the non-sustainable groups, was 51, 45.6 and 29.9 for treatments one, two and three respectively. The time paths of the common-pools for the three treatments is presented in figures 4 - 6.

Since the variable of interest, the number of periods until depletion, is at the group level, counting this event results in a very small number of observations, yielding only twelve observations in each experimental treatment ranging from values of fourteen to 200 as well as three sustainable groups. Therefore the data was sorted into bins for further evaluation, which limits the effect of variation in the data. The bins were determined by quartiles. The data was recoded as 1 if it fell in the first quartile and 2 if it fell in the second quartile, and so on. The sustainable groups, however, were collected into a fifth bin and recoded as a 5, to distinguish them from the groups which depleted the resource.

After putting the data into bins, Mood's median tests were performed to test hypotheses that the treatment samples were drawn from populations with equal medians.<sup>14, 15</sup> First,

<sup>11</sup>The sustainable groups are denoted with an asterisk (\*) in Table 1.

<sup>12</sup>The Social Planner Optimal Strategy is alternating between withdrawing 58 tokens and 55 tokens, averaging 57 tokens throughout the game.

<sup>13</sup>The optimal number of tokens was calculated using the recharge function. This is the greatest amount of tokens which can be withdrawn while allowing the common-pool to get recharged at the maximum amount and continue to remain full.

<sup>14</sup>This test was chosen as since it is a non-parametric test and it handles data that has large observations, like our sustainable groups, particularly well (Siegel, 1956).

<sup>15</sup>Lemeshko, Chimitova, and Kolesnikov (2007) showed there are "no evident problems" with testing hypotheses using non-parametric tests in cases of grouped data.



TABLE 1—LONGEVITY OF THE COMMON POOL BY EXPERIMENTAL TREATMENT. EACH NUMBER REPRESENTS THE NUMBER OF PERIODS OF GAME PLAY BEFORE THE COMMON POOL WAS DEPLETED. THE ASTERISK (\*) DENOTE GROUPS WHICH WERE CONSIDERED SUSTAINABLE AND DID NOT DEplete THE COMMON POOL.

Longevity of Common Pool By Treatment: Number of Periods of Play		
Threshold CPR with Complete Information	Threshold CPR with Incomplete Information	Threshold CPR with Sporadically Enforced Targets
67	25	25
25	109	33
14	26	33
43	21	21
41	36	33
200	24	25
19	24	25
31	55*	58
196*	23	28
43	106	23
54	88	39*
24	20	25
<b>Average : 51</b>	45.6	29.9
<b>Standard Deviation : 51.9</b>	36.2	10.2

Threshold CPR with Incomplete Information was tested against Threshold CPR with Sporadically Enforced Targets, resulting in a chi-squared value of 0.000 with one degree of freedom and a p-value of 1.000. However, the case of interest was the one where there was no credible enforcement of the guess of the threshold. It was hypothesized that since the cost of punishment was large, the task of enforcement would be passed on to the next round's policymaker. Yet this was not always the the case.

Of the twelve groups who played Sporadically Enforced Targets, six fall into the category of non-credible enforcement, punishing the other members of their group one time or less (four groups did not punish at all and two groups only punished once) and six fall into the category of credible enforcement. Those groups which made credible threats of punishment, as defined by punishing two or more times, punished throughout the game— in early rounds and then in later rounds as well. The median test was conducted comparing the non-credible enforcement subset to the credible enforcement subset, resulting in a fisher exact p-value of 0.008. The sustainable group fell into the credible

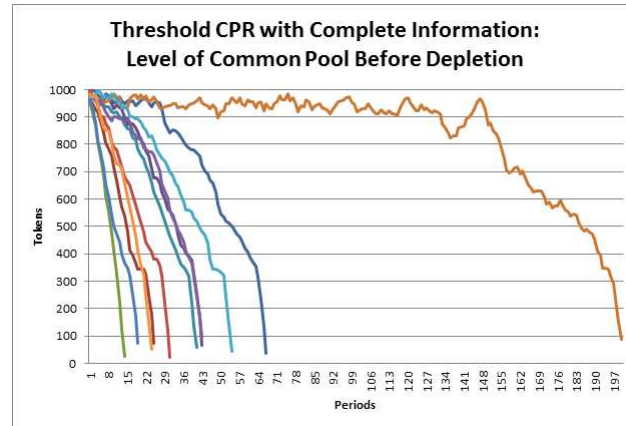


FIGURE 4.

Level of tokens remaining in the common pool each period, by group, before the common pool is depleted under complete information.

enforcement subset. Conducting a median test on Threshold CPR with Incomplete Information against the non-credible enforcement subset sample of Sporadically Enforced Targets yielded a fisher exact p-value of 0.092; there is a significant difference between the two treatments' common pool lifespans at the 90% level. When the policymakers from Sporadically Enforced Targets made credible threats of enforcement of their guesses, there was no significant difference between any of the treatments; median tests resulted in Fisher Exact P-values of 0.439 when conducted against Threshold CPR with Complete Information and Threshold CPR with Incomplete Information. There is no significant difference between Threshold CPR with Complete Information and Incomplete Information, with a chi-squared value of 0.6667 with one degree of freedom and 0.414. There was no significant difference between Complete Information and Sporadically Enforced Targets, however, comparing Complete Information to the non-credible enforcement subset yielded results which were significantly different, Fisher Exact P-value of 0.025. There was no significant difference between Complete Information and the credible enforced subset of Sporadically Enforced Targets, Fisher Exact P-value of 0.439.

As long as threshold information was available that could be relied upon when mak-

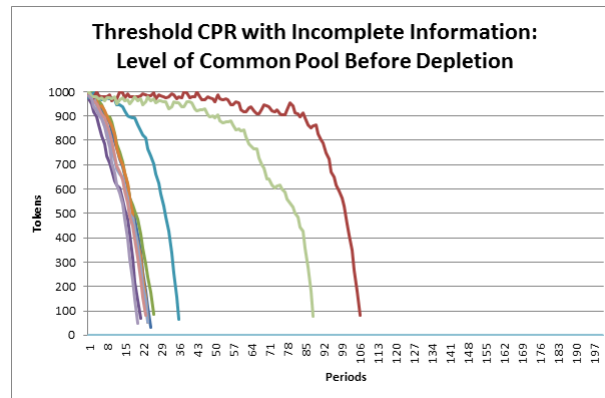


FIGURE 5.

Level of tokens remaining in the common pool from each period, by group, before the common pool is depleted under incomplete information.

ing one's withdrawal decision, either from one's own beliefs or given from a policymaker, there was no negative effect on the life of the common-pool resource. However, being given extra information in some cases can become detrimental to the life of the common-pool. In the case Threshold CPR with Sporadically Enforced Targets, when the policymakers shared their guess of the location of the threshold, the extra information, may crowd out the individual responsibility to develop their own beliefs. It appeared that each participant only made their guess every fifth turn when they were assigned the role of the policymaker. When the policymakers did not enforce the guess, having developed no belief of their own, the participants were left with no information which they believed to be credible when making their decision for how many tokens to withdraw. This is a possible explanation for the significant difference between Threshold CPR with Incomplete Information and Threshold CPR with Sporadically Enforced Targets, especially when looking at the groups faced with non-credible enforcement. In treatment two, with incomplete information, individuals developed their own beliefs, being told only that there is a threshold of negative consequences and individuals were prompted to guess on their own by telling the experimenter their guess when not withdrawing, but never sharing it with the group. Those groups in Sporadically Enforced Targets which made credible threats of punishment, had information which had to be taken as reliable or

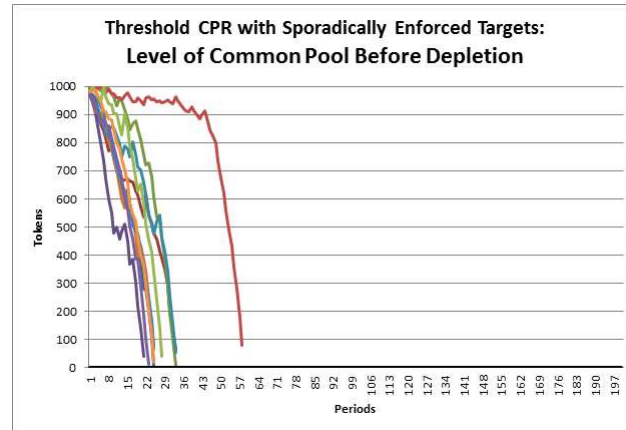


FIGURE 6.

Level of tokens remaining in the common pool from each period, by group, before the common pool is depleted under sporadically enforced targets.

risk getting punished again in the future.<sup>16</sup> The groups in Sporadically Enforced Targets which did enforce their guesses, through punishment and credible threats of punishment, relied upon the information which they were given, the guesses of the threshold (targets), and used that to determine how many tokens to withdrawal each period. Not having information which one could rely upon resulted in a significant reduction in the number of periods of game play and the lifespan of the common-pool resource.

Interestingly, there was no benefit in terms of the length of the life of the common-pool resource from giving participants the additional information as to where the true threshold was located. While counter intuitive, this can be attributed to some individuals having present biased preferences. Individuals knew of the level of 327 as threshold, but appeared unwilling to give up tokens in the current round and continued to withdraw tokens at higher than optimal levels, likely thinking that they will withdraw fewer tokens the next period as they move closer to the threshold and to the pending punishment. Every period players went through the same thought process, opting to maximize the private fund in the current period and withdrawing more than the optimal amount of tokens, in hopes of conserving the common-pool resource the *next* period, only to go

<sup>16</sup>This is consistent with the punishment literature which shows that when implemented, punishment is effective at conserving a common-pool resource (Fehr and Gächter, 2000; Nikiforakis and Normann, 2008; Ostrom et al., 1992).

through the same thought process next period, and decide again to conserve in the next period.<sup>17</sup> The benefit of additional information could be canceled out by individuals' present biased preferences and the knowledge that they have time in the future to take fewer tokens before hitting the threshold. This explains not only why there may not be any added benefit from complete information over incomplete information, but it also can give another reason as to how the common-pool resource is depleted in under full information.

- *Result 1. Sporadically Enforced Targets, when non-credibly enforced, result in a significantly shorter common-pool lifespan. Common-Pool Resource Lifespans increase by providing individuals with reliable information (their own beliefs or given information) about the current size of the resource and the location of the threshold.*

#### B. Token Withdrawal from the Common-Pool Resource

TABLE 2—SUMMARY OF INDIVIDUAL TOTAL TOKEN WITHDRAWAL BY EXPERIMENT.

Summary of Individual Total Tokens		
	Mean	Standard Deviation
Threshold CPR with Complete Information	541.7	699.8
Threshold CPR with Incomplete Information	409.0	307.5
Threshold CPR with Sporadically Enforced Targets	239.3	138.7

Examining the total token withdrawal by individuals at the completion of the game reveals a strong positive correlation,  $r = 0.8175$ , between earnings and lifespan of the common-pool. See Figure 7. To make sure that post-threshold behavior and the punishment was not playing a major role, the pre-threshold relationship was examined, as well. This also showed a strong positive correlation with  $r = 0.8253$ . See Figure 8. The longer the lifespan of the common-pool, the more opportunities to earn tokens. From this one can infer that earning more tokens is indicative of increased lifespan of the common-pool. As verification, all individuals were placed in bins according to the length of game

<sup>17</sup>This follows the idea of present-biased preferences described by O'Donoghue and Rabin(1999) in "Doing it Now or Later."

play. The top earners who played the most periods were compared to the top earners who played the fewest period. With average earnings of 1498.5 and 236.4 respectively, using a rank sum test these two groups were compared resulting in a test statistic of -4.828 which is significant at the 99% level. This shows that the top earners did come from the groups who played the most number of periods and were able to maximize the lifespan of the common-pool. Therefore, one will be able to conclude that more tokens also represent a longer lifespan of the CPR. All players' total token withdrawal can then be evaluated by which experimental treatment game one played this then used as an additional tool for determining the lifespan of the CPR under the various conditions in the different treatments. The average total token withdrawal by treatment can be seen in Table 2. Even with a larger sample size from looking at the individual level data, normality cannot be assumed (see figure 9), and the Wilcoxon Rank-Sum test will be used (Siegel, 1956). Conducting a Rank-Sum test on the Complete Information level of total tokens against the Sporadically Enforced Targets level of total tokens generated a test statistic of  $z = 3.328$ ; Sporadically Enforced Targets had significantly fewer total tokens than Complete Information at the 99% level ( $p\text{-value} = 0.0009$ ). A Rank-Sum test on the Incomplete Information level of total tokens against the Sporadically Enforced Targets level of total tokens yielded a test statistic of  $z = 3.052$  and found that Sporadically Enforced Targets had significantly fewer total tokens than Incomplete Information at the 99% level ( $p\text{-value} = 0.0023$ ). A Rank-Sum test on the Incomplete Information level of total tokens against the Complete Information level of total tokens results in a test statistic of  $z = 1.3443$ , confirming our earlier results that there is no significant difference between Complete and Incomplete Information ( $p\text{-value} = 0.8481$ ). Since those who played the Sporadically Enforced Targets earned fewer tokens and fewer tokens are indicative of a shorter CPR lifespan, these findings are supportive of the previous findings; Sporadically Enforced Targets result in a reduction of the lifespan of a CPR. The Complete Information Common-Pool lifespan had no significant gains over Incomplete Information. Information regarded as reliable whether provided or based on one's own beliefs presents no harm to the life of the common-pool. All information which is

perceived as reliable has significant gains over sporadically enforced targets.

- *Result 2. A greater number of tokens is indicative of a greater number of periods of game play.*
- *Result 3. Sporadically Enforced Targets results in a significantly fewer number of individual tokens upon the completion of the game, when compared to both Complete and Incomplete Information. Combining these findings with Result 2, Result 1 is further supported. Therefore, Not only do individual earnings increase by providing individuals with reliable information (given information or their own beliefs) about the current size of the resource and the location of the threshold but, Common-Pool Resource lifespans increases as well.*

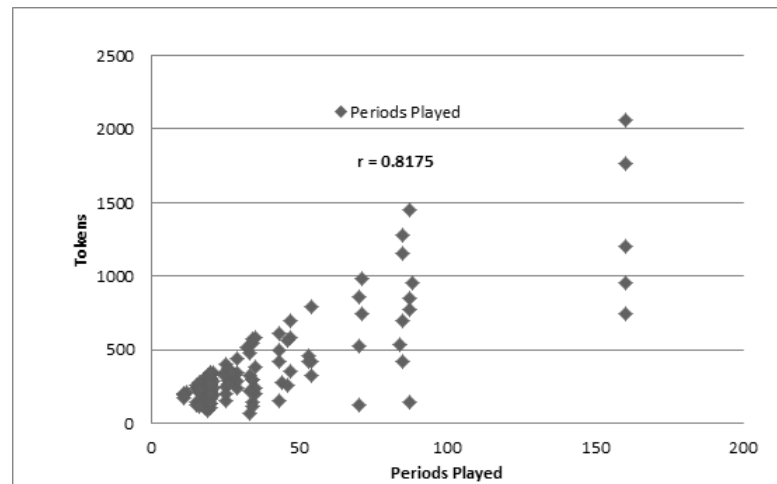


FIGURE 7.

Scatter Plot showing the strong positive relationship,  $r = 0.8175$ , between total tokens earned per individual at the end of the game and Periods Played. (N=130)

### C. Over Withdrawal and Depletion

The optimal strategy for token withdrawal is a strategy of alternating between 58 and 55 tokens, an average of 57 tokens each period.<sup>18</sup> See Figure 10. This is the greatest level of withdrawal which recharges the common-pool to full capacity. If participants

<sup>18</sup>In a one hour session the greatest number of periods that one could play is approximately 200 periods. If one were to look at the optimal strategy for the similar 200 period finite threshold common-pool resource game, just as in the infinite game described in this paper, it would be to alternate between 58 and 55 tokens, but since the game is finite one would only do this for the first 188 periods. In period 189 the average group withdrawal would be 95 and then everyone would withdraw their full token allotment of 25 tokens, for a total group withdrawal of 100 tokens in the last ten periods. This

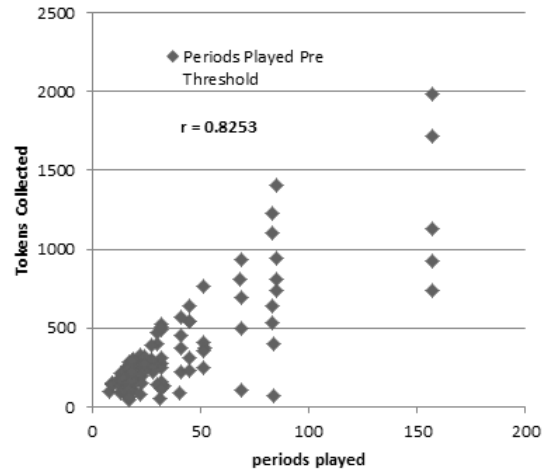


FIGURE 8.

Scatter Plot showing the strong positive relationship,  $r = 0.8253$ , between total tokens earned per individual the last period before crossing the threshold and Periods played. (N=130)

continue to withdraw at this level, the common-pool continually gets recharged to full capacity while adding the maximum tokens to one's private fund, the CPR remains full, and the game could go on forever in this fashion without crossing the threshold. Any strategy of taking out a greater number of tokens than the optimal would result in a reduction in total earnings. In order to prevent crossing the threshold, which would result in a significant reduction of earnings by losing a fraction of one's tokens and limiting game play, one would have to decrease withdrawal for several periods, losing any gains in earning from the initial increase in withdrawal. For example, if the group were to withdraw 100 tokens in the first period, instead of the optimal 58, in order to prevent crossing the threshold the group would have to withdraw only 40 tokens in each of the next twelve periods. In the first period the group would increase their earnings by 42 tokens, but over the reduction over the following twelve periods in withdrawal was de-

results in an overall average withdrawal of 58.9. For the 200 period finite game Threshold CPR game this strategy would ensure that that threshold would not be crossed and the game would last all 200 periods, both of which make sure that all participants total tokens are maximized. Alternating between 58 and 55 tokens for the majority of the game results in the maximum number of tokens deposited in individuals private funds for the maximum number of periods both in finite and infinite games.



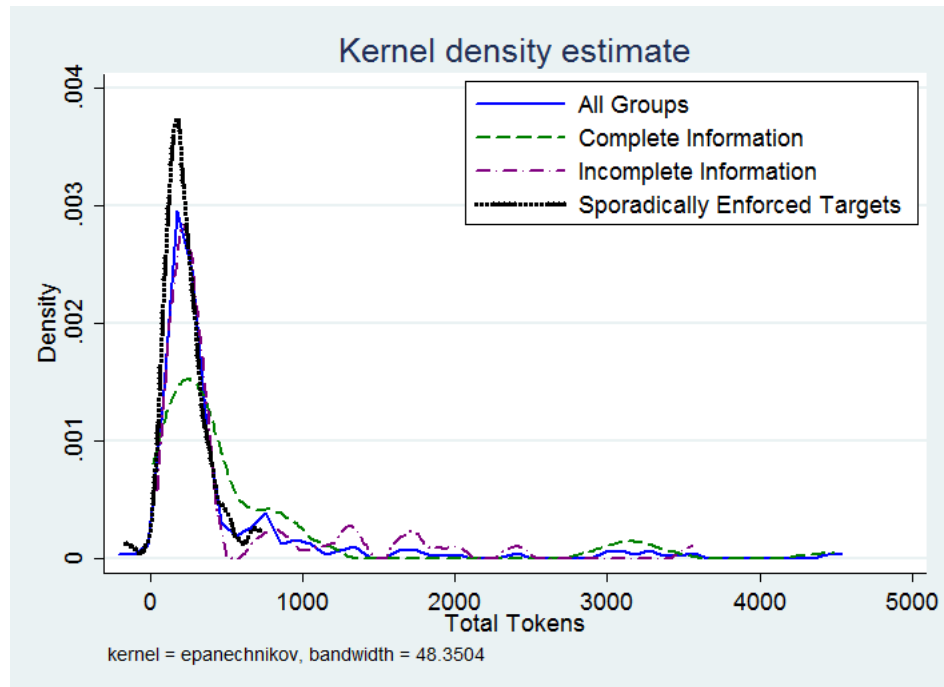


FIGURE 9.

Distribution of Individual Total Tokens showing the distribution of total tokens is positively skewed.

creased compared to the optimal would cost the group a total of 198 tokens. The initial increase in token withdrawal wouldn't have a net benefit in terms of overall payoff. This is true for all strategies other than the alternating 58 and 55 token withdrawal in which the pool decreases, but is then immediately refilled the next period when only 55 tokens are withdrawn. If any fewer than 58-55 tokens are withdrawn it is a non-optimal solution since the threshold still would not be crossed, but a greater number of tokens could have been placed in all individuals private funds by increasing withdrawal.

The majority of all groups, 77.7%, over extracted the resource, withdrawing more than the optimal amount. The average amount of withdrawal was 66.5 tokens period. See Table 3. With half, 50 %, of the groups given complete information withdrawing more than the optimal level, the average withdrawal was 61.7 tokens and was just over the 57 average optimal tokens. Incomplete information had an average withdrawal of

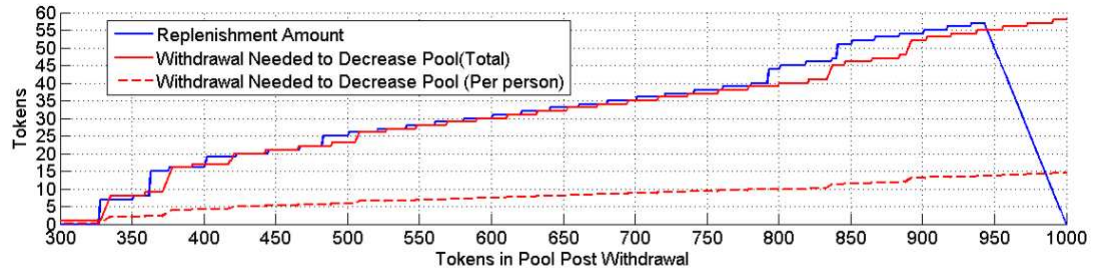


FIGURE 10.

Based on the recharge function, this graph displays the number of tokens which will be added back to the common-pool after withdrawal (in blue). Taking recharge into account, it also displays the total number of tokens that need be withdrawn from the common-pool in order for the pool to have fewer tokens the next round (in red).

66.5 with 88.3% of groups on average over withdrawing. Sporadically Enforced Targets had a higher average token withdrawal, 71.3, with 100% of groups on average having excess withdrawal.

The Common-Pool Resource was overwhelmingly depleted in all three experimental treatments. Only three groups received the label of “sustainable.” All other groups depleted the resource. While 22% of groups did have an average withdrawal which was at or below the optimal level, with the majority coming from the Complete Information treatment, these groups were not able to maintain this level of withdrawal. As seen in Figure 4- Figure 6 showing the number of tokens remaining in the CPR, groups would start off withdrawing an optimal or close to optimal amount and then one or more group members would want more tokens, collapsing all group cooperation. When groups were cooperating, the level of tokens in the pool remained close to 1000. The longer the group was close to 1000 means that cooperation in the group lasted for a greater number of periods. Also, some groups would over withdraw in initial rounds, decreasing the size of the common-pool, so even if a group were to adopt the strategy of withdrawing 58 and 55 tokens in later round, it would no longer be the strategy which would result in a full capacity CPR. Eventually, the groups which were withdrawing close to the optimal level of withdrawal would deplete the CPR. Due to excess withdrawal, the Common-

Pool Resource was depleted in all three experimental treatments with the exception of one sustainable group in each treatment.

- *Claim. The optimal social planner solution for token withdrawal is a strategy alternating between 58 and 55 tokens. These are the maximum number of tokens which can be taken out each period with out decreasing the pool. If the pool were to decrease the the number of periods in the game would decrease along with one's earning, but one also moves closer towards the threshold and the likihood of losing  $\frac{1}{2}$  of one'se private fund increases.*
- *Result 4. The majority of groups, 77.8%, withdrew tokens in excess of the optimal strategy. Over-withdrawal resulted in 33 of 36 groups depleting the CPR.*

TABLE 3—THRESHOLD CPR WITH COMPLETE INFORMATION HAD AN AVERAGE GROUP TOKEN WITHDRAWAL THAT WAS CLOSEST TO THE AVERAGE OPTIMAL WITHDRAWAL OF 57 TOKENS FROM THE STRATEGY OF ALTERNATING BETWEEN 58 AND 55 TOKENS. THEY WERE FOLLOWED BY THRESHOLD CPR WITH INCOMPLETE INFORMATION AND LASTLY BY THRESHOLD CPR WITH SPORADICALLY ENFORCED TARGETS. THE MAJORITY OF GROUPS FROM THRESHOLD CPR WITH INCOMPLETE INFORMATION AND THRESHOLD CPR WITH SPORADICALLY ENFORCED TARGETS WERE OVER WITH DRAWING THE MAJORITY OF THE TIME.

	Average Group Token Withdrawal	Percentage Of Groups with Average Above Optimal
Threshold CPR with Complete Information	61.7	50
Threshold CPR with Incomplete Information	66.5	83.3
Threshold CPR with Sporadically Enforced Targets	71.3	100
All Groups	66.5	77.8%

#### D. Pre-threshold and Post-threshold Behavior

Pre-threshold, on average, individuals were withdrawing significantly below their 25 token maximum allowances. This can be seen in Figure 11 where the previous two periods prior to the threshold being crossed are examined. Two periods before the threshold was crossed, the average amount of tokens withdrawn by an individual was 14.25 and one period before the threshold was crossed it was 16.15. After the threshold was crossed and recharge to the common-pool ceased, individuals withdrew more tokens for their private fund. The number of individuals who were withdrawing their full allotted 25 tokens

more than doubled and the average withdrawal increased to 21.6, 21.57, and 22.05 for the first, second and third period after the threshold was crossed, respectively. Once recharge was terminated, by crossing the threshold, there no longer existed an incentive to slowly withdraw tokens from the CPR. Individuals entered into a race with their group members to deplete the resource. If one did not take their full 25 tokens another player could withdraw the remaining tokens for their private fund (while remaining within their 25 token limit). Previously there was an incentive to leaving tokens in the common-pool, without recharge that incentive is non-existent. If players do not put tokens into their private fund another player will. Tokens will not remain in the common-pool.

Conclusion

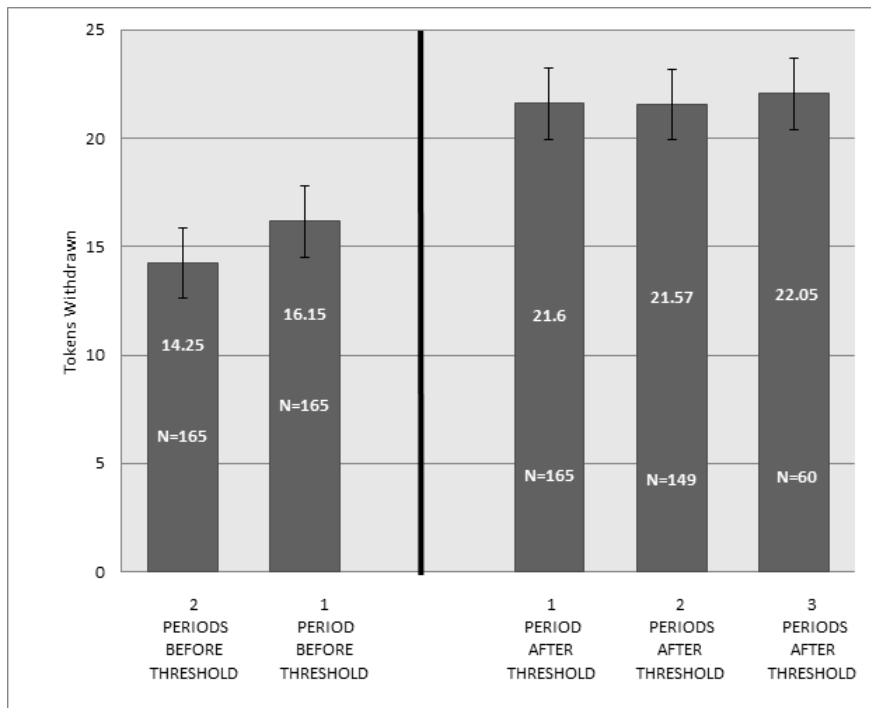


FIGURE 11.

Individual token withdrawal pre-threshold and post-threshold shows an increase in withdrawal once the threshold is crossed.

## V. Conclusion and Policy Recommendations

### A. Conclusion

Common-Pool Resources can have a threshold for consequences. Policymakers, in order to delay users of the resource from crossing this threshold, set their own targets which they claim will be enforced. These targets are repeatedly readjusted with no enforcement. In the laboratory, this process of Sporadically Enforced Targets resulted in a reduction and shorter lifespan of the Common-Pool Resource and decreased profits. Individuals were not able to rely on the information they were given. Having information upon which one can rely, individuals made decisions which allowed the common-pool to have a greater life. Without knowing the exact location of the threshold people were able to develop beliefs and rely on that. Any reliable information, either given or from one's own beliefs, provided significant gains over Sporadically Enforced Targets both in terms of individual gains and the lifespan of the Common-Pool Resource.

While this paper is the first to examine threshold common pool resources and threshold common pool resources with uncertainty, the finding of this laboratory build on previous literature. The shorter common-pool lifespan exhibited under Sporadically Enforced Targets resulting from a lack of enforcement and uncertainty of the punishment threshold is consistent with the unraveling of conditional cooperation in the absence of punishment (Gächter, 2007). Consistent with the literature (Fehr and Gächter, 2000; Nikiforakis and Normann, 2008; Ostrom et al., 1992; Wade, 1987), punishment, when enforced, did reduce individual withdrawal from the common-pool resource and increase its longevity. Lack of trust is one of the main causes of under-provision of public goods and would therefore imply that lack of trust in a common-pool resource setting would lead to a greater level of withdrawal and a shorter common-pool lifespan (Rapoport, 1967; Dawes et al., 1986; Yamagishi and Sato, 1986; Parks and Hulbert, 1995; DeCremer, 1999). While trust was not directly measured, the constant lowering of targets and announced guesses combined with non-credible enforcement would be a strong contributor to a general lack of trust within Sporadically Enforced Target groups. Previous literature

with uncertainty within common-pool resources focused on uncertainty in the resource size, finding that users withdrew greater amounts of the resource more rapidly (Budescu et al., 1995; Gustafsson et al., 1990). In contrast, when uncertainty was placed on a punishment threshold, as in the Incomplete Information experimental treatment, there was no significant difference in individual token withdrawal or common-pool lifespan when compared again the treatment without uncertainty, the Complete Information experimental treatment.

### *B. Policy Recommendations*

In order to effectively conserve a threshold common-pool resource and maximize its lifespan, policymakers should make resource users aware that a threshold exists and of the size of the common-pool. While one might argue that making the resource users aware of the location of the threshold should be the recommended policy, that would not be advisable in a real world situation. My findings indicate that addition of true reliable information beyond one's own beliefs had no significant gains in the lifespan of the common-pool resource. Additionally, due to governmental present-biased preferences (Horowitz, 1996), announced targets and estimates of threshold locations cannot be permanently and irrevocably established. For this reason these estimates (targets), will often get readjusted, resulting in a situation in which a real world complete information case will morph into a situation much like our Sporadically Enforced Targets. Since Threshold Common-Pool Resources under Sporadically Enforced Targets had a significantly shorter lifespan and produced smaller individual earning than when individuals were able to rely on their beliefs alone, I determined that if one cannot count on announced targets, or policies, to be credible, the best policy would be one in which individuals developed their own beliefs. My findings support the notion that governments and policymakers should be more firm with thresholds that they set, while also demonstrating that a threshold which is unenforced is more detrimental than no threshold at all.

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#### EXPERIMENTAL INSTRUCTIONS

##### *A1. Threshold Common Pool Resource Experiment with Complete Information Instructions*

If you have any questions as we go through these instructions, please raise your hand and one of the monitors will come and answer your question.

In this game, you will have the opportunity to earn cash rewards. The amount that you earn will depend upon the independent decisions that you make and also upon the independent decisions that the others in your group make. You will receive a minimum of \$5 for showing up and participating. You will be playing with tokens on the computer. Each token is worth \$0.025 and your earnings are dependent on how many tokens you collect into your private fund. The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

Each of you has been randomly assigned to a group of 5 members. All members of your group are in this room. However, there is no communication or collaboration among the members of your group, and all decisions are made independently.

Each group will start with a shared, common pool of 1000 tokens. The roles of each of 5 players will rotate around the group each round, similar to changing the dealer in a game of cards. In each round there will be 4 group members who are withdrawing tokens. The 5th member will sit out of the round.

When you are in the role of a withdrawing player, each round provides the opportunity to collect tokens from the common pool and increase your private fund. After all members have completed the round, the common pool will get partially refilled or “recharged,” by the computer, which will add more tokens back to the common pool total. The more tokens left in the common pool at the end of a round, the more additional tokens get added back to recharge and refill the pool. Similarly, the fewer tokens left in the common pool at the end of a round, the fewer additional tokens get added back to recharge and refill the pool. This is similar to earning interest or a reward based on the amount of tokens in the common pool. There is an opportunity to keep the common pool large which would allow more rounds of play to increase your private fund.

However, if the total number of tokens in the common pool gets too low - drops below 327 tokens - there will be negative consequences for all group members. This is similar to a requirement to maintain a minimum account balance in the common pool. If the common pool drops below the threshold of 327, for the rest of the game there will be no recharge - the pool will not be refilled after each round - and, in addition, each group member will lose 1/3 of the tokens on hand in their private fund.

When you are one of the 4 withdrawing players, you individually decide how many tokens you would like to withdraw from the common pool to add to your private fund, knowing that the other players are doing the same. You will be shown the current number of tokens in the common pool and the maximum number of tokens which you can remove. You are allowed to take out from 0 up to 25 tokens each round. You will enter the desired number in the box on the computer screen and then click the “OK” button.

The other members of your group will also be making their own independent withdrawal decisions. The tokens which you remove from the common pool will get placed in your private fund and are not available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are not available to you.

After all members have taken their desired tokens from the common pool, as long as the common pool remains above the 327 token threshold, the pool will get recharged. At

the conclusion of the round, after all 4 players have chosen their amount of withdrawal, a screen will display the total number of tokens currently in the common pool and the number of tokens collected into your private fund.

If at the end of the round, the number of tokens in the common pool is too low and is below the threshold, all group members will be notified on the computer screen, they will all lose 1/3 of their private fund tokens, and recharge of the common pool will cease. If the threshold has not been reached, play continues for the next round as before.

A new round will start with the jobs rotated, and a different player will sit out of the round. Then the 4 withdrawing members will make their independent decisions for withdrawal from the common pool, from 0 to 25 tokens. As before, the size of the pool and the total number of tokens in your private fund will be displayed. Play will continue until the common pool level is “broke” - so small that all withdrawing members cannot withdraw their maximum allotment.

All decisions will be kept anonymous. The number of tokens in your private fund at the end of the experiment will determine your earnings. Each token in your private fund will be converted to 2.5 cents.

Remember:

- 1 token = \$0.025
- You will receive a show-up payment of \$5
- You withdraw 0 to 25 tokens each period from the common pool that is available to all players
  - When the total number of tokens in the common pool gets too low, below the 327 tokens
    - o Recharge to the pool STOPS for the rest of the game
    - o All group members lose 1/3 of their tokens
  - The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

The tokens which you remove from the common pool will get placed in your private

fund and are no longer available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are no longer available to you.

*A2. Threshold Common Pool Resource Experiment with Incomplete Information Instructions*

Instructions:

If you have any questions as we go through these instructions, please raise your hand and one of the monitors will come and answer your question.

In this game, you will have the opportunity to earn cash rewards. The amount that you earn will depend upon the independent decisions that you make and also upon the independent decisions that the others in your group make. You will receive a minimum of \$5 for showing up and participating. Most people earn \$15 on average. You will be playing with tokens on the computer. Each token is worth \$0.025 and your earnings are dependent on how many tokens you collect into your private fund. The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

Each of you has been randomly assigned to a group of 5 members. All members of your group are in this room. However, there is no communication or collaboration among the members of your group, and all decisions are made independently.

Each group will start with a shared, common pool of 1000 tokens. The roles of each of 5 players will rotate around the group each round, similar to changing the dealer in a game of cards. In each round there will be 4 group members who are withdrawing tokens. The 5th member will play the role of a policy maker and will have a different task at the beginning of each round, just like the dealer has a different role in card games.

When you are in the role of a withdrawing player, each round provides the opportunity to collect tokens from the common pool and increase your private fund. After all members have completed the round, the common pool will get partially refilled or “recharged,” by the computer, which will add more tokens back to the common pool to-

tal. The more tokens left in the common pool at the end of a round, the more additional tokens get added back to recharge and refill the pool. Similarly, the fewer tokens left in the common pool at the end of a round, the fewer additional tokens get added back to recharge and refill the pool. This is similar to earning interest or a reward based on the amount of tokens in the common pool. There is an opportunity to keep the common pool large which would allow more rounds of play to increase your private fund.

However, if the total number of tokens in the common pool gets too low - drops below a certain threshold - there will be negative consequences for all group members. This is similar to a requirement to maintain a minimum account balance in the common pool. If the common pool drops below the threshold, for the rest of the game there will be no recharge - the pool will not be refilled after each round - and, in addition, each group member will lose  $1/3$  of the tokens on hand in their private fund. The game changing threshold amount is not revealed to the group members, until after the number of tokens in the common pool is less than the threshold.

At the beginning of each round, the policy maker will secretly make an official guess for the location of the threshold. This will be done on the computer, entering the number of tokens in the common pool believed to be the threshold where the negative consequences will go into effect. For example, if the policy maker enters "999" this means that (s)he believes that when the common pool drops below 999 tokens, recharge will stop and everyone will lose  $1/3$  of their tokens. If the policy maker enters "3" this means that (s)he believes that when the common pool drops below 3 tokens, recharge will stop and everyone will lose  $1/3$  of their tokens. Of course, the policy maker may not choose a threshold higher than the number of tokens currently in the pool. While each guess of the value of the threshold is stored in the computer and is linked to the policy maker, it is secret and not revealed to other members of the group.

When you are one of the 4 withdrawing players, you may guess for yourself, if you wish, where you think the threshold might be, and then individually decide how many tokens you would like to withdraw from the common pool to add to your private fund, knowing that the other players are doing the same. You will be shown the current num-

ber of tokens in the common pool and the maximum number of tokens which you can remove. You are allowed to take out from 0 up to 25 tokens each round. You will enter the desired number in the box on the computer screen and then click the “OK” button.

The other members of your group will also be making their own independent withdrawal decisions. The tokens which you remove from the common pool will get placed in your private fund and are not available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are not available to you.

After all members have taken their desired tokens from the common pool, as long as the common pool remains above the actual threshold, the pool will get recharged. At the conclusion of the round, after all 4 players have chosen their amount of withdrawal and 5th player has made entered their secret guess of the threshold, a screen will display the total number of tokens currently in the common pool and the number of tokens collected into your private fund.

If at the end of the round, the number of tokens in the common pool is too low and is below the threshold, all group members will be notified on the computer screen, they will all lose 1/3 of their private fund tokens, and recharge of the common pool will cease. If the threshold has not been reached, play continues for the next round as before.

A new round will start with the jobs rotated, and a different player in the role of policy maker, making a secret guess of the threshold. Then the 4 withdrawing members will make their independent decisions for withdrawal from the common pool, from 0 to 25 tokens. As before, the size of the pool and the total number of tokens in your private fund will be displayed. Play will continue until the common pool level is “broke” - so small that all withdrawing members cannot withdraw their maximum allotment.

All decisions will be kept anonymous. The number of tokens in your private fund at the end of the experiment will determine your earnings. Each token in your private fund will be converted to 2.5 cents.

Remember:

- 1 token = \$0.025



- You will receive a show-up payment of \$5
- You withdraw 0 to 25 tokens each period from the common pool that is available to all players
  - Each round a rotating policy maker makes a secret official guess of the value of the threshold
  - When the total number of tokens in the common pool gets too low, below the threshold
    - o Recharge to the pool STOPS for the rest of the game
    - o All group members lose 1/3 of their tokens
  - The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

The tokens which you remove from the common pool will get placed in your private fund and are no longer available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are no longer available to you.

### *A3. Threshold Common Pool Resource Experiment with Sporadically Enforced Targets*

#### *Instructions*

Instructions:

If you have any questions as we go through these instructions, please raise your hand and one of the monitors will come and answer your question.

In this game, you will have the opportunity to earn cash rewards. The amount that you earn will depend upon the independent decisions that you make and also upon the independent decisions that the others in your group make. You will receive a minimum of \$5 for showing up and participating. You will be playing with tokens on the computer. Each token is worth \$0.025 and your earnings are dependent on how many tokens you collect into your private fund. The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your

pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

Each of you has been randomly assigned to a group of 5 members. All members of your group are in this room. However, there is no communication or collaboration among the members of your group, and all decisions are made independently.

Each group will start with a shared, common pool of 1000 tokens. The roles of each of 5 players will rotate around the group each round, similar to changing the dealer in a game of cards. In each round there will be 4 group members who are withdrawing tokens. The 5th member will play the role of a policy maker and will have a different task at the beginning of each round, just like the dealer has a different role in card games.

When you are in the role of a withdrawing player, each round provides the opportunity to collect tokens from the common pool and increase your private fund. After all members have completed the round, the common pool will get partially refilled or “recharged,” by the computer, which will add more tokens back to the common pool total. The more tokens left in the common pool at the end of a round, the more additional tokens get added back to recharge and refill the pool. Similarly, the fewer tokens left in the common pool at the end of a round, the fewer additional tokens get added back to recharge and refill the pool. This is similar to earning interest or a reward based on the amount of tokens in the common pool. There is an opportunity to keep the common pool large which would allow more rounds of play to increase your private fund.

However, if the total number of tokens in the common pool gets too low - drops below a certain threshold - there will be negative consequences for all group members. This is similar to a requirement to maintain a minimum account balance in the common pool. If the common pool drops below the threshold, for the rest of the game there will be no recharge - the pool will not be refilled after each round - and, in addition, each group member will lose 1/3 of the tokens on hand in their private fund. The game changing threshold amount is not revealed to the group members, until after the number of tokens in the common pool is less than the threshold.

At the beginning of each round, the policy maker will secretly make an official guess for the location of the threshold. This will be done on the computer, entering the number

of tokens in the common pool believed to be the threshold where the negative consequences will go into effect. For example, if the policy maker enters “999” this means that (s)he believes that when the common pool drops below 999 tokens, recharge will stop and everyone will lose  $1/3$  of their tokens. If the policy maker enters “3” this means that (s)he believes that when the common pool drops below 3 tokens, recharge will stop and everyone will lose  $1/3$  of their tokens. Of course, the policy maker may not choose a threshold higher than the number of tokens currently in the pool.

This guess will be announced to the rest of the group.

After seeing the policy maker’s guess of the threshold, when you are one of the 4 withdrawing players, you may guess for yourself, if you wish, where you think the threshold might be, and then individually decide how many tokens you would like to withdraw from the common pool to add to your private fund, knowing that the other players are doing the same. You will be shown the current number of tokens in the common pool and the maximum number of tokens which you can remove. You are allowed to take out from 0 up to 25 tokens each round. You will enter the desired number in the box on the computer screen and then click the “OK” button.

The other members of your group will also be making their own independent withdrawal decisions. The tokens which you remove from the common pool will get placed in your private fund and are not available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are not available to you.

After all members have taken their desired tokens from the common pool, as long as the common pool remains above the actual threshold, the pool will get recharged. The policy maker will then see the current number of tokens in the pool after withdrawal and recharge. They will then have the option to enforce their guess and punish the other group members for getting too close to where they believe the threshold is located, for taking out too many tokens. If they decide to punish, in exchange for 100 personal tokens paid back to the common pool, 50 tokens are removed from the private funds of the 4 withdrawing players. These tokens disappear.

At the conclusion of the round, after all 4 players have chosen their amount of withdrawal and policy maker has made entered their punishment decision, a screen will display the total number of tokens currently in the common pool and the number of tokens collected into your private fund.

After all 4 players have chosen their amount of withdrawal and the policy maker has made enforcement decision, a screen will display the total number of token in the common pool and the number of tokens in your private fund. If the policy maker should choose to punish the other group members you will be notified.

A new round will start with the jobs rotated, and a different player in the role of policy maker, making an announced guess of the threshold. Then the 4 withdrawing members will make their independent decisions for withdrawal from the common pool, from 0 to 25 tokens. This is followed by the policy maker making their enforcement decision. As before, the size of the pool and the total number of tokens in your private fund will be displayed. Play will continue until the common pool level is “broke” - so small that all withdrawing members cannot withdraw their maximum allotment.

You will be notified if the policy maker chose to punish. You will also be notified when the number of tokens in the pool has reached the true threshold, the number of tokens is too low and negative consequences have taken place.

All decisions will be kept anonymous. The number of tokens in your private fund at the end of the experiment will determine your earnings. Each token in your private fund will be converted to 2.5 cents.

Bankruptcy: If you should have negative tokens at any point, you can invest your \$5 show-up payment into the game to cover your loss.

Remember:

- 1 token = \$0.025
- You will receive a show-up payment of \$5
- You withdraw 0 to 25 tokens each period from the common pool that is available to all players
- Each round a rotating policy maker makes an announced guess of the value of the

threshold

- The policy maker can enforce the guess of the threshold
  - o Paying 100 tokens to the common pool
  - o Taking away 50 tokens from all other players
- When the total number of tokens in the common pool gets too low, below the threshold
  - o Recharge to the pool STOPS for the rest of the game
  - o All group members lose 1/3 of their tokens
- The more tokens you have at the end of the game, the more money you earn, so it is in your interest to accumulate tokens and increase your pay, while avoiding penalties that will cause you to lose tokens and decrease your pay.

The tokens which you remove from the common pool will get placed in your private fund and are no longer available to other members, and likewise, the tokens withdrawn by other members of the group are placed in their own individual private funds and are no longer available to you.