

## Freedom of Association, Social Cohesion and Welfare

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### Abstract:

How does freedom of association shape social cohesion, individual behavior and welfare, in heterogeneous populations? To answer this question, we develop a theoretical model and conduct experiments with human subjects. We study a network formation and action choice game in which individuals benefit from selecting the same action as their neighbours. However, one group of individuals prefers to coordinate on one action, while the rest prefers to coordinate on the other action.

There exist multiple equilibria, which come in two forms: one, integration where the network is fully connected, and every player conforms to the same action and two, segregation where the network is composed of two complete components and all members of the same component select the same action, which is different from what members of the other component select. We also show that social welfare is (uniquely) maximized with full integration and conformity on the majority's action.

In the experiment we observe that clear segregation and diversity: individuals of different preferences separate themselves completely and within the 'network component' choose their preferred action. We find that this result is robust, as we lower the costs of linking. To understand the role of freedom of association, we then turn to a setting where the network is exogenous. Again there exist a variety of equilibria displaying conformism and diversity, but in the experiment we observe that subjects almost always choose the action preferred by the majority. We therefore conclude that the freedom of association sustains diversity in a population. We discuss potential theoretical explanations – based on dynamic stability and team reasoning – for the critical role of linking.