The role of Social Networks and Aspirations in Social Mobility

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Outline

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Motivation

Motivation

This chapter explores the contribution of Social Networks to social mobility.

- ▶ Human success emerges from our ability to form Social Networks and leverage collective knowledge (Henrich, 2017)
- ▶ More important in developing economies
  - ▶ less efficient markets, weak institutions and low state capacity
- ▶ However, are Social Networks a double-edged sword?
  - ▶ "In-groups" also create "out-groups"

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Channels of impact

Channels of impact: Tangible vs Intangible

Social Networks assist:

1. Tangible:
   - ► Migration and Trade
   - ► Credit and Insurance
   - ► Jobs and Firms
   - ► Technology Adoption

2. Intangible (via role-models, peers, friends):
   - ► Emotional resources
   - ► Psycho-social: beliefs, norms and aspirations

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Strong vs Weak ties

Effects of Strong vs Weak ties

Strong ties: Caste or kin provide material and emotional support.
Important for:

- ▶ Migration (Massey et al., 1993, Palloni et al., 2001)
- ▶ Trade (Curtin, 1984)
- ▶ Credit and Insurance (Udry, 1994)

Weak ties: Provide access to information outside the network.
Important for:

- ▶ Jobs (Granovetter, 1974, 1977, Leinhardt, 1977)
- ▶ Technology Adoption (Griliches, 1957, Rogers, 1962)

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Effects via strong ties

Effects of strong ties: Migration

Migrants prefer interconnected networks to diffuse networks i.e. with stronger rather than weak ties (Blumenstock et al., 2019)

Non-linear effects of network size on migration?

▶ Negative effects of size on migration benefits
  ▶ migrants can compete with each other for opportunities (Beaman, 2012)

▶ Positive effects of size on migration benefits
  ▶ Benefits increase with network size (Carrington et al., 1996)

The poor benefit from stronger links as networks substitute for wealth (Mckenzie and Rapoport, 2007)

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Effects via strong ties

Effects of strong ties: Trade

Lower transaction & search costs:

- ▶ Knowledge of local markets, language skills and business contacts of in-network immigrants (Gould, 1994; Rauch, 1996; Rauch & Trindade, 1999; Parsons & Vezina, 2018).

Contract enforcement:

- ▶ Diaspora's overcome cooperation problems, especially in the absence of legal institutions
- ▶ with better institutions, only trading within network ⟶ missed opportunities with others (Curtin, 1984; Greif, 1989, 1992, 1993).

Social Network based trade can disadvantage non-group members and divert trade from efficient patterns (Casella & Rauch, 1997)

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Effects via strong ties

Effects of strong ties: Credit and insurance

Social Networks provide informal insurance and credit (Townsend, 1994; Udry, 1994),

- ▶ especially with strong ties (Chandrasekhar et al., 2018).
- ▶ enable lumpy investments, creating higher incomes (Kinnan & Townsend, 2012; Johny et al., 2017; Angelucci et al., 2017)
- ▶ bigger benefits for the most disadvantaged (Munshi, 2011)

However kinship networks can reduce investments

- ▶ due to sharing pressure (Di Falco & Bulte, 2011; Jakiela & Ozler, 2016; Baland et al., 2011; Boltz et al., 2019)
- ▶ and may exclude disdvantaged groups (Chantarat & Barrett, 2012; Arcand & Fafchamps, 2011)

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Effects via weak ties

Effects of weak ties: Jobs

Employment (Caria et al., 2018; Serneels, 2007; Beaman & Magruder, 2012)

▶ Because weak ties reduce search costs (Wahba & Zenou, 2005)

Motivations for referring friends/acquaintances:

▶ Reciprocity (Beaman & Magruder, 2012)

▶ own reputation (Dhillon et al., 2013).)

However reciprocity can hinder mobility

▶ when new opportunities emerge (Munshi & Rosenzweig, 2006)

▶ for those outside the network (Witte, 2018; Beaman et al., 2018; Caria et al., 2018)

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Effects via weak ties

Effects of weak ties: Firms

Allow Firm Formation:

  ▶ substitute for lack of formal contracts with social trust (Dai et
    al., 2018; Zhang, 2017; Gupta et al., 2018; Braggion, 2011).

But may become entrenched, hindering formalisation:

  ▶ Industry dominance by a social group can lead to capital
    misallocation (Banerjee & Munshi, 2004)

  ▶ As they expand in importance, corruption increases (Bai et al.,
    2019)

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Effects via weak ties

Effects of weak ties: Technology Adoption

S-shaped pattern of social learning characterised by thresholds
(Grilliches, 1957, Rogers 1962)

Farmers learn from others about new crops and inputs (Foster &
Rosenzweig, 1995; Munshi, 2004; Bandiera & Rasul, 2006; Carter et al., 2014)

▶ Network centrality matters (Banerjee et al., 2013, 2014)

Adoption increases in:

▶ Frequent interaction and social proximity (Beaman et al., 2018),
▶ No. of trusted, successful adopters (Conley & Udry, 2010),

Information flows may be weaker into homophilous, close-knit
groups (Rogers 1962)

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SN as Aspiration Windows

Aspiration window: zone of "similar", "attainable" individuals

- ▶ Hence aspirations and beliefs socially determined (Ray, 2006).
- ▶ Effort towards aspirations is non-linear in the "aspirations gap" (Genicot & Ray, 2017).
  - ▶ Evidence from Nepal, India and Ethiopia (Janzen et al., 2017; Ross, 2017; Mekonnen, 2016)

Greater social mobility $\longrightarrow$ wider aspiration window (Ray, 2006)

Peers and aspirations

Reference points: "Keeping up with the Jones" (Galiani et al., 2018; Bursztyn et al., 2014)

Effects on effort:

- ▶ in education (Bobonis & Finan, 2009; Lalive & Cattaneo, 2009)
- ▶ at work (Brune et al., 2019; Park, 2016)

Social Norms and magnified effects of social programmes (Field et al., 2016; Prillaman, 2017; Swain & Wallentin, 2009; Kandpal & Baylis, 2019)

Poverty, Social Identity and Aspirations Failure

The poor may lack "capacity to aspire" due to constricted
aspiration windows (Appadurai, 2004)

- ▶ Deeper social capital within group but fewer ties to outsiders
  (Woolcock & Narrayan, 2000; Perlman, 2010)
- ▶ Social stigma reduces aspirations and educational attainment
  (Jacoby and Mansuri, 2015; Hoff & Pandey, 2006, 2014; Mukherjee,
  2015)

Tradeoff: Social ties *vs* higher aspirations?

- ▶ Raising own aspirations could be seen as "acting white"
  (Akerlof, 1997)

Policy Implication: Social programmes for disadvantaged groups
should target entire communities

Role models and aspirations

Role models:

- ▶ **Raise aspirations and educational attainment** (Beaman et al., 2012; Kalsi, 2017; Chiapa et al., 2012)
- ▶ **Act as mentors** (Macours and Vakis, 2014; Brooks et al., 2018)
- ▶ **Provide pathways to success** (Lybbert and Wydick, 2018; Krishna, 2013, 2014; Eble & Hu, 2018; Paredes, 2014)

Challenge: How can we bring role models to communities lacking them?

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Role models for disadvantaged groups

Similarity matters

▶ Role model only improves test scores if from a (similar) poor background (Nguyen,2008)

Broken ladders? What if someone similar isn't available?

▶ Tailor-made role models affect savings, business performance and education (Bandura, 1977; Bernard et al., 2014: Bjorvatn et al., 2015; Barsoum et al., 2016; Batista & Seither, 2019; Riley 2018)

  ▶ Can easily be scaled-up at low cost

▶ TV-based role models change norms on women's empowerment, fertility choices and divorce (La Ferrara et al., 2012; Chong & Ferrara, 2009; Jensen & Oster, 2009)

Moving to opportunity: Neighbourhoods

Dysfunctional neighbourhoods with low quality SN can be a poverty trap (Marx et al., 2013; Perlman, 2010; Krishna, 2013)

In developed countries, moving to better neighbourhoods offers an escape route (Chetty and Hendren, 2016, 2018; Chetty et al., 2014, 2016)

In LDCs, people could lose social networks if they leave slums (Franklin, 2019; Barnhardt et al., 2016).

Upgrading slums has had more success in LDCs (Castells-Quintana, 2017; Cattaneo et al., 2009, Devoto et al., 2012, Field, 2007, Galiani et al., 2017)

More research from LDCs needed on this.

Open Questions and other Policy Options

SN and mobility in the age of Social Media

- ▶ Increase group separation or.. (Rosenblat & Mobius, 2004)
- ▶ facilitate decentralised interaction? (Bennett & Segerberg, 2012; Howard et al., 2011; Castillo et al., 2011)

Infrastructure:

- ▶ Physical: Better connectivity through road networks (Asher and Novosad, 2019, Dercon et al., 2009)
- ▶ Digital: Mobile money, digital IDs and online payment platforms (Jack & Suri, 2014; Blumenstock, 2014; Muralidharan et al., 2016)