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Aspirations failure and formation in rural Nepal☆

Sarah A. Janzen[a,*], Nicholas P. Magnan[b], Sudhindra Sharma[c], William M. Thompson[b]

[a] Montana State University, United States
[b] University of Georgia, United States
[c] Interdisciplinary Analysts, Nepā School of Social Sciences and Humanities, Nepal

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ABSTRACT

Aspirations, or a lack thereof, have recently gained the attention of economists as a behavioral constraint to future-oriented behavior and investment. In this paper we empirically test the theories of aspirations failure and formation articulated in Appadurai (2004), Ray (2006), and Genicot and Ray (2015) using a unique dataset from rural Nepal. We ask two questions: (1) What is the relationship between aspirations and future-oriented behavior? and (2) To what extent are an individual's aspirations associated with the observable characteristics of those around her? We find that aspirations correspond with future-oriented economic behavior as predicted by theory: investment in the future increases with aspirations up to a certain point, but if the gap between one's current status and aspirations becomes too large, investment subsequently declines. We also find that one's aspirations are associated with outcomes of those in her social network of higher, but not lower, status. Together these findings provide empirical evidence that aspirations, which may be a social phenomenon, can either stimulate development or reinforce poverty.

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1. Introduction

Poor households frequently do not save or invest, even when returns to these actions appear high. This apparent failure to optimize is often attributed to the presence of binding external constraints: thin or missing markets for inputs, outputs, credit or insurance; inadequate vehicles for savings; asymmetric information; and social sharing norms are examples. But external constraints often provide incomplete or unsatisfying explanations for a lack of future-oriented behavior. Internal behavioral constraints may also be important, and have received growing attention in recent years (Ashraf et al., 2006; Bertrand et al., 2004; Duflo et al., 2011; Mullainathan and Thaler, 2000). In this paper we use unique data from rural Nepal to empirically analyze the role aspirations play in determining future-oriented behavior, as well as their social origins.

Recent theoretical work has revealed a complex relationship between aspirations, investment, and poverty (Dalton et al., 2016; Ray, 2006; Genicot and Ray, 2017; Bogliacino and Ortoleva, 2013; Lybbert and Wydick, in press; Mookherjee et al., 2010). A key hypothesis arising from this literature concerns the existence of a non-monotonic relationship between aspirations and investment introduced by Ray (2006) and further developed by Genicot and Ray (2017). This theory suggests

* Corresponding author.
E-mail addresses: sarah.janzen@montana.edu (S.A. Janzen), nmagnan@uga.edu (N.P. Magnan), sudhindra@ida.com.np (S. Sharma), willt78@uga.edu (W.M. Thompson).

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the amount an individual invests in the future depends on an individual's aspirations relative to their current status. If aspirations barely exceed current status, then the investment required to meet them is relatively low. This low investment is defined by Ray (2006) as an aspirations failure. As aspirations increase, failure is averted as optimal investment increases. But if aspirations are too large (relative to current status), the required investment becomes overly burdensome, investment is suspended, and aspirations also fail.

If internal constraints like aspirations inhibit economic behavior in a way that perpetuates poverty, then there is scope to design interventions that target internal constraints as well as external ones. Recent empirical papers on this topic have demonstrated how a variety of interventions can lengthen people's planning horizon (Laajaj, 2017), close the gender gap in aspirations for children's education and employment outcomes (Beaman et al., 2012), increase aspirations (Bernard et al., 2014; Lybbert and Wydick, 2016), and improve expectations and attitudes about the future (Macours and Vakis, 2014). These studies also estimate intervention impacts on future-oriented economic behavior, and thus provide a rich body of evidence that behavioral constraints limit investment, and that these constraints are mutable. In contrast, our study employs observational data on both aspirations and investment to empirically analyze the potentially complex and non-monotonic relationship described above.

It is also important to understand how aspirations are formed. The theoretical literature generally assumes that aspirations are influenced by observing neighbors and peers (Appadurai, 2004; Genicot and Ray, 2017).[1] The empirical literature demonstrates that one's relative status (generally in terms of income) does impact their aspirations (Fafchamps and Shilpi, 2008; Ferrer-i-Carbonell, 2005; Knight and Gunatilaka, 2012; Stutzer, 2004). If aspirations are socially determined and affect behavior, there is scope for interventions that generate spillover effects by altering aspirations within a community. Indeed, several recent studies demonstrate the potential of aspiration-improving interventions to generate multiplier effects through social linkages (Macours and Vakis, 2014; Bernard et al., 2014).

In this paper we (1) use unique measures of aspirations for income and children's education to evaluate if and how aspirations contribute to future-oriented economic behavior, and (2) use detailed network data to examine social influences on aspirations. We find evidence supporting the hypothesized inverse-U relationship between income aspirations and future oriented financial behavior. The probability of engaging in saving activities increases with income and (to a lesser extent) asset aspirations up to a point, but then falls as predicted by the model. We do, however, not see the opposite relationship between spending on temptation goods and aspirations. We also observe the hypothesized relationship between education aspirations and expenditures on education as predicted by theory. This inverse-U relationship is slightly stronger for girls than boys. In addition, we find that one's aspirations for income and children's education are associated with higher levels of observable wealth and children's education within her network, but uncorrelated with lower levels.

The paper proceeds as follows. In Sections 2 and 3 we discuss the relevant theoretical and empirical literature, presenting a theoretical model of aspirations failure (Section 2) and formation (Section 3) adapted from Genicot and Ray (2017). In Section 4 we describe the study setting and data. In Sections 5 and 6 we present our empirical approach and findings regarding aspirations failure and formation respectively. Section 7 concludes.

2. Understanding aspirations failure

Poor households often fail to make even small investments thought to have large returns in the long run, suggesting that they face constraints that prevent them from doing so. Many policies intended to increase investment among the poor focus on easing external constraints. Examples include programs and policies designed to increase savings through informal village banking systems such as ROSCAs (Besley et al., 1993), decrease transaction costs to access formal banking (Jack and Suri, 2011; Flory, 2012), improve information on the benefits of education (Nguyen, 2008; Jensen, 2010), and encourage investment in education using conditional cash transfer programs (Skoufias et al., 2001). However, despite the removal of external constraints through these kinds of programs, low levels of investment often persist.

Recent work recognizes that internal constraints, in addition to external ones, may hinder investment and other future-oriented behavior. A lack of the capacity to aspire and/or hope are examples of internal constraints identified as being critically important to investment and poverty dynamics. In a seminal contribution, anthropologist Arjun Appadurai (2004) argued that policies designed to strengthen the poor's capacity to aspire could "contest and alter the conditions of their poverty." Several recent theoretical papers explore such a relationship between aspirations, investment behavior, and poverty. Dalton et al. (2016), Genicot and Ray (2017), Bogliacino and Ortoleva (2013), and Lybbert and Wydick (in press) employ various assumptions as to how aspirations are formed and enter the utility function, yet all suggest low aspirations generate low levels of investment. In both Dalton et al. (2016) and Bogliacino and Ortoleva (2013), a critical "low" aspirations threshold exists above which investment grows with aspirations, and below which aspirations "fail" and optimal investment is low. Genicot and Ray (2017) also suggest that investment will be relatively low for low levels of aspirations, and subsequently grow with aspirations, but their model suggests a critical "high" aspirations threshold at which point aspirations also "fail" and investment plummets.

[1] According to Appadurai (2004), "Aspirations are never simply individual... They are always formed in interaction and in the thick of social life." Ray (2006) develops this concept further: "individual desires and standards of behavior are often defined by experience and observation; they don't exist in social isolation." Genicot and Ray (2017) demonstrate how socially driven aspirations influence inequality in society.