

Evidence from Lagos on Discrimination across Ethnic and Class Identities in Informal Trade

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Abstract. — This paper investigates the determinants of price discrimination in the rice market in one neighborhood of Lagos, Nigeria. There has been little empirical study of how ethnicity and class shape economic outcomes in informal market interactions. We conduct an audit experiment—one of the first audit experiments in Africa—seeking to address this gap. We experimentally manipulate class, with confederates presenting as different classes; this may be the first audit study to take this approach. This is also one of the first in-person audits to have multiple transactions for each buyer and seller, thus allowing for the use of buyer and seller fixed effects. We find little evidence that, all else equal, sharing an ethnicity on its own influences market treatment. Class, however, does have substantial effects, at least for non-coethnics. High-class non-coethnics receive higher prices per unit than low-class non-coethnics. Our findings suggest that the boundaries of group identity appear to be at least partially defined by class in the informal economy.
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1. INTRODUCTION

There is substantial evidence that discrimination is a central driver of economic disparities, particularly as regards race (Darity & Mason, 1998; Moss & Tilly, 2001; Pager & Quillian, 2005; Wilson, 1996). We know surprisingly little, however, about the extent to which discrimination occurs based solely on characteristics of one individual or rather based on the intersection of two individuals' characteristics, for example the shared identity (or lack thereof) between buyers and sellers. We also know little about how potential bases for discriminatory treatment (race, religion, ethnicity, gender, etc.) interact.

One emerging method of studying the dynamics of discrimination is with field experiments, specifically in-person audits (e.g., Pager, Western, & Bonikowski, 2009). There are a number of advantages to these sorts of audits, not least of which is the generation of causally identified findings which can complement qualitative work and provide context for the generation of new theory (Pager, 2007).

Existing in-person audits have been concentrated in the US, particularly in the housing (1977 Housing Market Practices Survey; 2000 Housing Discrimination Study) and employment (Lahey, 2005; Pager *et al.*, 2009) markets, though audits have been used more widely to study markets such as that for car repair (Gneezy, List, & Price, 2012).

A limitation of in-person audits is that the salient features in these audits—most commonly race—cannot be manipulated experimentally. This leaves studies vulnerable to the critique that there are characteristics of confederates unobserved by researchers that thus cannot be matched on, and that these unobserved characteristics could be driving the observed effect (Guryan & Charles, 2013; Heckman, 1998). This has led many social scientists to conduct correspondence audits, where inquiries are made by (for example) email, where identity can be manipulated experimentally (e.g., Galarza & Yamada, 2014). These audits are vulnerable to another set of criticisms regarding the relevance of these contexts, given that, for example, few job seekers find employment in this

manner (relying instead on personal contact and connections), and there are few domains outside of employment where consequential discrimination might occur without face-to-face interactions. Our audit study is designed partly to address the criticism of unobserved confederate characteristics without sacrificing the critical in-person component.

In Nigeria, as in several other African countries, ethnicity is the most salient identity for a large plurality of citizens.¹ With the literature on the consequences of ethnic salience focus on relatively infrequent political outcomes such as cooperation around public goods and vote choice (e.g., Alesina, Baqir, & Easterly, 1999; Bratton, Bhavnani, & Chen, 2012; Carlson, 2015; Dionne, 2015; Habyarimana, Humphreys, Posner, & Weinstein, 2009; Miguel & Gugerty, 2005), we know little about differential treatment² and identity salience in casual interactions in the informal sector, this despite an emerging literature on the political economy of the informal sector (e.g., Auerbach, 2016; Cross, 1998; Gill *et al.*, 2012; Grossman, 2017; Holland, 2016; Levitt & Venkatesh, 2000; Nordman, Rakotomanana, & Roubaud, 2012; Williams, Shahid, & Martínez, 2016). In interactions with businesses that are informal—i.e. not registered with all relevant levels of government—prices are typically not listed, leading to substantial space for discretionary treatment.³

Though these casual interactions are sometimes called “superficial” (Amir, 1969; Sigelman, Bledsoe, Welch, &

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Combs, 1996), they matter for many reasons. Depending on context, casual interactions can remove or exacerbate stereotypes (Allport, 1954; Bobo, 1999; Putnam, 2007; Stolle, Soroka, & Johnston, 2008). Casual interactions can impede or facilitate more intimate forms of cross-group engagement, such as friendship (Mann, 1959; Williams, Dean, & Suchman, 1964). They can be necessary for cross-group associational forms of engagement (Varshney, 2001) which can prevent violent conflict, yet they might also *exacerbate* inter-group tensions as individual casual interactions might incentivize a group to work harder to maintain group boundaries (Forbes, 2004). Though there is debate about causal mechanisms, a vast inter-disciplinary literature argues that social trust promotes economic development (Dearmon & Grier, 2009; Fukuyama, 2001; Woolcock & Narayan, 2000). As such, the nature of the frequent casual interactions that take place in the informal economy should not be ignored.

Perhaps most importantly, casual interactions speak to identity mobilization. In everyday life, are ethnic and/or class identity salient? Do market sellers—a group that interacts with a large number of people and thus potentially plays a substantial role in identity activation—find salient the class or ethnicity of those who buy from them, a necessary pre-condition to engaging in differential treatment?

The nature of identity and political mobilization has long been a topic of political science theorizing. From Varshney's (Varshney, 2001) associational engagement to Putnam's (Putnam, 2002) bridging social capital, the notion that inter-group contact can promote peace and responsive governance has become an under-explored premise of both political science theorizing and external international development interventions, which often focus on fostering cross-group engagement. It is not clear this always need be the case; being treated less well by individuals unlike you may strengthen in-group identification and exacerbate out-group antipathies. Political appeals to class and ethnicity (for example) are often at cross-purposes, and which will be more successful depends on identity salience; this has substantial implications for the redistributive effects of democracy (Huber, 2013).⁴ These mobilizations may in turn have path-dependent consequences for identity salience (Eifert *et al.*, 2010), driving a cycle wherein identities and political mobilizations become increasingly path-dependent.

In this article we focus on informal economy interactions between members of different groups, where which are the relevant “groups” remains an open question. Prior studies about the consequences of casual interactions ignore the critical prior question: what actually happens in these interactions, and why? Our study asks: On what dimensions does differential treatment occur in casual interactions and what motivates it? When and where are certain identities salient, and are these underpinned by taste-based or rational economic calculations? We further analyze how the nature of differential treatment in casual interactions compares to differential treatment in more political interactions, such as cooperation in collective action problems and vote choice.

We conducted audit experiments, a method increasingly in use in political science (Adida, Laitin, & Valfort, 2010; McClendon, 2016; Michelitch, 2015), in a densely populated neighborhood in Lagos, Nigeria in the retail rice market to test hypotheses about differential treatment in casual interactions. Confederates visit rice sellers dressed to look like they come from a medium-/high-socioeconomic (SES) group or low-socioeconomic group, greeting the seller in the language of one of two large ethnic groups in Nigeria. Confederates inquire into the price of rice, and purchase a pre-determined quantity.

We record both the quoted price and weight of rice received. We conducted the audit with 464 interactions, a sample size that far exceeds similar city-level housing audits conducted in America (e.g., Turner, Ross, Galster, & Yinger, 2002).

Our central findings are that buyer socioeconomic status rather than ethnic match drives discrimination. However, non-coethnics who appear lower class are treated roughly the same as lower class coethnics. In short, buyers who appear of lower socioeconomic status are treated better than those who appear of higher socioeconomic status, but shared ethnicity makes one immune from a penalty that otherwise applies to higher class buyers.

These results contribute to a number of research areas beyond the direct study of discrimination, most notably studies of inter-group relations. Our work suggests a number of prominent schools, from sociology's “contact hypothesis” to studies of ethnic heterogeneity in political (e.g., Habyarimana *et al.*, 2009) and organizational life (e.g., Hjort, 2014), may ignore casual market transactions and their potential impact on inter-group beliefs at their peril. As Forbes (Forbes, 2004) has suggested, it seems implausible that meaningful cross-group associational interactions could occur in the absence of casual cross-group interactions. Inasmuch as we suggest class and ethnicity interact in predicting realized treatment in this case, inter-ethnic beliefs may be affected by class. Varshney has considered the historical roots of associational forms of engagement, arguing that factors such as labor abuses can impede the ability to form civic networks (Varshney 2003, p.16). Casual interactions could exacerbate or moderate antipathy stemming from these factors.

We begin this paper by discussing existing theory on how and why ethnic and class identity are expected to affect interactions in casual and political interactions. We develop hypotheses from a careful consideration of the mechanisms that could plausibly be operative in casual interactions. Next we discuss the experiment design. We proceed to present our audit results on discrimination, and then attempt to disentangle potential mechanisms driving the results.

2. THEORY

What is the scope of discrimination in everyday forms of engagement, on what bases does it occur, and what motivates discriminatory treatment? A large literature has provided evidence that contributions to public goods are higher in ethnically homogenous contexts (e.g., Alesina & Glaeser, 2006; Habyarimana *et al.*, 2009; Miguel & Gugerty, 2005). Yet the mechanism that these studies identify relies on the assumption of repeat interaction, which we design our experiment explicitly to avoid so as to mirror the many one-off casual interactions in the informal sector that occur in daily life. There is a large literature on discrimination in Western labor markets (for a review of these studies see Altonji & Blank, 1999), but also on discrimination in everyday interactions in America, using the audit method, just as we do in this paper (e.g., Fong & Luttmmer, 2009; Gneezy *et al.*, 2012). This literature finds overwhelming evidence of racial bias: blacks and Hispanics are uniformly treated worse than non-Hispanic whites, and the degree of discrimination in these audits is staggering. Yet it is unclear what lessons this has for us, as racial groups are roughly ranked in America; blacks and Hispanics, on average, tend to be less wealthy than non-Hispanic whites. Statistical discrimination could be motivating differential treatment, where minorities are treated worse because their socioeconomic status is approximated based on the mean

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