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# Crossing boundaries: How social hierarchy impedes economic mobility<sup>☆</sup>



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## ABSTRACT

How important are social hierarchies in explaining durable economic inequality? Using novel data from rural Pakistan on the caste composition of village hamlets and the location of primary schools, we investigate the impact of caste-based hierarchies on human capital accumulation, a key determinant of socio-economic mobility. We find that social stigma greatly discourages school enrollment among low-caste children, with low-caste girls, the most educationally disadvantaged group, being the worst affected. Our results imply that a policy of prioritizing school availability in settlements dominated by low-caste households would be a cost-effective way of increasing overall school enrollment.

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*“Our children sit on the floor in the school; benches are for [high caste] children. . . We can pollute them, you understand?”*  
(Low-caste woman, Sindh).

## 1. Introduction

Hierarchical group identities, whether based on ethnicity, race, religion, or caste, are a pervasive feature of human society. Even as the extractive institutions (e.g., slavery, patronage systems) from whence they sprang whither away or die out completely, the hierarchies themselves often persist.<sup>1</sup> Marked by the high-status group as possessing “spoiled” or disreputable identities (Goffman, 1963), members of the low-status group can be stigmatized and excluded from a range of institutions, both public and private. When such social exclusion perpetuates cross-group inequality—as was, arguably, the case with separate but (un)equal schooling of white and black children in the American south (Margo, 1986)—a poverty trap arises. Public policy blind to group identities may be ineffective in remediating such durable inequities.

Empirical work on the role of social exclusion in shaping economic outcomes is scant,<sup>2</sup> due largely to the difficulty of establishing a non-discriminatory counterfactual in a context where discrimination is ubiquitous (Fryer, 2011, makes a

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<sup>1</sup> On American slavery and the subsequent Jim Crow laws as extractive institutions, see Acemoglu and Robinson (2006).

<sup>2</sup> There is, of course, a vast literature on labor market discrimination (see Altonji and Blank, 1999), but, as Loury (2000) exhorts, “when considering ethnic group inequality, economists should look beyond what happens in markets.” (p. 232). Moving in this direction, Alesina and Zhuravskaya (2011) study the effects of segregation on governance across countries.

similar point). To fill this void, we consider a setting, rural Pakistan, in which a vestigial caste system operates—much like in neighboring India, but far less recognized. Communities have a long history of stratification along caste lines, some hamlets or settlements dominated by high-castes and others by low-castes. Since not every settlement can have its own primary school, access to education invariably requires children to cross social boundaries. As we will show, it is the interaction of school placement and settlement caste-structure that provides us with the requisite non-discriminatory counterfactual within a discriminatory environment; in particular, it allows us to identify the impact of social exclusion on human capital accumulation, an important source of economic inequality across groups.<sup>3</sup> Indeed, we find that a hypothetical removal of discriminatory barriers to education would cut a 42 percentage point school enrollment rate gap between the most disadvantaged group, low-caste girls, and the least disadvantaged, high-caste boys, to one of 7 percentage points; a six-fold decline!

Our data set is unique in explicitly recognizing the geographic structure of villages and the social structure of their constituent settlements. We conceptualize the decision to enter school as conditioned on the psychic costs of both attending and traveling to the school-house. Thus, controlling for school distance, we find that the propensity to ever enroll in school is substantially lower for girls who would have to cross the physical boundaries of their settlement to attend, an effect not present for boys. This can be explained by the custom of *purdah* or female seclusion, which is more rigidly enforced outside of the settlement than within it.<sup>4</sup> In other words, sending a *daughter* to a school located outside of her settlement (even though still within her “village”) entails greater psychic costs than sending her to an equally distant school *within* her settlement. This result, however, depends strongly on the caste of the child. Unlike their high-caste counterparts, low caste girls appear to be indifferent to the presence of a school in their own settlement, but are much *more* likely to enroll when a school is available in a low caste dominant settlement. Low-caste boys, too, are more likely to enroll when a caste-concordant schooling option is available. These findings appear to be the result of discrimination or stigma operating against low-caste children wanting to access schools in high caste dominant settlements.<sup>5</sup> Importantly, we show that low-caste children living in high and low-caste dominant settlements do not otherwise exhibit systematically different enrollment patterns, suggesting that differences in educational aspirations, motivations, or preferences across these groups are not driving our results.

Finally, we demonstrate the quantitative importance of this stigma effect by showing that a policy of prioritizing school availability in settlements where low-caste households dominate would actually increase *overall* enrollment by more than a policy of placing schools in unserved settlements irrespective of their caste composition, and would do so at much lower cost.

The empirical challenge that we face is well-known: Schools are not randomly allocated across communities and, in particular, may be more likely to be built where demand is high; in other words, the need to cross settlement boundaries to attend a school may be endogenous. To uncover the causal effects of school location, we consider two identification strategies that allow for the possibility that unobserved education demand varies across settlements within a village. The first strategy exploits the fact that even children living within the same settlement may have had, on account of gender and, possibly, age variation, different access to school at the point of enrollment. As a consequence, we can use settlement fixed effects to purge settlement level unobservables. The second strategy involves an instrumental variable, the settlement’s share of village population, which predicts whether a settlement within a village receives a school. To validate the instrument, we show that migration into settlements over time has not been driven by the establishment of new schools and that the instrument is uncorrelated with settlement-level factors potentially related to the returns to, or the costs of, schooling.

The economics literature on discrimination begins with [Becker \(1971\)](#), who considers how distaste for a minority group on the part of employers or co-workers impacts wages and sorting of employees across firms in both partial and general equilibrium. His theory implies that entry of non-discriminating firms (or firms that hire non-discriminating workers) can eventually compete discriminating firms out of business. In this sense, economic development is inimical to taste-based labor market discrimination. A key difference in our context is lack of competition. Most rural elementary schools, especially in areas with substantial low-caste populations, are publicly provided; entry of private operators is unlikely to be economically viable given the size of the typical settlement and their geographical dispersion. In this environment, taste-based discrimination can persist and even perpetuate under-development in the long-run.

There is also a growing economics literature featuring caste in South Asia, within which the work of [Anderson \(2011\)](#) and [Anderson et al. \(2011\)](#) is closest in spirit to ours. While the problems studied in their papers are different,<sup>6</sup> we place common emphasis on the economic implications of power relations between elite and subservient groups. In a separate

<sup>3</sup> In this respect our work proposes a novel channel for community heterogeneity to affect outcomes. By contrast, the collective action or “social capital” literature ([Alesina and La Ferrara, 2005](#)) argues that, by inhibiting cooperation, social fragmentation reduces the provision of local public services such as schooling. Note that, while this mechanism might explain generally low school attainment in more diverse communities, it cannot easily rationalize inter-group differences within these communities, which is our primary concern.

<sup>4</sup> *Purdah* is not confined to Islamic societies, but is practiced throughout much of northern and central India as well. [Fafchamps and Quisumbing \(1999\)](#) discuss female seclusion in the context of labor markets in Pakistan, arguing that this custom might explain low female returns to education.

<sup>5</sup> Note how this mechanism is distinct from that espoused by, e.g., [Akerlof \(1997\)](#), and other commentators on the American underclass. Rather than facing ostracism by their out-group peers for attending school—i.e., “the cost of education includes disutility from deviation from others in one’s social network” ([Akerlof, p. 1017](#))—low-castes here face ostracism by the in-group (see also [Akerlof and Kranton, 2000](#)).

<sup>6</sup> [Anderson \(2011\)](#), for example, considers how social hierarchy interferes with contract enforcement in private groundwater transactions.

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