

Aspirations in Economics: A Review



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Introduction

The study of aspirations in economics has as its starting point the notion that an individual's goals and preferences are fundamentally determined by that individual's social environment. Specifically, the economic conditions of her environment lay down yardsticks that determines an individual's evaluation of success and failure. In this sense, social identity is basic to the theory, and the arguments can be extended to situations in which such interactions occur across gender, ethnicity and class.

There is a fast-growing literature on socially determined aspirations, and the implications of this concept for the study of goal-setting, interpersonal inequality, economic mobility, risk-taking, fertility decisions and social conflict. This EDI Research Insight briefly outlines the major themes emerging from the EDI Case Study on "Aspirations in Economics". The full findings are to be published in an invited review essay in the *Annual Review of Economics* (2019).

Theme 1: Aspirations are, in part, socially determined

While aspirations serve as reference points for individual success or failure, the reference points in turn are fundamentally determined by an individual's social environment. Specifically, individuals look around them and see what others have. The notion of "others" may be conditioned by whom an individual chooses to look at: they could be close peers or distant role models. Their endowments and achievements determine the aspirations of an individual. This kind of social concern is consistent with the broader notion that happiness is in part, relative. But the particular line of influence emphasized here is more structured.

¹ This Research Insight provides a summary of themes and findings that have emerged so far from the EDI Case Study on "Aspirations in Economics" (<https://edi.opml.co.uk/research/aspirations-economics-review/>)

Theme 2: Aspirations can motivate or frustrate

Because aspirations are generated by the surrounding society in which the individual is located, economic development as a whole – both the speed and the inter-personal distribution of that economic development – will affect not just individual happiness but also behavior.

Specifically, if others in an individual's environment exhibit similar social and economic outcomes, the aspirations of that individual will generally settle at levels that are attainable, and can therefore serve to inspire — aspirations can stimulate productive effort and investment. On the other hand, if an individual's environment consists of others who are located at a large distance in the space of characteristics, her aspirations could be driven to inordinately high levels, and thereby serve to frustrate. Finally, if an individual's current economic status already takes her past her socially generated aspirations, she may well be complacent in her investments. In summary, individual growth can be initially pulled up by aspirations, but stymied if those aspirations are too high to begin with, and indeed growth is likely to be highest among those for whom the "aspirations gap" is neither too large or too small.

Theme 3: Connected societies are mobile; polarized societies are not

This minimal effect of an aspirations gap at both ends of the gap spectrum has implications for connected or polarized societies. In a connected society, there is variety and diversity in every cognitive neighborhood, so that an individual's aspirations are always located above her current situation, but never too far. When there is a many-linked chain of "local steps" between the poorest and the richest, individuals will not only have aspirations, but will have the sort of aspirations they can act upon. In contrast, a polarized society will have clusters of inhabitants with a large gap across clusters. If these clusters are separated enough so that no cluster includes the other in their cognitive window, the aspirations gap could be small and not conducive to large self-improvement. And if they do include other clusters, the aspirations gap could then be inordinately large, again a situation that brings on frustration. Both effects lead to immobility.

Theme 4: Frustrated aspirations can lead to social conflict

Our theory of socially dependent aspirations has implications for conflict. It suggests that high economic inequalities can give rise to "orthogonal reactions" against sections of society who are not responsible for that rise in inequality in the first place. A variety of social and political phenomena can be understood from this perspective, including the rise of xenophobia and intolerance.

In particular, positive economic growth that is nevertheless unevenly dispersed can lead to frustration and conflict.

Theme 5: Aspirations influence risk-taking

The theory of socially dependent aspirations suggests that an individual who is risk averse when ahead of his peers might start taking much more risk after falling behind his reference group. The nature of that risk-taking — such as actions with small gains but with large probability, compared to actions with large gains that occur with small probability — can be shown to depend on the form of the ambient distribution of economic characteristics. In similar vein, and this time focusing on the inertia of individual aspirations, it can be shown that individuals with an immediate history of economic loss can be prone to taking on higher risks, in an attempt to recoup those losses.

Theme 6: Aspirations generate testable fertility patterns

The incorporation of aspirational considerations into the determination of fertility brings interesting insights. A society that places aspirational weight on child quality (as opposed to the quantity of children) will generate a U-shaped relationship between income and the number of children. The poorest families will give up on quality aspirations, thereby falling back on high fertility. The richest families — who can have their cake and eat it too — will engage in high fertility because they easily meet the quality standards through economic investment in children. It is for middle-class families that there is a genuine trade-off between quality and quantity. They will have fewer children in order to achieve their quality reference point.

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