

Social Development; Gender, Social Policies

Legacy of Social Inequality in Expectations, Norms, and Governance

The purpose of the project was to measure the willingness to punish violations of norms of cooperation. The research set out to understand how changes in formal aspects of governance are consistent with the persistence of a cluster of economic institutions that make inequality persistent, in particular in the informal enforcement of property rights. Before Indian independence in 1947, property and contracting rights were concentrated in the high castes, whereas the low castes were denied property rights in land and had limited rights to contract even over their own labor.

Experiments using third-party punishment games are a way to identify the content and intensity of social norms. The experiment in this project focused on the willingness of low-caste and high-caste individuals to punish violations of norms of cooperation. Thus, it looked at the most basic building block of social order in a community—the extent to which social norms support cooperation and limit opportunism. To measure the willingness to punish violations of cooperation norms, the analysis implemented a sequential exchange game with third-party punishment. Subjects were drawn from the two ends of the caste hierarchy: low and high.

The findings showed that on average high-caste men punished defection much more harshly than low-caste men did, and that this result was not explicable by wealth or education differences. Unlike all previously studied groups, low-caste men did not punish out-group members who hurt in-group members more than in-group members who hurt out-group members. The absence of in-group affiliation among low-caste men could account for the difference in the level of punishment between high and low-caste individuals.

Project findings have been presented at the University of Manchester, July 2007; the conference Measuring Preferences in a Social Context, University of Texas at Dallas, May 2007; the Economists' Forum 2007, World Bank, April 2007; the University of Maryland, School of Public Policy, March 2007; the George Washington University, Washington, D.C., March 2007; Harvard University, March 2007; Cornell University, November 2006; the World Bank's Poverty and Applied Micro Seminar Series, November 2006; and the MacArthur Research Network on the Effects of Inequality, Massachusetts Institute of Technology, October 2006.

Responsibility: Development Research Group, Macroeconomics and Growth Team—Karla Hoff (khoff@worldbank.org). With Sonal Vats, Mayuresh Kshetramade

Mukta Joshi, Emily Wylde, Manoj Gupta, and Shiv Mishra.

Project Code: P091384.

Completion date: June 2007.

Publication

Hoff, Karla, Mayuresh Kshetramade, and Ernst Fehr. 2007. "Norm Enforcement under Social Discrimination." World Bank, Washington, D.C. Unpublished.

Social Status in India and Political Economy in Transition Economies

This project had two separate and unrelated parts. The first part used experiments in India to study the effect of the legacy of social inequality on responses to incentives. The second part used a simple theoretical model and empirical test to study the effect of political alternation on governance in transition economies.

Social Status in India. This project used caste in India to study the factors that contribute to the persistence of inequality. Previous experimental research in psychology has studied the effect of "stereotype threat" on performance within specific domains of the stereotype. This project, which is an extension of the literature on stereotype threat, shows how social identities can create inequality of performance in domains previously unfamiliar to the subjects.

The data were from experiments in a village in Uttar Pradesh, where 168 low-caste and 168 high-caste boys were given mazes to solve under piece-rate incentives. In mixed-caste groups, the high-caste boys solved 7 percent more mazes than the low-caste boys did among subjects whose caste was not publicly revealed. By contrast, the high-caste boys solved 38 percent more mazes than the low-caste boys did among subjects whose caste was publicly revealed. These findings provides evidence of the role of social identities created under a rigidly stratified regime in making inequality persistent long after the legal barriers and the conditions that gave rise to those barriers have changed.

The research was discussed in a recent World Bank *World Development Report*, and has been replicated in South Africa (with black and white subjects). It may in the future be tested in China (with illegal vs. legal urban residents).

Political Economy in Transition Economies

The second part of the project sought to understand whether political turnover at the onset in transition economies contributed to the development of the rule of law. The project developed a measure of political alternation and used it to test the effect of political turnover on governance. The data were from a vast array of public sources.

The preliminary empirical suggested that political turnover in the period of nascent liberalization of the transition economies helped in promoting the establishment of institutions to build the rule of law. Turnover reduced the incentives for firms to buy special rules from the party in power; it increased the incentives of firms and politicians to support fair, open rules that would guarantee a modicum of protection of rights regardless of who holds power.

The project findings have been presented at Stanford University, the London School of Economics-Cornell conference on behavioral economics, a World Bank Development Economics seminar, the Brookings Institution, and Columbia University, New York. Data from the work on India are available on the Web at <http://www.povertyactionlab.com/data/>.

Responsibility: Development Research Group, Macroeconomics and Growth Team—Karla Hoff (khoff@worldbank.org). With Branko Milanovic, Priyanka Pandey, World Bank; Shale Horowitz, University of Wisconsin; and Jeren Kabueva, World Bank.

Project Code: P087592.

Completion date: June 2007.

Publications

Hoff, Karla, and Priyanka Pandey. 2005. "Opportunity Is Not Everything: How Belief Systems and Mistrust Shape Responses to Economic Incentives." *Economics of Transition Special issue on Institutions and Economic Performance* 13(2, July): 445-72. <http://ssrn.com/abstract=776989>.

———. 2005. "The Persistent Effects of Discrimination and the Role of Social Identity." *Revision requested by Review of Economics and Statistics*.

———. 2006. "Discrimination, Social Identity, and Durable Inequalities." *American Economic Review, Papers and Proceedings* (May): 206-11.

Hoff, Karla R., Shale Horowitz, and Branko Milanovic. 2005. "Political Alternation, Regardless of Ideology, Diminishes Influence Buying: Lessons from Transitions in Former Communist States." *Policy Outlook*, Carnegie Endowment for International Peace, Washington, D.C.

———. 2006. "Transitions from Communism: Political Alternation as a Restraint on Investing in Influence." World Bank, Washington, D.C. Unpublished.

The Economics of Reciprocity Networks

If a kin member achieves economic success in the modern sector, his less successful kin invariably besiege him to help them out. The need to meet such demands can lower the productivity of the kin member in the modern sector and adversely affect his incentives in other ways. Since modern sector employers can foresee these problems, migrant kin members (especially the early migrants) face an entry barrier to the modern sector. Alternatively, if the kin group recognizes that it will lose some of its most productive members, it may take collective action ex ante to erect exit barriers for such members. If that is the case, then the kin system, which was once a beneficial arrangement, may become a poverty trap.

This research project constructed simple principal-agent models to understand who bears the cost of nepotism, and a simple model of a coordination game to understand rural-urban migration. The project studied the behavior of kin group members facing a modern economy, and identified the nature of the network effects that might cause them to take collective decisions that are ex ante inefficient.

This analysis does not contend that the kin system must necessarily lead to such dismal outcomes. Early migrants might indeed work to facilitate the migration of other members; and the kin group as a whole, recognizing the long-term benefits from having more and more economically successful members in the modern sector, would facilitate the process of migration. If that happened, then the kin system would turn out to be a beneficial institution not only in the pre-modern economy, but also during the process of transition to a modern economy. The institution would adapt in response to structural changes in the economy in a way that would benefit all its members.

Responsibility: Development Research Group, Macroeconomics and Growth Team—Karla Hoff (khoff@worldbank.org). With Arijit Sen, Indian Statistical Institute.

Project Code: P093865.

Completion date: June, 2005

Publications

Hoff, Karla, and Arijit Sen. 2005. "The Extended Family System and Market Interactions." In Christopher Barrett, ed. *The Social Economics of Poverty: On Identities, Groups, Communities, and Networks*. Routledge.

———. 2006. "The Kin System as a Poverty Trap?" In Samuel Bowles, Steven Durlauf, and Karla Hoff, eds. *Poverty Traps*. Princeton University Press.

Social Customs and Women's Status in Rural Pakistan

This research project seeks to understand the role of culture and social norms in creating and sustaining the position of women in society. It investigates the causal link between particular norms and practices and an outcome of interest, such as women's bargaining position within marriage, or the educational opportunities of girls.

The role of culture and social norms in shaping the position of women in society has been studied for some time by non-economists. However, there is little generalizable evidence that establishes any causal relationship between specific norms or institutions and a measurable outcome, such as women's economic or psycho-social welfare bargaining position within marriage, or the educational opportunities of girls. This is the lacuna that this research begins to fill.

The project designed and fielded a detailed household survey in rural Pakistan in 2004-2005, as a follow-up to the 2001-2002 Pakistan Rural Household Survey (PRHS). Detailed data were collected on marital customs, social constraints – including mobility restrictions as well as accompanying data on *zaat* (caste) – and location. Analyses of these data have yielded three papers so far, as well as much of the analysis in the World Bank's Pakistan Country Gender Assessment.

The project findings show how informal institutions that apparently restrict marital choice can be welfare enhancing for women where formal legal structures are weak and de facto access to justice is even poorer. The findings also highlight important gender differences in school access, controlling for school distance. In particular, girls are much less likely to attend school if the school is located in a different community from where the child resides. This effect is particularly severe if the child also belongs to a lower status *zaat* (caste) than the majority of households in the school community or settlement.

The work on schooling is ongoing and the researchers plan to launch a pilot program to test the hypotheses assessed in the paper "Crossing Boundaries: Community, Caste and School Enrollment in South Asia."

Project findings have been presented at a World Bank workshop, Islamabad (May 2007); Duke University Development Workshop (April 2007); dissemination workshops for the Pakistan Country Gender Assessment, Islamabad and Karachi, Pakistan (May 2006); a Poverty and Applied Micro Seminar, World Bank, Washington, D.C. (April 2006); a workshop in Karachi, Pakistan (September 2006); NEUDC (September 2005); and BREAD (September 2005).

Responsibility: Development Research Group, Poverty Team

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Project Code: P084150.

Completion date: December 2007.

Publications

Mansuri, Ghazala, and H. Jacoby. 2007. "School Enrollment and Income Gains: A Disaggregation of Period, Cohort and Age Effects Using Panel Data." World Bank, Washington, D.C. Mimeo.

Mansuri, Ghazala, and H. Jacoby. 2007. "Watta Satta: Exchange Marriage and Women's Welfare in Rural Pakistan." Policy Research Working Paper 4126. World Bank, Washington, D.C.

Mansuri, Ghazala, and H. Jacoby. 2007. "Crossing Boundaries: Community, Caste and School Enrollment in South Asia." World Bank, Washington, D.C. Mimeo.

Marriage Transitions and HIV/AIDS in Malawi

The goal of this research project is to understand how socio-economic conditions in a community affect an individual's risk of human immunodeficiency virus (HIV) infection. The project seeks to understand the dynamic and interacting roles that poverty, gender inequality, partnership patterns (pre-marital and marital), and transactional sexual relations play in spreading HIV. The main it asks is the following: What forms might effective policies take for prevention of HIV among the youth in Malawi in particular and in Eastern and Southern Africa in general?

The objective of the project is to better inform the design of policy efforts to prevent the transmission of HIV. However, convincing evidence on the complex, causal relationships between background characteristics (such as education and poverty), partner selection, quality of marriage, and the degree of risky sexual behaviors these choices imply is lacking. This study aims to fill this gap in evidence by collecting longitudinal data on a randomly selected sample of never-married young people that combining information on socio-economic background, HIV status, characteristics of sexual partners, and sexual behavior.

The project will collect longitudinal data using three detailed household surveys annually, starting in July 2007. It will also perform 11 quarterly in-depth partnership interviews to collect data on sensitive information regarding sexual behavior and partners. Finally, it will include testing for HIV (and possibly other sexually transmitted infections) for all respondents at least twice to assess prevalence and incidence rates.

Responsibility: Development Research Group, Poverty Team-

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Project Code: P099861.

Completion date: March 2010.

Argentina: Social Security and Elderly Welfare

This research project investigated the policy dilemma of how best to provide income security in old age when a large segment of the working population is informally employed or self employed. The project examined the saving and insurance strategies and labor market histories of a random sample of elderly households in Argentina.

The analysis sought to answer whether the low level of participation among workers in Argentina was a reflection of social exclusion or household choice. The analysis identified groups that may have been chosen to evade the system on their own or in collaboration with their employers.

The findings showed the labor market only offered a viable alternative to the pension system for those who always had and continued to enjoy good labor prospects. Labor market participation did not appear to compensate for the decline in pension coverage in Argentina. Although participation in the labor market could have been an important livelihood protection strategy for older people with high potential earnings, it was unlikely to be an effective strategy for older people with low potential productivity. The opportunities and benefits from “active” ageing appeared skewed toward the healthier and wealthier among the old, at least as far as remunerated work.

Those who continued to work in old age were individuals who reported the longest employment histories. Furthermore, the working elderly in the sample were not only those whose predicted labor incomes were relatively high, but also those who had contributed to the pension system for fewer years throughout their working lives.

Responsibility: Latin America and Caribbean Region, Public Sector Unit— Truman Packard (Tpackard@worldbank.org) and Evelina Bertranou. With Armando Barrientos, University of Sussex; Carlos Grushka, Superintendency of Pension Funds, Government of Argentina; and Abigail Barr, University of Oxford.

Project Code: P094088.

Completion date: January 2007.

Publications

World Bank. 2007. “Argentina: Facing the Challenge of Ageing and Social Security.” Sector Report 34154. World Bank, Washington, D.C.

The Macro and Welfare Impacts of Notional Defined Contribution Pension Systems in a Partial-Dynamic General Equilibrium Model

Many countries have implemented at least one mandatory earnings related pension system financed on a pay-as-you-go basis and covering mostly wage earners in the public sector and the urban private sector. Several countries have introduced reforms that keep pay-as-you-go financing arrangements but rationalize benefit formulas and eligibility conditions by moving toward notional defined contribution formulas.

This research project addressed the question of how the movement from deficient defined contribution formulas to notional accounts formulas affected individual behavior, the finances of the pension schemes, macroeconomic dynamics, and social welfare. The analysis was based on a dynamic, partial-equilibrium, macro-simulation model calibrated to reproduce conditions generally observed in middle-income countries. The model followed over time different age-cohorts of individuals in the labor force and formalized their behavior regarding savings, labor supply, and retirement. Most of the data were from country sources, particularly countries in the Middle East and North Africa region. The model provided a useful benchmark by indicating what would be the optimal response. Moreover, the results can be used to test the theoretical consistency of their assumptions, for instance, regarding retirement patterns.

The analysis produced four main results. First, moving from “bad” defined benefit formulas to non-defined benefit formulas increased labor supply, savings, and retirement age. Second, the impacts on savings were modest, but impacts on labor supply and retirement decisions were important. Third, the most critical element in the new benefit formula was life-time earnings. And fourth, if countries cannot move to non-defined contribution formulas, they should at least aim for accrual rates that increase with age and that are announced at the time reform, even if initially these have to be a above the non-defined contribution equivalent.

The project findings have been presented at various conferences in the Middle East and North Africa region (in Bahrain, Lebanon, Jordan, United Arab Emirates, and Morocco), and at the Economist Forum at the World Bank.

Responsibility: Middle East and North Africa Region, Human Development Group—Michal Rutkowski (Mrutkowski@worldbank.org). With David Robalino, Middle East and North Africa Region, Human Development Group; and Massimo Sabbatini.

Project Code: P085691.

Completion date: June 2007.

Publication

Robalino, David, and Massimo Sabbatini. Forthcoming. "The Macro and Welfare Impact of Notional Defined Contribution Pension System within a Partial-Dynamic General Equilibrium Model."

Effects of Unemployment Insurance

In 1998, Slovenia sharply reduced access to unemployment benefits and improved employment services and the monitoring of recipients. Using administrative data sets, the project analyzed the effects of these changes on the duration of unemployment for recipients and on several characteristics of their post-unemployment job—wages, duration, and precariousness. The analysis relied on duration models and earnings functions.

In Estonia, which overhauled its unemployment benefits system in 2001, the benefits for some categories of workers were expected to increase by a multiple of five or more. Using labor force survey data, the project assessed the effects of the changes on labor force participation and re-employment incentives.

The analysis identified sizable disincentive effects of the unemployment insurance system. In Slovenia, the probability of finding a job increased sharply for recipients whose entitlement period was shortened; the probability remained virtually unchanged for those whose entitlement period did not change. The reform had a positive effect on the job-finding rate in the third month of unemployment, probably through the reduction in benefits that occurred in the fourth month of receiving benefits. In Estonia, similar spikes were detected 100 days after the start of the receipt of the benefit, when the replacement rate also dropped significantly.

The analysis of the Slovenian unemployment insurance reform also revealed that shortening the maximum benefit duration did not affect the post-unemployment wages of recipients. This suggested that the higher job-finding rate following the reduction of benefit duration was produced not by a higher probability of accepting a job, but by a higher probability of receiving a job offer—a sign of greater effectiveness in job search activity.

The project findings have been presented at conferences and seminars at the following: Research School of Social Sciences, Australian National University, Canberra, Australia (July 2004); Department of Economics, University of Melbourne, Melbourne, Australia (August 2004); Department of Economics, University of Sydney, Sydney, Australia (August 2004); Ministry of Labor, Beijing, China (September 2004); IZA prize ceremony conference, Berlin, Germany (October

2004); Center for Economic Research, Tilburg University, Tilburg, The Netherlands (September 2004); European University Institute, Florence, Italy (October 2004); Department of Economics, University of Maastricht, Maastricht, The Netherlands (November 2004); University of Paris (Paris I), Paris, France (February 2005); Making Work Pay Conference, European Union, Brussels, Belgium (March 2005); Netherlands Bureau of Policy Analysis (CPB), The Hague, The Netherlands (March 2005); Department of Economics, University of Zurich, Zurich, Switzerland (June 2005); Social Research Institute, Copenhagen, Denmark (September 2005); Institute of Economics, University of Tartu, Tartu, Estonia (February 2005); and PRAXIS, Tallinn, Estonia (February 2005).

Responsibility: South Asia Region, Human Development Sector—Milan Vodopivec (mvodopivec@worldbank.org). With Jan van Ours, Tilburg University; Raul Eamets, University of Tartu, Estonia; and Jakob Tomse, University of Ljubljana, Slovenia.

Project Code: P087059.

Completion date: June 2006.

Publications

- Leetmaa, Reelika, Raul Eamets, Andres Võrk, and Jaan Masso. 2005. "How Unemployment Insurance System Affects Labor Market Behavior: The Case of Estonia." University of Tartu. Processed.
- van Ours, Jan, and Milan Vodopivec. 2005. "Changes in Benefit Entitlement and Job Finding, The Slovenian Experiment." *European Economy, Special Report (2)*: 150-61.
- . 2006. "How Shortening the Potential Duration of Unemployment Benefits Affects the Duration of Unemployment: Evidence from a Natural Experiment." *Journal of Labor Economics* 24(2): 351-78.
- . Forthcoming. "Does Reducing Unemployment Insurance Generosity Reduce Job Match Quality?" *Journal of Public Economics*.

Tackling Poverty in the Short and Long Run: An Assessment of the Experience of Conditional Cash Transfer Programs

A growing number of countries, in particular in Latin America, have implemented conditional cash transfer programs. These programs seek to provide poor households with a minimum consumption floor. And in making transfers conditional, the programs seek to encourage the accumulation of human capital and break the vicious cycle whereby poverty is transmitted across generations.

This research project aims to provide an assessment of conditional cash transfer programs as an instrument of social policy. The project will pay particular attention to the following four themes:

- The conceptual basis for understanding conditional cash transfer programs and their role in social policy
- The evidence of impacts on consumption poverty, education, health, and nutrition outcomes
- The evidence on the effects of alternative design features, such as choice of targeting methods, size of transfers, and types of conditions
- The role of conditional cash transfers and similar programs in the context of social protection policies.

The project will provide strong analytical and empirical underpinnings for the World Bank's growing involvement in policy advice and operational work related to conditional cash transfer programs. Although there are a reasonably large number of individual evaluations of conditional cash transfer programs, there is no up-to-date, comprehensive report that reviews, discusses, and draws out the policy implications from these individual evaluations. Moreover, the reviews that currently exist largely focus on the experience with these programs in Latin America, ignoring the findings from other developing countries.

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Project Code: P104163.

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