Aspirations, Frustrations, and Conflict*

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It has long been recognized that income inequality and conflict are closely related. Inequality can lead to conflict through various channels: it can fuel people's frustration with their current socioeconomic status, exacerbate grievances against the rich, or limit the resources available to the poor to sustain the conflict. Most of these mechanisms rely on the idea that people compare themselves with some reference point. They look up to someone; they have expectations about where they should be on the social scale, and not meeting these expectations gives rise to grievances and discontent.

Even though this discussion provides novel insights, the story misses a critical point. The reference point is usually not only global, but it depends on the agent's close environment. People not only compare themselves to the top of the income distribution but also to their neighbors and peers, meaning the relevant income distribution for one person might not coincide with that of the others. Hence, conditional on the same global income distribution, different groups might have different propensities to enter into conflict because of their different reference points. That is, between-peers comparison can give rise to a type of conflict that goes beyond the macro-classes struggle perspective (rich vs. poor, capitalists vs. working class, etc.), one that occurs within neighborhoods and different groups of people closer to each other.

This paper proposes a novel theoretical approach for precisely examining this type of lo-

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cal, micro-level conflict. We study the relationship between inequality and conflict within and between neighborhoods, employing a framework that incorporates aspirations as a fundamental aspect. Building upon the foundational work on the role of inequality in the development of aspirations by Genicot and Ray (2017), we propose a general model to study conflict onset and intensity when agents have relative-dependent utilities determined by both within- and out-reference groups in a local territory. As in Genicot and Ray (2017), aspirations in our framework lead to groups of frustrated and satisfied agents, changing incentives to engage in conflict.

We focus on a specific source of variation in the neighborhood income distribution: residual policies. These policies aim to benefit the poor, but they are implemented in a way that only benefits a subgroup of them. Contrary to what they intend, these policies might naturally induce inequality in places that would otherwise be very homogeneous. If within-group inequality can translate into conflict, policies that aim to decrease overall inequality by benefiting some agents belonging to impoverished groups might create as pervasive inequalities, in terms of conflict, as overall inequality.

With this framework in mind, our research's motivation is twofold. First, we seek to study how the presence of aspiration-based utilities can shape the overall contours of conflict. Encouragingly, our findings indicate that introducing aspirations leads to significant alterations in the equilibrium set characterized by conflict. These changes are contingent upon the extent of inequality and the intensity of frustration levels experienced by the agents. Second, this paper aims to elucidate whether alterations in within-group inequality have the potential to influence the magnitude of between-group conflict, all within the framework of aspirations.

Methodologically speaking, our paper first develops a theoretical model of conflict, and then empirically tests its main predictions by means of a natural experiment of a residual housing policy in Chile.

The model considers a homogeneous poor neighborhood. Agents have some initial income level and have to choose a level of effort on housing improvement. A government implements a residual policy that benefits only a portion of the neighborhood, generating treated and untreated groups of neighbors. Neighbors have aspiration-based utilities, as defined by Genicot and Ray (2017). These aspirations are defined both with respect to their own group (untreated) and the other group (treated), and they are modelled as a milestone utility that is increasing, yet convex when the agent is below the respective norm, and concave when she is above it. Conflict is modelled as a costly effort that agents exert to capture part of other groups' resources.

In this setting, we ask three questions. First, what are the effects of this policy on agents' effort and total welfare? Second, what are the effects of this policy on within-neighborhood conflict? And third, can this policy foster coordination among the treated and untreated neighbors to engage in conflict with out-of-neighborhood richer groups, even though they are now more fractionalized?

Regarding the first question, we show that, as in Genicot and Ray (2017), for each subsidy size, there is a norm that creates two zones: a frustration and a satisfaction zone. This norm increases strictly with the subsidy. Moreover, the positive effect of the subsidy on housing quality more than compensates for its negative effect on effort. Then, the housing quality of the satisfied is increasing in subsidy. Additionally, we establish the existence of an equilibrium with an endogenous norm and provide a characterization of the optimal policy in terms of overall welfare.

Then, we show that the effect of aspirations on conflict intensity depends on the average distance to the norm within the poor neighborhood. If agents are close enough to their own social norm, then the intensity of conflict—measured as the sum of the total effort in conflict—gets larger when aspirations utility is into play. Intuitively, when this is the case, the gains from conflict are larger as it not only allows to increase baseline utility, but also to get closer to the aspired social norm. In contrast, conditional on the fraction of agents treated, conflict decreases when the distance to the norm increases.

Finally, regarding the third question, we show that introducing within-group inequalities intensifies frustration among those who are not benefited from the policy, while the beneficiaries become content and closer to the social norm of richer neighborhoods. Thus, after the policy, the gains from conflict are perceived as larger by the beneficiaries, even though they are better off than before. On the other hand, the likelihood of success is larger now as the entire group receives benefits from conflict, drawing the non-treated in.

Our work's main contribution lies in highlighting the crucial role played by aspirations tied to social norms in driving these dynamics. Without agents having aspirations, such dynamics would not unfold. In the absence of aspirations, if a subset of the impoverished were to receive benefits, it would actually discourage them from engaging in conflict since their improved condition would surpass their previous state. Consequently, this would hinder the coordination and mobilization capacity of the poor, ultimately reducing the likelihood of between-group conflict.

Our empirical analysis focuses on exploring these predictions in the context of a residual housing policy implemented in 40 poor neighborhoods of Santiago, Chile. These policies consist

of the construction of high-quality housing project within poor neighborhoods, that are then inhabited by people coming from other areas of the city. As in the model, these policies create two groups within each intervened neighborhood: the treated, who are the inhabitants of the new infrastructure, and the non-treated, who are the previous residents. Using survey data on 2,500 treated and non-treated neighbors across the 40 intervened neighborhoods, we are able to construct measures of aspirations and propensity to conflict. We collect data on various welfare and conflict dimensions a year before and a year after the intervention, thus allowing us to examine how aspirations and conflict vary with the introduction of new beneficiary neighbors. More importantly, we show the spatial location of the housing projects is orthogonal to the pre-treatment characteristics of previous neighbors, i.e., those residing relatively close and far from the housing project are statistically similar. Hence, we exploit the as-good-as random distance between neighbors and the project as an exogenous variation of the social norm: as agents compare themselves to their close neighbors, agents living closer to the housing projects put a higher weight on them in their perceived social norm, thus increasing it quasi-randomly. The latter allows us to examine the causal effect of within neighborhood inequality on conflict.

References

Genicot, G. and D. Ray (2017). Aspiration and inequality. Econometrica 85, 489–519.