ELSEVIER

Journal of Economic Behavior & Organization
Vol. 44 (2001) 249–267

JOURNAL OF
Economic Behavior
& Organization

www.elsevier.com/locate/econbase

The effects of community characteristics on community social behavior

Nancy Brooks*

Department of Economics, University of Vermont, 231 Old Mill, PO Box 54160, Burlington, VT 05405-4160, USA

Received 9 November 1998; received in revised form 15 September 1999; accepted 29 September 1999

Abstract

The purpose of this paper is to examine the impact of a community's economic characteristics on its ability to generate adherence to socially efficient norms. These norms prescribe a behavior for an individual when his/her preferred behavior imposes a negative externality on others. This paper explores social norms as a mechanism of how neighborhood characteristics can affect individual behavior. Understanding the mechanism through which community characteristics affect individual behavior is important in that it enables the development of a testable structural empirical model which is purged of the omitted variable bias arising from the potential endogeneity of the neighborhood choice.

JEL classification: D71

Keywords: Analysis of collective decision making; Social choice; Clubs; Committees

1. Introduction

The causes of behavior patterns found in poor, socially isolated urban areas are a widely discussed and studied topic. In most US cities large segments of the poor are physically and socially isolated. William Julius Wilson opens his 1987 book, *The Truly Disadvantaged* by noting that "in the mid-1960s urban analysts began to speak of a new dimension to the urban crisis in the form of a large sub-population of low-income families and individuals whose behavior contrasted sharply with the behavior of the general population". [1]

Research on the urban poor has so far been mainly the domain of sociologists and social historians (e.g. Katz, 1993; Wilson, 1987; Jencks and Peterson, 1991). Economists' research

* Tel.: 802-656-0946.
E-mail address: nbrooks@zoo.uvm.edu (N. Brooks).

[1] See Wilson (1987, p. 3).

0167-2681/01/$ – see front matter
PII: S0167-2681(00)00140-2

on behavior patterns has thus far mainly emphasized the relationship between changes in policy variables, such as income transfers and in-kind benefits, on changes in individual behavior. Some empirical work has been done that investigates the relationship between neighborhood macro variables and behavior patterns, such as testing the effect of living in a poor neighborhood on dropping out of school or teenage childbearing. Case and Katz (1991) find that the behaviors of neighborhood peers appear to substantially affect youth behaviors in a manner suggestive of contagion models. Similarly Crane (1991) finds evidence in favor of an epidemic theory from empirical work investigating teenage child bearing and dropping out. On the other hand Evans et al. (1992) find that when you account for the endogeneity of the peer group, the peer group effect disappears. Plotnick and Hoffman (1993), in work using sister pairs in the panel study of income dynamics to control for unobservable family characteristics, also conclude that researchers should be skeptical of findings of significant neighborhood effects in models that do not account for the endogeneity of the neighborhood. Jencks and Meyer (1990) summarized the empirical literature on neighborhood effects up to 1990 and came to the conclusion that there is no general pattern of neighborhood effects. Manski (1993) has pointed out that many of these empirical tests are flawed in that they are not able to identify whether the neighborhood is really influencing the individual or merely reflecting the average characteristics of the community. He, in fact, coined the phrase the "reflection problem" to describe this empirical problem of identifying endogenous social effects from observations of the distribution of behavior in a population. This is an important problem for many reasons, in particular, in terms of policy, the existence of neighborhood effects can imply potential efficiency gains from redistributive policies that address the source of the externality. Manski states in his paper that the only way to improve the prospects for the identification of endogenous social effects are to develop new data sources or develop tighter theory. We pursue the latter avenue. To solve this "reflection problem" it is important first to understand the underlying mechanism(s) of how neighborhood characteristics affect individual behavior. [2]

The mechanism that is explored in this paper is one that involves the relationship between community characteristics, particularly the neighborhood's income distribution (or more specifically the distribution of returns associated with participating in the "mainstream" economy) and the ability of a community to generate adherence to socially efficient norms. The norms that will be considered in this paper prescribe a behavior for an individual when his/her behavior could impose a negative externality on the rest of the community. The simplest example is a norm that would prescribe cooperation in a prisoner's dilemma situation. When the individual return from a particular opportunistic choice of behavior, like theft, is less than the cost that it imposes on others, then it might be socially efficient for a norm to be prescribed which ameliorates the costly behavior. A norm will be desirable in cases when an individual's action imposes a externality on a group of others, and it is not possible to set up markets to exchange the "right of control" (Coleman, 1990) easily. Coase (1960) shows that norms would not be necessary to have efficiency in the absence of transaction costs if markets in the "right of control" exist. In general, though, for many actions it would be difficult if not impossible to set up these markets, consequently communities have an incentive to develop norms, norms that are prescribed to prevent behavior

[2] Aside from Montgomery (1990, 1991, 1994) little work has been done in this area.