

# How human networks drive inequality, social immobility

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Stanford economist Matthew Jackson explains the upsides and downsides of human networks in his new book. Credit: Matthew Jackson

To understand why people succeed or fail, look at their circle of friends. Like it or not, said Stanford economist Matthew Jackson, people's fates are closely connected to their human networks.

While human networks can be beneficial – a friend can be a referral to a lucrative new job, for example – there can be negative effects as well: what happens when someone doesn't know influential people? A limited human [network](#), Jackson said, can hinder opportunities with deleterious effects in society. It helps explain why social immobility and inequality exist today.

The deep connections that people nurture underlie important political and economic establishments as well, Jackson said. For example, [financial markets](#) have become so intertwined – with central players larger than ever – that when Lehman Brothers collapsed in 2008, it triggered a recession worldwide. One risky financial move is all it takes to spread financial distress across the network.

Here, Jackson talks to Stanford News Service about how human networks can explain many important phenomena, from [financial crises](#) to disparities across groups, consequences of [school segregation](#), social immobility and more.

Jackson, the William D. Eberle Professor of Economics, has researched the powerful effects of networks for more than 25 years. His findings are contained in a new book, [The Human Network: How Your Social Position Determines Your Power, Beliefs, and Behaviors](#).

## **As an economist, why do you think human networks important to study?**

Take the importance of networks in employment, for example. In almost all professions, a high percentage of jobs are found via referrals. A person's employment becomes heavily dependent upon a circle of friends and connections for help in accessing the know-how and opportunities to get good jobs. A person's fate is closely connected to

that of friends.

Combined with homophily – the general tendency of people to interact with others who are similar to themselves– this can lead to large and persistent differences in employment across groups, especially by ethnicity and gender. A group that is poorly employed ends up offering few opportunities to its members, as none of them have friends who are well-employed or experienced in navigating the labor market. In turn, this discourages investment in education and participation in the workforce. The more homophilic a society is, the greater the resulting inequality and lack of social mobility can be.

## **Can you explain homophily further and what can be done to counteract the deleterious effects that you describe?**

Counteracting homophily requires understanding how it works. For instance, looking at one high school that was well-balanced in terms of its overall proportion of blacks and whites, we found that students were almost 15 times more likely to be close friends with someone of their own race than of another race. Building large high schools makes it easier to build a school that is racially well-balanced on paper. Yet, when one looks inside such a school, the friendships break sharply across racial lines. In contrast, in smaller high schools there tends to be less homophily – simply because students are pushed together more across racial lines and also have fewer options within their own race. Thus, if one does have a large school, structuring it to look more like a group of smaller schools than one big school can lead to less homophily. This guides the design of some dorms and colleges within universities. There are also many situations where such design is not possible or causes other problems. Then, the key to counteracting homophily is identifying which critical information and opportunities it blocks access to – and crafting

policies that provide the lacking information and opportunities.

**You also examine how externalities benefit social structures. Can you explain what an externality is and what benefits it has in human networks?**

An externality is a situation in which one person's actions affect another person's well-being. Externalities make networks both important and fascinating. For instance, if one of my friends becomes an expert at using some software, that can help me out when I use that software. If they go through an interview process, they can later help me prep for that same process. It is hard to find a network without some sort of externality at work. Moreover, the externalities can also be quite negative. Lehman Brothers' (one of the key bankruptcies in the 2008 financial crisis) decision to over-invest in subprime mortgages ended up putting many other firms that had relationships and investments with Lehman Brothers in severe distress. Together with other key insolvencies and the fear and uncertainty that resulted, the externalities had a global reach with precipitous market drops and ultimately a world-wide recession.

The importance of such externalities in networks stems from the fact that they lead to a difference between how people in a network act and what is best from a societal perspective. Most people don't think about how their own vaccination affects others' health, banks don't think about how their risk-taking affects other banks' solvency, and we don't think about how our becoming more informed and better connected enhances our friends' welfare. Understanding the network structure of such externalities helps us enact much better policies, from financial regulation to the benefits of subsidizing vaccinations and how to target them.

## **Technology and globalization have helped people form more connections than they would otherwise. Can networks become too connected?**

The benefits from technological advances and globalization have been enormous. In 1980 over 40 percent of the world's population lived below the poverty line, while now less than 10 percent do. Poverty is far from being erased, and that line is pretty low, but the progress is actually quite amazing. Technological advances and increased connectedness have also had several side effects. One is that the externalities in networks, like the financial networks mentioned above, can move further and faster than ever before. This does not necessarily mean that the network is "too connected" but that we have to use our network knowledge to better regulate the extreme connectedness and resulting externalities. The same is true of diseases and the consequences of pockets of unvaccinated people. Along with this is another trend that is reshaping our networks. We have better technologies to find and connect with other people who are similar and think similarly to ourselves. This comes with benefits, as it can be great to connect with someone with [common interests](#) and who can offer advice and empathy; but it also comes with the costs of creating echo chambers and increasing homophily. It may not be that technology is making our networks too connected, but instead that it is making our networks too biased.

Provided by Stanford University

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