



Ethnicity and the distribution of welfare: Evidence from southern Kyrgyzstan



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ABSTRACT

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Economic disparity between ethnic groups is sometimes supposed to be the main driver of ethnic conflict. Understanding the extent and the sources of such disparity is then important to help formulate policies that aim at avoiding further conflict. This paper analyzes economic disparity between Kyrgyz and Uzbeks in southern Kyrgyzstan. These groups were involved in violent clashes in the recent past. Using household survey data from 2005, we show that, in contrast to the public perception, Kyrgyz households have slightly higher expenditure than Uzbek households in urban areas and about the same level in rural areas. The gap in urban areas is mostly due to smaller households and higher education among the Kyrgyz. We also find that Uzbek households are better off than Kyrgyz households in terms of the value of housing property. We argue that the house value gap can be explained by the Uzbeks having larger houses, which are home to larger families and serve as a basis for running small businesses. *Journal of Comparative Economics* 42 (4) (2014) 970–982. Stockholm International Peace Research Institute, Signalistgatan 9, 16970 Solna, Sweden; Leibniz Universität Hannover, School of Economics and Management, Königsworther Platz 1, 30167 Hannover, Germany.

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1. Introduction

The transition countries of Eastern Europe and the former Soviet Union have experienced several serious episodes of ethnic conflict and ethnically motivated violence since the end of the 1980s. Hughes and Sasse (2001: 1) note that the conflict potential was “kept dormant under communism” and unfolded with the onset of political instability and the weakening of state authority in some places but not in others. The authors argue that institutional changes made as part of the transition were crucially important for the causation (or not) and prolongation (or not) of conflict.¹ This is in line with the New Comparative Economics (Djankov et al., 2003), which regards institutions as control mechanisms for the twin dangers

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¹ The contributions following Hughes and Sasse (2001) in the same edition of *Regional and Federal Studies* provide case studies when conflict did occur and when it did not occur in post-Soviet states.

of dictatorship (communism) and disorder (civil war). While it is usually political scientists who lead the debate about which institutions explain the outbreak of ethnic conflict and which ones are effective in preventing it, economists can make an important contribution. With the increasing availability of microdata, including in the poor countries of Central Asia (Brück et al., 2014), it has become possible to analyze the economic disparity between ethnic groups, so-called horizontal inequality (Stewart, 2008), which is sometimes considered to be the driver of social unrest and ethnic conflict. When this is the case, understanding the extent and the sources of economic disparity can help to devise policies and shape institutions that aim at reducing the disparity and therefore avoid further conflict.

In this paper, we study the case of ethnic Kyrgyz and Uzbeks who were involved in violent clashes in southern Kyrgyzstan in June 2010. In the aftermath, both academics and journalists referred to the economic disparity between the groups, some of them even inferring that this was the root cause underlying the outbreak of the clashes. For example, the New York Times on June 14, 2010, reported: “The most notable distinction, the one that is most responsible for the animosities that led to the recent violence, Central Asian experts say, is economic: Kyrgyz are traditional nomads, while Uzbeks are farmers. That divide has translated today into a wide class distinction, as Uzbeks have prospered and now own many of the businesses in southern Kyrgyzstan, which has engendered resentment” (Kramer, 2010).

Despite a growing literature on inter-ethnic relations in Kyrgyzstan, most of it from non-economists (e.g. Fumagalli, 2007a; Bond and Koch, 2010), no effort has been made to quantitatively investigate the extent and the sources of economic disparity between the Kyrgyz and the Uzbeks. We contribute to closing this gap by measuring and decomposing welfare differentials between the two groups. This sheds light on whether Uzbeks were indeed better off than Kyrgyz and, if so, why that was the case. Methodologically, we follow several earlier contributions on economic disparity between ethnic groups in developing and transition countries (Bhaumik et al., 2006; Gradín, 2009; Gustafsson and Shi, 2003; Kijima, 2006; van de Walle and Gunewardena, 2001). We apply the Oaxaca–Blinder decomposition to determine how much of the gap in mean welfare between the two groups can be attributed to differences in group characteristics and how much to differences in the returns to these characteristics.

We go beyond the earlier literature in two respects. First, we complement the Oaxaca–Blinder decomposition with a quantile regression decomposition following a method proposed by Melly (2006). This allows us to explain welfare differentials across the entire distribution. To the best of our knowledge, previous studies on economic disparity between ethnic groups in developing and transition countries have analyzed mean differentials only.² Second, we do not restrict our measure of welfare to household expenditure or income as many other studies do. We instead use, in addition to expenditure, two other welfare measures, the ownership of assets and the value of housing property. Our reason for doing so is twofold. First, the asset and housing information capture a different aspect of the standard of living than expenditure. Possibly, the Kyrgyz and the Uzbeks have different understandings of a high standard of living, as suggested by the following proverb: *When a Kyrgyz man becomes rich, he takes a second wife. When an Uzbek man becomes rich, he builds a second house.* By considering different measures of welfare, we allow for several perspectives on economic disparity. Second, visible aspects of welfare – such as the ownership of assets and housing property – might be more likely to provoke envy and grievances among the relatively poorer group.³

We use household survey data from the 2005 Kyrgyz Integrated Household Survey (KIHS). We focus in our empirical analysis on Kyrgyz and Uzbek households living in the south of the country because this is the population with the most worrying ethnic cleavage. We find that economic disparity is mainly observed in urban areas: the Kyrgyz have higher per capita expenditure and less valuable houses than the Uzbeks. Differences in asset ownership are not so clearly established. Much of the expenditure gap can be explained by different characteristics between the Kyrgyz and the Uzbeks, namely that the Kyrgyz tend to have higher education and fewer adults in the household. The house value gap, which is the largest welfare gap in economic terms, is mostly due to large baseline differences that remain unexplained in the decomposition. We argue that the Uzbeks have more valuable houses because their houses are of a larger size – being home to a higher number of people – and because they often run businesses on their compounds.

Kyrgyzstan was among the most ethnically heterogeneous Soviet republics at the time of the collapse of the Soviet Union (Fumagalli, 2007b). In 1989, the three largest ethnic groups were the Kyrgyz (60%), the Russians (16%), and the Uzbeks (14%). Numerous other ethnic groups, including Dungans, Turks, Uigurs, and Tajiks, lived within the boundaries of what is today's Kyrgyzstan; but they accounted for marginal shares of the total population. Today, the Kyrgyz make up 71%, the Uzbeks 14%, the Russians 8%, and all other ethnicities are each around one percent or less (NSC, 2009).

Traditionally, the Kyrgyz were a nomadic people engaged in animal breeding, whereas the Uzbeks were sedentary agriculturalists and urban-based craftsmen and traders. This implies a higher concentration of Uzbeks in the plains and of Kyrgyz in mountainous areas. After the collapse of the Soviet Union, the Uzbeks have “made the transition to business ownership more readily” (Bond and Koch, 2010: 535) than the Kyrgyz, which allegedly makes the Uzbeks form the core of a relatively more prosperous class in the south. Despite their economic status, the Uzbeks have been disadvantaged in the political and social spheres

² In contrast, there are several papers on economic disparity between ethnic groups in developed countries, for example those on wealth differentials between immigrants and native population groups (e.g. Cobb-Clark and Hildebrand, 2006; Gibson et al., 2007), which analyse differentials across the distribution.

³ This relates to the literature on conspicuous consumption, which argues that the consumption and display of particular, so called conspicuous, goods communicates information about economic and social status (Charles et al., 2009). Conspicuous goods are those goods whose consumption is easily observable in anonymous social interactions.

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