

# Ethnic Heterogeneity and Public Goods Provision in Zambia: Evidence of a Subnational “Diversity Dividend”

RACHEL M. GISSELQUIST<sup>a</sup>, STEFAN LEIDERER<sup>b</sup> and MIGUEL NIÑO-ZARAZÚA<sup>a,\*</sup>

<sup>a</sup> UNU-WIDER, Helsinki, Finland

<sup>b</sup> German Institute for Development Evaluation/Deutsches Evaluierungsinstitut der  
Entwicklungszusammenarbeit (DEval), Bonn, Germany

**Summary.** — The “diversity debit” hypothesis – that ethnic diversity has a negative impact on social, economic, and political outcomes – has been widely accepted in the literature. Indeed, with respect to public goods provision – the focus of this article – the conventional wisdom holds that a negative relationship between ethnic heterogeneity and public goods provision is so well-established empirically that future research should abandon examination of *whether* such a relationship exists and focus instead on *why* it exists, that is, on the mechanisms underlying a negative relationship. This article challenges the conventional wisdom on empirical grounds. It demonstrates at the sub-national level strong evidence for a “diversity dividend” – that is, a positive relationship between ethnic heterogeneity and some measures of public goods provision, in particular welfare outcomes related to publicly provided goods and services. Building on the literature, the article draws on new analysis at district level for Zambia, using a new dataset compiled by the authors from administrative, budget, and survey data, which cover a broader range of public goods outcomes than previous work, including information on both budgetary and welfare outcomes. The article explores why relationships may differ for sub-national budgetary and welfare outcomes, considering separate models for each. Analysis shows results to be robust across a variety of alternative specifications and models. Given the more nuanced relationship between ethnic diversity and public goods provision documented, the article argues that the key task for future work is not to address why the relationship is negative, but to study under what conditions such direction holds true, and the mechanisms that underlie a diversity dividend. It concludes by considering key explanatory hypotheses against the Zambian data to identify promising areas for such theory development. More broadly, while the diversity debit hypothesis highlights the costs of diversity and could be interpreted as providing support for policies that minimize it, the findings in this article are consistent with a view that diversity can be good for communities, not only for normative reasons, but also because, under some conditions, it can support concrete welfare gains.  
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## 1. INTRODUCTION

The provision of public goods, a key component of government performance, varies substantially across communities. It varies in terms of which goods and services are provided, how they are provided, how well, and in what amounts. This in turn can have broad implications, directly and indirectly, for economic development. A variety of structural, institutional, and cultural factors, as well as individual agency, may contribute to this variation (see, e.g., Gormley, 2007; Lijphart, 2012; Putnam, 1993). This paper focuses on one key factor emphasized in the literature on developing countries: social divisions, in particular those expressed in ethnic terms. As Banerjee, Iyer, and Somanathan (2005, p. 639) note, “the notion that social divisions undermine economic progress, not just in extremis, as in the case of a civil war, but also in more normal times” is “one of the most powerful hypotheses in political economy.” High ethnic diversity as a factor that impedes economic development has received particular attention in work on sub-Saharan Africa, not only the most ethnically diverse world region but also the least developed (Ashraf & Galor, 2013a, 2013b; Easterly & Levine, 1997; Gören, 2014; Posner, 2004).<sup>1</sup>

The “diversity debit” hypothesis – that ethnic diversity has a negative impact on social, economic, and political outcomes – is widely accepted (Gerring, Thacker, Lu, & Huang, 2015). Indeed, with respect to public goods provision – our focus in this article – the conventional wisdom holds that a negative relationship between ethnic divisions and public goods provision is so well-established empirically that future research

should abandon examination of *whether* such a relationship exists and focus instead on *why* it exists, that is, on testing hypotheses about the mechanisms underlying this negative relationship (Habyarimana, Humphreys, Posner, & Weinstein, 2007; Lieberman & McClendon, 2013).

This article makes two key contributions to the literature: First, it challenges the conventional wisdom on empirical grounds. It shows at the sub-national level strong evidence for a positive relationship between ethnic diversity and some measures of public goods provision, in particular welfare outcomes related to goods and services publicly provided. We spotlight here findings from a handful of recent studies (Gerring *et al.*, 2015; Gibson & Hoffman, 2013; Gisselquist, 2014; Singh, 2010) and draw particularly on new analysis at district level for Zambia in which we consider both government spending and a range of welfare indicators. Given that the diversity debit hypothesis is so often applied to Africa, empirical analysis on the region is highly relevant to its testing yet it has been impeded by the relatively weak data available for the region. We employ a new dataset compiled by one of the authors from administrative, budget, and survey data, which cover a broader range of public goods outcomes than previous work (see Leiderer, 2014). As a relatively stable

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African country in which ethnic divisions have nevertheless been salient in routine forms of politics, Zambia thus provides a valuable test case (Lindemann, 2011a, 2011b; Posner, 2005).

Second, this study contributes to theory building: Given the much more nuanced relationship between ethnic diversity and public goods provision documented in our analysis, the key task we identify for future work is not to address why the relationship is negative, but under what conditions such direction holds true. As existing theory relates principally to the diversity debit hypothesis, there is considerable scope for theory building with reference to the mechanisms underlying diversity dividends. In this study we explore several working hypotheses drawn from the literature against the Zambian data.

The next section of this article reviews the conventional wisdom and empirical evidence with regard to the diversity debit hypothesis, and situates our analysis within a set of emerging critiques. In terms of the empirical evidence, we highlight the importance of distinguishing at a minimum between national and sub-national analysis and show that when such a distinction is made, it becomes clear that evidence at the sub-national level does not give support for a diversity debit hypothesis. Building on this discussion, we spell out what we would expect to find in the Zambian data if the diversity debit hypothesis were correct, parsing different expectations for sub-national budgetary outcomes and sub-national welfare outcomes within a fiscally centralized country like Zambia. In this context, we present evidence and possible theoretical bases for a “diversity divided.” The article then turns to the Zambian case. Section 3 discusses the data, and the measures of ethnic diversity and public goods provision whereas Sections 4 and 5 present the empirical model used in our analysis, and key results, respectively. We return to the question of explanation and theory building in Section 6. A final section concludes.

## 2. THE DIVERSITY DEBIT HYPOTHESIS: MECHANISMS, EVIDENCE, AND CRITIQUE

Literature in the diversity debit tradition points to multiple ways in which diverse communities may have negative implications for public goods provision when compared to more homogenous communities.<sup>2</sup> Alesina, Baqir, and Easterly (1999), perhaps the article most well-cited as evidence of a negative relationship, builds its underlying model on two key assumptions about ethnic groups. First, ethnic groups may have different preferences over what is provided, where, and how (Chandra, 2001). Because of such preferences, community members in heterogeneous areas – when compared to those in homogeneous areas – may obtain lower utility from shared public services and thus support lower contributions to their provision. Second, members of ethnic groups may have similar preferences but be prejudiced against other groups, for instance valuing public goods less because they prefer not to mix with other groups. In the Alesina *et al.* (1999) model, the average individual's utility is  $u_i = g^a(1 - l_i) + c$ , where  $g$  is the public good,  $l_i$  is the distance between individual  $i$ 's preferred type of public good and the public good provided, and  $c$  is private consumption (see also Kimenyi, 2006).<sup>3</sup> The model predicts that in a majoritarian electoral system, the median distance from the median voter's ideal type ( $l_i^m$ ), an indicator of the polarization of preferences, will determine the size of the public good, which will decrease as polarization increases.

A second broad argument highlighted in the literature focuses on public goods provision as a collective action problem, resolved best in situations where social capital is strong, trust levels are high, and shirkers can be punished

(Olson, 1965). Because social capital, trust, and social sanctions may be weaker in ethnically diverse communities than in homogeneous ones, diverse communities are expected to be less able to resolve the collective action problems needed to provide public goods at socially optimal levels (Bahry, Kosolapov, Kozyreva, & Wilson, 2005; Khwaja, 2009; Mavridis, 2015; Miguel & Gugerty, 2005; Putnam, 2007). Relatedly, cooperation and collective action in homogeneous communities as compared to heterogeneous ones may be facilitated at a practical level by shared language and cultural norms, geographic proximity, and within-group personal connections (Deutsch, 1966; Habyarimana *et al.*, 2007).

A third line of argument highlights the role of elites, underscoring that ethnic diversity – in addition to influencing public goods provision through the preferences and actions of individual voters and community members – may also have impact through leaders and governing bodies. For instance, just as ethnic diversity may impact collective action at the level of the individual community member, it may also do so within the bodies that govern communities as members may be less able to collaborate to pass difficult legislation or more likely to deadlock in decisions over conflicting agendas. Members of government in ethnically divided polities further may owe their power to narrow ethnic constituencies rather than more broadly-based ones, which may in turn influence them to favor policies that support their own ethnic bases over others and to divert resources in economically inefficient ways (Easterly & Levine, 1997; Franck & Rainer, 2012).

Each of these arguments is consistent with a negative relationship between ethnic diversity and measures of public goods provision. The conventional wisdom holds that this negative relationship is empirically well-established, citing a number of studies (e.g., Alesina *et al.*, 1999; Alesina & La Ferrara, 2000; Easterly & Levine, 1997; Miguel & Gugerty, 2005). The priority then for future research is considered to be the mechanisms underlying this negative relationship – that is, their further elaboration and testing (Habyarimana *et al.*, 2007; Lieberman & McClendon, 2013).

### (a) *Reassessing the empirical evidence*

In reviewing the empirical evidence for the diversity debit hypothesis, one of the first points to note is that little distinction has been made in the literature between empirical analyses at the national *versus* sub-national levels. In other words, the hypothesis is routinely applied in the same way to explain variation in public goods provision both across and within countries (villages, municipalities, cities), and empirical analyses at the national level are routinely cited as evidence that the hypothesis should apply at sub-national levels and vice versa. The fact that levels of government figure little in this discussion is worthy of further consideration because there are multiple reasons that we normally expect public goods provision at national and sub-national levels of government to differ.

For one, different levels of government have different roles and responsibilities, suggesting that we normally look first to the level of government with most discretion over a particular good for explanations about its provision. For instance, study of variation in the provision of education and health services at the municipal level – as a function of municipal-level factors alone – would be potentially misleading in a country where education and health policies were highly centralized at the national level, or where decisions about education were made primarily at the local level and those about health policy at the state level. In addition, in terms of budgetary outcomes, intergovernmental transfers add a level of complexity to

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