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Ethnic diversity, democracy, and health: Theory and evidence

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ABSTRACT

This paper examines the relationship among ethnic composition, political regimes, and social welfare. We provide a simple model which divides individuals in each ethnic group into two types of individuals: the benevolent and the self-interested. Each individual determines whether or not to run for office. A policy maker, who allocates government budget among ethnic groups, is chosen among the candidates by voting. In a democracy, all individuals can run for office and can vote in the election. In a dictatorship, the right to run for election and the right to vote are limited to a specific ethnic group. We investigate how ethnic diversity affects selection of a politician and the resulting policy choices in democratic and dictatorial regimes. Ethnic composition affects electoral outcome and policy payoff. Thus, individuals' incentive to run for election depends on ethnic composition. The size of ethnic group in power also affects social welfare. Our model derives (1) a negative relationship between ethnic diversity and social welfare, both in a democracy with a dominant group and in a dictatorship, and (2) a non-monotonic relationship in a democracy without a dominant group. In the empirical examination, employing health outcomes as the proxy for the social welfare, our theoretical results are supported by evidence from the data of 157 countries.

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1. Introduction

Ethnic diversity within societies can be a factor causing large differences in human welfare across countries. As [Easterly and Levine \(1997\)](#) and others have noted, public policies are an important channel through which ethnic diversity affects human welfare. If that is the case, the effects of ethnic diversity may be different between democratic and dictatorial regimes due to their different policy-making processes. However, few studies have investigated the effects of ethnic diversity on public policies under different regimes. To fill this gap in the literature, the current study examines this question both theoretically and empirically.

To analyze the relationship among ethnic composition, political regimes, and social welfare, we construct the simplest possible model with the following basic features. First, we assume that the allocation of the government budget can be targeted to a specific ethnic group. Second, there are two types of individuals who have different policy preferences.

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Type e people care only about the benefits of their own ethnic group, and type s people prefer to maximize the social welfare of the entire society. Third, applying the citizen–candidate model (Besley and Coate, 1997; Osborne and Slivinski, 1996), the model endogenously determines which type of individual is selected as a politician (and, therefore, policies are also endogenously determined).

In a democracy, all citizens can decide whether or not to run for election, and a politician is elected from among the candidates by sincere voting. Conversely, in a dictatorship, a specific ethnic group monopolizes political power, and only the members of this group have the right to run for election and right to vote. Since the candidates cannot commit campaign pledges during the election, the elected candidate will implement his/her favorite public policy. On one hand, if a type s person is elected, he/she would distribute the government budget evenly to all the ethnic groups. On the other hand, a type e person would distribute the government budget only to his/her own ethnic group if elected. As a result, the government budget is distributed unevenly between the politician's ethnic group and the others, and the social welfare is worse compared to the case in which a type s politician is elected. Furthermore, the smaller the size of the ethnic group to which a type e politician belongs, the worse the social welfare due to the exclusive policy by the type e politician.¹

Analyzing the model, we derive the relationship between ethnic composition and social welfare in a democracy and a dictatorship. There are two crucial channels through which ethnic composition affects the social welfare. The first channel is the selection of a politician. Ethnic composition affects electoral outcome and policy payoff. Thus, individuals' incentive to run for election depends on ethnic composition. The second channel is the size of the ethnic group that turns out a type e politician. When a type e individual becomes a politician, the government's budget is monopolized by his/her ethnic group, and the size of the group affects the social welfare. We derive a negative relationship between ethnic fractionalization and the social welfare in a dictatorship and a democracy with a dominant group, which is defined as a group where type e individuals within the group make up a majority of the whole society. In a democracy without a dominant group, we derive a non-monotonic relationship between ethnic fractionalization and the social welfare. While the negative relationship between fractionalization and social welfare is a similar theoretical prediction to the previous studies, the non-monotonic relationship is not pointed out in the literature except for a few studies and is our main theoretical contribution.

In the empirical analysis to examine the predictions obtained from the model, we employ health outcomes as the proxy for the social welfare. The health status of citizens is often used to represent the country's human welfare status (e.g., Sen, 1998), and depends on public expenditures on public hospitals, water and sewage service, vaccination, sanitation and so on. Since many ethnically diverse countries are located in the world's poor regions, such as Sub-Saharan Africa, the health status of their citizens can appropriately represent the countries' social welfare status as well as or better than income. We use infant mortality, child mortality, and life expectancy as health outcomes.

The following three testable predictions from our theoretical model are empirically tested. (1) In a democracy with a dominant ethnic group, an increase in ethnic fractionalization worsens the health outcomes. (2) In a dictatorship, an increase in ethnic fractionalization worsens the health outcomes. (3) In a democracy without a dominant ethnic group, an increase in ethnic fractionalization has a non-monotonic effect on the health outcomes. Specifically, when fractionalization is not sufficiently high, the health outcomes become worse as fractionalization increases. When fractionalization is sufficiently high, the health outcomes are good. The regression analysis using the data of 157 countries from 1960 to 2010 supports the above three predictions.

The remainder of this paper is structured as follows. In Section 2, we provide the summary of the existing literature related to our study. In Section 3, we present a model and derive testable predictions on the relationship between ethnic composition and the social welfare. In Section 4, our theoretical predictions are empirically examined. The conclusion is provided in Section 5.

2. Related literature

Most existing studies on the relationship between ethnic diversity and public policies focus on the level of public goods or transfer, and a large number of studies report a negative relationship between ethnic diversity and public goods provision. The prominent studies on the underlying mechanism of this relationship focus on ethnic preferences (Alesina et al., 1999; Alesina and La Ferrara, 2000; Luttmer, 2001; Vigdor, 2004) and social sanctions (Miguel and Gugerty, 2005).² Alesina et al. (1999) argue that preferences for the type and the size of public goods are divergent in an ethnically diverse society, and a large level of public goods is not supported by the majority. Luttmer (2001) finds that individuals' support for welfare spending depends positively on the share of their own ethnic group in the entire beneficiaries. Vigdor (2004) examines similar effects and finds that individuals contribute less to public benefits in a more ethnically heterogeneous society. Miguel and Gugerty (2005) show that ethnic diversity leads to few public goods due to few social sanctions against free-riders.

This paper differs from the previous studies as follows. First, we consider political selection as the mechanism through which ethnic diversity affects public policy. Second, as a public policy, our model considers allocation of an exogenous

¹ Our model evaluates the social welfare by the policy payoff function of the type s , as described later.

² Along with these studies, see also Alesina et al. (2001, 2003), Dayton-Johnson (2000), Khwaja (2009), La Porta et al. (1999), Okten and Osili (2004), Poterba (1997), among others.

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