Group conflicts and economic Performance: some microeconomic channels

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Possible Channels

- Tastes: People with different tastes find it difficult to compromise on some public good (Alesina, Baqir, Easterly)
- Public action: people of different groups do not like to mix, so they participate less in social activities (Alesina-La Ferrara)
- Ability to impose sanction: people have more leverage on people from their own group (Miguel-Gugerty)
- Valuation of public goods: people are altruistic towards people of their own group, so they value a public good better if it is consumed by people from their group (Vigdor)
- Distribution of benefits: distribution of benefits affect the willingness of individuals to participate in a public good (Khwaja)
- Diversity lead to violent conflicts (Easterly and Levine)

Participation: Alesina-La Ferrara

- Participation to social activities is lower in more unequal and racially or ethically fragmented communities.
- The effect is stronger for those who declare that they dislike mixing.

Social Sanctions: Miguel-Gugerty

- Kenya: ethnically diverse country, where politics has played on and reinforce sense of ethnic belonging.
- How does the extent of heterogeneity in the command area of a school or a well affect local fundraising for the school and maintenance of the well?
- Identification: composition of pupils in a school is potentially endogenous, for example if good school attract pupils from further away.
- However, MG argue that residential pattern is exogenous (fixed a long time ago, people do not move because there is no land market): they use heterogeneity among pupils who live in the zone of the school.

Participation and Sanctions

- Two ways to participate in schools
  - School fees
  - “Harambe”: fundraising meetings where parents make public contribution for the school. Very important social institution in Kenya
- Sanctions
  - School committee apply pressure on delinquent parents
  - Children sent home for fees.

Data

- Data comes from a pupil survey collected in the schools as part of an assistance program for the school.
- Heterogeneity: 2 measures
  - ELF among children who are in all primary schools within 5 km of the school (or well)
  - ELF in the school in the zone of the school
  - Potential problems: what if number of school in a zone is endogenous? Could heterogeneity be endogenous too?

Data (cont.)

- Contribution
  - Total
  - School fees
  - Harambees
- Outcomes
  - State of the well
  - Resources of the school
- Sanctions: minutes of school committee: number of item referring to sanctions.

Results

- Heterogeneity leads to less resources for the school, less repair of the wells.
  - Going from total homogeneity to average heterogeneity is associated to a reduction of 20% in the funds available to the school.
- OLS biased downwards (in absolute value)
- Result due mostly to Harrambe
- Sanction more frequent in homogenous communities

Interpretation

- MG: it is sanction that matters, not tastes.
- Problem with that:
  - Perhaps sanctions are not recorded in heterogenous communities
  - More importantly: perhaps committee is more reluctant to impose sanctions if the tastes are different (sanctions are less legitimate): not a definitive tests of sanctions against “tastes”.

Monitoring: Karlan

- Setting: micro-credit organization in Peru (FINCA)
- Public good: repayment to a micro-credit group. Used to pay back returns on savings to members of the group and to reimburse the loan of the group to the organization. Joint liability: in case of default, the entire group is cut out from credit.
- No issue of taste…
- Karlan argue that group composition is exogenous:
  - People who want to join put their name on a list, when a group of 30 is constituted, a group is formed.
  - Small sample variation (30) generates some variation in the homogeneity of the group.
  - Restrict the sample to those who came “uninvited”

Data

- Outcomes: repayment, drop out.
- Heterogeneity: Two measures
  - Distance
  - Cultural homogeneity: From more “western” to more “Indians”.
- Descriptive statistics:
  - There is some variety in these indices
  - Signs that these are randomly assigned
  - People who live closer or are from the same community have more relationships with each other.

Results

- Less default when the group is more homogenous or members live closer together.
- Less drop out in case of default when the group is more homogenous or people live closer together.
- Cultural homogeneity and physical distance play the same role…Nothing special about culture.
- Drop out results suggests that this is not the ability of the group to impose sanctions that makes the group effective, but rather the ability to monitor the others better (distinguish “real” and “fake” shock for example).

Project Returns (Khwaja)

- Khwaja looks at maintenance of infrastructure projects (irrigation and roads) in a poor and remote region of Pakistan (Baltistan)
- Channel linking inequality or social heterogeneity to maintenance is the ability to appropriate the returns on the project:
  - Contributions are costly to verify, so they do not open “rights” to use the project.
  - The claim on the returns on the project depends on pre-existing characteristics (i.e. how much land do you own) as well as project placement (how much do you own in the command area in the project placement).
  - The returns of the project depend on how much corruption there is (complexity, leader and leader quality, community participation, NGO or government).

Set up

- A project generates a returns B, out of which villagers get a total share aB.
- Each villager get a share v_iaB, where v_i depends on land owned, ability to impose one's view, and land owned in the project.
- Villagers contribute labor (their own or labor hired from the village). Cost of own labor is convex, cost of hired labor is linear. B is a function of everybody's labor and other project characteristics.
- Problem: how much will everybody decide to contribute.

Predictions

- For “standard projects” (no household hires outside labor when they command a small project share), relationship between inequality in project share and contributions to the project (and therefore B) is U-shaped.
  - Intuition: start from perfect equality. Everybody contributes their own labor. Increase inequality: high returns person increases his/her labor less than low person decreases it (convexity). At some point, rich people start to hire private labor (de facto “privatization” of the project), cost is now linear, and further increase in inequality increase total labor contribution.

Predictions

- Good projects will elicit more labor: simple project, projects with leader, etc….
- Mapping from inequality and social heterogeneity to labor:
  - Project share inequality (e.g. land inequality under command area of the project): immediate-U shape
  - Land inequality: also U shape, but coefficient will be attenuated (measurement error).
  - Social heterogeneity: Inversed U shape from social heterogeneity to project shares: Starting from perfect homogeneity, increase means some people start being expropriated, and inequality increase. But further increase will eventually mean that nobody can expropriate anybody.
  - Inverse U shaped mapped into direct U shaped: negative.

Data

- Two projects per community in most communities (132 project in 99 community): can introduce fixed effects for project-specific variable.
- Maintenance collected by engineers
- Inequality: land inequality within the village and the command area of the project.
- Heterogeneity: Clans, religious, and political divisions.
- Project complexity: experience, cash requirement, skill requirement.

Results: OLS

- Land inequality has U shaped relationship with maintenance
- Social heterogeneity leads to lower maintenance.
- New projects are worst, project with leader are better, projects participation in non-technical decisions are better.

Results: IV and FE

- Project leader instrumented with the existence and the quality of a “natural” leader for the project.
- FE: compare two projects within the same community. Even within the same community, inequality in project share has a U shaped relationship with performance: suggests this has indeed to do with returns.
- Are we sure this is exogenous? (could powerful people appropriate the easiest project to maintain?)
- Results suggest that projects are not bound to fail in “bad” communities. Inequality and heterogeneity makes collective action more difficult, but this can be compensated by project’s features.