

Group Conflict

- One of the most influential views of our time attributes a large part of the failure of development in the post-war period to group conflicts. Very broadly the idea is that efficient policies do not get adopted because of disagreements between beneficiary groups, which may be different castes, different classes, different ethnic or linguistic groups etc.
- More specifically it is presumed that things get worse as the number of groups that are in conflict with each other goes up. The intuition is that there being lots of groups creates many different dimensions of conflict.

An extremely simple model (Alesina, Baqir and Easterly, 1999)

- N Groups of equal size.
- N choices. Each group favors a different choice. If it gets its favorite choice it gets 1. Otherwise it gets 0.
- There is some mechanism under which every group is equally likely to have its choice picked.
- With 1 group, payoff is 1.
- With N groups it is $1/N$.

A Simple Model with a one dimensional choice set

- Assume there is a set of choices represented by a straight line $[a, b]$.
- Each group in the economy is the set of people who have the same preferred point x within this set of choices. There are N groups
- The utility of the group x if c is chosen is $-f(|x - c|)$, $f \geq 0$, $f' > 0$, $f'' > 0$, in other words, moving away from the ideal point costs more and more as we move further away.
- Assume that groups do not know its preferences ex ante and that for each group x is distributed uniformly over the interval $[a, b]$.
- Then by the convexity of f , if there has to be a particular choice that is always going to be chosen, all groups would want it to be $\frac{a+b}{2}$.
- Assume that after the preferences are realized the median voter in the economy picks his ideal choice.
- Now start with the case where there is only one group. Then the median voter chooses

what everyone wants and everybody is happy.

- Next let there be 2 groups. One of size Z and one of size $z < Z$, $z + Z = 1$.
- Now the bigger group will always get what it wants. Sometimes this will be very good for the smaller group and sometimes it will be very bad, but on average it will be worse than $\frac{a+b}{2}$ being always chosen.
- Next let there be $2M$ groups, M of size Z/M and M of size z/M . each group has a position independently and identically drawn from the uniform distribution on $[a, b]$.
- As M becomes large, the median voter must converge to the point $\frac{a+b}{2}$.
- In other words as number of groups becomes large, the worst off groups are clearly better off. On the other hand the fraction of the population who get exactly what they want goes down.
- Depending on the shape of the f function more groups could be good or bad (e.g. with $f(x) = 0$, iff $|x - c| \leq \frac{a+b}{2}$), lots of groups is better than 2 groups.

- Adding new groups does increase the number of conflicts but some of these conflicts nullify other conflicts so that on balance everyone is better off. This cannot happen when the choice set has the feature that by opposing you i come no closer to anyone else.

An alternative model (Miguel-Gugerty (2002))

- There are N groups and each group internalizes any benefits that go other group members.
- Each group i contributes x_i to a public good project. It gets back $f(\frac{\sum x_i}{N})$, $f' > 0, f'' < 0$.
- Its net benefit is $f(\frac{\sum x_i}{N}) - x_i$. The optimal contribution is given by

$$\frac{1}{N}f'(\frac{\sum x_i}{N}) = 1$$

- In equilibrium all the $x_i = x(N)$, which satisfies $f'(x) = N$. Clearly x goes down when N goes up.
- This is simply the observation that more groups makes the public good problem worse.
- Of course, the assumption that every group member puts an equal weight on the preferences of all group members including herself, is very strong. Miguel and Gugerty, get around this by assuming that the group has an internal enforcement mechanism that

forces group members to align their interests.

Empirical Evidence

- Easterly and Levine (1997) start with a cross country data set with measures of ethnic fractionalization at the country level. Ethnic fractionalization is defined to be the probability that two people from the same country are not from the same group i.e. $1 - \sum_i z_i^2$ where z_i is the share of the *ith* ethnic group in the population. If all groups are equal this is $1 - 1/N$
- They then run the standard cross-country growth regressions with ethnic fractionalization as an additional regressor. They argue that going from 0 fractionalization to 100% fractionalization reduces growth by about 1.5-2 percentage points after controlling for period dummies and dummies for Sub-saharan Africa, Latin America. Nigeria has a fractionalization index of 0.87. If instead it had the mean index across countries—0.42—its growth rate would be about double its actual growth rate of 0.7.

- There are obvious problems with interpreting the evidence:

Ethnic differences may be the product of whatever was going on in the country. Economic failures or policy failures may make minor difference salient. It is said that in India, the biggest single cause of Hindu-Muslim riots is the presence of a muslim slum in a privileged hindu neighborhood. The Hindus just want to clear the slum but a riot taht drives the muslims away may be the quickest way to get there. Alternately economic or policy success could attract immigrants and increase diversity.

It could be picking up other kinds of group conflict. In Rwanda the colonial administration privileged one group against the other for poltical reasons and as a result they started to see themselves as distinct entities, while before they saw themselves as more or less interchangeable. So the

ethnic fractionalization variable may have been picking up inequality in the distribution of economic opportunities.

It could be picking up some other characteristic of the country. A country with poor roads may have more diversity because there is less inter-marriages., etc.

- The reverse causality issue is somewhat less serious in the cross-country results because the index is from the early 1960s.
- The omitted variable issue is of course extremely serious.
- Alesina, Baqir and Easterly (1999) try to study this issue in the within country context, using US cities, metropolitan areas, counties as their sample. They regress spending on various heads on ethnic diversity and some other characteristics.
- They find that the share of spending on sewerage/trash pickup, education, welfare, fire protection and roads goes down with diversity but spending on health and police go up. The most diverse places will spend of the order of 6-7% less on roads.
- Are we sure that this is not inequality?
- How do we know it is not reverse causality? They are regressing 1994 spending on 1990 census figures.
- How do we know that it is not taste?