

Ethnic diversity and economic performance

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Agenda

- Introduction
- Theories on diversity
- Effects of ethnic and racial fragmentation in various types of communities
- Countries and cities
- Village communities in developing countries
- Ethnic fragmentation and endogenous community formation

Ethnic diversity and economic performance: microfoundations

- Diversity can affect economic choices by directly entering individual preferences.
- Diversity can affect economic outcomes by influencing the strategy of individuals.
- Diversity may enter the production function.
- More diversity leads to more conflict and less communication, but controlling for this latter it also leads to higher productivity.

Applying the theory on jurisdictions

- The larger the (positive) effect of variety in production and the lower the utility costs of heterogeneity, the larger the size of the jurisdiction considered.
- The effects of the size of countries on economic success is mediated by the extent of freedom of trade.

The consequences of fragmentation/1

- More racially fragmented countries grow less(ceteris paribus).
- Ethno-linguistic fractionalization provide the explanation for the lack of social capital,productive public goods and other growht enhancing policies.

The consequences of fragmentation/2

- The negative effect of ethnic diversity is significantly mitigated by the presence of “good” institutions.
- Fractionalization has negative effects on growth and productivity only in nondemocratic regimes, while democracies manage to cope better with ethnic diversity.

Countries:effect on public policies

- Ethnic fragmentation is negatively correlated with measures of infrastructure quality,literacy and school attainment and positively correlated with infant mortality.
- It has been shown an inverse relationship between the size of government social spending and transfers relative to GDP on the one hand,and ethnic fractionalization on the other(In the US,welfare spending and redistributive policies are much smaller then in Europe).

American localities: counties and cities

- More racially fragmented counties grow less in terms of population.
- Fractionalization has a negative effect on population growth in initially poor counties and a less negative (or even positive) effect for initially richer counties.
- Diversity seems to have positive “amenity effects” on production and consumption in cities.

American localities: effects on public policies

- Public good provision is lower and/or less efficient in more racially fragmented American cities.
- In more racially fragmented communities, people are less willing to redistribute income because the white majority feels that redistributive flows would favour a racial minority.

Village communities in developing countries

Main aspects :

- Effects on productivity
- Effects on public policies

The productivity effects of ethnic diversity in developing economies

Ethnicity is not source of discrimination, regarding the allocation of bank loans, the way in which ethnicity seems to make a difference is by offering network relationships that improve access to supplier credit.

Ethnicity matter for gaining access to group resources, a research conducted by La Ferrara showed that members who share the same ethnicity as the chairperson are 20 to 25 percentage points more likely to borrow from the group or from other members.

Effects on Public Policies

Local ethnic diversity often is negatively correlated to school funding and to the quality of the school facilities.

According to Edward Miguel and Mary Gugerty, moving from complete homogeneity to complete heterogeneity would reduce average local funding by about 20 percent, social heterogeneity (fragmentation in different clans, political and religious groups) is also negatively associated with project maintenance.

Ethnic fragmentation and endogenous community formation

The size of a country emerges from a trade-off between the benefit of size and the costs of heterogeneity of preferences in the population.

Benefits of size:

- Economies of scale
- Size of the market
- Defense and protection from foreign aggressions
- Internalization of policy externalities

Countries

As the benefits of size diminish then it becomes more likely that countries can split into more homogeneous smaller political entities.

But often the relationship between ethnic heterogeneity and the likelihood of country breakdown is also mediated by the role of natural resources

Countries

Another benefit of country size is defense and protection from aggressions, so if the world will become more peaceful we should see breakdown of big countries to better reflect homogeneous “civilizations” (after the end of the Cold War).

There is also a relationship between ethnic heterogeneity, country formation and democracy.

Cities

The literature is based on the idea that the rich want to isolate themselves from the poor to escape from redistributive policies and the poor want to be close to the rich to gain from redistribution.

Analyzing the formation of the American cities emerge that the desire for racial homogeneity was the driving force in the formation of the localities (In the Great migration of African Americans)

Groups

Individuals can choose to join a group or not.

Participation in socioeconomic groups is negatively affected by local indexes of racial fractionalization and heterogeneity in ethnic origin. But the negative effect of racial fragmentation on participation only holds for people relatively adverse to racial mixing.

Moreover different groups are more likely to find an agreement when they have to face external threats.

Conclusion

The benefits on heterogeneity come from variety in production, the costs come from the inability to agree on common public goods and public policies.

There is always a tendency to homogeneity in the jurisdictions formation, to better enjoy the public goods.

A look into Europe

The issue of multiethnicity is especially relevant for current Europe. Compared to USA, European countries have been much more ethnically homogeneous. However with the opening of borders within the European Union and its expansion to the East, in addition to the increasing migration from Africa, member countries will become less and less homogeneous. Multiethnicity will be one of the major challenges for Europe in the near future.