Public Good Provision, Diversity and Distribution

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Public Goods and Development

“The international development community should speak of the Big Five development interventions that would spell the difference between hunger, disease and death and health and economic development.” (Sachs, 2005, p.235)

1. Agricultural improvements (access to credit)
2. Investments in basic health
3. Investments in education
4. Power, transport and communications services
5. Safe drinking water and sanitation

• Why don’t governments in developing countries provide these services?
Ethnic Diversity and Public Good Provision

- Improving access to public goods critical to development
- Water, electricity and education
- Does diversity matter for public good provision in Sub-Saharan Africa?
- Can institutions overcome the effects of diversity?
• Theoretical section
  • Model the two primary mechanisms (preferences vs. institutions)
  • Key testable difference with regard to distribution

• Empirical section
  • Average access to water, electricity and education reduced in homogeneous districts (18 countries)
  • Household access unaffected by local majority/minority status
Are Governments in Diverse Communities Inefficient?

- Ethnic diversity negatively affects public good provision - why?

- Two primary theories
  - Alesina et al (1999) - diverse preferences
  - Miguel and Gugerty (2005) - inefficient provision

- Optimal policy is different in each case
A VERY SIMPLE MODEL

- Individuals part of ethnic groups
- Individuals contribute to the provision of a public good
- No intra-group free-riding - internal sanctions are effective
- Public goods defined by the degree of inter-group spillovers
- High spillovers (sewer systems) vs. low spillovers (education)
Characterizing the Results

- Ethnic Goods - no intra-group spillovers (education)
  - Fractionalization → Average provision
  - Diversity negatively affects aggregate provision
  - Individual provision depends on size of own group
  - Result is efficient

- Community Goods - high inter-group spillovers (water and electricity)
  - Size of largest group → average provision
  - Diversity negatively affects aggregate provision
  - Individual provision depends on size of largest group
  - Result is inefficient
Measure DHS data from 100,000 households in 18 countries

3 key dependent variables
- Household access to improved sources of drinking water
- Household access to electricity
- School enrollment for teenagers

Ethnic identity (aggregated to the household) - community diversity, etc.

Economic variables - wealth, urban/rural, years in the community, etc.

Geographic variables - distance to a river, coast or national capital, population density

National, provincial and ethnic fixed effects, ethnic share effects
Empirical Approach

- Existing models suggest diversity should matter
- Measuring distribution is key to differentiation
- Focus on local districts - differences within provinces
- Define diversity, minority status, aggregate variables at the district level
- Results not sensitive to methodology (LPM, Probit/Logit)
### Empirical Results

**Table:** Ethnic Diversity and Public Good Provision

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Why Does Diversity Matter?

- Can institutions reduce diversity effects?
- Answer depends on underlying mechanism
- Key to understanding mechanism - distribution
- Water and electricity - no differential distribution
  - Improved institutions should be effective
- Secondary education - ethnic majority dominant
  - Improved institutions less likely to be effective
- Ethnic diversity and public goods are correlated